INTRODUCTION:
OUT OF THE INCUBATOR

János Mátyás Kovács

The premature welfare state of communism—the term coined by the Hungarian economist from Harvard, János Kornai—has enormous popularity in East-Central Europe today. Neophyte followers of free-market orthodoxy and nostalgic communists are making efforts to interpret the metaphor of the early-born baby according to their own taste. While the neoliberals opt for active euthanasia, that is, they would like to accelerate the death of the struggling baby, their adversaries try to keep the incubator working even if the baby died. Between the two extremes represented by a few radicals there are a great number of social scientists and policymakers with diverse convictions who do their best to combine the virtues of both approaches without reinforcing their vices.

Indeed, can the communist welfare regimes be transformed and modernized without falling into the trap of (a) conserving the dirigism, inefficiency and pseudo-egalitarian character of the old system of social policy; (b) targeting an end-state which has become unsustainable even in the Western world during the past two decades; (c) seeking new forms of collectivism in welfare policy along the "Third Roads" leading to somewhere between capitalism and communism; and (d) triggering popular discontent (that may in

turn block the entire transformation process) by dismantling the old welfare regimes too rapidly, in a haphazard way, without compensation, and so forth?

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It was with these questions that we turned to our colleagues in the Czech Republic, Hungary, Poland and Slovakia in 1992 when launching our SOCO (Social Costs of Economic Transformation in Central Europe) project at the Vienna Institute for Human Sciences.[1] In the framework of this long-term comparative research program we wanted not only to address the vital social issues of post-communist transformation but also to formulate policy recommendations for the new governments.

The current situation in East-Central Europe presents a rare opportunity for a comparative analysis of economic liberalization, its social costs and the options for policy reform. Focusing especially on labor market problems and social welfare deficiencies, our project aims to contribute to the success of the democratic transition from communism, as well as to the reinforcement of social policy research in the region—a systematically neglected discipline under the old regime. Also, an important objective of the program was to promote dialogue between scholars and politicians from the East and the West;[2] a dialogue from which also the Western partners can profit by learning what is "boiling" in the huge laboratory of social transformation in the former East-Bloc countries. In order to facilitate East-East and East-West communication in social policy thought, we have established the first comprehensive data base of the social consequences of post-communist transformation in East-Central Europe.

The four national research teams are encouraged to elaborate a common framework for analysis, investigate similar problems and, where feasible, share methodological approaches. The more than fifty sub-projects currently underway fall into four areas:

1. Factual analysis of the social problems arising from economic liberalization, with emphasis on labor market issues;
2. Potential preventive policies and new institutions designed to improve the labor market and thus reduce social tensions;
3. Ameliorative policies that provide social safety nets and general social support systems such as health and pensions;

4. Changes in the locus of delivery and budgeting of social services, including decentralization of social policy among levels of government and between firms and other entities.

The SOCO program lays a special emphasis on "small policies," that is, on the understanding of how individuals and families cope with the difficulties of economic transformation. We would like to help identify not only the losers but also the winners of this process. In this sense the project seeks to specify the social benefits of the transformation, not exclusively its social costs.

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The papers in this volume represent the large variety of social philosophies and economic/sociological methodologies, which have been applied by our colleagues in studying the transitional welfare systems of the post-communist democracies. The authors also show a great diversity in terms of profession and scholarly discipline. Among them the reader will find ministers and ngo leaders, university professors and directors of polling agencies, labor economists, political scientists and social policy experts.

The volume consists of three parts. The first part covers some general issues of social theory and politics ranging from the chances for social-liberalism under post-communism, through a new dichotomy of the transforming societies, to the birth of neo-socialism in the region. The chapters in the second and third examine economic policies and regulation schemes from the perspective of social change. In the second one four papers are devoted to new inequalities, a burning problem of social thought in East-Central Europe. The third part chapter includes four independent case studies of vocational training, long-term unemployment, local welfare policy and health insurance with a view to providing first-hand information on the daily workings of the new social systems.

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When organizing the research program, we promised ourselves to avoid easy answers to the dramatic questions raised by the social transformation in the region. Before accepting or formulating any (neo)liberal, social-democratic, corporatist, and so forth, advice, or any of their blends, we wanted to understand the actual processes of the transition of the communist welfare regimes. Dissatisfied with

the idea of "the unprecedented transformation," as well as with the pessimistic prediction of inevitable clashes between the principles of economic liberalization and the provision of social welfare (and of the subsequent Latin-Americanization of East-Central Europe), we were interested in (a) the similarities of the transformation of welfare regimes in the East and the West; (b) the dissimilarities of the post-communist country cases and the multitude of mixed answers to the social questions; (c) the success (at least, non-failure) stories of the transition in social affairs.

