Social security developments in Central Europe: a return to reality

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Social Security Developments in Central Europe: A Return to Reality

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Abstract: Looking back at the developments which have taken place since the fall of communism, the article reviews the general trends in the orientation of social security reform in some key countries of Central Europe. The lessons learnt during this process reveal a number of original myths, such as the mistaken belief that the social reform should be carried out from the very outset of the economic transformation. In the course of time, the preservation of the basic functions of the existing social protection system rather than its replacement became the chief preoccupation of most governments. After the initial predominance of ideological thinking in the orientation of the reform, there has been a return to reality due to the intervention of the old fundamental factors, i.e. political and economic imperatives which determine the shape of social legislation.

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Introduction

More than five years have elapsed since the fall of communism in Europe and it is becoming more and more difficult to establish a clear pattern of the social security reforms currently taking place in the countries concerned.[1] We note a growing differentiation in the prevailing political and economic conditions in each country and are led to conclude that post-communist societies are now developing each in their own – often quite unpredictable – way.

One thing seems certain: the well-meaning economic advisers preaching a complete abandonment of a one hundred year-old tradition in social protection and a return to basic social assistance are no longer listened to.[2] After five years of hesitation, temporisation and experimentation, the governments have come to the conclusion that the policy of overall priority to economic development at the expense of social development is doomed to failure. However, no welfare state model stands a chance of being followed or even taken into consideration. We are witnessing a return to reality in the sense of governments following closely the changeable interplay of social security fundamentals, (i.e. the various components of political, economic, social and psychological factors in society

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1) Throughout this paper our attention is concentrated essentially on the Czech Republic, Hungary and Poland.

2) Even the neoliberal Prime Minister of the Czech Republic, Václav Klaus, firmly rebuffed criticism by Jeffrey Sachs in which he was accused of overly generous welfare state policies; Klaus pointed out to him that the examples of Malaysia, Taiwan or Singapore simply did not apply in Central Europe (*Lidové noviny*, 5. 6. 1995). On social results of shock therapy in Poland see [Jonczyk 1993: 213].

which broadly determine – as they have always done – the shape of a country's social security institutions).

There is, nevertheless, one feature these countries do have in common: the rhythm of transformation of basic societal structures. While political institutions have been transformed rapidly to meet the requirements of a democratic system (which does not necessarily mean that they are animated by democrats), the establishment of economic institutions has been more laborious and their progress often hesitant. As for social protection institutions, apart from partial adaptations to the needs of the market economy, by the end of 1994, no major or global reform of the system had taken place in any country.

This striking delay may be explained in several ways. First of all, in a climate marked by frequent government changes, the social reform constitutes an obvious political risk; in the absence of established attitudes to questions of social welfare, it is not easy to reach a political consensus. Moreover, in times of general economic instability, any financial planning of social security schemes is extremely hazardous. Lastly, given the excessive volume of social expenditure under the communist regime and the need for a gradual adaptation of the level of benefits to available financial resources, any social reform is bound to be restrictive and have a negative impact on the population. The general lack of knowledge of concepts and techniques of social insurance on the part of members of legislative bodies, social partners and mass media acts as yet another stumbling block to the advancement of social reform.

We have summarised elsewhere the basis on which the development of social reform in Central Europe is taking place, i.e. the communist system of social security [Rys 1993] and consider it superfluous to repeat it here. Nevertheless, it seems obvious that knowledge of the previous system is necessary for an understanding of the process of change.

Progress and trends in social reform

A five-year period is generally not long enough to mark noticeable trends in social policy orientation at the international level. This does not seem to be the case in post-communist countries where the speed of societal development exceeds anything known in the western world.

