TIGER

TRANSFORMATION, INTEGRATION and GLOBALIZATION

ECONOMIC RESEARCH

CENTRUM BADAWCZE TRANSFORMACJI, INTEGRACJI I GLOBALIZACJI

TIGER Working Paper Series

No. 98

Social Change in Central and Eastern Europe: General Trends and National Patterns

László CSABA

Warsaw, November 2006

SOCIAL CHANGE IN CENTRAL AND EASTERN EUROPE: GENERAL TRENDS AND NATIONAL PATTERNS[1]

By László CSABA[2]

ABSTRACT: The paper addresses five issue areas. First it describes the plurality of trajectories in central and eastern European transformations, offering a broad typology. Then it addresses the drift between acceptance of democracy and the market, owing to growing inequalities. Third, problems of poverty and exclusion are addressed. Fourth, it is addressed if any known model of redistribution emerged in the post-transition economies. Fifth, consequences of the populist turn in European policies are being analyzed. Influences of the EU practices will be dealt with and some preliminary conclusions drawn. These suggest a strong intertwining between social and economic performance that limit theoretically conceivable – neoliberal, social democratic, postmodern or conservative - policy choices.

*   *   *   *   *   *   *   *

This paper offers a political economy perspective on social change. As it can be documented in greater detail /Csaba,2007, Gligorov,Podkaminer, et. al, /2006/ socio-economic change in the by now 30 post-Communist countries has not followed any common pattern. By contrast, the defining feature of change since 1989 has been one of diversification, where very long patterns of social organization, factor endowments, policies, institutions, interaction with the EU or the lack of it, the inflow of foreign direct investment /FDI/ or the lack of it, as well as social learning have put together such a mix, that defied any ex ante theoretical expectations. In a way the

---

[1] This article is based on a paper presented to the international conference of the Hans- Böckler-Stiftung entitled *'Welfare States in Central and Eastern Europe'*, 4-6 October,2oo6, Hattingen, Germany. Useful comments on previous versions by Dóra Győrffy/University of Debrecen/ and Béla Greskovits aznd Zdenek Kudrna/CEU/, Ute Klammer/FH Mönchengladbach/ and Attila Bartha/Kopint-Datorg Economic Research/ are appreciated, with the usual caveats.

[2] Professor of Economics and European Studies, Central European University, Budapest and Chair, Committee on Economics, The Hungarian Academy of Sciences.

four, five or seven decades of Communist experience has proven to be an interlude, that is gradually but definitely losing its relevance in explaining the development potential and actual pattern of the states concerned.

Social change has been shaped to a decisive degree by economic change, but not least also by the discourse about the nature and the consequences of these. Though the interaction of the two is a subject of dispute, and so is the role of ideational factors in bringing about actual patterns of change, statistical evidence allows for grouping the post-Communist countries *in four major categories*. These do not necessarily overlap with the usual self-characterization of nations, nor does it follow the choices made by the international organizations. However the deeper and more detailed analysis of statistical evidence conducted in the sources cited above, as well as produced by the regular surveys of the Economic Commission of Europe and the Transition Reports of the EBRD in London would perhaps allow for the structuring presented below.

Divergent Transition Termini

Post-Communist countries can be divided into two major and two lesser categories. One of them are those of „emerging Europe", i.e countries where the classical tasks of stabilization, liberalization, institution building and privatization have, by and large, been mastered. While several of the third generation reforms, such as of pensions, rural development, environmental management, reorganization of infrastructure and the pattern of provision of social services, in short: welfare state reform is stagnant, in the past few years often stuck, *the foundations of an open economy and open society have been lain*. These countries are already members of the EU since 2004, which provides them a source of inspiration and committment, via the soft law and the processes often described as Europeanization, i.e the interaction between local and EU policies and institutions.

The second group consists of countries of the New Independent States/NIS and southeast Europe, who have not joined the EU in 2004. In the latter group foundations for *sustainable development,* as distinct from resource-based growth generated by windfall revenues of various sorts, *have not been created.* Nor have been the foundations of an open society cemented, with authoritarian methods of control and/or criminalization of socio-economic structures despite seemingly similar formal/European-type of institutions have been a fact of life for anybody having visited these countries. The level of economic activity, the pattern of exports, as well as the pattern of employment all point to the same direction, making the second group dissimilar from the first. This is particularly manifest in large and often growing share of agricultural employment, reaching 25 plus per cent of the total, reflecting the limited or even regressive modernization and survival strategies of the 199os. With several million people having returned to rural subsistance farming conditions for *a knowledge-based society* and of continuous learning, the spread of the IT revolution and overcoming the digital divide, and ensuing marginalization and limited employability have not been created.

The de-modernizing survival strategies, that influenced the lives of substantial segments of the population, showing up 10-15 percentage points in marco-statistics, have also adversely influenced female employment and carreer prospects. With the revival of the traditional rural houshold pattern, a number of services and commodities previously purchased, started to be domestically produced again. This is particluarly visible in some cases, such as caring about the elderly and the young, but also in producing daily neccessities and construction activities of various sorts. But also at the other end of the spectrum the spread of the traditional role models, allowing for early withdrawal from the labor market, could be observed. It is worth noting*: EU membership, on its own right, may not change these patterns,* as the experience of Ireland and Greece in the 198os or of Portugal in the 199os has already amply demonstrated. Likewise, the recurring reform fatigue of core EU states would caution us from the widespread over-emphasis on the potential influence of Union membership on the domestic evolution of any member-state, old or new, in the longer perspective.

Also within each of the two major categories *two sub-groups* can be distinguished. In the group of emerging Europe the four *Visegrád countries* form one unit, where structural and institutional modernization have triggered synergies in the economic and social planes alike. In the economy these countries have continued to improve their export patterns, actually even beyond the levels of the south European EU members, and move towards post-industrialism in terms of value creation and employment alike. The share of agriculture, both in exports and in its contribution to GDP, has been on the steady decline.The contribution of agricutlure and fisheries to GDP, according to ECB: *Statistics Pocket Book,* August, 2006 p. 46 /Frankfurt a. M/ is between 2.9 per cent in the Czech Republic and 4.9 p.c in Poland, i.e broadly comparable to several old EU states,such as Ireland /2.5 per cent/ or Greece /5.2 per cent/. Also in terms of employment the role of the farming sector, as different from other forms of rural employment, has ben constantly on the decrease.[3] Industrial productivity and competitiveness has increased over the past decade or so according to all evidence at hand.

