

The Politics of Reforms in Bismarckian Welfare Systems: The Cases of Czech Republic, Hungary, Poland and Slovakia

To be published in early 2008 in "A long Good Bye to Bismarck" (Bruno Palier, ed.), Amsterdam University Press.

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Paper presented at the conference

"Social Policy in Europe: Changing Paradigms in an Enlarging Europe?"

ESPAnet Conference

20-22 September 2007

Vienna University of Economics and
Business Administration, Austria

Abstract

This paper briefly explores the social policy developments in Czech Republic, Hungary, Poland and Slovakia since the first establishment of Bismarck institutions in the period antecedent to the end of World War II. In particular, it asks how and to what extent Bismarck institutions survived, adapted and evolved during the communist and post-communist social policy re-organization, as well as asking what is the new internal structure of these welfare states in transition. The main argument is that the four Visegrad countries have built their contemporary welfare state on the ruins and with the ruins of the welfare state they had previously introduced, and that these welfare states are facing a process of internal restructuring that leads to a hybridization of the system. The paper also identifies four main welfare reform trajectories occurring since World War II. These correspond to: the *golden age*, the *era of forced expansion*, the *era of retrenchment's attempts* and the *era beyond retrenchment*.

Introduction¹

In 1989 Central and Eastern European policy makers were suddenly confronted with the difficult task of restructuring a welfare state under a complete different economic and political system. The restructuring of welfare institutions accompanied the emergence of new and serious societal problems. More and more people were hit by unemployment and poverty, the family pattern in force during communism had to be re-discussed, and also protection during old age and sickness had to be renegotiated. Reforms started immediately and involved important structural changes. The four Visegrad² countries (Czech Republic, Hungary, Poland and Slovakia) raised retirement age and pension insurance contributions while reducing the pay-as-you-go principle, introduced health insurance while guaranteeing the access to health care through the obligation of the state to ensure unprotected citizens, implemented a German-like unemployment insurance consisting usually of three pillars (unemployment benefits, unemployment assistance and social assistance), reduced the excessive family benefits heritage of the communist system while continuing to pursue a pro-natalist policy making and long-term child care (very often until the child is enrolled in university education), as well as establishing a basic safety net for those citizens at persistent risk of poverty (Cerami 2006).

Despite the fact that great attention has recently been given to the role played by institutions and path-dependent mechanisms in the development of European welfare states (see, for instance, Pierson 1996; Bonoli and Palier 2001; Thelen 2004; Ebbinghaus 2005; Streeck and Thelen 2005), the possible outcome of such institutional transformations are still object of a controversial debate. Here, the main problem is to characterize, in a clear manner, the new internal configuration, which results from a continuous process of structuring, de-structuring and restructuring of existent welfare institutions³. The literature usually addresses Central and Eastern European welfare states as extremely diverse and doomed to follow, on a country basis, one of the Esping-Andersen's (1990) three-fold typology. For Bob Deacon (1992), Poland should have

¹ This study has been made possible thanks to a post-doctoral scholarship received by the author from the Centre d'études européennes of Sciences Po in Paris (Sept-2005-Sept 2006) as part of the project "The Politics of Reforms in Continental Europe" directed by Bruno Palier. Early drafts of this paper have been discussed at various meetings in Europe and in the United States, where I have, directly and indirectly, benefited from several discussions, comments and critiques. I must give particular mention to François Bafail, Bernhard Ebbinghaus, Daniel Clegg, Michael Dauderstädt, Frank Ettrich, Heiner Ganßmann, Anton Hemerijck, Karl Hinrichs, Nick Manning, Philip Manow, Julia O'Connor, George Ross, Bruno Palier, Vivien Schmidt and Jonathan Zeitlin. It goes without saying that whatever faults remain are entirely my own responsibility.

² In February 1991, Czechoslovakia, Hungary and Poland met in the city of Visegrad (Hungary) and agreed on a "Declaration of Cooperation on the Road to European Integration", which represented the first attempt to establish a common platform to discuss their future in Europe.

³ For the concept of "structuring, de-structuring and restructuring" welfare institutions, see Bartolini (2005) and Ferrera (2005).

become a good example of "*post-communist conservative corporatist*" welfare state, the Czechoslovakia of a *social democratic* model, while Hungary a liberal welfare regime. More recently, Zsuzsa Ferge (2001) and Erzsébet Szalai (2005a) have expressed their worries that Hungary might be on the move towards the liberal welfare regime, whereas another Hungarian political scientist, Julia Szalai (2005b), has affirmed that in Hungary, a mixture of corporatism and liberalism, was, in reality, the main characteristic of the new welfare state. None of these authors, however, has paid serious attention to the commonalities that the four Visegrad countries shared, even though it would have been interesting to understand how Bismarck institutions in force before World War II were adapted to the universal communist principles and, then, eventually recombined in the new post-communist environment.

This paper aims at addressing this issue by asking how and to what extent Bismarck institutions survived the communist and post-communist social policy re-organization, as well as what is the new internal structure of these welfare states in transition. Central and Eastern European countries seem, in fact, to develop around a new welfare logic, which combines, in a path-dependent and innovative way, components of Bismarck social insurance, of communist egalitarianism and of liberal market orientation (Cerami 2006). In short, it includes elements of each of the Esping-Andersen's three-fold classification.