Early orientations

After the fall of communism, social security reform was considered an indispensable measure destined to cushion the adverse social impact of economic transformation. This reform was therefore not an objective in itself but rather a means of ensuring the success of the transformation. The starting point of a new social security concept in all countries of the region was a strong reaction against state paternalism, accompanied by declarations exhorting citizens to take over responsibility for securing their own future. In practice, this meant returning to a general scheme of social insurance, with a large space left for occupational and private arrangements. At the same time, great emphasis was placed on the democratic nature of the new system and on the need for extensive citizen participation in its management.

One of the first sectors to come under review was health care. In this case, the general trend favoured the transformation of the existing national health services into medical care insurance schemes. In Hungary, this had been somewhat surprisingly integrated into the general insurance scheme, before a law of July 1992 introduced a separate administration of this branch under its own governing body. In the Czech Republic, the National Health Insurance Fund became operational in January 1993, after a great deal of confusion and a year of administrative preparations; since then, two dozen other health insurance funds have come into being with the purpose of encouraging competition, with the resulting confusion greater than ever before. In Poland, meanwhile, the introduction of health insurance is considered an ultimate goal, but in the absence of a comprehensive concept of social policy, priority has been given to the improvement of the existing health services [Wlodarczyk and Mierzewski 1991].

As for other social risks, a number of legislative acts passed in different countries dealt mainly with the elimination of the excessive measures of the previous regime, the adaptation of administrative structures, modifications in the system of financing and maintenance of the purchasing power of existing benefits. At the same time, considerable effort went into the preparation of social reform plans. In the blueprints produced during this period, the overall trend pointed towards the establishment of a general social insurance scheme covering old age, invalidity and survivors, as well as sickness (cash benefits) and work accidents. High hopes were being placed on the introduction of occupational pension schemes which were to help to reduce the expenditure going on basic state benefits. The trend in family allowances was to transform them into a state benefit subject to a means test.[3]

It was characteristic of this early period that a major social security reform was always imminent but never quite ready to go before the parliament. In Hungary and Poland, the question of political divergences apart, the main reason was the progressive deterioration of the financial situation of the existing schemes, particularly in the field of pensions. In a generally unsettled economic situation, it was a question of common sense to place priority on the preservation of the basic functions of the existing arrangements before embarking on a major reform of the system. The situation was somewhat different in Czechoslovakia where, in the absence of a financial crisis of the existing scheme, the reform appeared at times to be dependent on technical matters regarding the progress of the economic reform. However, the real cause of the delay of the social reform was the crystallisation process of political attitudes in the country, including those which led to the division of the state.

The lessons of experience

It follows from what has been said above that one of the first lessons governments learnt concerned the enormity of the clash between blueprints and financial means available for even a partial reform of the existing system. The most typical example of such conflict with reality is the case of unemployment benefits which is particularly interesting in so far as it deals with a highly sensitive area of post-communist social policy.[4]

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[3]) This trend should not be interpreted as a sign of some spontaneous convergence but rather as a result of the persuasive advice offered by the World Bank.

[4]) For a full understanding of this development, a background knowledge of the treatment of unemployment under communism is indispensable. We have summarised it in: "Protection sociale contre le chômage en Europe centrale et orientale." *Cahiers genevois de sècurité sociale*, No. 13, 1995 (forthcoming).

The case of unemployment benefits

It may be useful to introduce this observation with a brief examination of the recent development of unemployment in the region. The following table indicates the rate of unemployment at the end of each given year:

Table 1. Rate of unemployment (in %)

	1989	1991	1993
Czech Republic	0	4	3
Hungary	1	10	12
Poland	0	11	15

The volume of unemployment in the Czech Republic, while obviously an exceptional case, has no impact on our argument because at the time it was taking the first measures in 1990, the government did not know how low the rate would be and, indeed, expected (some economists hoping for) a figure of around 8%.

Regarding the evolution of the unemployment benefit, the experience of the three countries is surprisingly uniform. Having introduced extremely liberal benefits in the early nineties – in the spirit of the good old (communist) times – the governments were quickly called to order by harsh economic realities. It became necessary to apply the eligibility criteria more severely, reduce the amount and duration of benefits and review the system of financing. The Polish and Czech experience is particularly revealing, as is shown by the following summaries of the situation after the introduction of the first laws as compared with rules existing at the end of 1993.

