Poverty, Inequality, and Democracy

POSTCOMMUNIST WELFARE STATES

Mitchell A. Orenstein

Mitchell A. Orenstein *is S. Richard Hirsch Associate Professor of European Studies at the Johns Hopkins School of Advanced International Studies in Washington, D.C.*

Postcommunist Europe and Eurasia have sometimes been called a natural laboratory for social-science research, since the countries of these regions shared similar beginnings after communism fell in 1989–91, but then diverged dramatically in political and economic outcomes. This divergence can be explained by several overlapping factors that distinguish the more northern and western postcommunist states from their neighbors to the south and east. These include level of economic development, experience of democracy, distance from Brussels, and religious heritage. The new member states of the European Union (EU) tend to be richer, more democratic, and more Western.

Social spending also differs along these axes. While the more developed, democratic, and Western countries of Central and Eastern Europe (CEE) have maintained a high level of social protection that makes them comparable to other EU countries, the states of the former Soviet Union (FSU) and Southeastern Europe have experienced a partial disintegration of their social safety nets. In a worldwide survey of economic transformation in the developing world conducted by the Bertelsmann Foundation, the formerly communist CEE countries scored top ratings for "welfare regime/social welfare mechanisms," together with Chile, Singapore, South Korea, Taiwan, and Uruguay, while Armenia, Kazakhstan, Russia, and Ukraine found their place nearer to the bottom of the list, along with Ghana, Jordan, Mexico, Peru, and Saudi Arabia.[1]

Democracy has certainly played a role in determining these outcomes. The Bertelsmann report found that the top fifteen developing-country welfare states, with the exception of Singapore, were also well-functioning democracies. Surprisingly, autocracies scored better than "defective" (Ukraine) and "highly defective" (Russia) democracies on

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average, though worse than well-functioning democracies. Postcommunist countries clearly differ in numerous ways, but the additional voice that people gain through democratic institutions has been crucial to the largely positive social-welfare outcomes in the new EU member states. Conversely, the lack of popular voice in politics allows former Soviet states to ignore the plight of the socially weak.

This conclusion comes through not only in aggregate data but also in numerous case studies of social-policy making in postcommunist countries. Linda J. Cook's recent study undertakes a detailed comparison of welfare-state policy-making processes and outcomes in Kazakhstan, Poland, and Russia.[2] Cook shows clearly that across a wide variety of social-policy areas, from education to health to pensions, democratic policy processes in Poland took citizens' interests more seriously into account and resulted in social programs that were more effective. Kazakhstan had the least democratic policy processes, while Russia occupied something of a middle ground. As Cook's account illustrates, countries with more authoritarian political systems have been able to eviscerate aspects of the welfare state without facing substantial popular resistance.

Cook gives the example of primary- and secondary-school finance reform in Russia under President Boris Yeltsin, which destroyed the central system of school finance, cut the number of years of mandatory schooling, and sent thousands of teenagers into the streets. Enrollment and educational quality plummeted, particularly at the upper-secondary level, as the federal guarantee of free education was cut by two years, from age seventeen to fifteen, undermining Russia's key comparative advantage in education. Although subsequent Russian governments have taken steps to reverse the damage, they have not been able to put the genie back in the bottle. Similar studies have shown that regime type has also affected the pension-reform process in postcommunist countries, with more authoritarian governments making more substantial cuts.[3]

At the same time, one should be wary of overstating the contrast by casting a Central European social paradise against a former Soviet catastrophe. The picture is not all black and white. Things are neither so perfect in the advanced democracies of postcommunist Europe, nor entirely bleak in much of the former Soviet Union. While well-functioning democracy is highly correlated with welfare-state effort, inequality has increased rapidly in the new EU member states. The Czech Republic, Hungary, Poland, and Slovakia have experienced a rapid growth both in wealth and in income inequality that could have a destabilizing effect on welfare-state institutions over the long run. Meanwhile, the social situation in former Soviet states such as Kazakhstan, Russia, and Ukraine is comparable to or even better than what one finds in other developing countries—India and China, for example. Although the most poorly performing postcommunist welfare states do not function as well as they used to, they continue to provide a significant level of social protection. The socialist legacy has been cut back, but it has not entirely disappeared.