Contrary to common assumptions that look at the establishment of welfare institutions as being implemented by design or as the result of an aseptic *policy transfer*, this paper will argue that the four Visegrad countries have built their contemporary welfare state on the ruins, and with the ruins, of the welfare state they had previously introduced in the pre-communist and communist period. The reason for the inclusion of these countries in the family of Bismarckian welfare states lies, therefore, not only in the fact that they have a long tradition of Bismarck social insurance and are usually considered the front-runners of reforms that might be implemented elsewhere, but also in the fact that Bismarck institutions, established before World War II, lived, adapted and evolved during the communist social policy re-organization from 1945 to 1989, and also succeeded in surviving the, perhaps, even more rapid structural transformation following the dissolution of the central planned economy.

Policy Discourses and International Organizations

Numerous studies have often emphasized the crucial role played by international organizations in influencing the post-communist social policy reform process (Deacon et al. 1997; Müller 2004; Manning 2004; Orenstein 2005; Cerami 2006; Offe and Fuchs 2006). The most common approach to welfare state transformation in the region sees, in fact, international organizations as extremely successful in influencing the policy direction

through *binding directives* or through forms of *moral suasion*. Examples of binding directives can be found in the World Bank and the IMF's conditionality strategy for granting access to loans (or in the case of the *Accession Agreements* during the EU Enlargement process), while an example of *moral suasion* can be found in the OECD's *Economic Surveys* (McBride and Russel 2001) or in the EU policy evaluation reviews with their attempt to show governments what good policy-making should look like.

Policy discourses (see Schmidt 2002, 2006a), promoted by international organizations have, undoubtedly, influenced national policy-making by increasing trans-national communication and thus convergence to already identified policy priorities. In the case of the World Bank and the IMF, the policy discourse has primarily focused on the need for a market-oriented, financially stable and residual welfare state. The EU, on the other hand, has been influential not only in cognitive terms (Guillén and Palier 2004; Ferge and Juhász 2004; Lendvai 2004; Manning 2006), increasing, for example, trans-national solidarity and mutual learning, but it has also been a vital actor in facilitating the introduction of new social policy ideas, interests and institutions (Cerami 2007).

Here, it should be remembered, however, that even the most convincing discourses tend to be mediated in their acceptance by the individual's own preferences. Transformation in Central and Eastern Europe has, in fact, not been simply the result of silent or semi-silent acceptance of prescriptions respectively through *policy transfer* or *policy diffusion*, but rather as a result of a *recombinant policy implementation*, in which existing institutional structures have constrained and/or fostered the full completion of reforms.

In fact, it should not be forgotten that the introduction of a welfare state based on professional diversity and private arrangements was not only the most suitable scheme if the historical background of these countries is taken into account, but it also corresponded to the functional necessity of occupational and market diversification, which stemmed from the excessive centralized and homogenized economic system in force during communism. In this context, it is not surprising that more than ten years after the first attempts of the World Bank to see its policy prescriptions fully and successfully implemented, its Operations Evaluation Department (OED) desolately concluded that more attention to the existing institutional and administrative capabilities of the countries should have been given in order to ensure a more consistent policy execution (World Bank -OED- 2004).

In attempting to assess the real impact on national policy making, it must certainly be remembered that international organizations have been important *facilitators* (Ekiert

2003; Inglot 2003, p. 242; O'Connor 2005) in the social policy reform process, but this is still not sufficient to address them as the only causes responsible for specific outcomes. The presence of social insurance institutions still based on the professional activity, even though encapsulated in the central planned economy, inevitably influenced further reform options of the Visegrad countries. As it will be shown in the following sections, the reinforcement of schemes based on the payment of contributions and on the professional record of workers was the natural option of a system which previously worked on full-employment, as well as the establishment of social insurance funds was the natural option on the side of the management and financing mechanism, which, in reality, never disappeared from the scene but continued within the state budget. Once the communist state collapsed and with it, numerous enterprises, the organs responsible for proofing and managing the benefits had to be replaced in order to ensure the survival of welfare institutions. Clearly, the market was the only available option and with the market strengthening the importance of independent social insurance funds became unavoidable.

In addition, despite strong pressures from international financial institutions, policy recommendations have tended to be mediated and negotiated in the political arena, according to clear institutional rules, instead of having been implemented by design. Just to quote few but notable examples. The introduction of the three pillar-scheme in Poland, proposed by the Minister of Finance Grzegorz Kołodko, was blocked for two years by the opposition from the Minister of Labour and Social Policy Leszek Miller. The decision of Miller was moved by his commitment to the PAYG principle and by his personal rivalry with Kołodko (quoted in Nelson 2001, p. 244). In Hungary and Slovakia, the introduction of the three-pillar scheme was also subjected to several discussions among politicians and social policy experts and only at the end of a difficult process of political bargaining was finally introduced. In the Czech Republic, by contrast, agreement on the three-pillar scheme was not found primarily due to the strong opposition by the trade unions (Fultz 2002).

1. The Period Before 1945

1.1 Institutional Background

A brief overview of pre-communist pension systems shows, for example, that these countries had already established some form of Bismarck-style pension insurance, which linked the access to benefits to professional status. This link was particularly strong in the Czech Republic and the now independent Slovak Republic, in Hungary and in Poland. In the years 1906 to 1933, the numerous funded pension schemes established were based on a corporatist vision of social solidarity, primarily aiming to secure occupational standards. Health care was also provided on the basis of the professional activity and financed primarily through social insurance contributions. In Czech Republic and

Slovakia, the first health policy was introduced in 1918, when the Czech Lands declared their independence from the Austro-Hungarian Empire. The first fully functional health insurance system, however, came into force in 1924 with the adoption of the Health Insurance Act, which provided coverage for employees, approximately one-third of the total population. Hungary emanated the first act on public health in 1876 (Act XIV of 1876). According to the law, the eligible poor obtained free health care at special surgeries. Corporatist social insurance was the foundation of the system. Health care was delivered through the private sector and in some state hospitals. Poland, which has a long tradition of Bismarck social insurance, dates the first legislation back to 1918. This system provided, however, very limited coverage with only seven per cent of the population insured.

