Reforming East Central European Welfare States

Governments, Technocrats, and the Patterns of Quiet Retrenchment

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Abstract

In this dissertation, I investigate diverse patterns of reform and continuity in East Central European (ECE) welfare policy and develop a framework to explain how party politics decisively shapes the resulting welfare states. Theories within political economy persistently renegotiate the relative influence of forces of globalization, history, and politics. This research relies on these extensive theories about the influence of international forces and historical legacies, but positions those factors as pressures that must be mediated by political agency and therefore contributes to the 'politics matters' hypothesis.

In order to refine the models of welfare politics, I propose three alternative political mechanisms producing welfare state change. First, governments with high socio-economic ideological coherence are more likely to pass reform. Second, reform under non-coherent governments occurs only when technocrats use tactical approaches to build consensus for retrenchment. Finally, passive measures for welfare state change, which are less visible adjustments to the generosity of benefits, such as adjustments to benefit indexation, are applied even by governments that cannot pass reform and these can incrementally, but significantly redefine social policy instruments. This framework is evaluated through detailed case study analysis of welfare politics across four countries – the Czech Republic, Hungary, Poland, and Slovakia – and three policy areas – pension, family, and unemployment policy – between 1990-2012. To complement the case studies, I develop indicators to measure the degree of welfare state change, including ones that capture the use of passive measures. Then I assess the findings across the policy areas and explain the absence of clear welfare state typologies.

The contributions of this work include refining theories of welfare politics by incorporating a thus far neglected variable: government coherence. By testing it on postcommunist ECE welfare states and engaging with literature from Western European welfare states, the resulting framework has potential to explain welfare state development both in and beyond the more commonly studied advanced economies. Another contribution of this research is the advancement of tools for measuring passive change and investigating the reasons behind the prevalent use of 'passive austerity' as an alternative to more visible welfare state retrenchment. Finally, the findings of the empirical work explain the emergence of 'patchwork welfare states' in ECE and enable a reassessment of the utility of welfare state typologies.

Declaration

I hereby declare that this dissertation does not contain any materials accepted for any other degree in any other institution. The dissertation contains no materials previously written or published by any other person, except where appropriate acknowledgement is made in the form of bibliographical reference.

Kristin Makszin
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Many things have changed since I first walked into CEU's doors to begin the Master's program almost a decade ago. Iren Várga, however, has been a consistent source of supportive encouragement and I dedicate this dissertation to her.

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List of abbreviations

ANO New Citizen's Alliance (Slovakia)
AWS Solidarity Electoral Alliance (Poland)
ČMUS Czech-Moravian Centre Union Party
ČSSD Czech Social Democratic Party
DUS Democratic Union of Slovakia
EU European Union
FDC Financial Defined Contribution
Fidesz Alliance of Young Democrats (Hungary)
FKGP Independent Smallholders Party (Hungary)
HZDS Movement for a Democratic Slovakia
IMF International Monetary Fund
KDH Christian Democratic Movement (Slovakia)
KDNP Christian Democratic People's Party (Hungary)
KDU–ČSL Christian and Democratic Union – Czechoslovak People's Party
KOZ Trade Union Confederation (Slovakia)
KRUS Agricultural Social Insurance Fund (Poland)
KSČM Communist Party of Bohemia and Moravia (Czech Republic)
LPR League of Polish Families
LS-HZDS People's Party – Movement for a Democratic Slovakia
MDF Hungarian Democratic Forum
MLS Minimum Living Standard
MSZP Hungarian Socialist Party
NDC Notional Defined Contribution
ODA Civic Democratic Alliance (Czech Republic)
ODS Civic Democratic Party (Czech Republic)
OET Interest Reconciliation Council (Hungary)
OPZZ All-Poland Alliance of Trade Unions
PAYG Pay-As-You-Go
PC Centre Agreement (Poland)
PiS Law and Justice Party (Poland)
PL Peasants' Agreement (Poland)
PO Civic Platform (Poland)
PSL Polish Peasants' Party
SDK Slovak Democratic Coalition
SDL Party of the Democratic Left (Slovakia)
SLD Democratic Left Alliance (Poland)
Smer-SD Direction – Social Democracy (Slovakia)
SMK Party of the Hungarian Coalition (Slovakia)
SNS Slovak National Party
SOP Party of Civic Understanding (Slovakia)
SRP Self-Defense of the Polish Republic
SZ Green Party (Czech Republic)
SZDSZ Alliance of Free Democrats – Hungarian Liberal Party
TOP09 Tradition Responsibility Prosperity (Czech Republic)
UP Labor Union (Poland)
US Union of Freedom (Czech Republic)
USAID United States Agency for International Development
UW Freedom Union (Poland)
VV Public Affairs (Czech Republic)
ZChN Christian National Union (Poland)
ZUS Social Insurance Institute (Poland)

1. Introduction

1.1. The surprising influence of party politics

The politics of the welfare state is puzzling for two (nearly contradictory) reasons. When confronted with tremendous pressure for austerity, it is surprising how many governments maintain generous welfare state benefits. Conversely, considering the general popularity of existing welfare programs among voters, it is no less puzzling why governments dare to pass unpopular reforms. Engaging with research on why political actors pursue risky or unpopular reforms (Hirschman 1963b; Pierson 1994; Kitschelt 2001; Vis and Kersbergen 2007; Vis 2010) and on the surprising politics of welfare state continuity in the midst of permanent austerity (Pierson 1998; Pierson 2001; Huber and Stephens 2001; Inglot 2008), the explanatory framework developed in the following chapters addresses the question of *when* and *how* governments generate welfare state change versus continuity. This dissertation engages with the recent political economy debates about the degree, form, and sources of institutional change and continuity through a thorough investigation of the politics of welfare state reform in Eastern Central European (ECE) countries.

While much scholarship seems to either emphasize diversity in models of (welfare) capitalism or the degree and type of change in real-existing political economies, this research integrates the two approaches and develops a model that: (1) refines the conceptualization of institutional change by differentiating continuity and passive means of change related to obfuscation, (2) develops a model to explain the role of political agency amidst simultaneous pressures for change and continuity, and (3) assesses the utility of typologies of (welfare) capitalism. While engaging with theories of welfare state change that were developed primarily through the study of advanced industrial or post-industrial economies, this dissertation relies on empirical evidence from four postcommunist Eastern Central European countries – the Czech Republic, Hungary, Poland, and Slovakia – since the transformation to democracy after 1989. Given that they are less commonly studied, the empirical cases offer a fruitful context for hypothesis generation and theory development in the study of the politics of welfare state change and continuity. Complemented by the dense literature on Western European welfare states, this allows the formation of a more general explanatory framework.

In recent political economy scholarship, the importance of the state and political agency for controlling policy and shaping institutional change has been challenged from at least two very different perspectives. First, in an era of globalization and high capital mobility, to remain internationally competitive, governments deal with a restricted set of options, which some argue relegates the state to a mere competition state or simply delineates a more limited role for political agency (Tilly 1995; Kurzer 1993; Cerny 1995; Cerny 1999). The era of "permanent austerity" (Pierson 1998) suggests that national governments face narrow options forcing them to restructure (i.e. privatize) welfare states or simply let them erode, leaving citizens more exposed to market forces.

A very different branch of scholarship assumes a limited role for political agency based on the observation of persistent path dependence and limited institutional change (i.e. sticky institutions). The influence of historical legacies, social contracts, and entrenched interests has been particularly pronounced in the studies of welfare states in advanced economies (Pierson 1998; Huber and Stephens 2001). In countries with developed welfare states, the popularity of existing social benefits has led many scholars to frame welfare state retrenchment as a risky reform (Kitschelt 2001; Vis and Kersbergen 2007; Vis 2010). Additionally, the assumptions behind the influential varieties of capitalism framework also attribute a limited role to political agency by arguing that efficient models of capitalism exhibit institutional complementarity, which implies limited options for governments that seek economic growth (Hall and Soskice 2001; Hancké, Rhodes, and Thatcher 2007; for a review of the debate, see Bohle and Greskovits 2009a).

From each perspective, the argument for more limited room for maneuver for political actors may be persuasive. Decisions regarding welfare state reform are, on the one hand, confined by pressure for capital-friendly, low spending social policy due to globalized economic competition as well as the influence of international investors and organizations. On the other hand, the entrenched interests and influence of historical legacies seems to pressure governments with existing social protection schemes to maintain generous welfare state benefits leading to surprising continuity of welfare states in the midst of forceful pressure for austerity. Taken one by one, the arguments suggest a more limited role for political agency. However, taken together, precisely the juxtaposition of these conflicting pressures (which is a near universal empirical reality in countries with established systems of welfare benefits) forces political agency back into focus as the mediator between opposing forces and the decisive factor for institutional change or continuity. Therefore the central argument of this dissertation is that in the presence of conflicting pressures from global economic competition and international actors, as well as historical legacies, social contracts, and entrenched interests, the dynamics of politics is decisive for explaining patterns of institutional change and continuity.

1.2. *Explaining reform and continuity in ECE welfare states*

The empirical research of the dissertation represents a hard test for the hypothesis that domestic political agency is crucial for determining policy and affecting institutional change because it tests the influence of domestic politics in a context where both pressure for austerity and generosity were exceptionally high. As small, newly-formed market economies aspiring to return to Europe, international organizations and transnational capital had potentially transformative influence. Successful integration into the global economy required liberal macroeconomic policies and lower government expenditure that left little room for maneuver for national governments. On the other hand, although these countries were just forming new market economy structures and democratic institutions, they inherited public expectations, social contracts, and entrenched interests from Communist era social policies that produced pressure for continuity and expansion of generous social benefit schemes. Furthermore the position and constellation of the political actors in the newly formed democracies was still in flux. Therefore, finding a systematic influence of political agency and party politics in this context is a strong case for the influence of these factors in other contexts where the power of political parties may be less contested.

ECE welfare states offer a context where there was a potential for dramatic reform to social policy, given the comprehensive transition to a democratic political system and market-based economy. This era of “extraordinary politics” (Balcerowicz 1995) was possibly a unique opportunity for radical change to welfare policy and disassembling the instruments of social policy left over from the Communist era, as the societies were expecting drastic transformation. On the other hand, the transition exposed many members of society to new social risks (i.e. dramatic increases in visible unemployment and poverty, as well as the large scale displacement of workers) and the existing social safety nets were potentially important for protecting those most vulnerable in the time of transition. This means that there is significant variation in the degree of reform and continuity across the countries and policy areas studied. Alongside the broader debate about the appropriate speed of macroeconomic reforms, the debates between political actors and advisors about potential social policy reforms were intense.

In analyses of ECE welfare states, some argue that dramatic and revolutionary changes took place (Orenstein 2008a; Orenstein and Haas 2005; Müller 1999) and generally attribute these reforms to external pressures. While pressure from international organizations and international investors may influence the likelihood of reform, they cannot sufficiently explain *timing* of reforms (particularly the delays in reforms) and the many cases of *non-reform* (i.e. continuity) despite the existence of these pressures. Other literature convincingly outlines the influence of historical, institutional, and policy legacies for enforcing the continuity of postcommunist welfare states (Inglot 2008; Tomka 2004; Cerami 2006). However, in each ECE country in some policy areas, there have been meaningful and even dramatic reforms and also transformative incremental change. Therefore, a more complete explanatory framework is needed to address both the instances of change and continuity, as well as the timing of reforms.

Proposals were suggested for drastic reform for many (if not all) dimensions of social policy. These proposals were debated in parliaments and often were decisive in electoral outcomes for political parties. Some of these proposals were adopted and substantial reform occurred. Other proposals were rejected and led to continuity in the welfare state. In still other cases, incremental transformative change took place despite the lack of reform. In the case of reform, the importance of political actors for designing and passing the reform seems obvious. However, in the context of the transition where reform proposals existed in each of the countries and in each of the policy areas, maintaining continuity required that political actors opt to *not* reform. Therefore, the instances of non-reform also required active measures from political actors (i.e. non-reform also requires agency). Studies that focus on a single reform or single policy area often try to understand reform without addressing continuity. For the above reason, this dissertation takes a more comprehensive approach to studying the welfare state – one that aims to explain both reform and non-reform across multiple policy areas (old-age pension systems, family and parental benefits, and unemployment insurance and early retirement) over time (1990-2012) – with the aim to develop a framework explaining the influence of politics on welfare state change and continuity.

The investigation proceeds by shifting the unit of analysis to governments (rather than countries) and investigating whether features of governments systematically explain patterns of welfare state change and continuity. The research question addressed in the dissertation is:

How do political factors affect the nature and timing of welfare state reform and continuity in democracies facing conflicting pressures?

The framework generated through this research identifies political mechanisms for change and continuity that incorporate independent variables from theories of welfare state politics (such as partisan coloring and number of veto players) and political economic of policy reform literature (such as concentration of decision-making power), as well as adding a new variable: the socio-economic ideological coherence of governments. Rather than identifying a single causal factor, this dissertation argues that government coherence conditions the reform outcome by determining the mechanisms through which party politics shapes patterns of change and continuity, as will be summarized in section 1.5 and in more detail in chapter 2.

1.3. Reconceptualizing welfare state change

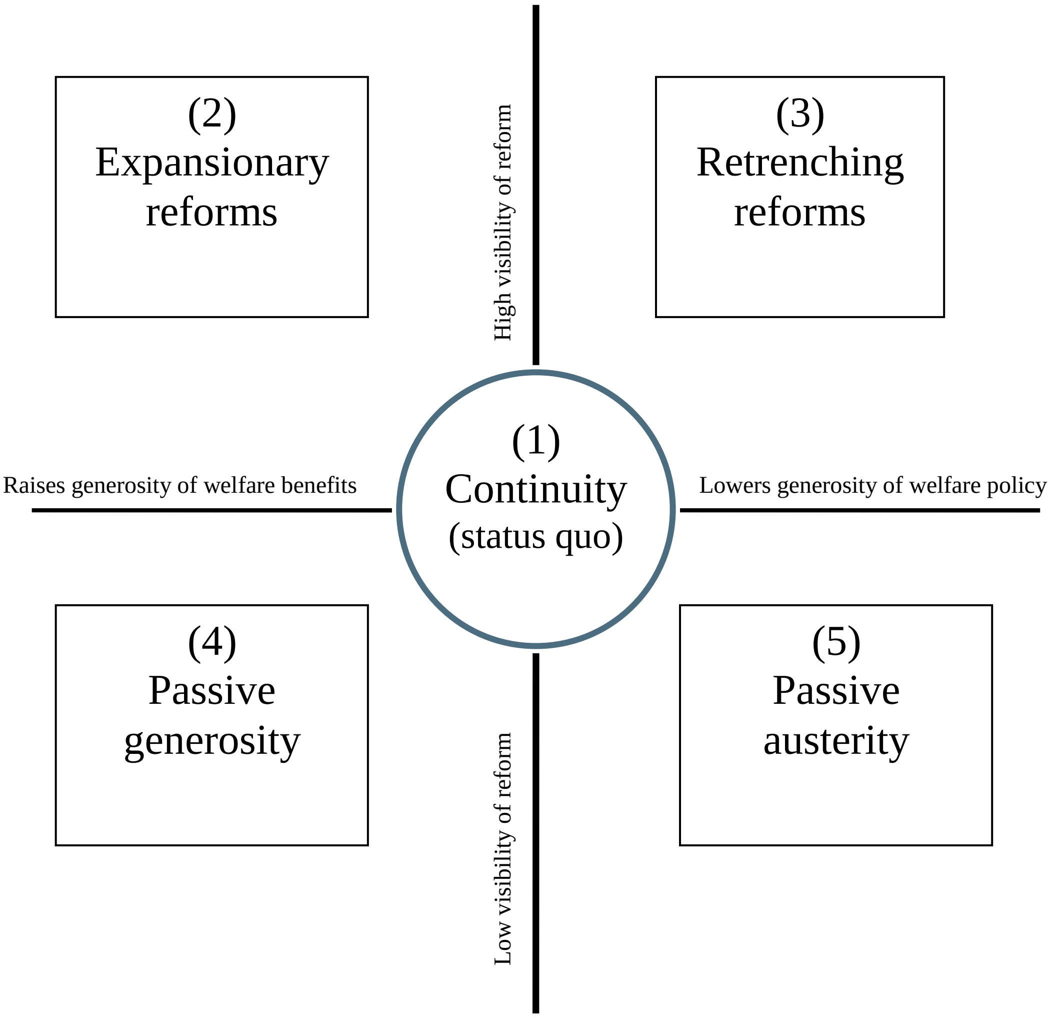
Within the case study comparison, I rely on multiple non-expenditure based indicators calculated from empirical data from national and international reports, various datasets, and earlier literature on welfare states to gauge instances of change and continuity. Measuring welfare state change has become a topic of great interest, especially as established welfare states in Western and Northern Europe are undergoing transformation that is difficult to capture using typical social policy indicators (Streeck and Thelen 2005; Clasen and Siegel 2007). Additionally, most likely due to political aims of blame avoidance, welfare state reforms have taken on a more discrete nature (Weaver 1986; Weaver 1988). A growing literature recognizes the importance of these changes, outlines the nature of the changes, and proposes approaches for measuring welfare state change (Streeck and Thelen 2005; Clasen and Siegel 2007; Seeleib-Kaiser 2008). Extracting insights from the literature on the dimensions of the welfare state that should be measured, in chapters 3-5, I propose a set of indicators for each policy area that allow for measurement of the change in ECE welfare policies and (non-trivially) can be calculated with existing data for the countries studied.

The aim of these indicators is to provide empirical measures that can capture the direction and scope of policy reforms. For this purpose, social spending data is not sufficient, as has been argued extensively in the literature because it measures welfare state outcomes rather than policies and roughly indicates the size, but not the structure of welfare benefits (Gøsta Esping-Andersen 1990; Clasen and Siegel 2007). A detailed understanding of change requires comparisons of the legal policies and regulations, but even these can exhibit a 'continuity bias', as significant changes can happen in the welfare state without changing the formal structures and there are often political incentives to make less obvious changes. As Pierson (1994; 1996) argued, governments often try to retrench welfare states in indirect ways, referred to as policies of obfuscation. Examples of less obvious types of reform are adjusting minimum and maximum benefit limits, changing the indexation rules for benefits, or having a more gradual but automatic implementation of reforms. These may be effective ways to reduce spending without creating as much political or social controversy, which is why I refer to these policy changes as passive measures. I use the term ***'passive austerity'*** to refer to those adjustments that decrease the generosity of benefits and ***'passive generosity'***[1] to refer to less visible changes that actually increase the generosity of benefits. I argue that there may be strong political motivations to adjust benefit generosity using these alternative mechanisms. In the case of passive austerity, governments may utilize these strategies for electoral blame avoidance, as it enables them to respond to pressures to decrease expenditure without appearing to attack popular social benefits. Passive generosity is most likely under conditions when governments face pressure for austerity from investors, business representatives, or international organizations, but simultaneously the government seeks to demonstrate welfare state generosity to the social benefit recipients and voters more generally (most likely before elections). Additionally, some parties who constituencies favor less generous social policy may use 'passive generosity' to appease the voting public without harming their reputation among party supporters.

Figure 1.1 displays five outcomes based on the intersection of traditional welfare state reforms with this less visible dimension. In addition to a summary of legal regulations, I include estimates of average benefits, analysis of indexation rules, and minimum and maximum benefit limits in my measurement of welfare state change in each policy area. By doing so, I will be able to provide a more detailed representation of welfare state change and especially highlight changes that governments may have preferred to remain unnoticed. While conceptualization of welfare state change generally focuses on increasing and decreasing generosity or restructuring specific to an issue area, the empirical work in this dissertation also analyzes these prevalent, but less obvious, changes.

[1] I use the terms 'passive expansion' and 'passive generosity' interchangeably.

Figure 1.1 Types of change and continuity based on the visibility and direction of reforms



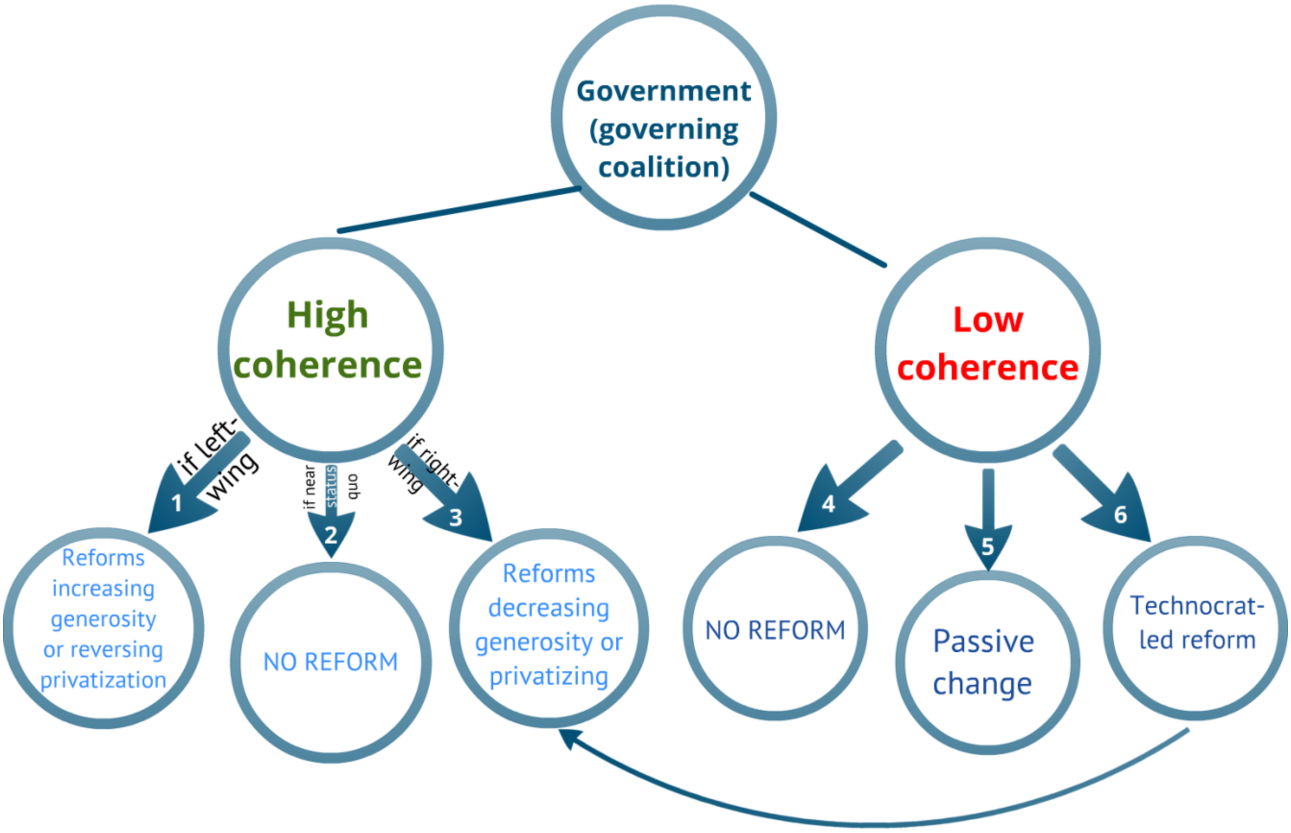
Examples of expansionary reforms include increasing the replacement rate or coverage of a benefit. Retrenching reforms may include introducing means-testing, reducing the role of the state through partial pension privatization, or reducing replacement rates. Passive austerity usually occurs through insufficient indexation or adjusting maximum benefit limits. Passive generosity may be boosting the real value of benefits through indexation or adding lump sum payments to beneficiaries. The explanatory framework aims to explain when each of these five outcomes on the dependent variable is likely to occur.

1.4. A framework explaining political mechanisms for reform and continuity

The explanatory framework of this dissertation incorporates the politics of welfare state, which was primarily developed through analysis of advanced industrial economies with the political economy of policy reform (J. M. Nelson 1989; Haggard and Kaufman 1992; Williamson 1994), which was primarily advanced through the study of developing and transition economies to formulate a more comprehensive theory of the type and timing of reforms. The first crucial characteristic of this framework is that the unit of analysis is the government nested within a country, as characteristics of the governments interact with structural and institutional characteristics to influence the likelihood of change. Previous theories of the politics of welfare state formation and change focused on structural differences in the nature of politics across countries, such as "class-political coalition structures" (Gøsta Esping-Andersen 1990, 29), left power resources (Korpi 1985; Korpi 2006), political party cleavage structures (Manow 2009), or "the strategic configuration of party systems" (Kitschelt 2001, 265) . These conceptualizations of politics have the potential to explain cross country differences, but they rarely can explain patterns of continuity and change over time within a country. The factors of influence must therefore include independent variables that vary over time within a country, in addition to structural factors that are often central to welfare state scholarship.

The construction of the framework begins by adding a new variable: the socioeconomic ideological coherence of governments (hereafter: government coherence), which conditions how politics affects welfare state reform. Government coherence refers to the degree of ideological agreement on socio-economic issues between and within the parties of the government. Figure 1.2 summarizes the expected relationship between coherence of governments and its influence on reform outcomes.

Figure 1.2: Explanatory schema for welfare state change and continuity conditioned on government coherence



The framework suggests that, under governments with high socioeconomic ideological coherence, the partisan theories from the politics of welfare state literature largely apply. Specifically, left-wing coherent governments produce policies that increase (or at least maintain) welfare state generosity [arrow 1 in Figure 1.2]; while right-wing governments are more likely to produce reforms that decrease generosity [arrow 3 in Figure 1.2] (Korpi and Palme 2003; Allan and Scruggs 2004). If the government's position is close to the status quo, then no reform is expected [arrow 2 in Figure 1.2] (Tsebelis 2002).

Under governments with low socioeconomic ideological coherence, I claim that governments face very different conditions. First, large scale reform is difficult due to the lack of ideological consensus within the government. Working with a similar logic as the veto player argument (Immergut 1992; Tsebelis 2002), the expectation would be policy continuity due to lack of consensus for reform [arrow 4 in Figure 1.2]. However, under the conditions of high pressure for austerity, governments allow welfare state change, but through less transparent and/or less conventional means. First, related to transparency, one possible avenue for change is relying on less visible forms of change: passive austerity or passive generosity [arrow 5 in Figure 1.2]. The high degree of pressure demands change, but the lack of coherence of the government obstructs reform consensus and prevents traditional reform. Change, however, remains feasible through obfuscation. For example, a subset of members of parliament in the government may resist reforms decreasing the formal generosity of benefits (either due to a welfarist policy position or due to fear of losing votes the next election by cutting popular benefits). However, when faced with high pressure for austerity the government could pass or allow less obvious decreases in generosity through reducing maximum benefit levels or adjusting indexation methods to decrease the real value of benefits. Voters, international organizations, media sources alike are less likely to take note of these changes as they are lost in the details or have only a delayed effect, but nonetheless they are critical for the actual generosity of welfare state benefits, as will be shown in the empirical chapters of this dissertation. Alternatively, public demand for more generous social benefits could lead governments to use passive expansionary measures as simple adjustments to increase generosity that do not require broad reform consensus.

The final possible outcome under non-coherent governments is policy takeover by reformists (i.e. technocrats) who negotiate consensus or isolate the decision-making procedure from actors who oppose reform [arrow 6 in Figure 1.2]. The democratic process can be an obstacle to accomplishing specific (unpopular) policy goals (Haggard and Kaufman 1992; Williamson 1994), but we find ample examples of democratic governments creating exceptional arrangements to accomplish significant reform. In the ECE cases considered in this dissertation, this often meant a (democratic) decision to pass the responsibility for the reform to a non-elected advisor or technocrat. Technocrat-led reform involves the strategic exclusion of actors that oppose the reform and often relies of "reformmongering" approaches, as will be summarized in chapter 2 (Hirschman 1963a). Additionally, top politicians, such as prime ministers, may push through reforms that lack consensus among members of parliament or public by relying on non-democratic intraparty politics (Greskovits 2001). These reform approaches usually lead to substantial reforms retrenching the welfare state.

Overall, this framework emphasizes the decisive role of party politics for welfare state outcomes, but develops multiple mechanisms that describe how the characteristics of the government shape the given outcome. By conditioning the mechanisms and the outcomes on the degree of the coherence of the governments, the framework allows a more precise specification of when to expect partisan politics theories to apply and when we need new theories to understand the influence of parties on welfare state outcomes. Therefore the influence of party politics on welfare state goes beyond the impact of partisan coloring and suggests that the interaction of parties and the patterns of coalition formation have a significant influence of patterns of reform and continuity in welfare states.

1.5. Why East Central European welfare states?

There are several reasons why the postcommunist ECE welfare state context is a particularly productive one for developing a theory of the politics of welfare state change and continuity. First, the (re)formation of these welfare states was condensed into a relatively short period of time given the context of radical change of the entire economic and political systems. This gives an opportunity for a researcher to observe the welfare state 'in the making'. Compared to approaches that trace changes over multiple decades, the condensed time frame for political action makes it easier to capture the interaction of relevant political actors and the logic of change. Also by taking cases that did not have strong pre-existing institutional complementarity, we can test whether or not mechanisms to enforce a consistent logic across policy areas exist. Second, although postcommunist countries, like their advanced industrial counterparts, experienced strong pressure for austerity, there is diversity in the plausible directions of reform paths taken and austerity cannot be assumed to be the 'only game in town'. The study of the ECE postcommunist welfare states informs a theoretical framework that can explain radical restructuring of the tools of social policy, as well as austerity measures, while the 'new politics of the welfare state' literature focuses primarily on explaining austerity.

Finally, given that I set out to test the influence of characteristics of political party interaction, government formation, and features of governments, I must consider empirical cases with significant diversity in the logic of government formation and the types of governments formed. The country cases analyzed in this dissertation represent diversity in the party cleavage structures and have significant variance in the governments and governing coalitions that were formed (i.e. many different coalitions formed over time). While there are obviously some drawbacks in studying party systems that are less consolidated and predictable (due to difficulty in measurement of parties' positions and coherence), I contend that studying these party systems 'as they are' rather than waiting for them to consolidate, produces greater variance on the study independent variable, government coherence. Further, party politics even in advanced democracies has the potential to surprise experts as well-established party systems change dramatically with new parties emerging and new types of coalitions forming. Therefore the study of less consolidated party systems may offer insights for understanding significant changes to established party systems.