By contrast the level of economic activity in the quickly growing economies of *the Baltics* have only recently - by 2005- regained their pre-crisis output levels, at least according to the more optimistic calculations[4]. This is a severe problem, even if structural change may render any longer run comparison of questionable value. Employment levels of the countries have barely increased in the 2oo1-2oo5 period acording to the same source. And while their unemployment levels have been quite low – 4.9 per cent in Estonia, 5.4 in Lithuania and 7.6 in Latvia /ECB: op. cit., p. 41/, this does not reflect the real situation of the Russian speaking population, which is deprived of citizenship, thus of possibilities for representing their interests in the formal political process. Also sizable migration /adding up to 5 p.c. of local citizens according to the soruce above/ has contributed to easing of the social strains ensuing from economic change in the Baltics in recent years. Similarly, a more detailed analysis of the export patterns of the Baltics showed, already in the late 1990s, a tendency to focus on primary commodities, re-exporting Russian fuels, wood-cutting, textiles and othe low skill industries /Freudenberg and Lemoine,1999/. In

[3] However, it is still sizable, in the case of Poland, Croatia and Romania it was over 17 p.c in 2oo5.Source: Eurostat: *Labor Force Survey,2oo5.*/published on September 11, 2oo6/.

[4] Koipint-Datorg: *Konjunktúrajelentés/*Report on the Business Cycle/.Budapest, no.2/July. The UN Economic Survey of Europe in Geneva has yet to come up with comparable data for the comparable period.

short, the dynamics of GDP is largely attributable to low starting levels, and for the long run, such components of lasting competitiveness, as R+D intensive activity and upgrading of industrial exports are not easy to spot /Lankhuizem, 2000/. The drift between the capital city and the backward rural areas is by no means a new phenomenon, still often overlooked by persons visiting the tiny states for a few hours only. The ongoing structural weakness of Baltic exports has foreshadowed some of the structural weaknesses of these economies already several years ago /Csaba, 2002, pp. 61-62/. Thus the inability of both Estonia and Lithuania to join the euro-zone as planned in the late spring of 2006, and Latvian hesitation along the same line is a clear indication that press reports and the ensuing public perception of the „Baltic Miracle" might have been premature[5]. Owing to the sustainingly big inequality of income and wealth/both along ethnic lines and via the urban-rural divide/ poverty may well sustain for long, even amidst impressive rates of GDP growth.

Also within the *second major group* two sub-groups may be distinguished. In the *New Independent States,* when the period of state formation and Soviet disintegration has come to a halt by 1999, a new type of growth emerged. This is, at the end of the day, a *resource-based growth,* known from the analysis of the MidEast and other petro-states /Karl, 1997/. In short, this pattern is shaped by the windfalls that accrue to the government from the lavish availability of natural resources and from the global price increases, that happen mostly owing to factors that are beyond their control. Thus the government of the day benefits from the dollar spree, which has two probable consequences. In one scenario this cements existing structures and allows for the „eternal" postponement of the institutional, political, social and economic reforms that otherwise would be necessary.

In the alternative scenario, theorized by Ross /1999/ the fight for resources escalates into a civil war. In this approach resources are by no means assets, but curses for the population, as the fight for their control leads to the disintegration of the central state. The former trajectory, leading to the strengthening of authoritarian rule, is clearly observable in Russia and central Asia. The latter trajectory is also observable, mostly in failed states, such as in Somalia, Sudan, Angola, Ivory Coast or Sierra Leone, more recently in Iraq and potentially in Kyrgyzstan and elswhere in the region. Summing up, in this group growth is though high and sustaining, as long as growth of relative energy prices can be taken for granted for longish periods, due to geological reasons that lead to peaking of oil supplies/Bárdossy and Lelkes-Felvári 2oo6/. However the social consequences are not unambiguous and the trickle down of wealth is by no means ensured.

The second sub-group consists of *southeastern Europe*. Here the decade-long Yugoslav disintegration, which has not yet come to its end at the time of writing/with the international legal status os Kosovo being unclarified and with the quasi-state of Bosnia-Herzegovina still living on aid dependence, and that at a low level/ has had lasting ramifications.

First, the decade of the 90s, when the SLIP agenda in emerging Europe has been, by and large, mastered, was spent on fighting. In those countries where no civil war took place, the fight within various clans/factions of the elite has created an environment of

---

[5] For a similarly skeptical assessment, based on differently conceptualized weaknesses of export patterns see Greskovits/2oo4,esp.pp222-223/.

lastingly low trust and permanent divisions. The non-Communist clans/factions have proven, at the final account, equally susceptible to corruption, clientelism and intertwining with informal, maffia-type groups. While the nature of the issue is such that direct proofs as accepted in analytical social science were hard to produce, the extreme phenomena, such as the slaughter of Serbian Premier Zoran Djindjic in 2002, or the accusations of criminal and other activities levelled agaist President Basescu and the ruling parties in the Romanian press during 2006 are just the tip of the iceberg. What we can establish, despite the surrounding secrecy and the heavy burden of proof, it that conditions for creating a trustworthy state, that is shown to be a crucial component for successful development in the long run /Kornai and Rose-Ackerman, eds., 2004/ have certainly not been created.

For this reason it is relatively easy to conceptualize, that conditions for long run *savings* in domestic curency, as well as the ensuing conditions for *financial intermediation*, finally the sustainingly high rates of *investment,* needed for lasting economic growth have not been created. As the recent analytical piece of the World Bank/Broadman et. al., 2005/ has documented in detail, none of the three basic conditions, i.e savings-financial intermediation-investment chain has been brought about by the changes of the past 15 years. In turn, conditions for sustaining growth, that would be able to create more employment, that would be the prime task of the region/cf below/ is unlikely to come about.