Polish experience

	December 1989	December 1993
Financing:	Employer's contribution of 2% of salaries	Employer's contribution of 3% of salaries
Eligibility:	All persons seeking employment	At least 6 months in employment No other household income No refusal of an employment offer
Duration:	Without limit	12 months (18 months after 25 years of work)
Amount:	70% of last salary during first 3 months 50% during the next 6 months 40% after nine months	36% of a national average salary (flat rate)

Czech experience

	December 1990	December 1993
Financing:	State budget	Employer's contribution of 2.25% and employee's contribution of 0.75%
Eligibility:	All persons seeking employment	12 months in employment over last 3 years
Duration:	12 months	6 months
Amount:	65% of last salary during first 6 months 60% after 6 months 70% if following programme of retraining	60% of last salary for first 3 months 50% after 3 months, with maximum not to exceed the statutory subsistence mimimum
	Cumulative with end of service benefit	No cumulation with end of service benefit

Hungary was the first communist country to introduce unemployment insurance before the fall of the regime [Ferge 1992]; consequently, the scheme adopted in February 1991 was more sophisticated and underwent relatively little change in the subsequent years. The only exception is financing, with a steep increase in the employer's contribution from 1.5% to 5%, accompanied by an increase in the employee's contribution from 0.5% to 1.5%.

The sociologists readily subscribe to the affirmation that the treatment of unemployment in society depends on the social perception of the phenomenon. Although this approach may find some justification even in a post-communist society, in the absence of normally constituted social actors, social perception – for whatever this may mean under such circumstances – is only ever translated with considerable difficulty into the political action of the government in power.

The above-described experience of a drastic revision of unemployment benefits is more complicated than would seem and cannot be reduced to a simple question of available financial means. At the start of the process, there is a general awareness on the part of the population of the price to be paid for a market economy and fear on the part of governments as to what this unknown evil may do to people. The result is an overgenerous legislation drafted in an old-time spirit of meeting social needs regardless of available resources and in the absence of any technical knowledge of the problems of unemployment insurance.[5]

It is, however, the second stage which is of real interest. What has made the governments adopt such a harsh line in revising legislation adopted only several months ago without fear of a popular outburst? The economic imperatives are obvious and need not be enlarged upon. Furthermore, there may have initially been an underestimation of the capacity of other social security branches, and above all of old-age and invalidity insurance, to absorb potential victims of unemployment. In some countries, an improved parental allocation has no doubt reduced the number of women seeking employment. However, factors other than those mentioned above may be of equal if not greater importance. To the extent that the same causes tend to produce the same effects, benefits awarded in the spirit of old-time liberality provoke the same abuse of social legislation as in the past. Many people draw the unemployment benefit while working in another undertaking; in some countries, one gets the impression that one is witness to the emergence of a new class of self-employed, financed by the abuse of unemployment benefits. The governments hence cannot fail to realise that they are acting in contradiction to their declared policy of moving away from state paternalism and making people responsible for their own existence.

But why is there not a major social upheaval which would probably follow in similar circumstances in any western country? Have governments initially overestimated the psychological impact of unemployment as a social phenomenon hitherto unknown to the population? This is highly likely, for, as shown by current public opinion surveys, very little is known about social attitudes in these countries apart from their instability. The main reason, however, could be that people in their majority approve of the government decision to revise the legislation. The need for an economic reform is not contested

[5]) According to Tomeš [1995], sickness insurance legislation has served as a model in some countries.

and abuse of unemployment benefits reminds them perhaps too much of the buried communist past. Moreover, it should not be forgotten that over a period of forty years these populations have grown used to harsh measures from above and acquired a high degree of resourcefulness and a well-developed capacity for “getting by”. With social controls greatly relaxed, it is perhaps this mental heritage of the past which enables many unemployed people in these countries to make ends meet in one way or another.

