Residual or European welfare model? Central and Eastern Europe at the crossroads

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Central and East European welfare states are restructured in an international context characterized by increased global economic competition and a search for supranational, European responses to the problems posed by these processes. This introductory contribution tries to map the relations between welfare state reforms in the Central and Eastern European countries (CEEC) and the adaptation processes in Western Europe. An overview is given on the relevance of social policy problems in the accession preparations and on the state of social policy reforms in the four countries studied here, i.e. the Czech and Slovak Republics, Hungary and Poland. Finally, some policy implications for a European Union approach to welfare state reform in the CEEC are spelled out. The main argument of this chapter is that the institutional reforms currently undertaken in Central and Eastern Europe will decide on the future - European or residual - nature of the welfare states in the region, the EU is in a position to influence the path of development and there are good reasons for the EU to promote a European welfare model in the CEEC.

Having opted for a Western type of liberal democracy, rule of law and market economy, the CEEC are faced with the task of reforming their social policy according to the requirements of the desired core institutions. This implies creating instruments to regulate the newly-established labour markets, liberating and rebuilding wage systems and industrial relations, changing the pre-existing rudimentary poverty protection into a tool capable of preventing and alleviating market-induced poverty, developing an accountable public administration, transforming certain social standards into enforcable subjective rights of citizens, adapting pension and health care systems to a market economy environment and institutionalizing a welfare mix of public, private, non-profit and family social services. The inherent logic of relations between state, market and society has to be changed, under conditions of severe fiscal constraints imposed by the economic transformation and a rapidly changing, increasingly unegalitarian social structure (cf. Elster/Offe/Preuss 1998; Offe 1994; Götting 1998; Standing 1996; Maydell/Höhnerlein 1993; Deacon 1992; Barr 1994). These tasks and pressures have prompted Central and East European governments to undertake comprehensive reforms of their welfare systems – reforms which are not unrelated to the revisions of the post-war welfare state arrangements of Western Europe.

First, since the CEEC lacked a blueprint of how to restructure their welfare systems, they tried to implement successful Western practices and models. Policies borrowed from the West often had rather different ramifications in their national context, but the imported institutions nevertheless, over time, have changed the nature and patterns of domestic policy making in the CEEC.

Governments, international agencies and Western advisors have embarked upon a large-scale institutional engineering, and the experiences gained from this engineering processes are diffusing through the international social policy debate into the domestic practice of Western countries.

A particularly prominent example is the institution of private pension funds which has been implemented by the Hungarian and Czech governments with the support of the Worldbank and other international experts. If these experiments turn out to be successful they would prove that this mechanism of old age provision does not only work under the specific Chilean conditions (authoritarian rule, weak welfare state tradition, comparatively young population) but also in societies with features similar to the Western European countries. This would support those experts and political actors who want to assign a more important role to capital-market-based social protection (cf. e.g. Deutsche Bank Research 1996).

Second, this diffusion of best practices and knowledge occurs in a situation of growing insecurity as to which welfare state model is most appropriate to deal with future challenges for Western societies.[1] In a historical-institutionalist perspective three ”welfare regimes” may be identified in the Western countries, according to the extent to which a country’s institutional arrangements decouple social protection from the labour market (decommodification), change the social structure of a society (stratification) and involve non-state actors (cf. Esping-Andersen 1990). After WW II the Skandinavian countries institutionalized social democratic welfare regimes which provided citizenship-based social rights, implying a high degree of decommodification and stratification. These regimes aimed at ensuring equality on a high level and tried to maintain full employment by an active labour market policy. The continental West European states are characterized by conservative-corporatist welfare regimes which link social protection to membership in inclusive social insurances, preserve status and class differences from the labour market, rely on a traditional family model and emphasize the subsidiarity principle.

The Angloamerican welfare states represent a liberal welfare regime because their degree of decommodification and stratification is comparatively low. The main elements of a liberal welfare regime are a restrictive, means-tested poverty protection based on citizenship, an increasing dualism of middle class and impoverished groups supported by the design of welfare provisions and a growing market of private welfare providers. During the nineties increasing budgetary pressures have caused the social democratic welfare regimes to cut their welfare expenditure and restrict eligibility criteria. Since conservative-corporatist welfare regimes also had to face curtailments, an overall trend towards residualization, converging in the liberal-Angloamerican model, may be observed. On the other hand welfare state institutions have shown a remarkable rigidity and most Western governments refrained from fundamental reforms of their institutions (Pierson 1994; Esping-Andersen 1996). Organized labour and capital act as strong forces to preserve and strengthen the wage-labour centered mode of welfare provision

[1] Cf. the intellectual and political debates on the future of the welfare state in the journal Transit and (Ferge/Kolberg 1992; Esping-Andersen 1996).

(Vobruba 1997). In that respect different welfare regimes and different national institutional arrangements continue to co-exist.

