Béla Tomka

The Politics of Institutionalized Volatility: Lessons from East Central European Welfare Reforms

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THE POLITICS OF INSTITUTIONALIZED VOLATILITY: LESSONS FROM EAST CENTRAL EUROPEAN WELFARE REFORMS

Béla Tomka

While there can be little doubt about the direction of economic transformation of postcommunist East Central Europe, there have been considerable differences of opinion among social scientists about the character of the new welfare regimes and the trends of welfare development in the region. In the early to mid-1990s, most experts conceptualized the transformation of welfare systems in the framework developed by G. Esping-Andersen.[1] Many specialists expected the arrival of "conservative" and "social democratic" welfare regimes.[2] However, the majority of observers, including Esping-Andersen, have described the welfare reforms in postcommunist East Central Europe as being "liberal-capitalist."[3] Moreover, this discourse on the liberal transformation has been suffused with analysts' wishes and fears. Some observers have stressed the inevitability of welfare service privatization and have considered the communist legacy to be the leading obstacle to the liberal transformation they wished to achieve. At the same time, advocates of extensive social services emphasized the high social costs of the liberal reforms they feared.[4] Thus, while they may have had diverging ideals and conflicting arguments, these commentators have created a dominant narrative on East Central European welfare reforms, which describes the process as being sometimes overly hesitant, sometimes unnecessarily painful, but with a clear trajectory towards a "liberal" or "residual" welfare regime, in which variations mostly result from the level of a country's progress in that process.[5]

For the last couple of years, however, alternative interpretations have appeared in the literature. Welfare systems in postcommunist East Europe have been described as mixtures of different elements of Western European social democratic, conservative and liberal welfare regimes.[6] The dominance and irreversibility of liberal welfare policies has been questioned as well. These alternative interpretations argue that welfare policies in the new democracies have not followed a linear path, but have been volatile and often chaotic, due to the lack of consensus among experts or the public about the desirable direction of welfare reforms.[7] Here, I intend to present further evidence for the validity of this argument by considering the antecedents and causes of the "mixed" features and the volatility of East Central European welfare systems, focusing on the case of Hungary. I argue that the specific determinants of East Central European welfare systems in the second half of the 20th century greatly contributed to the present "mixed" characteristics of the region's welfare sectors and to the instability of the postcommunist welfare arrangements there, rather than simply resulting from the transition from a communist to a liberal welfare system.

The analysis presented here undeniably has some limitations. The focus is on the experience of Hungary, although I touch upon other East Central European countries (Czechoslovakia, its successor states and Poland) to a lesser degree. Despite the constraints, I find that the areas examined explain what the predispositions for welfare development in East Central Europe were, and this might also have relevance to the welfare research of the wider post-Soviet region. Thus, the approach might at least serve as a starting point for further more comprehensive studies.

The politics of inconsistency: determinants and practice of welfare in communist East Central Europe

Comparative welfare state research has produced a series of competing—but not necessarily mutually exclusive—interpretations of the emergence and development of welfare states in Western Europe.[8] It is not possible to fully summarize the vast literature on the subject here, but I will briefly refer to the most important pieces of welfare research.[9] Mainstream research has emphasized that, in Western Europe the impact of industrialization, the changing structure of the population and labor force, and—most importantly—the political mobilization of actors favoring extensive welfare programs were the major factors behind the rise of social rights. Political mobilization relied on forming class alliances in order to be effective. In turn, political mobilization also had social and cultural preconditions, such as associability or social capabilities to boost cooperation and effective collective action (such as trust etc.).[10]

I argue that some of these factors impacted welfare development both in East Central and Western Europe. Throughout Europe, there is undoubtedly a broad link between socio-economic and welfare development. This relationship is demonstrated by the employment structure, the transformation of which had long-term consequences on the growth of welfare programs. The dynamics of social policy development, however, seem to contradict any closer relationship between socio-economic and welfare development in East Central Europe.

