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Central Europe in Transition:
Emerging Models of Welfare and Social Assistance

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Abstract

This paper discusses the emergence of a new model of welfare and social assistance in Central and Eastern Europe. It starts by briefly summarizing the most recent social policy developments occurring in Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia and continues investigating the most urgent reform challenges and adaptational strategies. As argued elsewhere (see Cerami 2006a), the main argument of the paper is that CEECs are moving towards a new world of welfare capitalism, which combines old with new social policy characteristics. A special emphasis in this paper is, however, given to the systems of social assistance, since these represent the last public policy instrument to prevent citizens to fall into extreme poverty. As it will be argued, social assistance schemes did not only play a crucial role in the process of democratic transition cushioning the negative effects of the economic transformation, but they also represent important sources of democratic engineering providing legitimacy to the newly established market-oriented order. A substantial reconsideration in the social policy logic behind their establishment is, however, urgently required.

Keywords: Central and Eastern Europe, comparative social policy, welfare states, welfare reforms, transition economies, social assistance regimes.

Introduction[1]

On 1st May 2004 and on 1st January 2007, Europe enlarged its borders to the East, increased the number of its citizens (other countries will probably join soon), but also added new challenges for national welfare systems as well as for EU institutions. European Integration, harmonization and convergence of national social policies have now become crucial topics in conferences and international meetings, but the mechanisms of adaptation, by which national welfare systems may adjust to internal and external pressures, remain partly unknown. This paper focuses on Central and Eastern European countries (CEECs) and, in particular, it looks at the social policy developments occurring in Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. A special emphasis here is given to the systems of social assistance, since these represent the last public policy instrument to prevent citizens to fall into extreme poverty. As it will be argued in the course of the paper, social assistance schemes did not only play a crucial role in the process of democratic transition cushioning the negative effects of the economic transformation, but they also represent important sources of democratic engineering providing legitimacy to the newly established market-oriented order.

The paper is structured as follows: Part one briefly summarizes the system of social protection existing during communism, but also the most recent social policy developments in pension, health care, protection against unemployment and family policies. Part two focuses on social assistance schemes, but also on the reform challenges that Central and Eastern European policy makers are confronted with. In the third and final section, the adaptational strategies of national welfare systems are explored. A brief reference here is given to the process of *recalibration* of old structures, to the *recombinant transformation* taking place in these systems of social security, drawing attention, in the conclusions, to the need for substantial reforms of the main logic driving social assistance provisions.

[1] Some parts of this paper have been presented at the 3rd ESPAnet annual conference "Making Social Policy in the Postindustrial Age", September 22-24, 2005, University of Fribourg, Switzerland and at the conference "Transformation of Social Policy in Europe: Patterns, Issues and Challenges for the EU-25 and Candidate Countries", Department of Political Science and Public Administration METU, Ankara, Turkey, April 13-15, 2006. The author would like to thank all the participants at the conferences for their helpful comments and critiques. It goes without saying that whatever faults remain in this revised and updated version are entirely my own responsibility.

Social Policy before 1989

During communism, social policy was an integral part of the central planned economy. This was an extremely centralized system of resource production and allocation called to regulate all spheres of social life. Central planning included dealing with industrial and labour relations, the setting of wages and of prices, the production and the distribution of goods and of services, the allocation of various social policy resources (such as housing and welfare benefits) and, last but not least, the regulation of the individuals' time through the division of labour, but also through the involvement in sport and other activities strongly anchored in the communist ideology.

Pensions were based on the occupational status and financed by contributions, but since officially all citizens were in employment and wage differences were extremely limited, benefits tended to be universal in coverage and flate-rate in scope. This clearly coincided with the communist ideology of standardization of income and life standards. Pensions ranged between 50 and 100 per cent of a base calculated on the average of the best five within the final ten years of work. Retirement age, as well as the level of benefits, was low (60 years for men and 55 years for women with approximately 25 years of service) (Connor 1997). Exceptions, however, existed. For example, special privileges were often granted to particular professional groups in strategic sector of the state apparatus (such as miners or police forces). The communist nomenclature also ensured its members had the access to better services, even though not officially (King and Szelényi 2004).

The Semashko-model was the basis of the communist health care sector. This was a highly centralized system of health care planning, with decisions concerning the regulation and implementation of services taken at the national level with limited or extremely low knowledge of local real needs. All citizens had a constitutional right to health care services, but these were underdeveloped if compared to Western standards. The poor quality of services resulted not only in high morbidity and mortality rates (Deacon 2000), but also in increasing dissatisfaction among the population. Services, however, were only formally granted free of charge. The existence of "gratitude money" given to doctors soon became the norm, contributing in altering the nature and the universal aspirations of the communist health care system. The emergence of this atypical form of "additional payment" can be explained from two perspectives. On the side of the medical personnel, it is explained by the necessity to increase the low wages they received. On the side of the patients, by contrast, it can be explained by the will (and necessity) of choosing their own doctor on the basis of personal trust and not only on the basis of the residence as the system required (such as in Hungary). This also involved obtaining better, individualized and, therefore, not standardized treatments.

Unemployment was practically non-existent. The system officially worked on full employment, but some form of hidden unemployment did exist. Since the central planned economy regulated the functioning of the labour market, it was not rare that for tasks, which in Western Europe were accomplished by one worker, two workers were employed in the communist system. There were also other serious problems linked to central planning, but, more in general, associated to the excessive standardization of life promoted by the communist ideology. The excessive standardization of wages produced the undesired effect of reducing work performance (see Cerami 2006a). Workers had in fact no good reason for working beyond minimum requirements, with the exclusion of medals granted by party officials as a symbol of loyalty to the state. The fact that most of welfare benefits were linked and granted through the enterprise in which the workers belonged to (Ferge 1979) created circles of loyalty around party officials, which did not necessarily represent work incentives that may have led to an increase in work performance.

