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From socialist workfare to capitalist welfare state: Competing strategies and outcomes of transformation of social institutions in European neo-patrimonial and neo-liberal post-communist regimes during the second phase of reforms

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Introduction

What is happening to institutions during the post-communist transition in Eastern and Central Europe? There is a consensus in the literature that in the post-communist states of both Central and Eastern Europe the initial transitional reforms aimed at building up the market institutions and did not attempt to make politically potentially costly reforms of social institutions "The sequence of reforms in transition economies is roughly in line with political economy theory, which suggests that reforms expected to be more popular should start first" (Rupp 2002, 42). However, as predicted by Aghion and Blanchard

(1994), fast economic reforms have raised the demand for social policies, which would compensate the transitional losers, for instance unemployment benefits. "Not only is the economy changing, but so is the government's role in buffering people from market forces (Lipsmeyer 2002, p.661)..,In the early stages, governments either sustained or expanded their already extensive commitments (Fultz and Ruck 2001). in order to contain the social costs generated by the transition. A dramatic increase of unemployment, for example, was compensated for by a large-scale early retirement provision; the costs were transmitted to the pension systems increasing the level of state expenditure, thus having a long-term negative impact on sustainability of public finances and prospects of further reforms. Major social institutions including pension and healthcare systems and educational services thus continued to be structured along socialist principles for some time (Fultz and Ruck, 2001; Deacon, 2000

These tensions reflect a broader issue in institutional analysis concerning the way in which institutional structures reinforce and complement each other. In communist regimes, a certain balance had emerged between the political system, the form of economic organization and the social institutions of redistribution. With the collapse of communism, however, these institutional linkages were broken apart and actors had to develop new strategies as they sought to rebuild institutional coherence. In this chapter, we argue that in the early stages of transition, it was the reorganization of the economy which dominated the process of institutional change. This reorganization was in turn closely aligned with the development of new state structures and political processes. At this stage, the social institutions of redistribution were little affected. The second phase of transition has, however, seen the emergence of efforts to reform the welfare system in ways which better fit the developing neo-liberal economies. These efforts have been differentially successful because the political and economic institutions established in the first phase of transition shape and constrain the sorts of institutional change in welfare systems which is being pursued in the second phase. During the first decade of the transition, the economic system was by and large successfully transformed into a market system, but the great distributive systems, (as they have been known in Eastern and Central Europe) such as healthcare, the pension system and tertiary education remained very much as they had been during the socialist era. However by the late 1990s, this situation was changing and institutional reform moved into a second phase focused particularly on how to make these welfare institutions fit more closely to the new context

For some forty years of socialism, the former socialist countries had been on a convergence trajectory. They had entered the socialist experiment at very different levels of economic development, with different institutional arrangement and major cultural-religious differences. While these differences did not disappear altogether they were substantially reduced. But as communism broke down the old fault-lines re-emerged, and the European socialist countries split between Central and Eastern Europe just as Jenő Szücs predicted ([1983]1988). Dawson noted that although societies of the former Soviet Union and Eastern Europe "share a common legacy of communist rule and confront a similar challenges in attempting a transition away from Soviet-style communism" (Dawson 1999, p.15), but they differ with respect to commitment and accomplishment of building capitalist economies, democratic institutions and reforms of social institutions.

We start this paper by conceptualizing these different trajectories in European socialist countries from socialism and then proceed to show how this has impacted on the two phases of transformation which have taken place.

The two trajectories of transformation

Arguably there was a fault line between Central and Eastern Europe which preceded the socialist period. Following World War II the European countries that entered the path of socialist transformation were at strikingly different levels of social and economic development and they had quite different socio-economic institutions. Czechoslovakia, Poland, the Baltic States, Hungary and the Western states of Yugoslavia (Slovenia and Croatia) were more westernized, industrialized and somewhat wealthier than the non-Baltic states of the USSR and the European regions east from them, like the Eastern states of Yugoslavia, Albania, Bulgaria and Romania. In this paper we call the former group of countries Central Europe (often referred to in the literature somewhat awkwardly as East Central Europe) and label the later ones as Eastern Europe . But for forty years, between the late 1940s and 1989 the European societies which called themselves socialists were on a convergence trajectory (Berend, 1996). During the four decades of socialism, differences did not disappear completely but they were substantially reduced. The convergence of economic and social institutions was particularly impressive. The institutions of the redistributive economy were almost indistinguishable. A Soviet model of legal, educational and cultural institutions was also imposed in all the countries (though to a slightly different degree). Hence Central and

Eastern Europe were on the road to be merged into the rather homogeneous category of "Soviet type societies"

For a short while after the collapse of communism and the discrediting of those associated with the communist parties, it appeared that there was no alternative to the transition to a "free market economy:" Neo-liberalism became the dominant ideology in the whole region. Economic reform scenarios were similar. Balcerowicz advocated shock therapy in Poland. Gaidar promised capitalism in one hundred days in Russia. But this consensus did not last too long. By the mid 1990s rather different socio-economic institutions were emerging in these two regions of Europe,.