Although the study of ECE welfare states offers a unique opportunity to investigate the politics of welfare state reform, one point that must be kept in mind is that the list of actors likely to influence welfare state reforms is somewhat different. On the one hand, traditional social actors have had less influence, which makes political parties (almost) the exclusive domestic actor, in contrast to other welfare state analyses (cf. Häusermann 2010) that incorporate much more complex constellations of actors. Compared to their Western European counterparts, in ECE countries, we observe a relative weakness of social actors, such as labor unions and employers organizations (Standing 1997; Ost 2000; Crowley and Ost 2001; Mailand and Due 2004). Where labor unions appear influential, their voice and impact is generally filtered through interaction with a political party, eliminating the possibility for independent positions and influence, especially after the initial years of transition. On the other hand, new international actors, including international organizations and transnational corporations, have potentially important roles that they did not have in welfare state formation in advanced industrial economies. This is primarily because the (re)formation of the postcommunist welfare states took place in the 1990s and 2000s in a new era of globalization with transnational actors having greater potential influence, especially because of the export-oriented, foreign direct investment-led model of development adopted by these countries.

1.6. Measurement and methodological approach

In this section, I clarify the measurement of central concepts of the dissertation and briefly summarize the methodological approach.

1.6.1. Dependent variable – welfare state policies

Like many other sets of literature, the welfare state literature suffers from a so-called "dependent variable problem," which stems from a lack of clarity of what is being measured when we discuss 'the welfare state' and can create problems when different theories of welfare states are juxtaposed (Green-Pedersen 2004; Clasen and Siegel 2007). For this reason, I clarify here how I define and measure welfare state change. The dependent variable in this project measures changes in *welfare state policies* (i.e. outputs, such as entitlement requirements, benefit levels or durations), not welfare state outcomes (such as inequality, employment levels, or welfare state expenditure). Outcomes also depend on many other factors beyond the potential control of political actors. The potential connection between party politics and welfare state policies can be observed more directly with fewer intervening variables.

For detecting reform, I rely on similar indicators as Allan and Scruggs (2004) and Vis (2010) who all measure welfare state change based on replacement rate data (rather than social expenditure). However, these analyses do not capture passive measures. Therefore while developing indicators similar to Scruggs' (2004) Comparative Welfare Entitlements dataset, I also add measures to capture passive change as replacement rates alone cannot capture the inconspicuous tools for adjusting welfare benefit generosity, which have been pervasively common as my empirical work will show. Further, my conceptualization of 'reform' is what Hall (1993) refers to as first and second order changes, meaning adjustments to the settings of social policy instruments and types of instruments used (as in the case of pension privatization and introduction of new family or unemployment benefit systems).[2] I add a "0^{th} order change" to accommodate the central importance of capturing passive measures in this research. Welfare state continuity is defined as the absence of reform or passive change. Specific definitions of change are provided at the beginning of each empirical chapter.

As a clarification, throughout the dissertation, I speak of welfare change as if there are only two directions: increasing or decreasing generosity. Of course, the policy areas are more complex and alternative structural arrangements (such as privatization and activation policies) may not clearly fit in this framework. For example, I connect pension privatization with retrenchment as it aims to reduce the state's role in the pension system.

1.6.2. Coding government coherence

The unit of analysis for this research is a government term, which begins at the point of government formation after the election or when the constellation of parties in the governing coalition is changed without an election and ends when a new government is formed.[3] Therefore the number of cases in this study (i.e. number of governments observed across the four countries) is fourty-seven (see list of governments in Appendix 1). In the

[2] I have collapsed second and third order change, as I claim that it is empirically difficult to distinguish between a change in goal or a new instrument. Most likely, few, if any of the changes studied in this dissertation are paradigmatic third order change, but the decision of whether the reforms summarized are truly paradigmatic is a subjective one, in my opinion, and not essential for the aims of this research project.

[3] Unlike much of the coalition formation literature (Budge and Keman 1993), I do not consider a change in the prime minister as a change in government due to the very high degree of party discipline observed in the countries studied.

process of studying the features of the ECE governments, I attempted to calculate measures of government coherence based on expert survey, manifesto, and social survey data, but all attempts at measuring coherence either deviated too strongly from my conceptualization (including inter- and intra-party differences) or lacked sufficient data for calculating such measures over time and in all countries. For this reason, I rely on a binary, researcher-coded variable to distinguish coherent and non-coherent governments. The decision of how to code a government is based on the parties' positions *prior to government formation*, which is informed by the parties' electoral campaigns, their manifestos, and the negotiations between the parties before coalition formation. My coding decisions were informed by measures based on comparative manifesto data (Klingemann et al. 2006), but the coding was adjusted based on assessment of the governments from the party politics literature. A government was coded as non-coherent if at least one of the following conditions were met:

1. The coalition includes parties from different ends of the socio-economic left-right dimension (i.e. grand coalitions).
2. The campaigns of the parties included clear policy proposals in the opposite directions.
3. Within one of the parties in the government, factions exist with clearly different policy aims (for this analysis, only the postcommunist parties in Hungary and Poland).
4. The government was a minority government (for a clarification of why, see Appendix 1).

A description of how the coding was decided for each government is provided in Appendix 1, which also includes a table summarizing the governments and their characteristics.

1.6.3. Comparative case studies

Explaining the patterns of reform and continuity in welfare state policies surely involves "multiple conjunctural causation" (Ragin 1987) and attempting to identifying a single causal factor behind reforms in any comparative historical analysis requires oversimplification to the point of futility (Hall 2003). Therefore, rather than claiming that only domestic political factors matter for explaining welfare state change, my goal is to investigate the role of party politics as a neglected area in the literature and investigate how it may interact with other explanatory factors, which I summarize as a set of pressures for reform and pressures for continuity. This complex causality is the primary motivating force behind the use of comparative case studies as the core methodological approach to test the mechanisms in the explanatory framework, as these allow the consideration of these factors in the analysis of the influence of party politics. By tracing the processes leading to reform, passive change, or continuity, I aim to dissect complex processes in order to decipher patterns and extract generalizable findings related to welfare state politics.

The ability to compare governments within a country over time can be a useful tool for studying the effects of party politics on welfare state reform, as many structural and institutional factors are held constant, but the characteristics of the government changes. I am able to control for many static factors, such as the institutional context that interact with the primary political explanations for welfare state reform and continuity. However, the cross-country comparison is also important to ensure greater generalizability of findings by including greater diversity in the types of governments formed and welfare state outcomes.

1.6.4. Case selection

Given that in the most comprehensive typology of the forms of capitalism in ECE, the Czech Republic, Hungary, Poland, and Slovakia are grouped together based on many similarities in their historical and political economic developments (Bohle and Greskovits 2007a; 2012), the choice of these countries allows me to control for many factors that may affect welfare state development, such as Communist past (Cook 2007), geopolitical position and membership in international organizations (most importantly, the European Union), proportional representation electoral system[4] (Iversen and Soskice 2006), approximate size of the welfare state according to social spending data, and more generally the economic situation before and during the postcommunist transition. Recognizing that the empirical world is too complex to neatly fit the requirements of a scientific experiment, I also acknowledge important differences between these countries and highlight them in the case studies when I believe that the differences impact the relationships explored. For example, although these countries share a Communist past as former members of the Soviet Bloc, there were important differences in the previous Communist regimes (Kornai 1992), especially in the later years of the Communist regime when significant political and economic reforms occurred in Hungary and Poland. Also, the influences of international actors may vary across countries, especially due to very different levels and types of debt inherited from the previous regime (highest in Hungary, then Poland). Given the differences, the cross country *and* over time comparison allows greater confidence in the findings, as some factors that cannot be controlled across countries may be controlled when studying a single country over time.

[4] Hungary has a mixed electoral system by which some members of parliaments (MPs) are elected as representatives of geographical constituencies and other MPs are elected through a party list. For this reason, the Hungarian electoral system has a lower degree of proportionality than the other three systems and this will be addressed when relevant.

Additionally, the policy areas considered – pension, family, and unemployment policy – were chosen to enable the investigation of politics of reform and continuity with varying types of pressures. Pension reform in ECE received the highest degree of external pressure due to higher expenditure relative to other benefit schemes and due to international pressure for pension privatization. Also, there were significant organized interests on all sides of the reform proposal. Family and parental benefits in many ECE countries are extremely generous by international standards and maintain high levels of social support, but there was lower external pressure in this policy area as total expenditure on family benefits is still low compared to pensions. Unemployment insurance is a policy area with the least organized interests supporting the scheme, due to the weakness of labor and the disenfranchisement of the unemployed. However, given that unemployment represented a new social risk in transition, unemployment benefits were also politically contentious. By researching across policy areas and considering the variety of pressures associated with them, the explanatory framework achieves a higher level of generalizability than studies of single policy areas.

1.7. Summary of the contribution

The contributions of the dissertation are the following. First, in agreement with the claim that transformative change may be overlooked because of underdeveloped theories and measures for institutional change (Hinrichs and Kangas 2003; Streeck and Thelen 2005; Streeck 2009; Mahoney and Thelen 2010), I develop new indicators for capturing the least visible changes in welfare state policy. I specify an essential political tool in welfare state reform in an era of "permanent austerity" (Pierson 1998), specifically '***passive austerity***,' which is defined as cutting welfare state spending and benefits by changes to indexation rules, allowing the real value of benefits to erode over time, and other subtle changes that produce austerity without major reform. These less visible measures prove to be a critical tool in balancing pressures for reform and continuity in ECE welfare states. Evidence suggests that passive austerity measures are actually used to meet the goal of austerity while achieving "blame avoidance" (Weaver 1986) in many other countries as well. Further, I find some evidence of the use of passive generosity (i.e. less visible increases to benefit generosity) when pressure for austerity was high, but the government quietly signaled welfare state generosity to the voting public.

Secondly, I develop a framework that brings political agency back into focus as the decisive mediator balancing diverse pressures resulting from global economic competition, international actors, historical legacies, and entrenched interests. I aim to show how party competition and patterns of coalition formation are central in understanding the likelihood of reform or continuity. By investigating the potential influence of political agency beyond a simple left-wing or right-wing government model, I incorporate a new characteristic of governments, their ***socio-economic ideological coherence***, into the framework for explaining institutional change and continuity. This offers a new lens for studying the influence of political agency and its interaction with the conflicting pressures outlined above. The effects of the characteristics of governments on policy reform also have implications beyond the field of welfare state policy to a broader study of the policy efficiency of governments.

Finally, based on this refined model summarizing the influence of political agency, I reassess the utility and nature of theoretical typologies of welfare capitalism. While welfare state typologies have enhanced our theoretical understanding of the differences between models of welfare capitalism (Gøsta Esping-Andersen 1990; Ferrera 1996; Hall and Soskice 2001), they have also been strongly criticized for oversimplifying or misrepresenting empirical cases (cf. Kangas 1994; Kasza 2002). The framework for explaining continuity and change offers insight into the conditions under which one should expect consistent logics across policy areas and when that expectation is rather unrealistic. By closely examining the reform paths across three different policy areas, I am able to also contribute to the analysis of ECE welfare state typologies, which has been raised in the literature (Manning 2004; Rhodes and Keune 2006; Orenstein and Haas 2005; Bohle and Greskovits 2007a). Given that my findings suggest that the ability to reform varied substantially across different policy areas and that the reforms in different policy areas were carried out by governments with different characteristics, we observe welfare state reformation where different logics (or "worlds of welfare capitalism," Gøsta Esping-Andersen 1990) are at work across different policy areas, producing these ***patchwork welfare states***. The mechanisms outlined in the theoretical framework and the piecemeal reforms that result explain why the literature has so much difficulty in placing ECE welfare states in typologies, which is again likely a problem that is not unique to ECE.

This dissertation therefore goes into the intricate details of welfare state change without classifying the welfare regimes and tries to understand different instances of reform or continuity without labeling the welfare states as specific types. In the process of doing so, moving away from the focus on welfare state typologies proved to be the most effective method for understanding why ECE welfare state do not fit nicely into existing (or new) typologies.

1.8. *Structure of dissertation*

The remaining chapters of the dissertation will be structured as follows. In chapter 2, I further develop the explanatory framework of the dissertation by engaging more deeply with the literature on the politics of the welfare state and the political economy of policy reform. The following three chapters provide a detailed review of the degree and type of change in three areas of welfare policy (old-age pensions in chapter 3, family and parental benefits in chapter 4, and unemployment insurance and non-employment benefits in chapter 5) and test the ability of the proposed explanatory framework to explain the type of welfare state change (reform, passive change, or continuity). Chapter 6 assesses the findings across the policy areas and illuminates the consequences for the resulting welfare states in ECE and for theories of welfare state typologies more generally. Finally, chapter 7 concludes by highlighting the contributions of the dissertation and its limitations.

2. A framework for how party politics shapes welfare state change: Conditioning on government coherence

In this chapter, I develop a framework for explaining how domestic political agency shapes welfare state reform and continuity. Within the broad debate about the relative influence of history, institutions, globalization, and politics on the resulting structure of political economic systems, I emphasize the centrality of party politics as forum for mediation of the various pressures. Although all of the pressures are influential, I claim that a theory to explain welfare state policies that ignores the central importance of domestic political agency and party politics, which has been common in ECE welfare state literature, faces serious limitations in its explanatory power. Further, in an attempt to move beyond a broad claim that 'politics matters,' the following analysis clarifies the mechanisms through which domestic politics shapes welfare state reform and continuity. This framework builds on the rich literature of the politics of the welfare state based on the study of advanced economies, but seeks to develop a more general model that may also apply to less commonly studied welfare states, such as the ECE welfare states considered in this dissertation.

The argument is that, first and foremost, patterns of reform and continuity are conditioned on the degree of socio-economic ideological coherence of governments. Whereas partisan effects (of left-wing expansion and right-wing retrenchment) are expected under the condition of coherent governments, the politics of welfare state reform under non-coherent governments is fundamentally different. For governments without a coherent socio-economic perspective, I outline three plausible welfare policy outcomes: (1) policy continuity as the result of failed or stalled reform attempts, (2) passive change (inconspicuous changes in benefit generosity without major reform to benefit structure), or (3) policy takeover by reformists (i.e. technocrats) that tactically achieve reform consensus despite divergent preferences within the government (sometimes by subverting the usual democratic policy process). After presenting the proposed explanatory framework, I consider its consequences for the study of welfare state typologies and regimes, a predominant approach in comparative welfare state research.

2.1. Pressures for reform and continuity

Both in the broader debates in comparative political economy and the literature specifically on ECE welfare states, there is contention about the relative influence of historical legacies and institutions forcing continuity, globalization and international forces driving change, and political agency at the nation-state level. In the presence of conflicting pressures, I argue that party politics and features of the governments shape patterns of reform and continuity. More specifically, the coherence of governments (which depends on nature of party systems, specific electoral outcomes, and coalition formation patterns) has a significant influence on policy outcomes, as governments mediate pressures for austerity to enhance competition in the globalized economy and for benefit maintenance or welfare state expansion from the voting public or entrenched interest groups. As the case studies in this dissertation demonstrate, political actors have surprising room for maneuver amidst the various pressures, as they influence when and how to respond to the existing pressures. So although influential, the pressures alone prove insufficient for explaining policy reform and continuity without bringing political agency in. Below I summarize the pressures that undeniably influence welfare state outcomes before developing a framework to understanding how political agency mediates these influences.

2.1.1. Forces of globalization and international actors: Limiting political choice?

The notion that globalization restricts the options of domestic politicians is prevalent in public discourse (related to the 'race to the bottom' argument) and academic research (Tilly 1995; Strange 1996; Cerny 1999; Garrett and Mitchell 2001). The reality of being an open, market economy (especially a small dependent one) in an increasingly globalized context may suggest that domestic political actors have extremely limited options for socio-economic policy as they experience external pressure to lower social spending and privatize welfare. The presence of 'permanent austerity' is blamed partially on the forces of the global economy.[5] However, the relationship between globalization and the importance of domestic politics is by no means straightforward (see Kahler 1992; Rodrik 1997; Garrett 1998; L. Mosley 2000; Schwartz 2001; L. Mosley 2005). In contrast to the 'race to the bottom' logic, increased economic internationalization has been presented as a motivation for providing greater social protection at the national level as a counterbalance to increased risk and uncertainty, effectively "embedding liberalism" (Polanyi 1944; Katzenstein 1985; see also Rodrik 1997; Garrett 1998). These theories suggest an important role of domestic political agency despite (or because of) overwhelming global economic pressures.

[5] Pierson (1998) also blames the growth of the service sector, maturation of commitments, and the aging populations.

Turning to the ECE countries more specifically, engagement with the globalized economy in the postcommunist ECE welfare state context reinforces pressures to reduce social spending in order to encourage global competitiveness (Bohle and Greskovits 2012, 18), to meet entry requirements of the EU or EMU (Rhodes and Keune 2006), and to develop a more liberal model of welfare policy, as promoted by the World Bank, USAID, or IMF (Orenstein and Haas 2005). According to some accounts (Standing 1996; Wagener 2002; Müller 1999; Orenstein and Haas 2005), which primarily study pension privatization, the pressures for austerity produce dramatic change in ECE welfare states. While the pressure for austerity was/is certainly tangible, domestic political actors had significant room for maneuver and, I argue, essentially shaped the policy outcome. At the very least, even international actors must "find champions within the domestic political elite" for their ideas to have an influence (O'Dwyer and Kovalčík 2007, 6). Going beyond that, I claim that the influence of political parties and governments was much stronger, as they even opted for maintenance or expansion of benefits to protect their citizens from the hardships of transition or found their own reform path. The power of the forces of austerity only becomes evident under specific domestic political conditions, such as the formation of a coherent right-wing government or the dominance of technocrats within a government, which will be outlined in the framework presented below. This suggests that the strength of pressure for austerity may be significantly magnified or mitigated when filtered through a political lens.

As a case in point, the influence of the World Bank and USAID was most visible in the partial privatization of pension systems, which is the chosen case study of most of the literature observing dramatic change in ECE welfare states and the most likely case for external influence. However, even in these instances, "there is little in either reform story to indicate that the World Bank dictated, or even strongly influenced, the specific choices and design details that emerged from the process of analysis and political negotiations" (J. Nelson 2001, 245). The influence of the World Bank was via "persuasion rather than conditionality" (ibid.), implying that the mechanism through which the World Bank influenced policy outcomes was by training and/or supporting *reformers* (i.e. technocrats) that fought for privatizing and austere reforms even when many other on the political scene opposed them. Indeed we observe the rise of power of politicians sympathetic to the neoliberal reform agenda in the mid-1990s, but the ability of these technocrats to influence reform outcomes depended heavily on which government was in power. Further the influence of the World Bank does not explain the *timing* of the reforms well, which were debated across multiple governments and proposals were often stalled, rejected, or significantly revised before being passed, and the many cases of *non-reform* (i.e. continuity) despite the existence of these pressures, as will be explored further in chapter 3.

The potential impact of the EU was multifaceted, but its actual impact was minimal or at least less clear (Guillen and Palier 2004; Szczerbiak and Bil 2009). The primary role of EU influence was in pressuring for lower government spending as a condition for EU or EMU membership and encouraging gender equality in policy, while concerns about other social issues or welfare policies (or being a member of 'Social Europe') were mostly rhetorical. The mechanisms for softer influences through the open-method of coordination or policy learning work by persuading domestic political actors of policy approaches. These would be expected to be most effective among policymakers who are already predisposed to those perspectives. Therefore I expect the EU's soft influence to reinforce existing political perspectives rather than having independent effects.

So the postcommunist countries faced real fiscal restraints and pressure from the World Bank to adopt neoliberal approaches to welfare, but the actions of the domestic political actors suggest that they still had significant "room to move" (L. Mosley 2000). In fact, competition in the global economy may have given greater political incentive to offer social protection to the public facing new risks. Thus, economic liberalization did not necessarily imply movement towards a liberal welfare state, as political stability was achieved by " 'embedding' neoliberalism in protective welfare regimes" (Bohle and Greskovits 2007b, 110).

2.1.2. Historical legacies and institutional stickiness: Limiting political choice?

A path dependent understanding of welfare state development offers an alternative perspective on the limits of political agency. Factors such as historical legacies, social contracts, entrenched interests, or institutional veto points may limit the options for political actors by restricting the possibility of change. Despite forces of globalization or domestic factors, such as an aging population, some research suggests that welfare states largely reproduce the status quo (Pierson 1998; Huber and Stephens 2001). The 'new politics of the welfare state' suggests that change in the era of permanent austerity is difficult to achieve because it is socially unpopular (Pierson 1996; 2001). Similarly some research on ECE welfare states detect surprising continuity in social policy (tracing back to the pre-Communist era) despite radical change in other dimensions of the political and economic systems and suggest that developments are path dependent or at least strongly historically contingent

(Inglot 2008; Tomka 2004; Brown 2005; Cerami 2006). The observed historical continuity of the welfare states suggests that there was also *pressure for continuity*, which may result from entrenched interest groups defending the beneficiaries of the status quo (Schwartz 2001, 31; Orenstein 2008b), institutional veto points that made reform more difficult, such as constitutional courts (Immergut 1992; Tsebelis 2002), and the expectations of the electorate to maintain past forms of social security (Bohle and Greskovits 2009b; Roberts 2009). The historical continuity argument correctly identifies continuation of the overarching social policy paradigms (Hall 1993) despite dramatic political and economic changes, but underestimates important changes in the social policy instruments, as well as benefit levels and structures, which had great consequences for the well-being of the societies and were of high political relevance. It is insufficient to have theories that predict only continuity, especially when change is already detected and in some cases even quite visible. Therefore ECE welfare states rather exhibit the more "open" form of path dependence described by Ebbinghaus (2009). Explaining the nature and timing of path departure in these cases is a critical gap that this research hopes to address.

More recently, extremely thorough and rich arguments have been made demonstrating the presence of profound, but historically contingent, change in political economic systems whose static nature had been overemphasized (Thelen 2003; Streeck and Thelen 2005; Streeck 2009; Mahoney and Thelen 2010). These theories suggest that change may be incremental, but nonetheless transformative. Therefore, in my own explanatory framework of welfare state reform and continuity, I claim that path departure may occur through critical junctures producing major reforms or alternative forms of change, such as "functional transformation" (Thelen 2003). For example, passive austerity may essentially change the effect of a benefit over time through the adaptation of maximum benefit levels (i.e. a shift from income replacement to flat rate benefits) or collapsing importance of a benefit by allowing the erosion of its real value.

While recognizing the influence of historical legacies on welfare state development, I contend that the degree to which they are influential also depends on the way history is framed in political discourse. For example, the Hungarian conservative parties preached the value of the *Hungarian* family benefits that existed during the Communist era; while the Polish and Czechoslovak conservatives in the early 1990s denounced the similar Communist era family policies associating generous family benefits with the previous regime, leading to very different effects of similar histories. The following framework incorporates path dependence by specifying the conditions that are likely to lead to welfare state continuity.

However, I also seek to understand why we observe transformative change or critical junctures at some points in time in some countries, but not in others. Consequently the framework requires further elaboration on when to expect path departure and identifies three types of deviation: major reform, passive change, and technocrat-led reform. Further I claim that path departure is most often a fundamentally political decision.

2.1.3. Governments balancing the pressures

The importance of international factors, fiscal pressures, and historical legacies has been argued thoroughly in the literature summarized in the previous sections. I claim that these factors matter, but are insufficient for explaining patterns of continuity and change, especially the timing of reforms. This is particularly evident when we observe pressures that co-exist with *non-reform* for years. Then when the reform occurs, one may hastily attribute the reform to the pressure, but this is theoretically imprecise. I propose that investigating the *interaction* of domestic political factors with these pressures will significantly enrich our ability to understand patterns of reform and continuity in these policy areas (cf. Frieden and Martin 2002). Therefore I now propose a framework that outlines how features of governments influence patterns of reform and continuity and *what type of change is expected*.

While some claim that welfare politics in ECE was 'depoliticized' based on the consensus for the need for reform (Müller 1999; Orenstein 2000; Guardiancich 2013), which they connect to 'new politics' of Western European welfare states where austerity is claimed to be the only game in town (Pierson 2001), others find that the process was highly politicized with politicians responding to electoral and interest group pressures (Haggard and Kaufman 2008; Roberts 2009) and even using social policy as a tool to promote political stability in a time of potential chaos (Vanhuysse 2006; Bohle and Greskovits 2007b; Kaufman 2007). Given that varying degrees of *both* pressures for reform and pressures for continuity exist(ed) in different policy areas in different countries, I argue that domestic political actors, meaning predominantly political parties in the postcommunist context,[6] mediate between these pressures and are decisive for the degree of reform or stability in each policy area. Importantly for the study of the politics of the welfare state, proposals were suggested for drastic reform for many (if not all) dimensions of social policy in all countries studied. These proposals were debated in parliaments and often were decisive in electoral

[6] For the most part trade unions have had minor influence in ECE social policy (Orenstein 1994; Ost 2000). The strong link between trade unions and political parties can often give the impression that the trade unions are influential. However, as the empirical work of this dissertation suggests, trade unions were mostly incorporated when their positions matched the government's prevailing position, suggesting relatively weak influence overall.

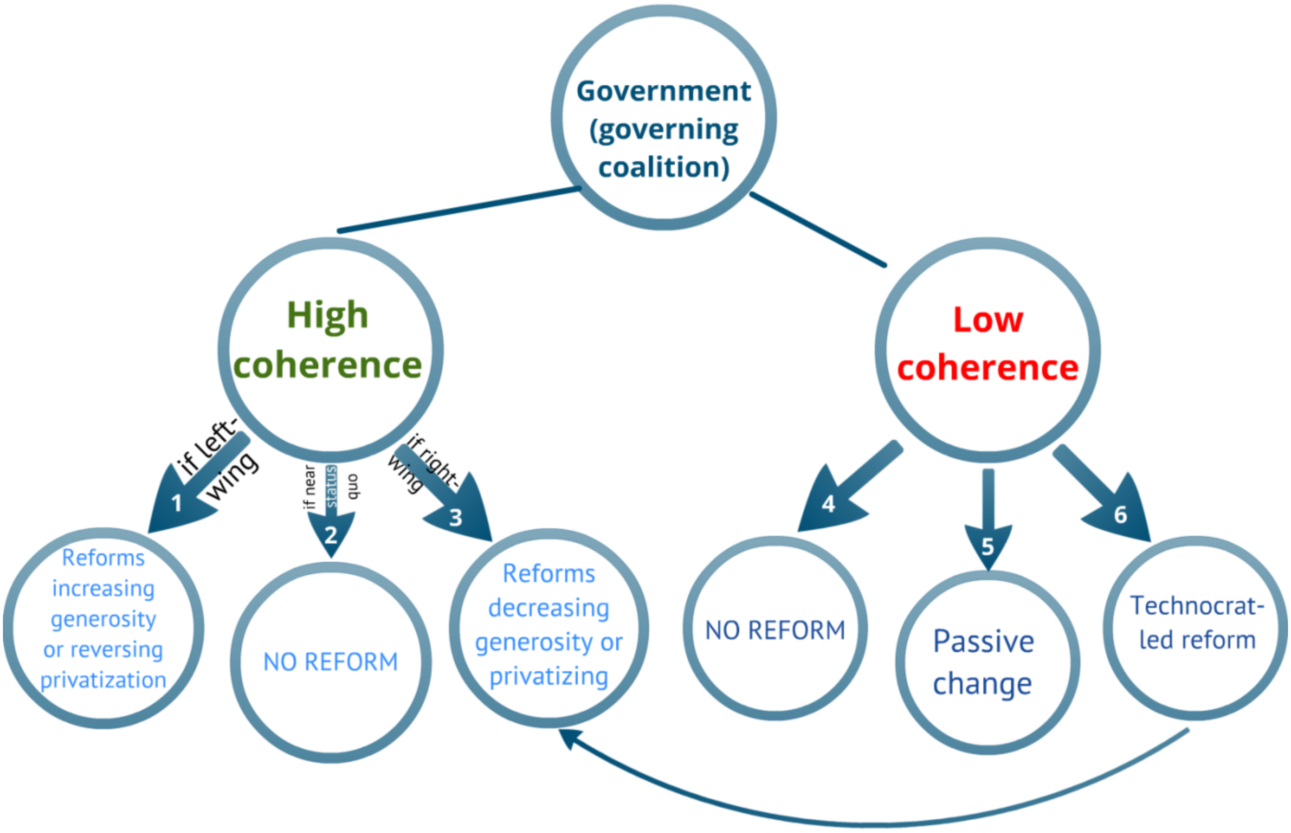
outcomes for political parties. The pressures form the context for reform, but political parties are the mediators and are, therefore, a critical factor for determining the degree of change or continuity in postcommunist welfare states. In other words, pressure for reform is a necessary, but not sufficient, condition for reform; while pressure for consistency is a necessary, but not sufficient, condition for stability. It is political parties and the governments that they form that decide how to respond to the various pressures and consequently determine the degree and type of reform.

I engage with the broader theories about the influence of globalization and historical legacies, but the primary aim is to develop a model to explain continuity and path departure in ECE welfare states, which I claim requires a central focus on political agency. With the findings of this dissertation demonstrating the importance of domestic political actors, I contribute additional evidence to support the existing arguments for the central importance of political parties in explaining welfare state change and continuity (to name a few: Korpi 1983; Kitschelt 2001; Green-Pedersen 2002; Korpi and Palme 2003; Manow 2009; Häusermann 2010; Picot 2012) and demonstrate important commonalities in the causal mechanisms of welfare state change in postcommunist countries and advanced industrial economies, implying that the schism between these two sets of literature is not justified.