The first social programs appeared in Hungary in 1892, which was quite a bit earlier than countries with high industrialization and urbanization levels, such as Belgium and Great Britain. Since industrialization in Hungary was lagging behind West European countries during this period, the early timing of the welfare programs is an anomaly from the point of view of socio-economically oriented interpretations. Moreover, the growth of the welfare sector in Hungary was not at its most rapid when industrialization and the related transformation of the employment structure progressed at its highest pace, i.e., in the 1950s and 1960s. The correlation between high economic growth and welfare policy was in fact negative during several high-growth periods: the greatest relative increase in welfare expenditures occurred when economic development slowed in the 1970s and 1980s.[11]

The ambiguous relationship between socio-economic development and welfare in East Central Europe is further demonstrated by demographic development. A decomposition analysis available for Hungary for the period between 1960 and 1989 shows that even though demographic factors contributed to the rise in pension expenditures, their influence was lagging far behind the consequences of the political decisions aiming at the expansion of social rights, similarly to Western Europe.[12] Moreover, the effects of demographic factors were peculiar in Hungary, where the negative demographic consequences of forced industrialization along with the promotion of women's employment led to a population policy that was much more proactive than in any West European country. The vigorous policy to boost the Hungarian birthrate was reflected in the relatively high number of family and maternity benefits, which far surpassed West European levels in the mid-1960s. Consequently, demographic factors in Hungary mediated the effects of not only economic but also political transformations to the welfare sector.

Political, rather than socio-economic, factors are dominant in the welfare development of East Central Europe. The nature of political factors diverged considerably from much of Western Europe, since political mobilization and class-alliance were not major determinants of welfare state formation in East Central European societies. During the communist era, class mobilization in the traditional sense was impossible because of the power monopoly of the state-party.[13] Instead, ideological factors shaped the communist welfare system.[14] Egalitarian claims appeared in the official ideology and propaganda, especially in the early decades: comprehensive social security was considered to be an inherent part of the society since it was meant to express the humanity of the communist system.

Nevertheless, such declarations did not mean that collectivist or egalitarian principles were the dominant. Other principles carried more weight than welfare and therefore competed with welfare policies, such as the practice of offering privileges to certain social strata that were regarded as pillars of communism or necessity of increasing economic output. Moreover, the collectivist ideology excluded those groups who were seen as "parasites" and "speculators" and were therefore excluded from welfare services. The fact that social security and other welfare benefits were distributed according to class was openly acknowledged: indeed, receiving welfare went hand in hand with work performance, discipline and productivity. Loyalty was also rewarded, for example, in the so-called "personal pensions."[15] In the early years, social security did not appear as a fundamental right of the citizens, but was seen as a gift from the state that reflected the government's benevolence.

In the interpretation of welfare development dynamics in communist Hungary, a considerable role must be attributed to political constraints, with which the system was confronted in different forms from time to time, such as the overt opposition of the population in 1956, or the eroding legitimacy of the regime in the late 1980s. In several West European countries, the prospect of parliamentary elections had the effect of increasing welfare benefits.[16] In Hungary, this type of electoral cycle was absent throughout the century. Instead, a kind of "crisis cycle" emerged: as early as the first half of the 20th century, there were signs that the increase of social benefits was related to political cataclysms. Immediately after the Second World War, coverage was increased, and the same happened in the years following the 1956 revolution. This pattern emerged again when we witnessed the highest social expenditures during the under extremely dire economic and political conditions in Hungary in the late 198s.[17]

As far as the other East Central European countries are concerned, the determinants of welfare development have only slightly diverged from the Hungarian case. Economic development and, in its wake, the changes in employment and demographic factors contributed to the long-term development of social security programs. However, the emergence of welfare programs, their timing and dynamics cannot be explained by the level of socio-economic development. Political factors, such as the legitimating efforts of the elites, the relative weakness of liberalism and national attempts to promote industrial development directly influenced the expansion of social security programs early on. During the inter-war period, class alliances to advance welfare legislation only existed in Czechoslovakia, where agricultural workers enjoyed a relatively high level of social security benefits. In Hungary and Poland, the political influence of Christian parties and the assertion of landowners' interests, carried greater weight than economic and social conditions in influencing social policies.[18]

After the Second World War, a pronounced convergence between the East Central European communist countries took place, enhanced by the diffusion of the Soviet political and economic system and the communist ideology. During the communist era, the cases of Czechoslovakia and Poland fully confirm the conclusions drawn from the Hungarian experience. The dynamics of the changes were less influenced by economic factors, but again to a much greater degree by political ones: the communist ideology with its inherent contradictions, political and economic crises, legitimating efforts and diffusion processes all worked to influence social welfare policies more than socio-economic factors.[19]

