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2007

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MPRA Paper No. 8479, posted 26 Apr 2008 11:42 UTC

Social Change and Welfare State Developments in CEE and Russia

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Wissenschaftszentrum Berlin für Sozialforschung (WZB)
Abteilung Ungleichheit und soziale Integration

16th May 2007

Abstract

This paper provides a brief description of the main systemic problems (*strukturprobleme*) of post-communist capitalism(s), as well as exploring the main changes occurring in the social structure and the subsequent new social risks and welfare state responses emerging. It shows that post-communist societies are characterized by more intense *strukturprobleme*, which are resulting in the materialization of broader social risks types and groups. As a consequence of a difficult and still uncompleted process of *recalibration* (*functional, distributive, normative and institutional*), the welfare states in Central and Eastern Europe and in the Russian Federation are called to face a double burden of responsibilities: they must ensure protection against old and new social risks for a larger proportion of citizens than those in the West, while, simultaneously, dealing with the most serious social, economic and political challenges stemming from the transition.

Introduction

This paper investigates economic and societal changes in Central and Eastern Europe¹ (CEE) and in the Russian Federation. It also attempts to provide a sufficient overview of the main welfare state developments occurring in these transition economies. The investigation is structured around four crucial questions. Section One aims to respond to the question of what kind of systemic problems (from now onwards *strukturprobleme*²) characterize post-communist capitalism(s). Section Two addresses the issue of what kind of social structure is developing, while Section Three deals with the question of what kind of new social risks are emerging. Finally, Section Four aims to explore what kind of welfare state responses are being implemented.

The reason why finding an adequate response to these questions is crucial depends on three principal factors. Firstly, systemic deficiencies present in the economic environment can greatly influence the social structure of a country. Secondly, these deficiencies contribute, at the same time, to the emergence of specific new social risks. Thirdly, they also determine the subsequent welfare state responses. As it is well known, the transition from communism to capitalism has implied huge social costs in both CEE and in the Russian Federation. GDP dropped severely, many state-owned enterprises collapsed, several million workers lost their jobs, the paternalistic system of social protection was, to a large extent, dismantled, and, as a result, poverty rates and income inequality dramatically increased with a large proportion of the population now living below the poverty threshold (Cerami 2006a, 2006b).

An enormous transformation, however, occurred not only in the economic sphere, but also in the relationship between the *state*, the *market* and the *society*. In the immediate aftermath of 1989, new ideas, interests and institutions had to be quickly introduced³. A new social contract, no longer based on one-party rule and full-employment, had to be established with the citizens, whereas, in order to put the new social contract in action, new feasible institutions and interests had to be developed. This implied a process of *functional*,

¹ The countries of Central and Eastern Europe included in this paper are Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

² In the course of this research the German word *Strukturprobleme*, as introduced by Claus Offe (1973, 2006), instead of the English translation “structural problems” will be used. “Structural problems” tend, in fact, to have a different meaning from the original German translation, which more clearly makes reference to “problems of the structure” (or systemic problems).

³ For the role played by ideas, interests and institutions in the process of institutional change, see Hall (1997).

*distributive, normative and institutional recalibration*⁴ in which the functional prerogatives, distributive objectives, normative foundations and institutional structures of these communist systems had to be adjusted to the post-communist environment. As highlighted by several authors, communist ruins represented, in this context, the main institutional material in which the new societies could be built (Offe 1996; Crawford and Lijphardt 1997; Stark and Bruszt 1998; Ekiert 2003). In other words, a *recombinant transformation* of ideas, interests and institutions took place (Cerami forthcoming).

This study is based on the assumption that the *strukturprobleme* of contemporary capitalism (s), changes in social structure and emergence of new social risks are not unrelated issues, but elements strictly linked together. The main hypothesis, which will then be tested in the following sections, is that due to more drastic systemic structural changes occurring in post-communist societies, more intense and more diversified *strukturprobleme* are taking place in transition economies than those present in the West. These are resulting in faster changes in social structure as well as the emergence of broader new social risks types and groups. If this is the case, then post-communist welfare states are in front of a double burden of responsibilities. On the one hand, they will be called to ensure citizens both against old and new social risks, as Western welfare states are also required to do, while, on the other hand, they will also be forced to intensify their efforts in order to deal with the more severe problems stemming from the transition.

1. What Kind of *Strukturprobleme* Characterize Post-Communist Capitalism(s)?

This section aims to improve understanding of the main *strukturprobleme* of post-communist capitalism(s). On the basis of Claus Offe's reflections (Offe 1973, 2006), the *strukturprobleme* of modern capitalism(s) may involve three distinct dimensions: political, economic, and societal⁵. In the political dimension, the main *strukturprobleme* of

⁴ The concepts of *functional, distributive, normative and institutional recalibration* have been introduced by Ferrera et al. (2000) and Ferrera and Hemerijck (2003) 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. *Recalibration*, as a result, is described as an on-going process of domestic lesson-drawing associated to cross-national social learning (see also Hemerijck 2006).

⁵ Arguably, the systemic problems of contemporary capitalism(s) can also have a "cultural" dimension, which concerns the specific "Wirtschaftskultur" (*economic culture*) or "Wirtschaftsstil" (*economic style*) of a country, as highlighted by the German economist Sombart (for an up-to-date discussion, see Backhaus 2003). Due to the impossibility to conduct a thorough investigation at the micro-level of the citizens' and firms' economic preferences and behaviour, only the key elements of the abovementioned three distinct dimensions will be highlighted in the course of this paper.

contemporary capitalism(s) concern the *system-stabilizing capacity* of political institutions, in the economic dimension, they concern the *economic capacity and performance* of firms and markets, while, in the societal dimension, they concern the *social integration capacity* of political, economic and societal institutions. For the sake of brevity, only the key elements for each distinct dimension will be highlighted. What is important here to note is that even though no country is immune to systemic problems, in the specific case of transition economies, due to the still uncompleted process of consolidation of democratic institutions, these *strukturprobleme* are likely to have more serious destabilizing consequences. In this context, a crucial question concerns not simply the link that exists between short-term economic achievements of a nation and stability of its democratic institutions, as the supporters of *modernization theory* would emphasize (see Lipset 1959; Zapf 1960, 1994, 2002), but also the long-term political legitimacy of the system, as well as the preservation of mass loyalty to the newly-established institutions. This will depend, on the one hand, on the political capacity to manage societal conflicts, while, on the other, to find a response to the new social risks.