Communist-era welfare states were unique in four key ways, and they therefore left a unique legacy for postcommunist governments to address. To begin with, communist welfare states were built on the foundations of an economic system that provided (and even required) full employment. Full employment was a central enabling feature of communist welfare states because it helped to keep the costs of extensive social provision low. Since more people worked in the communist countries than in many developed Western states, the payroll-tax base was wider, and there was less demand for state social assistance. Participation in the labor force under communism, particularly among women, surpassed the level found even in liberal market economies such as that of the United States, where market incentives to work are normally very high.[4]

The lack of popular voice in politics allows the governments of former Soviet states to ignore the plight of the socially weak.

Second, while communist-era benefit levels and service quality were typically lower than in developed Western countries, the extent of social provision and the variety of mechanisms for achieving social aims were broader. Communist welfare states not only adopted the social-service, social-transfer, and insurance systems typical in advanced countries—universal medical care, old-age and disability pensions, and maternity and family benefits—they also subsidized basic foodstuffs (and alcohol), provided housing, and made affordable to much of the population cultural activities and entertainment, vacation houses and hotels. It was not uncommon in communist countries to see busloads of factory workers dropped off at national theaters or concert halls to take advantage of high culture.

Third, a distinctive feature of the communist welfare state was the leading role that state-owned enterprises played in social provision.[5] Since these enterprises were not profit-making entities, but rather institutions serving the good of "the people," they took on social-provision functions that would be unusual in the West—providing housing, subsidized food, health care, day care, entertainment, vacation homes, and a variety of other social goods for their employees and their families. These benefits were stratified, with better services and housing reserved for preferred groups of workers and managers. Such provisions were, however, available to a wide swath of the population. Enterprise social provision under communism also served as a form of vertical integration. Because market provision of certain goods (housing and food) was lacking, enterprises had to provide them.

Fourth, communist states had unusual intentions behind their welfare-state institutions. Communist governments provided far more social benefits to their citizens than did other authoritarian states, proving that democracies had not cornered the market on the provision of welfare. Communist ideals, which emphasized equality and valued the working class, had a major impact on state behavior. On the other hand, communist regimes also used their control over the distribution of social benefits to punish opponents and reward supporters in a systematic manner, turning the welfare state into a finely tuned mechanism for differential distribution.

In sum, the communist welfare states bequeathed a unique structural legacy based on full employment and enterprise-related benefits. Moreover, they were far more generous than noncommunist countries at a similar level of economic development.[6] Thus those who had lived under communism came to have great expectations about the state's role in social provision. Public-opinion polls bear this out, showing that citizens of postcommunist countries (much like their West European neighbors) expect the state to play a greater role in the economy and the provision of social goods than do the people of developing countries.[7] This proved salient in democratic politics during the postcommunist transition.

A Rocky Transition

Not long after communism collapsed, three major changes shook the now-postcommunist welfare states: the elimination of most price subsidies, the end of full employment, and the transformation of state-owned enterprises into profit-making entities. These shocks came at a time of growing social need. Economic reform caused a massive recession that was far deeper than even most pessimists had expected. Poverty rates rose dramatically in most states, reaching 30 percent of the population in some, and life expectancy fell—most dramatically in Russia, where male life expectancy dropped from 63.8 years in 1990 to 57.6 in 1994, before recovering to 58.9 in 2006. At the same time, inequality increased dramatically, creating sharp divisions between the "winners" and "losers" of the transition period. Even in such high-performing countries as Poland, which returned to pre-1989 levels of economic output within four to five years and then began a period of solid economic growth, socioeconomic changes still took a massive toll.

While communist economies had not performed particularly well, they did ensure a basic standard of living for all. As this guarantee began to unravel, governments sought to address the growing social crisis with a set of emergency responses that shaped welfare-state policy through the mid-1990s. Coordinated policy responses began to emerge only later.

Radical market-liberalization programs, intended to keep the transitional recession as brief as possible, took aim at the extensive state subsidies—for basic foodstuffs, consumer goods, electricity, and other utilities—provided under communism. Under the prevailing liberal market approach, these subsidies were thought to be market distorting, undermining rapid economic adjustment and the return to growth. Technically, they were also relatively easy to eliminate. For example, postcommunist governments could simply stop paying bakeries to produce low-cost bread and so on.