Based on the interplay between factors described above, a peculiar mix of welfare arrangements emerged in post-War East Central Europe, These welfare systems not only had specific communist characteristics, but also reflected features found in other—conservative and social democratic—regimes. Full-employment (in fact, compulsory or forced employment of the working-age population) was the basic institution of social welfare, even if it did not entirely succeed. Other important aspects of communist welfare included price subsidies for basic goods and services and the system of social benefits offered by companies (fringe benefits), though these benefits changed significantly over time and in different countries. In addition, the functions of social security changed in a peculiar and contradictory way in communist East Central Europe. On the one hand, the elimination of traditional institutions of poverty relief increased the relative significance of social security programs. On the other hand, the influence of social policy considerations in other areas, which enjoyed relative autonomy in Western European societies (such as price mechanisms or the labor market), reduced the importance of social security within the whole welfare system.[20]

That said, it is misleading to identify post-Second World War East Central European welfare regimes with the distinctive communist features of the system, because it also consisted of different elements of welfare arrangements prevalent in contemporary Western Europe. In addition to embracing communism, Hungary and the other countries in the region adopted the Bismarckian principles of social security at an early stage. Bismarckian traditions found their way into the new welfare systems of the communist countries since they were consistent with certain goals. In the 1950s, a differentiation of social security eligibility took place in Hungary, where industrial workers, the armed forces, party and state bureaucracy were privileged while the agricultural population was neglected.[21] Even more importantly, after a marked leveling off policy of the early communist years, there was a heavily work-related element in the benefit structure. Important social security services (cash benefits, such as pensions or sick pay) were tied to individual contributions, which was similar to the conservative or corporatist West European welfare systems.[22] The Bismarckian precedents of the social security system have clearly mitigated corporatist features, however, since the communist authorities were not shy about tinkering with welfare schemes by rescinding certain rights when they saw fit.[23] Tying benefits to work performance came from the communist ideology of placing high value on production and workforce mobilization. With time, this characteristic of the welfare policy became even more pronounced.

The crudest forms of discrimination were abolished in Hungary in the second half of the 1950s. The growing significance of the solidarity principle of the 1960s and 1970s in the area of qualifying conditions paired with the rapid increase of coverage can be regarded as a move toward universality—a major feature of social democratic welfare regimes. Thus, in Hungary the entire population was covered by social insurance sooner than in most West European countries. Of course, when compared to the West, the relative level of benefits in Hungary does not turn out so favorably, although the ratio of pensions relative to earnings corresponded to the Western average in the early 1980s. By the 1980s, an increasing number of benefits were based on Hungarian citizenship. By the mid 1970s, all in-kind benefits for health care were citizenship-based, similar to the British or Swedish systems. These similarities to different types of Western European welfare regimes suggest that by the 1980s, the Hungarian social insurance system applied a combination of elements customary in Western Europe as qualifying conditions.

During this period, the Hungarian welfare system reflected the simultaneous presence of the communist, social democratic and Bismarckian features. For examply, the old age pension scheme had features of all three systems. Similarly to social democratic regimes, coverage was at a high level, administration was centralized with the state playing the central role in its organization. The specific rights given to individual social groups and the strong work- and income-relatedness of pensions are features of the conservative welfare systems. In fact, only the low relative significance of social security pensions within the welfare system in the 1980s—mainly due to the crowding out effect of price subsidies and fringe benefits—can be regarded as a communist characteristic of the pension scheme.

The decades after the Second World War saw an increased uniformity in the East Central European region in terms of welfare policy. Regional convergence manifests itself in the level of social security expenditure. Initially, Czechoslovakia had an exceptionally high social security expenditure/national income ratio: in 1965 the ratio was almost double of that in Poland and Hungary. But by 1980, these differences almost disappeared throughout the region.[24] The same is true regarding the gaps between the three East Central European countries in terms of social rights. Poland was an outlier initially, due to the high number of private farmers who were ineligible for pension insurance.[25] By the 1980s, however, disparities within the region decreased. In Hungary as well as in Czechoslovakia, the mid-1970s was the turning point, when universal coverage became the underlying concept in social security. In Poland this development took place somewhat later, at the end of the 1970s.[26]

East Central European welfare after 1990: Institutionalized volatility?