1.1 Political Dimension

In the political dimension, the main *strukturprobleme* of post-communist capitalism(s) concern the *system-stabilizing capacity* of political institutions. This primarily involves the organization and conflict capacity of political institutions to: (i) address internal challenges; (ii) stabilize unstable economies; (iii) manage societal conflicts while finding a response to the emerging new social risks; (iv) ensure mass loyalty and political legitimacy to the system; (v) permit effective interest representation (trade unions' and civic society's organization and conflict capacity); and (vi) deal with the exogenous forces of European Integration and globalization.

Addressing internal challenges in an effective way has probably been the most difficult task that post-communist governments have been called to face. Disintegrative processes initiated with the fall of the Berlin Wall have clearly not disappeared overnight, but have produced long-lasting consequences to the stability of the political systems recently introduced. In fact, even though recent studies (Vanhuyusse 2006) have shown how violent protests have almost been absent in CEE (but not in Russia) during the entire period of transition, the presence and, depending on the periods of crisis, the increasing support for extreme-right or ultra-nationalist political formations (see Shenfield 2001; Mudde 2005) clearly represents a serious threat to these modern democracies. The 2005 and 2006 annual reports of the *European Monitoring Centre on Racism and Xenophobia* (EUMC 2005, 2006) highlighted, for instance, not only a

worrying lack of systematic data collection concerned with racist crimes in the region, but also, in some cases, that even a general upward trend was taking place. In the Russian Federation, although no accurate information is available, the newspapers continuously report aggressions against minorities or vulnerable groups. In 2005, these corresponded to at least 28 people killed and 366 assaulted (BBC News 2006).

Stabilizing unstable economies would, probably, be the best way to avoid undemocratic drifts. According to the well-known argument of Lipset (1959: 56) “the more well-to-do a nation, the greater the chances it will sustain democracy”. Other more recent versions of *modernization theory* have called attention to the redistributive impact of the nations’ economic achievements (see Zapf 1960, 1994, 2002; Vanhanen 1997; Przeworski et al. 2000; Przeworski 2005). For Przeworski (2005), the probability that a democracy survives rises steeply not in terms of GDP growth, as previously emphasized, but rather in terms of per capita income. Despite the possible criticisms concerned with *modernization theory*⁶, in CEE and in the Russian Federation economic instability has been associated with political instability, with left- and right-wing coalitions that have rarely survived the duration of one legislature (Cerami 2006a) and, even when it happened, such as in the case of Putin’s Russia, questions about the democratic quality of the system can still be raised (Shevtsova 2003; Politkovskaya 2004; Eicher and Beichelt 2006).

Managing societal conflicts while finding a response to new emerging social risks becomes, in fact, a much more difficult political exercise when governments are facing a moment of severe economic instability. Which were, in this context, the main political and policy strategies put in place by governments in order to deal with the new challenges? In a path-breaking but also highly contestable work, Vanhuyusse (2006) argues, for instance, that some governments in these regions (notably in Hungary and Poland) pursued a *divide and pacify strategy*. According to the author, the hidden aim of politicians and policy-makers was that of dividing workers by sending them out of the labour market while simultaneously pacifying them by granting access to early-retirement policies and generous unemployment benefits. Unquestionably, while a “pacify strategy” certainly took place in Eastern Europe (but not in Russia where the workers’ requests have systematically remained unheard), then it has still to

⁶ Opponents of *modernization theory* have criticized its simplicity in explaining extremely complex and problematic processes of social and institutional change. Modernity has, in fact, too often become synonymous of the West, while the existence of other, different forms of modernity has systematically been neglected or underestimated (Ettrich 2005). In addition, while emphasizing processes of differentiation and rationalization, modernization theory has not paid serious attention to the self-destructive mechanisms that may exist in capitalist societies (Offe 1986).

be clarified whether the part concerning the “divide strategy” was an intended, or rather an unintended, outcome of policies that simply aimed at preventing the return to an authoritarian system.

Ensuring mass loyalty and political legitimacy to the system cannot be simplified as a matter of paying social benefits to the most vulnerable groups present at a determined moment in time, but must be understood in terms of a long-term strategy that takes into account the systemic problems of a capitalist society. These *strukturprobleme* go beyond temporary situations of economic vulnerability and cannot be explained only in terms of economic performance. Can long term mass loyalty and political legitimacy be ensured by simply dividing and pacifying people, while reimbursing them with a low quality of life and extremely limited living standards? Clearly not and this for the simple reason that the construction of political consensus is a highly unstable process which has material, but also normative foundations. It is based not only on minimum income protection, or on the perception that an authoritarian alternative would be more damaging to the individual’s own interests (Przeworski 2005), but also on the moral aspirations of citizens. Individuals could decide to renounce some of their interests and benefits in the light of higher moral values, such as the refusal of racist attitudes, solidarity towards more vulnerable groups or other less rational choice oriented elements (see Inglehart 1997).

Permitting effective interest representation could, for example, be another element that would make democracies more attractive to autocracies. Ensuring effective interest representation in transition economies has, however, been an uncompleted and mutilated process. Even though, tripartite consultations have played a crucial role during the entire process of transition by facilitating the introduction and continuation of reforms, mediating different interests and needs (Ladó 2003), actors in Eastern Europe, however, have lacked the capacity of being true corporatist actors in both policy formation and implementation. Priority was, in fact, very often given to macro-economic stabilization measures. In this context, *state-led corporatism* (Schmidt 2006) or, to use Ebbinghaus’ typology, a *consultation model of social governance* (Ebbinghaus 2006) has been the main characteristic of the Central and Eastern European model of post-communist interest representation (Cerami forthcoming). In the Russian Federation, by contrast, due to the presidential (or super-presidential) character of the political system (see Eicher and Beichelt 2006), *unilateral state intervention* (see Ebbinghaus 2006) seems to have been the main model of social governance. As it happened during communism,

tripartite consultations were, in fact, highly subjected to the reasons of the state (or the President).

Effectively *dealing with the exogenous forces of European Integration and globalization* can also be mentioned as an important factor for the system-stabilizing capacity of political institutions. CEE countries largely benefited from the direct and indirect support of EU institutions, which helped them to find an immediate place in the EU 15 (now EU 27) as well as benefitting them through an increase in trade, which had, in turn, an indirect effect in diminishing the economic vulnerabilities of these small economies in the global arena. In the case of the Russian Federation, however, the impact of EU institutions was clearly more limited due to the obvious different geo-political context. Restructuring the Russian economy was also a much more difficult task due to the size of the country, which multiplied its economic vulnerabilities making policy responses less effective. It comes, then, as no surprise that the democratization process was and still is more difficult to complete in the Russian Federation than in Eastern Europe.