Is the social reform really necessary?

Having learnt that the population is capable of coping with extremely tough social measures, the governments also noted that, contrary to previous beliefs, there was perhaps no hurry to go ahead with a social reform that no longer seemed indispensable for the success of the economic transformation. On the contrary, this could proceed better without unnecessary popular discontent likely to be provoked by new – and, by definition, more restrictive – social legislation shaking even further an already precarious political stability. The real criterion hence becomes the question as to how far the existing, patched-up system can continue to perform its basic social protection functions before breaking down? The tentative reply is that, since the social insurance financing and other partial reforms made the existing schemes broadly compatible with the ongoing economic transition, the longevity of this intermediary institutional form may be greater than suspected.

Other features of the original social reform blueprint have also come under scrutiny. Thus the call for the democratisation of social security administration became less perceptible after the social elections in Hungary had been won by the ex-communist trade unions in May 1993. In a more striking manner, the Czech neoliberal government – which could have been expected to maintain the line of reducing the role of the state – turned its back on administrative democracy only a few months after its official policy declaration and retained a state control of social security funds. Admittedly, as the introduction of social security contributions produced amounts far in excess of annual expenditure, it was tempting to keep the status quo rather than to get involved in discussions with social partners.

Indeed the original battle-cry “away from state paternalism” had to undergo some soul-searching revision in so far as it covered both government supervision and financing. Already in 1992, at a meeting of directors of social security organisations from Central Europe, voices were heard expressing misgivings about the move away from state budget financing to autonomous social insurance funds; experience has shown that it was easier to get a deficit covered when social security was part of the state budget rather than an autonomous fund. Not everybody can enjoy the enviable Czech situation with social security contributions more than meeting the expenditure; the opposite is true in other countries and since putting pressure on defaulting enterprises could result in still more economic marasmus, financial resources have to be sought elsewhere. Thus social security authorities in Bulgaria had to have recourse to bank loans, knowing perfectly well that they would never be in a position to pay back or even cover the market interest rate. The Hungarian social security bodies decided in 1993 to launch public subscription in the form of social security bonds, and although these had been issued with state guarantee, there was no rush at the counter [*Restructuring*... 1993: 15]. The message received by governments through all these developments clearly pointed to the need for a careful handling of the social reform issue and for refraining from any legislation unless absolutely necessary.

The generally passive acceptance of the deteriorating social protection cover by the population did not mean the absence of political sanctions. As a result of the general elections in Poland (September 1993) and in Hungary (May 1994), the left-wing political parties have been brought to power. This puts an end, at least for some time, to social reforms of liberal inspiration since it seems obvious that the new governments will need time for the preparation of their reform plans [Ksiezopolski 1994: 2]. Indeed, there may be a long pause in the elaboration of any new concepts. The latest reports from Hungary indicate that the new government led by ex-communists had to embark on a programme of drastic cuts in social spending and only a decision of the Constitutional Court in July of this year saved – for the time being – the two-year maternal leave allocation as well as allowances for families with incomes above the minimum subsistence level. The return to reality for these countries thus means abandoning for some time hopes for any decent overall social reform based on the current needs of the population, while struggling on with difficult financial problems of their present schemes. But what about the island of low unemployment figures where social security income exceeds social expenditure?

The Czech neoliberal experiment

During the post-1989 existence of the Czech and Slovak Federal Republic (1989-1992), a comprehensive plan for social reform was developed by the Federal Ministry of Labour and Social Affairs. It broadly reflected the political orientation of the Federal government, presenting a mixture of left of centre liberal and also social democratic policies. The plan provided for the establishment of a social insurance system with the aim of preserving the standard of living attained by the individual, a state social support system regrouping fairly extensive family benefits and a modern social aid system financed from sources outside the state budget. However, due to other political priorities, the draft never reached the parliament.

