# Central and eastern european social model

Rotaru, Marius-Petre

West University from Timisoara (Romania), Faculty of Economics and Business Administration, Faculty of Economics, Oradea, Romania

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# CENTRAL AND EASTERN EUROPEAN SOCIAL MODEL

**Marius-Petre Rotaru**
*University of West, Timişoara*
*Faculty of Economy and Business Administration*
*Address: 102-104 Uranus Street, Bl.A7, Sc.A, Ap.11, Sect 5, Bucureşti*
*Tel.: 0721.234.576*
*E-mail: marius.rotaru@yahoo.com*

*The 10 former communist countries from Central and Eastern Europe have inherited similar social protection systems, specific to an ethatist economy, and faced similar issues along the transition to market economy. Distinct in Europe through common traits, the new-comers in the European Union, especially the 10 from Central and Eastern Europe, encompass the fifth submodel of the European social model. Ageing of the population, conservatory management of the pensions fund (aversion for risk, regarding the public funds transfer into private pensions fund), migration of qualified work force, increasing unemployment rate represent a wide variety of threats which brought to the public attention the need to reform the social model of the post-communist countries.*
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The social (or social-economic) model reflects the way in which society functions within a state. A social model is characterized by such elements as: level of taxes, welfare standard, public services and employment rate. The course of the European integration has created fundamental asymmetries between the policies of efficiency promotion and those of social protection and equality, due to the fact that economic policies have undergone a process of Europeanization, whereas social protection policies remained national in nature.

The concept of "European Social Model", usually found in the academic field, as well as in the politics, is used to illustrate the European effort to simultaneously ensure economical growth and social cohesion. Many times, this concept was used to create the demarcation from the American social model, considered a counter-example[1]. In other words, the term is often used to distinguish between a European type of society and the type of society from the USA.

The European social model remains a controversial issue. The analysts agreed this concept remains a desideratum quite difficult to attain, so they identified a series of social models. The social systems, the European social policies are characterized by diversity. The differences are a result of the paths followed by the 27 states of the Union along the last 50 years of European integration. The last 12 states which adhered to the EU in 2004 and 2007, especially the former communist countries, because of the economic transition to the capitalist system, they have come up with social policies different from the ones in the EU15, thus a new European social model being questioned by the expansion of the EU. Nevertheless, socially, Europe is different from USA or other countries in the world. We can assert that, from this point of view, the differences between the EU countries seem minor and the similitude more visible.

In 1990, Gøsta Esping-Andersen[2] classified the states into three categories: liberal regimes (USA, and in a certain extent Great Britain), conservative regimes (Germany, France) and social-democratic regimes: Scandinavian countries. In 1996, Ferrera suggests the expansion of the

[1] Jespen, Maria; Amparo, Pascual - „The European Social model: an exercise in deconstruction", 2005, p.4;
[2] Esping-Andersen, Gøsta – „The Three Worlds of Welfare Capitalism", Princeton University Press, 1990, p.33;

Esping-Andersen typology by adding the Southern[3] social model, which includes Italy (initially classifies as belonging to the conservative regimes), Spain, Portugal and Greece. This model is characterized by a high level of labour protection, generous social insurance system and a relatively inflexible job market.

These four models acquired and consolidated their distinct characteristics in a relatively long period of time, of more than two decades. In the years 1950-1972, the Western countries experienced a rich economic development, owing to the abundance of raw materials and petrol by-products, of relatively small prices, from the external countries. Thus, in long-term, these countries benefited from a GDP average rate growth of 4,6% and a GDP/capita average rate growth of 3,8%. In addition, for two decades, a third of the UE15 GDP has aimed systematically to the accumulation of capital, and two thirds to the growth of the labour productivity total factor. As a result, the life standard in the EU-15 area rapidly increased, almost synchronic, with that of the USA population. Thus, if in 1950 the GDP/capita in EU-15 was 40% from the one corresponding to the USA population (at PPP), in the year 1973, the respective indicator had a value of 70%, in the context of a medium inflation, measured through the private consumption deflator, of 4%, and of an unemployment rate of 2%.

The Central and Easternern European countries were not included in the publication „The Three Worlds of Welfare Capitalism", at the time of its conception they being considered, by Esping-Andersen, as forming the „socialist block". This exclusion somehow persists, even though ten countries from this region adhered to the EU (Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia and Hungary). Generally, these states are treated as belonging to a distinct group: transitional regimes, the social model of the post/communist countries or the 5th European submodel.