1.2 Economic Dimension

In the economic dimension, the main *strukturprobleme* primarily concern the *economic capacity and performance* of firms and markets in dealing with endogenous and exogenous pressures. These involve: (i) the macro-economic vulnerabilities of markets; (ii) the companies organization and conflict capacity to deal with the challenges coming from national and international markets; (iii) the development of new *institutional complementarities* able to produce *comparative institutional advantages* in the post-communist environment; (iv) the reduction of regional and local disparities (existence of regional and local capitalisms); and (v) corruption and clientelism as self-destructive mechanisms.

Undeniably, the now open economies of Eastern Europe and Russia are characterized by more intense *macro-economic vulnerabilities* than those usually identified in Western countries (see Scharpf and Schmidt 2000). The collapse of the central planned economy has coincided, in fact, not only with the collapse of the industrial organization, in force for more than forty years, but has exposed these emerging markets to a more severe global competition to which they were, for structural reasons, not ready for. Industrial production and employment rates dramatically decreased, while inflation and poverty rates systematically increased in CEE and with a even higher intensity in the Russian Federation. Even though a stable economic

recovery seems to be observable or predicted in the near future (more clearly for Eastern Europe than for the Russian Federation), questions about the long-term economic and social performance of these countries must still be raised (Hanson 2003; Simai 2006). Economic and industrial restructuring is, in fact, an extremely complex and long process of *institutional recalibration*, which depends not only on the successful actions of policy-makers to deal with internal structural problems, but also on the actions and eventual speculations of foreign investors, whose contributions, more often than not, have worsen the country's own vulnerabilities. In Eastern Europe and in the Russian Federation, foreign speculators have, voluntarily or not, contributed to the increase of inflation rates by buying and selling huge amount of currencies in periods of crisis, as well as, as in the case of big international supermarket chains, altering the equilibrium of the prices of products.

The *firm's organization and conflict capacity* to deal with the challenges coming from national and international markets was clearly more limited in CEE and in the Russian Federation than in Western Europe. Companies in post-communist countries were, in fact, robustly attacked and put under pressure by more competitive Western firms and products, which found it easy to alter the false stability established by the communist planners. Only a few "communist" brands survived the shock of transition, and among the most successful almost none survived takeovers from Western firms. Just to quote a few examples, the East German beer *Radeburger*, the *Vita Cola*, the *fp6* cigarettes and the Czechoslovak car producer *SKODA* are now in the hands of foreign investors. The *Trabant*, once the most well known family car of communist citizens, has now completely disappeared from the production and has now become an object for collectors and nostalgica of the communist era. The negative results of the balance of payments speaks clearly in this context. With the exception of the Czech Republic and the Russian Federation⁷, all Eastern European countries showed in 2005 still negative signs (see Table 1).

⁷ Please note that the positive results of the Russian balance of payments can be attributed to the massive devaluation of the currency which took place in 1998. The exchange rate changed from 6 to approximately 25 roubles to the US dollar.

Table 1 Resource Balance (Exports of Goods and Services Mio. USD)	
	2005
Bulgaria	-4589
Czech Rep.	2546
Estonia	-422
Hungary	-1325
Latvia	-1280
Lithuania	-1705
Poland	-764
Romania	-7927
Russian Federation	103571
Slovakia	-2129
Slovenia	-212
Source: World Bank 2007 <i>Country At a Glance</i>	

A way to reduce these shortcomings could be linked to the development of new *institutional complementarities*⁸ able to produce *comparative institutional advantages* (see Hall and Soskice 2001) in the post-communist environment. Unfortunately, with the collapse of the central planned economy the set of existing *institutional complementarities* in force during communism also collapsed. The communist economic system was highly integrated and strong ties existed among all economic sectors. Financial, industrial and labour market institutions were not separate entities, but were fully part of the central planned economy. It comes then as no surprise that once the command economy collapsed, post-communist countries found themselves unprepared in the new open environment. The process of capitalist conversion meant, in fact, a drastic recalibration of the once established institutional structures and associated ties. Rigid financial markets had suddenly to be replaced by more flexible financial markets. Flexible labour markets had also to be introduced practically by dictation. As a result of this difficult process of adaptation, the mobilization of resources and the creation of new businesses, which in return would have sustained the demand, were, even though rapid, not effective at all.

The *reduction of regional and local disparities* has also become a priority for the *economic capacity and performance* of firms and markets. The Central and Eastern European and Russian economies are, in fact, still characterized by the existence of very distinct levels of regional and local socio-economic development. The presence of different regional and local

⁸ In the *Variety of Capitalism (VoC)* account (see Hall and Soskice 2001), “two institutions can be said to be complementary when the presence of one increases the efficiency of the other” (Amable 2003, p.6), thus, resulting in a comparative institutional advantage. For example, “flexible labour markets may be more efficient when financial markets allow for a rapid mobilization of resources and creation of new businesses that in return sustain labour demand” (ibid.). The key question here is to what extent do changes in one sphere of political economy influence or stimulate change in another sphere (Hall 2006, p. 191)?

capitalisms (see Crouch et al. 2004) seems to apply for the Eastern part of Europe, probably, much more than for the West. Several studies have, in fact, emphasized the presence and the reproduction over time of these disparities (European Commission 2005a; World Bank 2005). In all Eastern European countries and in the Russian Federation, urban areas are not only still much more developed than rural areas, but also have a faster the degree of development in comparison to the catch-up processes of rural areas (EFILWC 2006a).

The emergence of *corruption and clientelism as self-destructive mechanisms* can also be mentioned as a further example of the *strukturprobleme* that characterize post-communist capitalism(s). Although the emergence of specific forms of clientelism is not an invention of the West, but rather a heritage of the communist past, where in order to deal with the shortages caused by central planning, “second” and “informal” economies emerged almost everywhere in the region (see, for instance, Szélenyi 1988; Hankiss 1991; Szalai 2005), clientelist relations, that once served to ensure legitimacy for a system unable to provide material support for all citizens and for these functional reasons tolerated by the communist nomenklatura, now contribute to its own disintegration. The *Transparency International Corruption Perceptions Index*⁹ for the year 2006 ranks these countries from the 24th place in the case of Estonia to the 84th in the case of Romania and up to the 121st in the case of the Russian Federation (Table 2).

