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# Welfare state formation in the enlarged European Union - patterns of reform in the post-communist new member states

Offe, Claus; Fuchs, Susanne

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# Welfare State Formation in the Enlarged European Union—Patterns of Reform in the Post-Communist New Member States[1]

Claus Offe[2] and Susanne Fuchs[3]

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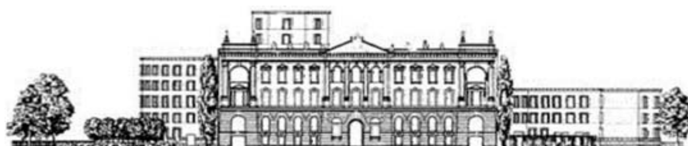
2 Hertie School of Governance, Berlin, and Humboldt University, Berlin
E-Mail: **offe@hertie-school.org**

3 Social Science Research Center Berlin, Research Unit ZKD/TKI
E-Mail: **fuchs@wzb.eu**



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Claus Offe and Susanne Fuchs

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Wissenschaftszentrum Berlin für Sozialforschung
Reichpietschufer 50, 10785 Berlin, Federal Republic of Germany

Tel.: +49/30/25491-0 ● Fax: +49/30/25491-684
E-mail: wzb@wzb.eu ● Internet: http://www.wzb.eu

## Zusammenfassung


### Die Entwicklung von Wohlfahrtsstaaten in der erweiterten Europäischen Union – Reformen in den neuen post-sozialistischen Mitgliedsstaaten.

Die Osterweiterung der Europäischen Union bietet nicht zuletzt auch Herausforderungen für die westeuropäischen Wohlfahrtsstaaten, die in der Literatur häufig als Bedrohung analysiert werden. Die vorliegende Studie untersucht die Entwicklung der Sozialversicherungssysteme in acht postsozialistischen Staaten, die 2004 in die Europäische Union aufgenommen wurden, Estland, Lettland, Litauen, Polen, Slowakei, Slowenien, Ungarn und die tschechische Republik (EU-8).

Wir untersuchen sowohl institutionelle Designs und Performance als auch den Einfluss externer und interner Akteure auf die wohlfahrtsstaatliche Entwicklung in diesen Ländern. Wie unterscheiden sie sich von westeuropäischen Wohlfahrtsstaaten und wie passen sie in gängige Typologien von Wohlfahrtsstaat-Regimen?


## Summary


### Welfare State Formation in the Enlarged European Union—Patterns of Reform in the Post-Communist New Member States

Eastern Enlargement of the European Union challenged the design of European Welfare states. Many authors discuss the impact of East European social security systems on their West European counterparts and fear a “race to the bottom”. This paper addresses welfare state developments in the eight post-socialist new member states which completed the accession process in 2004, Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Hungary, and Slovenia (EU-8).

We focus on institutional patterns and performance as well as on the impact of internal and external actors of welfare state formation. How do the EU-8 diverge from West European welfare states and how do they fit into the typology of welfare state regimes?

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## Introduction

The development of the political economies of the Central and Eastern European countries (CEE), including their welfare systems, has been shaped in the past—and is likely to be so the future—by two sets of determinants: namely, the past and the West. "The past" refers to the material, political, and cultural legacies of the old regime of state socialism that suffered a definitive collapse in 1989, as well as the collective experience of the circumstances of its breakdown. "The West" in this context refers to external economic, political, national, and supranational actors in the West, among which one of the most significant has certainly been the European Union and its strategy of eastern enlargement (EE) and associated efforts to integrate the new member states into the EU. In addition to these two bundles of determinants which have largely shaped the CEE welfare states, a third one consisted in the strategic considerations which entered into the politics of reform by post-communist political elites who had to cope with the realities of post-communist economies (these have, in part, experienced severe transformation crises) and a nascent system of democratic politics and policies (with drastically enhanced liberties and other political resources being available to the populations of the post-authoritarian regimes).

This paper addresses welfare state developments in the eight post-socialist new member states which completed the accession process in 2004 (henceforth termed "EU-8"): Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Hungary, and Slovenia. (The newest round of enlargement, which went into effect on 1 January 2007 and includes Bulgaria and Romania, will remain outside the present discussion.) Our discussion will focus upon strategies of external and internal actors concerning welfare state reforms, and on the institutional arrangements as well as performance characteristics of CEE welfare states. We shall also address the controversial issue of whether and in what sense the emerging CEE welfare states diverge from the European social model (ESM) or any of the three well-known welfare state "regimes", be it because they must be described as a "new" regime type or be it that they converge with the Anglo-Saxon "residualist" model, as has been widely suggested in the literature.

Eastern enlargement and the accession of new member states is a two-sided process in which two categories of actors played a strategic role. On the one hand, there is the Commission, representing the members of the old EU-15[1] that initiated, guided, and controlled the eastern enlargement process. On the other hand, there are

1 Austria, Belgium, Denmark, Finland, France, Germany, United Kingdom, Greece, Ireland, Italy, Luxemburg, Netherlands, Portugal, Sweden, Spain.

the accession countries themselves who, mostly one-by-one, negotiated their way into the EU by cumulatively complying with the conditions on which the Commission had made their accession contingent, such as the adoption of the *acquis communautaire* and the establishment of administrative structures that are required for its effective implementation. What were the prevailing interests and strategic motives on either side that drove the convergent process which culminated in the enlargement becoming effective on 1 May 2004? More specifically, what kind of considerations led the political elites in the post-communist accession countries to swallow some bitter pills and agree to the costly concessions entailed in those conditions stipulated by the Commission? And why did the Commission and its Enlargement Commissioner choose to push ahead with eastern enlargement despite clear evidence that both the magnitude of this round of enlargement, the largest in the history of the EU, and the inferior level of economic performance of the new member states would burden the old member states with costly obligations extending indefinitely into the future?

In order to resolve this dual puzzle of strategic motivation, we hypothesize in an admittedly highly schematic fashion that the convergent process of enlargement was guided by two sets of prioritized objectives, economic and political ones, one of which was dominant on either of the two sides. That is to say, the timely completion of the enlargement process was driven by predominantly economic motives within the new member states and predominantly political ones on the part of representative actors of the EU-15. While elites in the former had good reasons to consider the move of joining the EU a step that would boost their prosperity through full market integration, thus providing an opportunity that they could not afford to miss, EU-15 elites embarked on the road to enlargement primarily because they expected the incorporation of the new EU-8 into the EU system of rules and institutions to promote long-term stability and further democratic consolidation of the regimes in the region. This admittedly daring generalization is, to an extent, supported by the observation that the doubts that have been raised among the EU-15, the western member states, concerning the wisdom of enlargement seem to be mainly concerned with the adverse *economic* repercussions of eastern enlargement, be they in the form of outflow of investment or influx of goods and labor. Concerning labor mobility, it was in particular (and for obvious geographic reasons) Germany and Austria who successfully tried to delay (quite likely until the year 2011) the point at which full labor mobility between old and new member states can be granted to workers from new member states. Only three EU-15 countries accepted free movement from the day of accession—a number that increased to eight of the 15 who accepted free movement of workers from May 2006

on. Conversely, doubts and skeptical views among the CEE accession countries were of a cultural and political kind. We shall further elaborate this argument at the end of the present analysis.

Needless to say, eastern enlargement had already begun long before 2004, when it came to its formal completion. The EU had concluded Association Agreements with all countries of the region as early as from 1991 to 1993, and in 1993 decided upon a set of ("Copenhagen") criteria for membership eligibility. The EU received applications for membership between 1994 and 1996, and decided to open accession negotiations at the Luxembourg European Council in 1997. In the early 1990s, once the trade barriers between the CEE region and the EU had been abolished (cf. Clement et al., 2002: table 7, statistical annex), foreign investors began to invest in the post-communist economies. The total amount of western foreign direct investment (FDI) in the region is estimated to have reached €150 billion by 2004. Such investment accounted for up to five per cent of the GDP for many of the CEE countries and helped in the process of economic recovery (Barysch, 2005: 2 f.). In addition, EU pre-accession programs such as PHARE, ISPA, and SAPARD have assisted the process of conversion to the market economy, with PHARE alone having spent €10 billion in the period from 1990 to 2003, and, from 1990 to 2005, the EU having made payments to all new member states (EU-10)[2] totaling nearly €30 billion (EU Commission 2006: 20 f.) Conversely, exports from the region into the EU-15 boomed throughout the 1990s and led to growth rates in EU-8[3] economies, which were well above the EU-15 average (see table 1). Both political and the economic integration (not to forget military integration in the framework of NATO) had a long pre-history anteceding formal enlargement.

It seems worthwhile to dwell for a moment on why eastern enlargement turned out to be such an unexpectedly smooth and rapid process, as emphasized by the EU Commission (EU Commission 2006). As far as aspiring member states in the region were concerned, the majority of political and newly emerging economic elites saw EU membership as an economic opportunity that they could not afford to miss for the sake of their respective countries' economic prosperity, in spite of the sometimes harsh requirements that EU strategy and its conditions for accession imposed upon them. As a matter of supranational legislation that did, in fact, bypass national parliaments (or, as some saw it, reduced them to virtual rubber stamps), new member states had to

2 Cyprus, Czech Republic, Hungary, Estonia, Latvia, Lithuania, Malta, Poland, Slowakia, Slowenia.
3 Czech Republlic, Hungary, Estonia, Latvia, Lithuania, Poland, Slowakia, Slowenia.

adopt (and make credible promises to implement) some 80,000 pages of the *acquis communautaire*, the body of European law.

EU-8 *elites* complied with this procedure for one (or some combination) of three motivations (as usefully distinguished by Schimmelfennig and Sedelmeier 2005: Introduction). First, compliance can be "outward-looking", i.e., motivated by credible commitments made by the EU and the expected rewards that come with membership. Second, compliance can be due to the "pull" of a genuine forward-looking expectation that EU membership and everything that comes with it will turn out to be the normatively right and appropriate way to proceed. Finally, compliance can also stem from backward-looking considerations, i.e., the "push" of the grim realities and massive failures of the institutional arrangements of state socialism, to which every alternative must be unconditionally preferred.[4] As far as *non-elites* in the CEE were concerned, there was widespread concern over threats to the newly won national autonomy by the EU—concerns that continue to be capitalized on by anti-European populist parties that have emerged in a number of countries in the region.