If this is the case for *all of the countries in the region* - with the obvious differences, that might be listed at will, are rather that of degree, rather than of kind – are unlikely to be fundamentally changed/altered, *only because of being admitted in the European Union.* This has to do with at least two major factors. First, the EU itself has ben undergoing a deep crisis where major deficits of implementing existing legislation has become observable in the 2003-06 period. Second, as indicated above, the domestic patterns of power and economic institutions in southeast Europe *have taken a fundamentally different path than that of emerging Europe,* i.e the new members admitted in 2oo4. For this reason, even if the previous point would not apply, an *implementation deficit* were to be expected.

This applies *a fortiori* insofar as acquis screening and taking over EU legislation in the countries acceeding in 2007 and later, has been rather formal and lukewarm. This circumstance has been brought to public by several sessions of the European Parliament and the Regular Reports of the Commission alike. Still, with the set accession date of 2007, basically implied in the 2002 Copenhagen compromise on enlargement, has proven counterproductive. It has robbed the EU from a trumpf card it could skilfully play in the process of accession negotiations with central European countries, in deeply involving itslef in the process of domestic institutional change, to the benefit of both /Csaba,2004/. *This opportunity has been clearly missed* in the case of Bulgaria and Romania, perhaps also in Croatia, and even more so according to what we know of Turkey/though the latter is a long run project anyway/. In other words, it can be forecast, that the new members are likely to become the Greece or Portugal of the EU, rather than the Ireland or Finland of the future.

Capital Income, Inequality, Activity Levels

It follows from the above sketchy summary of economic trends that some major factors shaping societal developments are likely to differ in the four country groups.In the countries of emerging Europe, with the exception of Poland and Slovakia, unemployment levels are below the EU average, and activity levels can, at least in theory, be enhanced by well targeted policies. This entails a combination of *liberalization, education and enterpreneurial support,* as envisaged in the annual national plans of the implementation of the re-launched Lisbon program. These national plans, reflecting employment and regional policies and educational measures, are regularly being submitted to Brussels for review ever since the summer of 2oo6. Thus these allow for a functional, rather than ministerial, analysis of the trends and policies of the respective states.

The re-launched Lisbon Program rightly emphasizes the need for growth as a precondition for more employment. Under this angle the slowdown of growth in the Visegrád countries and the sustaining low level of economic output in southeast Europe is a cause for concern. Likewsie the pattern of resource-based growth is known to be capital intensive. Unless a major expansion of servicing activities occurs, which requires inter alia a broad middle class, *low employment activity levels are unlikely to change.* This is a problem for the second and the third subgroup. Last but not least, wherever insider dominance occurs, be that due to the remnats of the Yugoslav self-managing firm, or owing to managerial ownership, dominating the political capitalisms of the NIS, unemployment levels are likely to overshoot significantly what monetarists would consider the natural rate of unemployment, which is put currently around 4 per cent in the USA. While the EU numbers of 8.1 per cent is about the double of this value, the 17-20 per cent levels in southeast Europe are truly frightening, from the economic and social perspectives alike.

Being out of work, especially for a long time, is a major determinant of *social exclusion*, understood broader than just money earning activity. For understandable reasons persons without formal employment tend to be marginalized in more than one respect. Female employment in this respect suffered perhaps more, and new forms of employment, such as part time work, have been resisted not only in the private sector, but by state employers as well.

At the other end of the spectrum we have to consider capital income and wealth accumulation, despite the enormous statistical uncertainties surrounding reporting of both. It goes without saying that the emergence of large scale capital, *massive wealth in private hands*, especially at times of long economic - transformational and disintegrative – *recessions* have turned the previously egalitarian societies into quite unequal ones. This might explain why political parties in the region tended to identify themselves with democracy, not however, with capitalism /Laki,1991/. And although at the level of social theory one may doubt if such a distinction is either coherent or meaningful, reality has been different. Ever since the onset of transition the double talk survived. This circumstance reflects the limited legitimacy of the market as opposed to democracy.

From the point of view of social dynamics, several considertions may be due. First, once we accept the insights of Nobel winner Kahnemann and Krueger /2006/ about empircal observations of human nature, this is no longer surprising. Empirical tests of Kahneman conducted decades ago have already shown, that contrary to econometric models, the subjective feelings of loss versus gain are not symmetrical. Losing 1oo euros is about twice as intensive a feeling than gaining the same amount. For this reason, as we may add, gains in the economy are easily accepted, while losses, even temporary ones, produce disgruntlement.

Under this angle this is anything but surprising the rather *general disillusionment* with the growing inequalities that follow from the nature of any capitalist system. For one, public perceptions tended to expect the delivery of the promises of the ancien regime. For another, the ideology of transition was that of a Schumpeterian mold, with enterpreneurs of various sorts finding their ways to implementing their ideas. By contrast, especially the farther East we go, the conversion of political advantages to economic positions has been the name of the game. One may rightly invoke the experience of east Asian state capitalism, where – starting with the Meiji restauration - the conversion of political status into economic advantage has been anything but exceptional. Still, the expectation of the emergence of some sort of a Scandinavian model based on both efficiency and eaquality has been the formative set of values all across the region. Whatever is the reason for this *mismatch,* the fact of the matter remains, that in most of the transition economies the former ruling elite, capitalizing on both its positional advantage and the monopoly on information, as well as on its exceptional position vis-a-vis foreign investors, has become *the driving focre* of transformation. By the same token the political and economic component of systemic change have become detached for longish period of time.

The nature of early capital accumulation has been such - all across economic history - that its qualities have little resemblance to the Scandinavian model, itself an outcome of peculiar circumstances. As a consequence, in CEE the drift between expectations and realities has developed into a major *schism*. At one level, early capitalism has shown its ugly face, as known from the classical British,French,German and Russian belletristique of the 19-20th centuries. The origin of the first million bucks is not something anybody is expected to enquire about in any good company. This, of course, has run counter to the expectations of societies, which have internalized to some degree the egalitarian socialist state ideology, thus their expectation went towards a Scandinavian rather than wild west type of market economy.

