Globalization and the Development of Welfare States in Post-Communist Europe

Mitchell A. Orenstein
Martine R. Haas

2002-02
February 2002

International Security Program
Belfer Center for Science and International Affairs
CITATION AND REPRODUCTION

This document appears as Discussion Paper 2002-02 of the Belfer Center for Science and International Affairs. BCSIA Discussion Papers are works in progress. Comments are welcome and may be directed to the author in care of the Center.


The views expressed in this paper are those of the author and publication does not imply their endorsement by BCSIA and Harvard University. This paper may be reproduced for personal and classroom use. Any other reproduction is not permitted without written permission of the Belfer Center for Science and International Affairs. To obtain more information, please contact:

Michelle Von Euw
Editor, ISP Discussion Paper Series
International Security Program
Kennedy School of Government
79 John F. Kennedy Street
Cambridge, MA 02138
telephone (617) 495-1914; facsimile (617) 496-4403
e-mail is@harvard.edu.

ABOUT THE AUTHORS

Mitchell A. Orenstein is Assistant Professor of Political Science at the Maxwell School of Syracuse University and a Fellow in the Strengthening Democratic Institutions Project at Harvard University. He is also the author of Out of the Red: Building Capitalism and Democracy in Postcommunist Europe (University of Michigan Press, 2001). His work on this project was supported by a Research and Writing Grant in Global Security and Sustainability from the John D. and Catherine T. MacArthur Foundation.

Martine R. Haas is a Ph.D. candidate in Organizational Behavior at Harvard University and a Doctoral Fellow at the Hauser Center for Nonprofit Organizations at the Kennedy School of Government.
NOTE FROM THE AUTHORS

This paper is under review as a chapter in Miguel Glatzer and Dietrich Rueschemeyer, eds., Politics Matters: Globalization and the Future of Welfare States. The authors would like to thank Miguel Glatzer, Dietrich Rueschemeyer, Michael J. G. Cain, Linda J. Cook, Péter Gedeon, Janelle Kerlin, Sean Lynn-Jones, Aleksander Surdej, Jiří Večerník, Ramunas Vilpisauskas, Michelle Von Euw, and Erika Wilkens for their comments on earlier versions of the paper.
How has globalization influenced welfare state development in postcommunist Europe? We focus on the leading East-Central European accession states, Poland, the Czech Republic, and Hungary, and show that these states have experienced radically different welfare state developments since 1989 from their neighbors in the former Soviet Union. The first part of the paper proposes that these divergent paths can be explained by a “Europe effect”. We argue that the effects of globalization have differed greatly, depending on a country’s position in the international economy and geopolitical relations. We demonstrate that countries closer to the European Union have used welfare state programs to compensate citizens for the traumas of system transition and economic openness, while the welfare systems in the former Soviet states have collapsed to a far greater extent, in terms of spending and effectiveness.

We then explore the roots of differentiation within the East-Central European welfare states themselves. Despite participating in a common process of European integration, East-Central European welfare states have taken different routes to Europe. We argue that these differences can best be explained with reference to the domestic politics of transition and a “global politics of attention” in social policy advice. The transition period offered extraordinary opportunities for small groups of decision makers to initiate policy change (Balcerowicz 1995), and they did so in ways that were sometimes idiosyncratic and sometimes similar, reflecting domestic and international welfare state thinking and priorities.

This paper seeks to contribute to the debate on globalization and welfare states in several ways. First, contrary to those who argue that globalization necessarily forces states to cut commitments to welfare, we find that East-Central European states maintained strong social commitments during a period of rapid economic liberalization and globalization after 1989. Second, we argue that the effects of globalization on welfare states are mediated by politics, in three ways: 1. by a country’s geopolitical position, in this case proximity to a regional trading bloc with strong welfare
state norms and commitments; 2. by the domestic politics of decision-making, in this case taking place in an extraordinary period of systemic transition; and 3. by a global politics of attention, in this case the role of powerful international actors in influencing the specific paths that countries take on the way to European integration.

For the purposes of this paper, we employ a carefully specified economic definition of globalization that encompasses five trends, following Miguel Glatzer and Dietrich Rueschemeyer (forthcoming). Under this definition, globalization consist of:

- Expanding international trade in goods and services
- Expanding international capital flows
- Increasing globalization of production (through transnational corporations and global commodity chains)
- Growing role of international organizations such as the World Trade Organization, the World Bank, and the International Monetary Fund (IMF)
- Greater transnational flow of economic ideas.

We define welfare states as the collection of state programs, regulations, and actions that are intended to fulfill a state’s declared commitment to the economic welfare of its citizens.

The paper is organized as follows. First, we show that a pervasive “Europe effect” can be observed in postcommunist welfare state development and discuss the economic and political mechanisms that underpin this effect. Second, we examine the differences within East-Central Europe in more detail, exploring the domestic politics of decision-making during transition and how this interacts with agenda-setting by international organizations and a global politics of attention. We then illustrate these interactions with reference to three short case studies of decision-making in the area of pension reform in Poland, the Czech Republic, and Hungary.
The Europe Effect

Starting in 1989, the postcommunist countries of East-Central Europe, Southeastern Europe, and the former Soviet Union underwent a dramatic system transformation that fundamentally altered many of the social and economic conditions upon which their welfare states were built. This upheaval created pressures on these states that went far beyond those experienced by more stable states under conditions of globalization. System transformation or “transition” involved not only rapid trade liberalization but also radical changes in economic structures, political institutions, and state administration. Developments in these spheres forced a radical reorientation of welfare state conditions, commitments, and structures in directions that were highly unpredictable at the outset of transition. Upheaval made it certain that old structures could not be maintained forever, but uncertain, for instance, whether welfare state spending would rise or fall, whether commitments would be changed or maintained in a new way, or whether the socialist safety net would disappear. Given similar pressures of globalization and transition, one might have expected the postcommunist welfare states to react in similar ways (Frye 2001). But this was not to be the case. Instead, a process of rapid differentiation began. East-Central European states maintained a high commitment to welfare spending that actually grew as a percentage of gross domestic product (GDP), while at the same time falling in absolute levels, in line with declines in GDP. Former Soviet welfare states experienced a dramatic decline in both absolute and relative terms. Because this differentiation so neatly correlated with geography, we call it a “Europe effect,” underpinned by economic and political trends.

Transition Outcomes

In a comprehensive study of postcommunist welfare state adjustment, the World Bank (2000) found that in the first decade of transition, postcommunist states divided into two categories
of adjustment: European and Eurasian. These two categories appeared to be largely geographically determined. According to the World Bank, the “European” category included the East-Central European countries (Czech Republic, Hungary, Poland, Slovakia), the more successful Balkan and former Yugoslav republics (Bulgaria, Croatia, Macedonia, Romania, Slovenia), and the Baltic states (Estonia, Latvia, Lithuania). The Eurasian category encompassed the former Soviet republics (Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Kazakhstan, Moldova, Russia, Tajikistan Turkmenistan, Ukraine, Uzbekistan), minus the Baltics, plus Albania.

What differences did this study find between the two adjustment regimes? Compared with the Eurasian countries, the European countries restructuring their economies more aggressively and effectively after 1989-91. The European countries experienced less severe transitional recessions, and their per capita incomes were higher (see Figure 1). The European countries also enjoyed stronger institutional and administrative capacity. By 2000, growth in the leading European countries had resumed and real wages had increased, though unemployment remained a problem (World Bank 2000, 2).