If during the first years of communism (the years immediately after the end of World War II), the family was seen as a reactionary force and cause of all diseases of modern societies, communist leaders soon realized that the family could also play an important role in the stabilization of the political system recently introduced (Ferge 1978; Sokolowska 1978). As a consequence, political leaders gave their consensus on the establishment of an extensive system of family benefits, made not necessarily to free women from the weight of child rearing, but rather to introduce a three-fold status of citizens-workers-mothers. The result of this policy making, which materialized, for example, in extensive periods of maternal leaves (i.e. three years in Hungary and in the German Democratic Republic), did not mean, however, a full transition from “maternalism[2]” to a “gender-neutral” society. Rather, it corresponded to the addition of further tasks given to women.

[2] The maternalist family logic in force in the immediate aftermath of World War II was based on the assumption that women had to be the only care-givers. Nowadays, by contrast, a “dualization” of responsibilities can be witnessed. On the transition from “maternalism” to an “employment for all society”, see Orloff (2006).

Post-Communist Social Policy

Immediately after the fall of the Berlin Wall, CEECs engaged in a serious of drastic changes to their pension systems. Reforms primarily aimed to: a) ensure financial sustainability of the new system, extremely different from the one based on central planning; b) provide differentiation of benefits so that the excessive equalization of life standards in force during communism could be interrupted; c) introduce market elements; and d) guarantee, at least, a basic income for the citizens. Early retirement policies were widely used, especially in the first years of transition, with the aim to reduce the pressure on the labour market. This strategy revealed itself as extremely expensive in times of raising unemployment and more recent reforms now aim at reducing the access to these policies.

A brief overview of Central and Eastern European pension systems shows that almost all countries have now completed the introduction of the so-called three pillar scheme, as recommended by the World Bank in the well-known publication *Averting the Old Age Crisis* (World Bank 1994). The first pillar is state managed, mandatory and based on pay-as-you-go. The second pillar is privately managed and compulsory funded. The third complementary pillar is a voluntary pension tier. On the basis of the Chilean experience, Hungary and Poland have been the first countries in Eastern Europe to introduce such a scheme, but now also Bulgaria, Estonia, Latvia, Lithuania, Romania, and Slovak Republic have followed this reform path. Only in Czech Republic and Slovenia has the full implementation of the three pillar scheme been temporarily blocked due to possible transition costs, but the most recent political debate draws attention to the necessity of increasing the role of the recently established private tiers, currently based on a voluntary, rather than on a compulsory affiliation[3] (see Table 1).

[3] On pension reforms in Eastern Europe, see Orenstein (2005, 2008), Cerami (2006a, ch. 3), MISSOC (2007).

Table 1 Pension 2007					
	Three-Pillar Scheme	**Type**	**Retirement Age**	**Minimum Contribution Years**	**Fourth Pillar**
Bulgaria	√	earnings-related	63 men 59 women	15	√
Czech Rep.	I and III Pillar	earnings-related + flate-rate	61.8 men 60 women	15	√
Estonia	√	earnings-related + flate-rate	63 men 60 women	15	√
Hungary	√	earnings-related	62 men 61 women	15	√
Latvia	√	earnings-related NDC	62.5 men 61 women	10	√
Lithuania	√	earnings-related	62.5 men 60 women	15	√
Poland	√	earnings-related NDC	65 men 60 women	20	√
Romania	√	earnings-related	63 men 58 women	15	√
Slovakia	√	earnings-related	62 men 62 women	10	√
Slovenia	I and III Pillar	earnings-related	63 men 61 women	15	√

Source: MISSOC 2007

The Soviet-style health care system was under great pressure and in urgent need of reforms. Health care expenditures were below the OECD average, poor quality of health care services and high morbidity rates were the norm, and the low wages of medical personnel did not help to improve the performance of this system (see WHO *Hit Profiles*). As a consequence, post-1989 reforms aimed at finding an immediate and possibly painless response to these issues. The best way of dealing with the chronic lack of funds was obviously seen through the introduction of health insurance, which, in the mind of policy-makers, would have immediately increased the funds available, financing it with the money of workers and therefore not aggravating the state budget. This reform path was also intended to conduct a shift (or rather an increase) of responsibilities from the state to the individual. Other important characteristics of reforms were the possibility to freely choose the doctors and the hospitals, the decentralization in the management of health care from central to local authorities and the introduction of a competitive and market-oriented system of medicines, of medical equipment and of insurances. Medical services are now provided upon the payment of health insurance contributions in Bulgaria, Czech Republic, Estonia, Hungary, Lithuania, Poland, Romania, Slovak Republic and Slovenia[4], but this does not mean that the state has completely abandoned its duties to ensure minimum coverage for its citizens. All Central and Eastern

[4] Please note that health care in Latvia is tax-financed.

European constitutions established after 1989 reaffirm the right to equal access to health care and non protected citizens must be insured by the state[5] (see Table 2).