2.2. How government attributes shape welfare state reform and continuity

This section summarizes the primary explanatory framework of the dissertation. It builds on existing literature about the relative policy efficiency of coherent governments, partisan welfare state politics, and the political economy of policy reform. The explanatory framework is summarized in Figure 2.1 and the details of each path of the diagram are provided in the subsequent subsections. In essence the argument is that the *political mechanisms determining reform or continuity are conditioned on the coherence of the government*. Generally government coherence facilitates welfare state reform and under the condition of high government coherence, I expect traditional partisan effects with coherent left-wing governments expanding the welfare state (path 1) and right-wing governments retrenching it (path 2). Under governments lacking coherence, their partisan coloring is no longer the most significant factor determining policy outcomes. Reform attempts often stall due to political in-fighting leading to policy continuity as a result of lack of consensus for reform (path 4). However, while there are several instances of governments which failed to reform even when attempts were made, the consistent presence of pressure for austerity implies that some

Figure 2.1: Explanatory schema for welfare state change and continuity conditioned on government coherence



governments seek ways to reduce spending even when unable to pass reforms by using passive austerity (path 5). Similarly, but in the opposite direction, governments that lack coherence, but expect payoffs from higher welfare generosity may use passive expansion (particularly common in the year preceding an election). The final outcome, technocrat-led reform (path 6) is the reaction of a small group of ideologically committed leaders to push through reform despite opposition to the reform or to strategically negotiate consensus for the reform. This may be done by sidestepping the democratic process after failed attempts to use democratic channels or by a caretaker government that seeks major reforms (rather than just keeping the government in operation). This approach would only be expected when the leaders either passionately believe in the need for reform or expect electoral benefits to accrue from it, despite the opposition from within their own ranks. In summary, welfare state change may still occur when government coherence is lacking, but this change is either passive in nature or is the result of reform-minded political leaders who work around rather than through the democratic decision-making institutions.

2.2.1. Government coherence

This section presents the conceptualization of government coherence, positions the use of this concept in the relevant literature, and offers an explanation for why patterns of welfare state reform and continuity are conditioned on it.

2.2.1.1. Defining socio-economic ideological coherence of governments

For the purposes of this research, government coherence refers to *the degree of ideological agreement on socio-economic issues between and within the parties of the government*. As addressed in earlier research, the socio-economic ideological coherence *within* a party may vary significantly across parties and over time (Bowler, Farrell, and Katz 1999; Kitschelt and Smyth 2002). The concept of programmatic cohesiveness of parties, which is defined as "general agreement within a party organization on specific issue positions" (Kitschelt and Smyth 2002, 1229) is extended to apply to coalition governments by looking at the degree of agreement on policy both within and between parties of the coalition, treating intra- and inter-party polarization as functionally equivalent. Given that welfare reform is a policy area that often divides political parties and governments, I argue that more ideological coherence in the government makes it more likely that consensus for policy change will be possible due to less intensive internal debates.

Coherence is based on proximity of attitudes or ideology and implies a higher level of agreement than party discipline, which only requires that representative of the party vote together in the legislature. The latter can be the result of coercive party leadership or coordinated party organization rather than true agreement on policy (Ozbudun 1970; Bowler, Farrell, and Katz 1999; Hazan 2005; Borz 2009). Party discipline measured through roll call voting is high in all four countries throughout the time period studied, but this is more likely a result of the type of party leadership than a symbol of high coherence in policy perspectives (Ágh 1999; Borz 2009), as the "unity of attitudes" is found to be much lower in ECE parties compared with Western European parties (Borz 2009, 7). Therefore, throughout this research, coherence refers to shared ideological perspectives related to policies, which varies across parties and governments, and *not* common voting practices.

Policy coherence could be measured on multiple dimensions, but given the current research focus, I concentrate on coherence of socio-economic policy. Governments that lack socio-economic ideological coherence may do so for different reasons, including the types of parties in the government (Kitschelt 2001; Green-Pedersen 2002; Picot 2012), intra-party disparity (Kitschelt and Smyth 2002), or even specific electoral outcomes that lead to awkward partners with aspiration to govern as their only commonality (Grzymala-Busse 2001). The concept of government coherence is related to the ideological distance between partisan veto players proposed by Tsebelis (2003) who adapted his earlier model (Tsebelis 2002) to a single dimensional issue space: socio-economic left and right. However, Tsebelis does not take into account the ideological coherence of parties. While the model is much simpler without opening the 'black box' of parties, I claim that intra-party disagreements can be as disabling for reform as inter-party ones. So while I apply the logic of the veto player argument, the framework of this dissertation views parties as more than unitary veto players and evaluates the coherence of the government both within and between parties.

2.2.1.2. Determinants of government coherence

Coherent governments may be more likely under certain institutional conditions at the country level, such as low party system polarization (implying less diversity in parties overall), less proportional electoral system that facilitate greater concentration of power, and party systems with stable patterns of coalition formation. However, I claim that government coherence (rather than the institutional characteristics) is the key mechanism influencing the nature of policy reform, in contrast to others who argue that country level factors make reform less likely (Immergut 1992; Guardiancich and Orenstein 2011). Coherent governments can also form in polarized systems and, I claim that the likelihood of reform is just as high in these cases. For example, the Czech Republic is a country with a relatively high number of veto players (upper house, constitutional court, and president), highly proportional electoral system, and a polarized party system. Twenty years of Czech democracy have produced very few coherent governments, but still when a coherent majority government emerged in 2010 it was nevertheless able to pass major reforms. The institutional conditions in the Czech Republic facilitated the prevalence of non-coherent governments, but non-coherence rather than the country-level conditions was the mechanism explaining the lack of reform. Therefore, I claim that coherence at the government-level has greater explanatory power than institutional factors at the country-level.

To understand inter-party government coherence, we must also understand the basis upon which coalitions form. Theories of coalition formation include those that assume that political parties always seek to gain office regardless of the potential coalition partners (Riker 1962; Schofield and Laver 1985) and those that argue that political parties generally seek to gain office, but also have policy-oriented goals (Axelrod 1970; De Swaan 1973; Sened 1996; Laver and Shepsle 1996). While it seems likely that political parties aim to be in government (office-seeking) and in the process of coalition formation they ideally partner with parties that are closest to them in a multidimensional policy space (Grofman 1982), in real-world politics, coalitions do form that are awkward from a policy perspective. Sometimes parties seek office despite the lack of policy proximity in a coalition, which suggests that parties indeed may face a trade-off between office-seeking and policy goals, as suggested by Strom and Müller (1999). Another undeniably important, but also somewhat arbitrary, factor is the precise electoral outcomes. Government formation possibilities vitally depend on whether the precise number of seats of potential government parties add up to a majority or not. A party may be invited to join the coalition because they have the lowest necessary number of seats to form a majority rather than based on policy proximity.

Further, given the multidimensional nature of policy spaces, proximity in one policy area does not imply uniform policy perspectives in other policy areas. For example, coalitions may form based on proximity on views on nationalism or foreign policy perspectives, while the parties forming the coalition diverge more significantly in their views on socio-economic policy. The patterns of coalition formation in postcommunist Central and Eastern Europe were indeed based on multiple logics and often on factors other than economic or welfare policy proximity, such as regime divide or views on nationalism (Grzymala-Busse 2001) or positions on joining the EU. This produced governments with very different degrees of "ideological compactness" (L. Savage 2012, 2). The strong variance in the degree of socio-economic policy coherence across the governments considered in this research provides ample opportunity to test the effect of this variable. Formation of unexpected coalitions has also been observed outside of the ECE region, labeled by Mair as "increasing promiscuity in processes of government formation" (Mair 2001, 26), which suggests that this factor may have an important influence beyond ECE as well.

2.2.1.3. The contention over the effects of government coherence on policy effectiveness

Previous studies have addressed the more general question of when governments are more capable to make significant policy changes and debated whether or not government unity increases policy efficiency. Much research on this topic based on U.S. American politics argued that divided governments[7] are less effective in terms of the amount of legislation passed (Sundquist 1988; 1992; Fiorina 1992; Kelly 1993; Edwards, Barrett, and Peake 1997; Coleman 1999). Mayhew (1991) challenges this claim by making a distinction

[7] In the case of U.S. politics, a unified government refers to a situation when the same political party holds the presidency and has a majority in both houses of Congress. All other governments are divided governments.

between major and other legislation and finds no significant difference between divided and united governments, which was also supported by later research (Jones 2001). This debate about whether divided government reduces efficiency in U.S. politics highlights that the effects of government coherence are not always obvious and warrant broader investigation.

The core concept of unity rather than division translates differently when we move beyond the political system of the United States. The predominance of proportional representation and weak presidential systems[8] in the countries studied (and in much of Europe) requires a reconceptualization of unified and divided governments. Alesina and Rosenthal (1995) propose that coalition government under proportional representation is simply another form of power sharing, like division between the different levels of government. For coalition governments, much research suggests a positive effect of the unity of government on policy efficiency. For example, related to fiscal deficit levels, presence of multiple parties in a ruling coalition leads to a tendency for larger deficits due to “difficulties of political management” (Roubini and Sachs 1989, 903), which was supported by later findings (McCubbins 1991; Alt and Lowry 1994). Similarly, Haggard, Kaufman, and Shugart (2001) argue more coherent governments passed stronger macro-stabilization policies in Hungary in the 1990s. Warwick (1994) found that government duration decreased significantly as the ideological distance between parties of the government increased, even when controlling for institutional (country-level) factors. Tsebelis (2002; 2003) claimed that low “maximum ideological distance between veto players” was a necessary condition for policy reform and high distance between veto players was sufficient for non-reform. My own proposition is that government coherence indeed facilitates major reform by making consensus more easily attainable. Therefore, similar to Tsebelis’ framework, we would expect reform any time a coherent government’s position deviates from the status quo, as will be explored in the next section. However, in the proposed framework, the absence of coherence does not necessarily imply policy stability as Tsebelis suggested, as passive change and technocrat-led reform are still feasible, as will be summarized in section 2.2.3.

2.2.2. Partisan politics under coherent governments [paths 1-3]

The influence of political parties and party competition on welfare state change in advanced industrial economies has been researched extensively and is a source of great

[8] Poland could be considered an exception with a relatively stronger presidency, but significantly weaker than that of the United States. Slovakia and Poland have directly-elected presidents; while in the Czech Republic (until 2012) and Hungary, presidents are elected by the legislature. Poland is the only of the four that requires a qualified majority to override a presidential veto and limited powers to dissolve parliament (only if it cannot approve a budget in four months time or is unable to accept or form a cabinet).

debate (for a thorough review, see Häusermann, Picot, and Geering 2010). The power resource theory argued that more generous welfare state outcomes were the result of stronger representation of the working class via trade unions and left-wing parties over time (Korpi 1983; Gøsta Esping-Andersen 1985). Esping-Andersen (1990) then emphasized the importance of 'political class coalitions,' which explains the diversity of welfare capitalism by the strength of the relationship between social democratic parties and classes, particularly the middle class. Although generally supporting a path dependent understanding of welfare state formation, Huber and Stephens (2001) also argue that the dominance of a specific party (social democratic, Christian democratic, or conservative) over time shaped the nature of welfare states in their formation (but notably do not find partisan politics to be significant in the more recent era of austerity).

The power resource theory aimed to explain the emergence of welfare states in advanced industrial economies, but some argue that it is insufficient for understanding welfare state diversity in the era of retrenchment. For example, Pierson (1996; 2001) argued that the factors explaining welfare state retrenchment were fundamentally different than those of welfare state formation and the importance of partisan effects was diminished in the 'new politics of welfare state'. Rather existing policies, institutions, and vested interests shaped the opportunities for retrenchment, but austerity was the only option regardless of the partisan coloring of the government. This suggests that factors other than politics, such as policy legacies, globalization, macroeconomic or fiscal conditions, international influence, were more important for understanding when and where welfare state retrenchment occurred (Huber and Stephens 2001; Schwartz 2001; Pierson 1998).

However, other findings suggest that partisan politics remain central to the understanding of welfare state change, even in the era of retrenchment, but suggest that we need to reconsider how we measure welfare state policies or which aspects of partisan politics matter. Iversen and Cusack (2000) argue that the structure (in terms of degree of direct government provisions and the equality of the transfer payments) is explained by government partisanship (although its size is influenced by macro-economic factors, specifically the degree of deindustrialization). By measuring welfare state generosity with income replacement rates (rather than studies that investigate changes in social expenditure), Korpi and Palme (2003) and Allan and Scruggs (2004) find that traditional partisan effects are still significant and the era of globalization and permanent austerity do not override the partisan explanations for welfare state change.

Research on welfare state retrenchment demonstrates that partisan effects may not always follow the assumption that left-controlled governments support welfare state and right-controlled governments oppose it. In the era of retrenchment, some findings suggest that the partisan effects are counterintuitive and left-wing parties may actually be best positioned to pass retrenchment reforms as they are trusted to do so only when ‘necessary’ to protect the welfare state’s long-term survival (Ross 2000). Due to issue-association, which positions left-wing parties as the guardians of the welfare state in the mind of the voters, there may be greater opportunities for them to retrench without being punished electorally. By presenting the crisis of the welfare state, left-wing parties may be able to credibly claim that retrenching reforms are designed to be the least painful way to save the struggling welfare state from collapse. This ‘Nixon-goes-to-China’ logic implies that blame avoidance (Weaver 1986) for austerity measures may be more feasible for those parties which are ‘trusted’ as guardians of the welfare state when compared with parties on the right.

Related to ECE welfare states in particular, the notion of power resources seems ill fit to travel to the postcommunist region given the weakness of labor, the uniqueness of left-wing parties in a postcommunist context (often former Communist parties), and the condensed time period under which developments took place.[9] Also, it is questionable how well Ross’ theory of inverse partisan effects can travel to newly-formed democracies where the parties are not as clearly associated with the establishment of the welfare state. Consequently it may not be surprising that research studying partisan effects on ECE welfare states are inconclusive. Some authors detect traditional partisan effects in the postcommunist context (Lipsmeyer 2000; Careja and Emmenegger 2009).[10] However, another study detects inverse partisan effects (Tavits and Letki 2009). Cook, Orenstein, and Rueschemeyer (1999) demonstrate that post-Communist parties can take diverse stances in social policy, including positions that do not seem ‘left’ at all. Therefore uncertainty about partisan effects in ECE welfare states remains. I claim that one major reason for the uncertainty is the prevalence of non-coherent governments, which the authors code as ‘right’ or ‘left’ when neither label is fitting. By definition an ideologically incoherent government cannot have a clear policy position either on the left or the right. Therefore in the proposed framework, I only expect to detect partisan effects under the condition of government coherence, as shown earlier in

[9] Power resources approach originally focused on the “long-term cabinet positions,” meaning the prevalence of left-wing parties in government over decades rather than the actions of each individual government which is the focus of this dissertation (Korpi 2006).
[10] Lipsmeyer (2000) is based on empirical evidence only until 1996, which did not enable much variation in comparing governments and had significantly more ‘right’ governments than ‘left-wing’ ones (Lipsmeyer 2000, 1192).

Figure 2.1. However, under the condition of coherence, I hypothesize traditional partisan effects with coherent left-wing governments generally passing reforms expanding the welfare state and coherent right-wing governments more likely to pursue austerity. With coherent governments, the only condition that should lead to non-reform is if the government's position matches the status quo.

2.2.3. Path dependence and departure under non-coherent governments [paths 4-6]

In governments with low coherence, I expect the determinants of reform and the nature of the change to be fundamentally different than under coherent governments. The divisions within the government may cause reform attempts to stall or may even prevent politicians from pursuing reform that they know would not gain sufficient support. In the framework, as proposed by the veto player arguments (presented in section 2.2.1), the lack of government coherence may lead to policy continuity as governments lack consensus to pass major reform (path 4).

However, this framework differs from a veto player approach, as there are two important exceptions when non-coherent governments may nevertheless produce change. First, there may be "functional transformation" (Thelen 2003) of welfare state benefits even in the absence of reform, which can be detected by broadening the understanding welfare state change to include passive change. Second, stalled reform attempts may motivate technocrats to take over the reform process and use "reformmongering" strategies (Hirschman 1963a) to enable reform by essentially emphasizing fiscal or demographic crises and strategically building acceptance for reform among actors with diverse policy preferences. These strategies are likely either under a caretaker government following government failure or under a non-coherent government when the premier or government leadership delegate extraordinary power to reformists to manage the reform process, as I claim was the case in the Hungarian and the Polish partial pension privatizations (see section 3.2). The sections below summarize the possibilities for change even under non-coherent governments.

2.2.3.1. Passive change [path 5]

There may be significant parallels between the era of permanent austerity in advanced economies and the situation of postcommunist welfare states since 1990 given that "the old regimes left behind overextended social policy budgets that were economically unsustainable," which led to significant pressure for austerity (Inglot 2003, 221). Given these pressures, austerity measures may become widespread, even when the government lacks the coherence to pass significant welfare reform. In these cases, I expect that change will occur through passive austerity. By allowing or choosing a reduction in the real value of social benefits, political actors can reduce the generosity of social benefits (and therefore reduce social spending) with less visibility. This reduced visibility facilitates blame avoidance (Weaver 1988) offering the opportunity to dodge the negative electoral consequences, which was used extensively in ECE (Roberts 2009, 125). Despite its central importance in the politics of welfare reform, the option of passive austerity is rarely studied when investing social policy reform, with Pierson's obfuscation policy approach as an important exception (Pierson 1994, 19).[11] Therefore, I hypothesize that when lack of government coherence inhibits reform, social spending reductions will be achieved through passive austerity measures that reduce the real generosity of welfare benefits without evident reform.[12]

The opposite direction, passive expansion, implies an increase to benefit generosity without major reform. Like passive austerity, this may take the form of altering benefit indexation and adjusting benefit limits, but more commonly may consist of a bonus paid to recipients (for example, 13th month social benefits). The motivation for passive expansion is quite different than passive austerity. Given the general popularity of welfare state benefits in ECE, it is unlikely that a government would want to hide welfare state generosity from the public. However, in the presence of significant international pressure for austerity, governments may use passive expansion to offer the public higher benefits without drawing unwanted international attention to the increased spending as would occur under a more substantial reform expanding welfare generosity. Alternatively, passive expansion measures may be used as populist moves to increase government support, particularly preceding elections. Arguably, the period before elections may also be a time of reduced government coherence even in previously coherent governments, as parties attempt to distinguish themselves from other parties in the government (also perhaps by assigning blame) to attract voter support. Therefore the use of passive generosity before elections supports the argument that these measures are used more frequently when coherence is lower.

[11] For more recent studies of passive austerity in the Swedish welfare state, see Lindbom (2007) and Belfrage and Ryner (2009).

[12] When passive austerity takes the form of allowing the erosion of social benefits, the intentionality of the measure may be questioned. However, I claim that the presence of debates about the indexation of social benefits from the first years of ECE democracy suggests that politicians were well aware of the potential to maintain or erode the real value of benefits (as well as the related fiscal costs and savings, respectively). Nevertheless to address the above concern, I will only label the measures as passive austerity when it occurred for at least two subsequent years, which gives politicians sufficient time to address the issue.

Given the utility of passive austerity to produce fiscal savings and passive expansion to generate greater public support, coherent governments may also decide to apply these measures. However, I claim that coherent governments would pursue them *in addition to* significant reform rather than as a substitute for reform (and it would push benefits in the same direction as the reform). This also means that I expect the direction of the reform and the passive measure to match in the case of a coherent government with right-wing governments pursuing retrenchment reforms in addition to passive austerity and left-wing governments pursuing reform extending the welfare state with passive expansion. Non-coherent governments, however, are expected to make greater use of passive measures in either direction as an alternative to reform that is feasible without strong political consensus.

2.2.3.2. Technocrat-driven 'reformmongering' [path 6]

In contrast to a veto player approach, this framework argues that major reform is possible even when the ideological distance between the relevant actors is high, but it requires tactical consensus-building. The mechanism for reform under non-coherent governments involves engineering reform consensus using reference to the impending fiscal crisis similar to Hirschman's models of reformmongering (Hirschman 1963a). This mechanism is driven by individuals with strong adherence to (neo)liberal economic policy who can have a decisive influence on major policy reforms in ECE and beyond (Haggard and Williamson 1994, 578–582). While initial observation may attribute the presence of neoliberal ideology among ECE politicians to international influences, such as the World Bank, IMF, or USAID, domestic reformers were often predominantly ideologically driven in that they were linked more directly to "broad economics literature on market-based solutions" rather than any pressure or desire to import an external World Bank model (Ivan Miklos interview, cited in Fisher, Gould, and Haughton 2007, 992) and the roots of their neoliberalism far precede the arrival of international advisors in the 1990s (Bockman and Eyal 2002). Of course, the work of these reformers was facilitated by advice and financial resources from these organizations, but the rise of the (neo)liberal reformers (referred to as technocrats) and the timing of their ability to push through their reform proposals was influenced rather by domestic political factors. Technocrats are only effective when the government delegates power to them, which occurred most frequently under non-coherent governments and caretaker governments overseeing deeply fractured parliaments.[13] Their

[13] One notable exception is the second Dzurinda government in Slovakia, which was a rare instance in the Visegrad countries when a right-wing government formed with coherent support for dramatic neoliberal reforms

ability to do so depended on "reformmongering" strategies as outlined below (Hirschman 1963a).

The adaptation of Hirschman's models of reformmongering (Hirschman 1963a; Hirschman 1963b) presented in this section aims to explain how major reform is possible under the condition of a non-coherent government. Hirschman's model was developed to understand how consensus may be reached between 'progressives' (whose ordered preference for outcomes are revolution, reform, then status quo) and 'conservatives' (who prefer the status quo, reform, then revolution) in political economies with the threat of revolution. Reformmongers are advocates who engineer consensus by persuading progressives that the only feasible options are status quo or reform (i.e. revolution in the near future is not likely) and by simultaneously convincing conservatives that the status quo is not an option, but that reform may prevent revolution. While the initial model includes a 'reformmonger' who may even lie to achieve consensus, Hirschman states that such manipulation of information is unnecessary if: (1) progressives accept that there is a relatively low probability of sweeping reform associated with revolution and (2) conservatives perceive the threat of revolution as 'too high'. These two conditions can co-exist, as indeed the same probability of revolution may be unacceptably low for progressives and unacceptably high for conservatives. Therefore, while the pairwise choice between revolution, reform, and status quo would always lead to a deadlock, consensus between actors with different preferences is attainable if both sides agree that reform is preferable based on the current probability of sweeping reform being too low for progressives and too high for conservatives.

Rather than the threat of revolution, in the current context of welfare reform, I claim that the threat of fiscal or demographic crises takes on a similar role.[14] Also the consensus for reform was required only within the government rather than across a broader range of political actors, but given the non-coherence of the government even this consensus was elusive. The neoliberal reformists preferred sweeping reform (i.e. large-scale privatization of welfare); while welfare state advocates resisted any change that would threaten the status quo. The technocrats warned that unreformed welfare states would inevitably lead to major fiscal and social crises. They therefore argued that the status quo was not a realistic option, which was generally convincing given that the pronouncement of impending crisis was

and was likely facilitated by the strong opposition to the earlier Mečiar governments and the resulting pariah status of Slovakia on the international scene. In this instance major reform can be passed under the usual operation of the government and does not require reformmongering strategies.

[14] One important difference is that some progressives in Hirschman's model preferred revolution to reform; whereas I don't think that anyone 'prefers' fiscal crisis. However, some did prefer extremely radical reform to partial reform, but had to compromise on partial reform.

credible. However, given the lack of government coherence, reform efforts stalled, as some within the government advocated sweeping reform and others more minor parametric reforms to the current system.

Consensus for reform was engineered via debate, which closely resembled the logic of Hirschman's model. For example, some technocrats had to accept that sweeping reform, such as disbanding existing benefit systems entirely, was not a feasible political option and began designing more moderate proposals. Politicians whose main priority was the maintenance of current benefits accepted that the status quo was not sustainable in the long run and became open to reform. Consensus was not reached easily, as this was only the beginning of the end of deadlock. The debate was often mediated by 'reformmongers' (who were government premiers, finance ministers, or labor ministers) who held the conviction that timely reform was necessary and were motivated by ideological commitment or expected political gains. Often they resorted to atypical political strategies that were democratically questionable, such as the appointment of a special committee that isolated reformists from their opponents. I claim that these practices went beyond everyday politics and therefore would only be applied for major reform attempts motivated by committed technocrats supported by reformmongers (for example, pension privatization or broad austerity packages with multiple policy areas bundled together). The lack of government coherence was obvious in the process leading up to the reform and the reform was only passed with the help of reformmongering strategies.

When Hirschman's model is expanded to a multidimensional policy space, reformmongers may gain the needed support for a reform through more democratic means such as logrolling, striking deals that rely on compromises across policy areas, or shifting alliances, which implies that reformists construct different coalitions to support reform in different policy areas (Hirschman 1963a, 245–250). Logrolling implies that no subset of the government gets reforms that perfectly match its policy preferences, but they accept suboptimal policy outcomes in some areas in exchange for achieving preferred reforms in other areas (Hirschman 1963b, 286). This is most feasible when the salience of policy issues varies across political parties and may occur also within the governing coalition. For example, the Polish agrarian party did not have strong preferences for family policy and accepted reforms to family policy that it would not have been expected to support in exchange for increased support for agriculture, its high salience issue. Shifting alliances generally means that reformists seek partners who have matching preferences in each policy area and allow the partners to vary across policy areas. In practice, this may reduce political stability as coalition partners for one policy area may strongly oppose the reformists' actions in other policy areas. The probability of reformists using logrolling or shifting alliance likely depends on the nature of the party system. Logrolling would be possible if there are small, issue-specific parties. Shifting alliances would be highly likely under minority governments (Strom 1990; Green-Pedersen 2001), but if a subset of the government passes reforms with an opposition party, this will likely create division in the government and lead to failure.

Another less severe, but related, technique for passing significant reform under low coherence governments is framing the reform as a necessary condition based on some external constraint, such as compliance related to membership in a supranational organization (such as the EU's Maastricht criteria) or conditionality of loans (such as from an IMF bailout). While the external constraints could be framed as limiting the options of domestic political actors, research showing the prevailing lack of compliance with these constraints suggests that the decision to comply with external constraints is ultimately a political decision.[15]

These reformmongering strategies provide mechanisms to explain how reform is possible, though not easy, under non-coherent governments. In contrast to the hypothesis under the condition of government coherence, the likelihood or the direction of the reform does not depend on the partisan position of the government. Actually the implementation of technocratic-led reform is somewhat idiosyncratic in that it depends on the decisions of a few government leaders and may reflect their leadership style, personal motivation, or even personality dynamics between leaders (Greskovits 2001), making it theoretically difficult to predict when reformmongers will emerge. However, the addition of this mechanism to the framework represents a significant improvement in explanatory power in comparison with veto player arguments and, in my opinion, adding Hirschman's models of reformmongering offers a worthwhile gain though it may be "far removed from the neater but perhaps less relevant construction of model-builders" (Nove 1962, 25).

2.3. Explaining the emergence of patchwork welfare states in ECE

The primary focus of this dissertation is explaining instances of reform and continuity in ECE welfare states by comparing the characteristics of governments and the reform

[15] For example, World Bank structural adjustment programs achieve less that 50% compliance (with thorough compliance even lower) even when there are tools for enforcement (P. Mosley, Harrigan, and Toye 1991; Kahler 1992). Another example is that compliance with Maastricht criteria for European Monetary Union membership in the late 1990s was also selectively enforced and allowed "governments to pursue these targets largely at their own discretion" leaving sufficient room for "budgetary gimmickry" (J. D. Savage 2001, 49).

outcomes over time. However, the central claim that the interaction of political parties explains the patterns of change and continuity has important consequences for our understanding of the resulting welfare states formed. Much of welfare state scholarship focuses on studying the types of welfare states formed, or "worlds of welfare capitalism" (Gosta Esping-Andersen 1990). This includes a liberal welfare model, typically characterized by the examples of the UK or USA; a continental welfare model, characterized by those of Germany or Austria; and a social democratic model, illustrated by the cases of Sweden, Norway, or Denmark (for a review of the typologies and reactions to them, see Ebbinghaus 2012). Later research added further categories, including a Southern or Mediterranean type (Ferrera 1996; Bonoli 1997). Other work emphasizes the difficulty and questions the utility of putting welfare states into typologies (Arts and Gelissen 2002; Scruggs and Allan 2006; Bohle 2007; Schubert, Hegelich, and Bazant 2007; Ebbinghaus 2012).

Within the literature on ECE welfare states, there have also been many attempts to place the existing welfare states into typologies, but the findings have been inconsistent. Some studies classify ECE welfare states largely in one category, especially the four Visegrad countries studied in this dissertation (Cerami 2006; Fenger 2007; Castles and Obinger 2008; Aidukaite 2011). However, the label for the category of these welfare states varies, from "bureaucratic state collectivist systems of welfare" (Deacon 1992), Continental European regimes (Aspalter, Jinsoo, and Sojeung 2009), a type approximating the 'European' social model (Drahokoupil and Myant 2011)[16], a mix of liberal and universalist models[17] (Keune 2006), "minimal Bismarckian" (Keune 2008, 97), or "emergency welfare states" (Inglot 2008, 3). While some research suggests that ECE welfare states are hybrid regimes because they don't neatly fit the models developed for Western Europe (Hacker 2009), other in-depth studies of these welfare states have found that "path-departure" has been common, which challenges convergence on any typology (Haggard and Kaufman 2009). The findings of this dissertation support this latter claim that ECE welfare states do not fit neatly into a typology and further illuminates the party politics of reform as an explanation for the observation of diversity.

Studies of the typologies of welfare states make the assumption that welfare states have a predominantly consistent logic, which is related to the argument of institutional complementarity from the varieties of capitalism literature (Hall and Soskice 2001; Amable

[16] This is in contrast to the former Soviet republics, which are classified as "informalized" or "minimal" welfare states. Slovakia after the neoliberal restructuring in 2004-2005 is also considered a minimal welfare state.
[17] But Keune also laments the difficulty of putting these welfare states into pre-existing typologies.