The differences between the Central and East European ways of building capitalism became apparent in the ways in which property was converted from public into private ownership. How this crucial step in the transition should be made was debated. There was strong support for some sort of people's capitalism, hence privatization by vouchers. Vouchers were supposed to be either equally distributed among citizens or allocated to employees according to their length of service or their accumulated contribution to the value of the enterprise. The major alternative to this was public and competitive auctioning of formerly collective property to the highest bidders. . Various countries followed different policies at different points in time, but after experiments with a range of privatization techniques, the two regions of Europe found themselves moving in distinctly different directions.

In Russia voucher privatization facilitated management buy-outs and helped to create a new domestic grand bourgeoisie. Many of them came from the ranks of former high officials and their clients and hence they were seen as the “red barons”, or a “nomenklatura bourgeoisie.” Gigantic private wealth was created over a short period of time. This was not quite what neo-liberals like Gaidar wanted or advocated, but it was the result of Yeltsin’s compromises with political bosses. Arguably the new grand bourgeoisie was created via state action and was intimately linked to political power. Nevertheless the new property relations were also somewhat insecure. This became especially obvious as Putin came to power, and he was faced with challenges to his power by some of the “oligarchs.” Putin managed to reallocate some of the property from now disloyal clients to loyal ones (even re-nationalized some of the wealth previously privatized), as well as locking up or exiling some who had begun to aspire to political power. Putin treated the post-communist oligarchs as “pomeshchiks”, or service nobility, owners who have their property in exchange for their services and loyalty to their political master. During the 1990s there was a similar trend in changes in property relations in a number of other countries, Bulgaria, Romania and even in Slovakia under Mečiar (O’Dwyer, 2006, p.48; Elster, Offe and Preuss, 1998, p.202)

Such patron-client relations were not restricted to the world of political bosses and new proprietors. In Eastern Europe, relationships between state authorities and citizens, and management and workers were also clientelistic. Unemployment grew relatively slowly, though wage arrears were frequent. But firms occasionally offered services known from the socialist era (housing, even household plots to enable workers to grow they own food when their wages not were paid). Barter complemented in significant ways the market transaction and in some areas of life was more important than markets (Southworth, 2004a.b, Woodruff 1999).

Given the importance of clientelism, especially the re-assignment of former state property as private property by political patrons to clients in exchange for their loyalty this type of domination and character of economic arrangements may be labelled neo-patrimonial (Eisenstadt 1973; Garcelon 2005). Neo-patrimonialism in its most general sense implies the uses of public or state resources in order to secure the loyalty of the clients. Patrimonialism is a technology of domination, a system of governmentality. It secures loyalty rather than material benefits to the patron (though patrimonial rulers can be corrupt and can be engaged in activities of political capitalism). . What – if anything - is new or novel in the patrimonialism of the 21st centuries as described here? Eisenstadt (1973) emphasized that neo-patrimonial domination represents a mix of patrimonialism and bureaucracy, or legal rational authority. The rulers even in the most modernized patrimonial states were personal masters. In neo-patrimonial regimes even when the person of the patron is important, like in the case of Russia's Putin, some formally rational system of succession is in place. Hence Putin did not seek an unconstitutional third term as president, he managed the election of one of his clients to this office and then renegotiated the distribution of power between president and prime minister, the position he was able to occupy without violating the law. Neo-patrimonialism in its ideal type also co-exists with a system of managed democracy. Elections are held at regular intervals, opposition parties participate in these elections though the elections rarely offer surprises and are managed through a variety of means whereby the state apparatus is used covertly and overtly to maintain the conditions for the victory of the existing order.

Economic transformation in Eastern Europe proceeded along neo-patrimonial lines with state and economy closely intertwined under the dominance of strong political leadership supported by a loyal class of oligarchs who accrued huge wealth through their control of certain key state assets. Meanwhile other assets of the state such as heavy industry and the production of consumer goods which were uncompetitive in the new open economy were left to decline, causing massive unemployment and poverty. Whilst this was partially cushioned by the old distributive systems, the use of traditional mechanisms of tight police control and appeals to Russian nationalism were also deployed to manage the maintenance of the neo-patrimonial regime.

During the early 1990s the Central European countries also experimented with various techniques of privatization and voucher privatization .Though Vaclav Klaus while prime minister of the Czech Republic during the early 1990s was usually praised for his staunch liberalism, early on he was committed to encouraging domestic capital formation and was careful in opening up Czech capital markets to foreign investors. As a result the Czech Republic (and Poland as well) until the second half of the 1990s lagged substantially behind Hungary in per capital FDI (see Table 1). Even in Hungary which took an early lead in auctioning off formerly state owned corporations in competitive biddings to foreign investors, some of the privatization was achieved via compensation vouchers (in particular in agriculture; see Harcsa et al 1998)) and like in Eastern Europe the beneficiaries of this kind of privatization method were former cadres or their clients. Nevertheless by the late 1990s in the Central European region the main technique of privatization of the corporate sector was competitive bidding at auctions and as these economies took off after 1995 the most dynamic sectors of their economies were owned or controlled by foreign investors and that was particularly true for the export sector (Eyal at all, 1998).