Table 2 Health Care 2007

	Health Insurance	Year	State Involvement
Bulgaria	√	1998/2004	Medium
Czech Rep.	√	1991/1997	Strong
Estonia	√	2002	Strong
Hungary	√	1997	Strong
Latvia	Tax-financed	1997	Strong
Lithuania	√	1996	Strong
Poland	√	1997/2004	Low
Romania	√	1998/2006	Medium
Slovakia	√	2004	Strong (medium in the future)
Slovenia	√	2002/2005	Strong

Source: MISSOC 2007

Regrettably, the shift from a central planned economy to a market economy coincided with the collapse of many state-owned enterprises and the dismissals of several million workers. As a result of raising demands caused by the growing number of unemployed, Central and Eastern European policy-makers put in place a general system of unemployment insurance, which only partially succeeded to limit the negative consequences of the economic transition. In all countries in this study the favorite option was the implementation of a German-style unemployment insurance consisting, for the most part, of: a) unemployment benefits; b) unemployment assistance; and c) social assistance. Despite this similar reform path, the systems of protection against unemployment in the region show some differences in the entitlement criteria of benefits, probably due to the fact that the initial economic conditions and the consequent demands necessary to combat unemployment substantially differed. Minimum requirements for access to unemployment benefits (2007) range from 200 days of employment in the previous 4 years in Hungary to three years over the last four years in the Slovak Republic. The duration of benefits also differ from country to country. In the Czech and Slovak Republic, it cannot be longer than 6 months, while in Slovenia unemployment benefits can last up to a maximum of twenty four months. In Poland, the duration also depends on the level of regional development. In underdeveloped regions, it can be up to 18 months, while in districts with unemployment rates below the national average it is granted for no longer than 6 months. As far as the amount of benefits is concerned, the criteria for the calculation are usually earnings-related in Bulgaria, the Czech Republic, Hungary, Latvia, Lithuania, Slovakia and Slovenia,

[5] On health care reforms in Eastern Europe, see also WHO *Hit Profiles*, Cerami (2006a, ch. 4), MISSOC (2007).

while a strong flat-rate component still exists in Poland[6] and Romania (see Table 3). Despite this diversity of arrangements, some common trends in the most recent reforms are identifiable. These include a reduction of entitlement criteria and the diminution in the level as well as in the duration of benefits[7].

Table 3 Protection against Unemployment 2007

	Unemployment Insurance	Qualifying Period	Maximum Duration of Benefits	Amount of Benefits
Bulgaria	√ earnings-related	9 months over the last 15 months	4-12 months	60 % of previous earnings
Czech Rep.	√ earnings-related	12 months over previous 3 years	6 months	50% of reference earnings (3 months). Then 45%
Estonia	√ earnings-related	12 months over previous 36 months	9 months	50% of reference earning. Then 40%
Hungary	√ earnings-related	200 days over previous 4 years	9 months	60-65% of previous earnings
Latvia	√ earnings-related	9 months in the last 12 months	9 months	50-65% of previous earnings
Lithuania	√ earnings-related	18 months over previous 3 years	6-9 months	Fixed + Variable Component (national currency)
Poland	√ flate rate benefit (new law 2004)	365 days over previous 18 months	6 months areas unemployment less than 125% national average; 12 months areas with unemployment of at least 125%; 18 months areas where unemployment is more than twice the national average	Unemployment Allowance (national currency)
Romania	√ strong flate rate component	12 months over previous 24 months	12 months	Unemployment Indemnity (flate rate) + earning related component
Slovakia	√ earnings-related	3 years over previous 4 years	6 months	50% assessment base
Slovenia	√ earnings-related	12 months over previous 18 months	3-24 months	70% (3 months). Then 60%

Source: MISSOC 2007

As mentioned previously, CEECs inherited an extensive system of family policies, both in terms of coverage but also in terms of benefits granted. In almost all countries numerous provisions are still available for citizens, which often cover children if not “from the cradle to the grave”, then at least to the completion of secondary school or university (see Table 4). Current trends of reforms do not seem to be characterized by a drastic shift in objectives. Central and Eastern European governments still tend to encourage young mothers to have more than one child, in many cases openly pursuing a pro-natalist policy-making as they did during communism. In CEE, young women have access to long maternal leaves (longer than

[6] Please note that the 2004 legislation in Poland has introduced a flate-rate benefit.
[7] On protection against unemployment in CEE, see Cazes and Nesporova (2003), Vaughan-Whitehead (2005), Cerami (2006a, ch. 5), MISSOC (2007).

in Western Europe), tax exemptions and, in some countries, also to special credits for buying a house (e.g. Hungary) or to set up a family (e.g. in the Baltic States). The situation is different in less economic performing countries, such as in Bulgaria and in Romania, where women are still seriously disadvantaged in comparison to men. However, as Orloff (2006) has recently argued for Western Europe, the general trend seems to be that of a slow shift from a "maternalist" family logic in force in the immediate aftermath of World War II to an "employment for all" family logic, which recognizes the dual breadwinner role in child rearing. This is not to say, however, that governments have succeeded to fully ensure "gender neutrality". Most of the differences between men and women still persist in the labour market. These include significant gender wage gaps, access to higher and better positions for men, the persistence of labour segregation for women, lack of recognition between paid and unpaid work, and so on (Fultz et al. 2003; Schnepf 2004; Orloff 2006). What is important to remember here is that this orientation towards a "gender neutral" society started in Eastern Europe before than Western Europe, but also well before the fall of the Berlin Wall[8].

Table 4 Family Policies 2007

	Maternity Leave	Child Benefit	Child Raising Allowances
Bulgaria	315 days	Up to 20 years	Up to 2 years and 6 months
Czech Rep.	196 days	Up to 26 years	Up to 4 years
Estonia	140 days	Up to 19 years	Up to 3 years
Hungary	168 days	Up to 23 years	Up to 3 years
Latvia	112 days	Up to 20 years	Up to 1-2 years
Lithuania	126 days	Up to 24 years	Up to 3 years
Poland	112 days	Up to 24 years	Up to 2-3 years
Romania	126 days	Up to 18 years	Up to 1 year
Slovakia	196 days	Up to 15 years	Up to 3 years
Slovenia	105 days	Up to 26 years	Up to 260 days