But the *specific ways of privatization* in the post-Communist region has also been instrumental in setting the stage. In the first group transnationalization, especially via the sell-out of strategic industries and banking, has created a property owner class, that is integrated in the global processes. Also a relatively broad stratum of employees of the big firms emerged. Parallel to this the segment of small and medium sized enterpreneurs, as well as the large mass of by and large subsistance enterpreneurships/in cities and rural areas alike/ have been formed. The lifestyles, the economic position of the two, as well as the resultant value systems are widely different. While in big business job security and income positions approximate those in the west, the small and medium sized sector is suffering from high turnover, uncertain regulatory conditions, fierce competition from domestic and foreign suppliers, undercapitalization and being non-bankable, as well as from the very slow evolution of the business-friendly regulatory environment. In sum, while the broad middle class, advocated by mainstream social science theory as a backbone of open economy and open society has been in the making, *this middle class is internally* *deeply split.*[6] In a way resembling to less developed nations, the dual structure of economy and society has emerged, with the big business transnationalized and small business remaining local, often stagnant. For this reasons macro-aggregates give only an indirect picture about societal developments.

In the Baltic states the fundamental problem of societies remained the low level of employment, that is coupled with the unresolved citizenship issue of large segments of the inhabitants. *Deprivation often is cumulative,* as Russian speakers tended to be employed in large scale industries and the public administration, both restructured in a radical manner already in the first half of the 1990s.

In the New Independent States the resource-based pattern of development has ben twinned with *insider-domινted political privatizations*. This holds for Russia and Ukraine just as much as for the central Asian countries and the states of the Caucasus. In the latter two groups successors of the Communist rulers are either still in place/s in Azerbaijan and central Asia/, or the „orange revolutions" of 2004-05 have shown a limited impact as yet in terms of redrawing the social map and the balance of forces. In the NIS therefore *negative synergies* could be observable, insofar as insider privatization and resource windfalls have mutually reinforced one another, allowing for authoritarianism to return to a degree and in forms that seemed inconcievable during the Yeltsin Presidency. While some observers compare these development to east Asian models of industrialization /Hanson and Teague, 2005/ thus expecting a gradual and inevitable democratization once societies mature, this must be a very benevolent reading of the events. For one, windfalls create *counter-incentives to change* rather than funds for reform – this has been the clear experience of petro-states over the past three decades. On the other hand, analysis of Russian reforms to date /Voigt, 2006/ has not found any evidence for the favorable impact of institutional changes that were instituted during both Putin Presidencies. The dependence of Russia on the fuel and energuy complex has increased despite government programs to the contrary, with energy utilization remaining low. Under this angle conditions for non-resource based growth and the performance of the non-resource, i.e modern sectors of the economy have even deteriorated /Bakhmakov, 2006/.

From the *social perspective* this has had two major ramifications. First, owing to the windfalls, the Russian fiscal position consolidated, taking of pressures for change, but allowing for paying overdue pensions and wages. This has led, according to World Bank estimates /Yemtsov, 2005/, to diminishing the share of people living under the poverty line of 2.15 dollar a day by about a third in the post-2000 period. Also the combination of centralization of political power with increased reliance on the resource sector has created a strengthening of *political capitalism*, where the boundaries of state and private spheres are lastingly being blurred. This regime, according to Latin American experience, does not lend itself to easy reforms. Moreover even well-meant attempts at major institutional change are likely to founder on the resistance of vested interest. Dycker /2004/ has rightly drawn attention to the fact that via political privatizations and partial re-nationalizations a stratum *deeply disinterested* in any democratization and economic opening has been created and even solidified during the Putin Presidencies. This implies a situation where

[6] Certainly, this split – and its cultural cleavages- have long been formative for these societies, at least for over the past two centuries.

rampant shortages and non-payments, i.e features of the disintegration of the 80s and 90s no longer exist, but distribution of income and wealth remains grossly unequal. The concentration of wealth in the hands of a few, politically well connected, who are only those oligarchs who accepted the supremacy of the state, complemented by political appointees to major firms and banks, co-exist with the hardships experienced by the small business sector, with their two front fight against bureaucratic arbitraryness and maffia-controls /Glinkina, 2003/. [7] In sum, the emergence of the middle classes of western type are not in the making. For this reason *the pattern of society, too, is likely to differ from emerging Europe also for the long run.* What really matters from our perspective is the divergence in patters, rather than bits and pieces.

Finally in southeast Europe the *low level* of economic activity, the *criminalization* of economic and in part also political relations, the drift between *formal and informal* structures turn these societies resemblant to those in the third world. For one, central power is often wielded in a rather autocratic fashion, with civic liberties and press freedoms, as well as economic freedoms being regularly curtailed. On the other hand, and not least following from the previous conditions, *incentives to save and invest,* especially in the long run *are not given*. Third, involvement of the west, particularly of the EU, in reconstructing these societies and especially in orchestrating institutional change has remained limited. Therefore neither structural change nor economic dynamism is clearly observable. For this reason inequalities of various sorts sustain. Political privatization, much resembling to what has ben shown for the NIS, has created inequalities and *insider dominated, inefficient structures.* The same mechanisms has been constraining the inflow of FDI, as incumbents have no interest in letting their markets become contestable.[8] Therefore political capitalism is also in search of „national models", differing in a number of ways but sharing the inablity and unwillingness to transnationalize. For this reason countries of southeast Europe are unlikely to cope easily with the major problem of low labor market participation ratesl and high open unemployment. As a consequence, even if we were to take Serbian, Macedonian or Croatian accession as a given for the next decade, the EU would *unliklely* to be in a position *to change* these societies for the better form the outside. As seen above, structural charachteristics of the past 15 years pose an enormous hindrance to the duplication of the experience of the Visegrád countries.

Poverty, Inequality, Education and Migration

These weighty and complex issues will be only touched upon for the sake of rounding up the big picture only and being aware of the severe limitations in terms of methodology and space. However, it is important to bear in mind that poverty has not emerged with the onset of capitalism. Contrary to ideological claims and the falsified or classified statistics of the *ancien régime*, poverty has never been eliminated under Communism. In the case of Hungary the establishment of SZETA, the Committee for the Defense of the Poor in 1978 was an open onslaught on the ideological self-legitimation and postulates of the system. It is hardly surprising that the movement

[7] A recent killing of a leading central banker, attempting to undo much of the mafia-type intertwining indicated this, as reported in: *Wall Street Journal,*15 Sept,2oo6/online edition/.