All of these factors facilitated higher welfare state spending in the European transition countries. Starting from similar pre-transition levels, by 1996 the European transition countries spent an average of 10 percent of GDP on pensions, compared to 5 percent for the Eurasian countries (see Figure 2). Because pensions are usually the largest portion of cash social benefits in the postcommunist countries, this gives a good sense of the direction and magnitude of changes in welfare state spending. Unemployment benefits and minimum wages were also substantially higher in the European countries (World Bank 2000, 3). The World Bank concludes that overall economic, social, and administrative performance since 1989 was a good indicator of total social spending in the late 1990s, and performance correlated strongly with geography.
Figure 1. Transition Economies Fall Into Two Broad Groups
They differ in terms of per capita income… (1996, US$) …and economic growth (Real GDP of 1999, 1989=100)

Figure 2. Social Protection Systems Also Differ
European transition economies spend more on social protection… …and labor policies play a more significant role (minimum wage as % of average wage, 1995)

Figure 3. Private Sector and Informal-Sector Share of GDP

(World Bank, 2000)
Despite starting with similar welfare state structures and spending levels, European and Eurasian countries diverged dramatically during the first decade of transition. Welfare state spending increased on average in the European countries, while it stagnated or fell in the Eurasian countries. But why has geography had such a significant effect? What is it about the geographical position of East-Central European countries that helped them navigate postcommunist transition with far less of an economic collapse and far greater commitment to welfare? We propose that the answer is Europe. Those countries with good prospects of joining the European Union faced an entirely different set of economic, political, and administrative opportunities and incentives that pulled in the direction of higher economic growth, increasing these states’ commitment to, and ability to support, welfare state spending. In addition, East-Central European countries were pushed toward Europe by internal factors. Their prospects of joining Europe depended not only on the European Union recognizing East-Central European countries as potential members, but also on their similarity to current EU members in culture, organization, and history and their expressed a desire to become more “European” and adhere to European norms of political and economic organization. Such internal factors also differentiated East-Central European countries from their neighbors to the South and East.

**The Regional Politics of the Europe Union**

The radical disjuncture between the European and Eurasian experience suggests that the international position of the East-Central European countries was the most significant determinant of their postcommunist welfare effort. This section shows that European ties and influence in economics, politics, and state administration supported continued commitment to high levels of welfare state spending. We focus on the three largest countries in the first wave of EU membership negotiations, Poland, the Czech Republic, and Hungary. However, the argument also applies to the
two smaller first-wave countries, Estonia and Slovenia, and to a somewhat lesser degree to the second wave countries, Bulgaria, Croatia, Latvia, Lithuania, Romania, and Slovakia.

In the economic sphere, the East-Central European countries quickly carved out a privileged place in Europe, by engaging in a massive trade reorientation. Partly this was natural, due to shared borders and earlier periods of industrial cooperation with West European states. Partly, it was facilitated by state treaties called “association agreements” with the EU, which reduced tariffs on trade, with a goal of eventual elimination. Expectations of future EU membership also enhanced inward foreign investment, after a lag during the early years of reform. Soon, East-Central Europe began to be perceived as an attractive, relatively low-cost manufacturing base within Europe. Over time, several leading East-Central European countries, particularly Hungary and the Czech Republic, began to show evidence of increasing involvement in European intra-industry trade networks and higher-value-added production. Alone among the postcommunist countries, East-Central Europe quickly and successfully integrated into the global economy (Kierzkowski 2000; Fidrmuc 2000; Eichengreen and Kohl 1998). In this, East-Central Europe differed sharply from its neighbors to the South and East (cf. Cook forthcoming).

Like other postcommunist countries, East-Central European states experienced a severe trade shock in the early 1990s with the collapse of Soviet bloc trade. Brenton and Gros (1997) estimate that trade dropped to 87 percent of its pre-transition level in Hungary, and to a lesser extent in Poland. However, East-Central European countries quickly reoriented their trade towards the West. Between 1988 and 1996, Poland, the Czech Republic, and Hungary doubled the share of their exports going to the EU from 30-37 percent to 59-67 percent (Kierzkowski 2000, 15). Germany quickly became the largest trading partner for all East-Central Europe. In 1996, it took 29 percent of Hungary’s exports, 35 percent of Poland’s, and 36 percent of the Czech Republic’s (Kierzkowski 2000, 18).
In addition to redirecting its trade towards the West, East-Central Europe began to improve the quality of trade. Whereas early in the transition, questions were raised about the ability of these economies to integrate into global production networks, between 1990 and 1996, intra-industry trade with the EU increased from 43 to 62 percent in the Czech Republic and from 47 to 57 percent in Hungary. Slovenia’s share of intra-industry trade also reached 60 percent in 1996. At that point, the leading East-Central European transition economies matched the EU intra-industry trade levels of Sweden, Spain, and Italy. Poland was somewhat of a laggard, with intra-industry trade increasing from 36 to 41 percent in 1996 (Fidrmuc 2000, 87). However, Poland and Romania, whose economies have been fed more by low-cost production, are expected to swiftly move up the production chain in coming years. Brenton and Gros concluded in 1997 that “the more advanced countries in Central and Eastern Europe are indistinguishable from Western market economies.” These economies have successfully carved out a niche in EU trade and moreover appear not to be replacing Southern European trade, but rather inducing increased specialization in the EU (Fidrmuc 2000, 91). And as with other European countries, successful trade integration will enable continued high levels of social spending.

Foreign direct investment (FDI) lagged behind trade growth during the first decade of transition, but again the most successful East-Central European countries, particularly Hungary, have begun to achieve levels of FDI per capita that approach developed-country levels (Kierzkowski 2000, 20). The largest trade partners tend to be the largest investors, with Germany, the United States and the Netherlands leading the way in FDI (Hunya 2000, 91). Such investment in East-Central Europe appears to be fully compatible with high social expenditures, as it is premised on eventual European Union membership. Indeed, there is no evidence that investment has gone to the lowest-wage postcommunist countries, as FDI is far higher in East-Central Europe than in the former Soviet republics. Instead, FDI flows to those countries with relatively stable political and
social environments. In addition, the promise of joining the European trade zone helps, as do domestic “European” factors such as good schooling, high skill levels, a history of capitalist industrial organization, and reliable social protection systems, including unemployment and health insurance.

Successful integration into global, but particularly European, trade and production networks appears to be one major factor enabling maintenance of relatively high levels of welfare state spending in East-Central Europe. However, there are other aspects of the Europe effect. In the political sphere, the drive to rejoin Europe has reinforced institutions of parliamentary democracy in East-Central Europe, enabling interest groups to lobby more effectively for a continuation of high levels of welfare provision. Anticipating EU membership, political parties on the right and left understand the need to commit to European norms and levels of social expenditure (Cook, Orenstein, and Rueschemeyer 1999). And in the administrative sphere, the start of membership negotiations in the mid-1990s reminded East-Central European countries that Europe feared mass immigration and “social dumping” from the East. Starting in the mid-1990s, the EU began to work with East-Central European ministries to provide experience and expertise on European social welfare, by developing partnership relations with West European ministries, and other projects. Thus, economic, political, and administrative developments related to the project of rejoining Europe all tended to push in the direction of increased social spending, and continued commitment to social welfare in East-Central Europe.