The benefit structure also clearly reflected a Bismarckian orientation. As mentioned, pension and health care benefits were associated to the employees' insurance record and aimed at reproducing the professional achievements. Pension benefits were earnings-related, while the access to health care services, obtainable in public as well as in private practices, depended on the payment of health insurance premiums or, when not available, by payments in cash. This system was highly non-egalitarian and a significant segment of the population remained uninsured.

The management of the social security system was fairly decentralized. The responsibility for old-age and health care protection was primarily given to local communities or workers' associations, which had the duty to ensure a minimum level of subsistence (rather than a minimum living standard) to their members. State intervention in workers' life was minimal and primarily relegated to resolve workers' disputes. The increasing internal tensions caused by the very low living standards of factory workers and agrarians associated to the possible spread of socialist ideals forced the governments of these countries to adopt the strategy developed by Bismarck. The maintenance of social peace was then linked to the introduction of occupational based schemes, in which central authorities had only limited regulatory powers (primarily legislative rather than of supervision).

The main financing mechanism was social insurance contributions, which aimed at covering individuals primarily against the risks associated with old-age and health. There was a basic social safety net for the poor, sponsored by the state or by charity organizations, but this net did not aim at guaranteeing minimum living standards, but rather temporarily aimed to alleviate extreme poverty.

2. The Period from 1945 to 1989

2.1 The "Golden Age" of Central and Eastern Europe

The years from 1950s to 1970s are usually defined the "Golden Age" of Western European welfare states, whose main characteristics were a rapid increase in welfare expenditures, but also, and more importantly, a rapid expansion in entitlement and eligibility criteria for accessing benefits. Did the *golden age* of Western European welfare states coincide with the *golden age* of Eastern Europe? Even though it might seem implausible due to the huge differences present in the economic structures of the two societies, the two golden ages practically coincide, and also for similar reasons. As Szalai (2005a) has pointed out, Western European nations were not alone in the world and all of them were confronted with the social, economic and technological achievements of their, at the time, enemies of the Warsaw Pact. Similarly, Central and Eastern European societies were not immune to the cultural, political and social achievements of Western societies, but were forced to deal with their, at the time, corrupt *alter ego*. The development of an extensive welfare state in Europe able to ensure universal coverage for the citizens should, in fact, be explained not only in terms of class struggles as the *power resource model* would suggest (see Korpi 1983, Esping-Andersen 1985; Baldwin 1990), or as a result of deindustrialization (Iversen 2005) or again as the consequence of increasing global economic competition (Rieger and Leibfried 2003), but also as an outcome of the strategy of confrontation during the Cold War.

The process of modernization in Central and Eastern Europe, started with the development of heavy industry in the 1950s, which resulted in an extraordinary increase in living standards. These, however, were maintained artificially high, for political and propaganda purposes, beyond the real possibilities of the central planned economy. The artificial raise in living conditions through various state subsidies coupled with a constant increase in military expenses put the productive and distributive capacities of the central planned economy under great financial pressure. Constructing an always larger number of nuclear missiles, submarines, or engaging in the "space race" with the United States were extremely expensive political exercises that, in some way, had to be financed. Funds could only be raised at this point either from a reduction in expenditures for those policies indirectly aimed at subsidizing the economy and, hence, at raising living standards (such as price subsidies or subvention to modernize the firms) or, as last resort, from an increase in external debt. The latter option was the one preferred by almost all countries. By 1989, for example, the gross convertible external debt reached USD 7.9 thousand million in Czechoslovakia, USD 19.2 thousand million in Hungary, and USD 40.8 thousand million in Poland (Szalai 2005a, p. 32).

Nevertheless, by the end of the 1980s, the welfare state, which was continuously expanding⁴, financed through external debt, was no longer able to ensure the social stability it had ensured previously after the attempts of revolt in Budapest in 1956, after the *Prague Spring* in 1968 and in Poland in the early 1980s. These were, in fact, not only the years where the communist system vacillated due to mass demonstrations, but also the years in which political leaders consolidated their power through an expansion in welfare provisions (Szalai 2005a). The establishment of an extensive welfare state was, thus, the reward that Eastern citizens received in exchange for their liberty, whereas the institutionalization of welfare rights, that had radically increased during the 1960s and 1970s, functioned in legitimizing the political system introduced by dictatorship. Despite increased attempts to increase the distributive possibilities of the central planned economy, already grown to limits through external funding, the dissatisfaction among citizens, already high, grew, leading to the collapse of the system on 9 November 1989, day of the fall of the Berlin Wall.

2.2 The Four Institutional Variables

Following the Soviet occupation after World War II, the dominant Bismarckian mode of access to benefits was not completely abolished by the communist regime, but rather it was expanded in order to bring it in line with the egalitarian aspirations of the Bolshevik revolution. Here, it is important to point out that the communist understanding of citizenship coincided with the idea of the perfect communist worker (such as Stakanov). Every citizen had the right and obligation to work not only for the sustenance of his or her family, but also for the economic development of the country (Ferge 1979). As a consequence, welfare rights and entitlements continued to be based on the professional activity, but the corporatist orientation was covered up by the egalitarian communist propaganda and by the fact that there was practically no unemployment. Clearly, things went differently for those minorities, who were, for some reason, outside of the labour market (such as Roma, pensioners, handicapped). In this case, the universal and egalitarian aspirations of the communist regime faced a drastic slowdown. Poverty and, what nowadays we would call, social exclusion were associated with an implicit social stigma. In the eyes of the many citizens that regularly took part in the economic, social and political life, being the beneficiary of some form of social assistance benefit (in-kind or in-cash) was inevitably the result of a reactionary or, in the worst case, of a counter-revolutionary behaviour (Milanovic 1998; Cerami 2006).