[8] This is a major difference from the transnationalizing variant, similarly to the ossification of old positions, which has not been the case with the former, as documented on the Hungarian case by /Laki and Szalai,2006/.

evolved, with the passage of time, into one of the radical transformative forces of the opposition, later also the governing radical party of the Alliance of the Free Democrats. Likewise in Poland the KOR, the Committeee of Defense for Workers has been instrumental in orchestrating opposition to the Communist dictatorship.

What we know on the base of empirical studies, from among which the best known for me is research on Hungary/cf the recent monograph of Tóth, I. Gy. 2005/, that the old system did bring about a degree of egalitarianism by introducing the *univeralist welfare state,* especially since the mid-1970s when public pensions have been extended to the peasantry and retirement ages were lowered. Also the *limitation on capital ownership* and income, limits on the size of assets that could be privately owned contributed to a compressed income structure, with the top and bottom deciles showing a 1:4.5 ratio, comparable to Scandinavia. But povery has never entirely disappeared, with people living long lives, but forcibly retired in the 194os and 5os, families with several children, persons living in remote and small villages all falling under this category. Also single breadwinner households tended to be poor, and the Roma, whose integration gathered momentum only in the 1970s were regularly overrepresented among the disadvantaged /cf also Andorka et al, 1999/.

It is common knowledge, that with the emergence of private ownership of assets, as well as owing to the transformational recession many industries and farming establishments had to close down. In the case of Hungary about 2 mn out of the 5.5 mn workplaces in 1988 has disappeared in a decade. The solution to this unprecedented and poorly understood shock has been manifold/Andorka and Spéder,2oo1/. Early retirement schemes, disabilities, self employment and withdrawal from labor markets all played a role. The latter has been particularly manifest among women, with many people benefitting from the lavish child care support schemes of GYES and GYED. Also with the passage of time female employment has become growingly difficult, and the *conservative turn in societal values* supported/accepted the situation where many middle-aged women have not even attempted the impossible, i.e of re-entering in the labor market. Many college leavers, especially from humanities and a number of related fields actually accepted maternity as a main job. The price hikes in services as well as the divestment of the previously quite extended social net, including kindergartens and care homes, often supported by firms or the trades unions, coupled with limited employment availabilities by growingly demanding employers/in terms of working hours and skills alike/ together turned return to the labor market quite difficult for many.

All in all, Hungary- together with Poland – is a country with one of the lowest rates of labor market activity, 57 per cent of the 15-65 years old population- a long way from the Lisbon target of 70 per cent. As more detailed analysis /CEMI, 2006/ has indicated, this loss is composed of three major factors.

1. People work much fewer years in Hungary than in the west, with actual retirement age being only 57 years for men and 53 years for women/against the statutory 62 and 57 years/.

2. Re-employment of women is significantly lower than in the EU-15, especially in the 35-55 years cohorts.

3. Young people spend too long time at the expanded higher education establishments, studying for several years curricula, that are often of little avail when it comes to labor market entry.

Also working besides study, a general practice in the west, is much less widespread.The overproduction of lawyers, BA level business economists, communication specialists, sociologists, philosophers and of course IR specialists has become clearly observable, with long waiting months and often lower pay and less demanding jobs than the formal qualification would allow for.

Poverty in central Europe has never reached the dimensions observable in the NIS and Southeast Europe. This was due, not least, to the survival of the social safety net, to the relatively flexible labor markets in some countries, and to the buffer role played by subsistance agriculture and low productivity personal services, including tourism, retail trade, construction, insurance and financial services. While inequality has undoubtedly increased, in the case of Hungary reaching the 1:8 ratio by the turn of the millennium and declining to 1.7.3 by 2005 /Szívós and Tóth, eds., 2006/, approximating the less equal west European states, but not reaching Spanish or Italian magnitudes, poverty, measured as 1 or 2.15 dollar a day has not attained the 5 per cent level according to World Bank /World Development Report, 2006, p. 294-295/. By contrast, countries in the NIS and the Balkans have suffered both in terms of inequality and poverty.

What we have described in terms of the specific state led market models in both country groups have *aggravated the unequalizing trends* inherent in privatization of any sort. The concentration of wealth in the hands of a few and powerful has been aggravated by the decline of overall levels of output, exacerbated by the long and slow recovery period. On top of it, *ethnic conflict* has decisively added to the problem. In the case of ex-Yugoslavia titular nations went out of their ways to „cleanse” their respective territories, creating millions of permanently displaced persons. Even in Bosnia-Herzegovina, where the Dayton peace accords would have stipulated a multi-ethnic solution under foreign supervision, the return of the minorities has remained fragmentary, the selling off their property being dominant, and ethnically „clean” regions being cemented. Similar processes can be observed in Kosovo and Macedonia, and to a lesser, though not negligible extent, in Croatia and Serbia as well[9]. In the NIS the exodus of the Russian speaking minority, especially from central Asia has become massive, triggered by a combination of spontaneous and state sponsored processes. Russia in the past 15 years has become the largest immigration recipient country in terms of the re-settlement of its own countrymen.

The forced re-settlement of millions have created a problem of European dimension, where not only the states involved, but the frequented target states of western Europe had to react in terms of massive involvement. The presence of hundreds of thousands of exiles, that add on the top of the serious problem of integration of migrants from Muslim countries, has made the core EU aware of the problem. However not much remedying action followed, not even in terms of academic thinking and policy advice, at least in operational terms/other than the re-training missions of the OSCE, or the humanitarian efforts of aid agencies/.

Education must be included under this heading for a number of reasons. First, as it is known from the theory of human capital, education is a core component of the employability of the populace in any area. This has to do not only with formal

[9] For current commentary on these countries cf the regular publications of the International Center for Economic Growth: *Balkán Monitor,* available at: www.iceg.hu

provision of degrees, but educating social skills and foreign languagues. In terms of the latter the previously well performing secondary and tertiary education of the post-Communist countries has suffered a major blow. Underfunding, due to the lack of bargaining power in terms of fiscal planning, has been coupled with the expansion of higher education in a rather uncontrolled fashion, neglecting international experiences/Polónyi and Tímár,2oo6/ has produced a major deterioriation in terms of any dimension one cares to mention.