But why were member states and European *elites of the EU-15* ready to engage in the greatest, most expensive, and foreseeably most consequential round of enlargement in the history of the EU? Never before had the EU admitted such a large group of new member states at one point in time; and, even more significantly, never before had it offered membership to states most of whom, in terms of their economies, were in an entirely different league vis-à-vis the old EU member states. Pertinent, though only partial, answers to the question of why the West opened to the East (the definitive resolution of which will have to await the work of future historians) include an interest on the part of EU-15 governments to further open up the CEE for economic integration, to control political developments in the region through the discipline imposed by conditionality, and thus to preclude undesirable neighborhood effects (ranging from drug trafficking to military conflict). Furthermore, a part of the old EU (notably the United Kingdom), by engaging in a determinate policy of "widening," wanted to prevent the alternative of "deepening" within the EU-15—an alternative that was perceived as a menace by some of the old member states. Considerations and interests like these have obviously prevailed over the anticipated costs of eastern enlargement, the most important category of which consisted in the long-term obligation imposed on the EU-15 to transfer very substantial subsidies to the relatively backward econo-

4 Let us suggest in passing that the second kind of "intrinsic" motivation is most likely to contribute to consolidation, while the first "opportunistic" one will last only as long as the rewards are considered adequate (and evaporate with the access completed) and the third will become weaker as state-socialist realities disappear in the mist of the past.

mies of the CEE, which, in turn, implied a loss of such subsidies for the Mediterranean member states in particular. Eastern enlargement also meant the imposition of institutional complexities on the institutional/organizational structure of the EU--complexities that have become particularly acute after the failure of the Constitutional Treaty in 2005. Eastern enlargement is bound to dramatically increase not so much the size as the diversity among economies within the new EU-25, and even more so in the EU-27. This diversity extends to culture, history, and language, and hence to the sense of European identity and solidarity. Yet, more importantly, it extends to the steep gradient in prosperity, indicating marked disparities. Per-capita income of EU-8 citizens is just roughly a third of that of EU-15 citizens; with the eastern enlargement completed, the citizenry of the EU increased by 19.5 per cent, but total output grew by only 4.8 per cent (Alber and Merkel 2006: 15).

Two distinct yet interacting developments have occurred: one is the enlargement of the EU with the economic impacts it has on both the new and the old member states; the other is the formation and reform of the social welfare systems in the new member states. Concerning the impact of eastern enlargement upon the development of welfare states in the CEE region, the anticipation of one axis of conflict stands out and this has framed political debate: namely, a clear-cut East-West cleavage of interest. Given the labor cost differentials between the EU-15 and the EU-8, the widely feared (though often exaggerated—see below) dynamic is a massive inflow of labor from the latter into the former, and a reverse flow of capital, investment, and jobs. The latter effect is partly mediated through the phenomenon of tax competition, with the lower tax rate and “flat rate” tax (adopted, for example, by Slovakia) not only having the *consequence* of attracting western European investors, but also the alleged *precondition* of net transfers flowing as subsidies from EU-15 donors into the EU-8 region, as it is only these transfers that allow for the “fiscal generosity” of CEE states towards investors in the first place. Many commentators from the continental western European Union member states fear that the dynamics of this (arguably somewhat distorted) competition might undercut the fiscal viability of the EU-15 welfare states, given the fact that these are plagued anyway by high levels of unemployment and fiscal strain.

But what about the emerging shape of the welfare state among the CEE transition societies, and the forces that determine the outcomes of reform? Three scenarios were distinguished in an influential paper by János Kovács (2002).

First, and particularly so in the early 1990s, the prediction was widely shared by western social policy experts that welfare state transformations in post-communist

countries would undoubtedly emulate none of the continental European or Scandinavian models, but rather that of Thatcher's United Kingdom or Reagan's United States. The first prognosis thus anticipates the rise of a market-liberal model with means-tested benefits and a moderate system of social insurance serving low-income clientele (Esping-Andersen, 1990: 26); the middle and upper classes, in contrast, would have to rely upon health coverage and pension plans through private means as provided for in the second and third pillars[5] of the social security system. If anything, as will be shown in some detail, this prediction can be rejected as premature and misguided—misguided because the advice recommending social spending austerity had its source in institutions such as the World Bank and the International Monetary Fund, or misguided because it was merely wishful thinking induced by the proponents of such advice (cf. Tomka 2004: 127-130).

Diametrically opposed, as it were, is a second reading and projection of post-communist welfare states. This scenario assumes that the long arm of the state-socialist past will hinder any vigorous, consistent, and sustained reform effort. As a consequence, realities will best be described by stagnation and strong path dependency mediated through a mental and political legacy of state protectionism shared by mass electorates and political elites alike. As one of the earliest comparative analyses of post-communist welfare states concluded, the new political elites have been "remarkably reluctant" to adopt any fundamental changes of the existing programs, for instance, in the area of old-age pensions (Götting 1998: 158). In this sense, Kovács speaks of a kind of welfare state that is part of "the few relics of the command economy with all its dominant features such as the over-centralization, waste, rationing, shortage, paternalism, rent seeking and corruption" (Kovács, 2002: 192).

The third position recognizes a mix consisting of the Bismarckian insurance model found in conservative corporatist regimes with additional public-private elements as a result of a number of a "… great variety of 'small transformations' …" (Kovács, 2002: 193) rather than the results of a great and consistent systemic change in any direction. These transformations are less the consequences of strict historical legacies or newly attained ideological attitudes, than they are of experimentation and the reaction to internal and external pressures. Welfare policies in the central and eastern European member states do not follow any consistent pattern that would converge with one of the three or four familiar "welfare regimes" from western and south-

5 Traditionally defined, the three pillars are (1) public pensions, (2) occupational pensions, and (3) personal pensions. Redefined, according to the World Bank scheme, the pillars are: (1) non-contributory, basic pensions; (2) contributory, forced savings; and (3) contributory, voluntary savings.

ern Europe; nor do the CEE countries seem to have developed a model or "post-socialist" regime of their own. If anything (or so we shall attempt to show), they can be described as a bricolage in which both "social democratic" and "conservative" elements play a role, while (contrary to widely shared expectations and in defiance of some external pressures) Anglo-Saxon patterns of welfare liberalism can hardly be detected. What prevails is an ideologically "faceless", as well as arguably economically and politically unstable potpourri of policies (Tomka 2006: 132). Other than that, no uniform trend or pattern can be identified that would remain consistent across countries, time, or sectors of social policy and welfare state institutions. Analysts and commentators appear to largely agree that "Central and Eastern European welfare systems could be classified by mixed traditional characteristics of the different European models" (EU Commission 2003: 251).

At the *descriptive* level, the obvious question is: Which of these three trajectories is most consistent with the evidence provided by the data on welfare state reform experienced in the countries of the region since the early 1990s? This question will be at the center of the account provided in the present paper. At the *explanatory* level, however, the even more challenging question is: What kinds of perceptions, choices, anticipations, and strategic reasoning were the driving forces for the *elite actors* in the *CEE region* when they adopted and implemented welfare state reforms. It is this latter question to which we now turn, briefly introducing the findings and arguments suggested by Vanhuysse (2006), Orenstein (2000), and Cerami (2005, 2006).

An essential feature of Bismarckian social security policies is that they are designed to prevent the outbreak of distributive class conflict. They do so by installing three institutional features into social policy: (a) the selective provision of benefits to those segments of the population (i.e., the core working class) whose economic opposition would be most destructive to the orderly process of economic development, (b) the forging of inter-class alliances (e.g., in the form of social security funding being shared by employers and employees), and (c) the creation of institutional arrangements that subdivide the clientele of social security into a number of administrative categories (defined by region, gender, and type of benefits, as well as by such divisions as the employed *vs.* the unemployed, blue collar *vs.* white collar workers, ordinary pensioners *vs.* early retirees, workers in core or "heavy" industries *vs.* workers engaged in the production of consumer goods and agriculture, etc.), thus shifting the focus of distributive conflict from a conflict between encompassing class coalitions to a conflict between status groups. Vanhuysse has persuasively argued in his recent book, *Divide and Pacify* (2006), that an analogous calculus of the preventive

management of conflict has been the guiding strategic objective in much of post-communist social policy making. According to Vanhuysse, given the facts that (a) the working population of the former state socialist societies had never experienced anything but employment security under the old system, (b) that it had acquired a mindset according to which both the level of employment and the level of real income is primarily a matter of political decision making, (c) that with the transition to political democracy it enjoyed a substantial increase in its political resources after the demise of the monopolistic party dictatorship and, as a result, (d) that it had every reason to engage in vehement distributive struggles because of the high rate and often lengthy duration of unemployment due to the transformation crisis which generated widening economic disparities between the economic "winners" and the "losers" of that transformation the potentially explosive mix of these factors was clearly understood by political elites, and the potential for disruptive distributive conflict anticipated. Responding to these threats, the post-communist elites engaged (largely) successfully in a "conservative" strategy of pacification through division, thus accomplishing the "unexpected peacefulness" of the transition process. They managed to defuse the potential for protest through an administrative segregation of the population affected, thus rendering collective action for distributive conflict more difficult. The main categories in which the working class was divided are those of regular workers, regular pensioners, the unemployed and the "abnormal" (early retired) pensioners, with at least the latter two being strongly reliant on the informal economy.

In a fine-grained analysis of the social reforms that occurred in the Vizégrad countries since the early 1990s, Cerami (2005, 2006) concludes that the pattern of reform "can be described as an ambiguous mix of differentiation and equalization of provisions" (2006: 27)—a pattern that can be alternatively described as a "recombinant welfare state" or social policy "hybridization" which, in sharp contrast to the neo-liberal precepts proclaimed in aftermath of the breakdown, remains to a large extent faithful to the Bismarckian tradition of the pre-communist era as well as to the egalitarian tradition of the state-socialist period (2006: 32). The absence of a social policy upheaval comparable to that which occurred over the economic and political reorganization of the post-communist societies is striking. Again and arguably, it is probably due to the perceived need to preserve social protection in order to fend off disruptive distributive conflicts (such as the miners' strikes that occurred in Romania in 1998).

Public debate among *non-elites* in the *old* member states, however, has focused on the question of labor migration and wage competition (the French nightmare of the "Polish plumber"). This is especially true for those countries which share borders with

the new member states, such as Austria and Germany. Given the various types of fears, hopes, and anticipations prevalent in the debate in the old and new member states, among elites and the masses alike, the question to be settled is this: How will enlargement affect social welfare in the European Union? That is, will the new member states be the forerunners of "lean welfare"? Will migration driven by poor economic and social performance in the new member states lead to "social dumping" and a "race to the bottom" in some or all of the EU-15 countries? As an overall consequence, will enlargement reshape the social landscape of Europe? In addressing these issues, we start with a comparative analysis of features and trends in the institutional design of the welfare systems in the new member states.