Obviously, the reader will decide whether the following papers convince him or her about the flaws of binary argumantation: either retaining communist social policy or eradicating welfare as an interventionist legacy. Maybe he or she will be disappointed at the sight of a great number of intermediary, "unclean" welfare institutions and policies emerging after 1989. In order to reassure the reader (and to defend the social transformers of East-Central Europe), let us briefly enumerate some of the frustrating starting conditions of social transformation.

1. The new democracies have inherited extremely inefficient, interventionist, expensive, unjust and corrupted welfare systems, which display great inertia by sustaining huge interest groups and generating high expectations in the population concerning public social services. Political liberalization reveals most of the hidden social maladies of communism and, at the same time, reinforces the bargaining power (or at least the voice) of those suffering from these maladies. Egalitarian nostalgia (which is not completely unfounded) may be exploited by populist political discourse.

2. The dismantling of the old welfare regimes should be accompanied by the creation of new, costly social schemes (unemployment insurance, poor relief, etc.) as well as by the modernization and/or marketization of others such as the pension system and health care. These require major initial investments amidst a lasting crisis of state finances (cf. falling revenues, galloping inflation, increasing foreign debts, etc.), while the new tasks may legitimize the old welfare bureaucracies with their obsolete skills.

3. The social systems are not only burdened by the inefficiency of the old ("Eastern") schemes and by the financing of services related to economic liberalization but also by the performance of tasks (protection of refugees, drug prevention, etc.) which are relatively new even in the "Western" world.

4. The principle of marketization of social services was compromised by large-scale corruption under the old regime. The fact that paying for the formerly free services (e.g., in health care) does not necessarily involve quality improvements may be seen by the people that they are exposed to a new form of taxation. Thus, free riding and bribe may remain the rational strategy of coping with social difficulties.

5. The deconstruction of the old welfare regimes cannot be centrally managed because a large share of social services under communism were enterprise-based and public administration after 1989 has been rapidly decentralized. Owing to the holes in the regulation system, whole social groups (long-term unemployed, disabled, gipsies, etc.) may fall through the social net. The new private sector—the "winner" of the transition—is not directly interested in repairing the safety net.

6. The "no longer state—not yet market" gap in social transformation can be immediately bridged neither by community-based self-help arrangements nor by the charity of the new rich due to the lack of such traditions in the region. Ngo-s are only making first steps, social work is also underdeveloped, so the coping strategies of those in need are typically based on the family and the shadow economy.

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Considering these points of departure of the social transition, it would be too much to believe in "first-best" solutions. The incubator of the premature welfare state of communism is broken. Life outside the incubator is painful but not impossible. The baby is bound to adjust...

NOTES

1. Supported by grants from the Ford Foundation, the Pew Charitable Trusts, the Austrian Federal Chancellery, the German State of Saxony, the Robert Bosch Foundation and the Austrian National Bank, IHS has established independent national research teams in Hungary, Poland and the Czech and Slovak Republics.

2. The SOCO International Expert Committee is chaired by Richard Freeman, Professor of Economics, London School of Economics and Harvard University. Members: Leszek Balcerowicz, President of Poland's Freedom Party; Professor of Economics, Warsaw School of Economics; Michael J. Dowling, Former Commissioner, New York State Department of Social Services; Zsuzsa Ferge,

Professor of Sociology, Head of the Department of Social Policy, Eötvös Lorand University, budapest; Georg Fischer, Advisor to the Austrian Federal Minister of Finance; Hans Geisler, Minister for Social Affairs, Health and Family of the German State of Saxony; Ira Katznelson, Professor of Political Science and Constitutional Law, Columbia University; János M. Kovács, Professor of Economics, Member of the Institute of Economics, Hungarian Academy of Sciences; Permanent Fellow of IHS; Claus Offe; Professor of Sociology, Humboldt University of Berlin; Andrzej Rychard, Professor of Sociology, Diretor of the institute of Philosophy and Sociology, Polish Academy of Sciences; Frantisek Sebej, President, Macro-Economic and Social Analysis Center, Bratislava; Julia Szalai, Professor of Sociology, Deputy Director of the Institute of Sociology, Hungarian Academy of Sciences; Jiri Vecernik, Sociologist, Institute of Sociology, Czech Acadmey of Sciences.