Table 2 Transparency International Corruption Perceptions Index

Country Rank	Country	2006 CPI Score
24	Estonia	6,7
28	Slovenia	6,4
41	Hungary	5,2
46	Czech Republic	4,8
46	Lithuania	4,8
49	Latvia	4,7
49	Slovakia	4,7
57	Bulgaria	4
61	Poland	3,7
84	Romania	3,1
121	Russia	2,5

Corruption Perception Index scores relates to perceptions of the degree of corruption as seen by business people and country analysts, and ranges between 10 (highly clean) and 0 (highly corrupt) (Source: Transparency International web-site. URL: <http://www.transparency.org/>).

⁹ Corruption Perceptions Index scores relate to perceptions of the degree of corruption as seen by business people and country analysts, and ranges between 10 (highly clean) and 0 (highly corrupt) (Source: Transparency International web-site. URL: <http://www.transparency.org/>).

1.3 Societal Dimension

In the societal dimension, the main *strukturprobleme* of post-communist capitalism(s) concern the *social integration capacity* of political and economic institutions. From a societal point of view, the transition from a planned to a market economy could be described in terms of a “social implosion”. The major societal changes here have involved three main areas: (i) the *social inclusion*, (ii) the *life chances* and (iii) the *quality of life* of citizens.

In terms of *social inclusion*, post-communist countries have witnessed a rise in poverty, income inequality, social fragmentation, as well as in material, cultural and social deprivation. According to the most recent World Bank estimations (poverty threshold of 2 US dollars a day), even though 40 million people have moved out of poverty as a whole, in the Central and Eastern European and CIS region, more than 60 million still remain poor, while more than 150 million are addressed as being economically vulnerable (World Bank 2005, p. 2). Social exclusion has also drastically increased. The poor are not only more often excluded by the labour market, but also face more difficulties in establishing a decent social life. Material, cultural and social deprivation, certainly not absent even before the fall of the Berlin Wall, have now drastically increased (Simai 2006). Recent studies on intergenerational transmission of poverty conducted in Bulgaria, Estonia, Lithuania, Poland and the Russian Federation (Manning and Tikhonova 2004; Profit 2005a, 2005b) show, for instance, how poverty has now a much more self-perpetuating character than it had during communism, where belonging to, or not, the nomenklatura was the main means of transmission of inequalities.

In terms of *life chances*, the increase in mortality, drugs and alcohol abuse, infectious diseases, and suicides is one of the main concerns following the dissolution of the Iron Curtain. Statistics provided by the *World Health Organization* show that mortality rates, which have now diminished in CEE from an average of 1120 per 100 000 inhabitants in 1989 to 971 in 2005, are steadily increasing in the Russian Federation from 1160 in 1989 to 1510 in 2005. Alcohol abuse has also grown as a result of transition. In CEE countries, for example, the pure alcohol consumption (litres per capita) has increased from 8.7 in 1989 to 9.3 in 2005, while in the Russian Federation it has almost doubled (from 5.3 to 8.9). HIV/AIDS has also become a major problem. In Eastern Europe, the number of new HIV infections has increased of twenty times, from an average of 9 in 1989 (without Poland¹⁰) to 176 in 2005. In the Russian Federation, the number of new HIV infections in 2005 was 131 times higher than in

¹⁰ In Poland the number of new HIV infections was already higher in 1989 than the normal Eastern average. It increased from 517 in 1989 to 652 in 2005.

1989 (from 272 in 1989 to 35739 in 2005) surpassing many third world countries. As correctly emphasized by Zinoviev (quoted in Field and Twigg, 2000, p.5), this can now be described as a form of “self-induced genocide”. Last but not least, after the shock of the first years of transition where the number of suicides increased in all countries, the number of suicides and self-inflicted injuries per 100 000 inhabitants in CEE decreased from 23 in 1989 to 19 in 2005, while in the Russian Federation, no sign of improvement (it has increased, in fact, from 27 in 1989 to 30 in 2005) is observable (WHO *Health for All Database* 2007).

In terms of *quality of life*, the major political and economic changes have implied an increase in social closure, the deterioration of family relations and traditional family ties, as well as a reduction of social networking capacity, especially for the poorest social strata, with the consequent diminution of possibilities for finding a job. Reports conducted by the *European Foundation for the Improvement of Living and Working Conditions (EFILWC)* have, in fact, not only constantly emphasized the link existent between poverty and social segregation (in some cases emphasizing also the “self-segregation” character of poverty), but have also highlighted the presence of a North-South as well as of a East-West divide (EFILWC 2004a, 2006b; Manning and Tikhonova 2004). As a consequence of these increasing economic and social gaps, not three (Esping-Andersen 1990) or four (Ferrera 1998), but rather five different “social Europe” seem to characterize the Old Continent in the most disparate areas of the individual’s social life. These areas include, for example, income inequality and deprivation (EFILWC 2005a), life satisfaction and happiness (EFILWC 2005b), family, work and social networks (EFILWC 2004b, 2005c), reconciliation of work and private life (EFILWC 2006c), participation in civil society (EFILWC 2006d) as well as the social dimension of housing (European Commission 2005b; EFILWC 2006e).

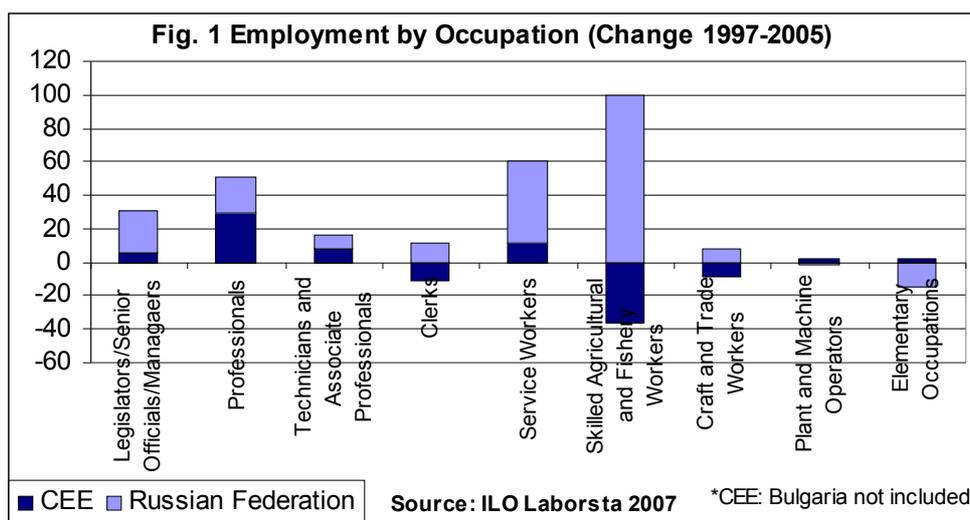
2. What Kind of Social Structure is Developing in CEE and Russia?