The transition to a market economy in the 1990s deeply challenged the East Central European welfare systems. Not only did it mean the end of major features of communist welfare, such as guaranteed employment and subsidized prices on basic necessities, but it also meant that the effort to make the social security compatible with a market economy shook the communist era welfare structure to its core. The challenges to the old system were great. First, the social costs of the transition increased demand for welfare services, while the number of contributors significantly decreased as a result of mass unemployment, the growing informal sector and the easy availability of early retirement and disability pensions. In Hungary, the first years of economic transition did not witness a significant decrease in social expenditures. In fact, spending increased since the government introduced costly programs—such as unemployment benefits and new social assistance schemes—in order to meet the social needs created by the emergence of mass unemployment and subsequent rise in poverty. Existing social security benefits remained unchanged for several years, although their real value had eroded substantially.[27] In the end, the welfare system retained its mixed character, although the communist features disappeared quickly and the mix of social democratic and conservative principles prevailed. These patterns were deeply rooted not only in institutions but also in public attitudes. According to polls, the majority of the electorate favored a combination of universal social welfare arrangements (especially in health care) and work-based benefits (cash benefits).[28]

Despite the considerable path-dependency in welfare institutions and high public support of a large-scale welfare state, liberal reforms challenged the status quo and led to a significant degree of volatility in the welfare system. 1995 marked a watershed in the Hungarian social welfare system when, as part of an austerity program, social benefits were cut substantially by the new ex-communist (socialist) government, with a promise of further cuts over following next years. In the first two years of the austerity program (in 1995 and 1996), the decrease in social expenditures equaled 5 percent of the GDP—a fall from 29.5 percent to 24.3 percent. The primary means of this retrenchment was the non-indexation of benefits, implemented at a time when inflation was galloping well over 20 percent annually. In addition to non-indexation, some entitlements were cut substantially.[29] Both of the two biggest cash welfare schemes—pension and family allowances—were affected by these reforms.

Another method used by the government to curtail social expenditures in 1995 was to raise the retirement age (55 for women and 60 for men) to a uniform 62 years. The new system was modeled after Latin-American (Chilean and Argentinean) precedents, which were favored by international agencies such as the IMF and the World Bank. The system was composed of three pillars: a basic state pension, a compulsory private pension, and a voluntary private pension. Joining the new pension scheme became compulsory for new entrants of social security, and optional for employees under 47. One-fourth of the total contribution of employers and insured persons was scheduled to go to the second pillar, that is, to private pension funds.[30] From 1995 to 1997, the universal family allowance was also abolished. A means-test procedure was introduced first for families with no more than two children, then for all families.[31]

All the same, there was no consensus about the direction of welfare reforms among the political elite. After the 1998 elections, the new conservative government abolished several aspects of the austerity program by reintroducing redistributive principles and universal entitlements. It revised the pension law and reset the contributions to private insurance companies at a lower level in order to raise public pension fund revenues. This step could only partly balance the introduction of private insurance schemes. Nevertheless, the pension system retained its predominantly public nature, and brought back almost universal coverage. The pensions are based on contributions, that is, on work performance. There is a redistributive element as well, since a modest vertical redistribution among contributors also takes place. This latter characteristic of the public pension system has even been strengthened during the transformation, since indexation was often applied to pensions in a non-linear way, which favored lower pensions. The ratio of private pension spending to total pension expenditure was almost negligible in Hungary in the 1990s. The new government reintroduced the universal rights based on citizenship for family allowance and maternity benefits. This meant the rehabilitation of the citizenship principle as a source of rights in the welfare system, which means-testing receded to the background.[32]

There is no indication of a liberal transformation in other major areas of welfare. Other social security schemes remained universal, the most important of which being the cash and in-kind benefits of health insurance, even if widespread corruption institutionalized under communism in that sector hinders the effective realization of social rights to a considerable extent. The role of means-tested poverty relief and other social assistance, often regarded as an indicator of a liberal regime, has remained subordinate in Hungary. The share of social assistance within social expenditures was well below the ratio of liberal regimes in Esping-Andersen's study—only 3.3 percent, as opposed to 18 percent in the USA and 16 percent in Canada in 1980.[33] In this respect, the Hungarian welfare system would not qualify as a liberal regime in the Esping-Andersenian sense. However moderate the liberal tendencies were, they undoubtedly further increased the mixed character of the Hungarian welfare regime.