The different unemployment rates in the United States and the EU countries suggest that there is a trade-off between equality and full employment (Esping-Andersen 1996). The US managed to reduce unemployment by creating a more flexible labour market and conceding low-skilled, low-paid jobs in the service sector (”working poor”), but incurred the costs of huge income differences and social desintegration. In contrast, the European countries maintained a high-wage labour market, high productivity growth and reduced social inequality at the expense of high unemployment. Only few European countries succeeded in attaining a low unemployment rate. This trade-off would support the assumption that in the area of social policy, a universal model of best governance has not emerged until now. The pluralism of policy approaches and regimes is reflected by the fact that the major international agencies engaging in social policy deliberation and advice - Worldbank, ILO, OECD, European Commission, Council of Europe, UNICEF - have not come to a ”Washington consensus” on a universally desirable welfare system (Deacon/Hulse 1997). The performance of the newly designed and rebuilt welfare institutions of the CEEC will considerably improve the international knowhow and contribute to the emergence of shared policy principles and objectives.

Third, while charged with the specific task of rebuilding their welfare systems, the CEEC also face the problems of mature West European welfare states. As a consequence of the global liberalization of trade and capital flows West European economies are exposed to competition with the US and Japan on the one hand, the CEEC and the newly industrializing countries of East Asia on the other. Due to their low labour costs the latter countries bear comparative advantages in producing low-technology goods. This causes a shift of low-technology industries and mostly unskilled jobs to these countries, forcing Western economies and states to develop solutions for the ensuing employment losses and to maintain their comparative advantages in high-technology segments of the world market.

To increase the flexibility of labour markets and to reduce the relative costs of labour are part of the Western strategy which makes it increasingly necessary to decouple social security systems from the labour market (Vobruba 1990). Since life-long full-time employment and the male wage-earner family model is no longer prevailing in Western countries, social security provisions based on such assumptions of normality are becoming more and more inadequate. In order to avoid having the costs of unemployment and structural adjustment born by a diminishing number of regular employers and employees (thus increasing labour costs), the burden of social security financing could and should be shifted from contributions to taxes (cf. Scharpf 1997; Vobruba 1997). These adjustments do not aim at attaining labour costs that could compete with the newly industrializing countries. Instead they allow the regulation of the domestic consequences of an international division of labour that yields benefits for countries with different factor endowments.

At the same time ways have to be found to avoid a destructive competition (”social dumping”) between countries with similar factor cost relations.

International regimes like the European Union provide arrangements to foster a mutually beneficial competition between economies with similar factor costs. Apart from external competitive pressures, Western societies are subject to endogenous social changes which require reforms of their welfare systems. The ageing of populations threatens the social contract between generations underlying, and the affordability of the prevailing pension systems. Individualization processes, the loosening of traditional social ties, changing gender relations, pluralization of life styles, increasing social and ethnic diversity pose new challenges to the welfare systems.

Although the CEEC had experienced a different social system, the country studies in this paper indicate that they are currently undergoing very similar processes of social change (see also Tálos 1998). The Central and East European economies are also exposed to world market competition but their role in the international division of labour is still in flux. On the one hand, their labour costs are considerably lower than those of the West European countries, which implies that they can compete with the newly industrializing countries as soon as they possess an appropriate enterprise infrastructure. Thus they can develop an inter-industrial division of labour with Western Europe, the typical trade pattern between countries with different factor cost relations (Baldwin 1994). On the other hand, the CEEC have a human capital endowment which is much better than that of countries at a similar level of wealth (per-capita GDP) (DIW 1996; Inotai 1997). This implies that, once having renewed their capital stock, they can produce skill-intensive, high-technology goods and services, catch up and compete with developed Western economies and establish an intra-industrial pattern of economic co-operation with Western Europe.

Experiences with development processes suggest that once the role within the international division of labour and the specialization of an economy related to it has been determined in a formative period, the emerging patterns become locked-in and self-enforcing, thus restricting the chances of change (North 1988). The prospective role in the international division of labour and the implied development path depend on the international economic and political environment, on a country’s initial endowment with economic, social, human resources and a civic culture and on the quality of economic and social policy chosen in these formative years. The countries of East-central Europe have better preconditions than the South-east European countries and the successor states of the former Soviet Union. Among the mentioned determinants the economic and social policy can be influenced most easily. The problem of welfare state reform faced by the CEEC is how to reorganize the welfare state in order to support the emergence of a skill-intensive, high-technology economy, in other words: how to maintain and improve the comparatively good human capital resources available in the CEEC.

Fourth, through the Eastern enlargement of the European Union, social policy reform in the CEEC is linked to the role of social policy in the European integration process. Directives on the protection of health and safety in the workplace (Art. 118a EC Treaty), on the equal treatment of female and male workers (Art. 119 EC Treaty), on the European works council and the social

dialogue (Art. 118b EC Treaty), on the rights of migrant workers within the EU, the Social Charta and the Social Protocol to the Maastricht Treaty are part of the acquis communautaire and thus have to be adopted by the CEEC before they accede to the EU. The Common Agricultural Policy and the Structural Funds, which belong to social policy in so far as they organize a large-scale redistribution towards disadvantaged groups, sectors and regions, will be subsequently extended to the accession candidates and new member states. Furthermore, rulings by the European Court of Justice which specified the social policy implications of the freedoms of movement and services have shaped a regulatory environment new member state will have to adapt to.