## 1. Social Welfare Systems of the Central and Eastern European Member States—Challenges and Developments

We will begin by discussing basic indicators for the EU-8 economies. We proceed by addressing the most important reforms for the region in health care, pension plans, social exclusion, and the labor market.

### 1.1 Basic Indicators

The growth rates among new member states from the CEE exceed those of the EU-15 significantly (see table 1). An important factor determining overall growth in the region was the export boom (e.g., exports rose in Hungary by 380per cent and in the Czech Republic by 280per cent in the ten years before accession) (Barysch, 2005: 2). This boom was fostered by the liberalization of trade among the EU-15 and the CEE. It was additionally fueled by high rates of foreign direct investment (FDI). However, according to a recent report of the European Bank for Reconstruction and Development (EBRD), there are signs that some investors will shift their focus towards south-eastern Europe, since privatization in the CEE countries is almost complete and thus attractive objects for investment there are becoming scarce[6] (EBRD, 2005: 29, Vincentz, 2002). However, this is true only for top-down FDI vis-à-vis privatization. Bottom-up FDI, i.e., investment in start-up companies, is by all probability less affected by further relocation of investment, especially if one takes the low corporate tax rates in the new member states into account (cf. ZEW and Ernst & Young 2004; see also section 1.2 below).

6 For the old member states, direct investment in the new member states accounts for a relatively small share of total corporate investment (e.g., in Germany, just one to two per cent in recent years) (Barysch, 2005: 2). In 2004, for instance, the old member states invested up to eleven times more in one another's economies (*ibid.*).

**Table 1: Basic indicators for the EU-8 and the EU-15, 2004**

| Country | Indicators | | | | | |
|---|---|---|---|---|---|---|
| | Population (in Millions) | GDP 2003 (in Billions of Euros) | GDP per Capita at PPP, EU-25 = 100 | Real GDP Growth in per cent, Average for 2000-2004 | Inflation in per cent, Average for 2000-2004 | Current Account (in Billions of Dollars) |
| Czech Republic | 10.2 | 80.3 | 70 | 3.1 | 2.6 | -5.6 |
| Estonia | 1.3 | 8.1 | 51 | 7.2 | 3.5 | -1.4 |
| Hungary | 10.0 | 72.6 | 61 | 3.9 | 7.1 | -8.8 |
| Latvia | 2.3 | 9.9 | 43 | 7.5 | 3.2 | -1.7 |
| Lithuania | 3.4 | 16.3 | 48 | 6.7 | 0.5 | -1.6 |
| Poland | 38.2 | 185.2 | 47 | 3.1 | 4.3 | -3.6 |
| Slovakia | 5.4 | 29.0 | 52 | 4.1 | 7.7 | -1.4 |
| Slovenia | 2.0 | 24.9 | 79 | 3.4 | 6.8 | -0.3 |
| EU-8 | 72.8 | 426.3 | 56 | 4.9 | 4.5 | -24.4 |
| EU-15 | 383.5 | 9,373.5 | 109 | 2.0 | 2.0 | 21.8 |

*Source:* Barysch (2005: 2); own calculations.

The GDP per capita in the new member states reaches roughly 50 per cent of the GDP per capita of the EU-15 (Hönekopp et al., 2004: 1), and even the high growth rates of the past did not significantly diminish this gap. According to a projection by the German Institut für Arbeitsmarkt- und Berufsforschung (IAB) regarding the development of the GDP per capita in the new member states as a percentage of the average GDP per capita in the EU-15, the prosperity gap between the EU-15 and EU-8 will remain significant for a relatively long time into future, even if the more optimistic assumptions about EU-8 growth rates were to turn out true (see table 2).

Turning from assumptions about the future to actual experiences in the recent past, we see that optimistic extrapolations seem to be well supported (see table 3).

## 1.2 The Shadow Economy

Another important economic phenomenon which needs to be taken into account if we want to assess the EU-8 scenario of economic development is the size of the shadow

**Table 2: Prognosis for the Development of the GDP per Capita in the EU-8 in Relation to the Average GDP per Capita in the EU-15**

| Country | 2003 | 2010 | 2020 | 2030 |
|---|---|---|---|---|
| *Assumed annual GDP growth of 2.5 per cent in the EU-8 and 1.5 per cent in the EU-15* | | | | |
| Average EU-8 | 0.51 | 0.55 | 0.60 | 0.66 |
| Estonia | 0.45 | 0.48 | 0.53 | 0.58 |
| Latvia | 0.42 | 0.45 | 0.49 | 0.54 |
| Lithuania | 0.42 | 0.45 | 0.50 | 0.55 |
| Poland | 0.42 | 0.45 | 0.50 | 0.55 |
| Slovakia | 0.47 | 0.50 | 0.55 | 0.61 |
| Slovenia | 0.71 | 0.76 | 0.83 | 0.92 |
| Czech Republic | 0.63 | 0.67 | 0.74 | 0.82 |
| Hungary | 0.56 | 0.60 | 0.66 | 0.73 |
| *Assumed annual GDP growth of 3.5 per cent in EU-8 and 1.5 per cent in EU-15* | | | | |
| Average EU-8 | 0.51 | 0.58 | 0.71 | 0.86 |
| Estonia | 0.45 | 0.51 | 0.62 | 0.76 |
| Latvia | 0.42 | 0.48 | 0.58 | 0.70 |
| Lithuania | 0.42 | 0.48 | 0.59 | 0.71 |
| Poland | 0.42 | 0.49 | 0.59 | 0.72 |
| Slovakia | 0.47 | 0.54 | 0.65 | 0.79 |
| Slovenia | 0.71 | 0.81 | 0.98 | 1.19 |
| Czech Republic | 0.63 | 0.72 | 0.88 | 1.07 |
| Hungary | 0.56 | 0.64 | 0.78 | 0.94 |

*Source:* Hönekopp et al., (2004: 5); own compilation, own calculations

economy[7] as a percentage of the GDP. According to recent estimates, the shadow economy is, on average, twice as high in the Central and East European countries as it is in 21 OECD countries. The average size of the shadow economy in the new member states was almost 30 per cent of their official GDP in 2002/2003, as compared to an average of 16 per cent in 21 OECD countries for the same period (Schneider, 2004: 30). The respective sizes of shadow economies vary considerably among CEE coun-

7 The shadow economy is defined as the total of market-based legal production of goods and services that are concealed from public authorities in order to avoid payment of taxes and social security contributions, as well as to avoid compliance with regulatory standards (cf. Schneider, 2004: 4 f.)

**Table 3: Real GDP Change, 1994-2003**

| Country | Real GDP Change | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
| Austria | 2.6 | 1.6 | 2.0 | 1.6 | 3.9 | 2.7 | 3.4 | 0.8 | 1.4 | 0.7 |
| Belgium | 3.2 | 2.4 | 1.2 | 3.5 | 2.0 | 3.2 | 3.8 | 0.6 | 0.7 | 1.1 |
| Denmark | 5.5 | 2.8 | 2.5 | 3.0 | 2.5 | 2.6 | 2.8 | 1.6 | 1.0 | 0.4 |
| Finland | 3.9 | 3.4 | 3.9 | 6.3 | 5.0 | 3.4 | 5.1 | 1.1 | 2.3 | 1.9 |
| France | 2.1 | 1.7 | 1.1 | 1.9 | 3.4 | 3.2 | 3.8 | 2.1 | 1.2 | 0.5 |
| Germany | 2.3 | 1.7 | 0.8 | 1.4 | 2.0 | 2.0 | 2.9 | 0.8 | 0.2 | -0.1 |
| Greece | 2.0 | 2.1 | 2.4 | 3.6 | 3.4 | 3.4 | 4.4 | 4.0 | 3.9 | 4.3 |
| Ireland | 5.8 | 9.9 | 8.1 | 11.1 | 8.6 | 11.3 | 10.1 | 6.2 | 6.9 | 1.4 |
| Italy | 2.2 | 2.9 | 1.1 | 2.0 | 1.8 | 1.7 | 3.0 | 1.8 | 0.4 | 0.3 |
| Luxembourg | 3.8 | 1.4 | 3.3 | 8.3 | 6.9 | 7.8 | 9.0 | 1.3 | 1.7 | 2.1 |
| Netherlands | 2.9 | 3.0 | 3.0 | 3.8 | 4.3 | 4.0 | 3.5 | 1.2 | 0.2 | -0.7 |
| Portugal | 1.0 | 4.3 | 3.5 | 4.0 | 4.6 | 3.8 | 3.4 | 1.8 | 0.5 | -1.2 |
| Spain | 2.4 | 2.8 | 2.4 | 4.0 | 4.3 | 4.2 | 4.2 | 2.8 | 2.0 | 2.4 |
| Sweden | 4.2 | 4.1 | 1.3 | 2.4 | 3.6 | 4.6 | 4.3 | 0.9 | 2.1 | 1.6 |
| United Kingdom | 4.4 | 2.8 | 2.7 | 3.3 | 3.1 | 2.8 | 3.8 | 2.1 | 1.6 | 2.2 |
| Average EU-15 | 3.2 | 3.1 | 2.6 | 4.0 | 4.0 | 4.0 | 4.5 | 1.9 | 1.7 | 1.1 |
| Czech Republic | 2.2 | 5.9 | 4.3 | -0.8 | -1.0 | 0.5 | 3.3 | 3.1 | 2.0 | 2.9 |
| Estonia | -1.6 | 4.5 | 4.5 | 10.5 | 5.2 | -0.1 | 7.8 | 6.4 | 7.2 | 5.1 |
| Hungary | 2.9 | 1.5 | 1.3 | 4.6 | 4.9 | 4.2 | 5.2 | 3.8 | 3.5 | 2.9 |
| Latvia | 2.2 | -0.9 | 3.7 | 8.4 | 4.8 | 2.8 | 6.8 | 7.9 | 6.1 | 7.4 |
| Lithuania | -9.8 | 5.2 | 4.7 | 7.0 | 7.3 | -1.7 | 3.9 | 6.4 | 6.8 | 9.0 |
| Poland | 5.2 | 7.0 | 6.0 | 6.8 | 4.8 | 4.1 | 4.0 | 1.0 | 1.4 | 3.8 |
| Slovakia | 6.2 | 5.8 | 6.1 | 4.6 | 4.2 | 1.5 | 2.0 | 3.8 | 4.4 | 4.2 |
| Slovenia | 5.3 | 4.1 | 3.6 | 4.8 | 3.6 | 5.6 | 3.9 | 2.7 | 3.4 | 2.3 |
| Average EU-8 | 1.6 | 4.1 | 4.3 | 5.7 | 4.2 | 2.1 | 4.6 | 4.4 | 4.4 | 4.7 |

*Source*: United Nations Economic Commission for Europe, 2005; own calculations.

tries. While those of Latvia and Estonia, for instance, reach almost 40 per cent of their respective GDPs, the shadow economies of Slovakia and the Czech Republic are much closer in size (at 20.2 per cent and 20.1 per cent, respectively, in 2002/2003; see table 4) to those of the OECD average. The relative size of a given shadow economy reflects deficiencies in the administrative capacities of the respective new member states.