⁴ Please note that it would be impossible to analyze social security expenditures in CEE without considering other "indirect social policies" such as job security, price subsidies, subvention to firms, to house, education, etc.

With the introduction of the central planned economy, the benefit structure was equalized. Flat-rate rather than contributory benefits became the new characteristics of the pension system, while universal and standardized treatments were the norm in public, state-run hospitals. Unfortunately, the egalitarian aspirations of the communist nomenclature did not coincide with a positive performance of welfare institutions. A poor working life was usually followed by a poor retirement (Connor 1997), while health care services were highly inefficient and characterized by high morbidity rates (Deacon 2000).

The extremely differentiated schemes established during the Bismarckian period in Eastern Europe were put under the control of central authorities, with social insurance revenues and expenditures becoming integral part of the central planned economy. Social insurance contributions, which persisted in these countries even during the 1970s, were transferred to the state budget (or in funds within the state budget) and, subsequently, redistributed to the entire population. The management of the social protection system was highly hierarchical and based on a top-down approach. The Ministry of Social Affairs (or Health) planned the relative policies. These were then implemented by local authorities on the basis of the decisions and the national priorities taken at the central level, often with little or no knowledge of local real needs. Trade unions were also in charge of social insurance administration, but since only the official communist trade union was allowed, the independence from state authority was extremely limited. The access to welfare benefits, by contrast, followed a bottom-up direction and was characterized by a high degree of discretion of those officials who were responsible to grant the benefits.

Although state participation in the financing of the communist welfare state was greatly enlarged, social insurance contributions did not completely disappear from the scene. While in Czechoslovakia, social insurance premiums were automatically included in the state budget⁵, in Hungary and Poland they were still considered to be a separate part of social security receipts. As Table 1 shows, during the period from the 1960s to the end of the 1980s, the receipts from employers' contributions in Hungary were equal or higher than state participation receipts, while the contributions paid by the insured corresponded to approximately one-fifth (slightly below 20%) of total social security revenues. In Poland, the largest part of total social security receipts was paid through employers' contributions, which remained constantly higher than the receipt coming from state participation, and that covered the low revenues of insured premiums.

⁵ This was probably a reaction of the communist government to the *Prague Spring*. In fact, while after the demonstrations in Hungary in 1956 the government responded by making liberal concessions to the populations in exchange for social peace, in Czechoslovakia the response was primarily concerned with re-establishing the communist orthodoxy.

Table 1. Social Security Receipts: Percentage of Contributions paid by Insured Person, Employers and State Intervention

Czechoslovakia				Hungary				Poland			
Year	insured	employers	state intervention	Year	insured	employers	state Intervention	Year	insured	employers	state intervention
1963	2	33	65	1963	12	47	42	1963	0	63	37
1966	0	35	65	1966	14	40	46	1966	1	61	38
1971	0	3	97	1971	17	52	31	1971	10	54	36
1974	0	3	97	1974	17	43	40	1974	4	59	37
1977	0	3	97	1977	16	46	38	1977	1	57	42*
1980	0	4	96	1980	14	40	46	1980	2	52	46
1983	0	4	96	1983	15	47	38	1986	3	61	36*
1986	0	4	96	1986	21	79	0	1989	2	70	28*
1990	0	4	96	1991	25*	75	0	1990	3	68	29*

Source: ILO/MZES 2001. Author's calculations.

*Estimated

As Manow and Plümper (2006) have demonstrated, the ways how a welfare state expands may depend on the existing financing structure of welfare institutions (tax vs. social insurance contributions), but also by the degree of freedom of the institutions responsible for monetary policies. In economies based on central planning, as mentioned, the main characteristic was an ambiguous contributions-oriented system that equally redistributed the resources collected, while the institutions responsible for monetary policies were fully subjected to the state authority. It comes then as no surprise that rising contributions also coincided to an increase in an external debt as it happened in countries with a low degree of central bank independence and Bismarckian welfare states such as Belgium, France, Italy, Portugal and Spain (see Manow and Plümper 2006).

3. The Period from 1989 onwards

3.1 Welfare Reform Trajectories after Communism

At the beginning of the 1990s, structural reforms were implemented that remained under the dominant Bismarckian logic introduced in the pre-Soviet period and continued even during communism. Welfare benefits granted on the basis of professional activity and according to the work record of individuals continued to be financed through the payment of social insurance contributions, which this time, however, were redistributed, to a lesser extent, among the population in absence of a centrally planned economic mechanism. Professional diversity, differentiation of provisions and privatization of schemes soon became the keywords of the new post-communist consensus. In short, three sequences of reforms can be identified since the collapse of communism: (1) *forced expansion*, (2) *attempts at privatization*, and (3) *re-adjustment* (see Table A.1 in Appendix).

3.1.1 First Sequence of Reforms

The first sequence coincided with the *temporary growth of welfare provisions* called to aid the democratic transition of Eastern Europe. The new problem of mass unemployment resulting from the dismissal of workers of state-owned enterprises was first tackled by the introduction of extensive early retirement policies, followed by the establishment of relatively far-reaching unemployment and social assistance programmes, which should have played the important function of social pacification (Standing 1996; Milanovic 1998; Vodopivec et al. 2003; Vanhuysse 2006).