2003; Hancké, Rhodes, and Thatcher 2007). Arguments about institutional complementarity suggest that the process of welfare state formation is expected to produce welfare states that have a predominant logic and even a logic that is consistent with other dimensions of the political economy. This approach lacks an explanation for the mechanism(s) that should enforce convergence on a single logic and is notably apolitical (Bohle and Greskovits 2009a). When studying the politics of welfare state reform and the decisive role of political parties, it is difficult to imagine a mechanism that would enforce convergence on a single welfare state logic *either within a country or across the multiple countries studied*. In fact, there are even mechanisms (logrolling) that suggest that the politics of reform can lead to contrasting logics within one welfare state. Further the theory of disjointed pluralism suggests that the diverse interests of political parties implies that institutions do not necessarily reach an optimal equilibrium, but "embody contradictory purposes, which provide for an ongoing, churning process of institutional development" (Schickler 2001, 267).[18] Therefore, while Esping-Andersen's transformational work identifies important differences in the logic of welfare capitalism across countries whose welfare states formed over decades, it does not offer a mechanism that suggests that welfare states in newly formed democracies or even much older ones should conform to a single logic (for a related argument regarding advanced welfare states, see Scruggs and Allan 2006).

The central argument of this dissertation is that the interaction of political parties is decisive for explaining welfare state reform and continuity. Hence, we should not expect ECE welfare states to form into entities with a consistent logic. Indeed the prospect that ECE welfare states will have a consistent logic appears to me as wholly unrealistic. First, governments prioritize reform in different policy areas producing welfare states with individual policy areas that were shaped by governments with diverse perspectives. Second, in the politics of reform, I find evidence of political bargains between different policy areas (logrolling) where the policy preferences of one political party are met in one policy area while the policy preferences of a different party are met in another. These practices necessarily bring together different logics of welfare capitalism within a single country and mechanisms that would impose convergence of a single approach over time are hard to find. While historical legacies and international influences could suggest pressure towards convergence *between* ECE welfare states, the finding of central importance of party politics in postcommunist welfare state development suggests unique reform paths that in no way

[18] For an argument of how disjointed pluralism characterizes the Polish decentralization reform process, see Kerlin (2005).

enforce the emergence of an effective postcommunist welfare state type, even among the four 'most similar' countries compared in this dissertation. The piecemeal nature of the reforms, the fact that reforms across different policy areas were performed by different types of governments, and the fact that reforms were done and undone means that the resulting welfare state is far from having an internally consistent logic, much less one that can be applied cross-nationally. Therefore I doubt that these are hybrid regimes that just haven't yet converged on their eventual welfare state type; rather I argue that the politics of reform in ECE welfare states prevents the emergence of a welfare state that follows a single logic. Rather, I see my task as explaining the resulting 'patchwork welfare states'[19] that exist in Eastern Central Europe.

[19] Thanks to Bob Hancké for suggesting this term.

3. Pension reform: the domain of coherent governments and technocrats

3.1. Introduction

3.1.1. Relevance of pension policy

The political salience of pension policy is uncontested, as it affects a large number of citizens (who happen to be quite mobilized in most democracies), takes up a significant portion of the budget, involves inter-generational social contracts, and many systems face fiscal crises exacerbated by aging demographics. In the East Central European case studies, like in many other countries, pension politics are highly contentious and multiple pension models are debated juxtaposing differing logics, including inter-generational solidarity, redistribution, individualism, social insurance, old age income maintenance, and even support for financial markets in the case of pension privatization. The reform of ECE pension systems has received significant attention in the literature, in particular reforms that introduced mandatory private pension pillars (Müller 1999; Müller, Ryll, and Wagener 1999; Müller 2003; Orenstein 2000; Orenstein 2008a; Hasselmann 2006; Guardiancich 2013) and as a part of more comparative welfare reforms (Inglot 2008; Roberts 2009). The many governments that did not pass reforms are studied much less frequently, but contrasting reforming and non-reforming governments as will be done in this chapter offers unique insight into pension politics.

In this chapter, I analyze multiple critical dimensions of pension policy. Section 3.2 summarizes the politics behind more substantive reforms, including the introduction of mandatory private pension funds, structural reforms to state pension systems (i.e. introduction of Notional Defined Contribution systems), and changes to the retirement age.[20] Section 3.3 investigates passive pension measures looking at changes in average pension benefits and the politics behind the indexation of pension benefits. Often the existing literature on pension reforms focuses so much attention on pension privatization that important changes to pension indexation are neglected.[21] These changes, however, have also been central in political debates, highly controversial among voters, and had immediate impacts on the well-being of

[20] Change to the PAYG benefit formula, while important, are largely excluded from the analysis due to the difficulty to capture the degree of the reform and to compare across countries.

[21] In this paper, I use the terms pay-as-you-go (PAYG) pension system to refer to a system where current generations finance the pension benefits of current pensioners. Within PAYG pension systems, there are defined benefit systems (DB) and Notional Defined Contribution (NDC) systems. All the countries studied began the transition with PAYG systems with DB that were part of the general state budget. Therefore the study of pension reforms in transition takes this as the starting point.

pensioners. The inclusion of this approach allows a more comprehensive understanding of pension politics and the testing of the framework outlined in chapter 2.

3.1.2. Defining types of pension systems and change

Here I offer a brief introduction to the types of pension systems and associated vocabulary used in this chapter. Unfunded defined benefit pensions systems were established in each of the case study countries from before the transition (for a thorough review of the pension systems from 1919-2004, see Inglot 2008). In these Pay-As-You-Go (PAYG) pension systems, current contributions fund current pension benefits with the principle of inter-generational solidarity promising benefits for future pensioners. Benefit levels depend on a set formula and not on the return on actual investment from contributions. These systems (also common in Western Europe) face challenges when the population ages and a smaller group of workers must contribute to support a larger group of pensioners.

An alternative system is a funded, defined contribution system. In these systems, during the years of employment, the contribution that an individual must make is fixed and goes into an individual account. The eventual benefit depends directly on the contributions made and the potential investment return without any redistribution or special privileges often build into defined benefit systems. The advocates of defined contribution systems also cite the increased incentive to contribute given that participants' future pension directly depends on past contributions (Holzmann, Palmer, and Robalino 2013). These systems can be private (financial defined contribution, FDC) or public, the latter of which is called a notional (or non-financial) defined contribution (NDC) system (Holzmann and Palmer 2006). The transition to a defined contribution system can be costly, as one generation must finance both the current pensioners' benefits and their future pensions. The transition to FDC must be financed somehow or else significant deficits will accumulate (as occurred in Hungary). An alternative is the NDC system that sets up 'notional accounts' for each contributor, which creates a more clearly defined link between contributions and future benefits, but the financing of the pension system remains as a PAYG system. This essentially alters the logic of the PAYG system and removes redistribution and special privileges from the system, but does not alter the financing of current pensions.

In the early 1990s, the World Bank advocated a three pillar pension reform model, which included a minimum pension benefit guaranteed by the state (to combat poverty), mandatory private pension accounts (a FDC system), and voluntary private pension accounts (for a summary of the three pillar pension system, see World Bank 1994). Notably, even when

World Bank advocates were highly involved in pension reform in ECE, none of the countries reduced the first PAYG pillar to a minimum pension benefit and this remained the most significant part of the pension system (in terms of current contributions and of course benefits). For the purposes of this chapter, structural change includes privatization or introduction of a NDC instead of PAYG system. Parametric reform, which is also considered a major reform and is hypothesized to require coherence, includes changes to the retirement age. Passive change refers to changes in benefit levels primarily due to indexation approach.

3.1.3. Summary of the findings of the chapter

This chapter investigates the utility of the explanatory framework proposed in chapter 2 for explaining pension reform and continuity in the Czech Republic, Hungary, Poland, and Slovakia. The findings related to the case studies are the following. First, there are two distinct paths for major restructuring pension reform. Large-scale reform may occur if a coherent government forms whose policy position deviates from the status quo, which explains both the delays and the eventual pension privatization in Slovakia and the Czech Republic. In the absence of a coherent government, pension reform can occur if a committed group of technocrats rise to power *within* a non-coherent government and persist until reform consensus is reached (through more or less transparent means). Technocrats pursue this laborious process for major reform on the basis of their strong ideological commitment. This process of reformmongering was observed with the pension privatization in Hungary and Poland. Second, subsequent reforms to strengthen or weaken the private pension pillar, as well as parametric reforms to the PAYG first pillar, occurred most often under coherent governments. Third, while passive austerity was used pervasively by diverse types of governments, frequently it was the only budget saving alternative for non-coherent governments facing fiscal pressure. Finally, passive generosity was largely a populist tool used before elections by pro-welfare governments, regardless of their degree of coherence.

3.2. PAYG restructuring and introduction of mandatory private pension accounts

In each of the countries studied, policymakers acknowledged the unsustainable nature of the existing PAYG systems due to an ageing population and benefit expenditures that consistently exceeded revenue from contributions. Advisors from international organizations also voiced strong concerns about impending crises in the pension systems. In each country, therefore, there was significant fiscal and external pressure for change. The reactions to this need for reform produced proposals that ranged from parametric changes to the existing PAYG system, restructuring the PAYG system to a NDC system, and introducing mandatory private pension funds. Within each country, there were diverse perspectives on how to resolve the apparent problems.

Mandatory private pension funds (often referred to as the 'second pillar') have been debated extensively in the parliaments in all four countries studied and reform proposals were approved by the parliaments in Hungary (1998), Poland (1997), Slovakia (2003), and a restricted version in the Czech Republic (2012). In Hungary and Poland, the debate about the introduction of the mandatory private pension pillar began in the early 1990s, but the reforms only took place years later. In both cases, the privatization reform proposals were packaged together with changes to the PAYG pension scheme, which were no less controversial. Despite years of delay, the final reform decisions were made in a short period of time and included many ad hoc changes to the earlier proposals, which were often necessary in order to obtain political consensus (Fultz 2002, 2:14). By summarizing the political debate that led up to the passing of the reform, it becomes clear what an important role the coherence of governments played in shaping its nature, even when the influence of international advisors was strong. The lack of coherence not only delayed reforms, but led to significantly less radical privatization than foreseen in the original proposals. When government coherence was lacking, but top politicians and policy makers supported the reform, they took on the role of reformmongers and introduced mandatory private pension pillar using alternative methods compared to the established democratic decision-making procedure. The pressure of international actors (World Bank and IMF) was strongest in highly indebted Hungary and Poland (Müller, Ryll, and Wagener 1999), which can explain why the reform occurred much earlier in these countries than in the Czech Republic and Slovakia. However, the role of international actors has only weak explanatory power for explaining the timing of the reform within each country (i.e. why reforms stalled for years and then passed). Further, in this section, I argue that low coherence of governments limited the scope of the eventual reform.

As an overview of the timing and extent of pension privatization across countries, Figure 3.1 summarizes the contribution rates to the private pension pillar from 1998-2012; while Figure 3.2 shows this rate as a share of total pension contributions (employer and employee) to indicate the degree of pension privatization over time.

Figure 3.1: Mandatory contribution rates to private pension funds, 1998-2012[22]

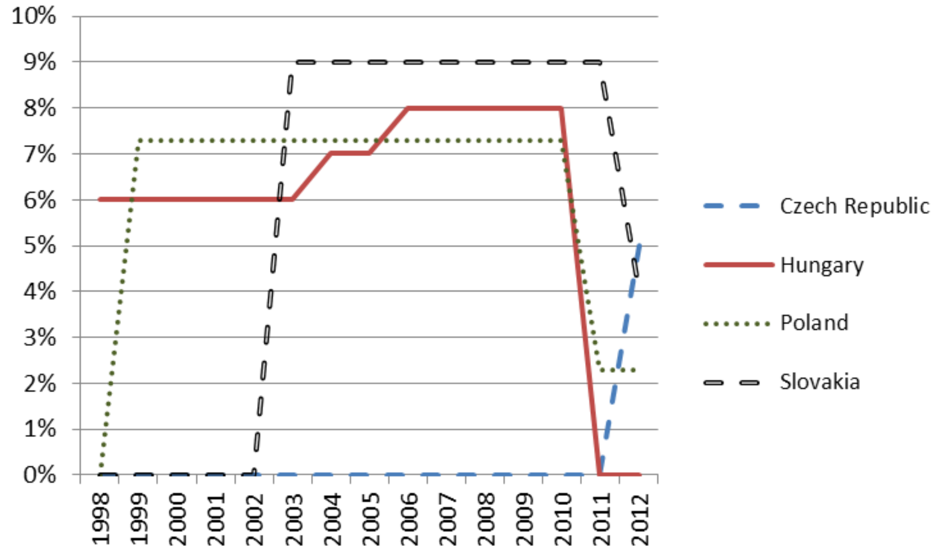
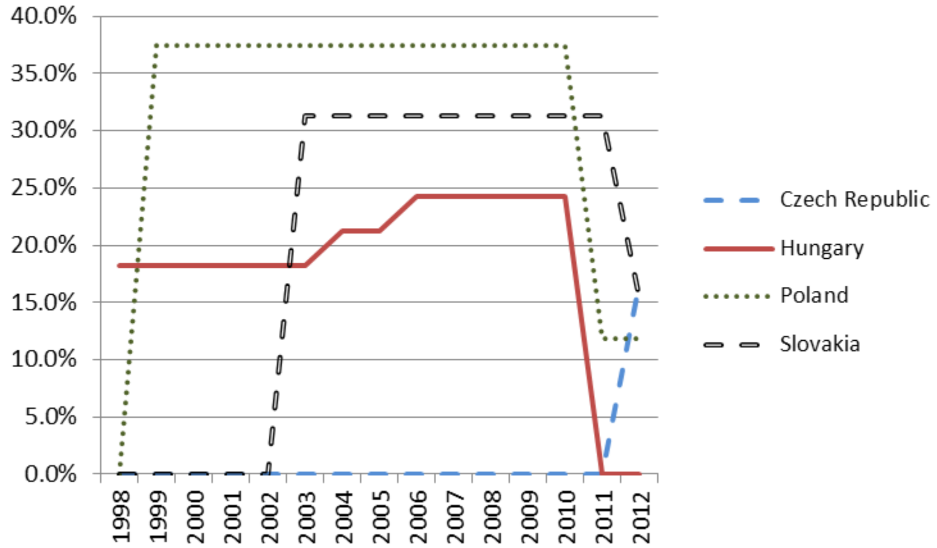


Figure 3.2: Mandatory private pension contributions as a share of total pension contributions, 1998-2012



While fundamental restructuring of the PAYG system was debated in each country, the introduction of a NDC system took place only in Poland in 1999. In the other three cases considered, significant parametric changes to the PAYG pillar, such as increases in the legal retirement age, took place without fundamentally altering the logic of the system. At the beginning of transition, the retirement age in most of the countries was 60 years for men and 55 years for women. Poland was an exception with an *official* retirement age of 65 years for men and 60 for women, but the effective retirement age was much lower (Golinowska 1999, 174). Although it could have brought significant fiscal savings, raising the legal retirement

[22] Prior to 1998, the level was 0% in all countries. In the Czech Republic the 5% contribution rate is only for those who opt into the optional system.

age was highly unpopular and contentious. This section summarizes the debates around the introduction of a NDC system and mandatory private pensions, as well as changes in the retirement age, emphasizing the domestic political actors that were involved in implementing, stalling, or preventing such reforms.

3.2.1. Poland

In Poland, the major pension reforms passed in 1997-1998 are often framed as strong examples of consensus-based reform due to the support of trade unions and even opposition parties (Roberts 2009; Guardiancich 2013). Below I argue that although the reform proceeded with many consultations with trade unions and opposition than in other countries, this was largely due to the lack of coherence within the Democratic Left Alliance (SLD) – Polish Peasants' Party (PSL) governing coalition (and within the SLD party in particular). When 'reformers' in the government faced resistance to reform from within the party and coalition, they turned to the Solidarity trade union and opposition parties for support of pension privatization plans. In this sense, the main drivers of significant change were the top politicians (i.e. reformmongers) fighting incoherent governments that stalled pension reform. Many of these individual politicians advocated the World Bank pension privatization model (World Bank 1994) and/or had professional connections to the World Bank, though notably many reformers proposed pension privatization already before this model was widely publicized by the World Bank (Inglot 2008, 258). The pension privatization gained legitimacy and financing from the World Bank and USAID, but as will be shown below, this did not imply an easy or expedient reform process given the many opponents within and outside of the government. While the World Bank influence may explain the motivation of some specific politicians and technocrats, characteristics of the governments are still vital for explaining how these politicians overcame their adversaries. Below I demonstrate that the reform process was indeed highly contentious and politicized. While the reform preparation phase did include consultation with various political and social actors, the final stages before the reform were characterized by active engagement of those who supported privatization and effective exclusion of those who did not.

The policy reform was debated extensively under more than one governing coalition (from 1991-1998). In 1992, when an initial proposal was put forward to move towards a funded pension system, there was great resistance, which may have been based on Poland's past experience with funded pensions. Since the 1970s, a NDC scheme of individual pension accounts existed within the state pension insurance system, but high inflation in the 1980s and 1990s rapidly depreciated the value of these funds and consequently the scheme was disbanded (Müller 1999a, 98). This experience caused public concern about the insecurity of funded pensions and made the case for moving back to a NDC model or any funded system highly controversial among the voters and some political actors. However, advocates of a neoliberal approach to welfare supported the move towards a mixed PAYG with NDC and mandatory private pension accounts and strongly emphasized that the current system was unsustainable and therefore reform was necessary. These technocrats (including finance ministers) proposed a state-managed NDC system combined with private pension funds as the solution for the problems of the pension system, placing particular emphasis on the benefits of a stronger link between contributions and future pensions as a way of encouraging higher contribution rates. At the same time, pension privatization proposals also had strong opponents among domestic political actors and trade unions who advocated alternative plans, namely significant restructuring of the PAYG pillar or an exclusively NDC system without the mandatory private pillar. So while there was a consensus about the need for major reform, a long and controversial dispute about the type of structural reforms prevailed and any reforms were stalled until 1997-98.

In the midst of 'shock therapy', pension privatization was first advocated by the president of the Social Insurance Institute (ZUS), Wojciech Topinski, in 1991 (Inglot 2008, 258). The rise of pension spending to over 15% of GDP in 1994 increased the pressure for change as the government consisting of the former-Communist Democratic Left Alliance (SLD) and the Peasants' Party (PSL) began governing and led to the more proactive consideration of alternative proposals (Orenstein 2000, 40). Much of the controversy during the SLD-led coalition from 1993-97 was primarily due to conflicting ideas between the economists and the lawyers within SLD, with the former favoring the inclusion of a mandatory private pension pillar and the latter preferring the rationalization of the existing PAYG system (Hausner 2001, 216). The most poignant component of this conflict was between the Ministry of Finance (led by Grzegorz Kolodko) and the Ministry of Labor (led by Leszek Miller), who were both representatives of the SLD party. The former promoted pension privatization and the latter advocated reforming the PAYG system meanwhile increasing the redistributive nature of the system. The lack of ideological cohesion within SLD delayed reform and similar divisions between the Ministry of Finance and Labor persisted even when the individuals in each role changed. The leadership of ZUS who ran the PAYG pension system also opposed pension privatization (Inglot 2008, 259). The minor party in the coalition, PSL, was against pension privatization too, and the disputes within the coalition even led PSL deputies to call for a vote of no confidence of their own government in July 1997 (Hausner 2001, 227).

The privatization only moved forward after some cabinet changes in February 1996 to include more reformists including a change in the Prime Minister to Włodzimierz Cimoszewicz and the Minister of Labor to Andrzej Baczkowski, who was an independent with a background connected to the Solidarity trade union and known to be in favor of pension privatization. Baczkowski's appointment also served to increase the likelihood of support from opposition parties (in particular Solidarity Electoral Alliance, AWS) and the Solidarity trade union for the government's reform proposal[23] (Orenstein 2000, 42). After assuming his role, Baczkowski also proposed and formed a special task force to conduct the pension reform (the Office of the Plenipotentiary for Social Security Reform) to "improve coordination within the government, *render pension reform independent from any ministry*, allow non-governmental experts to be involved in the drafting, and indicate government commitment to fundamental reform" (Orenstein 2008a, 115–116, emphasis added). This task force very intentionally became affiliated with the Prime Minister's office (who supported privatization) rather than the Ministry of Labor (who didn't). This isolated the committee from some of the greatest critics of pension privatization within the government, including the deputies at the Ministry of Labor whom Baczkowski "did not trust but could not dismiss" (Hausner 2001, 218). On the other hand, the task force invited dialogue with many political and social actors outside the government that supported pension privatization, such as the Solidarity trade union, AWS, and advisors from the World Bank/USAID.

This selective inclusion of social actors made the reform appear more inclusive (especially when compared with the reform in Hungary), but the special task force selectively involved actors who supported pension privatization and fell short of the ideal negotiated consensus. Solidarity trade union initially supported pension privatization, but opposed the government's early pension reform plan with the criticism that it did not provide enough resources to cover the transition costs and that the security of workers' pensions would be at risk. Solidarity leaders argued that labor should benefit directly from the privatization of state-owned enterprises and advocated the transfer of revenue from the privatization of state-owned assets as "seed money" into the new individual pension accounts of employees,

[23] The perhaps surprising support of the Solidarity trade union was at least in part a result of the condition that the use of revenues from privatization of state-owned assets were used to finance the transitional costs of the transformation of the pension system.

referred to as empropriation of privatization revenues (Hausner 2001, 224).[24] This proposal was also supported by 90% of voters in a February 1996 referendum (Inglot 2008, 264). Solidarity's support for the government reform only came about once the Office of the Plenipotentiary accepted a (much weakened) version of its empropriation proposal. Policy experts from the Solidarity trade union were also included in drafting the specific technical aspects of the reform. The 'left' trade union, OPZZ (the post-Communist union federation), also initially opposed the reform. However, pension privatization advocates seemed to persuade the OPZZ leadership by offering that trade unions could also form pension funds, which provided a "clear business interest in the reforms" (Orenstein 2008a, 119). Additionally, the influence of OPZZ was hard to differentiate from the governing party SLD itself, as one-third of the SLD members of parliament were affiliated with OPZZ (J. Nelson 2001, 249). So while OPZZ did not generally support pension privatization they did not actively attempt to block the reform in its final stages. Another opponent to the reform was the Social Insurance Institution (ZUS) who ran the PAYG pension pillar. Unlike in Hungary, ZUS was given a role in managing the privatized pillar as well.

Given the opposition to privatization among some politicians in the government, the reform minded members of the government engaged in dialogue with some of the opposition parties who supported pension privatization (Hausner 2001, 216). Therefore, the inclusion of the opposition was actually more likely a result of the limited support for privatization within the government and the high support for privatization in the opposition rather than an indication that Poland has the institutions of a consensus-based democracy. However, the inclusion of the opposition before the reform did indeed lower the likelihood of reform reversal after the government changed in contrast to Hungary (Guardiancich 2011). This reform shows evidence of reformmongering in the absence of government coherence, as the stalled reform moved forward only after a group of technocrats was given greater authority via a separate committee responsible for passing the reform and only needed to engage with actors that supported privatization.

Even the formation of the special committee was not sufficient for passing the structural reforms to the PAYG system. Due to the many delays and the opposing views of actors *within* the governing coalition, the SLD-led coalition was not able to vote on a complete pension reform before the elections in 1997. Under time pressure, the comprehensive reform package was unbundled and the parliament passed the privatization

[24] The details of this negotiation are outside the scope of the current analysis. For a detailed summary, see Hausner (2001, 222–225).

reforms before the 1997 elections, but left the passing of the structural reform of the PAYG system to the next government. Interestingly, by 1997, the introduction of mandatory private pension funds was less controversial than the restructuring of the PAYG system to the NDC structure (Orenstein 2000, 45). The result of the partial pension privatization was that for those members of the labor force who participated in the second pillar (mandatory for all those under age 30 and optional for those ages 30-50), the contributions were divided such that 12.22 percent went to the first pillar and 7.3 percent went to the second pillar (half is paid by employers and half by employees). There is a ceiling for income subject to pension contributions set at 2.5 times the average projected national earnings.

Pension privatization passed under the SLD-PSL coalition, even though PSL opposed it because the agricultural pension system (KRUS) remained untouched by the reforms. This was a substantial exclusion, as the latter makes up over 30% of pension benefits paid (Cichon 1995, 154). Since KRUS was untouched by the reform, PSL was largely indifferent to the pension privatization (Golinowska 1999, 188; J. Nelson 2001, 249). Given very minimal contribution rates into the KRUS system, these pensions are funded through large budget subsidies. Given that a large motivation of the reform was to address the accumulating deficits in the existing PAYG pension system, the exclusion of KRUS from the reforms implies that the radical reform was indeed only partial. Earlier proposals from before the change in government in 1993 included substantial reforms to KRUS, but these were excluded from the final reform bill (Müller 1999a, 107). However, the AWS-led coalition also opted to leave the KRUS system untouched when implementing the major reform of the PAYG system, which suggests that pressure for the continuity of KRUS went beyond PSL's influence (Inglot 2008, 265). This suggests that the protection of farmers' pensions, although costly to the budget, remained politically important for both governments that implemented reforms.

After the elections in September 1997, an opposition coalition formed, the Buzek government, with AWS and Freedom Union (UW), which had much higher coherence and generally continued the reform momentum started by the previous government due to its pre-existing agreement with the proposals. The new coalition continued with the reform plans for implementing NDC accounts within the PAYG system and the reform passed after only minor delays in 1998 (Chlon-Dominczak 2002, 120). Some special (mostly occupational) pension privileges were removed, but still many occupations with organized interests (notably farmers and those in the judicial branch) maintained special benefits, which counters one of the main stated advantages of NDC systems. The NDC accounts were created immediately after the reform in January 1999, though no pensions were paid from them until 2009. These accounts create a stronger link between contributions and future benefits, but are not actual funded accounts as they maintain the PAYG structure (Orenstein 2000, 45). The approach is expected to decrease the value of pension benefits paid out at least in the short run[25], which corresponds to the lower degree of welfare support by the Buzek government. The new government dropped the planned change to the legislated retirement age, which was supposed to be set to 62 for both men and women and left the minimum retirement ages at their previous values (65 for men and 60 for women).[26] Some representatives of AWS, as well as OPZZ and Solidarity trade unions opposed the increase of retirement age for women.

The subsequent SLD-led coalitions (2001-05) and Law and Justice (PiS) governments (2005-07) were incoherent and mostly lacked majority status and consequently did not perform any structural pension reforms, but did significantly manipulate pension indexation as summarized later in this chapter. Raising the minimum retirement age remained highly controversial and an attempt to gradually raise the female retirement age to 65 by the SLD-led coalition in 2004 was eventually dropped (Holzmann and Palmer 2006, 246). The national conservative PiS[27] governments (2005-07) defended the existing retirement ages despite EU pressure to equalize the retirement age between men and women (PNB 2006).

The next major pension reform took place in 2011 when the scope of contributions to the mandatory private pension accounts were reduced during the second term of the coalition between the Civic Platform (PO, which formed as a breakaway party from AWS) and PSL. While there was sufficient opposition to the privatized pension pillar in the junior coalition partner (PSL), opposition (PiS), and among trade unions, the senior coalition party PO generally supported pension privatization. Although Prime Minister Tusk and other PO representatives initially resisted the reform, they eventually agreed that it would be a pragmatic fiscal solution and even framed themselves as pursuing the reform to 'save' the private pillar (Rae 2011). This bears striking similarity to the 'Nixon goes to China' logic when the left-wing parties justified the retrenchment of established welfare states as a commitment to save the welfare state (Ross 2000). Here a right-wing government proposed to 'save' the private pension pillar by decreasing the degree of privatization within the pension

[25] There was, however, no reform to the disability pension system, which means that this system was set to be more generous than the new old-age pension system (Fultz 2002, 2:16). After the NDC reform, this created increased incentive for elderly to go on disability pension before they reach the official retirement age.
[26] In practice, the effective retirement age was much lower due to extensive opportunities for early retirement that were available until 2007 (Fultz 2003, 5).
[27] PiS was founded in 2001 and was a splinter of AWS that merged with the former Christian Democratic party, Centre Agreement (PC).

system. The 2011 Polish reform reduced the mandatory contributions to the private pension pillar from 7.3% to 2.3% of gross wages.[28] The 5% difference was redirected to cover current pension expenses thereby providing some degree of immediate fiscal relief ("Reforming Pension System: Back and Forth" 2011).

The reform to reduce the scale of private pension pillar was proposed by a representative from the minority coalition partner, PSL (Jolanta Fedak) and was exceptionally passed by a non-coherent government, under significant fiscal pressure which was exacerbated by the crisis. The urgency of fiscal savings was magnified by the regulation that in Poland automatic spending cuts take effect if the debt exceeds 55% of GDP. Therefore, although there was division within the coalition, there was also significant fiscal pressure, as the debt level reached 54.9% in 2010 approaching the debt ceiling. Also under extreme fiscal pressure, in 2012, the PO-led government passed an unprecedented (for Poland) increase in the official retirement age from 65 to 67 for men (by 2020) and from 60 to 67 for women (by 2040) (SSA 2002). This reform was highly controversial and mobilized protests organized by the Solidarity trade union ("The Forgotten?" 2013). Although the membership of PSL in the coalition brought about incoherence, PO was able to gain PSL approval by excluding agricultural pensions from reforms (as was done by SLD in 1997). There also may have been a political quid pro quo between the two coalition parties allowing PSL supported reductions in privatization and PO supported increases in the retirement age. Interestingly, despite the ability to push through much more radical reforms, increasing the female retirement age was a highly controversial policy decision in Poland and was not successfully passed until 2012.[29] Governments that faced crisis in the pension system and were able to push through highly controversial reforms were unable or unwilling to increase female retirement age.