Source: MISSOC 2007

Social Assistance Regimes in Transition

Since the command economy regulated all prices of domestic goods in order to provide a minimum subsistence level to its citizens, state-socialist policy-makers did not give social assistance provisions the importance they deserved (Milanovic 1995). This does not mean that social assistance schemes were not necessary during communism. They were necessary, especially for the less integrated groups of the society, such as the Roma, and for people who were for some reason unable to work (for example, pensioners and people affected by disability or chronic illnesses). As Milanovic (1995) has emphasized, the extreme importance that the state-socialist society gave to work-performance as a mean of freedom from the capitalist oppression resulted in an implicit social stigma for all those citizens that in some

[8] On family polices in CEE, see Pascal and Kwak (2005), Cerami (2006a, ch. 6), MISSOC (2007).

way did not or could not conform to the idea of the perfect communist worker. Subsequently, merits acquired through a workaholic attitude had to be distinguished from the implicit reactionary threat of non-workers. The “good communist workers” often received medals as a symbol of their excellent work-performance, while the “bad communist workers” were usually the ones who lived at the expense of society. It goes unsaid that providing a comprehensive system of social assistance provisions to these people was something that contradicted the communist political aims (Milanovic 1995).

In more practical terms, social assistance during communism consisted of a series of social services provided by local offices to people without stable jobs, vagabonds and the handicapped. These services could take the form of in-kind benefits (such as food, housing and so on) and/or income supplement in order to achieve a minimum level of consumption. Unfortunately, since economic planners set these minima on the basis of a supposedly perfect system, the benefits received only rarely corresponded to real needs and poverty continued to exist in state-socialist societies (Milanovic 1995).

With the fall of the communist command economy, new instruments to combat poverty were necessary. Regulation of prices could no longer be used to maintain the artificially low costs of foods. Ex-state owned enterprises now needed to cope with the concurrence of Western industries and could no longer be the source of social security. In brief, rationalization of production rather than full-employment were the new economic keywords. In order to cope with raising unemployment and inflation, most Central and Eastern European governments introduced generous social assistance schemes. Particularly during the first period of reforms, access to these benefits was relatively easy and used more as a means of compensation for the loss of job, brought about by the involuntary dissolution of the communist social contract. Strict means-testing was rarely applied, primarily because of feasibility problems.

One of the key features of Central and Eastern European social assistance schemes is the establishment of a Minimum, or Guaranteed, Income Level as a poverty threshold. All households and citizens that find themselves below the poverty line established by law have the right to social assistance benefits. These provisions can take the form of cash, in-kind benefits or services. The amount is calculated as the difference between the official subsistence level and the family or individual disposable income. With the exception of

Hungary, which has no statutory Guaranteed Minimum Income (although numerous similar provisions exist for certain groups) and, to some extent Poland, the Minimum Subsistence Level strictly regulates the access to social assistance provisions in Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Romania, Slovakia and Slovenia. The leading principle of these schemes is clearly that of ensuring basic income to all citizens, even tough this objective is achieved through a unified amount in Czech Republic, Estonia, Latvia, Romania, Slovakia and Slovenia, while a differential amount exists in Bulgaria and Lithuania, thus aiming at preserving some form of income differentiation even at the lowest level. In Poland, by contrast, the social and citizenship rights of poor persons are drastically limited by the strong discretionary character for accessing the benefits granted by the social service workers. As far as the duration of benefits is concerned, this usually takes place for an unlimited period, even though restrictions exist in Lithuania (benefits cannot be granted for more than 9 months in a year), in Slovakia (benefits cannot be granted for more than 24 months) and in Slovenia (benefits can be granted for 3 up to 6 months). Means-testing is the key entitlement factor in all countries under scrutiny and this must usually be coupled to real efforts of the unemployed in actively seeking a job. In this context, it is clear that the continuous requests of the EU and other international organizations (notably the World Bank and the OECD) for "activation" have not remained unheard by the new Member States. Finally, the amount of benefits is set at the central government level in all countries with the sole exclusion of Latvia. This decision that aims at equalizing standards among the citizens has, however, also its shortcomings, since it can produce discrepancies between the amount necessary in different regions. As it is well known, CEECs are, in fact, characterized by huge regional differences expressed in terms of economic development but also in terms of welfare services[9] (see Table 5).

[9] On social assistance in CEE, see Cerami (2006a, ch. 7), MISSOC (2007).

Table 5 Social Assistance 2007					
	Guaranteed Minimum Income	**Principle**	**Period**	**Means-Tested**	**Determination of Amount**
Bulgaria	√ 2005	Ensure basic income. Differential amount	Unlimited	Yes	Central Government
Czech Rep.	√ 1991/2006	Ensure basic income	Unlimited	Yes	Central Government
Estonia	√ 1995	Ensure basic income	Unlimited	Yes	Central Government
Hungary	No Guaranteed Income. (other provisions available)	other provisions available	NA	NA	NA
Latvia	√ 2002	Ensure basic income	Unlimited	Yes	Central Government/ Local Municipalities
Lithuania	√ 1990/2006	Ensure basic income. Differential amount	No more 9 months/year	Yes	Central Government
Poland	√ 2004	Ensure basic income. Discretionary entitlement	Permanent but discretionary	Yes	Central Government
Romania	√ 2001	Ensure basic income	Unlimited	Yes	Central Government
Slovakia	√ 2003	Ensure basic income	24 months	Yes	Central Government
Slovenia	√ 2004	Ensure basic income	3 to 6 months	Yes	Central Government