**Table 4: Size of the Shadow Economy in New Member States, 1999-2003**

| Country | Shadow Economy (in percentage of official GDP) | | |
|---|---|---|---|
| | 1999-2000 | 2001-2002 | 2002-2003 |
| Czech Republic | 19.1 | 19.6 | 20.1 |
| Estonia | 38.4 | 39.2 | 40.1 |
| Hungary | 25.1 | 25.7 | 26.2 |
| Latvia | 39.9 | 40.7 | 41.3 |
| Lithuania | 30.3 | 31.4 | 32.6 |
| Poland | 27.6 | 28.2 | 28.9 |
| Slovakia | 18.9 | 19.3 | 20.2 |
| Slovenia | 27.1 | 28.3 | 29.4 |
| Average | 28.3 | 29.0 | 29.9 |
| Germany | 16.0 | 16.3 | 16.8 |

*Source:* Schneider, (2004: 26, 30); own compilation and calculations.

Economic activities which are part of a shadow economy are known to harm the real economy in many ways. Losses of tax revenues and social contributions, for instance, cause a decrease in the quality of public services and may ultimately lead to increased tax rates as a consequence, thus setting in motion a vicious circle. Moreover, no contributions to social security or pension plans are made for persons employed in the shadow economy, thus these individuals could face poverty and reliance on public assistance benefits in old age. This condition applies, for example, to Poland and Hungary, where roughly 21 per cent of the respective labor forces are engaged in the shadow economy.

### 1.3 Taxation and Social Expenditures

In this section we compare corporate and personal income tax rates, value-added tax (VAT) rates, and payroll taxes for the EU-8 and the EU-15, in order to shed some light on the sources of fiscal revenues and their implications for social policies.

Corporate taxes in the new member states are on average much lower than in the EU-15. For instance, Poland reduced its statutory tax rate in 2004 from 27 per cent to 19 per cent; the Slovak Republic also did so, decreasing taxes from 25 per cent to 19 per cent; the Czech Republic decreased taxes as well, from 31 per cent to 28 per cent. In addition, the new member states grant considerable tax incentives to attract foreign

investors.[8] Average corporate taxes are not only substantially lower than those levied in EU-15, there is also a great deal of variation among EU-8 states, indicating an intense corporate tax-rate competition unfolding among them.

As to the taxation of personal income, the Baltic States and Slovakia implemented a flat income tax rate, with rates ranging between 19 per cent in Slovakia and 33 per cent in Lithuania. This had the effect of relieving the middle class from the distributive effects of tax progression.

Concerning the welfare-related expenditure side of the national budget, EU-8 levels of social spending are much lower than those to be found in the EU-15 (see table 5). This finding is in line with the well-known tendency for welfare budgets to increase/decrease in direct proportion to per-capita GDPs . While the new EU member states from the CEE region spend on average 19 per cent of their GDP on social welfare, the old member states reach a share of about 28 per cent. The greatest single factor accounting for this gap is under-spending by the EU-8 on health care, as compared to EU-15 average expenditures for the same. (EU Commission 2006: 102).

Not only the level of social expenditures, but also the source of financing differs somewhat between the EU-8 and the EU-15. Concerning the latter, we can observe a broad trend towards shifting contributory systems in the direction of a greater role being played by general tax revenues in financing social welfare insurance and other social expenditures. A similar trend can be observed in the emerging EU-8 welfare states, although (and perhaps due to the tradition inherited from the "Bismarckian" logic of state socialism and its social welfare policies) the shift towards greater financing through tax revenues appears to be somewhat delayed in the CEE region. Total labor costs in Central and Eastern Europe still consist, to a significant extent, of non-wage expenditures (e.g., social insurance contributions). For instance, in Poland social security contributions amount to 47 per cent of labor costs, and in Slovakia to more than 50 per cent, both countries surpassing even German and Italian expenditure rates. Thus, the new EU member states from the CEE apparently still rely more on contributory financing of social security than is the case for the average EU-15 member state (see table 6). However, the contribution rate determined by government often does not fully cover statutory expenses, so that deficits must be financed out of general tax revenues. The legacies of state socialism mean that the employers' share in contributions is usually higher than that of the employees (see table 6).

8 For an overview on tax incentives in the new member states, see ZEW and Ernst & Young, 2004: 31-35.

**Table 5: Social Expenditures[1] (as Per Cent of GDP) for the EU-15, EU-8, and EU-23**

| Country | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|
| Belgium | 28.1 | 28.6 | 27.9 | 27.6 | 27.3 | 26.9 | 27.5 | 27.8 |
| Danmark | 32.2 | 31.4 | 30.4 | 30.2 | 30.0 | 29.2 | 29.4 | 30.0 |
| Germany | 28.9 | 30.0 | 29.5 | 29.3 | 29.6 | 29.6 | 29.8 | 30.5 |
| Finland | 31.7 | 31.6 | 29.2 | 27.2 | 26.8 | 25.5 | 25.7 | 26.4 |
| France | 30.7 | 31.0 | 30.8 | 30.5 | 30.2 | 29.8 | 30.0 | 30.6 |
| Greece | 22.3 | 22.9 | 23.3 | 24.2 | 25.5 | 26.3 | 27.1 | 26.6 |
| United Kingdom | 28.2 | 28.1 | 27.5 | 26.9 | 26.5 | 27.1 | 27.6 | 27.6 |
| Ireland | 18.9 | 17.8 | 16.6 | 15.4 | 14.7 | 14.3 | 15.3 | 16.0 |
| Italy | 24.8 | 24.8 | 25.5 | 25 | 25.2 | 25.2 | 25.6 | 26.1 |
| Luxemburg | 23.7 | 24.1 | 22.8 | 21.7 | 21.7 | 20.3 | 21.3 | 22.7 |
| Netherlands | 30.9 | 30.1 | 29.4 | 28.4 | 28 | 27.4 | 27.5 | 28.5 |
| Austria | 28.9 | 28.8 | 28.8 | 28.5 | 28.9 | 28.4 | 28.6 | 29.1 |
| Portugal | 22.1 | 21.2 | 21.4 | 22.1 | 22.6 | 23.0 | 24.0 | 25.4 |
| Sweden | 34.6 | 33.8 | 32.9 | 32.2 | 31.8 | 30.8 | 31.4 | 32.5 |
| Spain | 22.1 | 21.9 | 21.2 | 20.6 | 20.3 | 20.2 | 20.1 | 20.2 |
| Estonia | – | – | – | – | – | 15.1 | 14.3 | – |
| Latvia | – | – | – | – | – | 15.3 | 14.3 | – |
| Lithuania | – | – | – | – | – | 16.2 | 15.2 | – |
| Poland | – | – | – | – | – | 20.7 | 22.1[2] | – |
| Slovakia | 18.7 | 19.8 | 20 | 20.2 | 20.2 | 19.5 | 19.1 | 19.2 |
| Slovenia | – | 24.4 | 24.8 | 25.0 | 25.0 | 25.2 | 25.5 | 25.4 |
| Czech Republic | 17.0 | 17.3 | 18.3 | 18.3 | 19.1 | 19.3 | 19.2 | 19.9 |
| Hungary | – | – | – | – | 20.7 | 19.8 | 19.8 | 20.9 |
| EU-25 | – | – | – | – | – | 27.0 | 27.3 | – |
| EU-15 | 28.2 | 28.4 | 28.0 | 27.5 | 27.4 | 27.3 | 27.6 | 28.0 |
| EU-8 | – | – | – | – | – | 18.9 | 18.7 | 21.4 |

1 Social expenditures as a percentage of the GDP include health, disability, old age, survivor dependent compensation, family benefits, unemployment, housing and public assistance.

2 According to Walwei (2004: 3) the Polish share of social expenditure as per cent of GDP was almost 30 per cent.

*Source:* Wirtschaftskammer Österreich (2005); own calculations.

**Table 6: Social Insurance Contribution Rates of Employers and Employees, 2002 (in Per Cent)**

| Country | Pensions—Old Age, Survivor, and Disability | Health | Unemployment | Other—Maternity, Illness, Occupational Diseases | Total |
|---|---|---|---|---|---|
| *Total (Employer/Employee), Percentages of Wages Before Taxes* | | | | | |
| Czech Republic | 26<br>19.5 + 6.5) | 13.5<br>(9 + 4.5) | 3.6<br>(3.2 + 0.4) | 4.4<br>(3.3 + 1.1) | 47.5 |
| Estonia | 20<br>(employer)[1] | 13<br>(employer)[2] | 1.5<br>(0.5 + 1) | – | 34.5 |
| Hungary | 26<br>(18 + 8) | 14<br>(11 + 3)[3] | 4.5<br>(3 + 1.5) | – | 44.5 |
| Latvia | 30.86 | general taxes | 1.9 | 2.33 | 35.09[4] |
| Lithuania | 25<br>(22.5 + 2.5) | 3.0<br>(employer)[5] | 1.5 | 4.5<br>(4 + 0,5) | 34 |
| Poland | 32.52<br>(16.26 + 16.26) | 7.75<br>(employee) | 2.45<br>(employer) | 4.07<br>(1.62 + 2.45) | 46.79 |
| Slovakia | 28<br>(21.6 + 6.4) | 14<br>(10 + 4) | 3.75<br>(2.75 + 1) | 4.8<br>(3.4 + 1.4)[6] | 50.55 |
| Slovenia | 24.35<br>(8.85 + 15.5) | 12.92<br>(6.56 + 6.36) | 0.2<br>(0.06 + 0.14) | 0.73<br>(0.63 + 0.1) | 38.2 |

1 Contributions to funded pension scheme as of 1 July 2002: plus 2 per cent of the wage.
2 Including illness cash benefits.
3 The employer pays an additional lump sum of HUF 4500 (approximately 18 euros) per month to the Health Insurance Fund.
4 Nine per cent of the overall contribution rate is paid by the employee.
5 No direct employees contribution, but 30 per cent of the income tax of the employee are transferred to health insurance.
6 The employer pays for occupational risk insurance additionally between 0.2 and 1.2 per cent.

