

### The Social Costs of Economic Transformation in Central Europe

In 1992 the Institute for Human Sciences (IWM) initiated a long-term research program on the "Social Costs of Economic Transformation in Central Europe" to address the vital social issues of post-communist transformation in the former East Bloc and to formulate policy recommendations for the new democracies. The current situation in Central Europe presents a rare opportunity for the comparative analysis of economic changes, social costs and policy options. This program aims to identify common labor market and welfare responses to the economic transformation and to provide lessons for policy-makers across country lines.

Supported by grants from the Ford Foundation and The Pew Charitable Trusts, IWM has promoted the establishment of independent national research teams consisting of prominent members of the respective academic and political communities. Research teams were first established in Hungary and Poland. Encouraged by their positive reception, and in order to reinforce the comparative nature of the project, IWM then organized teams in the Czech and Slovak Republics. These research teams are intellectually and politically independent. Their composition is balanced in terms of scientific disciplines and in terms of governmental/non-governmental representation.

An important objective of the program is to stimulate an exchange of information between researchers and policy-makers within Central Europe as well as between regional experts and their colleagues from developed and developing countries outside the region. Research teams are encouraged to elaborate a broadly common framework for analysis, investigate similar problems and, where feasible, share methodological approaches. The projects currently underway fall into four areas:

1. Factual analysis of the social problems arising from economic liberalization, with emphasis on labor market problems;
2. Potential preventive policies designed to improve the labor market and thus limit social problems;
3. Ameliorative policies that provide social safety nets and general social support systems such as health and pensions;
4. Changes in the locus of delivery and budgeting of social services, including decentralisation of social policy among levels of government and between firms and other entities.

The Slovak national research team will finalize its project proposals and submit them to IWM by September 1993. Proposals have been submitted to IWM by the Czech team; they cover the following topics of research:

**Czech research topics:** social costs of economic integration into the world economy; trade unions and the social transformation; wage determination and bargaining during economic transition; political consequences of changing perceptions of social safety and social justice; employment and unemployment - their structure and active employment policy; the role of local actors in social policy; household income, expenditures and their changes; social problems, social policies and social doctrines in the Czech Republic; transformation of social, sickness and accident security into insurance systems and their linkage to security in cases of social distress; emergence of an underclass in the Czech Republic; transformation of the Czech health care system; the role of non-governmental organizations in the era of transformation from a totalitarian regime towards a civic society; trends of changes in social structure - Czech Republic 1945-1993; economic behavior of households in the period of transformation.

The Hungarian and Polish teams have already launched projects on the following topics:

**Hungarian research topics:** social costs of the transformation of agrarian organizations;

legal aspects of the socio-economic transition; social policy and the state budget; the trade-off between increasing freedom and decreasing existential security; part-time work as a potential means for mitigating unemployment and social tensions; demographic projections and social policies; deprivation and unemployment - causes and cures in crisis areas; working and living chances of people removed from the unemployment benefit scheme; transformation of the health care system; conflicting interests and the transformation of social security; the situation of disabled people, social policies and the labor market; the effectiveness of welfare programs in alleviating poverty; readers and handbooks in social policy; the influence of economic transformation on fertility behavior; aging and systemic change of the social structure; housing policy during the transition.

**Polish research topics:** current developments and perspectives on community support systems for the socially deprived; decentralizing social policy; the interrelation and redistributive effects of fiscal and social policies in transition; labor force mobility in the labor market; practical policy models of small business development in Poland.

IWM has convened an **International Expert Committee**, chaired by Professor Richard Freeman of Harvard University and the London School of Economics, to support comparative research efforts, coordinate projects and strengthen the political independence of the national teams. The Committee, which met for the first time in Vienna in January 1993, ensures the maintenance of high scholarly standards by research teams.

IWM is responsible for the administration and coordination of the project and serves as liaison between the national research teams and the International Expert Committee. IWM also invites leading members of the national teams to pursue their research in Vienna as Visiting Fellows of the Institute.

Periodic regional workshops are convened to discuss projects already underway and to propose ideas for future comparative research and joint projects. The first of these

meetings was held in Warsaw in January 1993 and included participants from the Czech Republic, Hungary and Poland. The second, a workshop focusing on the establishment of a joint **Central European Data Base on Social Policy**, was held in Vienna in June 1993.

A **Central European Forum on Social Policy** is planned for January 1994. This conference will provide leading intellectuals and key policy makers with an opportunity to discuss the social effects of the post-communist transformation. The purpose of the forum is to generate action in public policy circles, to provide an up-date on the various research projects underway in each of the countries and to further promote cooperative research endeavours.