Source: MISSOC 2007

Challenges of Post-Communist Social Policy

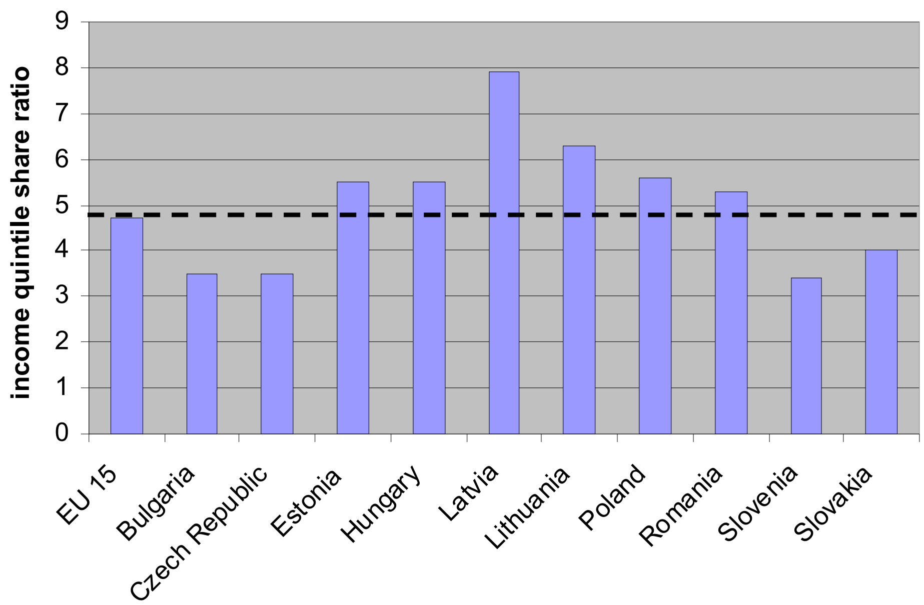
Which are the most urgent reform challenges that the CEECs are called to deal with? Most of them are similar to the challenges that other Western European welfare states are facing (such as ageing population, ensuring financial balance of the system, improving work conditions and safety at work, promoting gender equality, etc.), and that have led social policy scholars to draw attention to the necessity to "recast" (Ferrera and Rhodes 2000), to "recalibrate" (Pierson 2001) or to "defrost" (Palier 2000) current welfare institutions. Other challenges, by contrast, seem to be particularly urgent for Central and Eastern Europe and are mainly focused on the sustainability of the newly established welfare arrangement. These include the necessity to ensure: a) coverage for the citizens; b) sufficient income; c) long-term sustainability of health, pension and unemployment insurance under conditions of great financial pressure; and d) certainty for those citizens who have invested or will invest in private funds.

Ensuring coverage for the population (and not only for workers) is certainly one of the most pressing problems. The collapse of the command economy with its centralized system of resource allocation has, in fact, drastically altered the distributive character of the countries in transition, with a growing number of citizens now involuntarily catapulted out of the labour market. The introduction of Bismarck-style welfare institutions (Cerami 2006a, 2008), which link the access to benefits to the contribution record of the insured, has inevitably implied the exclusion of numerous citizens, who now find themselves almost unprotected, if unemployed, or, only partially protected, in case of atypical, informal or part-time workers. These new professional categories have all drastically increased in recent years (Vaughan-Whitehead 2005). Ensuring coverage is not only limited to the pension and health care sector, but also includes unemployment insurance and, more in general, those policies aimed at preventing social exclusion, such as social assistance provisions. Strict means-testing with the subsequent tightening of eligibility criteria, as often suggested by the most influential financial institutions, notably the OECD and World Bank, has, in fact, implied not only a drastic reduction in eligible citizens, but also an increase in social stigma for those who succeeded to receive the benefits.

Providing sufficient income for citizens is, probably, the second most important challenge. The *monetarization and individualization of responsibilities and risks* has resulted in a dramatic increase in income inequality with a substantial reduction of earning possibilities for a large part of the population. From one of the lowest rates of income inequality in Europe (income inequality during communism was well below the Western average, see Milanovic 1995), CEECs are now coming close or even overcoming (such as in the case of the Baltic countries, Hungary, Poland, Romania and Slovakia) the EU 15 average[10] (see Figure 1).

[10] In Figure 1, income inequality is defined by "the ratio of total income received by the 20 % of the population with the highest income (top quintile) to that received by the 20 % of the population with the lowest income (lowest quintile). Income must be understood as equivalized disposable income". Definition by Eurostat 2008.

Fig. 1 Inequality of Income Distribution (2006)



Source: Eurostat 2008

Poverty in the region has also dramatically increased, as many studies have repeatedly emphasized (Ferge *et al.* 2002; Stanovnik and Stropnik 2002; Szelényi 2002; Zhelyazkova *et al.* 2002; Orenstein *et al.* 2003; Cerami 2003, 2006). Figure 2 provides a brief overview of poverty rates in 2006 divided by gender and shows how, with the sole exception of Hungary, Poland and Slovakia, poverty rates tend be higher for women than for men. Here, it is perhaps interesting to note how the situation for women in the new Member States is now close to the one present in the old Member States, where the traditional family pattern based on the male-breadwinner model (see Lewis 1992) has contributed, during the decades, to the feminization of poverty[11]. Nevertheless, women are not the only vulnerable group of transition, with the young, elderly, households with children (particularly single households), workers of ex state-owned enterprises and the Roma community also being extremely disadvantaged (Szelényi 2002; Orenstein *et al.* 2003; UNECE 2004).

[11] In Figure 2, the poverty rate is defined by "the share of persons with an equivalized disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median equivalized disposable income (after social transfers) the lowest income (lowest quintile). Income must be understood as equivalized disposable income". Definition by Eurostat 2008.