Some subsidies (including those for food) were eliminated quickly; others (housing, utilities, and transport) were phased out over time. Though Western advisers urged the postcommunist countries to replace subsidies with systems of cash benefits to compensate the poor, these cash payments either failed to materialize or fell short. This had a terrible impact on poverty during the transition. In 1997, Olivier Blanchard, a leading liberal economist, suggested that eliminating the subsidies may have been a mistake.[8] The price distortions created by subsidies may not have been as damaging as the economic and employment impact of their abrupt removal.

The sudden creation of labor markets and the collapse of guaranteed full employment presented the second major shock to the transition states. Labor-market liberalization empowered enterprises to lay off workers. Those first dismissed were often the oldest and least productive workers, along with discriminated-against ethnic minorities such as the Roma. As a result, the formal labor force contracted sharply, and a large, unofficial "gray" economy developed. Meanwhile, the demand for social benefits such as early retirement grew. Faced with decreasing resources, social-policy budgets could not meet the increasing needs. Thus states felt massive and immediate fiscal pressure to reform.

Finally, formerly state-owned enterprises began to shirk social functions as they faced new demands for profitability. These now-privatized operations came under pressure to turn a profit, which meant that they could no longer maintain large, underutilized work forces and social assets that did not help the bottom line. Whereas under communism there had been a rationale for providing housing to employees, under market capitalism workers could find somewhere to live on their own. Tying up capital in unprofitable housing projects suddenly stopped making business sense.

The end of subsidies, full employment, and enterprise-based social provision created enormous pressure for welfare-policy reform. Yet neoliberal economic advisors—long used to dealing with developing countries that lacked extensive social policies—largely ignored state welfare programs aside from unemployment insurance (a key element of neoliberal reform programs in Central and Eastern Europe). At the dawn of the transition, international financial institutions, including the World Bank, had little expertise in pension systems, for instance, and thus little in the way of policy advice. The neoliberal "Washington Consensus" was clear on trade policy, market liberalization, and privatization, but had little to say on the social-sector restructuring that was to become such a large part of postcommunist transformation.

The Social-Policy Deficit

The combination of immediate, severe crisis and the lack of significant economic-policy thinking on welfare-state transformation led to the adoption of a wide variety of "emergency measures" to combat the dramatic rise of poverty, unemployment, and other social crises.[9] Countries responded in a variety of ways to common policy pressures. Often these responses reflected the unique influence of small groups of expert policy makers in each country. Sometimes, ill-conceived "emergency measures" created significant problems down the road. This was the case in Poland, which radically expanded early retirement as a way of coping with high unemployment, but later ended up spending a larger share of GDP on pensions than any other member of the Organization for Economic Co-operation and Development (OECD).[10]

Still, emergency measures were often better than nothing. When governments failed to respond to emerging social-policy crises, programs began to crumble. For example, Russia and Romania did not alter pension benefits sufficiently to cope with real demand and thus began to fall behind on pension payments. This severely diminished trust in government, which was already low in most postcommunist countries. Such collapses no doubt contributed to increased mortality rates.

At the same time, new social situations demanded wholly new programs. Unemployment insurance, for example, was needed to address the new and dreaded problem of mass unemployment, which leading neoliberal economists expected to be the most challenging social issue of transition. They worried about the Weimar precedent, whereby mass unemployment would generate significant opposition to shaky new democratic governments.

Transnational actors such as the World Bank and the OECD therefore assisted postcommunist governments in setting up systems of unemployment insurance across the region, foreshadowing other transnational campaigns that would emerge in the second phase of transition, after the mid-1990s. All postcommunist countries adopted some form of unemployment insurance in the aftermath of 1989, though they were funded to a much greater degree in Central and Eastern Europe than in the former Soviet Union. In 1995, all the postcommunist states of Central and Eastern Europe provided a minimum benefit of around 30 percent of the average wage. By contrast, the Russian minimum benefit was only about 10 percent.[11]

Starting in the mid-1990s, social-policy reform rose to the top of neoliberal policy agendas for Central and Eastern Europe. Once economic reformers finished with initial liberalization, stabilization, and privatization programs, they turned their attention to social-policy programs. Two programs launched by Polish finance minister Leszek Balcerowicz, the first in 1990 and the second in 1998, illustrate this shift. While the original Balcerowicz plan emphasized the usual neoliberal trinity of stabilization, liberalization, and privatization, Balcerowicz II undertook education, health, pension, and public-administration reform, aiming to create a stronger state and civil society.