**International Expert Committee:** Anthony Atkinson, Professor of Economics, London School of Economics; Leszek Balcerowicz, Professor of Economics, Warsaw School of Economics (SGH), former Deputy Prime Minister and Finance Minister; Francois Bourguignon, Professor of Economics, Centre Nationale de la Recherche Scientifique, Paris; Michael J. Dowling, Director of Health, Education and Human Services for New York State, Albany, NY; Zsuzsa Ferge, Professor of Sociology, Head of Department of Social Policy, Eötvös Lóránd University, Budapest; Richard Freeman, Professor of Economics, London School of Economics and Harvard University, Chair of the International Expert Committee; Hans Geisler, Minister for Social Affairs of Saxony; Ira Katznelson, Professor of Political Science, Graduate Faculty of Political and Social Science, New School for Social Research, New York; Janos M. Kovacs, Professor of Economics, Permanent Fellow of IWM, and Member of the Institute of Economics, Hungarian Academy of Sciences; Claus Offe, Professor of Sociology, Director of the Center for Social Policy, University of Bremen; Andrzej Rychard, Professor of Sociology, Director of the Institute of Philosophy and Sociology, Polish Academy of Sciences; Julia Szalai, Professor of Sociology, Deputy Director, Institute of Sociology, Hungarian Academy

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**Hungarian National Research Team:** Istvan **Banfalvi**, Chairman and C.E.O., Fraternité Consulting Ltd., former State Secretary of the Ministry of Social Affairs and Health, Coordinator of the Hungarian National Research Team; Boldizsar **Biro**, Adviser to the Constitutional Court; Laszlo **Cseh-Szombathy**, Professor of Sociology, Institute of Sociology, Eötvös Lóránd University; Janos **Farkas**, Head of Section, Department of Social Statistics, Central Statistical Office; Karoly **Fazekas**, Deputy Director, Institute of Economics, Hungarian Academy of Sciences; Gyula **Fekete**, M.P., Hungarian Parliament, Fellow, Central Statistical Office; Zsuzsa **Ferge**, Professor,

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*Kelly Musick*

### Transition to what?

The second Prague seminar on the Social Consequences in East-Central Europe was held at the Central European University during May. The conference aims to bring together people doing empirical research in the region to discuss their findings, and there is a particular emphasis on Social Policy. The contributors, coming from Eastern and Western Europe are able to enlarge in a dialogue about the transformation from a number of different perspectives. Many of the contributors were also at the first seminar last year and so there is a continuation of debates begun then and the opportunity to reflect upon how the changes have been developing.

In 1993 there was more questioning of the transformation process than last year. What is it a transition from? And what to? What is being transformed exactly? There was some discussion as to how to characterize the societies we currently live in. They are hardly yet capitalist. And yet they are not socialist. The transition seems to take longer than was first anticipated, but in Central Europe there is a situation of comparative political and social stability. Despite plans for privatization and marketization, these have not yet been fully implemented and the state remains the major player in the game. This leads us to look at the very different styles of marketization in the former socialist countries. They began from very different positions: for example in Poland the private sector was already large before the reforms and in Hungary privatization had already been

going on for some years before it started in the Czech Republic. Hence privatization and marketization can have many meanings and are not necessarily incompatible with state socialism. There were many forms of communism, just as there are many forms of capitalism and it is not clear what kind of capitalism will emerge in post-communist societies.

Although the seminar aimed to discuss social policy, participants from all countries reported that there was no clear social policy strategy to match the plans for privatization and liberalization. Instead there were ad-hoc measures introduced to deal with newly developing problems - unemployment, migration and so on. In many cases these have been frequently revised as government grope their way towards the right response. In essence, this is the old system, developed to serve a completely different society being adapted to serve a new one. This leaves many ambiguities. What rights to welfare should citizens expect from their state? Should such rights be enshrined in law or in a constitution? Should there be a right to health care for example, or should it be up to individuals to make sure that they are insured and can pay for themselves. The legacy of state protection and the relationship between the citizen and his or her state has left a certain set of expectations to entitlement. But now governments may be unable or unwilling to meet such obligations. What can the citizens expect now? It is clear that there is some attempt to re-draw such welfare rights and to create more autonomous citizens who are not 'dependent'

on the state and also to create state budgets where welfare can be distinguished from other forms of expenditure, or to make it self-financing through 'insurance' schemes of various kinds. However, there is no consistency even in these. Should there be one insurance scheme as in the Czech Republic, or should there be many of them competing in a market, as in Poland? Although governments are keen to divest themselves of welfare responsibilities and to cut costs, such measures as competing insurance schemes for example, often create many more administrative costs. The same is true for the tax system. One problem is that in situations of increasing insecurity, people have little faith in schemes that are constantly changing and fail to be implemented. In Poland there is also a problem with collecting the taxes from the private sector, which means that the state is plunged into a sharp fiscal crisis. The Polish delegates, Grazyna Magnuszewska-Otulak and Jerzy Mielecki outlined some of the many plans for reform and criticized the lack of progress.