The convergence of the communist welfare systems in East Central Europe ceased to persist after 1990. The transition of the individual countries in the region showed some unique features in terms of welfare reform. In Poland, shock therapy went in tandem with the slow transformation of the welfare system, while pension reform received relatively extensive support from the political elite—unlike in Hungary.[34] In the Czech Republic, liberal economic rhetoric prevailed alongside surprisingly strong subsidies for social security in the first half of the 1990s. There, the most profound reforms were made in the area of health care, where a system of competing public health insurance funds was established, while benefits based on the principle of citizenship and universalism remained intact.[35] What made Slovakia unique was the even slower pace of reform throughout the 1990s, although the momentum has increased up considerably in recent years.[36]

As a result, the differences between the welfare systems of the East Central European countries increased somewhat as compared to the 1980s.[37] Despite all the changes and differences, however, outside political agencies and observers were either disillusioned (IMF, World Bank) or satisfied (EU) by the realization that the fast, liberal transformation of the welfare systems in line with the US model, had not been carried out in the region. For example, regarding the reforms of the region's health care system, an EU publication declared that "all health care financing reforms are in the mainstream of Western European tradition."[38] This statement can be regarded as somewhat inconsistent, though, since, unlike the World Bank and the IMF, the EU did not actually influence the region in social policy issues or make any attempts to do so.[39]

Since popular attitudes have favored an extensive welfare state in the East Central European countries, even moderate liberal reforms and tendencies call for some clarification. In part, the liberal reforms can be explained by the pressures placed on the region by international agencies with liberal agendas (IMF, World Bank), and by real or perceived pressures coming from the global economy.[40] However, these are only partial explanations. Especially from the mid-1990s onward, the activity and influence of these institutions has declined considerably. Because of low labor costs, the region has benefited from the growing internationalization of the economy, which means that globalization cannot be considered to be a major explanatory variable.

I suggest an alternative explanation. Due to the lasting efforts of communist regimes to prevent the evolution of civil society and the persistence of traditional communities, a massive social decapitalization took place in Hungary and in other East Central European countries, constituting one of the most significant social and cultural inheritances of communism.[41] The low level of social capital is expressed in trust and group membership far lower in the former communist countries than in the West. In 1990, only 25 percent of the respondents in Hungary and 35 percent in Poland trusted their fellow citizens unconditionally. By contrast, the level of interpersonal trust was considerably higher in most West European countries: the level of respondents who trusted their fellow citizens amounted to 65 percent in Norway, 66 percent in Sweden and 44 percent in Great Britain. Only Austria and some South-European countries came close to or slightly below the Polish level.[42] This low trust may contribute to low levels of social solidarity and to the inability of people to cooperate effectively in groups. I believe that the resulting organizational weakness and decreasing influence of welfare recipients vis-à-vis other groups interested in the retrenchment of the welfare state—coupled with the mixed features of welfare institutions—is the key factor in explaining why external and internal pressures for the residualization of the welfare state can persistently challenge the welfare status quo since 1990, causing considerable volatility of the welfare structures.[43] At this stage of my research the claim cannot be verified further. As indicated above, the role of cultural factors in welfare state development can be regarded as an underresearched area but at the same time it is a promising direction of research with regard to Western Europe. As far as East Central Europe is concerned, further research needs to be carried out on individual countries that will offer a comparative analysis.

As indicated earlier, the social and political legacies of the communism supported the emergence of volatile welfare policies in several ways. The legacy of the mixed character of the communist welfare state supported volatile policies. Even more importantly, there has been no stable class alliance behind the welfare regimes. Instead less stable factors, such as the communist ideology or political crises, determined welfare arrangements. The volatility of policies has been institutionalized by the inconsistency of values and attitudes of the population. On the one hand, we can see the high popular acceptance of the states' welfare activities. On the other hand, among welfare recipients we find a low level of social capital, social capability, organizational strength and other factors instrumental in the development of an advanced welfare state in the late 20th century in Western Europe. As a consequence, they cannot act effectively enough in the political arena and cannot form effective class alliances, which is necessary to influence welfare policy.