The Central European countries in order to attract and keep foreign capital so vital for their economic growth strategy had to implement neo-liberal economic policies. This involved radical deregulation of the economy, offering tax benefits to foreign investors, opening their markets to importers, and free market reform of the banking sector. Central Europe was on a neo-liberal trajectory to post-communist capitalism (Kochanowicz 2006). On a number of economic indicators and institutions (in terms of per capita FDI, the extent of privatization, degree of liberalization of markets for foreign goods and elimination of export subsidies) the Central European countries were arguably more neo-liberal than countries, like the UK under Thatcher or the US under Reagan .

The differences between the neo-patrimonial transformation of Eastern Europe and the more neo-liberal transition in Central Europe can be seen in the following table.

Table 1 Indicators of transformation of economic institutions

		1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Belarus	Private sector	5	5	5	10	10	15	15	15	20	20
	Admin. prices	100	100	90	80	70	60	45	30	27	27
	Bank reform	1	1	1	1	1	1	2	1	1	1
	Foreign direct investment	Na	na	.na	Na	18	11	15	105	350	201

Bulgaria	Private sector	10	10	20	25	35	40	50	55	60	65
	Admin. prices	100	70	24	16	26	43	46	52	14	16
	Bank reform	1	1	1	1.7	2	2	2	2	2.7	2.7
	Foreign direct investment	Na	4	56	42	40	105	98	138	507	537
Czech Republic	Private sector	5	10	15	30	45	65	70	75	75	75
	Admin. prices	Na	na	28	18	18	18	17	17	13	13
	Bank reform[1]	1	1	2	3	3	3	3	3	3	3
	Foreign direct investment	Na	na	983	564	762	2,531	1,280	1,259	3,574	6,219
Hungary	Private sector	5	25	30	40	50	55	60	70	75	80
	Admin. prices	18	16	11	11	11	12	13	13	14	15
	Bank reform	1	1	2	2	3	3	3	3	3	4
	Foreign direct investment	187	311	1,459	1,471	2,328	1,097	4,772	3,335	3,715	3,070
Poland	Private sector	30	30	40	45	50	55	60	60	65	65
	Admin. prices	19	11	11	11	11	12	12	11	11	11
	Bank reform	1	2	2	2	3	3	3	3	3	3..3
	Foreign direct investment	Na	0	117	284	580	1,846	3,617	4,445	4,863	6,049
Romania	Private sector	15	15	25	25	35	40	45	55	60	60
	Admin. prices	100	85	47	29	20	18	18	18	9	9
	Bank reform	1	1	1	1	1	2	3	3	2.7	2.3
	Foreign direct investment	na	-18	37	73	87	341	417	415	1,267	2,079

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		1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Russia	Private sector	5	5	5	25	40	50	55	60	70	70
	Admin. Prices	100	100	100	47	47	40	13	13	13	13
	Bank reform	1	1	1	1	1	2	2	3	3	1.7
	Foreign direct investment	Na	Na	Na	Na	Na	408	1,460	1,656	1,681	1,492
Slovakia	Private sector	5	10	15	30	45	55	60	70	70	75
	Admin. prices	Na	Na	Na	Na	22	22	22	22	21	18
	Bank reform	1	1	2	2.7	2.7	2.7	2.7	2.7	2.7	2.7
	Foreign direct investment	10	24	82	100	106	236	194	199	84	373
Ukraine	Private sector	10	10	10	10	15	40	45	50	55	55
	Admin. prices	Na	Na	Na	Na	Na	Na	na	Na	na	Na
	Bank reform	1	1	1	1	1	1	2	2	2	2
	Foreign direct investment	Na	Na	Na	200	458	151	257	516	581	747

Data are from www.ebrd/economicstatistics/ Private sector = private sector share in GDP (in per cent); Admin. Prices= Share of administered prices in CPI (in per cent); Bank reform = EBRD index of banking sector reform (1=none; 4= full); FDI = foreign direct investment net in US$ million

The Czech Republic, Hungary and Poland privatized early the public sector, and opened investment markets early to foreign capital. The acceleration of privatization tended to coincide with an influx of FDI (though much less so in Poland than in the Czech Republic and Hungary). They also deregulated the economy (reduced price controls and reformed the banking sector). Privatization was somewhat (or greatly) delayed in Belarus, Bulgaria, Romania, Russia and the Ukraine (the later four countries were one to three years behind the Central European ones in this respect) and more importantly when privatization took off their markets were still largely inaccessible to foreign investors, enabling the nomenklatura bourgeoisie to take advantage of mass privatization.