Fig. 2 People at Risk of Poverty (2006), by Gender

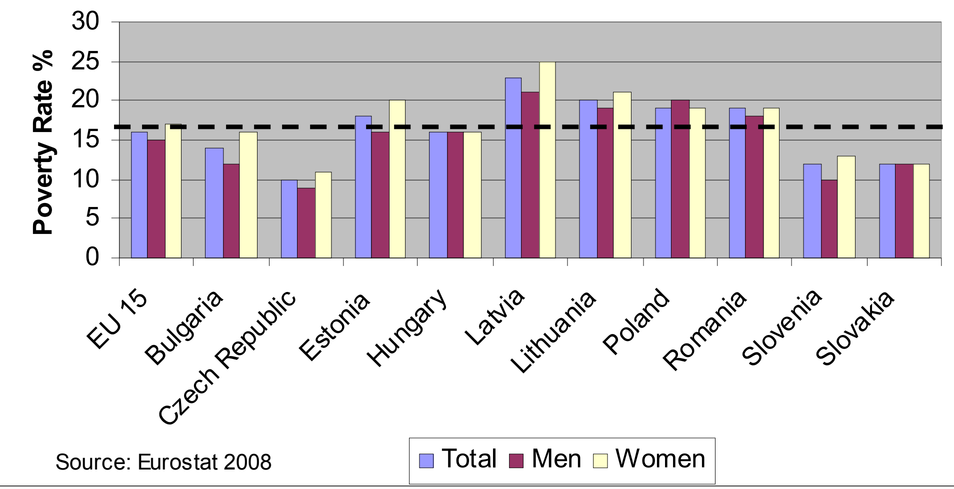
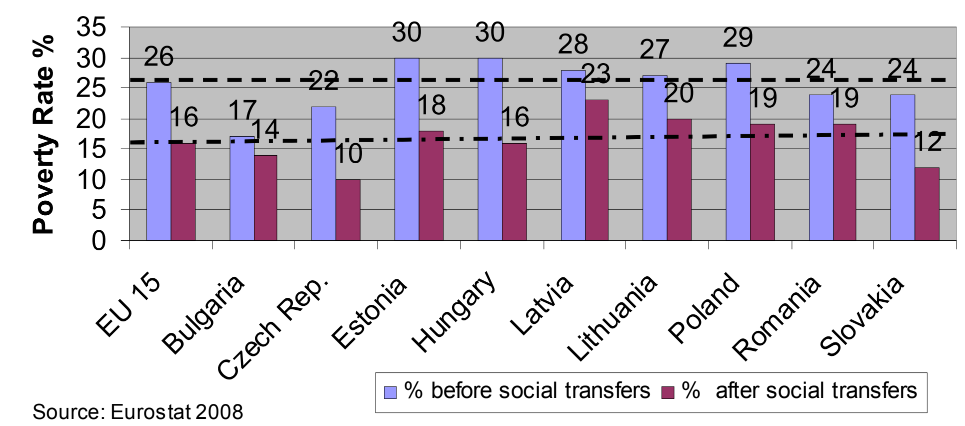


Figure 3 provides a simple, but clear picture of the impact of social transfers in the region. As it can be seen, social transfers substantially reduced poverty in almost all countries. Only in Bulgaria, Latvia, and Romania the poverty reduction rate[12] has been lower than 30 per cent, but these are also the most problematic countries in terms of economic recovery, also having recently opted for more market oriented welfare institutions. In short, it can be affirmed that welfare institutions, by reducing the number of poor people, have been vital democratizing forces, helping to ensure stability for the democratic institutions recently established (Cerami 2003, 2006a).

Fig. 3 People at Risk of Poverty (2006)



[12] The poverty reduction rate is calculated as the difference between the poverty rate before and after social transfers.

The third, most pressing issue, concerns the long-term sustainability of the recently established health, pension and unemployment insurance under conditions of extreme financial pressure. The employment ratio in the ten countries studied has drastically decreased since the first years of transition from an average of 79 per cent in 1990 to 65 per cent in 2004 (see Table 6). This has resulted in a serious reduction of the social security receipts, with the necessity of an increase either in social insurance contributions for the workers remained in activity or an increase in expenses for the state budget now called to cover the deficit of the newly established social insurance funds. The growing number of pensioners, of unemployed, and of sick people (due to the deterioration of life quality following the austerities of transition) has also helped to aggravate a situation already disastrous.

Table 6 Employment Ratio*

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Bulgaria	82	78	68	63	63	57	58	60	60	59	56	55	55	57	57	59
Czech Rep.	87	86	77	75	76	76	76	75	74	73	71	71	71	71	71	70
Estonia	88	87	86	82	78	77	73	73	73	72	69	69	69	70	71	71
Hungary	83	83	80	71	64	58	57	57	57	57	59	60	60	60	61	61
Latvia	-	-	-	-	-	-	-	64	67	67	67	65	67	69	70	70
Lithuania	84	82	84	82	80	75	74	74	73	69	68	66	63	66	67	67
Poland	75	71	67	65	63	62	62	63	63	63	60	59	58	55	54	55
Romania	77	77	77	75	72	78	79	78	78	77	76	76	75	66	66	65
Slovakia	80	77	67	67	65	64	64	66	65	64	61	60	60	60	61	60
Slovenia	75	72	66	63	67	67	69	69	70	71	69	69	71	71	69	73
Average	81	79	75	72	70	68	68	68	68	67	66	65	65	65	65	65