This feature is worrysome, if for no other reason, also in the context of the Lisbon Agenda, as relaunched in March 2005, since this policy document rightly emphasizes the focal role of medium and higher education in bringing about „more and better jobs". The less people acquire relevant skills and knowledge, the longer the defensive strategy of trying to find employment in poorly paid or subsistance jobs, often in the extended irregular economy, that is put at about 40 per cent of GDP in the countries of southeast Europe, will become a lasting feature of the economic model. By contrast, such an activity pattern *inevtiably leads to low tax revenues and low level of publicly provided services.* It is easy to comprehend why this structural feature, rather than ideational choices/such as the spread of neoliberalism, exorcised i.a by Joseph E. Stiglitz /2oo2/ in his public speeches is decisive for the outome. From low and largely irregular incomes no long term savings are likely to be made.Even if cash flows were sufficient, uncertainty would caution against saving in formal financial intermediaries. Thus people shun taxes and also public services as long as they can. But – as known i.a from the fate of British and American small business people- old age poverty, ill health, or natural catastrophes as the one in New Orleans, not to speak of the presence of sizable portions of displaced populations, together do not allow for the option of the minimal state in the long run. By contrast, unwillingness of politicians to create sticks and carrots for more self-care and responsibility will backfire, as the tax abiding behavior is unlikely to spread across the region.

Patterns of Redistribution and Welfare States in CEE

Following the line of overall reasoning we must relate the economic model to the *social models* that have emerged in the region over the past two decades[10]. At one end we find the Visegrád countries, where – not least owing to their involvement in the process of Eurpeanization – *continental types of welfare regimes* have been sustaining. While the difference by the country is relevant, it is that of degree rather than of kind. In the other part of emerging Europe, the Baltics, a rather US style system has emeged, with welfare spending being openly subordinate to considerations of state building and of fiscal equilibrium. One would wonder, for how long this option is likely to sustain, provided the high growth of the 2000s continues, and the ensuing social expectations expand, not least via EU channels and through the demonstration effect of the Scandinavian/reformed/ welfare states.

In the case of the NIS, the collapse of the socialist enterprises has triggered a real crisis. For most of the 1990s not much welfare protection, social safety net in the established sense came to existence. In the first half of the 90s people were nominally kept on the payroll, though no actual payment was transacted. Later unemployment benefits emerged, but under high inflation and continued non-payment these became

[10] For a possible conceptualization of these models cf the innovative, though controversial, approach of Bohle and Greskovits /2007/.

irrelevant. Finally in the 2000s economic growth resumed, that has diminished unemployment. The resumption of payment of pensions and wages, even retroactive payment of overdues, as seen in section one, has indeed contributed to easing the acute problem of third world type of poverty. However, since no extended welfare provision has been instituted, and the *erosion* of the social sphere/also in terms of underinvestment/ has been going on *for the fourth decade* in the NIS, while the population is ageing in line with the rest of Europe/and birth rates collapsing in the Slavic states/, the time bomb of welfare provision is ticking already now.

In the case of southeast Europe the remnats of the once – at least formally - universal socialist welfare provision co-exist with ongoing privatization of revenues and services alike. The sizable *irregular economy,* together with relatively high inflation in all countries but Croatia, render the real value of those services limited. Remittances from guest workers form, like in many developing nations, an important component of the social safety net. Also the family/clan provision of some of the basic services, normally bought on the market in the west, help to milden the repercussions of a decaying formal state structure, or the slow emergence and inefficiency of newly formed state structures in such countries as Macedonia or Bosnia.

It is relatively easy to forecast that the four patterns may develop in four trajectories. In the Visegrád countries reforms are likely to follow the EU model, in which the co-existence and competition of Anglo-Saxon and continental models have been observable for a long period of time /Aiginger and Guger, 2006/. In the case of the Baltics the re-introduction of some of the same is likely to follow economic development and Europeanization. In the NIS, at least in theory, the windfall, having allowed for the consolidation of public finances, and awareness of the looming crisis together may trigger a step in the direction conceptualized by the metaphor of benevolent dictator. Finally in the Balkans a long trial and error policy, reminescent of the low level equilibrium of countries stuck in the development trap, is likely to follow.[11] As long as the irregular economy can not be combatted, as long as conditions for safe savings in local currency are not being brought about by a non-corrupt state, these second and third order tasks are unlikely to be met. If for no other reason, than the logic of „first things first" can by no means be circumvented.

Consequences of the Populist Turn in Policies

It would be hard to deny that redistributory concerns have become dominant over sound macroeconomic policies in most of Europe and in nearly the whole of the post-Communist countries. While the rhetoric was on equity, redistributing the benefits of growth, of social security, reality has been quite different. In most of the countries Olsonian *redistributory coalitions,* mostly covered by broad modern democratic parties, have come to power. These represented *the middle classes* rather than anybody else, since the marginal groups have normally not been involved at any level

[11] In a recent publication of the Economist Intelligence Unit: *World Investment Prospects.* London, September .2oo6 17.5 bn dollars of new inward FDI to southeast Europe is reported. However, these relate to one-shot deals, mostly privatizations, both in Serbia/in banking/ and Romania. Similarly, the relatively significant FDI in NIS focuses nearly exclusively on the fuel sector. For Russia the EIU forecast of 22 bn for 5 years implies the continuation of the trend of moderate and selective inflows that featured the past 15 years.

of policy-making. The exclusion of certain ethnic groups/formally or informally/, or the chastising of the opposition, as in Russia, or the intertwining of political parties of the mainstream with dubiuos and intransparent business interests, as in Ukraine, Romania or Serbia, have created a next to ideal breeding ground for the populist policies.

One may wonder, how much these processes have been home bred, and how much the *demonstration effect* of the similar practices of core EU countries, regularly flouting the self-imposed Stability and Growth Pact, but also other norms of solid, sustainable public finances have had a role. Also the ideology of the EU, that has been stressing the social dimension, and extending its soft legislation to areas where the Community ha sno formal competences, may have played a role. The EU Commission as a policy enterpreneur has advocated policies and institutional arrangements, such as tripartism, that do not follow from the current autochtonous development of the new member states.