Indeed, there are enough reasons to take into account the existence of this social model. The resemblances lie mostly in the institutional characteristics, originating in a common past, and due to the fact that these countries had to face the same challenges in the transitional period to democracy and market economy. As time went by, these particularities would attenuate and make room to the European social policies. For now, this process is in making, in a relatively incipient stage.We can enumerate a few characteristics[4] that distinguish the post-communist countries from the other European states:

- -a return to the social insurance system founded by Bismarck - as a common element of the welfare state in the market economy;
- -fewer expenses for social protection as GDP percentage, than the European average rate (Table 1);
- -full access to age limit pension, disease pension, infirmity indemnification;
- -achievement of the radical social reforms, in order to increase the individual initiative and improve management, this being included consultancy and the experience of professionals and external organizations;
- -significant problems in the labour market, as a result of the economic reorganization, in the context of globalization, and due to the fears related to the increasing of the unemployment rate;
- -population migration, most of the times seeking better paid jobs. The EU new-comers are mostly responsible with this migration;
- -the aspirations of the young generation, beneficiary of a higher education level, greater than the ones in the classic European countries;
- -accelerated demographic movement, in comparison with the other European countries;
- -non-governmental organizations with low influence;

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[3] Ferrera, Maurizio - „The Southern Model of welfarein social Europe", Journal of European Social Policy, vol.6, no.1, p.17-37;

[4] Golinowska, Stanisława – „The national model of the welfare state in Poland. Tradition and changes", in *Diversity and Commonality in European Social Policies: The Forging of a European Social Model*, Warsaw, 2009;

-emergence of corruption;
-efforts to reduce poverty and solving issues related to social exclusion.

| Geo\Time | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| **EU (27 countries)** | na | na | na | na | na | 27.1(p) | 26.9(p) |
| **EU (25 countries)** | 26.5 | 26.7 | 27.0 | 27.3 | 27.2 | 27.3(p) | 27.0(p) |
| **EU (15 countries)** | 26.8 | 27.0 | 27.3 | 27.7 | 27.6 | 27.7(p) | 27.5(p) |
| **Euro area (15 countries)** | 26.7 | 26.8 | 27.4 | 27.8 | 27.7 | 27.8(p) | 27.5(p) |
| **Bulgaria** | na | na | na | na | na | 16.0 | 15.0 |
| **Czech Republic** | 19.5 | 19.4 | 20.2 | 20.2 | 19.3 | 19.1 | 18.7 |
| **Estonia** | 14.0 | 13.1 | 12.7 | 12.6 | 13.0 | 12.7 | 12.4 |
| **Latvia** | 15.3 | 14.3 | 13.9 | 13.8 | 12.9 | 12.4 | 12.2(p) |
| **Lithuania** | 15.8 | 14.7 | 14.0 | 13.5 | 13.3 | 13.1 | 13.2(p) |
| **Hungary** | 19.3 | 19.3 | 20.4 | 21.1 | 20.8 | 21.9 | 22.3 |
| **Poland** | 19.7 | 21.0 | 21.1 | 21.0 | 20.1 | 19.7 | 19.2 |
| **Romania** | 13.2(p) | 13.2(p) | 13.4(p) | 12.6(p) | 15.1(p) | 14.2 | 14.0 |
| **Slovenia** | 24.2 | 24.5 | 24.4 | 23.7 | 23.4 | 23.0 | 22.8(p) |
| **Slovakia** | 19.4 | 19.0 | 19.1 | 18.2 | 17.2 | 16.7 | 15.9(p) |

Table 1: Total expenditure on social protection (% of GDP) - na = not available, p=provisional value. Source: EUROSTAT

The low level of confidence in the state institutions, the recent economical convulsions, caused by the existing global crisis, the ineffectiveness of the central and local administration, the precarious state of education, health and insurance systems impose radical measure-taking, in order to reduce the discrepancies between the Easternern countries and the rest of the European states.

**The pension system**. Before 1989, the communist countries guaranteed the pension capital. The employees would not pay directly the pension subscriptions, but the economical agents would contribute directly to the state budget. The pension systems was deeply centralized, the retiring age ranging generally between 60 years-of-age for men and 55 years-of-age for women, with a length in service of 25 years. After 1990, the transition process to market economy began, an extremely painful process. The Internal Raw Product dramatically decreased, and the economy collapsed; the unemployment, non-existent until 1990, rose in an accelerated manner, while inflation faced values with 2 or 3 digits. In these conditions, the Central and Eastern European countries were obliged to reform their pension systems, based on the Bismarck model. Most countries implemented the pension system with three pillars: the first pillar is made of the state pension; the second one is represented by the private mandatory pension, while the third one is the private optional pension. The impact of the reforms differed from state to state. Unfortunately, the population aging process will accentuate in Central and Easternern Europe, and with negative effects more visible than in the West.