*Source:* European Commission (2003: 28), own compilation.

To some extent, the EU-8 do seem to stick to the Bismarckian model, regarding the mode of financing the welfare state, which relies on social security contributions shared between employers and employees, and levied against wages, with general tax revenues playing only a marginal role. However, the new member states also suffer from poor labor market performance which is due, in part, to the high non-wage costs of employment (cf. Knogler, 2002). High non-wage labor costs weaken the already imbalanced labor market and shrink the contribution base as a result of increasing incentive to participate in the shadow economy. Therefore, there seems to be at best, only very limited room to increase revenues by increasing contribution rates.

## 2. Social Protection Systems in the Central and East European Member States[9]

In the following sections we try to identify, in some detail, similarities and differences in the design of social welfare systems in the EU-8. In order to achieve a clearer picture of scope, source, and level of social security in the EU-8, we review the key features of health care, the pension system, measures against social exclusion and poverty, and unemployment insurance and labor market policy. On the basis of this account we shall further discuss the nature and specificity of EU-8 welfare states.

### 2.1 Health Care

In the former state socialist EU-member countries, health care was state controlled and revenues were collected predominantly from state-owned companies. Private contributions existed (if they existed at all) in the form of informal "bribes" that were needed to jump the queue.[10] The entitlement to free health care in the CEE was institutionalized as a right of citizenship.

The challenges that post-communist governments had to cope with pertained to the reorganization of health services and of the mode of financing them. These tasks had to be solved in the context of persistent expectations and demands from a public which continues to regard, in line with state-socialist patterns, the state as provider (rather than mere regulator) of health care (cf. Kornai/Eggleston, 2001). Although the organization of health care diverges from case to case, all of the new EU member states from the CEE have adopted a contributory ("Bismarckian") model of financing parts of health expenses (see table 7). The Czech Republic, Estonia, Hungary, Slovakia, Slovenia, Latvia, and Lithuania, roughly following the German pattern, introduced a system of self-governing, state-regulated regional health insurance funds in the first half of the 1990s, followed by Poland in the late-1990s. The mode of financing health services differs among the new EU member states from the CEE: Latvia and Poland finance a large portion of health expenses through taxation, while the Czech Republic, Estonia, Hungary, Lithuania, Slovakia, and Slovenia rely mostly on contributions. Overall health care expenditures as a percentage of the GDP range from 5.9 per cent in Latvia to 8.9 per cent in Slovenia (data for the year 2000, European Commission,

9 The sections 2.1 to 2.3 rely on the European Commission (2004) report on social protection systems in the candidate countries for basic information.

10 The latter remained a prominent feature in the new member states (Kovács, 2002, Dietrich, 2003: 113).

2004: 122) and is just over one half of the relative size of health expenditures in the EU-15. (European Commission, 2004: 224)

**Table 7: Shift toward the Bismarck Model of Social Health Insurance (SHI)**

| Country | Year SHI Law Passed | Year Contribution Collection Began | Autonomy of Health Insurance Fund(s)[1] | Contributions and Benefits Set by the Government |
|---|---|---|---|---|
| Czech Republic | 1990 | 1993 | Yes | No |
| Estonia | 1991 | 1992 | Yes | Yes |
| Hungary | 1991 | 1991 | No | Yes |
| Latvia | 1993 | 1993 | Yes | No |
| Lithuania | 1991 | 1991 | No | Yes |
| Poland | 1997 | 1999 | Yes | No |
| Slovakia | 1994 | 1994 | Yes | N/A |
| Slovenia | 1992 | 1992 | Yes | Yes |

1 Autonomy is defined as health insurance funds "… that are administered by an agency other than the government itself. This could be through a national health insurance fund which would be in charge of setting and collecting and distributing funds" (European Commission, 2004: 98).

*Source:* European Commission, 2004: 97.

Governments of the EU-8 approached the problem of reorganizing and financing health care by cutting or privatizing hospital capacities. Also, administrative decentralization of health service facilities to local and non-profit agencies was an important instrument for reforming primary and secondary health care. As a consequence of the downsizing of medical capacities, the provision of services became precarious in some regions. In the EU-15 on average, 96 per cent of the citizens need less than one hour to reach a hospital, while this is true for only 87 per cent of the CEE citizenry (European Foundation for the Improvement of Living and Working Conditions 2004:26 f.).

Health care developments can roughly be summarized as follows. Financing services (and thus the demand side of the health market) has largely remained a matter of mandatory contributions and taxes, while the actual provision of services (i.e., the supply side) is partly assigned to private and decentralized actors. User fees are common for prescription drugs, dental care, and some rehabilitation services. Private health insurance was introduced in some countries (Estonia, Slovenia and the Czech Republic), but plays only a minor role in the overall financing of health care (Dietrich,

2003: 99). In addition, all countries introduced mechanisms to enhance the efficiency and control the quality of medical services supplied.

Eastern enlargement has had a significant impact upon the health systems in the EU-8, since it facilitates migration (cf. EU Commission 2003: 241). In principle, both supply-side actors (e.g., medical doctors) and demand-side actors (patients and their health funds) can seek advantages by crossing member states' borders. To a limited extent, patients who are nationals of new member states are permitted to undergo treatment abroad; they may choose to do so because of the limited availability and/or poor quality of medical treatment available at home. As their health funds will have to cover medical costs abroad, these must increase substantially. Conversely, some of the EU-8 member states are expected to profit from the competitively priced health services (such as spa treatments) that they can provide to patients from other EU countries. From the supply-side perspective, there are strong incentives for medical professionals from the new member states to relocate to older ones—in particular, higher status and income—assuming that professional qualifications and training curricula will be further harmonized throughout the EU. In turn, this development, could trigger an outflow of skills and a "brain drain" among medical professionals in their respective countries of origin .

### 2.2 Social Exclusion and Poverty

After the political transformation following the collapse of the old regime in 1989, the eight new EU members from the CEE faced the new challenge of having to fight poverty and social exclusion, which resulted from the steep increase in income inequality and the poor labor market performance that accompanied the economic transition from a social market to a private market economy. Although not absent under the old regime, poverty was largely a condition experienced by those who were outside of employment, i.e., the pensioners, while (open) unemployment was a virtually unknown phenomenon. "… [I]n former socialist countries poverty issues were not explicitly on the political agenda" (EU Commission, 2004: 243).

The picture changed dramatically in the early 1990s when a large number of workers lost their jobs, real wage levels decreased under the impact of high inflation rates, and shrinking state-provided transfers and services failed to cope with the kinds and scopes of newly emerging risks; as a consequence, "poverty became widespread" (*ibid.*). The early retirement age that was characteristic for state socialist regimes inflated the ranks of pensioners in need of transfers, and the relatively low life-expectancy of men aggravated the problem of financing survivors' pensions, while

company-operated social services and facilities disappeared with the companies or, at any rate, the companies' ability to provide them. States and state-operated companies became unable to care for dependent and highly vulnerable segments of the population such as the elderly, disabled, orphaned or abandoned children, and the residents of backward, rural areas; vulnerability and marginalization were also tied to the conditions of juvenile delinquency, teenage pregnancy, substance abuse, and prostitution, as well as blatant forms of gender discrimination against women. (*ibid.*: 245) Women were more strongly affected than men by the new labor market dynamics of rising unemployment, since a comparatively high share of the female labor force was employed in agriculture in rural areas where wages tended to be much lower than in urban areas. Their male counterparts tended to migrate to other areas and usually better paid occupations.

All of these developments exacerbated the pressures that had to be dealt with by families who became the ultimate safety net by default. There are also strong indications that the state socialist system with its paternalistic and authoritarian features had discouraged the rise of "social capital" and other civil society virtues of caring locally for the rights and well-being of fellow citizens, be it within or outside of religious charities and need-based services, all of which are arguably the most elementary forms of solidarity in social life (cf. Howard 2003). At the same time, political democratization made the issue of poverty and the policies to alleviate it increasingly salient items on the political agenda. In addition, in some countries the issue of poverty merged with the issue of civil and social rights of minorities, most importantly, the Roma. In Hungary, for instance, this ethnic group made up one-third of the long-term poor, constituting only about five or six per cent of the overall population. In Slovakia, 80 per cent of the Roma population had to rely on public assistance and disability benefits.

However, early recognition of the existence of poverty issues was rare in the CEE countries, with the notable exceptions of the Czech Republic and Slovenia. These two countries responded timely to the new challenge of poverty in the beginning of early-1990s while, in other countries of the region, poverty and the poor emerged as a policy issue only in the latter half of that decade. This delay in poverty-related policy formation had various causes such as the political priority accorded to pension and unemployment reforms, the poor representational resources and "voice" of the groups affected by poverty, as well as the widespread belief that poverty is a natural yet transitory side-effect of economic transformation. Not only was poverty for some time disregarded by policy makers, it was also hidden from observation by the failure of

official statistics to take account of the phenomenon. If such accounting occurred at all, it was performed by international actors such as the World Bank, ILO, and the UNDP (European Commission, 2004: 176 f.). The Polish government began to respond in the mid-1990s to a poverty report that was submitted by the World Bank; similar responses occurred in Estonia in 1999 and Latvia in 1998. It was only in the course of the accession process that preceded actual enlargement that poverty and social exclusion gained attention due to the EU's emphasis on "fighting exclusion" and the precondition that new member states had to comply with EU standards and policies. Yet the risk of workers becoming part of the "working poor" still appears to be considerably higher among the EU-8 than it is in the EU-15.

The institutional means through which the problem of poverty has been addressed in the CEE region are family and child benefits, and means-tested public assistance. In addition, there are housing subsidies for the poor (Slovenia, Poland) and some rudimentary NGO-operated charitable services and support. As is the case elsewhere, public assistance operates on the basis of an income-level "poverty line," below which individuals and families are entitled to (cash, in-kind, or service) benefits that will supposedly help to sufficiently narrow or close the gap. Family and child benefits as well as public assistance are tax-financed and administered on the local level in all countries. Coverage varies but seems nevertheless not quite sufficient.