The impetus for social reform was accelerated by two emerging trends in the mid-1990s: the failure of emergency measures to respond adequately to social problems and the election of left-wing parties (often composed of former communists) that had campaigned on promises of greater social protection. Since a major objective of neoliberal economic policy in the 1990s was to stamp out communism, the rise of leftist parties was cause for grave concern among liberal policy makers in Central and Eastern Europe and among their Western allies—a concern that was reflected in the dramatic increase in World Bank funding for social-policy projects in the region.

Numerous transnational campaigns aimed to reform aspects of the former communist welfare states, including family and other cash-transfer policies, education, and health care, but the most dramatic and arguably most significant of these campaigns targeted pension systems.[12] In 1994, the World Bank released "Averting the Old Age Crisis," a policy report that advocated pension reforms worldwide. Responding in part to new demands from postcommunist countries for pension-policy advice, the World Bank formulated a clear template for reform and developed a core group of policy advocates in the course of preparing the report.

The World Bank took on board many ideas originating from the early-1980s Chilean pension reform, which replaced a pay-as-you-go system with one based on individual pension-savings accounts, but the Bank viewed this blanket reform as too revolutionary for many postcommunist countries. Instead, it recommended partial privatization, creating a mixed system that would rely on three "pillars" of pension coverage: a basic state pension, a mandatory system of individual accounts, and a variety of voluntary or occupational plans. This flexible approach garnered substantial interest in CEE and FSU countries as World Bank reform advocates fanned out across the region, promoting reform in leading states such as Poland and Hungary, and then throughout the postcommunist region.

Between 1994 and 2004, eleven postcommunist countries partially privatized their pension systems: Bulgaria, Croatia, Estonia, Hungary, Kosovo, Latvia, Lithuania, Macedonia, Poland, Romania, and Russia. Although the reformed systems are not identical across these countries, the case of pension privatization shows that transnational actors had a fundamental influence on the social-policy agenda in postcommunist countries after the mid-1990s. They exercised this influence in many other areas as well, setting standards for health reform and reshaping unemployment-benefit systems and many other programs.

At the same time, the EU began negotiations with the Central European candidates for accession. Within this process, the EU pushed for social-policy changes to bring the candidate countries into conformance with the rest of the EU.[13] In particular, the EU focused heavily on labor standards, health and safety standards, public health, and the treatment of national minorities.

In sum, transnational actors had a fundamental impact on social policy in transition countries after the mid-1990s. One might expect that these transnational organizations and the reforms that they advocated would have a similar effect on all countries. Yet countries with stronger democratic institutions were able to implement reforms in ways that fit better with domestic circumstances and responded more adequately to social needs.

The Impact of Democracy

The level of democracy is positively correlated with the level of social expenditure in postcommunist Europe and Eurasia (see Figure 1 on page 88).[14] The highest-rated democracies spend considerably more on social protection as a share of GDP than do other states in the region—as much as 10 percent more. The only exceptions are Estonia and Latvia, which spend about the same as the more generous former Soviet states. Interestingly, both less-effective democracies and authoritarian regimes spend about the same on social protection, bearing out the findings of the Bertelsmann Report cited above. Croatia is the only significant outlier in this sample, with high social spending and low democracy scores, possibly because of the impact of the wars in the former Yugoslavia. Belarus, the most unreformed postcommunist state, is the most generous authoritarian regime, but spends a lower share of its (smaller) GDP on social expenditures than do the well-functioning democracies.

On the other hand, as the figure suggests, democratic institutions are not the only factors at work. History, international influences, and the level of economic development must also be considered. Historical legacies provide a leading explanation for social spending in the postcommunist states. They help to explain two features of state welfare spending in the postcommunist countries: their relatively high level of social expenditures compared to much of the developing world, and the evident differences between Central and Eastern Europe and the rest of the postcommunist region. Stephan Haggard and Robert R. Kaufman argue that the communist legacy led CEE countries to invest more in social provisions than Latin American or East Asian countries at a similar level of development.[15] Countries in the latter two regions generally