This Europe effect explains the significance of a regional variable, measured often as the distance from Brussels, in many studies of differences among the postcommunist states (e.g., Cameron 2000). This is significant not for purely geographic reasons, but because it is a proxy for the cultural, political, and economic commitment to accession that has placed East-Central European countries in a privileged position in the global economy.
In short, while the countries of the former Soviet Union provide evidence for the view that globalization forces countries to scale back welfare state spending, the experience of East-Central Europe argues for the opposite view, that greater economic integration constitutes both the economic basis and need for high welfare state spending (Cameron 1978; Glatzer and Rueschemeyer, forthcoming). We suggest that the East-Central European experience shows that geopolitics matters. The place of states in the international economy and geopolitical relations has a fundamental impact on the way they will react to similar pressures of economic globalization. In the case of East-Central Europe, proximity to and promises of eventual membership in a free trade zone that symbolizes and embodies norms of welfare state provision and openness together facilitated the adoption of like policies in the accession states.

Welfare State Choices within East-Central Europe

At the level of individual country adjustment, however, the picture of welfare state transition becomes much more complex, and the variation among the individual states within East-Central Europe is quite stark. Below, we describe this variation and also point to some trends toward increasing similarities, focusing particularly on the cases of Poland, the Czech Republic, and Hungary. We then address the causes of these differences and similarities, and explain them through an analysis of decision-making in transition. We argue that the large number of programmatic problems for welfare states generated by the postcommunist transition over-taxed the policy capacity of these governments, and forced them to seek out new policy ideas and solutions, in a relatively unsystematic fashion. New ideas and solutions came from two sources: domestic and foreign. The foreign sources included international organizations, bilateral aid agencies, and their consultants. However, international organizations paid little attention to social policy in the first
years of transition, instead focusing on macroeconomics and privatization. We argue that this relative neglect left domestic policy elites relatively free to set transition social policy. They did so in an idiosyncratic manner that reflected momentary alignments of intellectual and political resources and historical conditions in a particularly country. Thus, policy differed widely from country to country. However, starting in the mid-1990s, a more coherent and forceful international social policy agenda began to appear for the postcommunist states, crafted by a World Bank that was increasingly cognizant of East-Central European countries’ EU aspirations. Although East-Central European welfare states still display unique features, reflecting prior institutional paths, and the particularities of transition decision-making, which has long-term path dependencies of its own, this international agenda has had a growing impact.

**Major Policy Developments**

A general picture of how social policy evolved in Poland, the Czech Republic, and Hungary after 1989 is shown in Table 1. All three countries followed similar patterns of social policy transformation, in a time sequence that broadly concurred with that mapped out for them by the World Bank and leading economists of transition. In the first years of the transformation, the emphasis was largely on setting up unemployment systems, since unemployment was widely expected to be the most serious and potentially destabilizing social issue of transition (cf. Blanchard et al. 1991). Later, postcommunist welfare states began to focus on transforming their systems of social assistance, then health and pension systems.
Table 1. Welfare State Transformation at a Glance in East-Central Europe

<table>
<thead>
<tr>
<th>Policy Area</th>
<th>Poland</th>
<th>Czech Republic</th>
<th>Hungary</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Labor Market Policies</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment Insurance Founded</td>
<td>1989</td>
<td>1990</td>
<td>1988</td>
</tr>
<tr>
<td>Restricted/Reduced</td>
<td>Reduced in 1992</td>
<td>Reduced in 1991, 1992</td>
<td>Reduced in 1993</td>
</tr>
<tr>
<td>30-40% of avg. wage</td>
<td></td>
<td>40-50% of avg. wage</td>
<td>50-60% of avg. wage</td>
</tr>
<tr>
<td><strong>Social Assistance</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum Living Standard Established</td>
<td>n/a</td>
<td>1991</td>
<td>n/a</td>
</tr>
<tr>
<td>Social Assistance System Targeted</td>
<td>1996</td>
<td></td>
<td>1995</td>
</tr>
<tr>
<td><strong>Health and Pensions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health Fund Payroll Tax</td>
<td>1999</td>
<td>1993</td>
<td>1992</td>
</tr>
<tr>
<td>Private Health Insurance Funds</td>
<td>n/a</td>
<td>1993</td>
<td>1993</td>
</tr>
<tr>
<td>Total Health Expenditures (% GDP)</td>
<td>1989 (3.0%)</td>
<td>1994 (7.8%)</td>
<td>1989 (5.7%)</td>
</tr>
<tr>
<td></td>
<td>1994 (4.5%)</td>
<td>1994 (7.2%)</td>
<td>1994 (10.8%)</td>
</tr>
<tr>
<td></td>
<td>1998 (7.2%)</td>
<td>1998 (8.0%)</td>
<td></td>
</tr>
<tr>
<td>Retirement Age Increased</td>
<td>constant at 65/60</td>
<td>1996 from 60/55 to 62/57-61 by 2007</td>
<td>1996 to 62 for men and women</td>
</tr>
<tr>
<td>Voluntary Private Pension Funds</td>
<td>1999</td>
<td>1994</td>
<td>1993</td>
</tr>
<tr>
<td>Mandatory Private Pension Funds</td>
<td>1999</td>
<td>n/a</td>
<td>1998</td>
</tr>
<tr>
<td>State Pension Spending (% GDP)</td>
<td>1989 (6.7%)</td>
<td>1989 (8.3%)</td>
<td>1989 (9.0%)</td>
</tr>
<tr>
<td></td>
<td>1994 (15.8%)</td>
<td>1994 (8.4%)</td>
<td>1994 (10.8%)</td>
</tr>
<tr>
<td></td>
<td>1998 (9.1%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Summary Indicators</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll Tax Levels</td>
<td>1996 (48%)</td>
<td>1996 (49.4%)</td>
<td>1995 (60%)</td>
</tr>
<tr>
<td>Total Social Expenditures (% GDP)</td>
<td>1995 (26.7%)</td>
<td>1994 (21.3%)</td>
<td>1995 (28.6%)</td>
</tr>
</tbody>
</table>
Developments in unemployment insurance were broadly similar in the three countries. After the initiation of unemployment insurance in 1988-1990, benefits were scaled back as unemployment rates rose. Initially, benefits were provided for twelve or even eighteen months at fairly generous levels, but were later cut to six months and reduced in size (Godfrey and Richards 1997, various chapters). Poland, for instance, began to offer a flat-rate unemployment benefit of 36 percent of average wage starting in 1992. Eligibility rules were also restricted. Minimum wage regulations were also introduced, or re-introduced in all countries at the start of transition, but provided only a low level of protection for low-income workers (Standing and Vaughan-Whitehead 1995).

Social assistance policies in East-Central Europe differed substantially at the start of the transformation, and these differences persisted during the first several years. A major World Bank study by Braithwaite, Grootaert, and Milanovic (1999) showed that in 1993, social assistance systems in the region fell into one of three groups: concentrated, dispersed, and irrelevant. In concentrated systems (Poland and Estonia), only a small percentage of households received assistance, but this assistance was relatively important for them. In dispersed systems (Hungary and Russia), a high percentage of households received assistance, but this assistance was often only a small proportion of household budgets. In irrelevant systems (Bulgaria), social assistance was unimportant to households and only a small percentage receive benefits in any case (Milanovic 1999, 136).