Besides the newly introduced modern elements, as the retiring scheme made of three pillars, the old elements still interfere in the pension systems, typical of the communist period: advance pensions or special pensions for certain professional groups. This combination of new and old elements characterizes the Easternern social model.

**The health insurance system**. Until 1989, Easternern Europe was dominated by the Semashko system, a powerful centralized system, integral part of the state centralized economy. The death rate was high, the medical personnel insufficient and poorly developed infrastructure. This is the legacy of the communist state. With the communism collapse, there appeared the necessity to reform the medical system. There were three main reasons which demanded immediate action: firstly, citizens were discontented with the services quality; the increasing of the GDP health percentage to ensure a high level of medical services; the medical personnel was unhappy because of the insufficient wages.

Nowadays, the Eastern European countries experience the coexistence of several models (taking into account mainly the method of state financing):

- -Semashko model – the budget of the state social insurance (State Treasury);
- -Beveridge model – the „filter" role principle (the example of the family doctors – freely chosen by patients, financed by taxes);
- -Bismarck model – the health insurance system (based on mandatory insurance premium, dependent on income).

Analysing the health insurance systems from Central and Easternern Europe, there still are some common characteristics, which Paul Michael Romer[5] briefed as follows:

- -almost all types of health services were one's social right, with no fee or with little personal expense;
- -ensuring health services was a different level government responsibility;
- -the distribution of prophylactic and therapeutic services was essentially integrated, with emphasis on prevention;
- -the health resources and services were centrally planned, as part of the general plan of the entire economical and social order;
- -the final decisions related to the major characteristics of the national system of healthcare were taken by the central health and political authorities, even though the local citizen groups had the possibility to contribute to the framing of the health policies;
- -while resources were limited, the priorities in the health system were aimed mostly at the industry workers and children needs;
- -all constituent elements of the health system were redirected and integrated by a major authority – ministry of health and its sub-divisions;
- -the private medical practice (and the related activities) was not prohibited, but was the subject of strict regulations.

The entire activity in the sanitary field was based on scientific principles, so that non-scientific or religious, mystical practices were not, theoretically, allowed.

**Unemployment**. During the communist regime, unemployment was non-existent, or, at lEastern, not officially, so that there was not an unemployment allowance legislation. Each citizen had the right, as well as the obligation to work. Nevertheless, there was a covered unemployment (among the groups of socially marginalized population, for example the Romani population), or part-time or second-job[6] forms (for the people who worked in agriculture for additional earnings) – table 2.

| ***Ever worked Part Time in Agriculture? (%)*** | **Yes** | **No** | **Refuse / I do not know** |
|---|---|---|---|
| **Bulgaria** | 18,6 | 78,7 | 2,7 |
| **Czechoslovakia** | 2,0 | 98,0 | 0,0 |
| **Hungary** | 19,7 | 80,3 | 0,0 |
| **Poland** | 11,5 | 88,2 | 0,3 |
| **Russia** | 45,3 | 54,2 | 0,5 |

Table 2 - Ever worked Part Time in Agriculture?
Source: SSEE-Social Stratification in Easternern Europe after 1989 Dataset

Legislated after 1990, the unemployment protection system in Central and Easternern Europe are not homogenous, the differences lying in the period of time and the level of benefits. To earn

[5] Romer, Paul Michael – „Preferences, Promises, and the Politics of Entitlement, Individual and Social Responsibility: Child Care, Education, Medical Care, and Long-Term Care in America", Victor R. Fuchs (ed.), University of Chicago Press, Chicago, 1995;
[6] Cerami, Alfio – „Social Policy In Central And Eastern Europe. The Emergence Of A New European Model Of Solidarity?", disertaţie pentru a obţine titlul de Doctor în Ştiinţe Sociale, Universitatea din Erfurt, 2005, p.104;

access to these benefits, a person must work 200 days in the last 4 years, as in the case of Hungary, or 24 months in the last 3 years, as is the case of Lithuania and Slovakia. The period of time of the unemployment allowance ranges from 6 months (The Czech Republic), and up to 12 months (Bulgaria, Estonia, Romania, Slovenia and Hungary). In Poland, depending on the development level of the region, this period of time varies between 6 and 18 months. In the context of the economic crisis, which strongly affected Central and Easternern Europe, some countries have increased the unemployment allowance (in Romania, depending on the seniority, it can reach up to 15 months). As concerning the amount of benefits, in Bulgaria, the Czech Republic, Latvia, Romania, Slovenia and Hungary, this is in accordance with the level of the previously-offered wage, while in Lithuania, Poland and Slovakia the fixed component prevails.