Figure 1—Democracy and Social Spending in Postcommunist Countries

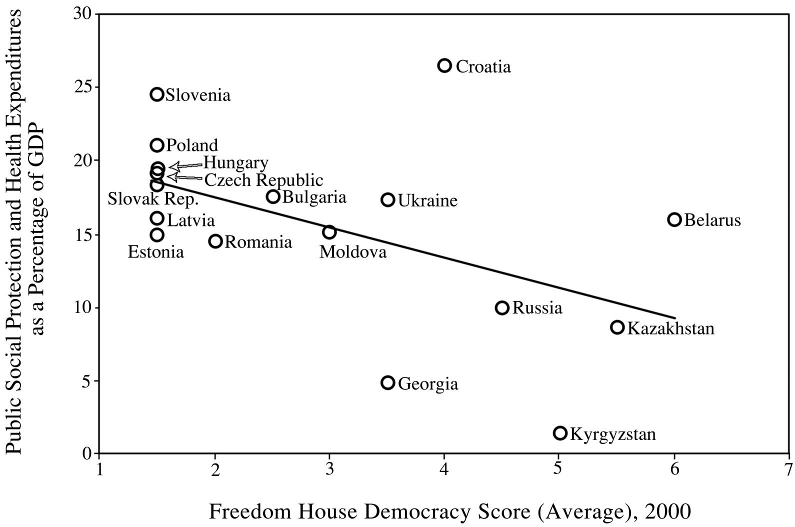

Figure 1: The x-axis represents the average of Freedom House's political-rights and civil-liberties scores, 2000); the y-axis represents public social protection and health expenditures as a percentage of GDP.

Source: International Monetary Fund Government Finance Statistics, "Public Social Protection and Health Expenditures as a Percentage of GDP." Available at *www.ilo.org/dyn/sesame/ifpses.home*.

spend less than 10 percent of GDP on public welfare and health care, compared with 20 to 30 percent of GDP in CEE and FSU countries.[16]

Central and East European countries have a lengthy history of social programs that long precedes communism, extending back to the Bismarckian era and the Austro-Hungarian monarchy. According to Tomasz Inglot, these precommunist legacies influence how policy makers and the public think about social-welfare institutions and thus keep policy traveling along well-worn paths.[17] They also distinguish the CEE countries from the former Soviet states, which did not have substantial precommunist welfare-state traditions.

International influences have also affected social expenditures and help to explain differences between new EU members and postcommunist countries to the south and east.[18] The EU set a wide array of conditionalities for countries seeking membership. Ten CEE countries joined the EU in 2004 and 2007. While social protection is mostly regulated by member states themselves, the EU did exert influence on domestic social-policy making among its prospective new members. EU officials expressed concern about the possibility of "social dumping" from CEE countries, worrying that low levels of social spending in Central and Eastern Europe would force people to move west or to export their social and medical problems. Thus the EU encouraged prospective members to maintain a "European" level of social protection, but stressed that this should be affordable and sustainable. This explains, at least in part, the relatively high welfare spending of some CEE states.

Some observers assert that the World Bank had a greater influence on social policy in CEE countries than did the EU.[19] The Bank was certainly the largest and most vigorous promoter of social-policy campaigns in Central and Eastern Europe and the former Soviet Union during the transition period. It coordinated its activities, however, with other transnational actors, including the EU. Thus its advice was not the same in all countries, but rather calibrated to country conditions, including their likelihood of accession to the EU.

The World Bank coordinated its pension-reform advice with the EU Commission, even when advising against EU norms—regarding pension privatization, for example. The EU had some ability to thwart these reforms but chose not to use it.[20] Meanwhile, the Bank has pushed for lower social expenditures throughout the postcommunist states, but may have moderated its pressure on the new EU members. International influences have tended to overlap with democratic institutional pressures. The EU, for instance, required both European standards of social policy and strict conditions of democratic governance. Both factors also overlap with wealth and geography in the postcommunist region.

Political economy also factors into social spending and democracy. Oil-rich countries, for example, which as a group are less democratic than would be predicted by their wealth, spend less on social protection. Russia, a main exporter of oil, is one of the least generous of the former-communist welfare states. A country's wealth is also an important factor. Relatively wealthy CEE states spend more per capita on social protection than do the poorer FSU and Southeast European states.