Martin Potůček described the comprehensive and innovative plans for health reform in the Czech Republic, which was in some ways modeled on the privatization strategies. However, a paper by Jana Klimentová indicated the problems of continuing with the present pension arrangements - these would absorb a sizeable proportions of the Gross Domestic Product in the next century if they were not reformed. Such projections were reinforced by Vladimír Rys. However, it was evident from Romanian presentation by Ioan Marginean and Mariana Stanciu that some of the problems of Central Europe are also being confronted in Romania, although it seems that the countries of Central Europe have experienced both the reforms and the consequences of reforms more rapidly and intensely so far.

It is clear that these new administrations are keen to balance their state budgets (and are under pressure from international organizations to do so). However the costs of making changes at first outweigh the savings such benefits will eventually ensure, as we have seen with the introduction of taxation

and insurance systems which initially can only cost more money. With the state privatizing many of its previous assets, and the ongoing economic crisis in East-Central Europe it becomes important for the state to be able to raise revenue through taxation. However, the means of implementing this efficiently are sometimes missing and so the state is not always able to collect the revenue to which it should be entitled. With rising social problems - unemployment, a growing elderly population, the need to re-train workers and so on, this becomes more serious. Marketization also creates new problems to which states must respond.

Most of the contributors came from Poland, the Czech Republic and Hungary. These countries of central Europe are the ones where reforms have progressed the furthest and they are also the most stable politically, economically and socially. It would seem that in these countries there is considerable discussion amongst academicians about social policy reform and its implications and Social Policy is developing as a discipline. This will help to inform public debate. There is a search for models of social policy in Western Europe and America (where very different welfare regimes can be discerned), but also a skepticism about applying these in new circumstances. The debate is increasingly well-informed as academicians are able to travel and to see other circumstances. This developing discourse may not be reflected in coherent government plans for social policy, but they reflect a healthy tendency towards a developing public discourse which is an essential prerequisite for democratic reform. Why were there no contributors from other countries? For the first time this year, there were some delegates from Romania, and it turns out that many of the problems confronted in Central Europe are also being raised there. The representatives from Bulgaria came again for the second year. But what about all the other countries? Is it because the idea of social policy has only been discussed in these countries (there is probably a need for relative stability before such issues can begin to be discussed).

One factor brought out by the Hungarian contributor, Judit Eke, is role which local government plays in social policy and the relationship between local and central government. A key plank of the reforms is decentralization and yet local government, or local services often lack the mechanisms for responding effectively, or lack the finances. The same could be said for the attempt to involve a range of nongovernmental organizations in the provision of services: sometimes the legal framework for involving them is lagging behind the reforms.

One debate which has been of key importance during the transformation process is the role of civil society. This rather ambiguous concept is normally taken to mean the role of social organization at an intermediated level between the citizens and the state and which is considered an essential foundation of democratic society. Some people have argued that civil society and civic initiative, being starved and strangled under the former regime, will take a long time to be reborn, which means that governments can implement legislation without any fear of opposition from the people. Others argue that the former regimes actually encouraged the mobilization of protest groups which were the beginnings of a free civil society. A report by Nick Manning looking at social movements and protest groups, found plenty of evidence for the mobilization of citizens protest groups who could pressurize either the government or the local authority into making changes. The examples he provided were over housing and the way in which neighborhoods had organized action committees or even occupied empty housing themselves.

Given the economic crisis indicated in the official statistics, how do people survive? At the previous year's workshop, there had been considerable discussion about the informal economy, the traditional partner of state planning, through which people orga-

nized their every day needs. It would seem from presentations this year, that the informal economy is still essential to the survival of households in practice, but that many of the trading and entrepreneurial activities taking place there are no longer illegal. Indeed this may be the nursery for nurturing new business ventures. However, the inadequacy or unwillingness of the state authorities to control such activities also gives rise to the possibility of more criminal-style activities and it seems that with privatization and marketization the scope for these have grown. At the same time the informal economy has been transformed. The introduction of taxation systems in Central Europe means there are new opportunities for tax avoidance as a dimension to this activity. However, Jiří Večerník's paper indicated that household adapt very well to the change falling back on their own resources and developing new resources and skills which the current environment offers them.

One debate which emerged from the conference was about whether the post-communist societies could be clustered in their development. Should the Visegrad countries, for example, be grouped together as representing one set of characteristics whilst South Eastern Central Europe represent another set and the ex-Soviet Union a further set of characteristics? What could be usefully predicted from such a classification? The existing data presented at the conference suggested that at least in terms of attitudes to democracy and welfare, this was not feasible, but no doubt such classifications will continue to be used.

At the end the group decided to apply for funding for a follow-up workshop next year to continue the discussions. If anyone is interested in the books emerging from these workshops, they should contact Dr. Claire Wallace, Central European University, Táboritská 23, 130 87 Praha 3.

*Claire Wallace*