However, during this phase, not only temporary emergency policies were implemented, but also the first steps for future, long-lasting reforms were taken. The Civic Forum/Public against Violence (CF/VPN) and Civic Democratic Party (ODS) led governments in Czech Republic and the Movement for a Democratic Slovakia (HZDS) led government in Slovakia, the Hungarian Democratic Forum (MDF) and the Hungarian Socialist Party (MSZP) coalitions in Hungary, and the *Solidarity*-led alliances in Poland started, in fact, the first attempts to move away from the old pay-as-go-system, by creating the basis for the future adoption of the three pillar schemes (or private funds in the case of the Czech Republic). This also included the reinforcement of principles based on pension insurance, as well as a slow raise in retirement and contribution rates, which remained set at an extremely low level during the entire communist period (usually 60 years for men and 55 years women, with approximately 25 years of service). In the health care sector, the main characteristics of reforms were the reintroduction of health insurance, a clearer separation in the management and financing the system (from taxation to contributions and from the state budget to separate funds), as well as the establishment of private practice. On unemployment and social assistance, this involved the introduction of unemployment insurance, as well as the establishment of a basic social safety net. Finally, on family benefits, the temporary maintenance of extensive family policies had the aim of cushioning some of the costs of transition, since policy-makers in the region saw family protection as the most effective way to target poor people (Interview no. 2).

3.1.2 Second Sequence of Reforms

Of course, the early generosity soon became unsustainable, especially due to the escalating number of unemployed. The second sequence of reforms, *attempts at privatization*, were introduced in order to reduce the expansion of the welfare state. The measures used to prevent such uncontrollable extension of rights and claims were again primarily rooted in the Bismarckian tradition. These involved, of course, the privatization of provisions, as sponsored by the most influential international financial institutions, as well as also and, perhaps, more importantly, the reinforcement of principles based on

professional diversity. A process of *monetarization and individualization of risks and responsibilities* was then enclosed in a Bismarckian welfare logic, which saw in the establishment of insurance-related pension, health care and unemployment schemes. This seemed the best way to cut expenditures, while, at the same time, ensuring professional diversity and market orientation. In Hungary, attempts at retrenchments were carried out by Finance Minister Lajos Bokros in 1995, who unsuccessfully tried to introduce a set of austerity measures (the so-called *Bokros package*) with the aim of making family allowance no longer universal and automatic, of conducting a shift from flat-rate to means-tested benefits, of reducing child-care assistance and of introducing the tuition fees for universities. In Czech Republic, the Klaus governments pushed for a drastic reduction in the protection against unemployment policies especially during the second half of the 1990s. Fascinatingly, the policy discourse during these years reached a peak in neo-liberal orientations with some Czech officials affirming that unemployment was something natural and beneficial for the country. If no unemployment would have existed, then something would have been wrong with the country (Consensus II 1999: Czech Republic, Part IV, p.150). In the mid 1990s, a report called *Security through Diversity* also opened a temperamental debate in Poland between the Ministry of Finance and the Ministry of Social Affairs on the incontrovertible necessity of drastic social security reforms. Similarly in Slovakia, violent discussions on the necessity of privatizing health and pensions also took place at about the same time. It is not by chance that most pension and health care reforms (notably the full introduction of the three pillar scheme in Hungary and Poland, and the reinforcement of health insurance principles in Czech and Slovak Republic) took place close to the end of the 1990s. These were, undoubtedly, the years where endogenous and exogenous economic vulnerabilities became stronger and actions were addressed as urgent by the national, as well as by the international, community, but these were also the years where the Bismarckian character of welfare institutions was reinforced on the basis of the country's historical background.

Interestingly, the left/right divide was not a determinant factor for party preferences towards neo-liberal or social democratic reforms. In fact, not only centre-right parties, like the ODS-of Vaclav Klaus in Czech Republic, have opted for welfare cuts, but also left-wing governments, like the MSZP of Gyula Horn in Hungary, or the catholic *Solidarity* coalitions in Poland⁶. One plausible explanation for the rather unusual behaviour of left-wing parties is the one provided by Müller (2004), who sees such reform attempts as driven by the necessity of left governments, on the one hand, to increase their international legitimacy after forty years of communism, while, on the other, to let the population digest more easily the absolutely necessary reforms. Right-wing parties would

⁶ The *Solidarity* coalitions represented the political wing of the Polish catholic trade union and, as a consequence, should have opted, in a more determined way, for a workers' friendly transformation.

have not had, in fact, the same moral authority. The *Nixon goes to China Syndrome* (Müller 2004) seems, as a consequence, to have characterized the politics of social security reforms of left wing-parties in the first years of transition, even though this does not seem to be the case nowadays (see below).

3.1.3 Third Sequence of Reforms

Owing to problems connected with the growing number of unprotected citizens attempting to claim from the already indebted social insurance funds, the excessive optimistic vision of *market-driven change* did not survive its arrival. The third sequence of reforms, strongly characterized by policy learning dynamics (on policy learning see Hemerijck 2006a), was that of *recasting* (Ferrera and Rhodes 2000) or *recalibrating* (Ferrera et al. 2000; Hemerijck 2006b) the neo-liberal approach introduced by most Central and Eastern European governments. In Czech Republic, numerous private health insurance funds evaluated as unable to provide minimum standards for their clients have now been abolished, while in Hungary the compulsory affiliation to the second private pillar of pension, once mandatory for younger generations, has been eliminated. In Poland, unemployment benefits still financed by employers' contributions are now granted on a flat-rate rather than on an occupational basis so as to reduce the financial pressure caused by raising unemployment, whereas in Slovakia the full implementation of a strong market-oriented health insurance is facing increasing policy resistance due to the universal requirements expressed by the Slovak Constitution.