Conclusions

In this paper, I examined the foundations and development of post-Second World War welfare systems in East Central Europe. I argued that the determinants of East Central European welfare have differed considerably from the factors of welfare state formation elsewhere, and that these peculiarities greatly contributed to the present "mixed" characteristics of the region's welfare sectors. In Western Europe, in addition to the impact of industrialization and the changing structure of population and labor force, and most eminently the political mobilization of agents favoring extensive welfare programs constituted the major factors behind the rise of social rights. Political mobilization relied not only on forming class alliances to be effective, as it is emphasized in mainstream research. There were also social and cultural preconditions. Specific cultural values, such as honesty, trust and obedience to the state authorities, associability or social capabilities boosting cooperation and effective collective action have also facilitated the development of comprehensive welfare states.

Although economic and demographic factors were present in a similar way in East Central Europe, the determinants of the communist welfare system diverged considerably from that pattern. There, the major determinants of social policy included the communist ideology—with all its internal incoherence—initiating both universalistic and work-related social rights. Legitimating efforts, as well as political and economic crises represented other important elements that affected the trajectory of welfare systems. By contrast, political mobilization played a minor role in the formation of East Central European welfare systems. I also claim that it is misleading to identify the communist welfare system with its distinctive communist features since it also consisted of different elements of welfare arrangements prevalent elsewhere in post-war Europe. In th 1990s, the distinctive communist features disappeared quite quickly during the transition and, as a result, the institutional legacy of communism was much more a mixed system of conservative and universalistic welfare arrangements.

These mixed features have already increased the possibility of unsteadiness of the welfare arrangements. In addition, and somewhat paradoxically, the heritage of communism supported the emergence of liberal tendencies in the welfare systems of the new democracies. True, these tendencies are quite ambiguous. On the one hand, despite the liberal scenarios proposed by many early observers, the liberal transformation of the welfare systems has not taken place anywhere in East Central Europe. On the other hand, the prevailing liberal language of welfare discourse and the liberal reorganization of some welfare schemes call for explanation in a region where liberalism has never been influential and where polls have shown that popular support for liberal reforms are minimal. The influence of international agencies in countries with partly high indebtedness is a more important factor, as are real or perceived pressures coming from globalization. However, they can only be partial explanations, especially from the mid-1990s on, as the activity and influence of these agencies decreased considerably since that time and because of low labor costs, the region is generally seen to have benefited from globalization. I propose an alternative interpretation for the existence of liberal tendencies also related to the foundations of East Central European welfare in earlier decades, that is, the legacies of communism. I suggest that weak social capital and organizational weakness of welfare recipients are the key factors that explain why external and internal pressures for the residualization of welfare states can persistently challenge the welfare status quo in postcommunist East Central Europe, despite the institutional inertia and popular preferences mainly facilitating social democratic and conservative welfare arrangements. In fact, due to the politics of communist regimes which hindered the evolution of civil society and the persistence of traditional communities, a massive social decapitalization took place in East Central Europe constituting one of the most significant social and cultural legacies of communism.

The role of cultural factors in welfare development, however, needs further exploration and constitutes and important agenda for comparative welfare research. There are several possible paths here. The study of cultural values influencing the support and acceptance of the welfare state may prove to be promising in the future. The cultural approach might also be useful to refine the class mobilization theory by establishing the cultural preconditions of successful class alliance and other forms of cooperation in the welfare arena.

As a result, the instability of the postcommunist welfare arrangements does not simply result from an assumed transition from the communist to the liberal welfare system. Rather, the volatility can be regarded as an "institutionalized" characteristic of East Central European welfare sectors and we can expect the persistence of instability in postcommunist welfare policies until the democratic political institutions function more smoothly and reflect public preferences more effectively. This also suggests the important role of civil society in creating the preconditions for successful and durable reforms. The major lessons for decision makers involved in welfare reforms in the region and in countries with similar conditions outside the region include the need for genuine consensus-seeking before and during the implementation of reforms to avoid excessive risks of reform fiascos caused by the institutionalized volatility of welfare systems and the high costs of such policy failures.

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