Table 2. Social Assistance in Five Postcommunist Countries (1993)

<table>
<thead>
<tr>
<th></th>
<th>Poland</th>
<th>Hungary</th>
<th>Estonia</th>
<th>Bulgaria</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of HHs receiving SA</td>
<td>3.7</td>
<td>24.4</td>
<td>2.7</td>
<td>2.55</td>
<td>13.0</td>
</tr>
<tr>
<td>SA as % of total expenditures</td>
<td>0.74</td>
<td>1.1</td>
<td>0.38</td>
<td>0.11</td>
<td>0.45</td>
</tr>
<tr>
<td>SA per recipient HH ($/month)</td>
<td>54.0</td>
<td>17.0</td>
<td>33.0</td>
<td>10.0</td>
<td>5.0</td>
</tr>
<tr>
<td>SA as % of expenditure of recipient HHs</td>
<td>22.1</td>
<td>4.7</td>
<td>14.8</td>
<td>4.1</td>
<td>3.5</td>
</tr>
<tr>
<td>% of SA received by lowest decile</td>
<td>20.5</td>
<td>27.2</td>
<td>34.7</td>
<td>22.3</td>
<td>8.2</td>
</tr>
</tbody>
</table>

Among the East-Central European countries, Hungary was exceptional in the coverage and generosity of its family benefit system, which was one of the most developed in Europe (UNICEF 1997). Poland had a less extensive, more targeted system that provided a higher average benefit for a much smaller number of recipient households. The Czech Republic was not included in the 1993 study, however 1996 data provided by Jiří Večerník, a leading Czech sociologist who has worked extensively to analyze household income data (Večerník 1999, 2000; Večerník et al. 1999), suggests that the Czech Republic lay somewhere in between.

Starting in 1995, however, all three countries began to target their social assistance systems, in line with neoliberal thinking and advice primarily from the World Bank (cf. World Bank 1995). In fact the Braithwaite, Grootaert, and Milanovic study was part of this effort to make the East-Central European welfare states more focused on providing benefits for the poor. The shift was most dramatic in Hungary in 1995, when a Socialist government initiated severe cuts in family benefits under the so-called Bokros package of reforms, to respond to a serious fiscal and balance of payments crisis. The Bokros reforms touched off vigorous public protest, and a stormy period of reform that ended in 1996 with Finance Minister Lajos Bokros’s resignation from office. Moving from universal to targeted benefits also proved controversial in the Czech Republic, where it was initiated by a right-wing government. Therefore, in social assistance, major structural variation among the three countries in the initial period of reform gave way to increasing structural similarity after 1995, under the influence of the World Bank.

Health and pension systems also saw major variations initially, followed by convergence in the late 1990s. Both Hungary and the Czech Republic established independent health insurance funds early in the transition, funded by special, earmarked health insurance payroll taxes. Poland did not follow suit until much later, due to concerns about the expense. This difference was important. Ringold (1999, 34) shows that countries that established such a payroll tax spent significantly more
on health care than countries that did not. The Czech Republic and Hungary developed systems of private health insurance funds in 1993, while Poland established regional funds in 1998/1999, as part of its later health reform.

In pensions, Hungary and the Czech Republic founded voluntary pension funds with significant tax or budgetary advantages in 1993 and 1994, well before Poland, which took this step with its major pension reform in 1999. Poland, meanwhile, spent far more on public pensions during the first years of transition than either Hungary or the Czech Republic (see Table 3 below). In 1994, Poland spent 15.8 percent of its GDP on pensions that were more generous than the Central European norm. Poland’s average replacement rate (the percent replacement of previous income) was 74.8 percent, compared to 46.8 percent in the Czech Republic or 56.9 percent in Hungary in 1994.

Table 3. Pension Spending in East-Central Europe (% GDP)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>8.7</td>
<td>14.2</td>
<td>15.8</td>
<td>15.8</td>
<td>15.8</td>
<td>14.1</td>
<td>13.9</td>
<td>13.7</td>
<td></td>
</tr>
<tr>
<td>Hungary</td>
<td>10.5</td>
<td>10.4</td>
<td>10.4</td>
<td>11.4</td>
<td>10.5</td>
<td>10.5</td>
<td>9.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Czech R</td>
<td>7.9</td>
<td>7.5</td>
<td>7.5</td>
<td>7.6</td>
<td>7.7</td>
<td>8.2</td>
<td>8.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Slovakia</td>
<td>7.4</td>
<td>8.1</td>
<td>9.3</td>
<td>9.4</td>
<td>8.9</td>
<td>9.1</td>
<td>8.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Slovenia</td>
<td>9.3</td>
<td>12.5</td>
<td>13.0</td>
<td>13.4</td>
<td>13.6</td>
<td>13.4</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Poland’s more rapid increase in pension expenditure has concerned policymakers and analysts alike. Several authors have tried to explain why Poland’s pension system expanded so rapidly (Cain and Surdej 1999; Kapstein and Milanovic 2000), causing serious fiscal strain and placing downward pressure on other social spending. It was not until 1999 that Poland began to deal with its problems by passing a comprehensive pension reform package that would reduce long-term spending as a percentage of GDP. The Czech Republic was more successful in containing
pension spending early in the transition. In 1996, both Hungary and the Czech Republic took steps to increase the statutory pension age in an effort to control spending. And in 1998 and 1999 respectively, Hungary and Poland conducted major reforms of their pension systems, partially replacing their pay-as-you-go public systems with mandatory, private, defined-contribution funds (Müller 1999; Orenstein 2000). Differences in the methods and timing of change, however, had significant impacts on pension spending, creating significant long-term path dependencies for reform.

To summarize, in unemployment benefits, Hungary and the Czech Republic were more generous at first, but quickly scaled back. Poland offered less generous benefits from the beginning. In health insurance, Poland did not create an earmarked health insurance tax until after a decade of transition, constraining health spending relative to its neighbors. However, Poland spent more on pensions than either Hungary or the Czech Republic as a percent of GDP. In part because of higher spending, Hungary and Poland conducted major structural reforms of their pension systems in the late 1990s, while the Czech Republic did not. And in social assistance, after wide early variation in policies, all three countries began to target assistance and reduce universality starting in 1995-1996. While clear trends are visible, so are major differences between the three countries. These differences had a major impact on welfare reform during the transition, but also marked paths of welfare state development for the future.

Explaining Trends and Differences

To what extent can globalization explain trends and differences in East-Central European welfare state transformation? We argued in the previous section that the East-Central European countries’ relatively successful integration into the international economy, reflected in rapidly expanding international trade, particularly with Europe, higher FDI, and integration into European
production networks, was associated with a general upward trend in social spending during the transition, and the continued commitment of these states to social protection. However, we have also seen that the extent and paths of this adjustment has varied radically from country to country.