How can such change in orientation be explained? Undoubtedly, *blame avoidance* (Pierson 2001) and *credit claiming* (Mayhew 1974) strategies now play a greater role than in the past. Politicians are, in fact, increasingly searching for ambiguous political and policy agreements in order to see their economic and social policy goals implemented, while, at the same time, trying to ensure the continuation of their own political career⁷. Political leaders staying in the government are also more often claiming responsibility for the "missed disaster", which would have followed the non-implementation of reforms. Also parties in opposition affirm with more determination

⁷ The most emblematic example is provided by the so-called "opposition contract" between the ODS and the Czech Social Democratic Party (ČSSD) in the Czech Republic. The pact between the two main leaders, as Vodička (2005, pp. 145-146) explains, was: Miloš Zeman would have renounced his position as Secretary of the ČSSD in order to be elected as candidate *super partes* to the next presidential elections of 2003, while Václav Klaus would have received, in exchange for his support, the position of Prime Minister in the ODS minority-led government. When Zeman appointed Vladimír Špidla as his successor, it was implicit that tolerance for Klaus' economic preferences would have been due. Unexpectedly, Špidla, instead of supporting the already existent "opposition contract", decided on campaigning against the ODS, but he was then subjected to a *coup d'état* conducted by the members of his own party.

responsibility for having avoided even a more painful economic transformation through their blockades in the parliament.

Despite the importance of this actor-centred explanation, the political behaviour of citizens and politicians is still not sufficient to fully understand the path of social security reforms in the Visegrad countries. The role played by already existing institutions must also be seriously taken into account. As the next paragraph will summarize, reforms in the mode of access, benefit structure, management and financing of the new welfare state was carried out according to two main principles, which were deeply rooted in the communist and pre-communist past. The first principle was driven by the experience of the excessive standardization of economic and social life caused by the regulatory mechanisms of the central planned economy, which produced the undesired effect of limiting work performance in the absence of incentives, stagnation or even regression of modernization (Machonin 1997). As a result, the aim of politicians and policy-makers was to provide a differentiated socio-economic system in which the personal aspirations of citizens could be better realized. In the areas of social policy, this coincided with the re-introduction of provisions based on occupational diversity, which also had a long tradition in these countries. At the same time, forty years of communism had produced a system of formal and informal norms that made an extremely differentiate access to welfare provisions not a viable political decision. The state paternalist welfare state established during communism could not simply be dismantled overnight, especially in times where the costs of the economic transition would primarily lay on the poorer social classes. The reinforcement of Bismarck institutions, never completely dismantled during communism, was then the most obvious option.

3.2 The Four Institutional Variables

Nowadays, the mode of access to benefits in the four Visegrad countries is based on the Bismarck model, but significant universal aspirations exist. In the Czech Republic, Hungary, Poland and Slovakia, the access to pensions is regulated by the payment of social insurance contributions, but a strong link to social assistance provisions (the so-called fourth pillar) ensures coverage for those people who, otherwise, would remain uninsured (Wagener 2002; Tomka 2004). The same applies with regards to health care protection. All these countries now grant health services upon the payment of health insurance premiums, but the state is often called to cover the deficit of the newly established health funds and to ensure that numerous unprotected citizens, such as unemployed, students, children, pensioners, and persons in need are covered (Cerami 2006).

Though primarily Bismarckian in its character⁸, the benefit structure of current Central and Eastern European welfare institutions can be described as an ambiguous mix of differentiation and equalization of provisions. Just to quote few example, in the Czech Republic, pensions are financed by social insurance contributions and are calculated on the basis of two amounts: (1) a basic flat-rate based on citizenship and (2) an additional earnings-related component based on the professional status. The flat-rate component of pensions plays the role of equalization at the expense of the middle and upper classes (Consensus II 1999; Tomeš 2003; MISSOC 2006). In Hungary, most of health services are included in the mandatory health package, which are covered by the compulsory insurance scheme. As a consequence, there is little space for additional private health care services and because of this the majority of the citizens have access to the same provisions (Gál et al. 2003, p. 78; MISSOC 2006). For Kornai (2001), in fact, the current Hungarian health care system still displays some characteristics of "market socialism". In Poland, unemployment benefits are financed by social insurance contributions, but their amount is now granted on a flat-rate basis. A differentiated welfare system also exists for farmers, who are insured by KRUS (Social Insurance Fund for Farmers) in contrast to ZUS (Social Insurance Institution), which is responsible for employees. In KRUS, pensions are still based on a first pay-as-you-go component (I pillar), while health insurance has higher universal aspirations (MISSCEEC 2002; MISSOC 2006). In Slovakia the aim of the new pension formula is clearly that of encouraging professional diversity, but the system, work-related in scope, has still universal aspirations. Article 39 of the Slovak Constitution affirms the right to adequate material provisions for pensioners establishing a strong linkage with the minimum guaranteed income (MISSCEEC 2002; MISSOC 2006).