**Social welfare systems**. After an initial transitional period, the governments of the post-communist countries implemented generous schemes of social welfare, in order to meet the levels of unemployment and inflation. Usually, the system of social welfare is based on the state budget, while local authorities are responsible with making payments, and decide which persons are entitled to benefit from assistance. In some countries, local authorities are also responsible with collecting funds (Poland). Theoretically, access to social welfare is guaranteed to all resident citizens, who, according to the law, can benefit from it. The right to be entitled to a minimum income is stipulated in the Constitution or in certain laws. Otherwise, the minimum guaranteed income is considered a key-element against poverty.

The forecast for 2060 shows an alarming situation: decreasing of the young population, fewer middle-aged people, but a substantial number of the old-aged population (Table 3). The pyramid that lies at the basis of Bismarck's reallocation system will invert its position to the level of the first half of the 21st century. In case of economic recession, the budget deficits (unprotected by previous budget excess) become more prominent, because taxes will most likely increase, in order to meet a greater need for budget expenses. The outcome will lead to the prolongation of the recession period, aspect that characterizes the European economy, which needs 6-7 years to place itself on an ascendant GPA path. In the spirit of Ricardo's equivalence, the deficits will be covered by higher taxes for an aged future generation (that is, with little tax foundation), which will inevitably lead to the perpetuation of a recession loop in the evolution of the European economy. The effect of this ageing trend is the decreasing of the global contribution of the European production from 18% to 10% in 2040, as well as that of the increasing potential.

| **Geo\Time** | **2010** | **2020** | **2030** | **2040** | **2050** | **2060** |
|---|---|---|---|---|---|---|
| **EU (27 countries)** | 25.9 | 31.05 | 38.04 | 45.36 | 50.42 | 53.47 |
| **Bulgaria** | 25.29 | 31.1 | 36.28 | 43.58 | 55.44 | 63.54 |
| **Czech Republic** | 21.83 | 31.07 | 35.71 | 42.71 | 54.81 | 61.4 |
| **Estonia** | 25.01 | 29.18 | 34.42 | 38.96 | 47.19 | 55.55 |
| **Latvia** | 25.17 | 28.08 | 34.57 | 40.72 | 51.18 | 64.45 |
| **Lithuania** | 23.18 | 25.98 | 34.71 | 42.81 | 51.13 | 65.65 |
| **Hungary** | 24.22 | 30.31 | 34.06 | 40.11 | 50.83 | 57.64 |
| **Poland** | 18.98 | 27.19 | 35.98 | 41.29 | 55.69 | 68.97 |
| **Romania** | 21.34 | 25.67 | 30.32 | 40.75 | 54 | 65.27 |
| **Slovenia** | 23.91 | 31.21 | 40.83 | 49.4 | 59.4 | 62.19 |
| **Slovakia** | 16.95 | 23.85 | 32.3 | 39.98 | 55.46 | 68.49 |

Table 3: Projected old-age dependency ratio (%) - the projected number of persons aged 65 and over expressed as a percentage of the projected number of persons aged between 15 and 64)
Source: EUROSTAT

The main objections against the European social model refer to the insignificant rates of economical development, slower transformation processes, the long period of time between the revival implementation measures and the competition benefits. Ageing of the population, conservatory management of the pensions fund (aversion for risk, regarding the public funds transfer into private pensions fund), competing with lower wages countries, but with valuable labour force, workers' migration to friendlier countries, due to their fiscal system, increasing heterogeneity of the social policies in the EU state members, greater number of unemployed persons, all these represent threats that demand reformation of the European social model. All this intellectual and political effort goes the risk of remaining incomplete, if it aims only to the realities in Western Europe. The essence of the integration process is represented by the flexibility towards differences and unification of distinct experiences, in order to reach a common result, useful to anyone. The Eastern Europe brings about a significant distinctiveness that can no longer be ignored. From the point of view of the new state members, there will emerge concerns materialized into syntagms such as: two-speed Europe, second-class citizenship and peripheral treatment. In this context, the economic and social cohesion and the problem of social inclusion become central issues of the public debate, as well as essential motifs meant to harmonize Europe.

The analysis of the systems of pensions, health insurance, unemployment and social welfare shows that Central and Eastern European countries implemented elements of the welfare state from the pre-Soviet period (according to Bismarck model), and they tried to maintain most values during the communist regime (universality, corporatism and equality), as well as to reform systems, by adapting them to the realities of the market economy, after the fall of the Berlin Wall. Even though we can still encounter many characteristics of the socialist state, it was proved that Central and Eastern European countries are able to design extremely innovative reforms. Lately, the constant pressure on the systems of pension, health insurance and social welfare led to changes, sometimes drastic, of the characteristics introduced by the reforms implemented during the first stages of the transition.

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