Reluctance of member state governments but also the structural difficulties of constructing majorities under unanimity conditions has up to now prevented the EU from harmonizing legislation on social security systems (Scharpf 1996; Leibfried/Pierson 1998). However, closer political integration in the wake of the EMU will increase pressure on the member states to regulate competition among member states on income taxes and social insurance contributions in order to attain and maintain a ”level playing field”. In addition, the continuing structural disparities among EMU participants may require the establishment of additional transfer mechanisms to facilitate a structural alignment underpinning monetary and fiscal policy convergence. Although the Commission’s proposal to maintain cohesion fund eligibility for countries with less than 90 % of the average per capita-GDP of the EU even after their accession to the EMU was heavily criticized by the richer member states, such a transfer mechanism appears necessary from the viewpoint of the macroeconomic tensions generated by structural disparities. The following section describes in more detail the policy approach taken by the EU (and the European Commission in particular) towards social policy reform issues in the CEEC.

Social policy concerns in the EU-CEEC relations

While in the current EU framework the European Commission has been restricting its policy-making role to narrowly defined areas of social policy, it has taken a more active approach in its relations with the CEEC. The Europe Agreements concluded with the ten CEEC envisage a co-operation not only in the areas of EU social legislation but also in labour market policies and the modernization of the social insurance systems. In its 1993 Green Paper on European Social Policy, the European Commission’s Directorate General V (DGV), in charge of social affairs, tried to claim a comprehensive policy responsibility for the Union by stating that ”Co-operation between the Union and the CEEC on the social dimension of transition is essential in reducing the risk of the population rejecting democracy and the market economy because the social and human costs are too high” (European Commission 1993: 70). DGV tried to establish a European Social Security Team that should apply for Phare contracts in order to implement a more consistent advice on social policy but this attempt

failed due to UK resistance (Deacon/Hulse 1997).[2] The 1995 White Paper on the preparation of the CEEC for the Internal Market stressed the importance of social minimum standards, of the EU's objective of a high degree of social protection (Art. 2 EC Treaty) and cautioned the associated countries not to neglect the approximation of social policy provisions which constitute a substantial part of their accession preparation (European Commission 1995).

In the Agenda 2000 the Commission evaluated the social policy reforms of each CEEC and assessed the impact of Eastern enlargement on social policy in the EU (European Commission 1997). The individual country assessments (avis) reinforce the more comprehensive social policy responsibility the Commission has been claiming in the pre-accession process. For all four countries analyzed in this study, the Commission critizices the insufficient progress of health care reforms. However, the avis does neither specify the reforms to be undertaken nor the desired shape of a successfully reformed health system. While tripartite institutions appear to work well in Hungary and Poland, the Commission observes an unconsolidated social dialogue in the Czech Republic and advises the Slovak state to respect the autonomous character of employers‘ associations and trade unions in the political life. The Commission seems to be skeptical towards the low unemployment figures of the Czech Republic and worried about the high shares of long-term unemployed in Hungary and the Slovak Republic. All the four countries are to improve their labour market policies and social protection provisions.

According to the Commission's assessment social insurance contributions of Hungarian employers are too high, the Slovak system of raising social insurance contributions causes administrative difficulties and the indexation of Polish pensions has to be changed. Again, the required reform measures and the direction of reform are not specified in the avis. While the countries' regulations on gender equality seem to match the Community provisions (except from Poland which does not comply with the equal work - equal payment principle and lacks equal provisions on parental leave), labour law provisions contain more deficiencies. These are related to the protection of employees in case of a company's insolvency (SR, H, CR), mass lay-offs (H, PL, CR), to shop-floor-level industrial relations (H, PL, CR) and the annual minimum vacation (PL). In the Commission's view, the implementation of EU standards on the freedom of movement and the social security of migrant workers do not encounter grave difficulties.

The Agenda 2000 also contains an assessment on the impact of enlargement for the Single Market which interpretes the social problems of the acceding countries in areas like health care and labour market as tasks for an enlarged EU. According to the Commission, an adjustment to EU standards would impose huge costs on the candidate countries and may slow down a further development of community policies. But adjustment is also considered as a strategy to increase the productivity of CEEC economies and to strengthen the relevance of social

[2] The Phare unit of DGIa made a contract on the restructuring of social assistance in Poland with the World Bank while the contract with the Czech Repuplic on social policy was concluded with the ILO (Deacon/Hulse 1997).

cohesion and social policy within the EU. On the whole, the Commission's assessments remain vague, seem to be occasionally selected from a more wide-ranging involvement behind the scenes (apparently reflecting political sensitivities) and lack an explanatory context. But what they allow one to detect is the attempt to shape social policy reforms in the CEEC beyond the areas of Community competency within the EU. Before the appropriateness of the EU policy towards welfare reforms in the CEEC is discussed, a closer look is needed on the progress and problems of welfare reform in the region. Due to the insufficient information on concrete reform programmes and outcomes in all the CEEC and with respect to the focus of this volume, the following section is confined to Poland, Hungary, the Czech and Slovak Republic which are exemplary cases but also represent the more advanced transformation countries.

The state of social policy reform in Poland, Hungary, the Czech and the Slovak Republic

Although the countries analyzed in this study have enacted a huge number of laws, ordinances and single measures to cope with the consequences of social and economic transformation since 1989, institutional reforms are still in a process of experimentation and deliberation, having progressed to a different extent in the various countries and subsectors of social policy. The most important factors determining the implementation of institutional reforms were a good macroeconomic situation and a strong government backed by political stability (Götting 1998). These factors provide an explanation for the fact that welfare state reforms are very advanced in the Czech Republic while Poland is lagging behind compared to the countries of this study. Reforms in Hungary and Slovakia have reached an intermediate stadium located between the Czech and the Polish degree of changes, with Hungary having undertaken more comprehensive reform steps in the field of pensions, health care and local social services. One has to keep in mind, however, that this tentative ranking can only give a rough sketch of the current state of reforms because the various subsectors of social policy convey different pictures which are difficult to subsume and, even more important, because there is no agreed-upon final state of the welfare system the reforms might lead to.