The introduction of social insurance contributions as of January 1993 was part of the plan and since the government acted on it, it could have been reasonably assumed that the rest would follow. The first sign to indicate that the new leadership could have its own views on the reform came in the spring of 1993 when the parliament was expected to adopt an eagerly awaited legislation on supplementary pension schemes. The draft law provided for the establishment of voluntary occupational pension funds based on collective bargaining. The employer contribution was to amount to a minimum of 50% of the total and part of it was to be tax-deductible. The draft had been approved by social partners.

The tripartite General Agreement (dealing with social and economic policy) for 1993 was signed in the middle of March, but the relations between the government and the trade unions became tense in the subsequent weeks, when the latter realized that the government had no intention of releasing the existing wage controls and of going ahead with the abovementioned occupational pension scheme. By the end of June, the Prime Minister announced that the goverment would gradually withdraw from the existing tripartite system so as to ensure its right to make sovereign decisions on social and economic matters. Although the Union of Employers' Federations of the Czech Republic joined the protest of the trade unions on the issue of occupational pension funds, the original draft was shelved by the government.

Another glimpse of the new line in social policy was allowed the public after the summer recess, on the occasion of a parliamentary debate concerning an increase in family allowances. It was again the Prime Minister who said that there would be a change of logic in the forthcoming social legislation following a new social policy concept which the government had taken a long time to formulate. Social policy should address only the needy, and not, in general, the young or the old, the healthy or the sick. Everybody knew that there were a great many children in extremely rich families and hence a flat subsidy was sheer stupidity and a waste of tax-payers' money. There were also many old and unhealthy people capable of earning big money. The government's policy aimed therefore at addressing specific family situations.[6]

The next indication that the government was working on a major revision of the social reform plan came in October, in an interview with the Minister of Labour and Social Affairs, published by an economic weekly.[7] On this occasion, the Minister declared that the government no longer thought it advisable to create an independent National Social Insurance Fund, the existing government agency being perfectly capable of looking after the administration of the scheme efficiently. It was essential that the government should be able not only to formulate certain social policy objectives but also to enforce them. It was also important that spare resources in one sector should be freely transferable to another sector.[8]

At the beginning of 1994, the conflict with trade unions broke out again on account of several questions including wage regulations, a draft labour code and a project of the basic pension law; the separation of the social insurance fund from the state budget became one of their chief claims. Sure of its unflinching support in the parliament, however, the government was now ready to steamroll its way ahead in social legislation; in the middle of February, without waiting for the draft of the basic pension scheme, the parliament approved the *Law on Supplementary Pensions*. Under this provision, an individual may take out voluntary insurance with an approved pension fund, established as a commercial shareholding company under the supervision of the Ministry of Finance. The insured person must pay a non-tax-deductible monthly contribution. However, the state contributes directly to each individual according to the amount of his monthly contribution; this subsidy is degressive, ranging from 40 crowns for the minimum contribution (100 crowns) to 120 crowns for a contribution of 500 crowns or more. During the first two years, the state subsidy is increased by 25%. The law stipulates that 90% of the gains of the pension fund must be used for the benefit of insured persons; this means that 10% of the gains may be redistributed to shareholders. The benefits include old-age, invalidity and survivors' pensions as well as lump-sum payments. There is, however, no state guarantee of the benefits, and an outside observer can plainly see that the government used – or rather abused – this opportunity to adopt an excellent economic instrument of capital formation rather than one of important social protection legislation.

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6) *Lidové noviny*, 11 September 1993.

7) *Ekonom*, No. 41, 7 October 1993.

8) This was related to the experience of the fund for unemployment benefits. Since the rate of unemployment never exceeded 3%, there was a surplus of funds collected through the new system of contributions; consequently, 2 billion crowns were used by the government to improve family allowances and pensions, without referring to any legislative body.