To summarize, it seems to be fair to say that social exclusion and poverty are issues that were measured, recognized, and addressed only belatedly (in anticipation of accession) in most of the new member states. Poverty in the Central and Eastern European countries is a complex result of the conditions of unemployment, poor health, ethnicity, the breakdown of the safety net of the former state socialist regime, and administrative and financial deficiencies that prevent anti-poverty schemes from working effectively. Again, no general institutional pattern can be identified across countries and across time, with the only valid generalization being the dysfunction and fiscal constraints which stand in the way of adequate and effective (including preventative) policy measures to alleviate poverty and exclusion.

### 2.3 Pensions

Under the old regime, CEE countries relied on a centralized state-provided pension system. In general, the dominant pension scheme consisted of two tiers, with the first tier being the mandatory public scheme and the second tier being quasi-mandatory (in countries with low flat-rate benefits) or voluntary (in countries with more generous benefits). In addition, the retirement age was (and still is) considerably lower in CEE

states (60 years or younger) than in the older member states. Even after raising the retirement age during the last decade, none of the new member states has so far reached the EU-15 standard mandating a 65-year threshold as the statutory retirement age (see table 8).

**Table 8: Changes in Statutory Retirement Age**

| Country | Pre-Reform Retirement Age | | Change as an Element of Pension Reform | | |
|---|---|---|---|---|---|
| | | | | Final Retirement Age (Year When This Will Be Realized) | |
| | Men | Women | Year of Change | Men | Women |
| Czech Republic | 60 | 53-57[1] | 1996 | 62 (2006) | 57-61 (2006) |
| Estonia | 60 | 55 | 1994 | 63 (2007) | 60 (2016) |
| Hungary | 60 | 55 | 1998 | 62 (2001) | 62 (2009) |
| Latvia | 60 | 55 | 1995 | 62 (2003) | 62 (2008) |
| Lithuania | 60 | 55 | 1999 | 62.5 (2003) | 60 (2006) |
| Poland | 65 | 60 | 1999[3] | – | – |
| Slovakia | 60 | 53-57[1] | no change | – | – |
| Slovenia | 60 (58[2]) | 55 (53[2]) | 1999 | 63 (58[2]) (2000) | 61 (58[2]) (2000) |

1 Retirement age depends on number of children (57: childless; 56: 1 child; 55: 2 children; 54: 3 children.

2 Earliest possible retirement with 40 years of service (for men) or 35 years (for women; after the reform in 1999, 38 years).

3 Statutory retirement age in principle unchanged, but before 1999 there were many exceptions (lower retirement ages for specific groups).

*Source:* European Commission, 2004: 67, own compilation.

Moreover, we must keep in mind that the actual average retirement age is even lower than the statutory retirement age. This is due to early retirement resulting from precarious health conditions or disability of elderly employees, and the high rates of unemployment among older workers. As is the case in some western European countries, the pension system is effectively used (through arrangements facilitating "abnormal" retirement, as Vanhuysse (2006) calls it) to conceal unemployment, and particularly so where effective unemployment insurance is not in place. This "solution," however, comes at a price: it consists in vast fiscal imbalances between the revenues which the pension system extracts from contributors and the payments which it makes to retired recipients. What this imbalance seems to call for, according to the logic of pay-as-you-go (PAYG) systems, is a *raising* of the statutory retirement age in the public pensions system ("first pillar")—a move, however, which is precluded,

because this would only increase the gap between the nominal and the actual retirement ages, given the generally unfavorable labor market situation. As a way out of this dilemma, the burden of providing income to the elderly has partly been shifted to a funded system with mandatory elements, be it in the form of occupational pensions ("second pillar") or private savings ("third pillar"). Thus all countries have devised multi-tiered models, whereby the first tier is the basic public pension, the second consists in supplementary funding (usually provided by public-private or private schemes, e.g., by employers), and the third consists in additional funding through private savings.

The new member states differ with regard to the time and extent of the introduction of mandatory elements in their respective pension schemes. Only Latvia, Hungary, Poland and Estonia (and another candidate country, Bulgaria) have implemented mandatory systems since the late-1990s. Slovakia implemented pension reforms only as of January 2005. Slovakian workers can choose to remain entirely in the PAYG system or to commit a part of their pension savings to investment funds (Tupy, 2006).

Other countries like Slovenia and the Czech Republic decided to reform their first pillar by raising retirement ages and strengthening the contribution-benefits link. The Czech Republic split the first tier into two components: the first includes a citizenship-based flat rate pension and is complemented by the second, a professional status and earnings-related pension scheme. In addition, a voluntary supplementary pension scheme is available that is run by joint stock companies. (Cerami, 2005: 76 f.). Slovenia introduced a comparable system with a mandatory first pillar scheme (pay-as-you-go), based on citizenship, which is universal in scope and coverage (e.g., contributions for unemployment compensation are also made by the state). Its second pillar is based on an income differentiation scheme managed by the state through the Institute of Pension and Disability Insurance of Slovenia (*ibid*.: 84). Thus Slovenia remained closest to the universal and redistributive pension scheme which was typical for the communist regimes. This can be explained as a result of having strong unions which succeeded, for instance, in blocking influence and staving off pressure from the World Bank or the IMF. None of the new member states introduced a privately managed first pillar; thus the Latin American (Chile) model does not seem to have been considered a real option.

The collectivist concept of solidarity that was institutionalized in the centralized and universalized system of pensions under state socialism thus gave way to a pluralist and vastly more complex system in which PAYG and funds, and mandatory and voluntary elements play a role. The new concept of solidarity is less demanding in terms

of interpersonal redistribution. What it does emphasize, instead, is a kind of longitudinal solidarity, or the solidarity of present individuals (accumulating savings out of current incomes) with their future selves (receiving capital yields in proportion to those savings). In order for this liberal (as opposed to its state socialist counterpart) notion of solidarity and responsibility to become operative, strong institutional underpinnings are needed, for instance, in the form of a well-functioning and adequately regulated banking system which guarantees a link between present funds and future benefits. Similarly, and as far as the remaining public PAYG system is maintained, its adequate operation depends upon the availability of the administrative capacity that is needed to force (foremostly) employers to do their duty and to actually make the mandatory social security contributions that are expected of them. "Contribution evasion" by employers has reportedly become a widespread phenomenon in the region (a "common and fashionable sport"). Similarly, workers violate norms of solidarity (be it solidarity with fellow workers or be it solidarity with their own future selves) by drawing incomes from the shadow economy, the illegal economy, or by underreporting their wages (European Commission 2003: 237 f.).

The problems that policymakers in post-socialist countries must deal with are not just caused by labor market, financial, and demographic conditions. As if that were not already enough of a burden, these problems are also caused by widespread anti-solidarity patterns such as future-discounting or other-disregarding "attitudes of disregard". Unsurprisingly from a sociological point of view, the generalization may not have been entirely over-simplified that, as soon as the authoritarian centralist lid was lifted off the pot of state socialist society, the transition process was marked by symptoms of widespread opportunism, "short-termism," and the corrosion of loyalties to institutions that are the indispensable underpinnings of any version of solidarity.

Again, as in health care, none of the new EU member states has rejected its general responsibility for social security. All provide basic coverage which is complemented by a second and third pillar, with the former often provided by public-private or private schemes and the latter consisting of private savings. However, poverty in old age is a problem in many of the new member states. Due to an absence of indexing in the CEE region, pensions decreased dramatically in value and could fall well below subsistence level. Additional funding schemes like the National Pension in Estonia have corrected this problem at least partly, while other countries have granted a flat-rate pension below minimum income levels. Pensioners without substantial savings, other sources of income, or family support thus find it hard to make a living.

### 2.4 Labor Market Performance and Unemployment

All of the transition economies faced a severe recession in the beginning of the 1990s. The bottom was reached for most of them in 1992/93, but since then the CEE countries have experienced higher average growth rates than the EU-15. However, overall economic performance differs considerably among CEE states.

As discussed in section 1.1, there is little reason to expect current growth rates to persist in the medium-term future. But even the high growth rates of the mid-nineties did not lead to anything approaching "full" employment. Labor market performance varies among the new member states, but unemployment rates are on average higher than those for the EU-15 (with the notable exceptions of Slovenia, the Czech Republic, and Hungary; see table 9). Labor market participation rates, especially for the young and the elderly, are low, and long-term unemployment is a severe problem (see table 9). High unemployment rates among young people reached dramatic dimensions in some countries—almost a third of the 15- to 25-year-olds in CEE countries are jobless (in Poland the level is 40 per cent). Many in this category lack vocational skills and working experience, and thus constitute a pool of largely "unemployable" labor. (Barysch, 2005: 10). The labor market situation is further aggravated by migration especially that of highly skilled labor ("brain drain"). Depending on the volume of outward migration, it may well result in a substantial net loss of human capital in the new member states. Thus, migration is likely to be less of a problem for target countries than for the countries from which it originates. In addition, low birth rates and ageing societies lead to a shrinking labor force. Demographic change will hit the CEE countries with a time lag, since birth rates were on average higher than in the EU-15 until the 1980s. (*ibid.:* 3 f.) The massive material incentives for East-West labor migration (including "commuter migration") will be further counterbalanced by two constraints: one is the right of EU-15 member states to delay full labor mobility by up to seven years after accession; the other is the presence of linguistic barriers in a Europe with some twenty official languages.