In the Czech Republic the post-communist political actors inherited an orthodox, centralist state socialist welfare system and an economy with modest inflation and few foreign debts. Thus the Klaus government, relying on a fairly elaborated and consistent neoliberal concept, until its electoral defeat in 1996 had the political, administrative and fiscal capacity to implement far-reaching changes while it was less forced to struggle against the immediate social costs of transformation by stopgap measures. On the other end of the country scale, the parties emerging from the Solidarnosc movement in Poland in 1989 had worked out a shock therapy concept to cope with the country's grave economic crisis but lacked a comprehensive plan to reform the inherited malfunctioning welfare state (Orenstein 1995). The fragmented power constellation in Poland (numerous and heterogenous parties, confrontational trade unions, conflicting local, regional and

central administrative bodies, contested relations between constitutional organs) provided for a rapid change of governments and blocked attempts to implement more far-reaching institutional reforms.

Until the split of the Czechoslovak Federation the Slovak governments had carried out welfare state reforms at a pace similar to the Czech Republic but since 1993 the Meciar government has pursued a more cautious approach, lacking subsidies from the federal budget and facing huger adjustment costs due to the less competitive industrial structure dominated by state-socialist heavy industry enterprises. Slovak reformers tried to include trade unions and employers associations into the formulation of policies to a greater extent than in the Czech Republic. In Hungary welfare state reform was always considered as an important component of the transition to democracy and market economy, and elaborate reform concepts existed at a very early stage of the transformation (Brusis 1992). However, the Antall government lacked the political support and legitimacy to implement reforms with far-reaching redistributive consequences and it could not compensate the loosers of such a reform because of the severe fiscal constraints (budget deficit, huge foreign debt). Only the Horn government (since 1994) has embarked on fundamental institutional reforms like introducing a means-tested family benefit and a mandatory funded private pension scheme.

The outcomes of the reforms carried out in the four countries are hybrid institutional arrangements reflecting a compromise between the liberal-residual and the conservative-corporatist welfare regime concepts and the advocacy coalitions supporting each concept (Götting 1998). While the governments introduced strong links between incomes, contributions and benefits in unemployment, pension, health and sickness insurance, in order to improve the equivalency principle and reproduce economic status differences through the welfare systems, benefit curtailments, inflation, insufficient adjustment of benefits to wage and price increases together with the inherited low income differences led to an increasing residualization of social security provisions.

The share of social expenditure in comparison to the GDP did not change fundamentally after 1989 but this implied a reduction of social expenditure in absolute terms since all countries experienced a decline of GDP in the course of the economic transformation (Götting 1998). According to ILO estimates the average social expenditure in the four countries in 1994/95 amounted to 25.4% of their GDP which is close to the European Union average of 26%. From 1990 to 1995 the share of expenditure on health care within overall social expenditure declined while the share of pension expenditure increased to an average of appr. 10% of GDP. This share is comparable with public pension systems in Germany, France and Italy which range between 11% and 13% of GDP.[3] Poland's expenditure on pensions is by far the highest among the four countries of this study, it is estimated to be 13% of GDP.

Whereas the contribution rates in the four countries appear relatively high compared to the rates in the EU countries, one has to take into account that wages

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[3] Cf. DIW-Wochenbericht Vol. 64, Nr. 41/1997: 765.

are still relatively low. The ILO has estimated that in Central and Eastern Europe, wages amount to 30-40% of the GDP. In comparison, wages comprise 55% of the GDP in Germany and the UK. Nevertheless, high contribution rates together with the insufficient enforcement capacities of social insurance administrations provide strong incentives to either evade contributions by establishing illegal (semi-legal) employment relations or by refusing to pay contributions (cf. e.g. Radogostowicz/Sójka in this study). The latter practice is widely applied by large state-owned enterprises lacking liquidity or facing insolvency proceedings.

Rates of social security contributions

	Total	Employers	Employees
Czech Republic	47.5	35	12.5
Hungary	55	43.5	11.5
Slovakia	50	38	12
Poland	48	48	0

Source: Götting 1998. Contributions paid at the beginning of 1997 by employers and employees in industry and services to finance the expenditure on pension, sickness, family and unemployment benefits.

The following overview of sectoral reforms refers to policies against unemployment and poverty and to the changes in the health care and pension system. Comparing the state of reforms in these sectors, one could say that the most comprehensive reform measures have been implemented in labour market policy and in poverty prevention, two sectors where the economic transformation created a particular pressure to build new institutions.

Coping with unemployment and poverty

The economic transformation of the state socialist systems implied that two pillars of their welfare system, i.e. the principle of full employment and of fixed prices for basic consumption goods (including fixed rents), had to be discarded. As a consequence, not only unemployment re-emerged as a social risk but also the security guaranteed through the work relationship and the stable purchasing power of low incomes was abandoned, giving rise to more visible and mass-scale poverty. The governments of the CEEC had to design new institutions and instruments to cope with unemployment and poverty.