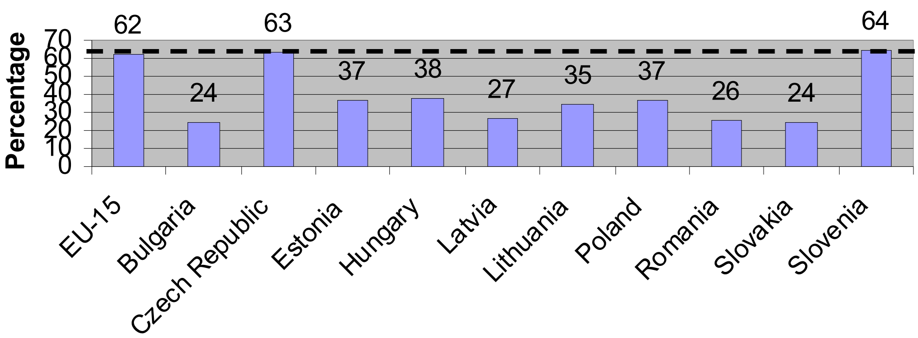
Source: TransMonee Database 2006

* Annual average number of employed as per cent of population aged 15-59

Fourth, the uncertainty following the introduction of private schemes in times of market instability should not be forgotten. The introduction of compulsory and voluntary private tiers in the three pillar scheme reform (the second and third pillar) raises serious concerns not only with regard to the so-called double-payment (Bonoli 2000; Myles and Pierson 2001) necessary for financing the transition from a PAYG to a fully funded system (current workers would in fact be called to pay twice: once to finance current pensioners under the PAYG scheme and once for their own individual accounts), but it also raises important questions on the trustworthiness of the private pension funds allowed to operate in the market. The temptation of private pension funds to declare bankruptcy or insolvency, in absence of an effective legislation, should market conditions create difficulties to the financial profitability of the company, should not be underestimated. In this case, the state will be called to either cover the expenses of pension funds or directly insuring the citizens who have seen their savings disappear. It is also important to note that it is often impossible to predict the actual end pension that retiring workers will receive. A study carried out by the ILO (2000) has, in fact, expressed serious doubts on pension fund managers' ability to predict the future amount of pensions for their clients due to the volatility and the unpredictability of markets. Similar considerations apply for the newly established health funds, which in numerous cases have been abolished soon after their introduction due to a lack of funds necessary to ensure even minimum services. Last but not least, close to the raising costs associated with the increase in administration and management costs caused by the decentralization of responsibilities from central to local governments (but also from public to private funds), it has also to be questioned whether private insurance companies should be allowed to carry out a preventive screening in order to see which potential clients are affected by chronic illnesses (such as diabetes), which would inevitably imply more costs for the health insurance company.

To conclude, just to quote few examples of the dissatisfaction of Eastern citizens with current reforms, in 2003, with the sole exclusion of the Czech Republic and Slovenia, the satisfaction with the quality of the health care system[13] was dramatically below the EU 15 average (Figure 4), while also the quality of social services[14] was evaluated more negatively in the East than in the West (Figure 5).

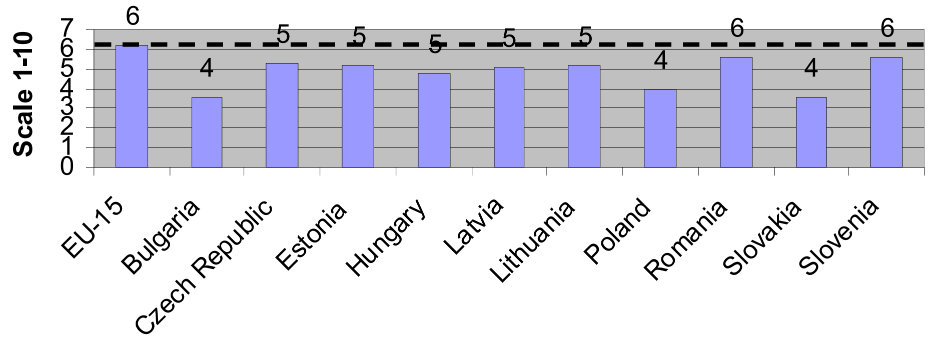
Fig. 4 Satisfaction with Health Care System (2003)



Source: European Foundation for the Improvement of the Living Conditions, 2006

[13] Question: "Percentage of individuals who are very or fairly satisfied with their national health system".
[14] Quality of social services: "mean value on a scale of 1 'very poor quality' to 10 'very high quality' of the national public social services.

Fig. 5 Quality of Social Services (2003)



Source: European Foundation for the Improvement of the Living Conditions, 2006

Explaining Post-Communist Adaptation

Unquestionably, one of the key questions that needs to be addressed in order to improve understanding of the post-communist transition is the identification of the main mechanisms responsible for institutional change (Cerami and Ettrich forchcoming). In our specific case, a particular attention must be given to the factors that have influenced the social policy reform process, facilitating the implementation of specific welfare institutions at the expenses of others. Why has, for example, a social insurance model been introduced instead of a system financed by taxes? Why have entitlement criteria been granted on the basis of the professional status instead of on the basis of citizenship? In short, how do we explain the introduction of new post-communist welfare institutions?

The most common approach to welfare state change in Central and Eastern Europe, deeply rooted in the tradition of modernization theory (see Zapf 1998), has looked at the transformation from a communist to a post-communist welfare state as a mere shift from a de-differentiated and de-modernized welfare system to a differentiated and modernized one. As in many other areas, social policies have been understood as a result of a simple transfer from the West to the East, due to the innate superiority of the Western model. The only effort made by the recipient countries was in accepting this policy transfer with the associated policy prescriptions. This would have inevitably led to a fast modernization of their obsolete system of social security (see, for instance, continuous references in OECD and World Bank reports to introduce a welfare state mirrored on the Western model).

Needless to say, this approach is clearly simplistic, since it does not take into account the historical background of the countries in which specific policy options had to be implemented. Why should, in fact, be a model good for the West also be good for the East? A substantially different understanding of welfare state change is an approach based on path-dependency theory and on neo-institutionalism. Here, welfare state change is understood in terms of an incremental transformation in which historical, social, political and institutional legacies play a crucial role hindering a full and aseptic policy transfer. In a nutshell, according to the supporters of this approach, post-communist countries have not built the new society out of the ruins of communism, but rather with the ruins of communism (Stark 1992; Stark and Bruszt 1998; Eyal et al. 2003).