Democratic Governance Matters

Despite the obvious importance of historical legacies, international factors, and political economy, strong democratic political institutions clearly support higher social expenditures in CEE countries. This was shown in Southeastern Europe as well, where social expenditures increased dramatically during democratization as trade unions and left parties gained strength. Democratization in Central and Eastern Europe did not strengthen the power of trade unions and socialist parties—quite the opposite. Yet because of public expectations, leaders of all parties—right, left, and populist—faced pressures not to slash social expenditures. Even wealthier citizens supported welfare spending for their favored programs, such as generous pension benefits.[21] Moreover, where people have been able to protest effectively against welfare-state cuts, pre-existing programs and spending levels have tended to endure. Here, democracy's impact on social spending is most evident.

Furthermore, democratic regimes consult a wider range of social and economic groups in the formulation of social policy, which can also lead to higher spending. In an analysis of the policy-making process in the area of pension reform, I found that more-democratic countries included a larger number of veto and proposal actors in the reform process than did authoritarian regimes.[22] These findings are corroborated by Linda J. Cook's work on Poland, Russia, and Kazakhstan, which shows that policy makers in less democratic states have more easily shut out interest groups. Often this happens at the cabinet level. In democratic countries, government ministers are better able vigorously to represent interests associated with their respective ministries. In less-democratic countries, cabinets tolerate less internal dissent; thus a variety of voices may never be heard during the reform process.

Although democratic governance is one of several key factors differentiating the relatively higher-spending and more effective CEE welfare states from the disintegrating safety nets of many FSU and Southeast European countries, the picture is more nuanced. Inequality has risen dramatically in each of these regions, and many former Soviet countries do in fact have functional safety nets.

Communism constrained inequality and advanced the interests of workers, so it is not surprising that inequality increased dramatically after 1989. Although data on income disparity in the postcommunist countries are weak, it appears that in the first two decades since the transition, inequality in Central and Eastern Europe has risen to West European levels, and in Russia to U.S. levels. Neither the CEE nor Russia has approached African or Asian levels of inequality, with the possible exception of some of the Central Asian republics. It remains to be seen, however, whether income inequality will continue to grow. A widening disparity could threaten the social consensus behind welfare-state spending, as wealthier individuals opt out and poorer people fail to consolidate political support.

Despite the lower social spending in some parts of the postcommunist world, overall welfare-state spending there remains higher and more significant than in most developing countries in Latin America and Asia. While some countries such as Georgia and Kazakhstan have cut back considerably, most FSU countries retain large public-health and pension systems, and provide other cash benefits. Old-age pensions, for instance, are important sources of income for poor families, and pension payments have increased in many FSU states as economic growth has returned. This has been particularly pronounced in Ukraine, where the government of Prime Minister Yuliya Tymoshenko has dramatically increased social spending. Social safety nets, though not as generous or complete as in Soviet times, exist in even the most austere postcommunist countries, though they are not as extensive as those of advanced West European welfare states.

Challenges for the Future

A number of challenges loom on the horizon as postcommunist welfare states move beyond the transition period into a new era. First, for the new EU member states, one of the main challenges will be to balance the pressures for conformance with Western levels of benefit generosity with the desire to maintain the labor-cost advantage that is currently drawing foreign direct investment eastward. Maintaining EU norms could demand higher spending over time. Likewise, as CEE economies begin to grow dramatically, these states may find it harder to resist democratic political pressure for increased spending on social protection. Thus the CEE welfare states will likely converge over time with their neighbors to the west.

A second major challenge will be to reorient the welfare state to cope with aging populations and the rapid decline in fertility rates. CEE countries have some of the lowest fertility levels in the world, and as a result these societies are rapidly aging, putting serious fiscal strain on their pension systems and government budgets. Although birth rates have been falling for several decades, the transition accelerated the rate of decline. Fertility rates in most postcommunist countries today are below replacement level. Some former communist countries have begun to create welfare-state incentives for women to have more children, including Russia's additional-child cash-benefit payments, initiated under President Vladimir Putin. It remains to be seen whether this measure alone will have an impact, but it is possible that some combination of cash payments, improved access to child care for working mothers, and economic growth could entice people to have more children in coming years.

Poverty among certain ethnic groups also remains a major challenge in the postcommunist world. In particular, poverty among the Roma, who have lower average levels of education and suffer widespread discrimination, continues to far outpace that of majority populations. Roma are four to ten times more likely to be poor than majority ethnic groups. If they choose to emigrate, they also face discrimination in Italy and other West European countries.