Early retirement schemes were widely applied in order to reduce the labour force participation rate. Retirement policies, prolongued education periods, incentives for women to withdraw from the labour market and informalization trends in the economy led to a decline of total employment which ranged between 7.2% (CR) and 27.4% (H) in the period from 1989 to 1995 (Cichon/Hagemejer/Ruck 1997). In all countries (except from Hungary) women were particularly affected by the reduction of the labour force, although the majority of the women did not adopt the new-old housewife role concept promoted by some conservative political

forces. All four countries rapidly introduced income-related, insurance-type unemployment benefits whose eligibility criteria and entitlement conditions were subsequently tightened (Standing 1996). However, only the Polish government decided to replace the comparatively generous (and badly designed) income-related unemployment benefit by a flat-rate benefit in 1992.

All four countries have set up systems of labour market offices and instruments of active labour market policy which are administered in cooperation with trade unions and employers' associations. Unemployment benefits and active labour market policy measures are usually financed from a single, contribution-based, extrabudgetary fund. Only the Czech Republic has retained the employment fund as a part of the state budget and only Hungary (until 1996) separated the fund for active labour market policy and for unemployment benefits. Rising expenditure for entitlement-based unemployment benefits caused a crowding-out of active labour market policy spending in all countries except from the Czech Republic which could maintain its large expenditure on active labour market policy due to its low unemployment rates (Götting 1998).

The efficacy of active labour market policy is contested, particularly because the instruments are often modeled according to Western examples and do not focus on the specific profile of unemployment in the CEEC. This has been described aptly as a ”stagnant pool”, which implies that despite the considerable changes in the employment structure comparatively few people become unemployed, but those who become registered unemployed depending on unemployment benefits have great difficulties in finding a new job (Boeri 1994). Accordingly, the proportion of long-term unemployed is constantly rising in the CEEC. As many long-term unemployed exhaust their unemployment benefit entitlements they have to rely on means-tested unemployment assistance or social assistance, which erodes the income-related, equivalency-based structure of unemployment provision. The low turnover in the unemployment pool constitutes a serious challenge for policy makers since this type of unemployment requires integrated strategies of labour market, social and regional economic development policies if the impoverishment and marginalization processes linked to long-term unemployment are to be avoided.

Relative poverty has been particularly wide-spread in Poland, combined with a very high income differentiation (see table below). According to a household survey carried out by Ferge et al. in 1995, the average per-capita income of the highest income decile in Poland was 24.76 times of the income of the lowest decile. In the other countries this ratio amounted to 6.72 (H), resp. 5.11 (CR, SR) (Ferge et al. 1996: 87). The policies created to fight poverty reveal the conflicting policy priorities and welfare regime concepts in the CEEC. Only the Czech Republic has stipulated an official poverty threshold as a calculation basis of social assistance payments, rendered the lack of income a sufficient eligiblity criterium and obliged social assistance providers to compensate the gap between a claimant’s income and the poverty threshold (Götting 1998). This illustrates the Czech government’s commitment to develop the universalist traits of its welfare regime according to its liberal concept. While Poland does not require its local authorities to compensate income gaps, Hungary has not even established a

country-wide poverty line as a criterium relevant for determining social assistance payments. However, Hungary has managed to avoid the extreme poverty rates of Poland.

In both countries social assistance schemes are under-funded while the public debate mostly focuses on old-age poverty and pension benefits. This focus of policy and public attention runs contrary to recent research results, showing that in the CEEC poverty does not affect primarily the pensioners but particularly younger groups of population who are unemployed or receive low earnings (Cichon/Hagemejer/Ruck 1997; Ferge et al. 1996: 72). The apparent mismatch of social policy priorities and needs can be explained by the fact that pensioners have had a strong lobby position in the policy process, that the public has attached more importance to the performance principle of social justice than to the participation principle and that, accordingly, governments have emphasized status maintenance more than targeting in their social policy. Furthermore, governments may have opted for a middle-class oriented social policy instead of targeting because they perceived middle-class constituencies more important for the consolidation of democracy (Standing 1996: 251).

Poverty rates (% of population)

	1989/90	1992/93
Czech Republic	0.2	1.4
Slovakia	0.1	5.1
Poland	5.8	10.9
Hungary	1.1	4.0

Source: UNICEF, Regional Monitoring Report No. 3, cited in: (Cichon/Hagemeyer/Ruck 1997: 32). The poverty line used here is 60% of 35-40% of the average real wage in 1989.

The reluctance towards targeting can also be observed in family policy which was characterized by intense political debates on the introduction of means-tested family benefits. In its policy proposals the Worldbank argued that family benefits do not require a means test since due to the strong correlation of family size and poverty family benefits are self-targeting and a means test would create additional administrative costs (Worldbank 1996; Sipos 1994). Faced with fiscal pressures on the one hand and the reproach of sacrificing widely-acknowledged achievements of the state socialist era on the other, all four governments finally decided to introduce means-tested family benefits. In this policy subfield only the Czech Republic improved the social protection by extending the paid parental leave to four years, a measure which also aimed at reducing the female labour force participation.