In the previous section, some of the main *strukturprobleme* of post-communist capitalism(s) have been highlighted. The following section aims to clarify what kind of social structure is developing in CEE and in the Russian Federation. Dramatic changes clearly occurred in the labour structure, family and household composition, but how dramatic were these changes? The most important impact can, probably, be identified in the emergence of completely new forms of *vertical* disparities, the positions of individuals in the social class, as well as in new forms of *horizontal* disparities, increasing poverty and income inequality for households.

2.1 Labour Structure

As far as the changes in the labour structure are concerned, these have primarily involved: (i) an increase in the number of unemployed due to the dismissal of workers in numerous state-owned enterprises; (ii) an increase in employment in the private sector (and in self-employment) due to the privatization of the central planned economy; (iii) a drastic decrease of people working in the agricultural and industrial sector only in part covered by an increase in the number of those employed in the service sector; (iv) the formation of a new managerial elite (class), formed, however, in a large part by previous administrators and technocrats (see Szélenyi 1988; Eyal et al. 1998); (v) the emergence of a new middle class, including self-employed people who work in their own enterprises, white-collar workers and intellectuals (Adamski et al. 2001; Machonin et al. 2001; Spéder et al. 2001; Tuček 2001; György and Róbert 2003); and (vi) the dissolution of the once crucial social class of the “skilled manual workers” (Slomczynski and Mach 1997).

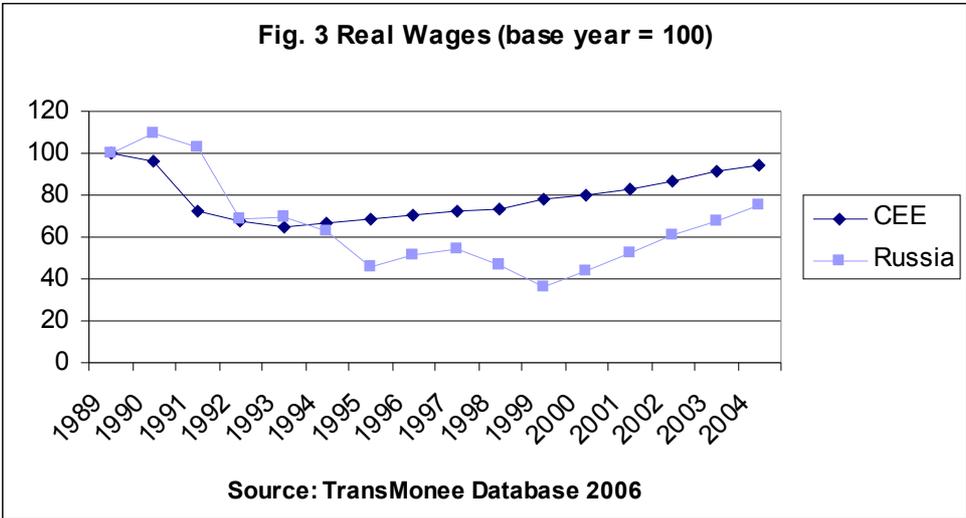
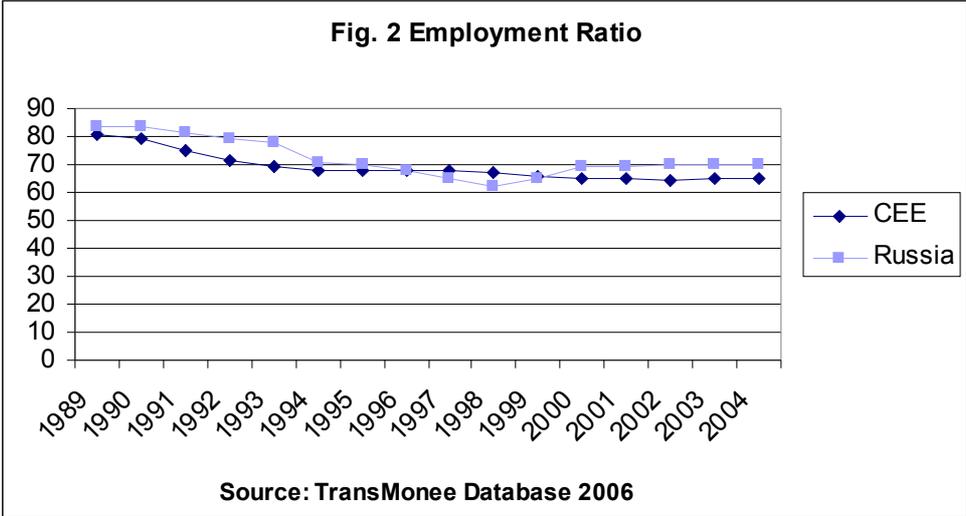
As a more in-depth comparison of patterns of employment according to the occupational sector shows, most recently (from 1997 to 2005), that major changes have, first and foremost, involved: 1) the *skilled agricultural and fishery workers* whose number has doubled in the Russian Federation (+100%), but decreased by one-third in CEE (-36%); 2) *professionals*, whose number has increased by one-third in CEE (+29%) and by one-fifth in the Russian Federation (+22%); and 3) *service workers and shop and market sales workers* whose number has increased by more than one-third (+48%) in the Russian Federation, and with a lower intensity, by approximately one-tenth (+12%) in CEE. Interestingly, in the Russian Federation, the number of citizens employed as *legislators, senior officials and managers* have increased by approximately one-fifth (+26%) in recent years, while workers in *elementary occupations* have decreased by approximately one-sixth (-15%) (see Fig. 1). Used with due caution, these results lead to the conclusion that patterns of change in the labour structure have not proceeded with the same speed and intensity in Eastern Europe than in the Russian Federation, even though these two regions share the same communist legacies. CEE countries are, in fact, moving faster towards a labour structure similar to those in more consolidated Western societies (e.g. drastic reduction of farmers), while, in the case of the Russian Federation, the communist transition seems still to be underway, as the growing number of people occupied in the agricultural sector indicates.