With regard to the transformation of the welfare state, social policy characteristics in place in the pre-communist (Bismarck-style social insurance) and communist period (universalism, corporatism and egalitarianism) have permeated the post-communist reform process, with its new consensus on market-based schemes (Cerami 2006a). A brief overview of pre-communist Central and Eastern European pension and health care systems shows that all countries had already established some form of Bismarck-style pension and health insurance, which linked the access to benefits to professional status. In the years 1906 to 1928, the numerous funded pension and health care schemes established were based on a corporatist vision of social solidarity, primarily aiming to secure occupational standards. At the end of World War II, the attempt of the Soviet Union to dismantle these social security systems and to include them in the Soviet welfare regime was only partially successful. Most of the peculiarities in force during the first stage of Bismarck reforms survived to the drastic social policy re-organization. In almost all these countries, the universal and egalitarian principles spread by the communist regime were, in fact, coupled to a corporatist vision of social solidarity.

As a consequence of on-going evolutionary processes, the contemporary Central and Eastern European welfare regime seems to be the result of an ambiguous policy mix of different elements. The three-pillar scheme of pension insurance has turned into a four-pillar model, where a strong link to social assistance provisions ensures coverage for those citizens whose income under the above scheme would not be sufficient (see also Wagener 2002). Market-based health insurance, characterized by a strong link between contributions paid and services received, has been introduced, but coupled, in all countries, with the universal principles guaranteed by the state, which is still responsible to cover numerous uninsured citizens. Finally, unemployment, social assistance and family benefits, introduced with the aim to reduce temporary poverty, have changed their nature and scope from residual safety nets into active democratization forces. A mix of market-orientation, targeting and universality has then become the new distinctive attribute of these areas. 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 2006a), 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 state[15]", where Bismarck features remain preponderant (Cerami 2008).

What is important to remember here is that, even though Bismarck features remain the key characteristics of the new welfare arrangement (the mode of access to social protection is based on work/contribution, social benefits are primarily in cash and earnings-related, the financing mechanism is based on social contribution and the administrative structures involve social partners in the management of the social insurance funds), the new welfare regime displays peculiar attributes with regard to the functions and roles played by the schemes of social assistance. Indeed, despite the fact that not all social assistance provisions existent in these countries are the same (Hungary has, for example, no statutory Guaranteed Minimum Income), they all tend to be more extensive in coverage and scope than the ones present in many other European Member States, most notably Mediterranean, Continental and even Scandinavian countries. Furthermore, if a comparison with the classical Esping-Andersen's (1990) typology is conducted, then it can be seen how the Central and Eastern European welfare regime shows different normative/ideational elements. While the main aim and emphasis of the Conservative welfare regime remains on *security* (that is providing job and income security for male workers), of the "liberal" world is *poverty alleviation* and *equality* the main feature of the Nordic welfare regime (see Palier forthcoming), in the Central and Eastern European case, a combination of all three normative/ideational elements coupled with aspirations for democratic consolidation is the main characteristic.

[15] 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).

Important to remember here is also the transformation that contemporary European societies are undergoing. This is involving a process of *functional*, *distributive*, *normative* and *institutional recalibration*[16] (Hemerijck 2006; Ferrera at al. forthcoming) of the welfare architecture introduced during the *trente glorieuses* of the welfare state (the period from the 1950s to 1970s). Indeed, not only an *institutional recalibration* is taking place in these welfare states in transition (that is to say a recalibration of the old institutions in order to meet the new emerging needs of the post-communist environment), but also a *recalibration* of the main welfare functions (*functional recalibration*), distributive aspects (*distributive recalibration*) and basic norms (*normative recalibration*) (see also Hemerijck 2006; Ferrera et al. forthcoming). In the Central and Eastern European case, this new wave of *recalibration* will require a new phase of social modernization, which should result in an expansion of the political, economic and social rights granted so far (at least, if the objectives of the *Lisbon Strategy* want fully to be met). In this context, social assistance provisions remain key players in ensuring that no one falls into extreme poverty and, in order to be adequately reformed, should change their inner social policy logics from "basic safety nets" to real "empowering social policy instruments". The establishment of a "basic income for all citizens" (whether means-tested or not), as now proposed by an always larger number of scholars (for a discussion on this topic, see Schmitter 2000; Cerami 2006b; Opielka 2008) could, in this context, represent an important tool to meet the economic and social objectives as expressed by the *Lisbon Strategy*.

Conclusions

Voluntarily or not, Central and Eastern European social assistance schemes became key players in the process of transformation from a central planned economy to a market economy, recombining the principles based on solidarity, in place during the communist period, with the new emergent needs caused by the deterioration of the economic situation. If during communism, state responsibility was the leading moral principle put in place in order to ensure a basic subsistence level to all communist citizens, as well as promoting the leading communist ideology, then this conception has been re-implemented in the new post-communist environment. The existence of social assistance provisions established during the

[16] The concepts of *functional*, *distributive*, *normative* and *institutional recalibration* have first been introduced by Ferrera et al. (2000) to describe the changes that contemporary welfare systems are facing. According to the authors, not only an *institutional recalibration* is taking place in western welfare states, but also a *recalibration* of the main welfare functions, distributive aspects and basic norms (see also Hemerijck 2006; Ferrera et al. forthcoming).

first years of transition has, in fact, played a dual role. On the one hand, it has fostered political support for economic reforms; whilst on the other, it has facilitated the stabilization of transition and the consolidation of democratic institutions. Interestingly, social assistance provisions are not a new introduction of reforms, but are part of the communist heritage. Social minimum lines already existed in the central planned economy as "socially desirable" levels of consumption. These minima now represent the most notable legacy of the past, but are also important elements of innovation and modernization in the present. What is needed, at this point, is a *new empowering politics of the welfare state* (see Cerami and Ettrich forthcoming) able to provide citizens with new chances.

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