Pension and health care reforms

Reforms of the pension and health care systems were not seen as means to effect economic transformation but rather as consequences of the model change and its

implications. Deteriorating demographic parameters, declining labour force participation rates, the adverse economic incentives caused by high contribution rates, inflation, budgetary pressures and the increasing income differentiation posed problems to the inherited framework of old-age provision. In addition, liberal reformers were skeptical towards the effects of the inherited pay-as-you-go mode of financing on savings, interest rates and capital markets.[4] In their advising activities, the international agencies have recommended an increasing role of funded schemes to cope with these problems. The Worldbank favoured a pension system consisting of three elements: a state component, normally pay-as-you-go, aiming at poverty relief, a funded component, normally private, supporting intra-generational income redistribution; and, where the funded component is compulsory, a third component consisting of voluntary, additional funded schemes, serving individual preferences (Worldbank 1996: 82-83). However, the specific properties of these components, i.e. whether the state component should be means-tested, flat-rate and on the subsistence level or more comprehensive in scope, are still controversial among economists and within the Worldbank (Deacon/Hulse 1997: 58-61). One advisor, for example warned that “private pensions are no short-run substitute for dealing directly with the excessive expenditure of the state scheme” (Barr 1994: 216).

All the four countries analysed here considered plans to shift part of the pension financing to funded schemes and introduce voluntary private and occupational pension funds which were to evolve into an additional income provision mechanism and into important capital market agencies. Only Hungary has introduced a mandatory funded pension scheme up to now (cf. Czibere in this volume). The proportions of pensioners to contributors (system dependency rates) in 1993 were 0.51 in the Czech Republic, 0.53 in Poland and Slovakia and 0.66 in Hungary (Cichon/Hagemejer/Ruck 1997). This means that one contributor had to finance on average 0.56 pensioners which is substantially higher than the OECD average (0.38 in 1990). However, system dependency rates deteriorated not only because of demographic ageing but also due to the use of early retirement schemes as an instrument of labour market policy. Thus the increase of pension expenditure serves to cover the costs of unemployment. This trade-off between the consolidation of the pension system and labour market policy has restricted the governments’ attempts to increase retirement ages.

The average replacement rates of old-age pensions to net wages in 1994 were 45.0 in Slovakia, 46.8 in the Czech Republic, 56.9 in Hungary and 74.8 in Poland. Replacement rates could be kept stable in the course of the economic transformation. Since pension benefits have a ceiling and automatic adjustment mechanisms are lacking, replacement rates in the Czech Republic and Slovakia are low despite formally generous pension schemes. The high replacement rate in Poland reflects the relative generosity of the Polish pension scheme

[4] While in pay-as-you-go systems current pensions are paid out of current contributions, in funded systems people accumulate savings during their working life. The former system is based on inter-generational solidarity and facilitates the incorporation of redistributive elements. The latter system works according to the logic of private insurance and allows to realize the principle of equivalence between contributions and benefits in an actuarial sense.

(Cichon/Hagemejer/Ruck 1997: 18-19). The following table tries to give an overview on the dates and conditions of major institutional reforms the four countries have implemented in their pension systems:

Steps and state of pension reform

	Czech Republic	**Slovak Republic**	**Hungary**	**Poland**
separation of pension fund from state budget	in 1993, until June 1995 fund surplus was used for general budget	in 1993, state budget subsidizes appr. 25% of fund expenditure	in 1990, subsequent deficits covered by state budget subsidies	in 1986; state budget subsidizes 25% of social insurance expenditure
separation of pension and other social insurance funds	pension, sickness and employment fund integrated	pension and sickness fund separated from health insurance in 1995	pension fund separated from health insurance fund in 1992	pension and sickness fund integrated
participation of employer, employee and pensioner representatives	no participation intended by Klaus government	consultative role of the general tripartite institution	elected self-governments of pension and health insurance funds in May 1993	ZUS central and regional supervisory boards in January 1996 co-opted employer, employee and pensioner representatives
voluntary funded pension schemes	law on voluntary supplementary private pension funds in February 1994, individual contributions subsidized by the state; until 1995 ca. 41 pension funds, 1 m members, US-$ 100 m assets	April 1996 individual and employer contribution subsidized by the state	law on voluntary mutual provision funds in November 1993, employer contributions supported by tax reduction; until 1995 ca. 200 funds, 180,000 members, US-$ 45 m assets	since 1996
mandatory funded pension schemes	Planned	proposed by liberal economists	3-tiered system introduced in 1997: state-guaranteed minimum pension; private, mandatory funded pension scheme; private voluntary funded scheme	planned
earnings-related contributions by employers and employees	since 1993	since 1993	since 1990	since 1986, no employee contributions
increase of retirement age	gradually raised to 62 for men and 57-61 for women (depending on the number of children) in 2007	60 for men and 57 for women, as a rule, gradual increase envisaged	since 1996 gradually raised to 62 for men and women	65 for men and 60 for women, as a rule, no increase
pension adjustment mechanism	adjusted to inflation	adjusted to inflation	partially adjusted to inflation	until 1995 adjusted to earnings increases, since 1996 adjusted to pensioners‘ costs of living
Major changes of pension formula	new pension formula in January 1996, individual earnings-related + universal base component	strengthened contribution-benefit equivalence	strengthened contribution-benefit equivalence	changes in October 1991 increased basic income character of benefits

Source: Götting 1998: 158-173 and Czibere/Woleková in this volume.