In Central and Eastern Europe, decentralization and devolution of responsibilities to regional and local authorities has been the main characteristic of reforms, although some form of re-centralization is observable. Devolution can be explained as a reaction to the communist over-centralization, which had neglected local requests in order to meet national priorities. As it can be seen by the administrative organization, the system is nowadays much more differentiated. In the Czech Republic, Hungary, Poland and Slovakia, the Ministries of Labour and Social Affairs are responsible for planning policies and drawing up legislation for the overall social security system, with the exception of the health care, which is, usually, under the control of the Ministry of Health. Distinct and autonomous bodies (such as the Czech Administration of Social Security, the Hungarian Central Administration of National Pension Insurance, KRUS and ZUS in Poland, or the Slovak Social Insurance Agency) administer the new social insurance system and pay the

⁸ In the four Visegrad countries, welfare benefits are: (a) primarily financed by social insurance contributions; (b) earnings-related; and (c) granted on the basis of the professional record.

benefits through their district and local offices. Also the role of trade unions, usually addressed as the *weakest link* in the reforms process (Ghellab and Vaughan-Whitehead 2003), has now drastically increased. Despite common assumptions, tripartite consultations have played a crucial role in the first stage of reforms by helping the introduction of a new welfare system, in the second stage by facilitating the continuation of reforms mediating different interests and needs, and in the third stage of reforms, by calling attention to the necessity to include a social dimension of transformation (Ladó 2003, p. 258). In this context, it can be affirmed that not the absence of corporatism, but rather a form of *state-led corporatism*, to use Schmidt's description (Schmidt 2006b), is the main characteristic of the transition toward a market economy. If Ebbinghaus' classification is applied (Ebbinghaus 2006), then *state-led corporatism* would come very close to the *consultation* type as the state may consult the social partners but not seriously negotiate with them (in this case it would be *concertation*). Moreover, actors in the four Visegrad countries seem to lack the capacity of being true corporatist actors in both policy formation and implementation, since priority was very often given to macro-economic stabilization measures (see also Advagic 2004).

Finally, as far as the financing mechanism is concerned, the general trend occurring in the four Visegrad countries seems to lead to a rapid devolution of state responsibility in financing the system of social protection through an increase in social insurance contributions and a gradual equalization of employers' and employees' participation rates. With respect to the important issue of how, and how much, taxes are levied on citizens, while during communism the system was distributive in scope, since 1989 taxation tends to produce a diversified impact on individuals. In Slovakia the revenues from taxes, as percentage of GDP, are the lowest (30.6%), followed by Poland (35.8%), Czech Republic (36.2%) and Hungary (39.1%), which is the only country close to the EU15 average (40.6%). Looking at the structure of taxation it is clear to see that social insurance contributions as percentage of total taxation in Hungary are equal to the contribution rates in the EU 15, but substantially higher in Czech Republic, Poland and Slovakia. However, it is also important to consider how direct and indirect taxes are levied on citizens, since this may influence the final amount of money that people have at their disposal (or their purchase power), thus influencing the final redistributive character of the welfare state (Adema and Ladaique 2005). What is interesting to note here is how the structure of taxation in the four Visegrad countries is for the most part based on social insurance contributions and indirect taxes, while direct taxes remain significantly below the EU15 average, both as percentage of total taxation and as percentage of GDP (see Table 2). This implies that taxation continues to have a dual orientation: an employment-related character due to the payment of social insurance contributions, and a collective character due to the revenues raised by indirect taxes, such as VAT and taxes

on products, which tend to be accumulated more independently of individual's own income.

Table 2 The Structure of Taxation (2003)

	Total taxes % of GDP	Indirect taxes % of total taxation	Direct taxes % of total taxation	Social security contributions % of total taxations	Indirect taxes % of GDP	Direct taxes % of GDP	Social security contributions % of GDP
Czech Rep.	36.2	31.4	27.1	41.5	11.4	9.8	15.0
Hungary	39.1	42.4	25.0	32.5	16.6	9.8	12.7
Poland	35.8	42.8	20.1	39.4	15.3	7.2	14.1
Slovakia	30.6	37.6	23.6	40.2	11.5	7.2	12.3
EU15	40.6	34.6	33.1	32.5	13.6	13.7	13.2

Source: Eurostat 2005.

Finally, the four Visegrad countries spend less than Western Europe in welfare programmes, with public welfare expenditures that remain substantially below the EU 15 average. In 2001, for example, the total public social expenditures were equal to 20.1% of GDP in the Czech Republic and Hungary, 23.0% in Poland and 17.9% in Slovakia, while the EU15 average was equal to 24.0%. Similar considerations apply to old age, health care, family and unemployment benefits, although there are some exceptions, such as the case of the Czech Republic for health care and Hungary for family benefits. Here, what is interesting to note is that despite the existence of raising unemployment, only Poland, comes close to the EU15 average for expenditures on unemployment of 1.2% of GDP (see Table 3).

Table 3. Public Social Expenditures % of GDP (2001)

	Total	Old Age	Health care	Family Benefits	Unemployment
Czech Rep.	20.1	6.7	6.7	1.6	0.2
Hungary	20.1	8.0	5.1	2.5	0.4
Poland	23.0	8.5	4.4	0.9	1.0
Slovakia	17.9	6.7	5.0	1.5	0.5
EU15	24.0	8.8	6.1	2.2	1.2

Source: OECD Social Security Expenditure Database 2004

Conclusion

If one looks at the reform trajectories prior to the fall of the Berlin Wall, similarities with the reform trajectories in other Bismarckian countries (such as France) can be found. These similarities can partly be explained by similar external economic shocks that the countries of Central and Eastern Europe were facing (such as the oil crisis of the 1970s), but also by the existence of similar Bismarck-oriented welfare institutions. Expansion of welfare provisions during the 1970s and the early 1980s in CEECs was largely associated to an increase in external debt and in social insurance contributions. Modifications in social policy remained under the dominant communist logic, but Bismarckian features, already present, became more preponderant (*the golden age*). After a brief period, where welfare institutions were called to amortize the costs of economic transition (*the era of*

forced expansion), attempts of welfare retrenchment characterized the policy trends in these countries in the 1990s. In comparison with other Western democracies, the political discourse in these years focused on the necessity to ensure system and financial stability. In the Central and Eastern European case, this was also linked to the future consolidation of democratic institutions (the *era of retrenchment's attempts*). More recently, alteration and amendments in the national legislation are taking place in almost all welfare state sectors, involving the reduction, but also, in some cases, the expansion of the level of benefits (first order changes⁹), as well as the introduction of new calculation rules, new kinds of entitlements and benefits (second order changes). These changes tend to go beyond simple "retrenchment" policies, since they aim to recalibrate the system to the new emerging social problems, which differ from the early days of post-communist transition (*the era beyond retrenchment*).