In the period up to the late 1990s, the regimes labelled neo-patrimonial offered poor economic performances, whilst the neo-liberal countries which also suffered substantial early set-backs recovered early and began to perform well. But around 1998-2000 the fortunes changed. As post-communist regimes entered the second phase of institutional transformation neo-patrimonial systems took off, while neo-liberal systems with some exceptions slowed down.

Table 2
Economic performance of neo-liberal and neo-patrimonial regimes during the first phase of transition

		1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Belarus	Growth of GDP	8	-3	-1	-10	-8	-12	-10	3	11	8
	Unemployment	0	0	0	1	1	2	3	4	3	2
	Inflation	2	5	94	970	1,190	2,221	709	53	64	73
	Government debt	Na	na	Na	Na	na	Na	18	10	12	11
Bulgaria	Growth of GDP	1	-9	-12	-7	-2	2	3	-10	-6	4
	Unemployment	Na	2	10	15	16	19	14	13	15	16
	Inflation	6	26	334	82	73	96	62	123	1,082	22
	Government debt	Na	na	185	166	172	183	115	319	105	80
Czech Republic	Growth of GDP	1	-1	-12	-1	0	2	6	4	-1	-1
	Unemployment	Na	1	4	3	4	4	4	4	4	6
	Inflation	1	10	52	11	21	10	10	9	8	11
	Government debt	Na	na	Na	Na	19	18	14	12	12	13
Hungary	Growth of GDP	1	-4	-12	-3	-1	3	2	1	5	5
	Unemployment	1	1	8	9	12	11	10	10	9	8
	Inflation	17	29	35	23	23	19	28	24	18	14
	Government debt	Na	na	75	79	90	86	84	72	64	62
Poland	Growth of GDP	0	-12	-7	3	4	5	7	6	7	5
	Unemployment	Na	7	12	14	16	16	15	13	10	10
	Inflation	251	586	70	43	35	32	29	20	15	12
	Government debt	Na	95	82	87	89	72	50	44	44	39
Romania	Growth of GDP	-6	-6	-13	-9	2	4	7	4	-6	-5
	Unemployment	Na	na	3	8	10	11	10	7	6	6
	Inflation	1	5	170	210	256	137	32	39	154	59
	Government debt	Na	na	Na	Na	na	Na	21	28	16	18

		1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Russia	Growth of GDP	2	-3	-5	-15	-9	-13	-4	-4	1	-5
	Unemployment	Na	na	Na	5	6	8	9	9	11	12
	Inflation	Na	na	Na	1,526	875	311	198	48	15	28
	Government debt	Na	na	Na	Na	na	48	46	49	57	82
Slovakia	Growth of GDP	1	0	-16	-7	-4	6	6	6	5	4
	Unemployment	Na	1	10	10	14	14	13	11	12	13
	Inflation	2	11	61	10	23	13	10	6	6	7
	Government debt	Na	na	Na	Na	28	25	22	32	34	35
Ukraine	Growth of GDP	4	-4	-11	-10	-14	-23	-12	-10	-3	-2
	Unemployment	Na	0	0	0	0	0	0	1	2	4
	Inflation	2	4	91	1,210	4,734	891	377	80	16	11
	Government debt	Na	na	Na	Na	na	Na	22	24	30	38

Data are from www.ebrd/economicstatistics/. GDP = growth in real terms; unemployment = end -year, percentage of labor force; inflation = consumer prices, annual average, percentage change; government debts = in percent of GDP

On the whole neo-patrimonial regimes did poorly. They managed to keep unemployment rates low, but most suffered from hyperinflation and while they seemed to recover briefly they fell back into a rather deep recession by the end of the first post-communist decade. Taking into account falling living standards, increases in poverty rate and popular dissatisfaction with the transition it is even more obvious how neo-patrimonial regimes fell behind neo-liberal countries. According the World Bank data (www.worldbank.org) in countries like Belarus Bulgaria, Romania, Russia and the Ukraine, the percentage of population below poverty line ranged from 25% to over 40% whilst at the same time point in the Czech Republic, Hungary and Poland it was between 2-15% .

By 1999-2000 there was a sharp turnaround in several respects. There was a shift in the economic institutional arrangements of some countries. Most importantly countries regarded as neo-patrimonial during the 1990s, such as Bulgaria and Romania opened up their markets. The same occurred in Slovakia, which was during the first decade of transition a mix between neo-patrimonialism and neo-liberalism. During the past ten years these three countries caught up with the Czech Republic, Hungary and Poland in annual per capita FDI inflow, or even surpassed them. In 2007 FDI inflow in Hungary was a mere US$ 1,400 million, while Slovakia received 2,660 million, Bulgaria 8,150 million, Romania 9,660 million. Since these countries were about the join the EU they were under pressure to conform to EU expectations of opening up their markets, reducing corruption (though plenty of corruption still remains in Bulgaria and Romania). Their political system also shifted more toward liberal democracy (arguably EU pressure played a role in Mečiar's 1998 electoral defeat). Most significantly Russian economic growth took off and during the last decade Russia joined the Wunderkindern of the world economy consistently producing 7-10% annual growth rates, while government debts declined consistently.