Reforms of the health care system were motivated by three reasons. Although the state socialist health system ensured universal access to all citizens and comparatively high standards of care, it lacked efficiency and efficacy (Preker/Feachem 1994). Secondly, the reformers wanted to implement Western models of financing, regulation and service provision and a third reason was that health care providers (physicians, hospital managers and owners, medical staff) aimed at improving their income positions through the adoption of Western practices. Health care financing was shifted from the state budget to contribution-based private, occupational and public insurance organizations. Whereas the Czech and Slovak Republic established a regulated competition between the public insurance organization and the new private and occupational companies, Hungary retained compulsory membership in its public health insurance and restricted private and occupational insurance companies to the provision of voluntary additional health insurance. In Slovakia the government constrained the adverse selection of risk groups by a comprehensive scheme of the redistribution of revenues. Poland intends to implement a competition between insurance organizations.

The new health insurance funds cover only the operative costs of medical treatment, whereas investment expenditure continues to be financed from the central, regional and local self-governments. Fiscal pressures induced the governments to reduce their investment spending and their contribution to health insurance (cf. e.g. Woleková in this volume). Inspite of the new financing modes the inherited semi-official payment mechanisms ("gratuity money") prevailed and the organizational changes encouraged physicians even more to seek for additional income sources. The provision of services was decentralized, re-organized in order to improve performance and cost-efficiency, and medical facilities were privatized. The interest organizations of physicians gained a stronger influence on the formulation and implementation of reform policies. The results of these reforms are mixed and ambivalent. First attempts and experiments of health care reform prompted “cost explosions” in all four countries. Spending on pharmaceuticals has increased at the expense of personal care. The competencies and duties of local self-governments and other institutional owners in relation to hospitals and other health care facilities have not been sufficiently clarified. Up to now the reformers have not succeeded in reducing the dominance of inpatient care and developing a graduated system of ambulatory treatment.

The replacement of district ambulatories by private practices and the principle of freely chosen physicians was supposed to create competition among physicians and improve the performance of ambulatory care, but it also allowed physicians to improve their bargaining position towards the health insurance organizations, in particular after a performance-based remuneration had been introduced. Those countries which have implemented a far-reaching marketisation of health services are now faced with an optimisation problem well-known in Western health systems, namely how to combine the increased autonomy of health care providers and consumers with the systemic objective of delivering cost-efficient and high standards of health care (den Exter et al. 1997; Götting 1998). Policy makers in the CEEC have to choose between two conflicting goals: to develop an

institutional, financing and regulatory structure guaranteeing that the resources spent on health care improve the health status of the citizens to a maximum extent or to design the health system as to reduce public expenditure on health care while expecting service improvements from improved economic performance (cf. also Orosz in this volume).

Steps and state of reform in the health system

	Czech Republic	**Slovak Republic**	**Hungary**	**Poland**
financial and organizational independence of health insurance	general health insurance established in 1991, self-governed by employer, employee and state representatives; contribution-based financing in 1993; sickness insurance part of pension and employment fund	pension, sickness insurance and health insurance fund established in 1993/94	separation from state budget in 1990, health insurance fund separated from pension fund in 1992, elected self-government by employer, employee and provider representatives in May 1993, sickness insurance part of health insurance	health and sickness insurance part of the social insurance organization ZUS; system of regional branch-level health insurances envisaged in 1999
voluntary private health insurance funds	competition between private funds and general health insurance introduced in January 1993; ca. 26 health insurance funds established until 1995	competition between private health insurance funds and general health insurance, 10 health insurance funds in 1998	additional occupational health insurances established in 1993	occupational health insurance funds envisaged
family physician system	since 1990/91	since 1990/91	since 1992	envisaged
performance-based remuneration mechanisms	since May 1992	since April 1993	since July 1993	envisaged
private practices	since 1990	increasing number since 1994	since 1989	yes
liberalization of pharmaceuticals market				
decentralization of ownership of hospitals			since 1990	inherited decentralized structures, further decentralization envisaged
hospitals and other facilities with private and non-profit ownership	few privatizations of polyclinics and hospitals	few privatizations of polyclinics	contracting out of premises	envisaged
shift from in-patient to ambulatory care			reduction of excess hospital capacities in 1995/96	

Source: Götting 1998, Knieps 1998; Orosz, Woleková, Radogostowicz/Sójka in this volume. Since detailed country information is still lacking, some cells in the following table have to remain empty.

Implications for a European Union approach to welfare state reform

The overview on social policy reforms in the four countries of this study has shown that the CEEC are in a crucial period of welfare state-building. In the first years of economic transformation institution building was inhibited by the need to create and implement emergency measures. With the improving economic situation there is more scope for policy makers to design institutions. The domestic actor constellation is shaped by the conflict between two welfare state concepts and their supporting coalitions: the conservative-corporatist vs. the liberal-residual welfare regime (cf. Götting 1998 and also Ferge 1992). Despite the grave fiscal difficulties and contrary to the advice of some international consultants, the CEEC governments mostly refrained from targeting social provisions, i.e. from designing unemployment benefits, pension schemes, health care systems, sickness and family benefits according to a residual concept. Among the reasons for this strategy are that governments wanted to eschew frictions in the social security arrangements and the additional uncertainty they would entail during the economic transformation, to prevent conflicts with well-organised interest groups and to engage in a middle-class oriented social policy which was deemed more conducive to creating and preserving a social basis for democracy.