**Table 9: Key Labor Market Indicators for the New Member States, 2003**

| Countries | Labor Market Participation Rate (Percentage of Population) | | | | | Unemployment Rate (ILO; Percentage of Labor Force) | | | | Comparative Employment Structure by Sector (Percentage of Employed Labor Force) | | | Employment by Type of Contract (Percentage of Employed Labor Force) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | | Self-Employed[1] | | | |
| | Total (15-64 Years) | Youth (15-24 Years) | 25- 54 Years | Elderly (55-64 Years) | Woman (15-64 Years) | Total | Youth (15-24 Yrs) | Women | Long-Term Unem-ployed | Service Sector | Industry | Agricul-ture | Total | Without Agricul-ture | Part-Time | Limited Contracts |
| Average, new member states | 59.9 | 27.2 | 77.0 | 36.0 | 54.8 | – | – | – | – | – | – | – | 13.1 | 8.8 | – | – |
| Estonia | 62.9 | 29.3 | 77.8 | 52.3 | 59.0 | 10.1 | 22.9 | 10.0 | 4.6 | 61.5 | 32.3 | 6.1 | 8.1 | 6.4 | 8.5 | 2.5 |
| Latvia | 61.8 | 31.5 | 77.7 | 44.1 | 57.9 | 10.5 | 17.6 | 10.7 | 4.3 | 60.8 | 25.8 | 13.4 | 9.5 | 5.0 | 10.3 | 11.1 |
| Lithuania | 61.1 | 22.5 | 78.9 | 44.7 | 58.4 | 12.7 | 27.2 | 13.3 | 6.1 | 54.1 | 28.0 | 17.8 | 17.1 | 6.2 | 9.6 | 7.2 |
| Poland | 51.2 | 21.2 | 67.5 | 26.9 | 46.0 | 19.2 | 41.1 | 20.0 | 10.7 | 53.0 | 28.6 | 18.4 | 21.7 | 9.9 | 10.5 | 19.4 |
| Slovakia | 57.7 | 27.4 | 76.0 | 24.6 | 52.2 | 17.1 | 32.9 | 17.4 | 11.1 | 61.5 | 34.1 | 4.4 | 9.4 | 9.0 | 2.4 | 4.9 |
| Slovenia | 62.6 | 29.1 | 82.5 | 23.5 | 57.6 | 6.5 | 15.9 | 7.1 | 3.4 | 52.3 | 36.9 | 10.9 | 9.8 | 6.6 | 6.2 | 13.7 |
| Czech Republic | 64.7 | 30.0 | 81.7 | 42.3 | 56.3 | 7.8 | 18.6 | 9.9 | 3.8 | 56.1 | 39.4 | 4.5 | 16.7 | 15.9 | 5.0 | 9.2 |
| Hungary | 57.0 | 26.8 | 73.7 | 28.9 | 50.9 | 5.8 | 13.1 | 5.5 | 2.4 | 62.3 | 31.9 | 5.8 | 12.8 | 11.2 | 4.4 | 7.5 |
| Average EU-15 | 64.4 | 39.9 | 77.2 | 41.7 | 56.0 | 8.1 | 15.6 | 9.0 | 3.3 | 71.0 | 25.0 | 4.0 | 14.2[2] | 12.1[2] | 18.6 | 12.8 |
| EU-15 maximum | 75.1 (DK) | 67.9 (NL) | 84.5 (A) | 68.6 (S) | 71.5 (S) | 11.3 (E) | 27.0 (I) | 15.9 | 5.1 (GR) | 80.0 (UK) | 33.8 (P) | 16.1 (GR) | 32.4 (GR) | 21.5 (GR) | 45.0 (NL) | 30.6 (E) |
| Germany | 65.0 | 44.5 | 78.1 | 39.5 | 59.0 | 9.6 | 10.1 | 9.2 | 4.6 | 70.3 | 27.2 | 2.4 | 10.4 | 9.6 | 22.3 | 12.2 |
| EU-15 minimum | 56.1 (I) | 25.2 (I) | 70.7 (I) | 28.1 (B) | 42.7 (I) | 3.7 (L) | 6.8 (NL) | 4.0 | 0.9 (L) | 53.8 (P) | 19.0 (UK) | 0.9 (UK) | 8.4 (DK) | 6.7 (DK) | 4.3 (GR) | 4.5 (L) |

1 Labor force total.

2 Without NL.

*Source:* Hönekopp (2005: 3); own calculations and compilation.

The new member states achieved increasing productivity levels at the expense of jobs and the structure of their respective labor markets which are still dominated by industry and agriculture, and characterized by a largely underdeveloped service sector. These countries face a problem that is well known in the old member states, namely, jobless growth (*ibid*.).[11] Foreign investment in the mass-production sector cannot cure CEE labor markets in the long run (nor is this the goal of foreign investors), and their future as low-cost production countries is contested by Asian markets. As a consequence of these factors, the new EU member countries face difficulties similar to those plaguing the older member states, albeit on a larger scale.

Since 2001, a slight improvement in labor market performance in the CEE states can be observed. However, since growth rates are predicted to decrease and more restrictive economic policies are expected to be applied in the new member states, a stable and substantial recovery of the labor markets in the countries under study appears unlikely (cf. Knogler, 2002). As a consequence, not a single country in the CEE region fulfills any of the three targets set by the Lisbon Strategy[12] as part of its overall aim to achieve "full" employment and combat social exclusion within the EU: that is, having 70 per cent of the population aged 15 to 64 years, 50 per cent of the elderly (aged 55+) and 60 per cent of women economically active (see table 9).

As unemployment was (at least officially) virtually unknown under the communist regimes, institutions that deal with this feature of capitalist democracies had to be built from scratch. Institutional designs of provisions for the unemployed vary considerably among the new member states. These designs range from an unemployment scheme with flat-rate benefits framed into a comprehensive social security system such as in Latvia's, over a generous[13] contributory and earnings-related unemployment insurance system such as Hungary's, to a tax-financed flat-rate system with strict entitlement rules such as that in Estonia (up to 2002), which comes closer to a form of public assistance. A special case is the Czech Republic: Here a generous status-related

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11 The ILO World Employment Report, 2004-2005 states: "The deep transitional crisis and subsequent large structural changes in these economies greatly affected the labor markets of this region. Firms closed, many people lost their jobs, and only the most productive businesses survived. On the whole, the growth rates of output and productivity turned negative or at best remained modestly positive. Hence the loss of jobs during the previous decade was not the result of productivity growth but of stagnating productivity levels during the communist era" (ILO, 2005: 91).

12 A ten-year program (2000-2010) adopted by the European Council during the March 2000 meeting of European heads of state in Lisbon (the Lisbon Summit), which established an ambitious framework of socio-economic and structural reform, designed among other things to increase social inclusion, revitalize growth and enhance sustainable development within the European Union.

13 Although cuts and active employment measures were implemented during the Orbán government, 1998-2002, and abandoned again by the reelected post-communist government.

unemployment scheme is complemented by a policy of active employment promotion. The duration of entitlement is short (six months) and, after that period has elapsed, unemployment benefits are replaced by unemployment assistance which is below the level of minimum subsistence. Employers are legally forced to register job vacancies within five days. Seventy-seven district labor offices administer retraining and qualification schemes, and other activating measures. The Slovakian case is similar, although employment policies are more centralized than in the Czech Republic.

Poland changed its unemployment policies after 1994. Before 1994 a contributory, universal, low-level flat-rate system was implemented, which was closer to public assistance than to unemployment insurance. After 1994, the criteria for eligibility were tightened and active employment measures were implemented. In addition, the duration of entitlements differs according to regional labor market performance. In regions with average or above average labor market performance, the period of entitlement can be up to 18 months. In regions with a high unemployment rate, the period of entitlement may be as short as six months—an arrangement which is obviously designed as an incentive to regional mobility.

Slovenia's unemployment compensation system resembles the German model[14] (before the "Hartz Reforms") with its contributory, earnings-related threefold system: unemployment insurance, unemployment assistance, and ultimately a tax-financed system of public assistance. Benefits are comparatively generous and can amount to up to 70 per cent of former net earnings.

In sum, the level of real unemployment benefits has decreased in all of the new EU member states. This development is due in part to the absence of indexation to (high) inflation rates, and in part to budgetary constraint and cuts (Knogler, 2002: 42).

Regarding labor relations and wage determination, centralized wage bargaining is of declining importance. This is due to the absence of uniform labor legislation, low levels of collective action on the part of the employers, and the declining significance of works councils. Labor relations in the new member states seem to emulate Anglo-Saxon models, although union density in these countries is on average similar to the degree found in the EU-15. Labor markets are still not yet uniformly regulated concerning labor law and collective agreements (cf. Walwei, 2004: 2; Knogler, 2002: 15). As far as internal patterns of income distribution are concerned, the new member states are close to the EU-15 average (see table 10), with Gini-coefficients for Poland

14 The first unemployment legislation in Slovenia (then a republic within Yugoslavia) was passed in 1974; the Slovenian system emulated in fact the German system.

and the Baltic states being at the upper end of their EU-15 counterparts. However, the external disparities between old and new member states with regard to absolute wage levels remain substantial.

**Table 10: Gini-Coefficient for Income Distribution—New Member States (EU-8) and the EU-15**

| Countries | Year | Gini Coefficient |
|---|---|---|
| Czech Republic | 2001 | 25,0 |
| Estonia | 2002 | 35,0 |
| Hungary | 2001 | 23,0 |
| Latvia | 2002 | 34,0 |
| Lithuania | 2001 | 32,0 |
| Poland | 2001 | 30,0 |
| Slovakia | 1992 | 19,5 |
| Slovenia | 2000 | 22,0 |
| EU-15 | 1999 | 22,0 |
| EU-15 range | | 23-24 |

*Source:* Walwei (2004: 3).

As to income inequality within the European Union as a whole, eastern enlargement increases the Gini-coefficient dramatically (see table 11). Not only did the Gini-coefficient rise, but also the percentage of the low-income population segment jumped from 19.9 (EU-15) to almost 30 per cent with the last enlargement. Any further enlargement will increase inequality and poverty even more, and push roughly half of the European population below the poverty threshold.

The prospects for intensive integration within the enlarged European Union are gloomy, and fears of increasing migration are widespread and intense, particularly so in countries along the border between the EU-15 and the EU-8. However, recent estimates raise doubts about massive migration coming to materialize. According to one estimate, annual migration on an order of magnitude of one to one-and-a-half million people is to be expected for the next fifteen years (Höhnekopp et al., 2004: 4). This comparatively low number is due to demographic factors. The new member states face the same demographic developments as the EU-15—a decreasing labor force and an increasing share of elderly people—albeit with a time lag. Also, some of the EU-8 will

turn from emigration into immigration countries, because they are likely to become attractive destinations for migrant laborers from Belarus, Russia, the Ukraine, and Moldova. Assuming that labor migration within the EU-25 will follow patterns known from the past among the EU-15, migrants will exhibit high-level skills, and their movements will constitute a "brain drain" towards the West (*ibid.*; Knogler, 2005 and see above.).