At the same time the Czech Republic, Hungary and Poland – Hungary certainly more so than the other countries – were struggling with the threat of a second recession. In comparison with the neo-patrimonial regimes and also in comparison with earlier years their economic growth slowed down and their government debt after years of decline began to increase again. The Czech Republic was hit with economic slow down first already in 1997 and it remained low until 2004-2005. Poland hit rock bottom in 2001-

2002. The Czech Republic and Poland did extremely well in terms of their GDP growth between 2004 and 2008, though their government debt remains quite high and the trend during the first decade of the 21st century is upward. In contrast neo-patrimonial regimes have seen declining and low levels of debt. Hungary in terms of its economic growth has been on a downward trend since 2002, but this became especially serious from 2007-2008 with debt so large that the social-liberal government had to implement serious austerity measures and eventually seek IMF support, sending its popularity to record lows and boosting the Conservative opposition party – which was campaigning effectively against welfare cuts.

Table 3
Economic performance of neo-liberal and neo-patrimonial regimes during the second phase of transition

		1999	2000	2001	2002	2003	2004	2005	2006	2007 estimate	2008 Forecast
Belarus	Growth of GDP	3	6	5	5	7	11	10	10	8	8
	Unemployment	2	2	2	3	3	2	2	1	1	Na
	Inflation	294	169	61	43	28	18	10	7	8	13
	Government debt	13	17	13	11	10	9	8	9	12	Na
Bulgaria	Growth of GDP	2	5	4	5	5	7	6	6	6	6
	Unemployment	17	16	20	17	14	12	10	9	6	Na
	Inflation	1	10	7	6	2	6	5	7	8	11
	Government debt	79	74	66	54	46	38	29	23	21	Na
Czech Republic	Growth of GDP	1	4	3	2	4	5	7	6	6	5
	Unemployment	9	9	8	7	8	8	8	7	na	Na
	Inflation	2	4	5	2	0	3	2	3	3	4
	Government debt	13	18	26	29	30	31	30	31	32	Na
Hungary	Growth of GDP	4	5	4	4	4	5	4	4	1	2
	Unemployment	7	6	6	6	6	6	7	8	7	Na
	Inflation	10	10	9	5	5	7	4	4	8	6
	Government debt	61	54	51	54	58	59	62	66	66	Na
Poland	Growth of GDP	5	4	1	1	4	5	4	6	7	5
	Unemployment	15	17	19	20	20	18	17	12	8	Na
	Inflation	7	10	6	2	1	4	2	1	3	4
	Government debt	40	37	38	42	47	46	47	48	45	Na
Romania	Growth of GDP	-1	2	6	5	5	9	4	8	6	5
	Unemployment	7	7	7	8	7	6	6	5	na	Na
	Inflation	46	46	35	23	15	12	10	7	5	7
	Government debt	24	23	23	24	22	19	16	12	13	Na

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Russia	Growth of GDP	6	10	5	5	7	7	6	7	8	7
	Unemployment	13	10	9	9	9	8	8	7	na	na
	Inflation	86	21	22	16	14	11	13	8	9	12
	Government debt	90	63	48	41	32	26	17	11	10	Na
Slovakia	Growth of GDP	2	2	3	5	5	5	7	9	10	7
	Unemployment	16	19	19	19	17	18	16	13	10	Na
	Inflation	11	12	7	3	9	8	3	5	3	3
	Government debt	47	50	49	43	42	41	34	30	29	Na
Ukraine	Growth of GDP	0	6	9	5	10	12	3	7	7	6
	Unemployment	4	4	4	4	4	4	3	3	na	Na
	Inflation	23	28	12	1	5	9	14	9	13	25
	Government debt	51	46	37	34	29	26	20	17	13	Na

Data from www.ebrd/economicstatistics

Nevertheless if one looks at the two decades of transition neo-liberal policies still win out over neo-patrimonial ones. In terms of economic growth Poland is leading the pack, its real GDP in 2007 was 169% of the 1989 level. Slovakia is next with 154% , the Czech Republic and Hungary are close third and forth (136% and 135% respectively). Bulgaria lags behind with 107% and Russia with barely over-passing the 1989 level at 102% (data from EBRD).

The “Russian miracle” of course can be all attributed to the raising prices of raw materials, especially oil and gas and it remains to be seen whether Russia is on a sustainable trajectory of fast growth. Some commentators argue that the collapse of the rouble during the late 1990s led to an import substitution boom, giving a big boost to domestic industrial production as well. As a result capital flight declined and domestic investment increased (Cook,. 2007, p. 149). It is also noticeable though that it is not only the oligarchs who are benefitting from Russia's take-off; the poverty rate (A. Alam at all. 2005) and even GINI (which exploded during the first phase of transition) is declining. There appears to be some trickle down of the benefits of economic growth in the Russian Federation and that is hardly attributable to populist hand-outs by the state.