The differences among the adjustment paths of Poland, the Czech Republic, and Hungary cannot be explained by any consistent theory about exposure to trade or trade openness. For one, the impact of trade is not precise enough to account for numerous policy differences among these three countries. But openness to trade also does not explain differences in spending levels either. Hungary and the Czech Republic are a) the most advanced and successfully integrated, as well as b) the smaller, most open economies in this set. Poland stands out by being a) four times larger in population, therefore less exposed to trade than its smaller neighbors; and b) poorer and less advanced economically. By any version of the compensation thesis (cf. Cameron 1978), which posits that smaller, more open economies spend more on welfare states, Hungary and the Czech Republic would be expected to spend more during the transition. Also, if welfare states were a luxury that could be afforded by wealthier states, the same result would pertain. However, it was Poland that increased its social spending most rapidly and radically during the transition, as a percentage of GDP, mostly through a dramatic increase in pension spending (Hagemejer 1999; Table 3).

Various political economy explanations offered for why Poland had such a rapid increase in social spending all come up short (Cain and Surdej 1999; Kapstein and Milanovic 2000). Cain and Surdej (1999) use a combination of transition politics and public choice theories to offer a convincing explanation of the expansion of pension spending in Poland, but they do not address other cases where spending was not so extreme. Kapstein and Milanovic (2000) argue that political leaders faced a strategic choice during the transition, whether to curry favor with pensioners, and therefore increase pensions and slow privatization, or with workers, and therefore speed
privatization and reduce pensions. Poland, they suggest, took the former strategy, while Russia and the Czech Republic took the latter one. However, they have yet to defend this thesis with reference to Polish voting statistics, and it seems implausible that the early Solidarity governments that ruled Poland would have intentionally favored pensioners over workers. Also, our previous work suggests that East-Central European leaders were guided more broadly by economic ideas in their choice of transition strategies, whether neoliberal or social-democratic, than by narrow appeals to age-based constituencies (Orenstein 2001).

Another surprising point about post-communist social policy is that many developments do not seem to be closely related to party ideology. While previous work (Cook, Orenstein, and Rueschemeyer 1999) showed that left-oriented parties in post-communist countries advocated broadly social-democratic welfare state themes, they were just as likely as parties on the right to implement austerity measures when fiscal crisis threatened, as in Hungary in 1995. Therefore, cross-national studies show that the partisan hue of government has little relation with overall social spending in the first decade of transition (Lipsemeyer 2000), and in fact, there is some evidence that rightist governments have spent slightly more. Of course, this ignores variation in long-term structural changes, that may differ between right and left, but not show up in yearly spending figures. However, it does suggest that social policy transformation has been largely driven by other factors (such as transition upheaval) that transcend party affiliation.

In our view, this variation among East-Central European countries’ social transformation paths is best explained by the dynamics of transition decision-making. During a chaotic transition, executives and parliaments often granted extraordinary authority to small groups of specialists to set social policy. At the same time, decision-makers drew upon domestic and international sources of policy advice to formulate responses to the plethora of transition problems they confronted (cf. Cohen, March and Olsen, 1972). However, policy thinking and advice received differed in each
country, often idiosyncratically, explaining a large part of the seemingly unsystematic differentiation we observe in countries on similar paths towards Europe. In this section, we describe the players and processes of domestic and global policy formation, and then illustrate the interplay between domestic decision-making and a “global politics of attention” in case studies of pension reform in Poland, the Czech Republic, and Hungary.

The Domestic Politics of Decision Making

At the national level, transition social policy was set by small groups of politically connected social policy experts (Jenkins 1999). These expert groups occupied various spaces in the state apparatus, whether at ministries, social security agencies, or government research institutes. They were often granted a great deal of autonomy in the early transition years, both from civil society and parliamentary pressures, as well as from the executive branch. However, compared with their West European counterparts, for instance, they lacked the resources necessary to develop market-oriented social policy regimes. Small groups of policy experts flowed in and out of government, often based on personal connections with particular political parties and leaders. Once located in the executive branch, however, these groups were confronted with overwhelming problems that were unlike those faced by their counterparts anywhere in the world.

In the fluid institutional moment of transition, in the face of many conflicting pressures and relatively few available solutions, the ideas of these people about how to reshape social welfare commitments could be extremely powerful (Balcerowicz 1995; Kolodko 1999). Therefore, it is important to examine the terms of their ideological discourse. After 1989, three broad trends in postcommunist social policy thinking emerged, that correspond with Esping-Andersen’s (1990) typology of European social welfare state ideas. First was the liberal or neoliberal strain of thinking that swept East-Central Europe after 1989. Liberal ideas about rendering welfare states as means-
tested “safety nets” began to be heard in East-Central Europe (Deacon 1997; Szacki 1995). However, the influence of these ideas on social policy was muted by the fact that neoliberal thinkers’ emphasis lay elsewhere. Postcommunist economic programs emphasized price and trade liberalization, privatization, and stabilization (Blanchard et al. 1991). Neoliberals often left social policy matters in the early years to experts from other ideological camps (cf. Orenstein 2001). The primary one was the broadly socialist or social democratic camp. East-Central European social policy experts generally disagreed with neoliberal principles (Nelson 1997; Müller 1999), and tried instead to steer the transition from paternalist socialism toward a more European concept of socialism. While they tended to stay in the background, one could say that this broadly socialist strain dominated East-Central European welfare state thinking during the first five years of transition, and will perhaps remain a dominant trend over the longer term. Third, conservative social thinking was on the rise in East-Central Europe, sponsored primarily by right-leaning Christian-Democratic parties who wanted to emphasize church and/or family in state social support (Kulczycki 1995).

Since the political backing for socialist welfare states (communist party and trade unions) had fallen apart dramatically in 1989, small groups of reformers occupying strategic places in the executive branch could have great influence on the development of social policy early in the transition (Balcerowicz 1995). However, the fluidity of transition politics and the relatively low priority of welfare state reform made the disposition of these power resources somewhat haphazard. When reformers did get into positions of power, they often chose to do things on purely ideological grounds that were not necessarily well supported by careful planning or structural preconditions. This autonomy of small groups of reformers in a fluid political situation meant that countries faced with identical problems would choose to address them in very different ways, depending on the specific policy discourse and opportunities of small expert groups.
The Global Politics of Attention

International organizations, economists, and consultants provided another major source of policy ideas after 1989. However, the international policy community was not primarily focused on social policy in the early transition years (Deacon 1997; Ringold 1999; Kapstein and Milanovic 2000). Instead, we believe that the transition years can be divided into two periods of international attention to social policy transformation: a first period which lasted from 1989 to 1995, in which international attention to this issue area was low, and a second period, starting in 1995, when social policy moved to the top of the international agenda (Sachs 1995; World Bank 1996). At that time, a variety of international organizations began to implement and further develop a social policy agenda that pushed East-Central European countries toward a single model of welfare state reform. This influence was often reflected in the international organizations’ vastly superior capacity for policy development and argumentation, as well as their control over critical financial resources.