Central and Eastern European countries have, thus, developed around a new welfare logic, which has path-dependent and innovative components (Cerami 2006). These have been identified in: (a) the re-enforcement of Bismarckian-oriented policies as heritage of the Austro-Hungarian empire (path-dependent); (b) the maintenance of egalitarian and universal aspirations as fostered during the communist period (path-dependent); and (c) the introduction of market-friendly welfare provisions (innovative). If analyzed in their global context, the abovementioned characteristics are evidence for a significant degree of cohesion among these welfare states in transition and may allow for the emergence of a new and unique welfare regime (Cerami 2006), in which different *worlds of welfare* coexist and are recombined together. To use a definition recently provided by Lamping and Rüb (2004) for Germany, the welfare regime in Central and Eastern Europe can, therefore, be described in terms of a "recombinant welfare state¹⁰", where Bismarck features remain preponderant. To conclude, as highlighted by other authors (see, for instance, France by Bruno Palier 2006, Spain by Ana Guillén 2006, Germany by Karl Hinrichs 2006), Bismarckian welfare states are not as "frozen" as they seem. Rather, they are *defrosting* their most *immovable objects* (Pierson 1998): a process that is leading to a hybridization of the system.

⁹ For a definition of first, second and third order changes, see Hall (1993).

¹⁰ For Lamping and Rüb (2004), the German welfare state is in transition from the classical Bismarckian type to an "uncertain something else" that the authors cautiously call a "conservative universalism". Please note that the term *recombinant property* has first been used by Stark (1996) and Stark and Bruszt (1998) to describe the evolution of Central and Eastern European markets. For the term *recombinant governance*, see Crouch (2005).

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Table A1. Reform Trajectories

Types of change	Context	Diagnosis	Content of the policy	Politics of the reforms	Consequences
The Golden Age	<ul style="list-style-type: none"> - Economic downturn (mid 1970's onwards), - social budget deficits 	Social benefits can help the system and (un)democratic stability	<ul style="list-style-type: none"> * Preservation of full employment * raise in social contribution * change in the generosity of the benefits (upwards) * Additional financing necessary raised through external debt 	<ul style="list-style-type: none"> * Raise in social contribution * Unwillingness to cut social benefits * Additional financing necessary raised through external debt 	<ul style="list-style-type: none"> * Continuous welfare expansion beyond the possibility of the central planned economy * Increasing inefficiencies of such policies (impossibility to cope with Western achievements in living standards) * Re-enforcement of Bismarck features as existing before communism
Forced expansion (before retrenchment's attempts) NOTE: Temporary and due to exceptional circumstances	<ul style="list-style-type: none"> -Economic collapse following the dissolution of communism - Introduction of market economy - Preparation to a new economic mechanism - Massive socio, political, economic and demographic changes 	The democratic transition has to be rescued, and consolidated	<ul style="list-style-type: none"> * increase in the contributions to social insurance benefits * Introduction of generous early retirement, protection against unemployment and establishment of basic safety net * Reinforcement of Bismarck features 	<ul style="list-style-type: none"> * Negotiated, but based on TINA (There Is No Alternative) * The state takes some responsibilities for the collapse of communism, while at the same time promoting differentiation in risk management 	<ul style="list-style-type: none"> * From social to more individual insurance * Anomalies of the new system covered under state responsibility
Retrenchment's attempts	<ul style="list-style-type: none"> - Severe economic deterioration - End of what remained of Keynesianism -Global and European orientation/ coordination of economic and social policies 	<ul style="list-style-type: none"> * Welfare systems are seen as partly the cause of the crisis: excessive state involvement reinforce social exclusion; income maintenance is disincentive to work; state involvement damages competitiveness and creates unemployment; state management rules hinder reform capacities 	<ul style="list-style-type: none"> * increasing importance of targeted and market-based benefits * expansion of private provisions * new mode of management (private) 	<ul style="list-style-type: none"> * Negotiated, but STRONGLY based on TINA (There Is No Alternative) 	<ul style="list-style-type: none"> Weakening of state responsibility, while increasing social insurances mechanisms and actors
Beyond Retrenchment	<ul style="list-style-type: none"> - EU immediate pre-accession - EU Enlargement 	<ul style="list-style-type: none"> Welfare systems need a profound adaptation to the new EU based socio-economic context - Recombinant implementation of EU, OECD, World Bank and IMF ideas in the light of the EU Enlargement 	<ul style="list-style-type: none"> Reconsideration of neo-liberal approach (private pillars in pension, and health insurance are recalibrated) * Activation of unemployed * Competition in health * Emphasis on social inclusion due to Lisbon European Council 	<ul style="list-style-type: none"> * Negotiated, but based on a new, more socially-aware approach 	<ul style="list-style-type: none"> * Recalibration of previous reforms * hybridization of the system