Changes of the great distributive systems during the first phase of transition

During the first phase of transition some weak attempts were made to reform the great distributive systems, to transform the distributive systems into a welfare state, which is compatible with the logics of a market economy though typically affected the providers more than the customers (Mihályi, 2007, p. 16-17). Providers had to learn new ways to navigate in the post-communist world,. The most important changes were the following (see Elster, Offe and Preuss, 1988, pp. 206-207; Orenstein and Haas, 2005, especially p. 139).

1. Funding of pensions and healthcare services were now separated from the state budget (Orenstein, 2000). Pension and healthcare funds were created, which were separately funded from taxes paid by employers and employees (Cook, 2007, p.62; Mihályi, 2007, pp.46-47). Management of health care funds was usually decentralized
2. Private medical practices were legalized though with the exception of some specialties (for instance dentistry) few people used private medical practices[2], most relied on public health facilities

3. Private pension insurance firms were allowed to legally operate (Orenstein, 2000, p. 219), though overwhelming the majority of pensioners remained in state run PAYG system.
4. Private universities were legalized and they were allowed to charge tuition, but the overwhelming majority of student still attended public universities with tuition free tertiary education.
5. Universities gained substantial autonomy and while in socialist times research was separated into the institutes of Academy of Sciences weak attempts were made to create "research universities" (though the network of research institutes of Academies of Sciences was retained), but the universities regained their right to award research degrees - PhD's.
6. Some of social assistance became means tested (This was highly contested, for instance as part of the so called Bokros package of 1995-96, the Hungarian social-liberal government introduced means tested family allowance, which was in 1998 withdrawn by the newly elected right-wing Orban government)

Despite such reforms in the early stages of the transition - at least in Central Europe - social spending was not reduced. In fact it systematically increased (Sachs, 2001, see also Rinegold, 1999, p. 30). According to Sachs, social expenditures in Hungary for instance increased from 15.8% of GDP in 1989 to 22.5% in 1993; in Poland the increase was from 10.0% to 21.0%. Sachs attributes this to the fact that electoral system was dominated in the new democracies by "interest group politics" and he attributes undisciplined welfare spending to the successor communist parties regaining political power.. However, this does not take into account the fact that the increases of welfare expenditures to a large extent covered the social costs of economic transformation. As a result of market transition about a third of all jobs were lost – a substantial proportion of those who lost their positions were simply transferred to the pension system via early retirement or disability pensions or had to be supported by formerly non-existent unemployment benefits.

Recipients of these systems hardly noticed any change. Seeking medical care in a policlinic or being hospitalized was pretty much the same – underwhelming - experience ten years after the fall of communism as it had been previously.. Publicly funded pensions in the Czech Republic and Hungary were close to general living standards, in Poland pensioners living standards were actually higher than that of the general population (European Commission 2006 Sustainability Report). Students entering the universities were trained in an almost identical system (with some changes in the curriculum, but not in the level of and nature of specialization) and given the changing character of the labor market they faced more serious difficulties upon graduation than ever.

Changes of the great distributive systems during the second phase of transition: differences between various regimes

During the second phase of the reforms, however, there emerged substantial differences between post-communist regimes in the transformation of their distributive systems. Neo-patrimonial regimes implemented radical neo-liberal reforms to the welfare system, while such reforms were often defeated or at least hotly contested in neo-liberal systems.

Though Russia benefitted in a major way from the oil boom and has not been under much fiscal pressure to reform the institutions of the great distributive systems nevertheless already in 2000 German Gref, the minister of Economic Development formulated a radically neo-liberal welfare reform scenario. Though after political negotiations with the Duma, Gref's plan was not fully implemented, nevertheless new substantial reforms were passed and implemented in Russia by the middle of the first decade of the 21st century. As a consequence of these reforms:

1. free basic medical services are available only to the means tested poor;
2. the publicly guaranteed pension is only at subsistence level; pensioners now can chose to transfer some of their pension contributions to privately managed pension funds (Cook, 2007, p. 172.; 191)
3. various in-kind benefits (public transport, housing, medicine and utilities etc) were monetized (i.e. replaced with cash payments) and their value was substantially reduced;
4. tuition is charged in institutions of tertiary education and funding of universities is now linked to student enrollments, "money follows the students

It is debatable whether these reforms played any role in the success of the Russian economy (high growth rate and declining government debt). While implementing these reforms the Russian government increased social spending modestly (Cook, 2007, p.185), so arguably Russia's robust economy enabled the construction of a neo-liberal welfare state rather than that welfare austerity measures caused the economic dynamism and fiscal stability. The truth is probably between these two propositions. The Russian reforms which emphasized targeting, means testing, co-payments helped the fiscal health of the Russian economy, which was on a growth trajectory anyway.