During the early years of transition, international actors paid little attention to social policy in the postcommunist states. Setting up unemployment systems was the only priority area of concern (Blanchard et al. 1991), but otherwise neoliberal policymakers focused on stabilization, liberalization, and privatization policies. This began to change in the middle of the 1990s, for a number of reasons. First was the “return of the left” that demonstrated frustration with neoliberal reform agendas, and popular willingness to support parties, even discredited former communist ones, that promoted a more social vision of economic change (Sachs 1995; Cook and Orenstein 1999). Second was a widespread recognition that poverty had increased dramatically in Central and Eastern Europe. Early on, prominent economists disputed this fact (Sachs 1995), arguing that poverty had not been measured properly, and that living standards had not fallen at all. But gradually, as evidence piled up, this position became impossible to maintain, and a widespread consensus developed during the middle of the 1990s that the transition had been accompanied by massive
increases in poverty (Milanovic 1998; Gomulka et al. 1998), even in relatively successful East-Central European countries. Third, neoliberal economists began to realize that their initial lack of attention to social policy matters had not caused social welfare states in the east to wither away, but rather to grow dramatically in some cases, like Poland. Neoliberal economists began to view this welfare state expansion as a major impediment to growth – and cutting spending a top policy priority (Sachs 1995). Fourth, major international organizations, particularly the World Bank, shifted their global policy priorities toward issues of poverty, which had not been a primary focus before (World Bank 2001). The EU increased its attention to the accession process at the same time, bringing to the table its greater concern with social issues in transition. All of these international trends encouraged greater attention to issues of poverty and social policy reform in Central and Eastern Europe.

In the mid-1990s, social policy transformation became the subject of major international conferences and debate, and World Bank social sector lending to the postcommunist countries took off in 1996, rising from around $500m to $2b in just two years, as shown in Table 3 (World Bank 2000).

Figure 4. ECA Social Protection Portfolio

Increased global attention had a material effect on postcommunist welfare state transformation, causing a more consistent global agenda to emerge, and placing greater homogenizing pressures on East-Central European welfare states. This emerging global social policy for the region (Deacon 1997) emphasized targeting of social assistance, partial privatization of pension systems, and systemic reforms in health and education. While each of the major international organizations had different emphases, and even conflicting programs in some areas, the World Bank tended to dominate the agenda, coordinating with the EU on issues of preparation for accession. Indeed, the World Bank conducted major reviews of East-Central European countries’ economic policies in preparation for accession, that included extensive analysis of social welfare systems and state administration, in addition to macroeconomic policy, financial sector regulation, and other economic policy areas that were central to the early transition agenda. As a result, East-Central European countries found themselves part of a social policy discourse that primarily included their governments, the EU, and the World Bank, with the Bank doing much to set the agenda for these discussions. It is notable that both Hungary and the Czech Republic made efforts to target their more diffuse social assistance systems in 1995-1996, while Hungary and Poland implemented radical pension reforms in 1998-1999. These actions, and others, show the strong agenda-setting influence of the World Bank (Müller 1999; Orenstein 2000).

**Country Studies**

Domestic and international pressures and agendas combined to produce welfare state transformation in East-Central Europe after 1989. In the early period, where international attention to social policy matters was low, domestic policy elites had more room to maneuver. Starting in the mid-1990s, though, social policy was increasingly dominated by an international agenda set largely by
a World Bank that was cognizant and supportive of East-Central European countries’ EU membership preparations. To illustrate these trends, we use examples of decision making on the transformation of pension systems in Poland, the Czech Republic, and Hungary. We show that this decision making was driven by a desperate search for solutions to overwhelming social policy problems, that small elite groups often had considerable leeway in restructuring welfare state policy in the early period of reform and that these early choices had strong path dependencies. These case studies show that East-Central European countries have made a range of adjustment choices that reflect distinct paths of decision-making in transition, but that there is also increasing evidence of similar overall trends that are driven by the global politics of attention.

**Poland**

Poland experienced a dramatic pension crisis after 1989, with spending increasing at a much higher rate than in most East-Central European countries. Spending on pensions almost doubled from 8.7 percent to 15.8 percent of GDP between 1990 and 1994, creating serious problems for the government budget. To make up a growing social insurance fund deficit, the government had to make substantial subsidies to the two pension funds (employees and farmers), amounting to 3.9 percent of GDP in 1996 (Cain and Surdej 1999, 150).

Pension spending shot up in Poland during this period mainly because the government took a set of decisions to use the pension system as a buffer for unemployment (Cain and Surdej 1999, 167). The way this was done was not well thought out. Polish policy makers both loosened eligibility requirements for pensions, and guaranteed their levels relative to the average wage. As a result, between 1990 and 1994, the “system dependency ratio,” which measures the number of workers per pensioner declined in Poland from 2.49 to 1.75 (Cain and Surdej 1999, 150). Meanwhile, the “replacement ratio,” which measures the size of the average pension as a percent of
the average wage, increased from 57 to 66 percent over the same period (World Bank 2000, 75). Although every postcommunist East-Central European country faced similar issues of how to deal with rising unemployment and the increasing need for social protection, Poland was the only one to dramatically loosen eligibility requirements in this way while increasing the value of pensions as a proportion of the average wage.

Why did Polish governments react in this way? Cain and Surdej (1999) point to the transitional policies of Solidarity governments between 1989 and 1993. The first Polish reform governments, under Finance Minister Leszek Balcerowicz and Labor Minister Jacek Kuroń, extended generous early retirement benefits to ease the transition out of the labor force for older workers, and to provide social protection for existing pensioners. These compensation measures were directed toward compensating workers who were harmed by the collapse of the communist system and the new stresses of market competition, including exposure to foreign trade and investment. Despite the worthy goals of Labor Minister Kuroń, the fiscal laxity of his pensions policies is striking, given that this was completely at odds with Solidarity government policy in other areas. At the same time, Finance Minister Balcerowicz launched a major “shock therapy” restructuring of the Polish economy, which included measures to cut public sector deficits and civil service pay. Why would the same government take decisions to dramatically expand subsidies and guarantees for pensioners?

Such behavior can only be explained by the lack of attention the finance ministry and leading reformers paid to the social sector under neoliberal adjustment plans. Kuroń provides ample evidence in his 1991 book, Moja Zupa, to suggest that he did not understand the Polish social system when he was appointed labor minister, and made a number of decisions that he later regretted. For instance, he decided to extend pension benefits to veterans of the Polish home army and other independent fighting units during the Second World War who resisted the Nazi and
Soviet occupations. Although this was an important political gesture, it raised serious administrative problems, because most of the records had disappeared over the years (Kuroń 1991). The ministry of labor was deluged with requests from pensioners who did not have documentation. Pensions were also extended to victims of layoffs, with no provisions for withdrawing them when people found new work. As a result, many middle-aged people continued to claim benefits after they found new employment. Poland’s eligibility problem ballooned between 1989 and 1992, when a major spike in the number of people collecting pensions occurred. Later governments restricted eligibility, again suggesting that the increase had been a mistake. When Balcerowicz later wrote that failure to reform the social security system had been the major error of the reform governments, he explained that reformers had simply been unable to deal appropriately with all the issues confronting them, because of lack of time and problem overload (Balcerowicz, 1995).

The Polish case therefore offers clear evidence connecting the expansion of pension spending to the lack of attention to social sector restructuring in early neoliberal programs. This reflects the priorities articulated by major Western international organizations and their consultants during the first period of transition. Social policymaking was a low priority in the overall transition program. Therefore, officials like Kuroń with little economics, public administration, or social insurance training had great latitude to make policy decisions that did not support and even contradicted major principles of the economic reform that was taking place in the chaotic early period of transition.