An additional reason that may explain the turn for the worse might have been the *ebbing out of the influence of the EU* as an external anchor and policy enterpreneur. The EU had been concieved by the political élite, perhaps in a naive fashion, as a land of promise.Thus the EU, and especially the Commission has had much more leverage over the shaping of domestic policies in the 2004 new member states, than it has been customary in any of the previous enlargements. Therefore the EU has had both the stick and the carrot: that of exclusion/from the first round/, and that of being included and lavishly awarded, by sums that may enhance the visibility and popularity of the governments administering these funds.

With the 2002 Copenhagen deal *both components got lost*. The EU transfers have proven marcoreconomically irelevant, the membership was secured anyway, and trespassers were conspicuoulsy not punished. This allowed for much laxer policies than otherwise.

It is interesting to ask why this softening up *has not resulted in broad welfare reforms,* instead of just spending more money in what many economists consider a bottomless barrel. One may well ask, why, if the option has been for more state redistribution, *why not favoring genuinly the weakest,* such as the Roma, the population of lagging or environmentally decaying regions, or even the urban underclass including the homeless? But once the political economy perspective, informed inter alia by theories of rational choice, is included, the outcome becomes much less puzzling.

If we conceptualize the center-left parties as that of enterpreneurs, representing the winners, while the center-right parties as those representing the losers/state dependent strata, the drift is given. If it builds upon the drift ofver such issues as how to assess the *ancien régime*, the deep division and distrust in the other part of the élite emerges. This triggers an atmpsphere of overall and mutual *distrust* that renders any non-myopic, non-materialistic strategy irrelevant, the incentive is to redistribute becomes a given. Elaborating this line of thought Győrffy /2006/ explains Hungarian inability for fiscal consolidation on the base of deep rooted self-interest of the political actors. This model is easy to generalize for the emerging economies except Estonia, where reform dictatorship seems to survive. Slovakia could have been different, but the scandals that have led to the downfall of the second Dzurinda Government have put the coutry „back on track". In the Polish case the extreme corruption haunting the Left and the hollowing of the moderate center-right/and its instrumental use of the radical vocabulary/, together with normalization of living conditions has brought to power the national radicals of the Kaczynski twins, that represent the moral quest of society to be compensated for the unjustices of the past, that are meant to be remedied by increased state redistribution /Smolar, 2006/.

It is interesting to note, that despite nearly two decades of market oriented reforms, and in part due to the lack of transparency in public finances, *the level of economic information and understanding of the population is low,* and so is tax awareness. Recent surveys of the TÁRKI Institute for Social Research conducted prior to the 2oo6 elections in Hungary has shown the median voter to be in favor of tax cuts and extended social services, to be implemented at the same stroke /Tóth, I. Gy, 2006/. This insight may well be generalized to the rest of emerging Europe[12], since it is customary for parties of the left or right to win elections on a similar platform, containing at least implicitly those populist promises. Interestingly, both the newly elected leftist Slovak and rightist Polish governments have continued a policy of *redistributing* political and economic benefits within the middle classes/in favor of their own supporters and at the detriment of adversaries/ rather than being involved in any, conceptually well thought-out reform of those welfare states, whose financial unsustainability counts among the economic platitudes in research on the region.

Under these circumstances educational reforms rarely follow considerations of employability. Rather they follow prestige considerations of regions and local policy-makers. Radical reforms of the health care systems, launched in Slovakia seem to be on the reversal. Privatization of both the Bratislava and Kosice airports have been stopped in weeks rather than months after the change.[13] In the other three Visegrád countries marginal, rather than major, changes are underway in both pension and health care systems.What is truly embarassing for the longer run perspective is the *low professional level of public discourse* over the welfare state. At one level simplistic calls for all-out privatization, disregarding international experience, on the other hand „no change nowhere,else you abolish social accomplishments" define the discourse. The acknowledgement of the nature of the problems is often missing. For instance, the sustainability constraints of pension systems may be openly doubted[14], or the steeply decaying performance of educational systems, reflected i.a in the regular PISA tests, is simply denied. For these reasons the atmosphere has become as conservative and status-quo oriented, as in most of continetal Europe - a big difference to Scandinavia and the Anglo-Saxon countries, but certainly a given for policies.

---

[12] Polish surveys e.g indicated in the mid-2000s, that rejecting Communism has by no means equalled to rejecting collectivist and statist solutions as well. On the contrary, demand for the latter has even increased/as reported in Pascall and Kwak,2005, pp. 193-4/.

[13] In a benevolent reading this implied just a change in the potential beneficiaries from the deal, which is already bad enough, but it may also signify that the new ruling Left-Right coalition mean what they say about the economy, which is even worse.

[14] By contrast, Commissioner Joaquin Almunia listed Hungary, the Czech Republic and Slovenia among those where the lack of sustainability or public pension scheme is perhaps the worst within the EU. In: *Libération,* 2 November,2oo6.

For this reason the Visegrád countries, once in the vanguard of reforming the socio-economic systems have entered in a period of muddling through. Much like in many Latin American and continental European countries, *political and economic rationality does not overlap*, to put it mildly. Those third generation reforms that would address root causes of low employability, social exclusion and at the end, slow trend rates of growth are unlikely to figure high on the agenda of policy reform. Marginal changes breed marginal improvements in the frontrunner countries – and even a bleaker picture may apply for the laggards. This is troubling, since *social modernization is a precondition for further economic growth.* But the theses is easy to reverse: further *improved economic performance creates conditions for a socially more inclusive pattern of the market order* than the one that emerged in the past 20 years in the four categories of post-Communist countries.

R E F E R E N C E S

AHREND, R. /2006/: Kak podderzhivat' ekonomicheskii rost v resursno-zavisimoi ekonomike?/How to sustain economic growth in a resource-dependent economy?/ *Voprosy Ekonomiki* vol. 77, no. 1, pp. 24-36.

AIGINGER ,K. – GUGER, A. /2006/: The ability to adapt: why it differs between Scandinaivian and Continental European models? *Intereconomics,* vol.41, no. 1, pp. 14-25.

ANDORKA, R. et al eds /1999/: *A Society Transformed: Hungary in Time-Space Perspective.* Budapest-New York: Central European University Press.

ANDORKA, R. – SPÉDER, Zs. /2001/: Poverty in Hungary in 1992-95. In: LENGLEL, Gy. – ROSTOVÁNYI, ZS., eds: *The Small Transformation.* Budapest. Akadémiai Kiadó, pp. 126-159.