A month later, the government submitted draft principles of the three social security laws (pensions, state social support and social aid) for examination by all parliament committees. The trade unions duly opposed these proposals, which, they argued, did not envisage the establishment of a social insurance scheme but the continuation of a state social security system. The funds collected from contributions would still be used without parliamentary approval and insured persons would have no means of expressing their views. In the absence of an independent social insurance agency, only government proposals would be taken into consideration in the development of the scheme.

However, the trade union arguments made no impact on the committee hearings. As it happened, there was no coherent opposition stand in the committees and the trade union representatives, unaccustomed to the parliamentary routine, stood little chance of influencing the vote. The official proposals having been approved practically without any change, the trade union leaders, accusing the government of treating them with contempt, decided to make a direct appeal to the nation. On March 22, some 50 000 persons filled the historic Old Town Square of Prague in the largest anti-government demonstration since the fall of communism. A petition expressing disagreement with the pension proposals, signed by over 600 000 people, was handed over to the speaker of the parliament. The next day, the largest government party denounced the action as an attack on parliamentary democracy and one of its leaders called for measures to protect the working population from trade unions. Only a few commentators accepted they had a right to demonstrate.

Several weeks later, the Prime Minister, addressing the trade union congress, further expanded his ideas on the role of trade unions. In his view: a) trade unions belong to the sphere of employer/employee relations and not to that of social relations; b) the main platform for trade union activity is the enterprise level and not the government level; c) trade unions should speak on behalf of their own members alone.[9] The Chairman of the congress deemed unacceptable the concept of society with the government on one side, the citizens on the other and nothing in between. This kind of "flat society" was not the kind people had dreamt about during the dark years of the communist rule. Subsequently, the newspapers published the results of a nationwide public opinion survey where respondents had been asked whether they agreed with the trade union demonstration. Suprisingly enough, 57% agreed, 23% disagreed and 20% did not know.

The above episode seems to indicate that the government stakes were higher than one or another form of income maintenance; the central issue was no doubt the global reform of economic and social institutions of society. The Prime Minister, a great admirer of Mancur Olson, sees in the institutions of civic society the expression of egoist partial interests which detract from the common good defended by the state; "collectivism at lower level" as practised in many western societies is as detestable to him as the state collectivism of the communist society.[10] He sees no problem in making a sharp distinction between the bad communist state and the good neoliberal state. His social policy hence recognises the principle of solidarity between those who have and those who have not and favours the idea of preservation of a minimum standard of living. The proposal does, however, stipulate that nobody else but the state may be the master of the

[9]) *Lidové noviny*, 18 April 1994.

[10]) *Lidové noviny*, 21 November 1994.

necessary redistribution and only the needy may obtain help. Notions such as the prevention of need through social insurance, or equality of social rights based on citizenship obviously have no place in this scheme.

If the trade unions lost the battle at the stage of social reform principles, they made considerable impact on the subsequent discussions of the full text of the social reform laws. Through meetings organised all over the country and with the help of mass media they managed to wake up public opinion and transfer the debate to the highest political level. This was not due to any action undertaken by the left-wing opposition parties, which were still incapable of producing a coherent social policy alternative to the government programme; it was the impact on some of the government's coalition partners which made the change. With the mid-1996 general elections looming on the horizon, one of the smaller partners, the Christian Democratic Union, suddenly discovered the social doctrine of the church and took sides with some of the trade union demands.

With regard to the *state social support system*, the main argument concerned the issue of universality versus targeting of family allowances. When this began to threaten the government coalition, a special committee was established to coordinate different points of view. The end result was a compromise solution and the law, adopted in May 1995, provides that family allowances will be paid according to the age of the child and family income, the benefit being extinguished if income exceeds three times the official subsistence minimum. On the other hand, a fairly high parental allowance will be maintained as a universal benefit and, surprisingly enough, the payment will be extended up to the age of four.