2.2 Employment Relations

Changes in the labour structure have also resulted in changes in employment relations and, in particular, in: (a) the dismissal of life-long employment status; (b) the alteration of the relationship between work performance vs. work remuneration; and (c) the establishment of new wage gaps. Fig. 2 shows how the employment ratio (the number of employed as per cent of population aged 15-59) in CEE and in the Russian Federation has dropped from approximately 80% in 1989 to less than 70% in 2004. Despite increasing income differentiation, real wages (the income of an individual after taking into consideration the effects of inflation on purchasing power) have also declined. In 2004, only in CEE were real wages close to the value they had in 1989, while in the Russian Federation they still corresponded to 75% of the value in 1989 (Fig. 3). The “new” phenomenon of the working poor citizens has also dramatically come to the attention of the international community. A forthcoming report of the World Bank emphasizes, for instance, how this category of citizens remains the largest constituents of the poor in both CEE and Russia (World Bank forthcoming). Despite this group of workers being difficult to identify and to quantify, a seminar report prepared for the European Commission suggests that the number in the Eastern region should be substantially higher than the 17% of self-employed people and 6% of those employed present in Western Europe (EFILWC 2004c). Wage gaps (occupational wage gap, generational wage gap, educational wage gap) have also drastically increased. If, on the one hand, this had some positive connotations, since it provided a first response to the excessive income homogeneity in force during communism, where unskilled workers and professionals earned almost the same amount of money (this also resulted in lower economic performance in absence of work incentives), excessive wage differences now exist between the *nouveaux riches* (those few people who massively benefited from the privatization of the economy) and

the rest of the population who continue to suffer for the rise in living expenses. In addition to wage gaps existent between different people employed in different occupational sectors as well as between people of different ages and educational levels, there are also wage differences between men and women (the so-often quoted “gender wage gap”) that, once almost nonexistent in the region, have now dramatically increased, with women now facing new forms of gender segregation (Manning and Tikhonova 2004; Pascall and Kwak 2005).



2.3 Family and Household Composition

With regards to the major changes that are occurring in the family and household composition, these primarily involve an increasing poverty for: (i) single-headed households; (ii) single parents; (iii) single women with children; (iv) households with unemployed, part-time or atypical workers; (v) households with elderly; (vi) households with young people; and

(vii) households of the Roma minority. For these groups of people extreme poverty still represents a major and unresolved problem both in CEE and in the Russian Federation (for a brief overview, see World Bank 2005; Cerami 2006a, 2006b). Extreme poverty, however, is not the only negative outcome, social segregation is also on the increase, with a higher number of family members from these categories now formally excluded by those normal activities that were once available to the society at large (such as access to cultural events) (Manning and Tikhonova 2004; Szalai 2005). Even though these systemic changes are not very different from the ones that are taking place in other post-industrial societies, one should bear in mind that the negative repercussions tend to be multiplied by the more unstable nature of these democracies in transition. As noted by Domański (2005) and Keller (2005), while during communism withdrawal from public life and abstention from active political participation was functional to the survival of the communist system, in the post-communist environment, increasing political apathy represents a serious threat to the stability of democratic institutions since participation in public life and political participation are the foundations of modern democracies.

3. What Kind of New Social Risks are Emerging?¹¹

As a consequence of the *strukturprobleme*, and changes to the social and political structures, it is important to identify the new social risks faced by CEE countries and the Russian Federation. The literature on new social risks primarily concerned with Western European countries (Esping-Andersen 1999; Esping-Andersen et al. 2002; Taylor-Gooby 2004; Armingeon and Bonoli 2006) identifies as the principal factors for the emergence of new social risks, the de-industrialization and tertiarization of employment, women's entry in the labour market, increasing instability of the family structure, as well as processes linked to the privatization of the welfare state. Can such factors, developed for the West, be applied *in toto* to Eastern Europe and the Russian Federation as well? Here, one important remark has to be made. Whereas during communism, the main risks that Eastern citizens faced were primarily related to the possibility of not finding the necessary consumables in the shops due the "economy of shortage" (Kornai 1992) or dealing with poor or the bad quality of social services, in the post-communist environment the spectrum of "new" social risks is substantially broader. New social risks include, for example, balancing paid work with family responsibilities, care for elderly parents and lacking skills (or having obsolete skills) in the

¹¹ This section has greatly benefited from discussions during a seminar on "Individual Risks in Post-Industrial Societies" jointly developed with Frank Ettrich at the Zentrum für Deutschland und Europastudien (ZDES) of the State University of Saint Petersburg, Russia (8-28th April 2007).

labour market, as identified for the West, but also having no longer access to a secure job, pension, health care, or minimum income.

3.1 New Social Risks Types: West vs. East

According to Esping-Andersen's classification (1999, pp. 40-43), three different types of social risks can be identified in Western Europe: *class-based risks*, *life-course risks* and *intergenerational risks*. While *class-based risks* are primarily concerned with the uneven distribution of risks in the social class, *life-course risks* tend to involve their uneven distribution during the entire life of the individual. *Intergenerational risks*, by contrast, are those more directly concerned with intergenerational transmission and inheritance of chances and associated hazards. An example of *class-based risks* is the possibility of unemployment for those in a poorer social strata due to obsolete training and/or skills, where as *life-course risks* include increasing poverty for elderly or for younger generations. Finally, *intergenerational risks* include the possibility that the sons of the unemployed will face higher chances of becoming unemployed themselves. An alternative, but not very dissimilar model proposed by Kitschelt and Philipp (2006) divides new social risks in terms of *general existential risks* (those concerning the inability to work due to illness and old age), *group-specific risks I* (those concerning the obsolescence of skills due to structural changes), *group specific risks II* (those concerning the uncertain returns on higher education, e.g. of specific academic fields) and *group specific risks III: demographic risks* (those concerning the loss of earnings due to demographic reproduction, e.g. raising children).

Regardless the type of classification one decides to adopt, an important question that still has to be clarified regards the fact of whether these new social risks types in the West really correspond to the new social risks types present in the East. Although de-industrialization and tertiarization of employment is occurring both in the West as well as in the East, the social changes associated with the restructuring of the central planned economy, and the fast emergence of a new social structure no longer based on central planning, are a phenomenon only present in Eastern European societies and Russia. Moreover, while the entry of women in the labour market can be addressed as a possible threat to already existing equilibriums present in western labour markets, this certainly cannot be the case for post-communist countries, which were already structurally characterized by higher levels of female employment. Rather, the new challenge that post-communist societies are called to face in this area of social protection seems to be concerned not with a *farewell to maternalism*, to use

Orloff's metaphor (Orloff 2006), but rather with the establishment of new forms of *refamilization*.