3.2.2. Hungary

In Hungary, like in Poland, pension privatization was passed under a government led by a former Communist party and also similar to SLD in Poland, there were major divisions within the Socialist (former Communist) party (MSZP) on pension privatization and therefore within the government. In Poland, after the reform efforts stalled due to the polarization within the main governing party, the reformmongers gained legitimacy by engaging with opposition parties and trade union voices outside of the government that supported

[28] The reform included a plan to increase the contributions to the second pillar to 3.5% by 2017.
[29] However, due to the NDC accounts introduced in the 1998 reform, the pension benefit level is actuarially adjusted with the age of retirement, implying increased pension benefit levels for delayed retirement (Chlon 2000, 59).

privatization. In Hungary, the former Communist party was in coalition with a liberal party which supported pension privatization. As a consequence, after the resignation of ministers with more pro-welfare stances, a more significant liberal faction within the government managed to dominate social policy reforms. In both cases, external support from the World Bank and USAID offered support to reformmongers. In this section, I summarize each government's reforms regarding pension privatization with a particular emphasis on the 1997 reform introducing mandatory private pension accounts and the 2011 reform renationalizing those accounts. The PAYG system has only undergone parametric reforms without any fundamental restructuring.

Hungary's first government under Prime Minister József Antall was a conservative and Christian democratic coalition (MDF, FKGP, KDNP). Although this government introduced voluntary private pension accounts (third pillar) supported by tax incentives, unlike in Poland, there was not significant debate about introducing mandatory private pension funds during this government (Augusztinovics et al. 2002, 32). The Antall government established separate social insurance funds for pensions and health care with popularly elected self-governments, which included trade union representatives. Minor reforms to the PAYG system took place in the early 1990s in an attempt to make the system sustainable given already dramatic increases in pension expenditure (Augusztinovics et al. 2002, 30). An attempt to raise the retirement age was aborted twice after significant opposition among unions and the public (Roberts 2009, 123). Threat of an impending fiscal crisis emerged, but the sudden rise in the number of pensioners was partially countered by the fall in the real value of pensions through ad hoc indexation methods (see section 3.3) without any major reform before the 1994 elections.

The debate over pension privatization began during the Gyula Horn government, a coalition between MSZP and the liberal party (SZDSZ) from 1994-1998. In particular, the Ministry of Finance put forward a proposal for pension privatization, which was backed by the World Bank, after Lajos Bokros was appointed Finance minister in early 1995. Alternative proposals for restructuring the PAYG pillar without pension privatization were prepared by the Ministry of Welfare and the Pension Insurance Fund supervisory board. The former was under the control of the government, but the latter was not and had significant trade union representation. The government faced policy deadlock until early 1996 due to the inability to reconcile the diverse proposals with the main point of contention being the compulsory participation in a private pension pillar. However, a reform was implemented that increased the male retirement age from 60 to 62 by increasing it by one year every other year (to reach 62 by 2001). The female retirement age was increased from 55 to 62 at the same rate (one year every other year) in order to also reach the age of 62 by 2009. During the heated debate about pension privatization, this was one reform that the divided social-liberal government was able to pass.

The conflicts within the government over pension reform followed earlier policy tensions within the socialist-liberal government. Within MSZP, there was significant policy polarization on welfare issues in addition to other economic policies between two factions: the orthodox socialist wing and the reformist wing. The balance of power between these two wings was not resolved before the election or even during the formation of government, although adding SZDSZ into the coalition (which was not required for a majority) gave greater potential to the reformists. The lack of coherence of MSZP and the government is exemplified by the high turnover in the cabinet (11 ministers leaving in two and a half years) mostly due to disagreement with reforms (Marsh and Done 1996). For example, in response to a set of austerity measures affecting public sector wages and family benefits (referred to as the 'Bokros package') in March 1995, the Minister of Welfare (Pál Kovács) and the Minister for National Security (Béla Katona) resigned in protest (BBC 1995a). Later, Finance Minister Lajos Bokros resigned when the government blocked some of the second wave of austere reforms and he saw that his reform plans would not pass (see section 4.2.2 for a more thorough summary of the Bokros reforms). By the time pension reform was even seriously discussed, serious internal divisions resurfaced within the government.

The relatively unified liberal SZDSZ cooperated with the intra-MSZP liberals and gained the upper hand from 1995 on, though not without resistance from those with more pro-welfare perspectives within MSZP. Like in Poland, there was disagreement between the Ministries of Finance and Welfare and very different proposals emerged ranging from a full privatization to only adjustment of the PAYG system. Until early 1996, the reform stalled, but after the resignation of Minister of Finance Lajos Bokros, it was clear that a compromise between the various political actors within the governing coalition must be reached, as markets reacted negatively to signs that liberal reformists within the government were losing power. There was also pressure from the IMF related to loan agreements (Orenstein 2008a, 103). Further the Horn government wanted to implement a reform quickly given the impending elections in 1998 (Orenstein 2000, 32). The pressure of the upcoming elections and the previous experience of failed social pact negotiations in 1994 led the coalition to pass a reform hurriedly without the involvement of other social actors or interest groups.

In order to make the reform politically feasible, it was clear that a fully privatized system (which was advocated by some reformists, but notably not the World Bank advisors) was not possible and that the PAYG system must remain an important part of the future pension system. The negotiations about the details of the reform occurred almost exclusively *within* the government. Peter Medgyessy who took over as Finance Minister after Bokros' resignation convinced the Minister of Welfare, Gyorgy Szabo, to accept a partially privatized pension system provided the reform would also address how to finance the transition (Orenstein 2008a, 103). This began the inter-ministerial working group, supported by the World Bank, which reached compromises to enable the privatizing reform to move forward (but notably excluded the Pension Insurance Fund and its trade union representation who still opposed any mandatory pension pillar). There was division in the MSZP party, while SZDSZ more clearly supported the reform. In order to appease the opponents within MSZP, the degree of privatization in the reform was weakened (leaving a more prominent role for the PAYG system). Some MSZP parliamentarians insisted that the reform proposal must be accepted by the Interest Reconciliation Council (OET), a tripartite body including trade union representation. These negotiations led to more significant compromises than those of the inter-ministerial working group, in particular lower contributions to the second pillar (Orenstein 2008a, 104).

The final version of the reform was worked out by a group of parliamentarians forming the Coalition Parties Working Group on General Government Reform, which consisted of reform-oriented representatives within the government (Orenstein 2008a, 106). After a few years of debate and significant dilution of the reform to obtain sufficient support, pension privatization was passed by the parliament in the summer of 1997 in time before the 1998 elections. The consensus for reform within the governing coalition was reached by reducing the scale of the contributions that would go to the mandatory private pension funds. The structure of the contributions after the reform consisted of a 24% employer contribution, which contributed to the public PAYG system, and a 9% employee contribution, of which 6% (to be increased to 8% in subsequent years) was directed to the private pension account and 1% to the public PAYG system. The employer contribution had no income ceiling, but the employee contribution was capped at two times the expected annual gross wage (Augusztinovics et al. 2002, 39). Unlike in Poland, there were no special measures introduced to finance the transition (except the expectation of increased contribution base due to reform-induced reductions in tax evasion and higher economic growth) and therefore the budget gap in the public pillar was covered by the central budget (and as a consequence accumulating debt). In addition, a guarantee was put in place that a pensioner in the mixed system would get at least 94% of the pension (s)he would have obtained in the fully public pension system. Compared with Poland, in Hungary, the 1998 reform made much less change to the PAYG part of the pensions system, which left the main structure of the defined benefit system unchanged, but adjusted the approach the indexation and the pension benefit formula (Fultz 2002, 2:12).[30]

While in opposition, the conservative party Fidesz actually seemed divided on pension privatization (Orenstein 2008a, 106), but once in government after the 1998 elections, the Orbán government (consisting of Fidesz, MDF, FKGP) expressed clear opposition to pension privatization. It was deemed 'too late' to undo the reform and it is not likely that all Fidesz MPs would have supported that, especially given the popularity of the reform (measured by the surprisingly high number of middle aged people who opted in even without a mandate to do so). The government did manage to weaken the privatized pension pillar though. From 1998-2002, the Orbán government did not increase the contribution rates to the private pension accounts as had been scheduled in the reform, which left the contributions to the private pension account at 6% instead of 8% (Augusztinovics et al. 2002, 50). Other measures by the Orbán government to curb the reform included making entry into the mixed pensions system optional, even for new entrants to the labor market, and reducing the guarantees on the private pension payout (Simonovits 2011). These efforts show that there were indeed opponents to the reform in the opposition who were largely ignored in the reform process. This can be contrasted with Poland where the right-wing opposition party supported and maintained the privatized pension pillar (Guardiancich 2013).

When the MSZP and SZDSZ coalition returned to power after the 2002 elections, the government strengthened the privatized pension pillar by increasing the private pension contribution rate to 8% by 2004 and reversed the option to opt out of the second pillar. The social-liberal coalition, however, did not reinstate the pension guarantee, which the Fidesz government had cancelled. Nonetheless, the first wave of pensioners who were set to receive lower pensions as a result of joining the private pillar were allowed full reentry into the PAYG pillar (Simonovits 2009, 21). This effectively offered a one-time 100% guarantee to soon-to-be pensioners (those over 52 years old) who would have lost 25% of their public pension according to the reform, but did not make any promises to future pensioners.

[30] Compared to Poland, the existence of a public funded pension system was in the more distant past, as it existed only until the Second World War when they collapsed due to hyperinflation (Augusztinovics et al. 2002, 29).

The same socialist-liberal government remained in power after the 2006 elections, but did not pass any major pension reforms. The government faced economic, fiscal, and political crises (including an IMF bailout in 2008), which led to the dissolution of the coalition in 2008, followed a short-lived MSZP minority government, followed by a MSZP-SZDSZ backed caretaker government with the task of pushing through drastic austerity measures. In 2009, the caretaker government led by Prime Minister Gordon Bajnai introduced a different type of guarantee that entitled every participant to the real value of his or her contributions to the second pillar (Simonovits 2011, 87). In addition to securing the private pension accounts, in 2009, the Bajnai caretaker government increased the retirement age, which mandated increases the retirement age by 6 months every year beginning in 2012 until it reaches the age of 65 (European Commission 2009, 248).

In 2010, under a highly coherent, single party Fidesz supermajority government, the second pillar pension system was effectively nationalized. At first, the reform temporarily suspended payments to the second pillar for 14 months starting in November 2010. This decision was made amidst severe pressure to reduce the deficit, which was magnified due to conditionality of the IMF bailout package that Hungary received during the crisis. Then in December 2010, the government announced the *de facto* nationalization of the second pillar. There was an element of choice involved, but the conditions for maintaining the private pension account were harsh and therefore there was mass exit from the second pillar with only 3% of members (but 10% of capital) remaining in the second pillar (Simonovits 2011, 93). This puts the reform in stark contrast to the reforms of Slovakia's Smer-SD (summarized in the next section) where a majority of individuals remained in the second pillar when presented with a choice. Further, given the relative ease with which the Fidesz supermajority government could change the constitution, they limited the jurisdiction of the constitutional court to exclude matters with 'fiscal consequences'. Therefore, the reversal of the pension privatization is unlikely to be contestable before a change in government. Given that pension privatization was largely seen as a reform that could not be undone, this was an extreme measure, which was politically feasible likely due to the government's unique position with more than two-thirds of the parliament.

So why did Fidesz reverse the reform only in 2011 and not during its first term in government (from 1998-2002)? The Fidesz government had much greater coherence (with no coalition partners and high party discipline) and power (as a supermajority) in its second term, which surely facilitated more extreme reform. However, the global financial crisis also likely contributed to the uncertainty of privatized pensions and the performance of the mandatory private pension accounts was extremely disappointing, as between 1998 and 2009, they did not even manage to keep up with inflation (Hirose 2011, 183). This was a combined result of poor market performance, mismanagement, and high administrative fees deducted from contributions and savings, representing 7.1% of aggregate contributions in 1999 (Fultz 2012, 11). These fees were only capped at 4.5% of contributions and 0.8% of savings in 2004 (Simonovits 2011, 89). In summary, the financial crisis seemed to embolden Fidesz's opposition to the privatized pension pillar and extreme fiscal pressure made the renationalization of private pension accounts a quick one-time relief for the existing fiscal deficit. This extreme reform, however, would not have been possible without the high coherence and power of the government.

3.2.3. Slovakia

In the case of Slovakia, there were highly coherent governing coalitions throughout the time period studied, with the exception of 1998-2002. The coalitions until 1998 had stronger support for welfare and since 2002, each election led to the alternation between center-right SDKU-led coalitions and left-nationalist Smer-SD-led governments. Therefore it is not surprising that reforms only occurred after the change in government in 2002, but then the reforms oscillated just as the governments' policy positions did. The politics of pension privatization became essentially a game of ping pong with each subsequent government reversing the policy changes of the former government. The swing between left-wing and right-wing coherent governments and the corresponding swing between lower and higher degrees of pension privatization neatly fits into the partisan theories of welfare state reform under the condition of ideologically compact governments.

During their time governing Slovakia until 1998, the left-nationalist Vladimír Mečiar governments (HZDS, SNS with ZRS from 1994-98) did not conduct any restructuring pension reforms (nor any minor reforms). These bloc coalitions had high coherence on welfare issues, but their policy position was clearly in favor of maintenance of the existing PAYG structure and opposed to any form of pension privatization. In fact, in 1993, the Mečiar government reintroduced special privileges in the pension system for high-risk occupations, which had been abolished in Czechoslovakia (Lesay 2006, 10). This showed an obvious preference for continuity with the past on the part of the Mečiar government. In 1995, a reform proposal was submitted to the parliament that stated the need for 'diversification' and consideration of a multi-pillar approach to pensions, but the governing coalition was clearly opposed to pension privatization (Inglot 2008, 250). International pressure existed for pension privatization (as well as strong criticism of lack of democratic reform), but it was largely ignored while HZDS governed until 1998. Further increases to retirement age were refused by the Mečiar governments and this was given as a reason that the government refused continued IMF funding, as he stated that increasing the retirement age was "unacceptable for [his] government" (CTK 1995).

From March to October 1994, the Jozef Moravčík government (including DUS, SDL, KDH) represented a window of opportunity for policy change after the vote of no confidence against the first Mečiar government. However, this coalition lacked coherence and time to push through major pension reform. Given that all were aware of upcoming early elections, the focus was on major macroeconomic reforms and less time-consuming welfare reforms (such as family benefit reforms, see section 4.2.4). After the election in October 1994, HZDS and Mečiar returned to power, producing four more years of pension continuity.

One major turning point in Slovakia's transition came with the change of government in 1998. Although HZDS received the most votes, the lack of feasible coalition partners led to a government that was a broad coalition of opposition parties. From 1998-2002, the first government under Mikuláš Dzurinda (a coalition of SDK, SDL, SMK, SOP) brought together center-right parties with the former Communist Party of the Democratic Left (SDL). This did not constitute a block coalition in terms of economic policy, as SDK would support more neoliberal policies while SDL did not (Lesay 2009, 44–45). In fact, SDK proposed pension privatization as a condition for coalition formation, but the SDL explicitly refused this. As a result of tough coalition negotiations, SDL secured an unusually high number of cabinet positions for a minor coalition partner. This included the Minister of Labor, who blocked any pension privatization put forward by the center-right governing parties.[31] The lack of coherence of the 1998-2002 governing coalition produced extended continuity in the Slovak pension system.

In 2002, the change in government represented major changes for the country's trajectory and symbolized "Slovakia's second transition" (Deegan-Krause 2003). The second Dzurinda government (with SDK, SMK, KDH, ANO) came to power, which was a coherent right-wing coalition whose agenda was closely aligned to the interests of the World Bank and IMF. The new government openly invited the involvement of the World Bank in the preparation for pension privatization (Lesay 2009). This once again demonstrates that the

[31] The opposition of the former communist party to pension privatization is in contrast to the former communist parties in Hungary and Poland who passed the partial pension privatization. For more details on former communist parties and their varying policy positions, see Grzymala-Busse (2002) and Druckman and Roberts (2007).

pressure of international actors seemed to only make an impact when the policy position of the government aligned with the interests of the international actors.

The reform introducing the mandatory private pension pillar was passed relatively quickly in 2003 by the second Dzurinda government.[32] It was the first governing coalition with both the interest in such radical reform and the coherence to implement it. Negotiation with trade unions or opposition parties was largely absent. According to the reform, for those who opened private pension accounts, 9% of 28.75% pension contribution was directed to the private pension fund compared to the earlier 28% contribution.[33] The maximum gross wage after which individuals had to pay contributions increased from a fixed 32,000 SKK to three times the average gross wage in the economy, which meant an increase in pension contributions for higher income labor as a result of the reform (Golias 2004, 5). All new entrants to the labor force were required to join the second pillar; while individuals already in the labor market who were under 52 years old were given the option to join, but the decision was binding (Golias 2004, 12). The financing of the transition related to pension privatization was covered in part by the privatization of the national gas company and partially by the extra social contribution of 4.75% to a special account intended to cover social insurance debts (Drahokoupil and Domonkos 2012, 290). There was no state guarantee of private pension accounts, except in the case of fraud.

The 2003 reform introduced only parametric reforms to the PAYG system without the introduction of NDC accounts, which were also considered in the reform process (Golias 2004, 7). The official retirement age was increased from 60 to 62 by 2006 for men and the age for women increased from 55 to 62 by 2015 (Golias 2004, 7). The pension benefit formula was changed to provide a stronger link between previous wage levels and future benefits, which reduced the degree of redistribution in the pension system compared with the 1990s. The high coherence of the coalition explains why the extensive reform occurred relatively quickly in 2003 when compared with the stalled reforms under less coherent governments in Hungary or Poland. However, the coalition frayed after the reform took place losing first several SDK representatives, then coalition partner ANO followed by KDH. The period from 2004 to 2006, the Dzurinda government was a minority coalition. No further reforms took place during this time.

[32] Voluntary private pension funds and associated tax incentives have existed in Slovakia since 1996.
[33] The structure of pension contributions after the reform was 18% (for old age pension) plus 4.75% to a reserve account (used to cover the transition costs of pension privatization) and 6% to disability pensions, making a total of 28.75% (compared to 28% paid only to PAYG prior to the reform).

During the 2006 electoral campaign Smer-SD declared intentions to entirely reverse the reform, but when in government moderated this. In 2007, the left-nationalist coalition of Smer-SD, SNS, and LS-HZDS, led by Prime Minister Robert Fico, voted to make participation in the second pillar optional to new entrants[34] and offered a six month window for any current participant in the second pillar the option to opt out (similar to the reform by the first Fidesz-led coalition in Hungary between 1998-2002). The government ran a public campaign informing citizens about the risk of having pension savings in the second pillar. When opting out of the second pillar, individuals could choose to transfer existing funds to the state run pension system in exchange for recorded contribution for the equivalent number of years (SSA 2002). However, when given the option to exit, only approximately 7% of those eligible to do so exited in 2008 and less than 6% in 2009 (SSA 2002; Gould 2009, 23). Many of those who did were over 45 and were motivated by a change in the minimum number of required contributory years (from 10 to 15) in order to be eligible to receive pension payments from a private account. In March 2009, the Fico government also passed a principal guarantee for mandatory private pension accounts, which led to lower risk and lower return investments.

When a coherent center right government led by SDKU formed after the 2010 elections, they partially reversed the previous government's amendments. The reform passed in September 2011 made participation in the second pillar mandatory for all graduates from secondary school and university and disbanded the guarantee of benefits from private pension accounts. However, a vote of no confidence against the government (related to political scandals) led to a change in government before the reform was implemented on April 1, 2012. The fall of the government led to another change in the direction of Slovakia's privatized pension pillar.

Early elections in 2012 returned Smer-SD to power as a highly coherent government with a single party majority with 83 out of 150 seats in parliament once again with Fico as Prime Minister. Similar to the Fidesz government in Hungary around this time, this meant that the Fico government could pass reforms with ease and the strong electoral outcome served as a mandate for reform with little consideration of opposing views. In August 2012, the Fico government passed a reform significantly limiting the role of the second pillar (though notably not disbanding as occurred in Hungary). Contributions to mandatory private pension accounts were reduced from 9 to 4%, but then increased by 0.25% per year from

[34] In fact, the default option was non-participation and individuals had to apply for participation within 6 months of the time they entered the labor market (Porubsky 2009, 364).

2017 until it reaches 6%. Further, individuals with incomes over 1000 EUR will be required to pay more to the first pillar. These reforms were enacted quickly and without consultation with the opposition or trade unions (Kolenikova 2012). At the end of 2012, the Fico government offered an additional opportunity to opt out of the private pension system as was done in 2008-09 and ran additional campaigns informing the public about the risk of keeping their money in the second pillar. This led to another relatively meager exodus (compared to Hungary) of 78,000 people from the second pillar (compared to 106,000 and 66,000 in 2008 and 2009). This did represent a significant reduction and exceeded expected levels, but still most people opted to stay in the second pillar. In 2012, the Smer-SD single party majority government also passed a reform postponing the already scheduled increases in the retirement age until 2016 (probably not coincidentally after the next election) and introduced a new approach to connect retirement age with life expectancy (to be implemented from 2017 on). This fiscally expansive reform was done even in a time with high pressure for austerity, which is a reminder that fiscal pressure does not always lead to austerity. While these measures have some immediate negative fiscal consequences, they delay the increases in retirement age beyond the current term of the government, likely with the intention of blame avoidance.

3.2.4. Czech Republic

In the Czech Republic, like in each of the other countries studied, the introduction of private pension funds has been debated extensively. However, the scope of reform has been much lower with only an optional (but binding) private pillar introduced in 2012 (a time when the partial reversal of pension privatization took place in the other countries). Since 1994, voluntary private pension accounts have existed and there are state subsidies supporting investment into these funds.[35] In 1999, the parliament passed a reform exhibiting stricter regulations over pension funds and introducing new tax incentives for the employer and employee to contribute to private pension fund accounts. Overall these optional pension funds have been highly popular with a majority of the labor force participating. Given these widespread optional private pension accounts and the multiple proposals for the development of a second pillar, why did the introduction of mandatory private pension funds not take place until 2012? I argue that a major contributing factor was that since these debates began in the early 1990s, there has not been a highly coherent government until 2010 and minority governments were commonplace, lowering the chance for major reform. As Vecernik puts it:

[35] The real value of these state subsidies diminished quickly over time (Macha 2002, 86).

"any effort of a thorough reform evaporates soon in everyday political life" (Vecernik 2004, 23). Before 1998, there were right-leaning coalitions who mustered consensus on macroeconomic policy, but often lacked consensus on welfare policy. From 1998-2006, the governing coalitions were led by the Czech Social Democrats (ČSSD) who solidly opposed the introduction of mandatory private pension funds. A right-wing minority government led from 2006-2009 and a caretaker government from 2009-2010. Finally a right-wing coalition with socioeconomic ideological coherence formed in 2010, which is precisely when we observe the first fundamental pension reform.[36] Further within the non-coherent governments, no politicians or technocrats managed to push pension privatization through, as occurred in Hungary and Poland, which may be related to the fact that welfare policy was decided more squarely within the Ministry of Labor and not the Ministry of Finance. It seems that Ministers of Finance were relegated much less control over pension policy than they were in Hungary and Poland. Also, among some of the leading reformists, there was resistance to importing foreign social policy models.

The introduction of mandatory private pensions, though discussed, did not gain momentum as in Hungary and Poland. Vaclav Klaus, the first Finance Minister of Czechoslovakia and later Prime Minister before the Velvet Divorce, actually advocated pension privatization as a part of his campaign for capitalism 'without adjectives'. However, he faced opposition to this within his party and especially among coalition partners. As a result no major reform proposals for pension privatization were put forward in the 1990s. Welfare policy in the Czech Republic was managed more exclusively by the Ministry of Labor; whereas in Hungary and Poland Ministers of Finance assumed a more significant role likely due to the fiscal crisis induced by the pension systems (Haggard and Kaufman 2008, 324). Apart from having less debt than Hungary and Poland and a pension system in surplus, the Czech government led by Prime Minister Vaclav Klaus from 1993-97 declared its reluctance to import models from abroad or those designed by foreign experts (Macha 2002, 94). Therefore the only substantial reforms before 2012 were parametric reforms to the existing PAYG system without fundamentally restructuring the logic of the PAYG system (i.e. no introduction of NDC system, which was also debated).

The parametric reform to the Czech PAYG pension system was prepared in 1994-1995 and voted on by the parliament in 1995 under the Klaus government, a liberal-Christian democratic coalition between Civic Democratic Party (ODS), Christian and Democratic

[36] Although the first ideologically compact majority government, it faced many other problems related to corruptions and scandals, leading to the fall of the government in 2013.

Union (KDU–ČSL), and Civic Democratic Alliance (ODA). Given that the Czech pension system was in surplus, trade unions pressured for the separation of the pension fund so that the surpluses could not be used to fund other government spending, but their demand was not included in this reform. Rather the reform raised the retirement age, introduced a minimum pension, and adjusted the benefit calculation formula. The male retirement age was gradually increased from 60 to 62 by two months per year (to reach 62 in 2006). For women, the retirement age also rose gradually to 57-61 (depending on the number of children raised) at a rate of 4 months per year. The reform heightened the redistributive nature of the pension system by the introduction of a basic pension, which is a fixed nominal amount that can only be adjusted by the parliament, and an earnings-related component based on the past 10 years of employment (to be increased to 30 by 2016) but which only counts a portion of middle and high income levels, 30 and 10 percent respectively (Macha 2002, 81). Poverty alleviation seemed to be a clear goal of the reform, which may be a result of the relatively higher poverty risk among elderly in the Czech Republic compared with Poland or Hungary (Milanovic 1995; Vecernik 2004). Nevertheless a redistributory reform by this right-wing government, which simultaneously implemented radical market liberal reforms suggests that neoliberalism was truly "embedded" (Bohle and Greskovits 2012).

The reform was controversial and sparked protests organized by the trade unions, who were not consulted on the reform and were particularly opposed to the increase in the retirement age and the delay in separating pension insurance from the state budget, which enabled the government to use surpluses from pension contributions for other purposes (Roberts 2009, 128). Nevertheless the reform passed largely unchanged. However, the coalition was also divided on the reform. The MPs from KDU–ČSL, one of the coalition partners, abstained from the vote, but the support of the non-governing Czech-Moravian Centre Union Party (ČMUS) ensured that the reform passed (Večerník 2006, 200). As a concession to gain ČMUS's support, the reform introduced more generous conditions for early retirement (Macha 2002). The Social Democratic party, ČSSD, emphasized this reform in their 1996 campaign in an attempt to use the public disapproval of the reform for electoral gains, but it was not successful. The Klaus government remained after the 1996 elections, but as a minority government still divided on pension policy. With the support of two deputies from the Czech Social Democratic party (ČSSD), the Klaus government was able to continue with the reforms introduced (Macha 2002, 97). A scandal related to ODS party accounts led to the breakup of the fragile coalition and eventually to early elections in 1998. Some former-ODS party representatives formed a new party called Union of Freedom (US), which supported liberal economic policies and the privatization of pensions (Macha 2002, 98). While this party would have been the most likely to privatize pensions, they did not enter the government until 2002 (and then only in coalition with ČSSD).

ČSSD won the 1998 elections, but they were unable to find a coalition partner to form a government. Therefore ČSSD reached an agreement with ODS (the second strongest party in parliament and their opposition) who agreed to not vote against ČSSD proposals given a specific set of conditions (related to privatization of state-owned assets, restricting tax increases, and continuing with the pension reform). Although ODS was not in the government, this "opposition treaty" is equivalent to a coalition with low coherence since ČSSD depended on votes from an opposition party (with starkly different policy positions) in order to pass reforms (Večerník 2006, 202). Between 1998 and 2000, the Zeman minority government proposed an increase in the pension contribution rate (from 26 to 28.4 percent) to cover the accumulating pension deficits, but even this change could not be passed (Macha 2002, 81). The lack of coherence created significant obstacles to even parametric reforms and obviously ruled out more radical reform. ČSSD and the opposition could only agree on supporting the voluntary private pension funds and were able to pass a policy in 1999 that increased tax incentives for contributions.

ČSSD got the most votes at the 2002 elections and formed a grand coalition with the Christian Democratic KDU–ČSL and liberal US, which was unified in their desire for rapid EU integration (in contrast to Eurosceptic Communist KSČM and liberal ODS parties) but clearly lacked socio-economic policy coherence (Hanley 2006). During the 2002-05 government, debates about major reforms persisted, but not surprisingly there was no major restructuring of the pension system. Although US and ČSSD have opposing views on a mandatory private pension funds, they both support the introduction of a NDC structure within the PAYG pension system (Macha 2002, 108). But even if a comprehensive reform to a NDC structured PAYG system seemed politically feasible, it did not materialize due to KDU–ČSL's opposition, producing policy continuity. The only parametric reform raised the retirement age again in 2003 increasing male retirement age from 62 to 63 (by 2016) and female retirement age from 57-61 to 59-63 (by 2019). It seems that retirement age became the only parametric reform that low coherence governments in the Czech Republic could agree on to provide some fiscal relief.

After the 2006 election, the Czech Republic faced unprecedented delays in government formation (7 months) due to the distribution of seats that made any feasible coalition lack a majority (by 1 seat). Given frustrating experiences with minority governments, the parties continued negotiations to reach a majority. The resulting coalition between ODS, KDU–ČSL, and the Green Party (SZ) held exactly 50% of the seats (not 50%+1 making it effectively a minority government), but were relatively coherent on socio-economic policy (compared to Czech grand coalitions) but not on pension privatization. However, ODS campaigned with a much more market liberal program (the 'Blue Chance' program), which even proposed the introduction of a mandatory private pension pillar, but KDU–ČSL clearly objected to the reform. Another increase to retirement age was passed in making retirement 65 for men and 62-65 for women.[37] Again, the governing coalition was coherent enough to produce this parametric reform, but lacked coherence for any fundamental reform to the structure of the pension system.