The controversy around the *basic pension law*, adopted a month later, revolved around two issues: first, the government proposal to increase the retirement age – over a period of 12 years – by two years for men (from 60 to 62) and four years for women (who may now retire between the age of 57 to 61 according to the number of children); and second, the government's refusal to establish a special pension fund. The first proposal was accepted, but there was a compromise again on the second point, the government having been forced to establish a special fund within the state budget. They saved the day, thanks solely to the last minute support of a small ethnic party which replaced the absent votes of Christian Democrats. Obviously, this result had relatively little to do with social policy principles.

In view of what preceeds, the question may be legitimely asked, whether the Czech neoliberal experiment is still on. On balance, the answer is likely to be in the negative. With the new laws, the Czech parental leave is now one of the most generous in the world and, given current trends, the Czech retirement age will continue to be among the lowest. Then there is the highly questionnable supplementary pension scheme which is attractive for certain age and income groups on account of the government contribution. However, the projections of the new basic pensions law indicate a future decline of the replacement rate from slightly over 50% down to 35%. The clients of the private pension funds will soon discover that the promise of an annual 10% increase in their investment may not hold true much longer. Hence sometime in the future, an appropriate employment related pension scheme will have to be set up.

As we have seen, the Czech neoliberal concept of social policy has no clear outlines. This is partly due to the fact that there is no school of thought behind it; it appears more as a modular concept of one (otherwise brilliant) man, thinking aloud as he learns his lessons of practical politics. The Czech Prime Minister is no doubt a staunch supporter of neoliberal theories, but he has a sharp sense of political priorities. In this sense, a return to reality means in the Czech Republic turning one's back on economic doctrine and ideology and facing the hard facts of life linked to the individual's perception of the normal functions of society. Recent public opinion surveys in the country indicate that support for political parties is no longer formulated in terms of ideological preferences but in terms of personal losses or advantages arising out of the legislative decisions [Hartl 1994]. A return to reality also covers this less pleasant aspect of human behaviour.

Concluding remarks

In estimating the probability of a social reform in Central Europe after the first three years of freedom, we suggested that "the necessary mix of economic, social and political factors required for a successful launching and broad acceptance of a new system may not be easy to obtain. The nature of this system will no doubt be determined by the respective strength of current political ideologies, the initial advantage being clearly in the neoliberal camp. However, it is by no means certain how long this advantage may last." [Rys 1993: 173].

This assessment of the situation proved to be correct first for Poland (September 1993), then for Hungary (May 1994). As for the Czech Republic, a right-wing coalition with neoliberal leadership is still likely to emerge from the 1996 elections, although, in the light of the above-described developments, a defeat is not to be excluded. Under the present circumstances, a major social reform in Hungary and Poland is highly unlikely in the foreseeable future. But how is the reform which is now being completed in the Czech lands to be assessed? A smart neoliberal supplementary pensions hit, followed by an extensive family benefits legislation with only lip-service being paid to selectivity and topped very narrowly by a half-hearted basic pension law – does this add up to a major global reform of the system? It probably does, but it seems evident that there is a disparity of elements in it which will make it difficult for the scheme to function coherently. Moreover, in view of its controversial character, it may be modified after the next elections.

To sum up, whatever the degree of their advance in the field of economic institutions, for the countries of Central Europe, a return to reality in social policy means the obligation to face up squarely to the consequences of forty years of a certain type of social welfare which changed mentalities and which cannot be dismissed by ideological rhetoric or by a piece of experimental legislation. Shortly after the fall of communism, the question was asked in many quarters whether we were going to witness the creation of a "third way" in the governance of society. Everybody knew that there was no third way with respect to democracy and not everybody was prepared to consider as such the so-called social market economy. The situation may require a different approach with regard to social protection, although a call for a middle course would appear excessive. Nevertheless, if the political imperatives which have governed the historical progress of social legislation throughout this century prevail under the specific conditions in Central Europe, there may be something to be said in favour of an intensive search for a new mix of social and economic policies while the democratic forces in these societies are still in command.

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