It can, as a consequence, be concluded that in addition to the new social risks types present in Western societies, Eastern societies are also characterized by peculiar “past-dependent” *property-related social risks*, which find their origin in the restructuring of the central planned economy and in the subsequent changes occurring in the social structure. Here, the term “property” should be understood in the broadest possible sense, including not only *material capital* (such as the ownership of property assets), but also *cultural capital* (such as the impossibility of transforming educational skills developed for the communist system to skills that can be used in the post-communist environment), as well as *social capital* (such as the capacity to develop or to be part of post-communist social networks).

3.2 New Social Risks Groups and Political Preferences

On the basis of the considerations mentioned above, for transition countries, new social risks groups also tend to be larger and more variegated constituencies than those existent in the West. They involve, in fact, a broader spectrum of citizens, which includes the traditional categories present in the West, such as the unemployed, women, young, elderly, handicapped, children, minorities, large families with children, single parents, single women, and working poor (Armingeon and Bonoli 2006; Kitschelt and Philipp 2006), as well as other categories of workers such as all those citizens unable to conduct a reconversion of their *material, cultural* and *social capital* (e.g. middle-age employees of ex state-owned enterprises, low level bureaucrats and civil servants, people out of post-communist social networks, etc.).

As it is easy to imagine, these new social risks constituencies will have distinct interests, needs, party preferences and political affiliations. The increasing number of unemployed, pensioners, young and women in part-time or atypical jobs are likely to be an important predictor for the future emergence and political strength of new welfare preferences in the region. It is, in fact, to be expected that in countries where the economic crisis has been stronger there will also be a tendency to develop stronger requests for an active management of the state in protecting against new social risks. Due to the higher number of people involved, these welfare constituencies are also likely to be stronger in Eastern, rather than in Western Europe. The clearest indicator of this trend lies, probably, with the high instability of governments, which characterizes transition countries since the first free parliamentary

elections, and the use of economic and social reforms as primary determinants and reasons for governmental change (see Cerami 2006a, esp. pp. 16-29).

4. What Kind of Welfare State Responses are Being Implemented?

The fourth and final section aims to discuss the main welfare state developments in the region with a particular reference given to new social risks management. Such an analysis is important for several reasons. As mentioned in the previous parts, *strukturprobleme* of post-communist capitalism(s), changes in social structure and emergence of new social risks, are not unrelated issues. Instead, these directly related issues all contribute to the political legitimacy of a country. Here, beyond the successful adaptation of pre-existing institutional structures, important questions concerning the effective *recalibration* of the main functional, distributive and normative priorities of these systems must be asked in terms of not only *who gets what and under what circumstances* in the new market economy, but also in terms of *who protects whom and under what circumstances* in the new welfare architecture.

4.1 Welfare State Developments

As far as the main welfare state developments in CEE and in the Russian Federation are concerned, these can, very briefly, be summarized in terms of: (1) *privatization of provisions*; (2) *individualization of risks*; and (3) *monetarization of access*¹². These three main processes have taken the form of the reintroduction (or strengthening) of the social insurance principle in the overall social security system, privatization and differentiation of benefits in the pension sector, dissolution of the Semashko health care model coupled with the introduction of a decentralized public/private mix of health care facilities, the establishment (in the majority of cases) of a three-pillar system of protection against unemployment consisting of unemployment benefits, unemployment assistance and social assistance, a redefinition towards the bottom of the excessive benefits and entitlements provided during communism in the sector of family policies, and the introduction of a basic safety net for the poorest social strata (see Cerami 2006a, 2006b). This has corresponded, in brief, to *a shift from universalistic to status maintenance aspirations*.

In the case of the Russian Federation, the restructuring of the social security system has taken a slightly more neo-liberal path with a major emphasis given to privatizations and liberalization of provisions according to more strict IMF's and World Bank's prescriptions.

¹² For the concept of *individualization* and *monetarization of risks* I am particularly grateful to Frank Ettrich.

The social insurance principle has been reinforced, privatization of pension and health care provisions strengthened, protection against unemployment, social assistance and family benefits greatly reduced in scope and coverage in order not to compromise the flexibility of labour markets. The influence of the European Union, as expressed by the ideals in the so-called European Social Model, has, in fact, been almost inexistent due to the absence of the incentives linked to the prospects of Enlargement. The IMF and World Bank have had, in this context, much more scope to see their policy preferences implemented, especially through stricter *conditionality rules* for granting access to loans, than usually applied in other CEE countries.

What these changes have meant in terms of welfare state performance in reducing poverty and income inequality has differed in intensity from country to country. As Table 3 shows, the lowest poverty rates after social transfers can be found in the Czech Republic and Slovenia, with approximately 10% of the population below the poverty line (calculated as 60% of equivalised median disposable income), while the highest poverty rates in CEE can, by contrast, be found in Lithuania and Poland with approximately 21% of the population below this poverty threshold. As far as the impact of social transfers in reducing poverty is concerned, the welfare states in the Czech Republic, Hungary and Slovakia seem to be the most effective, with poverty rates that have decreased after social transfers by one-half (respectively -52%, -55% and -41%). Meager results have been achieved by Bulgaria, Lithuania and Romania, with a reduction of poverty after social transfers between only one-tenth and two-tenths (-12%, -19% and -18%) (see Table 3).

	before	after	% of change
EU 15	26	16	38
Bulgaria	17	15	12
Czech Republic	21	10	52
Estonia	24	18	25
Latvia	26	19	27
Lithuania	26	21	19
Hungary	29	13	55
Poland	30	21	30
Romania	22	18	18
Slovenia	16	10	38
Slovakia	22	13	41
Russia (2000)	36	26	28