**Table 11: Income, Inequality, and Poverty in the EU**

| EU Constellation or Country | Population[1] | Average Income | Median Income | Gini-Index | Percentage Low Income[2] |
|---|---|---|---|---|---|
| EU-6 | 222 | 9,326 | 7,892 | 31.0 | 12.5 |
| EU-9 | 289 | 9,343 | 7,892 | 32.1 | 14.2 |
| EU-12 | 348 | 8,633 | 7,166 | 34.2 | 19.9 |
| EU-15 | 370 | 8,622 | 7,274 | 34.2 | 19.9 |
| EU-25 | 444 | 7,685 | 6,231 | 38.0 | 29.6 |
| EU-27[3] | 476 | 7,314 | 5,959 | 39.9 | 33.3 |
| EU-28[4] | 535 | 6,793 | 5,426 | 42.3 | 38.5 |
| EU-28+[5] | 550 | 6,662 | 4,973 | 43.0 | 40.0 |
| EU-28++[6] | 620 | 6,138 | 4,633 | 45.4 | 45.6 |
| USA | 258 | 12,381 | 9,924 | 39.4 | 10.0 |
| Australia | 18 | 9,083 | 7,600 | 34.5 | 10.0 |
| Canada | 29 | 11,716 | 10,082 | 31.0 | 10.0 |
| India | 901 | 521 | 443 | 32.8 | 100.0 |

1 In millions.
2 Income below 50 per cent median of EU-6.
3 EU-27 = EU-25 + Bulgaria and Romania.
4 EU-28 = EU-25 + Bulgaria, Romania, and Turkey.
5 EU 28+ = EU-28 + Western Balkans.
6 EU 28 ++ = EU-28 + Western Balkans, Belarus, Ukraine, and Moldova.

*Source:* Boix (2004: 7).

The variety of institutional designs, levels, scope, and duration of and minimum requirements for benefits owe to different factors. Different strategies of privatization matter, since their structure and their success or failure led to different results in terms of job loss and institutional designs for protection against unemployment (cf. Stark

and Bruszt, 1998; Cerami, 2005: 119). Moreover, countries reacted differently to international pressures to reform or implement systems for protection against unemployment; social and political mediation resulted in different policy outcomes.

The implementation of active labor market policies has been only recently enforced in most of the countries under study (with the notable exception of Hungary which has coped most successfully with unemployment in the region). This delay is due to two developments. First, public attitudes towards unemployment tended to regard it as a transitional feature or even as "healthy" for more rapid economic development away from the artificial planned economy under the communist regimes. This attitude was fostered additionally by the neo-liberal rhetoric employed by political elites (e.g., in the Czech Republic).Only in very recent years has it been corrected as a result of persisting, high rates of unemployment. Second, as pointed out in section 2.2, social exclusion through a non-inclusive labor market came into the focus of attention in most of the CEE countries only via the process of accession, and the necessity to comply with European standards and take part in European programs. Thus, no consistent unemployment protection and compensation model in the region can be identified.

### Conclusions

After reviewing some features and developments in CEE social protection systems, there is no clear indication that a new and distinctive model of post-communist welfare states has emerged. Only two characteristics are shared by all of the EU-8 new member states. First, corporate and personal income tax rates in the EU-8 region are considerably lower than in the EU-15 (see section 1.2). The same is true for social expenditure as a percentage of GDP (see table 5). Second, all new member states implemented a Bismarckian type of social insurance system during the 1990s (see table 7), and they accumulate revenues predominantly via social security contributions levied on wages or through direct income tax. As a result, and given the high unemployment rates and poor labor market performance, the burden of non-wage labor costs appears excessive in the CEE countries or, at any rate, far too high to permit a smooth transition to anything that could be called "full employment". At the same time, none of the new member states in the CEE has abandoned its commitment to state responsibility for social security, or turned to market-liberal models of privatization.

Focusing on the institutional arrangements and regime characteristics of social security in the EU-8 countries, there is hardly any pattern that is distinctive to post-communist welfare states, which would apply to all of them. In spite of the neo-liberal

rhetoric of some segments of the new political elites, no country actually implemented a "market economy without an adjective" (Vaclav Klaus) nor did (or indeed could) any government stick to the old universal communist welfare regimes. Change was often incremental and the result of internal debates (and, for the political elites, the necessity to negotiate changes with their constituencies) and external pressures (not least through accession). Historical legacies probably played a role in the implementation of the Bismarckian-style social insurance; communist traces are more difficult to identify (and probably more likely to be found in local administrations with their shortcomings, than at the level of overall regime properties). Thus, it seems that the new member states face similar problems to those experienced in the EU-15, despite the vastly inferior level of economic and labor market performance of the former. Furthermore, the EU-8 are trying to cope with these problems in ways that do not differ significantly from the institutional patterns and reform strategies that are found in continental welfare states within the EU-15. Given the severe budgetary constraints confronting the CEE countries and the more strongly rooted egalitarian attitudes among their populations, their governments must constantly balance social policies between ambitious goals and expectations, on the one hand, and restricted capabilities of fulfilling them, on the other. Nevertheless, radical reforms might be easier to implement in the new member states, because vested interests and their veto power are arguably not as deeply rooted as they are in at least some of the EU-15 countries.

Taking into account the overall picture of the institutional features and related problems of the CEE welfare state, we cannot detect a "new" social model in this region. As to the three scenarios of CEE welfare state developments that have been suggested by Kovács (2002), the "muddling through" narrative is by far the most plausible one. The times of consistent "models" or "regimes" of European welfare states seem to be over anyway, and pragmatic "hybridization" (Giddens), or eclectic attempts to balance given internal and external pressures, seems to be the dominant trajectory in the evolution of social protection arrangements. At any rate, portraying the new members from the CEE region as agents of neo-liberal welfare state reform is simply wrong. Such mistaken notions have sometimes been used by political elites in EU-15 member states in order to denounce eastern enlargement and to depict the new member states as threats to continental European welfare states. There is little reason for doubting that such misrepresentations (including the specter of the "Polish plumber") have contributed to spreading fear regarding the new member states among western European publics. However (and to the extent that the economies of the new member states display some of the same competitive advantage as those of some of the

older member states), this is not due to generally more austere welfare states (and hence lower non-wage costs of labor), but rather to lower wages and lower taxes. But regardless of the truth content of the arguments which are mustered for the spreading of such fears, the result is very unlikely to be more than at best a highly qualified solidarity encompassing all member states of the large EU-27, where "solidarity" means the readiness to recognize and respect the rights and legitimate pursuit of interests of all fellow Europeans and fellow member states.

In order to model the unfolding conflicts between old and new member states—admittedly in a somewhat speculative manner—we suggest a sequence of three stages of strategic objectives and driving motivational forces. The three stages, which apply unequally to the old and the new member states, are (1) formulation of strategic objectives, (2) awareness of the costs of achieving those objectives, and (3) frustration with the extent to which the objectives may or may not have actually been reached. Starting with the old member states, the original motivation for promoting eastern enlargement was doubtlessly of a primarily *political* nature, because the priorities of the EU (as well as NATO) around the mid-1990s consisted in helping to consolidate democracy and the rule of law in the CEE region through conditionality, and thereby to "normalize" the political development of prospective member states through soft forms of outside control. In contrast, the new member states, having just escaped from a tight and authoritarian form of supranational control were mostly reluctant and skeptical about joining Europe; but this skepticism was consistently trumped by the prospects of post-socialist reconstruction that were based upon the expectation of free access (of goods and workers) to western markets, the inflow of FDI into the CEE region, and the claims to modernization subsidies that would come from the EU once full membership status was achieved.

Once the enlargement process was completed (on 1 May 2004 and 1 January 1 2007 respectively), both sides experienced a wave of "second thoughts." Among the new member states, these consisted in the realization of failures and an awareness of necessary sacrifices concerning the respective subordinate objectives. As to the older member states, their intended political aim of having stable and democratic eastern neighbors was partly offset by the growing *economic* challenges originating from the CEE region. These challenges came in the form of an inflow of goods and labor, and an outflow of investment and funds allocated from EU budgets. Similarly, and in a strictly symmetrical fashion, elites as well as non-elites in the new member states began to perceive the *political* costs of membership—costs that were framed in terms of losses of national autonomy and the need to comply with EU-wide rules and poli-

cies. Thus both sides began to perceive reasons for asking themselves, "Was the price we had to pay for achieving our primary objectives really worth it?"

Finally—and if we read a variety of indicators that emerge in the newly integrated political economy of Europe rightly—a third phase of regret and frustration may well become dominant as the dynamics of the EU-27 unfold. To put it bluntly, both sides will begin to see that what they actually *received* for paying the price they paid is less than what they had anticipated and hoped for. From an EU-15 point of view, this second disappointment relates to the fact that neither regime stability nor the liberal democratic consensus (nor, for that matter, a modern and reasonably corruption-free state structure; not to mention CEE reluctance to join distinctively "European" arrangements for foreign and international security policy) has taken firm roots in all parts of the region—a disillusion that is all the deeper as it comes with the realization that, after formal enlargement, the leverage of conditionality has practically become inoperative. Conversely, the EU-10 new member states (that is, growing parts of both their elites and mass constituencies) have also begun to look back on the deal they were drawn into and to see it as a definitely unfavorable one: not only have they sacrificed "too much" (in terms of national autonomy) but also received "too little" in return, i.e., in terms of the older member states' preparedness to assist them on the road to robust economic prosperity, rather than keeping them in a position of permanent economic dependency.

Time will show whether, or to what extent, the second and third stages of this gloomy model will materialize. Concerning the first stage and the initial patterns of motivation at the beginning of the process that led to eastern enlargement, it is worth noting that the enthusiasm for "returning to Europe," both within the candidate countries as well as in the EU-15 member states was markedly qualified. Eurobarometer 42 (1994) data show that, at the time of the survey (i.e., shortly before the actual accession of Sweden, Austria, and Finland in 1995), the *least* welcome and least favorably assessed West European candidate country (Norway) was supported by 75 per cent of EU-12 citizens, running 20 percentage points ahead in terms of the support for membership compared to the *most* welcome East European candidate country (Hungary), with a 55 per cent favorable rating[15] (EU Commission 2006: 7). In other words, the political divide continues to play a significant role—a legacy of the Iron Curtain as well as other historical, cultural, economic, geographic, linguistic, and religious differ-

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15 Quite analogously, when surveyed in 2005, EU-25 citizens supported further enlargement of the membership, this time with Iceland being the least supported country among West European states (68 per cent in support) as opposed to Croatia being the most favorable case in the East (51 per cent, with Romania enjoying just 43 per cent (Eurobarometer 64).

ences that exist between the EU-15 and the EU-8. Where accession is in fact approved on either side, such "support for enlargement reflects to a large extent non-altruistic motives" (*ibid.*: 6). At the point of actual accession in May, 2004, the supporters of enlargement within the EU-15 just barely outnumbered the opponents by 42 to 39 per cent (Eurobarometer 61). In retrospect, EU-25 citizens express an increasing degree of dissatisfaction with the outcome of eastern enlargement; negative opinions increased from 35 per cent, in fall 2004, to 39 per cent by (fall 2005 (Eurobarometer 62, 64). After all, among the EU-8, only in Slovenia and Lithuania did an absolute majority of eligible citizens (54 and 58 per cent, respectively) support the accession of their countries.

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