There are no simple solutions to Romany poverty and integration, but concerted efforts can make a difference. During the enlargement process, the EU attempted to enforce higher minority-rights standards on postcommunist countries and, together with the World Bank and Soros Foundation, encouraged the development of national strategies to combat poverty among the Roma. The politics of Romany poverty however, make it difficult for politicians to pursue initiatives that facilitate integration of the Roma. Populist politicians often campaign on hatred and suspicion of Roma and other minorities, and liberal politicians are sometimes reluctant to attack this right-wing identity politics directly. Yet issues related to poverty among the Roma are growing in social importance. Since fertility rates have plummeted among majority populations, as many as a third of all children entering school in some CEE countries are Roma. Thus it is critical that postcommunist welfare states address the social exclusion of the Roma.

Finally, the structure of the postcommunist welfare states is problematic. Given their complicated trajectory during the transition—featuring budget cuts and emergency measures—on top of their communist legacy, postcommunist welfare states reflect a hodge-podge of different approaches. While most European welfare states fall into one of the three categories of welfare-state capitalism (liberal, conservative, or social-democratic) identified by Gosta Esping-Andersen, the postcommunist welfare states do not. They draw heavily on conservative, Bismarckian traditions, meaning a strong reliance on social insurance and status-preserving benefits—in other words, the better-off have a stronger safety net—and an emphasis on supporting traditional family structures. Additionally, postcommunist states have drawn considerable inspiration from international organizations that have supported a liberal model, which argues that the welfare state should not conflict with incentives for paid employment. According to this model, welfare-state programs should aim to provide a safety net for the poorest members of society, rather than a cushion for the middle classes. Postcommunist welfare states also display similarities to South European welfare states, insofar as democratization has coincided with a rapid (re)development of welfare-state institutions.

One challenge for postcommunist welfare states is that the conservative tradition on which they draw appears to be the least effective method of organizing welfare-state commitments in Europe.[23] Whereas liberal welfare states such as the United Kingdom and Ireland have prospered in recent years due to lower labor costs and more flexible labor markets, conservative welfare states have experienced slower economic growth, making more people dependent on the state. Interestingly, the social-democratic welfare states in Scandinavia have proven remarkably resilient. After a crisis in the 1990s, the Scandinavian formula of providing a wide range of social services and generating more jobs, particularly for women, while establishing institutions that enable women with children to participate in the labor market, began to bear fruit. Social spending in these countries is high, but so is employment. Conservative welfare states such as France and Germany, however, have continued to struggle with high unemployment and highly protected jobs in preferred sectors of the economy. This has aggravated problems of immigrant integration and welfare, as shown most vividly in the French riots of 2005.

Despite the broad consensus in Europe that the conservative model of welfare is the least effective of the three leading European models, postcommunist CEE states have embraced it. Strangely, the social-democratic model—arguably the most effective and perhaps the most suitable for a former communist state—held no appeal for Central and East Europeans. Instead, CEE states drew primarily from their conservative pasts and the liberal policies advocated by the Washington Consensus. As the problems associated with these choices become apparent, particularly in the context of an aging population, postcommunist welfare states may begin to reevaluate their choices.

As the postcommunist countries move beyond the transition period, they will have to continually reassess their welfare policies, addressing the question not only of how much to spend but also of how to direct that spending to best address emerging social issues. While myriad factors such as each country's history, the influence of international organizations, political economy, birth rates, and ethnic fragmentation will in part determine the type of welfare-state structures most suitable to individual situations, the level of democracy within each state will likewise continue to have a major impact on the development of welfare states in the postcommunist world. More-authoritarian states will continue to spend less overall, although they will maintain a higher level of social protection than one finds in much of the developing world. Countries with effective democratic governance, on the other hand, can be expected to organize their social-protection programs in ways that correspond with a broad array of public demands and interests.

NOTES

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14. The figure should be interpreted carefully. IMF data on social spending may not be highly accurate or standardized across countries, but it is the only source of social-spending data across many countries. The figure includes data not for all postcommunist countries, but only for the subset that is included in the IMF data set.

15. Stephan Haggard and Robert R. Kaufman, *Development, Democracy, and Welfare States: Latin America, East Asia, and Eastern Europe* (Princeton: Princeton University Press, 2008).

16. IMF Government Finance Statistics, "Public Social Protection and Health Expenditures as a Percentage of GDP." Available at *www.ilo.org/dyn/sesame/ifpses.home.*

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