Source: Eurostat 2007; Cerami 2006b

Unfortunately, no comparable data is available for the Russian Federation, since the official poverty line is calculated according to a different method, which is based on the average cost of food items in a food basket for low-income persons. If a similar method with calculations on 60% equivalised income (Cerami 2006b) is applied, then it can be seen that the Russian welfare state in 2000 achieved only meager results since its reduction of poverty after social transfers was only approximately one-third (-28%). Other more recent data, according to a modified version of the official poverty line on the *Russia Longitudinal Monitoring Survey* (Mroz et al. 2005), have suggested, however, that, after a peak at 38% of people below the poverty line in 1998, this number has drastically decreased to 9.5% in 2004. These results are, needless to say, extremely controversial, because, if correct, they would mean that the poverty rate in the Russian Federation is now not only at a lower level than all of the richest and more redistributive European countries (the EU15 average for 2004 was 17%, with the best performing country, Sweden, with a poverty rate of 11%), disappearing basically overnight in only six years, but also that a consolidated democratic system (see Eicher and Beichelt 2006) is not a necessary precondition for stabilizing unstable economies. A slightly more different picture is provided by another official source (the *Federal State Statistics Service*), which states that the population with money incomes¹³ below the subsistence minimum level in 2004 corresponded to 25 million people, or 17.6 % of the total population. If the structure of the money income of the population is taken into account, then in 2004 65% of sources were derived from labour remuneration, 11.7% from entrepreneurial activities, 8.3% from property incomes, 2.2% from other incomes, and only 12.8% from social transfers (Federal State Statistics Service 2007).

4.2 Welfare State Responses to New Social Risks

How well are governments dealing with new social risks? Which are, in other words, the main welfare state responses to new social risks implemented in CEE and in the Russian Federation? Even though, as it has been mentioned, it is difficult in post-communist countries to make a clear distinction between old and new social risks due to the problems associated to the transition towards a market economy, some common trends can be identified. In the pension and health care sector, these correspond to an (involuntary) increasing effort of the state, not always successful, to ensure coverage for a growing number of vulnerable citizens (such as the unemployed, atypical workers, etc.). This has, so far, materialized either in the

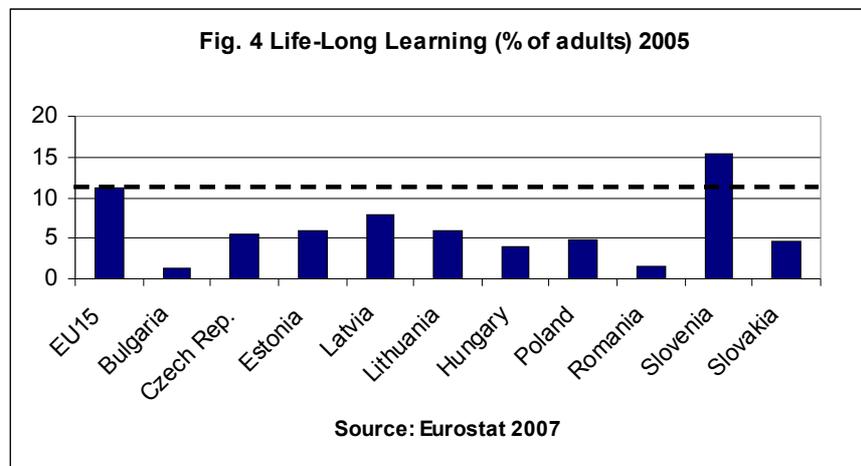
¹³ Please note that calculations based on money income do not take into account the household production of goods, which has often been addressed as an important, additional source of income for these transition economies.

establishment of a fourth-tier (the so-called zero-pillar) in the three-pillar pension scheme or by covering the deficit of the health insurance funds. In the sector of employment, the main policy responses in tackling new social risks have taken the form of a widespread use of active labour market policies coupled with limited life-long training, and start-up jobs measures. In the field of family policies, these have corresponded to a reduction in child care and maternity leaves, associated, however, with the establishment of paternal leaves and the first laws for long-term care¹⁴. Finally, in the field of poverty and social exclusion, governments' responses to new social risks have involved the introduction of social safety nets for a larger proportion of unprotected citizens through the establishment of a guaranteed minimum income coupled, in most cases, with strict means-testing. Here, what is important to remember is that these measures have been conducted in a more neo-liberal way in the Russian Federation than in CEE. In the Russian Federation, the state has, in fact, preferred in many occasions to withdraw from its responsibilities in social protection, as the demonstrations of pensioners in 2005 against the cuts in social benefits (e.g. free public transportation, and subsidies for medicine, rent, utilities and other basic services) proposed by Putin, have shown.

To summarize and in order to provide some policy recommendations, for the reasons mentioned in previous sections, life-long learning for transition economies has become a vital means in the process of *recalibration* and reconversion of the workers' obsolete skills. Fig. 4 provides some information about the percentage of the adult population aged 25 to 64 involved in life-long learning (education and training) in CEE. As it can immediately be seen, despite the necessity for investment in life-long training, CEE countries continue to invest less than Western European Member States. Only in Slovenia are the numbers involved in these measures, in fact, higher than the EU 15 average. Interestingly, the poorest countries of the region (Bulgaria and Romania) are also the ones who have invested less in life-long learning. This is probably the expression of a vicious circle in which the absence of financial means necessary for these measures negatively impacts on the chances of citizens to be adequately covered by the new emerging social risks. Despite no comparable data available for the Russian Federation, the number of graduates from higher education institutions per 10 000 employed in the economy has risen from 63 000 in 1993/1994 to 172 000 in 2005/2006 (Federal State Statistics Service 2007). This provides some evidence, on the one hand, of the huge importance that the development of new and suitable skills may have for post-

¹⁴ Please note that until 1989 long-term care was the entire responsibility of families or, when family support was not available, patients were "institutionalized".

communist societies, while, on the other, it also shows the difficulties of the Russian labour market to absorb the increasing number of new graduates.



Conclusions

This paper has attempted to respond to the four main questions, which were at the core of the investigation. It has been argued that post-communist societies are characterized by more severe *strukturprobleme* than those usually identified for Western countries. These concern the *system-stabilizing capacity* of political institutions, the *economic capacity and performance* of firms and markets, as well as the *social integration capacity* of political, economic and societal institutions. It has also been argued that these *strukturprobleme* are associated with faster changes in the social structure, which are, in turn, resulting in the emergence of broader new social risks types and constituencies. Welfare states in these transition economies are, as a consequence of a difficult and still unfinished process of *functional, distributive, normative and institutional recalibration*, charged with a double burden of responsibilities. They are, on the one hand, called to find an immediate response to more pressing old and new social risks, while, on the other, they are requested to deal with the challenges stemming from more drastic economic, political and societal transformations that has followed their transition towards democracy.

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