BASHMAKOV, I. /2006/: Nie-nieftegazovoi VVP kak indikator dinamiki rossiiskoi ekonomiki.//The non-fuel GDP as an indicator of real GDP growth in Russia/.*Voprosy Ekonomiki,* vol. 77, no. 5, pp. 78-86.

BÁRDOSSY, Gy.- LELKES-FELVÁRI, Gy. /2006/: Gondolatok és kételyek Földünk szénhidrogén-készletével kapcsolatosan/Reflections and doubts on the hydrocarbone reserves of the Earth/. *Magyar Tudomány,* vol. 167, no. 1, pp. 62-72.

BOHLE. D. and GRESKOVITS, B. /2007/: Neoliberalism, embedded neoliberalism and neocorporatism: paths towards transnational capitalism in central and eastern Europe. *West European Politics,* vol .59, no. 2 /in print/.

BROADMAN, H. et al /2005/: *Building Market Institutions in Southeast Europe.Comparatyive Prospects for Investment and Private Sector Development.* Washington, D.C.: a book published by the World Bank.

Central European Management Intelligence /2006/: *Makroegyensúly és növekedés.*/ Macroeconomic equilibrium and growth/. Budapest, April. Also awailable online at: www.cemi.hu

CSABA, L. /2002/: Convergence and divergence in economic transformation and integration. In: SCHORKOWITZ, D. ed: *Transition – Erosion – Reaktion.* Frankfurt am Main: Verlag Peter Lang, pp. 41-69.

CSABA, L. /2004/: Transition in and towards Europe.*Zeitschrift für Staats- und Europawissenschaften,* vol. 2, no. 3. pp. 330-350.

CSABA, L. /2007/: A comparative overview of empirical evidence. In. CSABA,L.: *The New Political Economy of Emerging Europe.* 2d, revised, updated and extended edition. Budapest: Akadémiai Kiadó /an affiliate of W. Kluwer/.

DYCKER, D. /2004/: Russia's road to WTO: why such a long and difficult road?*Post-Communist Economies,* vol. 14, no. 1, pp. 3-20.

FREUDENBERG, M. – LEMOINE, F. /1999/: CEE countries in the international division of labour. Paris: *CEPII Working Paper,* no.5 /April/.

GLIGOROV, V. – PODKAMINER, L. et al /2006/: Broader-based growth resilient to global uncertainties Vienna: The Vienna Institute for International Economic Studies, *WIIW Research Report* no 328 /July/.

GLINKINA, S. /2003/: Small business, survival strategies and the shadow economy. In: DALLAGO,B. – McIntyre,R.eds: *Small and Medium Enterprises in Transitional Economies.* New York: Palgrave/MacMillan, pp. 36-51.

GRESKOVITS, B. /2004/: Beyond transition: the variety of post-socialist development. In: DWORKIN,R.ed: *From Liberal Values to Democratic Transition.* Budapest- New York: CEU Press, pp. 201-226.

GYŐRFFY, D. /2006/: Governance in a low-trust environment: the difficulties of fiscal adjustment in Hungary. *Europe-Asia Studies,* vol. 58, no. 2, pp. 239-259.

HANSON, Ph. – TEAGUE, E. /2005/: Big business and the state in Russia. *Europe-Asia Studies,* vol.57, no. 5, pp. 657-680.

KAHNEMAN, D. – KRUEGER, A. B /2006/: Developments in the measurement of subjective well-being. *Journal of Economic Perspectives,* vol. 20, no. 1, .pp. 3-24.

KARL, T. L. /1997/: *The Paradox of Plenty: Oil Booms and Petro-States.* Berkeley: University of California Press.

KORNAI, J. - ROSE-ACKERMAN, S. Eds /2004/: *Building a Trustworthy State in Postsocialist Transition.* New York: Palgrave Macmillan.

LAKI, M. /1991/: Economic programs of the ex-opposition parties in Hungary. *East European Politics and Societies,* vol. 5, no. 1, pp. 73-91.

LAKI, M. – SZALAI, J. /2006/: The puzzle of success: Hungarian enterpreneurs at the turn of the millennium.*Europe-Asia Studies,* vol. 58, no. 3, pp. 317-346.

LANKHUIZEM, M. /2000/: Shifts in foreign trade, competitiveness and growth potential? From Baltics to Bal-techs? *Research Policy,* vol. 29, no.1, pp. 9-29.

PASCALL, G. and KWAK, A. /2005/: *Gender Regimes in Transition in Central and Eastern Europe.* Bristol: Polity Press.

POLÓNYI, I. - TÍMÁR, J. /2006/: A magyar felsőoktatás-politika és a diplomás túlképzés./ The policy of higher education in Hungary and the overproduction of degrees/. *Külgazdaság,* vol. 50, no. 4-5, pp. 96-106.

ROSS, M. /1999/ : The political economy of resource curse. *Wolrld Politics,* vol. 51, no. 2, p. 297-322.

SMOLAR, A. /2006/: Kormányon a radikálisok/Radicals govern/ *Beszélő,* III. series, vol. 11, no. 9, pp. 54-73.

STIGLITZ, J .E. /2002/: *Globalization and its Discontents.* London: Allen Lane.

SZÍVÓS, P. – TÓTH, I. Gy., eds. /2006/: *Fehéren – feketén.*/In black and white/. Budapest: TÁRKI Institute for Social Research, March.

TÓTH I. Gy. /2005/: *Jövedelemeloszlás: a gazdasági rendszerváltástól az uniós csatlakozásig. /*Distribution of income: from systemic change to EU accession/. Budapest: a book jointly published by the R.Andorka Society for Social Research and Századvég Publishing House.

TÓTH I. Gy. /2006/: Államhívő magyarok/Hungarians believe in their state/.*Figyelő,* vol. 50, no. 16.

YEMTSOV, R. /2005/: 'How to achieve accelerated shared growth?' - paper presented to the conference of CASE entitled *Europe after Enlargement,* Warsaw, 7-8 April, forthcoming in book format under the editorship of A.Aslund by Cambridge University Press.

VOIGT, P. /2006/: Russia's way from planning to market: a success story? *Post-Communist Economies,* vol. 18, no. 2, pp. 123-138.