Starting in 1995, as international attention was drawn to the problems of social sector reform in East-Central Europe, Polish governments began to seriously deal with reform of the pension system. The World Bank seconded its own experts to help establish a pension reform team within the Polish government. And indeed, succeeding governments were successful in implementing major pension reform legislation in 1997 and 1998 that is expected to reduce government spending
and replacement rates over the long term (Müller 1999; Orenstein 2000). This reform was conducted with extensive World Bank involvement, financing and advice, and implemented key elements of a “new pension orthodoxy” (Müller 1999) promoted by the World Bank. Poland therefore offers a clear example of unusual deviation during the early adjustment period, spending far more on pensions than its neighbors, while later conforming to World Bank policy advice.

**Czech Republic**

Pension developments unfolded in the Czech Republic in an equally distinctive way. Czechoslovak governments paid a high degree of attention to reforming the social system from the early days of transition. This is because early Czechoslovak governments were not completely dominated by neoliberals, but rather by a broad coalition of neoliberals and social democrats (including former communists on both sides) that implemented a “social-liberal” strategy for transformation (Orenstein 2001). In late 1990, Czechoslovak reformers passed a social reform program, drafted by social democrats, at the same time as a radical neoliberal economic reform program. The social program included a variety of structural measures designed to maintain the fiscal health of the system during transition. Since international organizations were paying very little attention to social policy reform, Czechoslovak policymakers were left to their own devices. Therefore, as in Poland, small groups of domestic policymakers had extraordinary influence on shaping the Czech pension system. Under the initiative of a team of experts at the ministry of labor, including Igor Tomeš, who later became a World Bank consultant, early Czechoslovak governments eliminated many special pension benefits enjoyed by numerous and well-organized groups, like miners. They did this in part through direct negotiation, making a variety of side-payments and guarantees to ensure compliance. One was the establishment of a system of private, optional funds that would allow for additional pensions for different occupational groups. Miners were among the
The Czech Republic adjusted to the increased burden on its pension system by steadily reducing the proportion of pensions to the average wage, from 64 percent in 1989 to 52 percent in 1992 and 44 percent in 1994. The neoliberal government of Prime Minister Václav Klaus also passed legislation gradually increasing the pension age (Müller 1999, 136-137).

The radical differences in the domestic adjustment strategies implemented in the Czech Republic and Poland reflected very different approaches to the problems of transition among groups of policymakers located mainly in Czech and Polish ministries of labor between 1989 and 1992. International influence on these decisions was very limited, as was the influence of top neoliberal policymakers in government at the time. As a low-priority issue, social policy reform was delegated in both countries to the Ministry of Labor (and Social Affairs or Social Policy) and developments took place that were seemingly out of line with neoliberal government economic policies in other areas. For instance, interviews with top policymakers suggest that Finance Minister Václav Klaus seriously opposed the overall social policy of the early Czechoslovak governments, and tried to alter it when he became prime minister in 1993 (Orenstein 2001).

However, these initial social policy strategies shaped the paths for future developments. Because the Czech Republic managed to transform its pension system without creating a high degree of debt or fiscal imbalance, it did not come under serious international pressure to adopt a World Bank model of reform after 1995 (Müller 1999). While Poland and Hungary engaged in similar reform efforts in 1997-1998, the Czech Republic has not followed this trend, though several domestic analysts have begun to promote a fully-funded system based on individual accounts (Jelinek and Schneider 1999).

Hungary

Developments in Hungary took a rather different direction from either Poland or the Czech Republic in the first period of transformation. Hungary’s pension system was experiencing
increasing problems and fiscal imbalance already during the 1980s (Müller 1999), but the first
democratic governments were not ready to do much about it. Still, their adjustment strategy differed
both from Poland’s with its dramatic spending expansion, and from the Czech Republic, which
managed to hold the line by cutting benefit levels. Hungary took a middle path, slightly reducing
benefit levels through incomplete indexation, while the pension system dependency ratio increased.
In Hungary, the average pension/average wage ratio declined from 65 percent in 1990 to 61 percent
in 1994, while the system dependency ratio increased sharply. Increasing reliance on pensions
forced the system into a deep deficit, supported out of Hungary's increasing budget deficit which
reached 7 percent of GDP in 1994 (Cook and Orenstein 1999).

In 1995, Hungary adopted a neoliberal reform program under Finance Minister Lajos
Bokros that, among other things, cut family benefits. Bokros also initiated a process of pension
reform planning that bore fruit in subsequent years, after he was forced from office. In 1996 and
1997, Hungary planned and implemented a major pension reform that was remarkably similar in
design to that implemented a year or so later in Poland (Müller 1999; Orenstein 2000; Gedeon
2001). As in Poland, the Hungarian system partially replaced the state-run pay-as-you-go system
with a mandatory, private system based on fully-funded individual accounts managed by private
pension investment funds. There were a few notable differences between the two programs.
Hungary diverted a slightly smaller share of payroll tax to the new private system than Poland, and
the regulatory structure for the private funds was somewhat different. Most importantly, Poland
simultaneously conducted a complete reform of its state system, while Hungary only changed it in
parts. But both systems were clearly cut of the same cloth, and both were advised and supported by
the social protection division of the World Bank.
Conclusions

Globalization appears to have very different effects on welfare states, depending on their geopolitical position and the interplay between their domestic politics of decision-making and the global politics of attention. East-Central European countries managed to maintain a high level of welfare state effort during a period of liberalization and transformation, while most former Soviet Union countries experienced a far greater collapse of social spending. Broadly speaking, East-Central European countries’ trends towards higher social spending are underpinned by their privileged position as potential EU members, and the resulting regional politics of EU accession. This has helped to foster successful trade integration and foreign direct investment, increasing the ability of East-Central European countries to pay for continued welfare state guarantees. At the same time, EU prospects encouraged more representative democracy, greater openness to interest group pressure, and greater political and administrative commitment to social welfare norms than in most former Soviet states. Of course, East-Central Europe’s better prospects of EU membership were determined not only by external, but also internal factors, particularly their greater similarity and proximity to core EU member states in politics, economics, and culture. However, EU membership was not a natural phenomenon, but a state project that gave overall direction to the East-Central European transitions (Orenstein 2001). It was a choice that demanded a great deal of the prospective member countries, including certain parameters to their social policy transformations.

At the individual country level, the picture is far more complex. Social policy was dominated by small domestic elite groups located in strategic executive positions during the early transition years. Overwhelmed by numerous problems of transition, the domestic politics of decision-making
were often driven by a rapid search for solutions that resulted in idiosyncratic policies being adopted. When international organizations, particularly the World Bank and the EU, began to pay greater attention to social policy transformation in East-Central Europe, and focus their enormous policy resources in this area, a more consistent policy agenda began to emerge across the region, reflecting the global politics of attention. The resulting social policy transformations bear the marks of both periods, with the effects of early decisions persisting as pressure from a global social policy agenda grows.

At the outset of transition, likely paths of welfare state development were unclear. It was possible that the former socialist welfare states would contract, because these relatively weak economies could not sustain generous spending. But it was also plausible that they might grow, to buffer people from the impact of system transformation. Indeed, analysts frequently predicted intense conflict between populations with high welfare state expectations and states with insufficient means. However, the outcomes of postcommunist welfare state adjustment turned out to be less homogeneous than either of these predictions suggested. Former Soviet welfare states declined along with the collapse of Soviet state structures generally, while East-Central European countries found themselves in a corner of this globalizing world that supported continued welfare state commitment, and provided the means to finance it through increased trade, investment, and growth. This suggests that the future of welfare states depends more on politics and human agency than globalization pessimists would predict. In particular, it depends on agenda-setting by regional and international organizations and what we call the global politics of attention.
References


INTERNATIONAL SECURITY PROGRAM

The International Security Program addresses the most important challenges to U.S. national security and international security in the quarter-century ahead. As the first issue of the journal *International Security* stated in 1976, “We define international security broadly to include the full array of factors that have a direct bearing on the structure of the international system and the sovereignty of its members, with particular emphasis on the use, threat, and control of force.”