In sharp contrast the Czech Republic, Hungary and Poland (Slovakia is an interesting exception) struggled with increasing budget deficits and debts and were under pressure from the European Union to meet EU standards. However they either failed to implement similar reforms or if they passed neo-liberal welfare legislation those were met with strong popular resistance and sabotaged by institutional inertia and political uncertainty as opposition parties usually promised to roll back such reforms if they came to power .The Central European countries struggle with the following problems with their distributive systems:

1. Healthcare: health care provision is claimed to be inefficient (too many visits too doctors, too long stays in hospitals in comparison with old EU countries, see Mihályi and Petru,2001, p.212; Rinegold, 1999, p. 36) .Furthermore the health fund is in constant and increasing deficit (Mihályi, 2007, p.88). Efforts have been made to introduce systems of individual payment and private insurance but these have proved ineffective.
2. Pensions: as far as budget deficit is concerned the publicly funded pension is the single most important item (Gomułka, 2001, pp.123-126). The electoral power of pensioners constitutes a formidable block to change even where this is a major

factor in the fiscal crisis of the state. All three countries intend to increase retirement age (,Fox, 1997) and to increase the role of funded private insurance schemes but these institutional changes are all strongly opposed..

3. Tertiary education and research funding. Efforts to increase funding for tertiary education through introducing fees has met with strong resistance by university instructors, students and their parents (in Hungary in the March 2008 referendum 82% voted against university tuition). Efforts to reform the structure of the universities and the research system are also having limited success.

During Putin's presidency neo-patrimonial Russia introduced a largely neo-liberal system of social provisions, while the neo-liberal Central European countries (with the exception of Slovakia), which have increasing government debt and deficits in publicly funded healthcare, pensions and tertiary education retained a fundamentally statist, paternalist system of social provisions with only some complementary market mechanisms (Cook, 2007, p.53; p.239 see Table 7).

Table 4

Neo-patrimonial and neo-liberal regimes: comparison of economic institutions and the great distributive systems during the second phase of transition

	Neo-patrimonial regimes	Neo-liberal regimes
Property rights and economic system	Neo-patrimonial	Neo-liberal
Great distributive systems	Neo-liberal	Paternalistic

Why and how did Russia become a leader in liberalization and why has Central Europe run into a brick wall when government attempted radical liberalization? We can examine two explanations, one has to do with the differences in the political system, the other with the quality of socialist welfare provisions.

Political determinants of transformation of the institutions of great distributive systems

Russia attempted the liberalization of the great distributive systems already during the first phase of transition, but Gaidar's priority was price-liberalization, fiscal stabilization and privatization, hence the transformation of economic institutions (Cook, 2007, p.60). The prices of this institutional transformation were exorbitant so he did not press the reform of social institutions. In 1995 the Communist party and its Left-wing allies became a major force in parliament, blocked any liberalization of the social institutions and even eliminated some of the earlier reforms. The constellation of political power changed however radically with Putin's election in 1999 and especially with his re-election in 2004. Putin had now firm control over Duma and though his liberalization of distributive systems was met with popular protest given his system of managed democracy he could ignore or even squash protests. Putin could break bureaucratic resistance of the medical establishment (ibid, p. 175), ignore the protest of pensioners (ibid, p181), and overcome the opposition by "red rectors" and university students (ibid, p. 174).

The political realities in most Central European countries were strikingly different. The Czech Republic, Hungary and Poland have since 1990 a reasonably well functioning parliamentary democracy. Parties face competitive elections every fourth year, where they might not be elected for a second term (actually the Central Europe changes in governments from election to election is almost the rule rather the exception). This creates a major barrier to institutional reform of the welfare system which would affect so many of the electorate.

The legacy of socialism

Another potential explanation lies in the legacy of the socialist era. In Czechoslovakia, Hungary or Poland patients could expect reasonable attention in polyclinics and hospitals. Pensions were paid on time and were indexed to inflation. Students might not have acquired much marketable skills at the university, but education was free and given the system of credentialing once they got a degree they had an almost guaranteed job with an income set to the level of their level of education. In Eastern Europe these systems never worked quite as well and given the depth of the transitional crisis during the second half of the 1990s they virtually ceased to exist. In this part of the world there did not seem to appear any alternative to private and market based provisions, while in Central Europe there was still a system, which did not function well, but did function and seemed to be worth defending. In János Kornai's formulation the Central European post-communist countries live with a "prematurely born welfare state" (J. Kornai, [1992] 1995, p. 131), by which he means the government took on responsibilities to fund healthcare, pensions and tertiary education/research beyond their means (J. Kornai, 1997b). Kornai acknowledges that under the socialist systems the provisions of such services were often of “very poor” quality (J. Kornai [1992]1995, p. 132) as well as being unequally distributed. Access to housing, education, healthcare etc. was more likely to be made available to party members and the nomenklatura than ordinary citizens. The nomenklatura would also receive better quality services where this was a possibility.