The 2010 elections resulted in a coherent right-wing coalition consisting of ODS, TOP 09 and Public Affairs (VV). The Nečas government finally had coalition partners that agreed with general austerity measures as well as pension privatization, which enabled a (notably weaker) pension privatization to pass in 2012 (overriding vetoes from the Senate and president). It introduced an optional second pillar where individuals can choose whether or not they join the second pillar, but the decision is then binding. The reform enabled people to send 3% of income from existing PAYG pension contribution to a private account if the individual also contributes an additional 2% from his or her own income. In exchange, individuals in the second pillar will forego part of their state pension (estimated at approximately 15%). The lower contributions to the PAYG pillar should be financed by an increase in one value added tax bracket from 10 to 14%. In addition, a reform was passed accelerating the increases in retirement age and increased to 67 (by 2041) for both men and women.

The weaker form of pension privatization was still highly controversial with the opposition (ČSSD and Communist KCSM) obstructing the parliament in November 2011 in order to block the reform. It was also voted down in the ČSSD-dominated Senate, which was overridden in the lower house in September 2012. ČSSD managed to delay, but not prevent, the passing of the pension reform. Although in 2011 (after it initially passed in the lower house) President Klaus did not veto the bill, he also did not fully support it (given that he deemed the transition financing insufficient) nor the limited debate preceding it (CTK 2011). After the September 2012 vote, he then vetoed the bill citing the transitional deficit and lack of consensus behind the reform among experts, politicians, and society. The Nečas

[37] The retirement was for women with no children or 1 child is 65. For those with 2, 3, or 4 and more children, the retirement ages are 64, 63, 62, respectively (European Commission 2009, 78).

government, though fragile, managed to override the veto in November 2012. This shows the importance of government cohesion for making the reform happen. Pension privatization was more controversial in the Czech Republic than in any of the other reform cases. The reform managed to pass, but the durability of the second pillar is indeed questionable given ČSSD's strong opposition.

After the reform passed, trade unions and ČSSD campaigned to discourage people from joining the optional second pillar by disputing the facts of the government campaign and stating that the second pillar only benefits the top 10% of income earners.[38] The second pillar accounts opened in January 2013 with the option to join by June 2013 for those over 35. People under 35 can choose to join at any time (before they reach the age of 35). By July 2013, only 75,000 people signed up (CTK 2013). The stability of this (weakly) privatized pension scheme is already threatened by the prospect of a change in government in the next election (2014) to a ČSSD-led one as the party promises to reverse the reform.

3.3. Passive reforms to pension benefits

Adjustments to pension generosity by altering the indexation approach or ad hoc changes to benefit levels permeate each of the countries studied across many types of governments. Passive austerity measures were often explicitly stated to be necessary to reduce pension spending, suggesting that policymakers were well aware of these options and were making (mostly) informed, deliberate decisions about indexation. While in some cases (especially in the early 1990s) policy makers may not have known a priori the effects of changing pension indexation rules given the unpredictable macroeconomic climate, most instances of passive measures presented below suggest tactical use rather than imprudent politicians muddling through unknown territory. Unlike reforms though, passive measures can also occur through inaction (i.e. lack of benefit adjustment), which makes them particularly likely under non-coherent governments.

In fact, I find that passive austerity is often used as a means to reduce spending when more substantial reforms were not feasible due to lack of political consensus. Passive expansion, when used, generally took the form of ad hoc increases or lump sum payments paid out before elections. Complementing the summary of the major reforms and stalled reform attempts above, this section summarizes the politics of pension indexation and demonstrates how the debates and adjustments related to indexation intensified when the

[38] The CSSD launched a website www.nevstupujtedodruhehopilire.cz (translation: do not enter the second pillar).

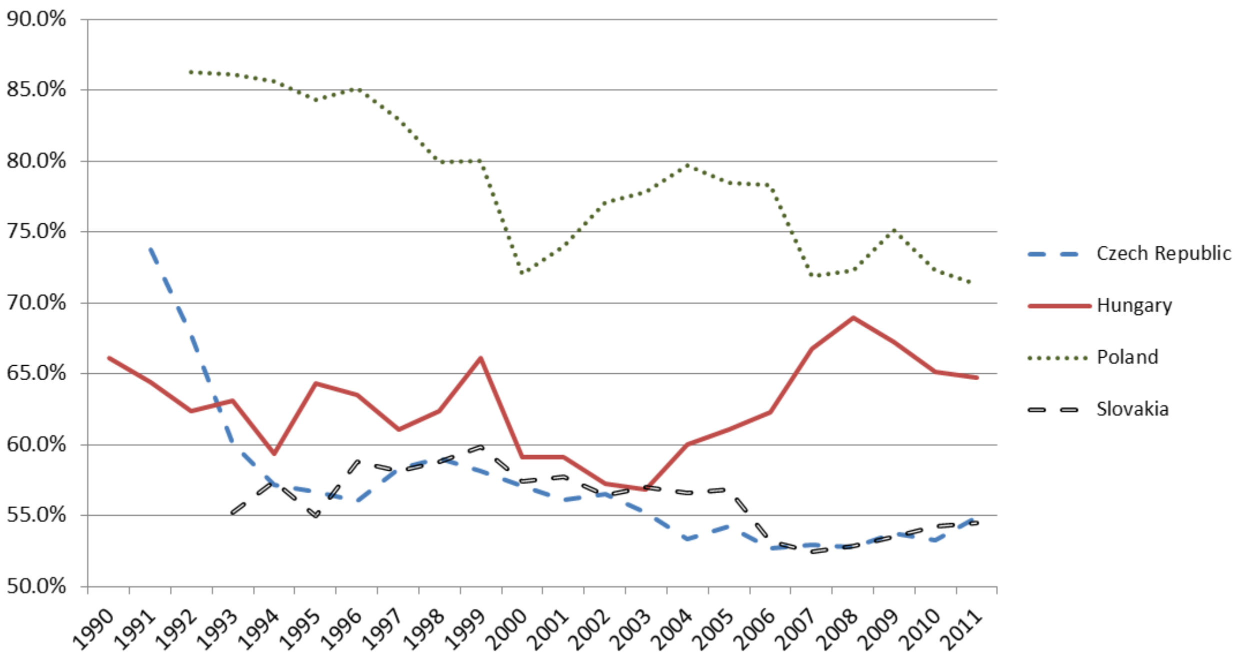
government lacked coherence and consensus on more structural reforms. This is a dimension of pension reform that is often ignored in the academic literature, but was debated extensively in parliaments, frequently tweaked by successive governments, and strongly affected the well-being of pensioners.

The three main options for adjusting pension benefit levels were: (1) ad hoc adjustments voted on regularly by parliament, (2) automated indexation based on price levels or cost of living index, and (3) automated indexation based on wage growth. The superiority of pension indexation based on prices or wages is debatable. The effects on the relative well-being of pensioners clearly depend on whether prices or wages are increasing more quickly. In an economy experiencing real wage growth, clearly indexation by wages is more advantageous for pensioners. If inflation exceeds wage growth, the opposite is true. Wage indexation can be justified on the grounds that pensioners should keep up with active workers. Price indexation focuses on maintaining pensioners' standard of living. The Swiss indexation method balances the two by adjusting pensions based on 50% inflation and 50% wage growth. For the countries considered, real wage growth was negative in the early 1990s (until 1992 in the Czech Republic and Slovakia and 1994 in Hungary and Poland), then stayed mostly positive though with significant decreases during the 1997-98 crisis and the post-2008 crisis (for more details, see Figure A1 in the appendix).[39] Therefore shifting indexation from wages to inflation after 1994 will be understood as passive austerity with the assumption that politicians did not anticipate decreases in real wages. This is often confirmed by politicians who attempt to gain support for the change from wage to price indexation in parliament by advertising the expected fiscal savings that the latter would bring.

The multiple forms of complex indexation rules can be hard to compare and therefore in addition to outlining the changes in the text below, Figure 3.3 shows the average pension benefit as a percentage of the average net wage over time. This figure assists in detecting passive austerity and expansion in pension benefits by comparing these values with the known structural reforms (when there is expected change in pension generosity). Any significant change in average pension benefit apart from the years of substantial reform indicates the use of passive measures. As demonstrated in the text below, this figure reflects the documented changes in indexation methods and minimum and maximum benefits well.

[39] Negative real wage growth was also observed in Hungary in 1995, 1999, and 2009-2010, as well as in Poland in 2002 and 2004 and in Slovakia in 1999.

Figure 3.3: Average pension benefit as a percentage of average net wage[40]



Source: Author's calculation based on data from national statistical offices

3.3.1. Czech Republic

Unlike in Hungary and Poland, the value of pensions relative to wages fell dramatically in Czechoslovakia from 1990-1993. This was due to the fact that the government delayed supposedly required pension increases without facing much public blame (Roberts 2009, 122). During this time pension indexation was connected to a cost of living index and mandated an increase in pensions anytime that this index increased by more than 5%, which however had to be approved by the legislature. The decrease in pension generosity in the early years after the transition explains the higher risk of poverty among pensioners in Czechoslovakia compared with Hungary or Poland (Milanovic 1995).

In the Czech Republic, the 1995 reform indexed pension benefits to an overall retail price index. When the price index increases by more than 5 percent, then the government is required to increase the pension benefits by at least 70 percent of the price increase (Macha 2002, 84). Due to the financial crisis in 1997-98, a temporary exception was made allowing the price index to increase by 10 percent before pension benefits were adjusted (Macha 2002, 84). This exception is visible in Figure 3.3 from 1998-2001. In 2003, the social democratic-

[40] Hungarian data from 2003 on includes the "13th month pension benefit," which increased pensions by paying a bonus month rather than increasing the monthly payment.

Christian democratic-liberal coalition which lacked coherence for more fundamental reforms did agree to adjust indexation to ensure more stable generosity of pension benefits. They put in place a new indexation system where annual increases in pension benefits are adjusted so that the increase corresponds to 100% of price growth and at least one third of the growth of real wages (Ministry of Labour and Social Affairs 2010, 9). After this reform, the value of pension benefits relative to net wages appears to have stabilized until 2011. In September 2012, the government passed a reform to (temporarily from 2013-2015) reduce the indexation of pensions to consumer price index from 100% to 33.3%. The pensions would lose real value during this three year period, which again represents a less visible way of reducing the generosity of pensions. Pensioners protested against the bill in May 2012, but Prime Minister Petr Nečas declared this to be a necessary measure to preserve the budget during the crisis (CTK 2012).

The incidence of passive austerity occurred extensively in the Czech Republic from 1990-1996 and 1998-2003 and appears to have been used as a cost-cutting mechanism by exactly those governments who lacked the coherence to pass any other reform. Given the earlier argument that the lack of policy coherence on welfare policy among Czech coalitions prevented structural reform, passive austerity served as a measure of last resort to reduce spending on pensions. The era of passive austerity in Czech pensions lasted until 2003 when all Czech governments lacked coherence. In 2008, the Topolánek government used some passive expansion measures to increase the generosity of pensions during the crisis, which was likely an attempt as economic stimulus as the government also increased the generosity of unemployment and maternity benefits. Average pension generosity stabilized since 2009 while there have been coherent right-wing coalitions (who also passed the most significant structural pension reforms), resorting to passive austerity measures only in 2012. Therefore, the Czech case suggests that lower government coherence indeed increases the use of passive austerity.

3.3.2. Hungary

From 1991 in Hungary, pension benefits were indexed according to nominal net wages, but there were minimum and maximum limits on the increase of pensions that tended to lead to greater redistribution in the pension benefits (Augusztinovics et al. 2002, 33). Pension generosity was relatively stable in the 1990s. Based on the 1997 reform passed by the Socialist-liberal government, the ‘Swiss method’ was used, which indexed pensions according to both wages (50%) and prices (50%). This indexation method was intended to provide less generous pension benefits over time, as this was supposed to help alleviate the funding gap resulting from pension privatization (Fultz 2012, 6). While several fluctuations appear in Figure 3.3, the only genuine evidence of passive austerity is visible from 1998-2000 when the conservative Orbán government reduced the planned amounts of pension increases. In 1999, the Fidesz-led government adapted the indexation approach. Instead of the planned 18.4 percent increase in pension benefits that year (based on the Swiss method), the government set a pension increase to a fixed amount (3500 HUF per month) with the restriction that all increases should be between 11 and 25.5 percent (Augusztinovics et al. 2002, 49). For most pensioners, this meant a lower increase in their benefit levels. From 2001 on, the more generous Swiss method was resumed, likely in preparation for the 2002 election. The Fidesz coalition had high policy coherence and opposed the reforms implemented by the MSZP-led coalition, but rather than reversing reforms, the Fidesz-led coalition took actions to weaken some parts of the reform and used passive austerity to reduce the fiscal burden in a way that would be less apparent to pensioners who were a vitally important voter base, especially to coalition partner FKGP. Given that all pensions were increased, just at a lower rate, the hope that this measure would avoid electoral punishment seemed realistic, but the MSZP 2002 electoral campaign attracted voters' attention to the Orbán government's use of passive austerity.

When MSZP formed a government with SZDSZ after the election, in response to the ad hoc indexation decisions of the Orbán government, it increased pension levels by paying a lump sum to 'repay' pensioners for the lost income during the previous government and introduced a '13th month' pension. This was a form of passive expansion, however it was actually done by offering an extra lump sum to increase the visibility of the action among pensioners and voters (i.e. a credit-claiming measure). These patterns are clearly visible in Figure 3.3. The 13th month pension was eliminated in 2009 by the Bajnai caretaker government. Also, in 2009, the caretaker government switched from a Swiss indexation system to a system based more heavily on prices (SSA 2012 Focus on ECE pensions). However, the precise indexation method for each year depends on the country's level of GDP growth as shown in table 3.1 and higher levels of GDP growth (>5%) will mean a return to Swiss indexation (World Bank 2009, 10).[41] Given the economic recession in Hungary and the negative real wage growth, the new indexation system may actually be advantageous to pensions. However, passive austerity was clearly used in 2009, when pension increases were

[41] Specifically, when GDP growth is less than 3%, then indexation is based exclusively on prices.

also altogether postponed until 2010 (Hirose 2011, 194). As seen in Figure 3.3, after 2009, the average pension relative to net wage deteriorated. The Fidesz supermajority government passed major reforms, but not related to PAYG pension benefit indexation.

Table 3.1: Hungary's pension indexation system since 2009

GDP growth rate	Indexation approach
Less than 3%	Price index
3-3.9%	80% price index, 20% wages
4-4.9%	60% price index, 40% wages
5% or greater	50% price index, 50% wages (Swiss method)

Source: (European Commission 2009, 248)

3.3.3. Poland

The politics of pension indexation in Poland was highly controversial. During the deadlock while debating structural reforms prior to 1997, pension indexation became the only feasible tool for restricting pension spending, which was growing astronomically. In the early 1990s, pensions were re-valued quarterly and increased at approximately 91-93% of the rate of wage increases. The pension amount was allowed to increase if the average quarterly wage increased by more than 5% from 1990-92 or by more than 10% from 1993-1997 (Müller 1999a, 102). In 1991 a pension reform bill was passed that mandate a one-time recalculation of pension benefit levels for those already in retirement with the aim to standardize the pension benefits as the formula varied based on the current laws when the individual retired and eliminated the right to work for those receiving early retirement benefits.[42] The bill also created a stronger link between the previous wage and the pension level (Chlon-Dominczak 2002, 103). The parts of the bill that lowered pension payments of some and restricted working rights were rejected by the Constitutional tribunal in February 1992 on the basis that they "violated the basic welfare rights of citizens" (Inglot 1995, 369).

The debates over the minimum pension level also highlight the use of passive reform measures in an attempt to reduce the fiscal burden. The 1991 bill defined the minimum pension level at 24% of the national average wage. In December 1992, the law was amended making minimum pension 24% of 91% of national average wage (Chlon-Dominczak 2002, 104). Political motivations to hide decreases in pension generosity likely motivated this rather

[42] The bill also put a cap on the level of income after which contributions must be made and eliminated some (but not all) of the special privileges given to specific occupations, which were not reversed by the constitutional tribunal.

convoluted method of calculated minimum pension levels rather than just lowering the 24%. The debate continued as in 1994, the minimum pension was increased to 24% of 93% of the national average wage with the stipulation to increase the 93% by one percent per year until it reached 100% in 1999. Clearly these minute changes to the method of calculating minimum pensions served to provide some budgetary relief, but the approach of maintaining a minimum pension of '24%' while tweaking the base that the 24% was calculated on suggests political motivations to mask the attempts to reduce pension generosity.

In 1995, the SLD-led coalition passed a bill to index pensions annually (instead of quarterly) and based on inflation instead of wages (2.5% above the actual inflation rate from the previous year), which was proposed as a cost-cutting mechanism (BBC 1997).[43] This bill was vetoed by President Lech Walesa (affiliated with Solidarity/AWS) in September 1995 with the justification that this is unfair to pensioners who would receive only a 2.5% real increase while GDP was expected to grow by more that 5% ("Walesa Vetoes Pension Amendment" 1995). Given that SLD pushed this reform through without the support of its coalition partner, PSL, overturning the veto with a two-thirds vote presented a challenge. SLD managed to do so in part by offering concessions to PSL in increased agricultural support (PNB 1995). President Walesa then referred the bill to the constitutional tribunal to check its legality, who declared that the reform was acceptable given the need for radical restructuring (Chlon-Dominczak 2002, 104). Despite multiple veto players, the change in indexation method was possible. The political debate surrounding the change in indexation indicates the heightened tension on structural pension reform between political actors. The value of pensions relative to wages was reduced during the stalled reform process, as an immediate way to reduce pension spending before a reform consensus was reached.

In 1999, as a part of the larger reform to the PAYG system under the right-wing Buzek government, pensions were indexed at least at the rate of inflation plus 15% of real wage growth ("Reforming Pension System: Back and Forth" 2011). The dramatic drop in pension benefits relative to wages visible in Figure 3.3 was due to the 1999 reform (and an expected outcome), not a form of 'passive austerity'. The new approach to indexation since 1999 increased the value of pensions relative to net wages until the indexation method was again adjusted under the Miller government in 2004. The indexation method was adjusted annually only if the consumer price index increased by more than 5% in a single year, which led to the reduction in pension generosity relative to wages and resulted in fiscal savings. In

[43] The bill also included the possibility of a one time compensation the following year if inflation was higher than expected, which did materialize in 1997.

2005, immediately following the elections, the PiS minority government considered increasing the generosity of pension indexation, but did not act on it (likely because of budget concerns). In 2006, more generous pension indexation was a condition of the Self-Defense of the Republic (SRP) for joining the coalition and once the coalition formed, it became a condition of the approval of the 2007 budget (BBC 2006). Annual pension indexation was only returned to law in 2007 (before the coalition broke up). Under the subsequent PO-led government in 2008, the most generous indexation system from after the 1999 reform was restored (inflation plus 20% of real wage growth) and remained in place in 2012. The Polish case demonstrates a high degree of political polarization over pension indexation with a change in government almost always adjusting the approach to pension indexation.

3.3.4. Slovakia

In Slovakia, in the 1990s, the pension benefit levels were indexed according to the ‘cost of living’ index, which is measured by the Statistical Office using household budget surveys. Pension benefit levels were adjusted if this index increased by more that 10% in a year or if the average wage in the economy grew by more than 5%. This led to relative stability of pensions as a share of wages throughout the 1990s (Jakoby 2002, 5–6). However, the exact decision of how much and how frequently to increase the pension benefits had to be approved by parliament each year and therefore could have been easily adapted. From 1993-2002, these changes were made every year and even sometimes twice per year (Lesay 2006, 14). So despite the possibility for ad-hoc adjustments, the Mečiar governments from 1993-1998, did not utilize passive austerity techniques, likely due to their clear dependence on pensioners as supporters and their pro-welfare policy stance. Figure 3.3, however, shows evidence of passive austerity from 1998-2002, which means that the degree of pension increases did not keep up with wage growth. During this time, the first Dzurinda government lacked the policy coherence with the lead party, SDK, wanting major pension reform and SDL blocking it. While more extensive reform could not be passed, passive austerity was utilized.

Until 2003, the formula and the government’s influence on adjusting benefit levels led to a less direct connection between previous earnings and pension benefits (Golias 2004, 5; Bednárik and Škorpík 2007, 16). After the pension reform in 2003-04, new pension benefits were supposed to be automatically increased by the amount of the average nominal wage growth in the economy each year; while pension benefits calculated before 2004 would be indexed according to the Swiss method (which would actually increase the existing gaps between old and new pensioners over time). The stated intention was that pension indexation would then not depend on annual political support, but this did not materialize. The SDK-led coalition that passed the reform did not follow this valorization method in 2004 and instead passed two ad hoc increases to pension benefits of 4% and 3.4% in February and December and provided a one-time lump sum of 1000 SKK, which was declared as compensating for some losses related to the reform (Zachar 2006, 63). In the end, these ad hoc measures were close to the relatively equivalent to the intended 8.85% automatic increase that would have occurred for old pensions by the Swiss method, but by providing pension increases or bonuses three times in one year may have increased the visibility of these measures making it seem more generous.

In 2005, the same coalition introduced a different indexation approach that increased lower pension benefits at a higher rate than higher pension benefits (Zachar 2006, 63). The declared aim of this decision was to reduce the gap between pensions awarded based on old and new formulae (before and after the major reform) and was also supported by the opposition. Pensioners whose pensions were lower due to the reform were compensated. These passive expansionary measures all took place in the year before the election and were likely meant to appease ‘old pensioners’ whose benefits were significantly lower than the recently retired. The intended automatic increases from the 2003 reform occurred from 2006 on.

In late 2006, the Fico government introduced a Christmas bonus for pensioners whose pension is less than 60% of the average wage with a higher level bonus for those with the lowest pension (Zachar 2007, 84). The exact amount of the bonus must be decided by the parliament each year. Although critical of the Smer-SD move as populism, the subsequent SDKU-led government also paid out the Christmas bonus engaging once again in passive generosity.

The second Fico government suspended the automatic valorization of pensions in 2012 and increased pensions by a fixed sum with the intention to reduce the disparity in pension levels. This act was criticized by the Trade Union Confederation (KOZ). This was largely a return to the systems of the 1990s where the year-to-year changes were dependent upon annual decisions of the parliament with the left-wing governments generally favoring lowering the disparity between pension benefits rather than a concern about the link between contributions and benefits. The same government made the indexation of pension benefits from 2013-2017 to depend more significantly on inflation and less on wage changes, which reduces the average generosity of pensions over time and is expected to lower overall spending. This was a classic example of passive austerity, as the government simultaneously claimed to be looking out for pensioners (by linking pension benefits to their actual cost of living) and reducing pension spending.

In Slovakia, the use of passive austerity was notably lower than in the other countries. The only government that used passive austerity was Slovakia's single non-coherent government from 1998-2002. The use of passive generosity was more frequent after the 2003 structural reform and became a game where the alternating left-wing and right-wing governments attempted to outbid each other.

3.4. Conclusion

The main findings of this chapter are that major reforms are much more likely to happen under ideologically compact governments. Adaptations to privatized pension systems were almost always done by coherent governments. In Hungary and Poland, we observe the surprising passing of major pension reform under non-coherent coalitions. As explained in the case studies above, this was the outcome of a committed group of technocrats (and reformmongers) within the non-coherent governing coalitions that persisted and coordinated a consensus for reform (within the government in Hungary and by including non-government actors in Poland). These efforts also gained legitimacy and support due to the involvement and financing of the World Bank and USAID, but the critical actors that produced change after stalled reform attempts were the reformmongers. The heightened motivation of technocrats to pursue privatization in Hungary, Poland, and later in Slovakia may have been an attempt to build financial credibility to attract international investors and lenders. Due to high levels of debt in Hungary and Poland, this pressure was strong already in the 1990s, in Slovakia it emerged several years later as a result of the Mečiar legacy and a result of the initial international isolation in the 1990s. In the Czech Republic, there was never a pressing need for reformists to build international credibility.

In the Czech Republic, due to the nature of party cleavages or the coincidence of electoral outcomes, ideologically compact governments were largely absent until 2010. While others explain the continuity of Czech pensions by the lack of fiscal crisis (which was true in the 1990s but not later in the transition), I claim that the non-coherent governments contributed to the absence of major reform. Another contributing factor was that the pro-market forces on the right (most notably ODS) supported a redistributive pension system even while pursuing highly market-liberal reforms in other policy areas. The limited privatization recently introduced in the Czech pension system is unlikely to survive for long, as the ČSSD has stated its intentions to reverse it if in government (which seems highly likely at the time of writing). Changes to retirement age do not seem to depend on government coherence, which may be a result of the fact that increases in retirement age were common in the Czech Republic where more substantial reforms were infeasible due to lack of government coherence.

Now turning to partisan effects, Slovakia stands out as the country with the most coherent governments which introduce reforms in a predictable partisan way. The habit of ousting the incumbents since 2002 (often related to political scandals as much as policy) has led to the alternation of coherent governments and frequent oscillation of pension policy along traditional partisan lines. From a cross-country perspective, however, the partisan coloring of government did not have a clear effect on the likelihood of pension privatization. In Hungary and Poland, the reformed Communist parties (MSZP and SLD, respectively) led the governments that partially privatized pensions even while lacking coherence on the issue within the party. In Slovakia and the Czech Republic, pension privatization was passed by coherent right-wing governments. As another example of unclear partisan effects across countries, after the introduction of mandatory private pensions accounts, in Slovakia, a left-wing government later introduced the guarantee in an attempt to make the private pillar more secure while the right-wing governments opposed this. In Hungary, the right-wing Fidesz governments that generally opposed the pension privatization removed the guarantee, which was perhaps an attempt to undermine the security of the second pillar.

Passive austerity was used more often (but certainly not exclusively) by right-wing governments and often under conditions when the government was not able to pass more comprehensive reform. It was also used by the same non-coherent governments that passed technocratic-led pension privatization in Hungary and Poland as a means to reduce the fiscal burden while reforms efforts were stalled. Slovakia is notable for the lack of use of passive austerity except for during its one non-coherent government (1998-2002). Passive generosity (which could also be referred to as populist pension payments) became commonplace in Slovakia since the Fico government began using this tool in 2006. Also, in Hungary and Poland passive generosity became a tool to appeal to the electorate and seems to depend more on the electoral cycle than the coherence of government.

4. Family and parental leave policy: Disjointed reforms and passive austerity

4.1. Introduction

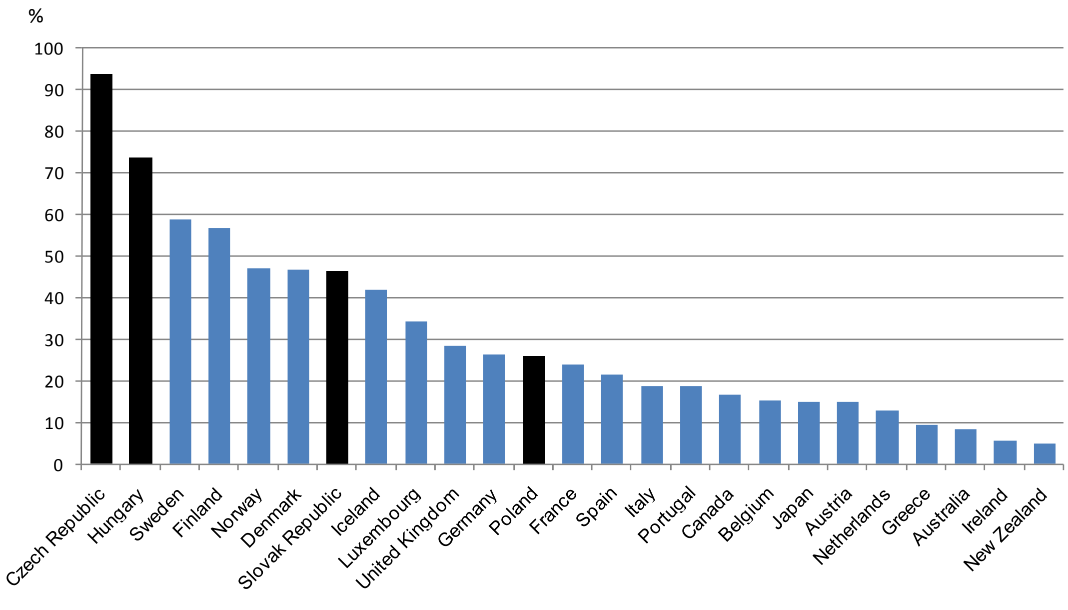
4.1.1. Relevance of family policy

Including family benefit policies into an analysis of welfare politics offers a broader lens, as the debates over welfare state generosity clearly extend beyond fiscal issues. The multidimensional nature of political debates bring together diverse factors, including the role of women in society, the perceptions of women's role in the Communist era, concerns over population decline, redistribution policy, and (as usual) fiscal concerns. Even more so than other welfare policy areas, this means that there are diverse reasons why a political party may support or oppose family and parental policy proposals. For example, the position of conservative parties on family policy varies significantly across and even within countries depending on whether pronatalist perspectives, traditional family values, or fiscal concerns dominate. While pronatalism implies generous family policy, support for traditional family values is generally associated with lower family benefits, which implies that mothers are more dependent on male breadwinner's. As a result of the multidimensional nature of these policy areas, unusual coalitions may form who agree on policy proposals despite disagreement on other socio-economic policy perspectives. For example, a political party may support the reduction of generosity of maternity leave benefits due to fiscal benefits from lower spending or due to a motivation to promote traditional family values and traditional role of women. Therefore, in this chapter, I provide a descriptive summary of reforms and reform attempts. With this analysis, I demonstrate again that overall socio-economic coherence of governments is a strong predictor of reform and that passive austerity is used extensively when coherence is lacking, as outlined in the theoretical framework in chapter 2. However, I also highlight in the case studies when the family values and gender-related dimensions enhanced or inhibited consensus for reform.