Program researchers analyze security issues rigorously, draw prescriptive conclusions, and communicate their recommendations directly to makers of public policy and shapers of public opinion. The program also seeks to advance scholarship in security studies by contributing to significant academic debates through its own research activities and by publishing the leading journal in the field, *International Security*. Each year ISP develops and trains new talent in security studies by hosting a dozen pre- and postdoctoral research fellows. The program also presents its research in the book series, *BCSIA Studies in International Security*.

INTERNATIONAL SECURITY

The basic mission of *International Security* is to publish articles on defense and foreign affairs that combine policy relevance with scholarly analysis and research. The journal seeks to bridge the gap between contemporary security policy issues and academic research on international security studies. We define the field of international security studies broadly, to include nonmilitary as well as military threats to the security of states. Compared to some other journals, we also interpret policy relevance broadly to include many articles that bear on general theoretical questions - such as the causes of alliances or the role of international institutions - as well as historical topics, ranging from the origins of the First World War to U.S. nuclear strategy in the 1950's. As the editors of the journal wrote in its first issue, our intended audience includes the “scholars, scientists, industrialists, military and government officials, and members of the public who bear a continuing concern” for the problems of international security.

BCSIA STUDIES IN INTERNATIONAL SECURITY

In 1991 ISP created a new book series, the *BCSIA Studies in International Security*, to provide an outlet for policy-oriented research and analysis in the field of international security. The first volume published in the series, Soviet Nuclear Fission: Control of the Nuclear Arsenal in a Disintegrating Soviet Union, attracted considerable attention and contributed directly to the passage of the original legislation (known as the Nunn-Lugar Act) authorizing the expenditure of U.S. funds to reduce the nuclear dangers in the former Soviet Union. Since that auspicious beginning, further titles have covered a diverse array of topics, including nuclear, biological and chemical weapons; other aspects of the nuclear dangers emanating from the former Soviet Union; the CFE treaty in Europe; Russian foreign and security policy; transatlantic relations; security in the Middle East; and the democratic peace. The *BCSIA Studies in International Security* series is published by The MIT Press.
ISP STAFF

Stephen M. Walt, Faculty Chair and Robert and Renée Belfer Professor of International Affairs
Steven E. Miller, Program Director
Michael E. Brown, Co-Editor, International Security
Owen R. Coté, Jr., Co-Editor, International Security
Sean M. Lynn-Jones, Series Editor, BCSIA Studies in International Security
Diane J. McCree, Deputy Editor, International Security
Karen Motley, Executive Editor, BCSIA Studies in International Security
Michelle H. Von Euw, Editor, ISP Discussion Paper Series and Editorial Assistant, International Security
Gretchen Bartlett, Faculty Assistant to Ashton B. Carter
Kate Regnier, Faculty Assistant to Stephen M. Walt and Monica Duffy Toft
John Reppert, Executive Director, BCSIA
Gayle Schneider, Program Assistant

ISP CORE FACULTY

Graham T. Allison, Jr., Director, BCSIA; Douglas Dillon Professor of Government
Robert D. Blackwill, Belfer Lecturer in International Security (on leave); United States Ambassador to India
Ashton B. Carter, Ford Foundation Professor of Science and International Affairs
Paul Doty, Director Emeritus, BCSIA; Mallinckrodt Professor of Biochemistry, Emeritus
Richard Falkenrath, Assistant Professor of Public Policy (on leave); Special Assistant to the President and Senior Director for Policy and Plans, Office of Homeland Security
Shai Feldman, BCSIA, Member of the Board; Head, Jaffee Center for Strategic Studies, Tel Aviv University
John P. Holdren, Teresa and John Heinz Professor of Environmental Policy
Brian Mandell, Lecturer in Public Policy
Ernest May, Charles Warren Professor of History
Matthew S. Meselson, Thomas Dudley Cabot Professor of the Natural Sciences, Department of Molecular and Cellular Biology; Director, Harvard Sussex Program on Chemical and Biological Weapons Limitation
Joseph S. Nye, Jr., Dean, Kennedy School of Government; Don K. Price Professor of Public Policy
Monica Duffy Toft, Assistant Professor of Public Policy; Assistant Director, John M. Olin Institute for Strategic Studies.

ISP FELLOWS

Fiona Adamson
Ivan Arreguin-Toft
James G. Blight
Dean R. Clemens
David Edelstein
Darryl Farber
Thomas S. Foley
Chrystia Freeland
John Garofano
Stacie E. Goddard
Peter Grose
Robert Hermann
Erin Jenne
Sergei Konoplyov
Ronald R. Krebs
Rose McDermott
Jens Meierhenrich
Dinshaw Mistry
Gregory Mitrovich
Richard Rosecrance
Jun Tsubouchi
Brenda Shaffer
Christopher P. Twomey
Jim Walsh
Yuan-kang Wang
Hui Zhang
The Belfer Center for Science and International Affairs (BCSIA) is the hub of research, teaching, and training in international security affairs, environmental and resource issues, science and technology policy, and conflict studies at Harvard’s John F. Kennedy School of Government. The Center’s mission is to provide leadership in advancing policy-relevant knowledge about the most important challenges of international security and other critical issues where science, technology and international affairs intersect.

BCSIA’s leadership begins with the recognition of science and technology as driving forces transforming international affairs. The Center integrates insights of social scientists, natural scientists, technologists, and practitioners with experience in government, diplomacy, the military, and business to address these challenges. The Center pursues its mission in five complementary research programs:

· The International Security Program (ISP) addresses the most pressing threats to U.S. national interests and international security, analyzing the forces shaping these problems and identifying opportunities for effective intervention into the policy process.

· The Science, Technology and Public Policy Program (STPP) analyzes ways in which public policies influence science and technology for security, sustainability, and economic competitiveness, how S&T policies are made, and how S&T influence and are influenced by society.

· The Environment and Natural Resources Program (ENRP) is the locus of Harvard’s interdisciplinary research on resource and environmental problems and policy responses. ENRP has a three-pillared approach, with emphasis on teaching, research, and outreach.

· The Strengthening Democratic Institutions Project (SDI) catalyzes support for transformations in Russia, in the Caspian region, and the other countries of the former Soviet Union to sustainable democracies, free market economies, and cooperative international relations.

· The WPF Program on Intrastate Conflict, Conflict Prevention and Conflict Resolution analyzes the causes of ethnic, religious, and other conflicts, and seeks to identify practical ways to prevent and limit such conflicts.

The heart of the Center is its resident research community of more than 150 scholars including Harvard faculty, analysts, practitioners, and each year a new, interdisciplinary group of research fellows. BCSIA sponsors frequent seminars, workshops and conferences, maintains a substantial specialized library, and publishes books, monographs and discussion papers.

The Center is supported by an endowment established with funds from Robert and Renée Belfer, the Ford Foundation and Harvard University, by foundation grants, by individual gifts, and by occasional government contracts.