This policy was built on several positive legacies of the old state-socialist regime which distinguish the CEEC from Latin America and constitute a seldomly recognized prerequisite of successful economic and political transformation: the egalitarian social structure with its small underclass, the comparatively weak socio-economic tensions and social conflicts, and the comparatively high coverage and level of education. These features of social structure are assets which, in combination with the comparatively high social expenditure, allowed for considerable social flexibility. Due to this social flexibility the CEEC managed to attain a high pace of social and economic change and a comprehensive re-orientation of their foreign trade. If the countries can maintain this social flexibility, they fulfill an important precondition to develop an intra-industrial pattern of trade and the respective division of labour with the EU countries. Intra-industrial trade is based on flexible labour markets, technology-intensive production processes and a highly skilled labour force.

With respect to the positive correlation of high state expenditure and economic openness (Rodrik 1997), one could even argue that the CEEC's comparatively generous welfare states worked as a kind of safeguard which allowed for the quick re-orientation of foreign trade from the CMEA to the EU's Internal Market and cushioned against its domestic effects. In this sense, a "pre-mature" welfare state whose share of state expenditure in the GDP is too high compared to its level of economic development may have been the price Hungary has had to pay in order to facilitate a comprehensive opening to the world economy without grave social and political tensions (cf. Kornai 1996). Furthermore, the assets of public infrastructure and social structure belong to the European model of society the EU is committed to. However, these assets may be either eroded by a further delay of institutional reforms of the economy and the welfare state or wasted as a consequence of reforms aiming at downgrading and dissolving of welfare institutions.

The (pre-) accession constellation confers a strong bargaining position upon the European Union since, contrary to intra-EU bargaining, decisions do not require the prior approval of all negotiating states. Accession candidates not only have to adopt the acquis communautaire but they also have to fulfill the Copenhagen criteria and comply with the particular EU policy

goals. The broad commitment to democratic stability, human rights and a functioning, competitive market economy contained in the Copenhagen criteria has created a kind of encompassing mandate for the EU which is reflected in the encompassing role concept the European Commission displayed in its assessments and policy recommendations on welfare reform in the CEEC. Thus during the Eastern enlargement process the EU institutions and in particular the Commission have much more leeway to shape national welfare systems than in its relationship to the current EU member states. The benchmarks and objectives set in the accession process will affect this relationship which is characterized by an increasing Europeanization of social policy. Apart from the cohesion forces induced by the EMU, this is shown by the fact that an employment chapter and the social protocol was included into the Amsterdam treaty. The Agenda 2000 also aims at strengthening the social dimension of the EU since social policy objectives are to become part of the objectives two and three of the reformed structural funds. Furthermore, direct income subsidies are to be increased in the Common Agricultural Policy.

On this background a visible EU policy approach geared towards a *European welfare state model* should be developed in the EU-CEEC relations. Rather than formulating the features of such a model in detail, some essential principles shall be outlined in the following. A European welfare state model would be based upon the conservative-corporatist welfare regime but adapt this model to the circumstances of advanced, globalized market economies. This policy concept would not downscale social expenditure to the perceived level of economic development in the CEEC, but rather support an investment approach to social expenditure, aiming at developing the social assets still available in the CEEC. While the volume of social expenditure should be maintained or even enlarged, the structure of spending has to be carefully scrutinized and revised in order to improve systemic efficiency. This would imply, for example, shifting resources from pension systems to poverty prevention or restricting income-maximizing incentives in the health system.

A European Union policy should take into account the concerns of the CEEC governments for contribution-benefit equivalence but try to supplement insurance-type provisions by citizenship-based social rights. These rights should prevent the long-term unemployed from turning into a permanent underclass. In order to increase the flexibility of the labour market, social security contribution rates should be reduced, the financing of social security should be partially shifted to the state budget and to indirect taxes. The institutional framework of the labour market should support a flexible, highly skilled labour force and highly productive jobs, instead of being adjusted to the needs of a low-wage, low-productivity economy. With respect to the recent experiences of social insurance governance in the CEEC, the social insurance funds are to be protected against budgetary discretion and short-term fiscal pressures by establishing rules of state budget contributing and strengthening the funds' institutional independence. This could be attained by involving trade unions and business interest associations and by allowing a judicial review. NGOs should be endowed with the financial resources and freedoms to run social services, given their familiarity and skills concerning the problems and their potential to mobilize civic and altruistic engagement.

To summarize, three rationales may be given to develop this policy approach. First, as a smooth transition to democracy and market economy has hitherto been possible due to the above-mentioned state socialist assets, the EU should encourage the CEEC to maintain and cultivate these assets through a rights-based social policy. Second, as a direct neighbour to the CEEC the EU should be more interested in developing a European model of society than

international agencies like the Worldbank or IMF which are more attuned to universal development strategies and economic rationality criteria. Societal symmetry is a prerequisite for stable long-term relations and an economic symmetry facilitating an intra-industrial pattern of economic co-operation. Third, a European welfare state model could become a standard within the EU through its institutionalization in the CEEC. As a political entrepreneur the European Commission should realize that its scope of standard-setting action is particularly broad in the current accession constellation.

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