Compared to the other two policy areas considered, analysis of family policy allows for some unique perspective for the following reasons. First there are some different voices that potentially influence policy compared with the other two policy areas, such as the church in Poland and organizations representing families in the Czech Republic and Hungary. Second, the influence of historical legacies would be expected to be much stronger than in unemployment benefits and perhaps even than pensions, given the centrality of family support and parental leave during the Communist era. This may mean strongly entrenched interests to protect family benefits, as occurred in Hungary. However, the politicization of historical legacies could also taint generous family policies by associating them with the previous regime, as occurred to some extent in the Czech Republic and Poland. Third, the role of international influences would be generally expected to be lower given that overall social expenditure was significantly lower than spending on pensions. International influence mainly accompanied fiscal pressure for lower spending without much influence in policy design. One exception is that the EU did push for greater *de jure* gender equality in parental leave policy, but this had little effect on the actual degree to which fathers took up parental leave benefits.

Therefore family policy offers a productive testing ground for the proposed framework. Like pension policy, it was also highly salient in political campaigns and debates. Family policy is also particularly important to include given the relative generous level of benefits in international comparison, as shown in Figure 4.1 below.

Figure 4.1: Spending on maternity and parental leave payments per child born (as a percentage of GDP per capita), 2007



Source: OECD Family Database,
http://www.oecd.org/els/familiesandchildren/oecdfamilydatabase.htm#public_policy

4.1.2. Defining and measuring change in family policy

Family policy may include many different types of benefits. In this analysis, I include the following policy areas: (1) child allowances[44], (2) maternity leave[45], and (3) extended parental leave (usually longer duration and less generous than maternity leave).[46] Child allowance is a benefit that is paid monthly with the intention to support the extra costs of raising a child. This is either a universal benefit or an income-tested one. Maternity leave benefit is an insurance-based benefit that partially replaces the income of a parent who stays at home to care for a young child. This more generous, but shorter, benefit is often offered only to the mother. Extended parental leave is a benefit that offers a longer period of time to stay at home caring for a young child with a lower benefit level. This benefit is often given without a previous employment requirement and therefore is provided to all parents who meet the other criteria defined for it (such as means-testing).

Below I outline how I will measure change specifically in family and parental leave policies. I divide changes into four outcomes, which roughly correspond to Hall's (1993) levels of policy change. Reform for the explanatory framework is considered to be 1st, 2nd, or 3rd order change. Reforms changing the logic of the policy area, including moving from universal to targeted benefit schemes and changing the logic of parental leave schemes between insurance measures and poverty support measures, were relatively rare, supporting Inglot's (2008) argument for continuity in ECE welfare states. However, significant reforms to the parameters of the policy instruments occurred and were central to political debates, as will be shown below. Further the case studies also demonstrate extensive use of passive austerity, eroding the real value of these generally popular benefits. Although pension indexation often became more visible, the lack of indexation of family benefits or the reduction of maximum benefit levels largely remained off the radar of voters.

[44] Child allowance is defined as a monthly benefit given to parents raising children, which may either be universal or targeted to lower income households.

[45] In order to contrast with the extended parental leave, I use the non-gender neutral term maternity leave. This is fitting as in most cases the maternity leave is less than six months and can only be taken up by the mother. In Hungary, there is actually an additional parental leave scheme, which lasts two years and can be taken up by the father after the first 6 months.

[46] Other benefits that are outside the scope of the current research include birth grant (as a one-off sum, its budget implications and impact is relatively lower), family-based tax breaks, and childcare services.

Table 4.1: Definitions of types of change in family and parental leave policy

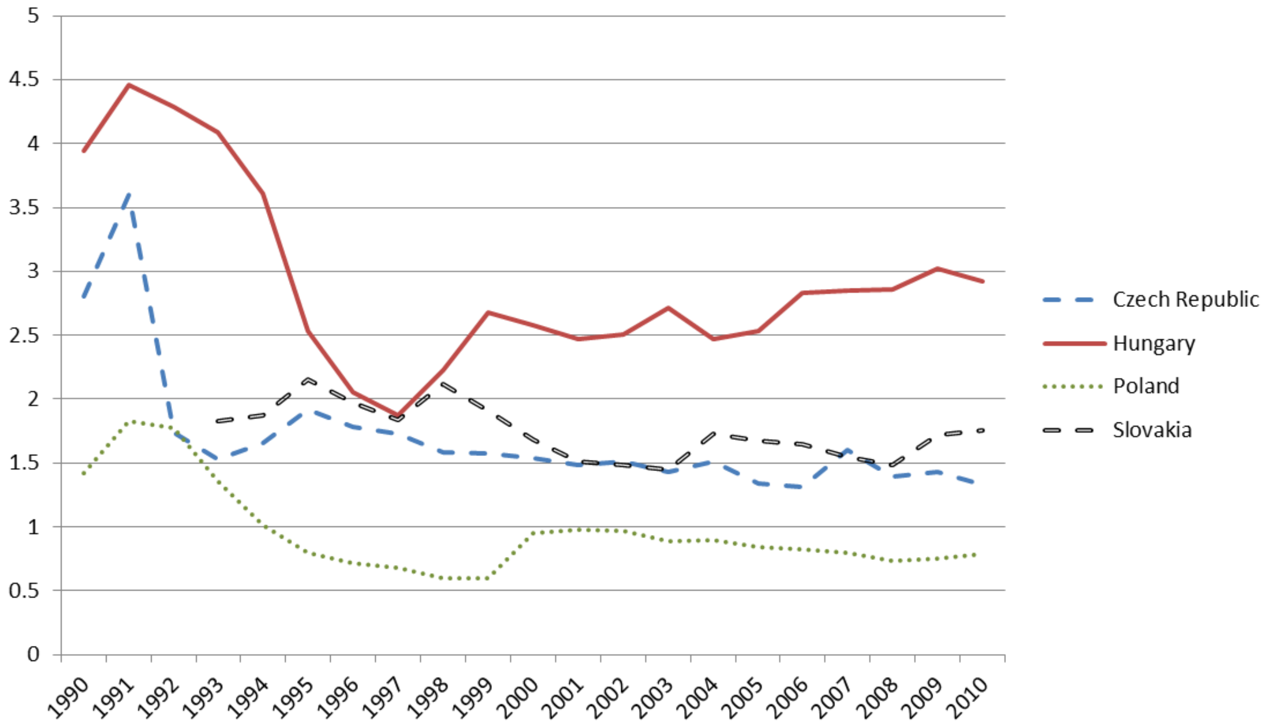
Level of reform	Measurement	Example
Changing the instruments or logic of the policy area (2nd or 3rd order change)	Introducing a new program or benefit	New parental leave scheme
	Changing the logic of benefit coverage from/to universal or targeted	Moving from universal to targeted child allowance benefit on the basis on income level
	Changing basis of eligibility for benefit	Moving from employment-based insurance benefit to universal benefit
Adjusting the parameters of the policy instruments (1st order change)	Benefit level changed by +/- 10%	Changes to replacement rate of employment-based parental leave or benefit amount for child allowance
	Duration of benefit changed by +/- 10%	Changes to number of months for parental leave or maximum age of child for child allowance
	Parametric changes to eligibility requirement changed by +/- 10%	Length of employment requirement
Passive change to real value of benefits (0th order change)	Changes to the indexation method	Moving from wage-based to inflation-based indexing
	Changes to maximum or minimum benefit level	Changed by +/- 5%
	The average benefit level as a percentage of average wage	Changed by +/- 5% (per year)
No change	None of the above occurred.	

Adapted from (Hall 1993)

4.1.3. Expenditure indicators for family policy

In this section, I present empirical evidence measuring the change and continuity of parental and family benefit systems in the Czech Republic, Hungary, Poland, and Slovakia over time. First to give a general idea about the scale of family benefits, I present spending levels in Figure 4.2.

Figure 4.2: Social spending on family benefits as a percentage of GDP, 1989-2010



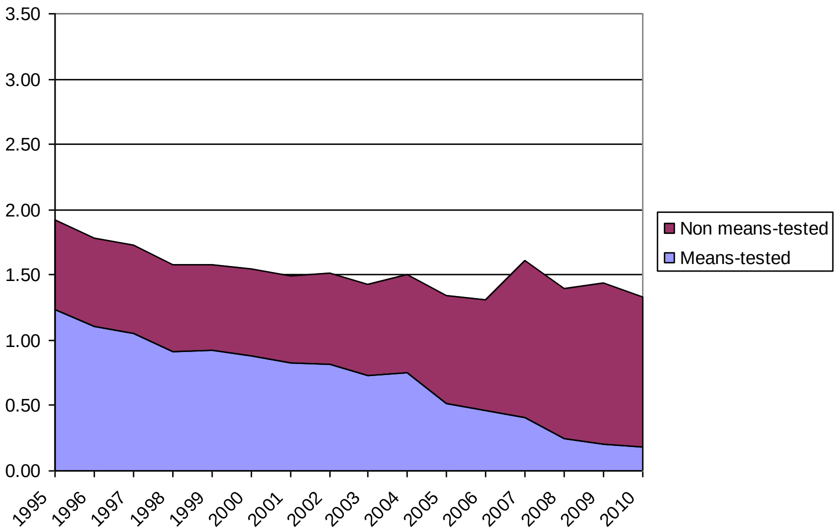
Source: Inglot 2008 (until 1998), EUROSTAT (1998-2004)

This graph clearly shows that spending on family benefits was substantially higher in Hungary at the beginning of transition. This reflects the strength and importance of this policy area before the transition, which makes high pressures for continuity likely. However, the higher spending on family benefits also suggests greater fiscal pressure to reduce the generosity of family policy. Poland, on the other hand, substantially reduced spending on family benefits early in transition and maintained lower levels of spending. Although Hungary and Poland have similar levels of overall social spending as percentage of GDP, the distribution of this spending among various social groups varies dramatically. Hungarian social policy seems to put relatively greater emphasis on (middle class) families; while Poland places relatively greater emphasis on pensioners and less generous, means-tested family benefits. The level of spending in the Czech Republic and Slovakia falls between these two extremes. For all the countries considered, the expenditure levels have been remarkably stable since 2000, even rising some in Hungary and Slovakia. So this does not seem to be part of a story of rampant welfare state decline or neoliberalization.

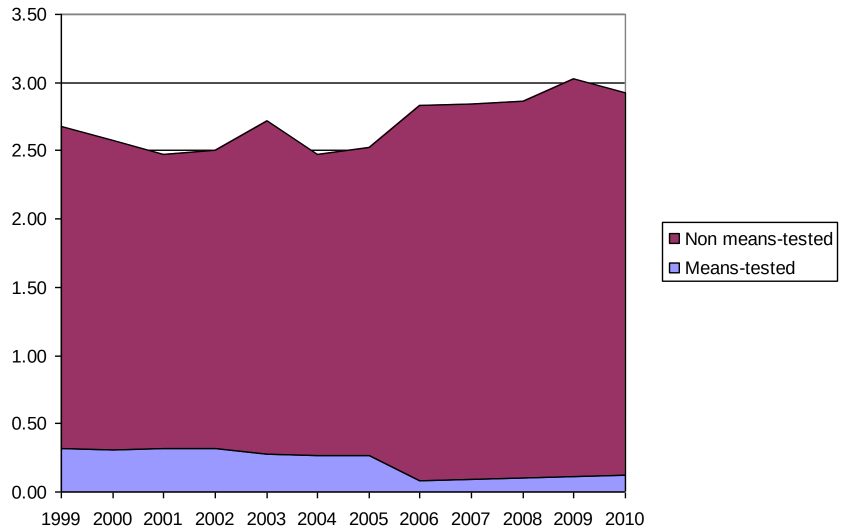
Figure 4.3 shows how spending on family benefits in each country is divided between means-tested spending and non-means-tested spending for the later stages of transition (earlier data is not available). The scales are standardized to enable comparison between the graphs. From these graphs, it is clear that Hungary has the highest spending level and the lowest means-tested spending. Poland has the lowest spending and most of that spending is means-tested. Majority of spending in the Czech Republic was means-tested in 1995, but the share of means-tested spending has been declining consistently over time while overall spending on family benefits has also been declining. In Slovakia, the means-tested spending was also significant in 1995 and it declined even more dramatically and has been insignificant since 2004. Many reforms in the mid-1990s established more means-testing in family benefits, but these graphs show that the universality of family benefits was restored, except in the case of Poland.

Figure 4.3: Means-tested and non-means tested spending on family benefits as a percentage of GDP

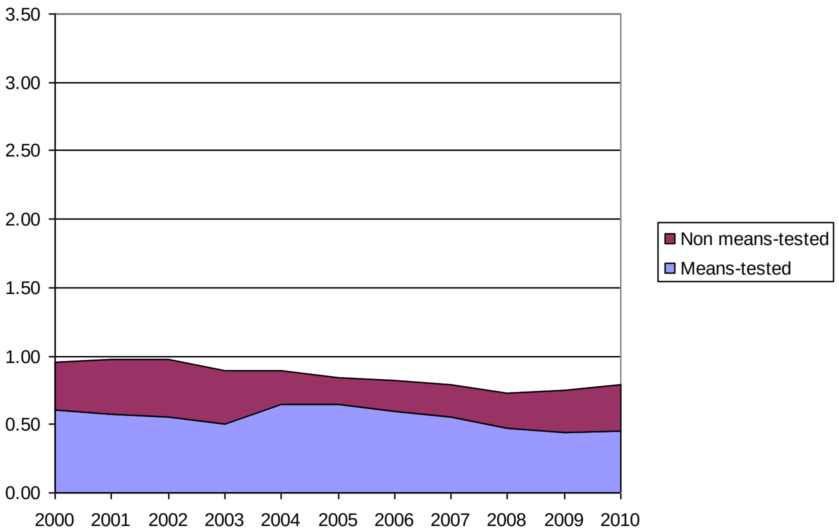
Czech Republic



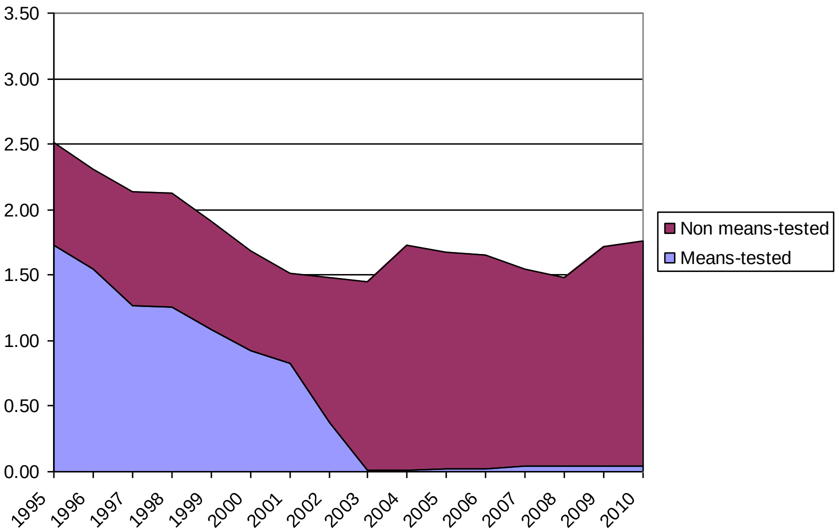
Hungary



Poland



Slovakia



Source: EUROSTAT

4.2. Politics of reform for child allowances and parental leave schemes

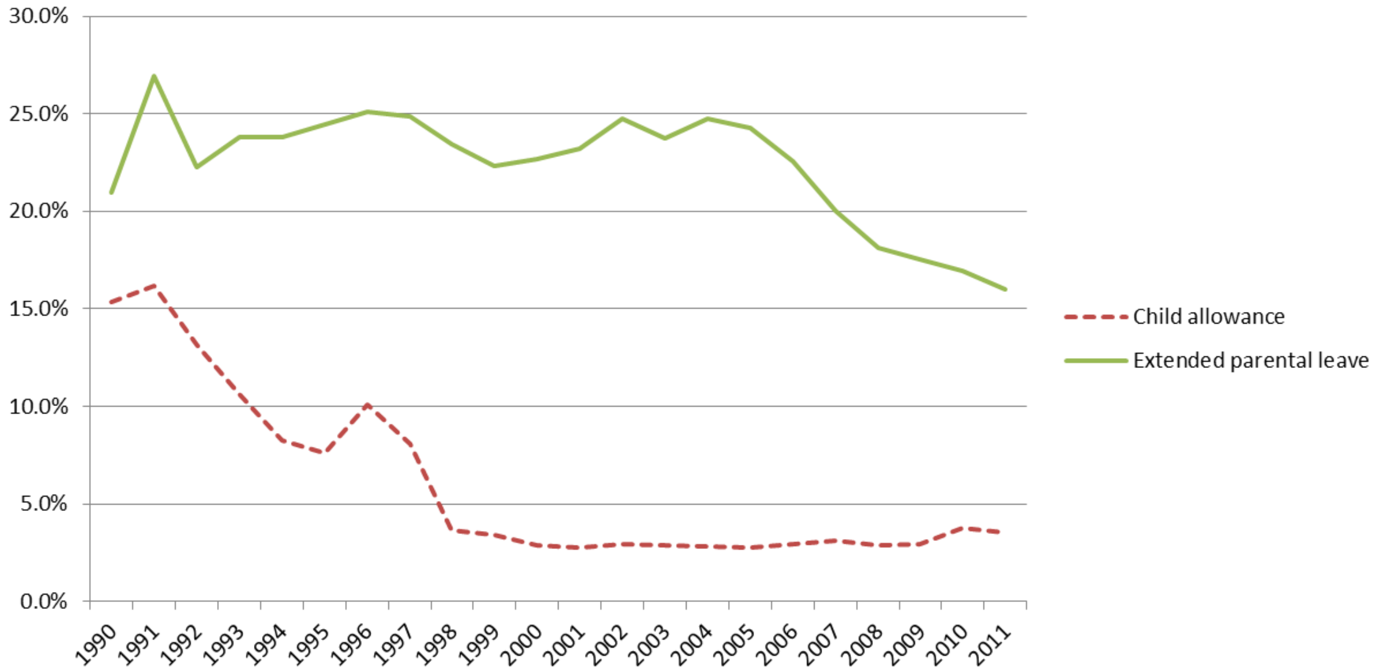
In this section, I summarize the paths of reform and continuity in child allowances, maternity leave, and extended parental leave. By presenting the major political debates and proposals, I demonstrate how government coherence was central to passing reforms. Further I summarize the use of passive austerity and generosity by each government.

4.2.1. Poland

Since the early 1980s, Poland had a means-tested paid maternity leave. So there was already an expectation that family benefits should serve those with financial need. As it began its transition, Poland had 'universal' (employment-based) family benefits, but they were notably less generous than in the other Visegrad countries at the same point in time and this became a means-tested benefit in 1995. At the beginning of the transition, an insurance-based parental leave (zasiłek macierzyński) was established providing 16 weeks of 100% income replacement (18 weeks for 2nd child) with no maximum benefit level. There were no major reforms to this benefit in the early transition. However, since 1999, every government has adjusted the duration of the leave with the right-wing governments increasing the duration in the name of pronatalism and the left-wing decreasing it to generate fiscal savings. The extended parental leave benefit was means-tested to support families with a per capita income below 25% of the average remuneration in the national economy. The level of this benefit was 25% of the average remuneration in the national economy (40% for single mothers) and this meant that it was indexed to wages.

During the late Communist era, many members of the Solidarity movement who were also linked to the Catholic church were against Communist family benefits, which were perceived to threaten traditional family values and gender roles by providing mothers with alternatives to complete dependence on the male breadwinner model (Heinen and Wator 2006, 206; Brown 2005, 231). However, some voices on the right did support pronatalist policies to confront declining demographic trends. The right-wing parties, therefore, lacked a consensus on the role of the state in supporting families and providing childcare. The post-Communist left-wing party (SLD) pushed for family benefits as a tool for social assistance and poverty alleviation, but also tended to decrease the generosity of the benefit which consequently lowered its potential to rescue those in poverty. Due to these characteristics of the right-wing and left-wing, until 2005, there was no government in Poland that supported significant increases in generosity or the universality of family benefits. The demographic crisis was as apparent in Poland as in the other countries studied, but family policy was not prioritized until right-wing governments with clear pronatalist motivations came to power in 2005 (led by PiS then PO). Figure 4.4 shows the level of the child allowance and extended parental leave benefit as a share of average net wage. Overall the generosity of these benefits fell substantially over time. Throughout the presentation of Polish family policy, I will refer back to this figure to assist in detecting passive austerity.

Figure 4.4: Average family allowance and extended parental leave benefit as a percentage of average net wage



Source: Polish Statistical Yearbooks, GUS

4.2.1.1. Stalled reforms and passive austerity under right-wing governments (1990-1993)

At the beginning of the transition, although the child allowance was universal, its level did depend on the family's income (Szelewa 2012, 10). A right-wing minority coalition put forth a family benefit reform proposal in 1992 to target child allowances by excluding higher income households and to equalize benefits for farmers and non-farmers (Brown 2005, 238). The proposal also aimed to reduce the total budget devoted to family policy. The government was divided on this and given that a minority coalition was in government, additional support from the opposition was also necessary. This led to a compromised proposal that balanced the interests of various groups who supported the reform for very different reasons (i.e. reducing spending, assisting the poorest households, supporting traditional family models by weakening state support). Significant opponents to the reform included trade unions and some among the conservative parties (as there were significant divisions between the newly formed parties on the right). However, in the negotiation process, there was pressure to keep family benefits at a steady level, which meant that the budget savings turned out to be much less significant than originally planned. Support for the proposal that was based on perceived reductions in spending dwindled and the reform proposal was not passed by the parliament. However, a reform was passed to index the level of child allowances to wages in 1992. The parties on the right remained divided, which explains the lack of reform both to child allowances and parental leave schemes in the early years of the transition.

Even in the absence of reform, the generosity of child allowances diminished dramatically from 1991-1993, losing 50% of its value relative to wages. Passive austerity therefore produced fiscal savings, which is particularly interesting when contrasted with the rise in pension generosity at the same time in Poland. The need to index pensions to wages was considered vital; while the maintenance of family benefit generosity was not. The political prioritization of pensioners over families was apparent from very early on in the Polish transition (in contrast to Hungary).

4.2.1.2. Targeting of child allowances by the left-wing government (1993-1997)

Leading up to the 1993 elections, the Democratic Left Alliance (SLD), a former-Communist center-left party who was in the opposition, campaigned on promises to reduce poverty. After the election, the SLD coalition with the Polish Peasant Party (PSL) finally passed a reform in 1995 transforming the universal child allowance into a means-tested benefit (for families with less than 50% of average income) as a part of a larger welfare state reform package. It was thoroughly negotiated between the political parties, trade unions, and other social actors (Inglot 2008, 273). The family benefit system became (weakly) targeted by excluding two million higher income families of the 12.5 million households with children (Inglot 2008, 273). This reform reduced spending while targeting benefits, but the real value of child allowances for families at all income levels decreased (see Figure 4.4). Although the reform was framed as a part of a poverty reduction plan, it did not even ensure real benefit maintenance for the lower income families. It did, however, generate fiscal savings when similar actions in pension policy proved infeasible.

In fact, as a result of the preceding political negotiations, the social expenditure saved by the family policy reform was supposed to be redirected to fund pension benefits, which may have taken the form of a side payment to political actors that would have otherwise opposed the child allowance reform (Brown 2005, 238). This type of compromised reform provides evidence that in political negotiations, consensus was sometimes 'bought' through logrolling. In Poland around 1995, we observe maintenance or increases in pension generosity concurrent with decreases in generosity in family policy, which already suggests that fiscal pressures did not have uniform effects across policy areas and highlights the importance of political agency for choosing which policy areas face austerity. Therefore, while IMF demands are claimed to explain the 1995 austerity reform of family benefits (cf. Heinen and Wator 2006), the simultaneous increases in pension generosity suggest that the IMF influence was less important than the central role of political agency. Further there were no major reforms to parental leave benefit schemes by the SLD-led government (1993-1997) with the exception of formally extending eligibility of the extended parental leave to fathers in 1996 (Plomien 2009, 142).

4.2.1.3. Division over family policy in the conservative-liberal government (1997-2001)

During the previous government, the Solidarity Electoral Alliance (AWS) in opposition was arguing for tax breaks for families and fighting to raise the limits for the means-testing, representing the interests of the (upper) middle-class (Brown 2005, 251). Given that only the top 16.5% of households were excluded under the 1995 reform, the AWS proposal would have implied limited means-testing. When the center-right AWS formed a government with the Freedom Union (UW) in 1998 with Jerzy Buzek as Prime Minister, the coalition was coherent on many dimensions of economic policy, but not on family policy. Consequently they did not reform child allowance targeting, despite AWS's earlier opposition to the reform, as UW supported the higher degree of means-testing due to the fiscal savings it produced. The lack of coherence on family policy and the need to support traditional family models between the members of the coalition made reforms to the structure of the child allowance system infeasible. However, there was consensus between AWS and UW over the overall need to reduce government spending. Therefore the Buzek government changed the indexation of child allowance from wages to the Consumer Price Index (i.e. inflation) in 1999, which led to a drastic reduction in generosity as shown in Figure 4.4.

The divisions within the Buzek government between AWS and UW were also obvious as AWS pushed to extend the duration of paid maternity leave, while UW opposed it. However, AWS went around its coalition partner and passed a reform in 1999 with the support of SLD to increase the duration of the insurance-based maternity leave from 16 to 20 weeks in 2000 and then to 26 weeks in 2001 (PNB 1999). Although AWS found an alternative way to overcome the coalition's lack of coherence on family policy by shifting alliances, the fact that the coalition parties did not always vote together in the parliament actually led to breakup of the coalition in June 2000, leaving AWS as a minority government until the September 2001 election.

4.2.1.4. Austerity and targeting by the left-wing government (2001-2005)

Following the 2001 parliamentary elections, a left-wing coalition between SLD, Labor Union (UP)[47], and PSL formed with Leszek Miller as Prime Minister. However, significant tensions within the coalition led to the dismissal of PSL in March 2003, resulting in a minority SLD-UP government that was able to pass reforms as long as they decreased spending relying on support from UW or independent MPs. In November 2003, the Miller minority government garnered enough support to introduce a reform to family policy that integrated many types of social assistance into family policy, strengthening the means-tested nature of child allowance consistent with the previous SLD-led government's reform in 1995. This meant increased benefits to low income families, but lower coverage of the benefit enabled fiscal savings. The stronger targeting meant that only families with a per-capita household income under 504 zloty (25% of the average gross wage at the time) received the benefit. The reform set the cut-off point for benefit eligibility at a fixed level with the idea that it would be adjusted upwards every couple of years, but without making this indexation automatic (Inglot, Szikra, and Raţ 2012, 29). Its nominal value remained unchanged since 2003, which effectively led to a lower real cutoff point each year, which implied passive austerity in terms of benefit coverage. Therefore, although the value of the benefit generosity stabilized after 1999, the overall expenditure on family benefits continued to decline (see Figure 4.1).

The Miller government also reduced the duration of maternity leave back to 16 weeks (18 weeks for 2nd child), which was ironic given that SLD voted for the reform to lengthen it while in opposition. The 10 weeks that were cut from maternity leave were offered as a paternity leave (PNB 2001). The reduced duration was motivated by budgetary pressures and lobbying by employers (Inglot, Szikra, and Raţ 2012, 29) and was also supported by the liberal party UW and agrarian party PSL, which once again demonstrates the strange bedfellows that form agreements on Polish family policy. The extended parental leave benefit

[47] SLD and UP formed an alliance before the election.

became fixed in nominal terms (at 400 zloty per month, approximately 17% of average wage at the time). This facilitated the decrease in the real value of this benefit over time as the nominal level has yet to be increased. The divided SLD government, which faced significant fiscal pressure, made a habit of setting family benefits in nominal terms paving the way for passive austerity during the Miller government and later governments. Given the divisions between the liberal and social democratic factions of SLD, passive austerity was a highly effective and extensively utilized mode of reducing spending.

4.2.1.5. Pronatalist family policy by conservative governments (2005-2012)

The 2005 parliamentary elections altered Poland's political landscape, as SLD's presence dropped from almost half to less than 12% of the seats in the Sejm and the competition was between competing conservative parties, which led to increasing polarization on the right (Markowski 2006). Law and Justice (PiS), a splinter of the AWS party, first governed alone as a minority government after attempts at forming a coalition with the Civic Platform party (PO) failed, then was joined by agrarian-religious conservative Self-Defense of the Polish Republic (SRP) and extreme conservative League of Polish Families (LPR) under Prime Minister Kazimierz Marcinkiewicz (though the cabinet was formed by Jarosław Kaczyński who was highly influential and took over as Prime Minister in June 2006). Although the coalition was not highly coherent on economic dimensions, all of the parties represented conservative social values (therefore a traditional family model) and pronatalist policy approaches. As a consequence while reform was difficult in other areas, a broad reform of family policy was feasible. In 2006, a broad pronatalist reform package was negotiated between the government and the liberal-conservative opposition party PO, led by Joanna Kluzik-Rostkowska (Inglot, Szikra, and Raţ 2012, 30). This extended the duration of maternity leave from 16 to 18 weeks (20 weeks for the 2nd child) and slightly increased the generosity of the child allowance. Also the level of the child allowance was set to increase as the child's age increases, but notably the means-tested nature of the benefit was not altered.

The PO-PSL coalitions led by Donald Tusk after both the 2007 and 2011 elections continued with reforms in the same direction, given the involvement of PO in the previous government's reform package. The duration of maternity benefits was further extended to 26 weeks by adding 2 weeks in 2009 and 2010, then 4 additional weeks in 2012 (Szelewa 2012, 11). The Tusk government maintained the existing level of child allowances by introducing annual indexation and was the first to increase the nominal cut-off point for benefit eligibility since it was targeted in 1995, which expanded the coverage of the benefit. Extended parental leave remained unchanged and its value continued to erode.