During socialist times social provisions were funded from the state budget whose source revenues were appropriated from state owned firms While funds appropriated this way were inadequate to provide high quality services this system did not generate a fiscal crisis of the state, since the resources were obtainable (with the downturn of socialist economies during the 1980s it started to pose some problems, but the system still worked). During the first phase of transition this fiscal base for social provisions was undermined while the need for welfare state substantially increased.. As Wagener (2002: 161) pointed out: “if the communist welfare state was not living beyond its means, the post-communist welfare state certainly was” .As the formerly state owned enterprises were privatized (and first the most profitable ones were sold) the new owners had to be promised tax-breaks, especially in neo-liberal economies when the major investors were foreign owners. They were often offered tax breaks in order to keep them from moving further East to less expensive regions. There are severe limits as to how fast personal incomes and taxes on those incomes can increase in order to fill the state funding gap. If incomes increase too fast (as they were doing during the period 2000-2007 period in Central Europe) then businesses are discouraged from investing in the region or even keeping their investments there. If taxes are too high it encourages tax-avoidance of various forms. This leads to a “fiscal crisis” of the state, which is confronted with shrinking revenues and at least in Central Europe a citizenry with modest expectations though beyond the means available to the governments to satisfy their expectations..Governments tried to keep funding these services with budget deficit, borrowing and inflation, but given the competitiveness of global economy (Deacon, 2000; Orenstein and Hass, 2005) and the expectations of the European Union (Kovacs, 2002; Schneider and Stepanek, 2001; Wagener, 2002) this proved to be unsustainable. Hence the project for neo-liberal reform of welfare systems keeps re-entering the political agenda, but it is blocked by the nature of the political process. Neo-liberal reform parties are losing elections to parties which promise to undo such reforms if elected. In this deadlock the educational or health establishment struggle to keep business as usual.

Hence the fiscal trap which to a large extent was created by the neo-liberal transformation of economic institutions can hardly be resolved especially in democratic political systems by austerity measures. During the second phase of transition Central Europe faces hard challenges: it has to convert an outdated socialist distributive system into a modern capitalist welfare regime at times when it finds itself in a fiscal trap, shrinking resources for social expenditures and increasing pressures from the global economy and in particular the EU to balance budgets, reduce debt and control inflation.

Conclusions

As the post-communist societies are in the second phase of transition as shown in Table 7 there is a fundamental inconsistency in the logic of their economic and welfare institutions. More concretely in Central Europe neo-liberal economic institutions co-exist with outdated, malfunctioning distributive institutions which are fundamentally state socialist in nature. Since the neo-liberal economic system does not permit any longer the funding of this socialist distributive system, the scene is set for further political conflict over efforts to create a system where the institutions in the major subsystems cohere.

One outcome may be change towards a middle ground in which those who can afford it find private, market alternatives to publicly funded healthcare, pensions and education. One even may not need means testing to have better targetted welfare provisions if higher quality services on the market place and in the private sector seduce away the better off from the publicly funded provisions.

But one has to deal with the supply or funding side as well. Neo-liberal Central Europe suffers from chronic revenue shortages, most of it attributable to the fact that it followed too closely the neo-liberal cook-book. The level of employment is far too low: if there is any growth it is growth without employment. The region needs industrial policies which create jobs for the labor force which is available and educational systems which train the future labor force for a high tech economy. Wages are far too low and in order to have higher tax revenues, one needs higher incomes. One also needs more tax discipline, less informal economy and less tax breaks to the rich and to foreign investors. The new owners of the formerly publicly owned firms have to take responsibility to contribute more to the funding of a modern welfare system, which prevents the split of the society into two, into the very rich minority and a poor majority. This is not neo-patrimonialism, this is liberal capitalism with a human face.

Alternatively, instead of reducing the neo-liberalism of the economy and shifting the socialist distributive systems towards a social democratic welfare state it is possible – and probably likely – that the rest of Central Europe will follow the Slovak example. At least on the short run – if democracy is somewhat "managed" - one can operate with low incomes, low taxes on individuals and corporations, little government regulations and deep cuts in benefits and in general privatization of public services.

Social sciences are not very good in predicting the future. It is hard enough to describe accurately the present. But we night not take too much risk in predicting that the current inconsistency between economic and welfare institutions in Central Europe cannot be maintained on the long run. In one way or another an institutional rearrangements will be necessary too resolve the contradictions of the second phase of transition from socialism to capitalism, to develop new forms of complementary between the economic, political and welfare institutions in these societies. In this process, the objectives, power and beliefs of key actors within the society and influencing it from outside (MNCs, international organizations, the geopolitics of powerful states and regional blocs) will be crucial to the outcome..

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