4.2.1.6. Summary of Polish family policy

The 1995 reform targeting child allowances produced lasting change that endured governments from multiple policy perspectives. Meanwhile the real value of child allowances has decreased drastically (as shown in Figure 4.4). Family benefits proved to be a more politically feasible policy area for reducing the budget than pensions or unemployment benefits (Inglot 2008, 273). Left-wing governments targeted benefits while also reducing generosity; right-wing governments supported insurance-based maternity leave, but allowed the other means-tested benefits to erode. Any major social influence), such as the Catholic church (or at least politicians enforcing Catholic values) and even NGOs representing large families, actually pushed for less involvement of the central government in family life and correspondingly lower benefit levels (Inglot, Szikra, and Raţ 2012, 31). Notably in Poland, governments from different perspectives were able to retrench family benefits with the left-wing SLD-led governments combining visible and passive means while the right-wing AWS-led coalitions only applied passive means. In contrast with the Hungarian conservative parties who advocate universal family benefits, the main conservative Polish parties at most advocated more generous, targeted benefits. Unlike in the other countries studied, the extended maternity leave is also means-tested. In practice, it seems that there is no political backlash for use of passive austerity measures on benefits to the lowest income households.

In the recent governments, the conservative parties PiS increased the generosity of the child allowance and PO maintained that level, but without increasing the coverage. The only party advocating universal benefits is the extremely conservative LPR who made an extraordinary maneuver in 2005 to work around the PiS minority government and to pass a universal one-time birth grant with other opposition parties (Inglot, Szikra, and Raţ 2012, 30). This is the only universal benefit and the acceptance of the targeted measures by all major parties is quite unique compared with the other countries studied. For child allowances and extended parental leave, there seems to be a consensus between left and right allowing the general erosion of (already low) means-tested benefits. The conservative parties seemed primarily concerned about increasing the generosity of the insurance-based maternity benefit, which was also seen as the least costly family benefit scheme. Although recent governments adopted pronatalist rhetoric and family benefits became slightly more generous, the generosity is still quite modest from an internationally comparative perspective.

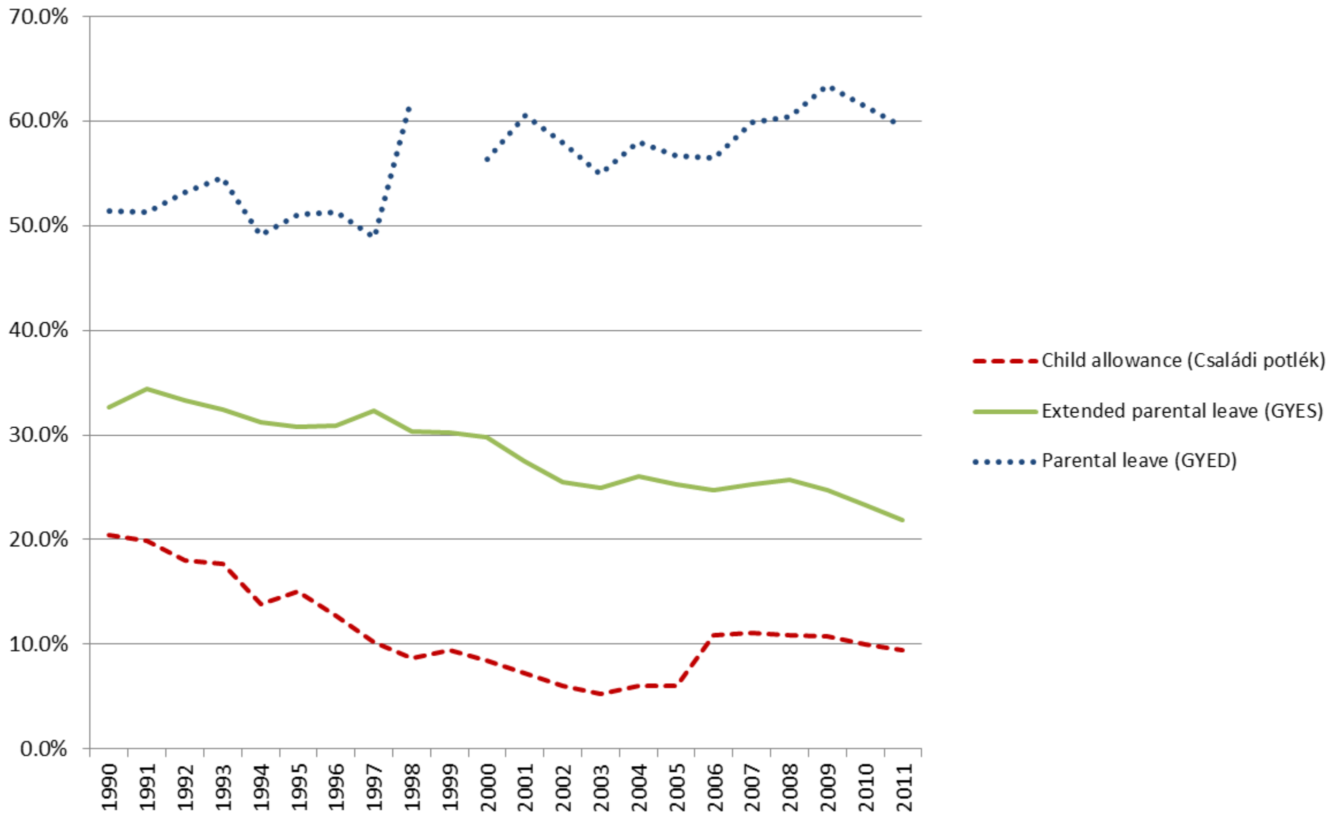
4.2.2. Hungary

In contrast to Poland, Hungary exhibits higher generosity and political salience of family benefits. While major welfare reform has taken place in other social policy areas, the structure and eligibility of Hungarian family benefits remained remarkably consistent over time. There has been only one major attempt to reform family benefits in 1995 by the socialist-liberal government that was reversed by the following conservative coalition in 1998. Since then, political debate has centered on minor adjustments and meanwhile passive austerity measures have been the only politically feasible way to reduce spending on family benefits. They have been used extensively (although notably Hungary still has the most generous family benefit system of the countries studied). Unlike in Poland, the right-wing governments represented a unified voice promoting generous family policy based on pronatalism (likely due to the absence of the liberal party in these coalitions). The liberal party (SZDSZ) was consistently advocating lower spending. The socialist party (MSZP) was deeply divided between left-wing and liberal factions and the only major reform occurred as a part of a larger austerity package that resulted from the alignment of the liberal faction of MSZP with SZDSZ. Therefore the pattern of coalition formation with the liberal party joining the Socialist rather than the conservative parties had a significant impact on the development of family policy.

Hungary introduced flat-rate paid maternity leave in 1967, which became earnings related in 1985 (for a summary of the history of Hungarian family policy, see Szikra 2005). Even before transition began, Hungary had one of the most generous maternity leave systems in the world. This included three parental leave schemes (Sipos and Tóth 1998). The first was a six month maternity leave (TES, later called TGYÁS) paying 100% of previous income for those with contribution of 270 in the past two years (with no maximum benefit) and 65% for those with 180 days of employment. The second was a 2 year insurance-based parental leave (GYED) paying 75% (65%) of wages for 270 (180) days of employment in the past two years with a maximum benefit set at the gross minimum wage. The third extended parental leave scheme was a three-year flat rate benefit (GYES) provided based on 180 days of contribution in principle, but in practice it was given universally based on ‘fairness’ (Gyarmati 2010, 63). The child allowance is a universal benefit given for each child and the per child benefit level increases as the number of children in the family increases. On the eve of the first democratic election of the postcommunist democracy, the employment-based child allowance was declared to be a universal right. At the time, this did not seem to be a significant change in practice (given the legacy of full employment it was already operating as an essentially universal system), but it indicated the salience of family benefits in Hungary and the support for universality in benefits. The central social and political importance of these family benefits became even more apparent during the transition when there were attempts to restrict them.

Figure 4.5 shows the average value of family benefits as a percentage of average net wage, which demonstrates the pervasive use of passive austerity in the universal benefit schemes (child allowance and GYES) and the maintenance of benefit generosity for insurance-based parental leave (GYED). This emphasizes the preference for middle class recipients characteristic of the Hungarian welfare policy (Szalai 2007).

Figure 4.5: Average Hungarian family benefits as a percentage of net average wage



Source: Hungarian statistical office (KSH) and author’s calculations

4.2.2.1. Maintenance of generous benefits by the conservative government (1990-1994)

Hungary’s first conservative government, led by Jozsef Antall of the Hungary Democratic Forum (MDF) in coalition with the Christian Democratic People's Party (KDNP) and Independent Smallholders' Party (FKGP), was coherent and clearly “prioritized protection of the middle class and near poor, rather than those who had fallen into poverty”

(Kaufman 2007, 120).[48] This combined with a pronatalist policy approach led to the maintenance of Hungary's generous family benefits, including the universal child allowances and parental leave. Benefit levels were maintained thanks to annual increases in the nominal benefit levels (i.e. no passive measures). Some reforms even expanded the generosity of family policy, such as a pregnancy benefit at the level of the child allowance paid after the third month of pregnancy and an extension of coverage of the family tax credit to all families.

4.2.2.2. Austerity by the socialist-liberal government (1994-1998)

Like in Poland, by the mid-1990s fiscal pressure was mounting and the governing coalition of the Hungarian Socialists (MSZP) and the liberal Free Democrats (SZDSZ) led by Gyula Horn faced strong fiscal and international pressure to reform social policy in a way that would reduce spending (Goven 2000). Given the generosity of Hungarian family benefits by international standards (with expenditure over 3% of GDP), cutbacks could produce significant fiscal savings. Even after campaigning with the intentions to increase social benefits, the government attempted to raise public awareness that the current social benefits were not sustainable (BBC 1995b). After taking a decidedly liberal turn facilitated by the alliance of liberal SZDSZ with the liberal faction within MSZP, the Horn government pursued a broad set of austerity reforms, led by Finance Minister Lajor Bokros and coined as the Bokros package, which was controversial both within and outside the government. In part the controversy stemmed from the lack of consultation with social actors and the deviation from campaign promises. The controversy within the government makes this a case in point of how non-coherent governments can pass reforms via technocrat-led reform.

Among other austerity means, this reform package introduced income testing into the universal family benefit system and for the extended maternity leave (GYES). Like in the Polish 1995 reform, targeting was to *middle* and lower classes, only eliminating transfers to the richest 10% of families (World Bank 1996, 42). As a part of the same reform package, family tax credits and the two-year insurance-based parental leave (GYED) were discontinued leaving only a six month maternity leave, which meant a significant cut to middle class families. These reforms constituted the first phase of many planned austerity measures and tackled the supposedly less controversial reforms, leaving pensions to a later phase. Despite this and the relatively limited degree of targeting, the reform to eliminate the

[48] Although the family benefits are universal, the poorest households are often excluded in practice through the administration of the benefits (i.e. local social workers deciding on the deservedness of households to receive benefits). These practical matters combined with policies that are clearly in the interests of the middle class create a "dual structure" within the Hungarian welfare system (Szalai 2006, 311; Szalai 2007; Fodor et al. 2002, 487).

universal nature of the benefits and the cuts in maternity benefits proved to be highly controversial and resulted in significant public mobilization by citizens and alliances of family interest groups, such as the National Association for Large Families (Haney 2002). Opposition parties helped organize protests as well.

Some parts of the original reform proposal were prevented from implementation by a ruling of the constitutional court, which at that time had the right to review any law questioned by an individual or a political party. Specifically, the constitutional court reversed income testing on the extended parental leave (GYES) and the elimination of parental leave (GYED) based on the "acquired right" that new parents had to these benefits on the grounds of previous social contributions, but upheld the targeting of child allowances as that had no link to previous contributions ("Bokros' Nemesis on the Court Speaks Out" 1995). The constitutional court ruled that the time frame for the was too short to change parental leave benefits and did not provide families possibly already expecting children with enough time to adapt to the changes (Gyarmati 2010, 64). This did not prevent the government from passing another reform with more gradual implementation in 1996. The delays in the reforms reduced the planned fiscal savings dramatically and the government responded by increasing energy prices explicitly stating this as a response to the ruling of the constitutional court (BBC 1995c). Nevertheless the Bokros package remained highly unpopular. Division within the governing coalition persisted and Bokros eventually resigned when he realized that his further reform proposals would not be completed as planned. The continued division between the pro-welfare and liberal factions of MSZP limited the extent of social policy austerity, especially when compared with the original proposals.

4.2.2.3. Conservative government's restoration of universality combined with passive austerity (1998-2002)

In the 1997 election campaign, Fidesz aligned with the interests that had mobilized against the Bokros package and represented the voice of middle-class women, among others (Myshketa 2008, 41). After winning the election in 1998, Fidesz led by Viktor Orbán, formed a coherent conservative coalition with MDF and FKGP. The Orbán government promptly passed reforms to restore the insurance-based parental leave (GYED) and eliminated income-testing for family benefits (both family allowances and extended parental leave, GYES). GYED was introduced under the same conditions as earlier, except the maximum benefit level was doubled from the earlier limit (gross minimum wage), which further raised the benefit level to middle class and high income parents. While making the child allowance universal again, the level of benefit was maintained, but extended to children over 18 years old who are still in higher education. Also, family tax credits were re-introduced and expanded compared to the early 1990s. Family policies then resumed their role as a support to the middle class, rather than an anti-poverty measure (Brown 2005, 254).[49]

However, during the subsequent years, the value of the benefit relative to wages eroded under the Fidesz-led government due to the fact that the nominal level of child allowances was not increased at all and GYES was increased, but at a slower rate than wage growth. The simultaneous reforms favoring the (upper) middle class, including family tax breaks and raising the GYED maximum limit, and the erosion of universal benefit levels clearly demonstrates that the conservative government's priority was to protect the family benefits for the middle class (even at the expense of the poor). In an interview, Péter Harrach, the Minister of Social and Family Affairs in the Orbán government, stated that "child-care allowance is important not so much because of the value in money terms to the families but because of the importance of its value as a message" (BBC 1998). Family policy for the conservative government was about demography not poverty.

4.2.2.4. The Socialist-Liberal government's new approach supporting generous family policy (2002-2009)

The 2002 electoral campaign included a bidding war related to generosity of family benefits signaling that austerity in this area was off the table for Fidesz and MSZP. After MSZP won the election and once again formed a coalition with SZDSZ, under Peter Medgyessy, the government was characterized by generosity in family policy in stark contrast to its 1995 reform. There was neither change to parental leave benefits nor any reform proposal to re-target child allowances. The Medgyessy government actually increased the generosity of the benefit by introducing a '13th month' family allowance in 2002 (a form of passive generosity). The Medgyessy government then restricted the family tax allowance in 2004 eliminating the benefit for high income families (annual income over six million forints) except those with three or more children. This change was in line with its earlier redistributive approach to family policy, though notably less extreme than the 1995 reform. Then prior to the elections in 2006, the nominal level of the child allowance was almost doubled. This shows a strong break from this government's past attempts to reduce spending on family benefits in 1995 and demonstrates acceptance of positive public perceptions of family benefits. In order to encourage the re-employment of women, the MSZP-SZDSZ

[49] It is worth noting though that in absolute terms a low income family in Hungary still receives higher benefits than the equivalent family in Poland with its targeted benefit system.

government (by then under PM Ferenc Gyurcsany) offered employers a 50% break on social insurance contributions if they hired mothers after maternity leave and continued paying GYES even if employed. They also extended GYES eligibility to grandparents if they were actively providing childcare.

4.2.2.5. Austerity under the caretaker government (2009-2010)

After the collapse of the government in 2009 and under remarkable fiscal and international pressure resulting from the IMF bailout, the MSZP-SZDSZ-backed caretaker government, led by Gordon Bajnai, passed many austerity measures quickly. This included reducing the maximum age for the child allowance from 23 to 20 and freezing the nominal benefit level for two years. Given the desperate fiscal situation (BBC 2009), these measures actually seemed rather mild, which again demonstrates the political salience of protecting family benefits in Hungary. Like the child allowance, the GYES benefit level, which is linked to the minimum pension, has not been indexed since 2009. The Bajnai caretaker government also shortened the length of GYES to two years and increased the eligibility requirement for GYED and TES (now called TGYÁS) from six month to one year of employment. A proposal to shorten GYED from two years to one was also considered, but women's organizations protested and this proposal was eventually dropped (Inglot, Szikra, and Raţ 2012, 34). Again the benefits to the middle class received greater protection than those to low income households in Hungary.

4.2.2.6. Pronatalist family policy with passive austerity (2010-)

After the 2010 elections, the Fidesz government with Orbán as prime minister restored the three year duration of GYES, but left the higher employment requirement for GYED and TGYÁS. The Orbán government also significantly increased the generosity of tax benefits. While protecting the existence of the benefit schemes as a means of addressing population decline, the real value of the universal benefits (both child allowance and extended parental leave) were again not protected as lack of indexation allowed the relative level of these benefits to erode. The Fidesz governments consistently protected the universality of benefits rather than the maintenance of their real value.

4.2.2.7. Summary of Hungarian family policy

Notably there has not been an attempt to target any family benefit since 1995 (even under severe fiscal pressure during the crisis), which likely reflects that politicians learned to not encroach on the 'entrenched' interests of the middle class. As a demonstration of how the debate around child allowances narrowed after the 1995-96 reforms, a seemingly minor issue about whether there should be a school registration requirement associated with the universal benefit has been a source of debate between the two largest parties, MSZP and Fidesz. Every change of power brought a change in this policy since 1998. In 2010, the Fidesz government introduced the strictest requirement enabling local governments to withhold the child allowance if the child misses more than 50 days of school, which is likely a measure targeted towards lower income (mostly Roma) families.

While in Poland, the preference of pensioners over families was obvious, in Hungary, families receive much greater priority in the welfare state. Some parental leave benefits (GYES) are even linked to the minimum pension level, implying that a government cannot easily increase the generosity of the minimum pension without also increasing the generosity to families.

Patterns of coalition formation that produced coherent conservative governments and less coherent socialist-liberal government implied that the conservative governments were able to promote more extensive family policy; while the socialist-liberal governments lacked the coherence to reverse these reforms (except in 1995 and by a caretaker government in 2009). The social mobilization that occurred in response to the 1995 reform likely served as a lesson for the socialist-liberal government about the political risk of pursuing austerity in family policy, leading them to rather seek cuts in other policy areas and even using passive generosity techniques to appeal to voters. The high fiscal pressure combined with the popularity of family benefits led to the pervasive use of passive austerity measures even by the pronatalist conservative governments.

4.2.3. Czech Republic

In the early 1990s, Czechoslovakia had a universal child allowance with higher benefits for larger families. The child allowance was calculated as a percentage of the minimum living standard (MLS), which was a level that was set by parliament to estimate the basic living costs of households and was used in many welfare benefit formulae. This meant that the child allowance level rose when parliament increased the MLS. There was a 28 week maternity leave (peněžitá pomoc v mateřství) that paid 90% of net wages and required 270 days of employment in the past two years. The benefit had a maximum level at 2835 CSK, approximately 110% of average wage. The extended parental leave (rodičovský příspěvek) was a universal flat-rate benefit originally set at a flat rate of 900 CSK (1200 CSK in 1992) that was paid for three years.

Figure 4.6 displays the generosity of child allowances and extended parental leave as a share of average net wage in the Czech Republic. The generosity of the child allowance gradually decreases over time from around 10% of average wage to under 4%. Extended parental leave also does until the social democratic-Christian democratic coalition in 2002. Further the manipulation of the maximum benefit level for insurance-based maternity benefits was used extensively from 1993-2007 to limit spending on maternity benefits, as shown in Figure 4.7.

Figure 4.6: Average child allowance and extended parental benefit as a percentage of average net wage

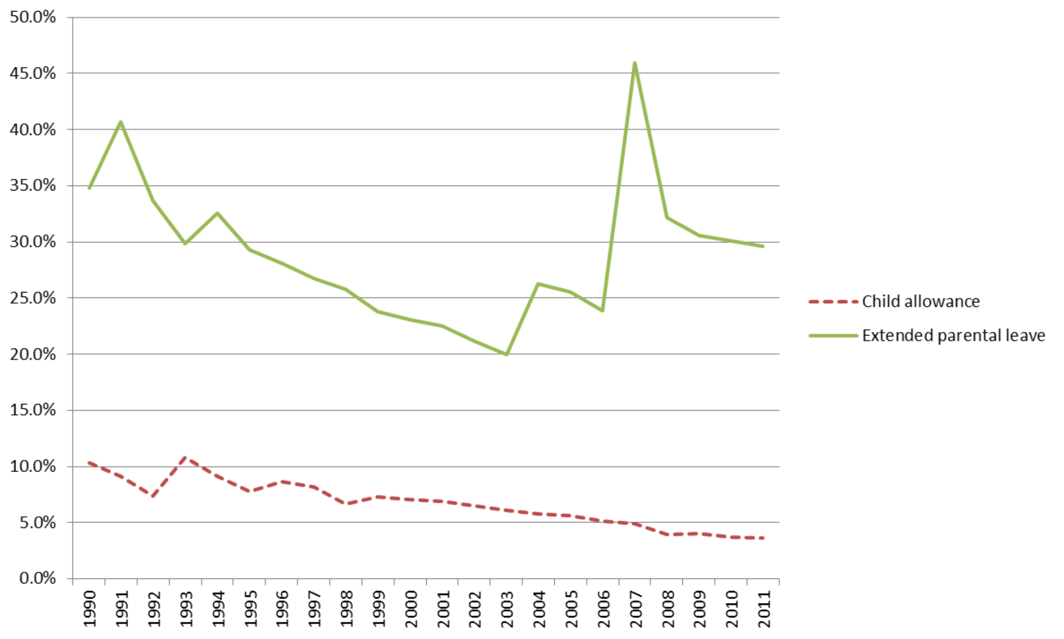
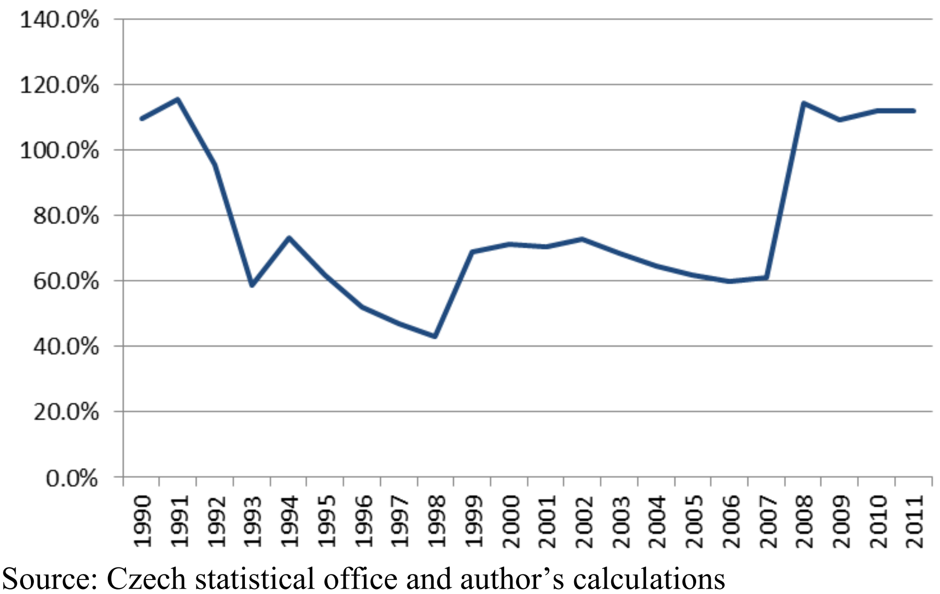


Figure 4.7: Maximum maternity benefit as a percentage of average net wage



Source: Czech statistical office and author's calculations

4.2.3.1. *Targeting child allowance and passive austerity by the right-wing governments (1993-1998)*

During the Czechslovak governments from 1990-1993, there were no major changes in family benefits, except to increase the nominal value of the extended parental benefit and index it according to the MLS. Although the right-wing ODS, KDU–ČSL, ODA coalition under Prime Minister Václav Klaus (1993-1998) was not highly coherent on many other dimensions, they were able to pass a few significant reforms. ODS, unlike the conservative parties in Hungary and Poland, did not support pronatalist policies, prioritizing lower spending over a welfare system to support population growth, which may be related to the more clearly secular status of the conservative party and its voter base. The Christian Democrats supported policies that encouraged mothers to stay home longer with children, but without increasing overall spending dramatically. Reflecting a compromise between these perspectives, the Klaus government targeted child allowances, but increased the duration of parental leave. Simultaneously the generosity of all family benefits eroded significantly. First, the Klaus government introduced a reform in 1993 that made the child allowance dependent on the age of the child rather than the number of children in the family, but simultaneously lowered benefit levels (SSA 2002). Then in 1995, the same government passed a reform to make the family allowance income-tested and increased the nominal benefit level for lowest income families. Households with per capita income exceeding two times the MLS did not receive the benefit, which excluded 20% of families (Kotynkova, Kucharova, and Prusa 2003, 121). At this time, the duration of extended parental leave was lengthened from 3 to 4 years, just as unemployment increased, indicating that this the policy change aimed at easing labor market pressure (Klenner and Hašková 2010, 196). However, the level of the same benefit relative to wages fell from around 30% to 25% of average wage, as MLS was not indexed to keep up with wage growth. The Klaus government also changed the replacement rate of the insurance-based maternity leave from 90% of *net* wages to 69% of *gross* wages, which did not represent a significant change in the benefit on average.[50]

More significantly, the lack of indexation of the maternity benefit ceiling in the Czech Republic led to a decrease in the real value of maternity benefits in the 1990s (under all governments). Despite the 69% replacement rate, by 1998 the highest possible maternity benefit level was 47% of the average earnings, which meant that only low income mothers experienced an actual replacement rate of 69% (Kocourková 2002, 306). While the rhetoric

[50] This reform would have slightly favored higher income mothers except that the maximum benefit level was very low meaning that higher income mothers would not experience this effect.

of the right-wing governments in the 1990s supported maternity benefits and emphasized "the freedom to choose not to work" (Klenner and Hašková 2010, 195–196), passive austerity measures quickly eroded the generosity of maternity benefits reducing this freedom dramatically. The high public popularity of maternity benefits created political incentives to use passive austerity rather than pursuing more visible reforms to reduce the generosity of maternity benefits. Overall the Klaus government reduced spending on family benefits both by targeting child allowances and passively decreasing the generosity of benefits. However, one highly visible reform in the other direction was to increase the duration of paid parental leave, matching the rhetoric of increasing women's ability to choose between work and family life.

4.2.3.2. Limited reforms by the non-coherent Social Democratic-led governments (1998-2006)

The Czech Social Democrats (ČSSD) minority government under Prime Minister Miloš Zeman proposed to make child allowances universal again arguing for its importance in confronting population decline, but this was blocked by ODS with whom ČSSD had an opposition agreement (CTK 1998). ČSSD persisted in trying to push the reform through until the 2002 election, but did not manage. In the absence of a parliamentary majority, the Zeman government reached a compromise with the opposition in 2001 and raised the means-testing cutoff for the child allowance from two to three times the MLS (decreasing the extent of the already limited targeting). The impact of this reform was, however, weakened by the lack of indexation of the MLS. This also caused erosion in the generosity of the universal extended parental leave. While passive austerity in child allowances and extended parental leave persisted, the government introduced a system of automatic indexation for the maximum benefit level for the insurance-based maternity leave to address the significant decreases in the generosity of that benefit scheme during the 1990s. The extent of reforms passed was limited due to the fact that ČSSD formed a minority government and lacked an opposition party with a common vision for family policy.

ČSSD won the 2002 elections with 30% of the seats and managed to form a (non-coherent) majority government: a grand coalition with the Christian Democratic KDU–ČSL and the liberal US led by Prime Minister Vladimír Špidla followed by Stanislav Gross then Jiří Paroubek. Although the deficit had grown dramatically and there was significant pressure to reduce spending, the government partners disagreed on the approaches for reducing the deficit and the lack of coherence limited reforms. Despite fiscal pressure, ČSSD pushed for universal child allowances as a condition in the coalition agreement and throughout its time in government, but the other parties resisted this and prevented the reform from occurring. Nevertheless, again prior to the elections, ČSSD managed to garner enough support for increasing the means-testing cutoff from three to four times the MLS. Given that the MLS was also indexed now, this reform had a stronger impact. So the child allowance system moved closer to a universal system without actually becoming one, as that proved politically infeasible. In 2004, the generosity of the extended parental leave benefit was increased from 1.1 times subsistence level to 1.54 (which basically returned the benefit to its 1998 level relative to wages, see Figure 4.6). The cap on earnings while receiving this benefit was also removed. Despite more major reform proposals, the Špidla and Gross governments were only able to pass these minor parametric reforms.

4.2.3.3. Right-wing government targets child allowances and increases duration of maternity leave (2006-2009)

After stalled government formation in 2006, a coalition was formed by ODS, KDU–ČSL, and the Green Party (SZ) under Prime Minister Mirek Topolánek that held exactly half the seats, one seat away from a majority government. Although this government was technically a minority government and was not coherent on all policies (such as the introduction of a private pension pillar), it had greater coherence on family policy than its predecessor and was able to pass several major reforms by getting one more MP to abstain or to vote for the reforms. First the Topolánek government lowered the means-testing limit for the child allowance back to 2.4 times the MLS undoing ČSSD's efforts to get the benefit scheme to approach a universal one. As a result about 40% of families lost their right to the benefit (CTK 2008). At the same time, the government set the child allowances at a nominal level rather than having them linked to the MLS as they were in the past. This eased the use of passive austerity as the nominal level has not been increased since 2008. Further the MLS level was not increased from 2006-2012 resulting in more extreme (real) targeting from year to year and lowering the number of families eligible for the benefit.

In 2007, the Topolánek government passed a quite unique reform to the extended parental leave where parents choose between 2, 3, or 4 years of benefit after the birth (the decision about the duration can be adjusted every three months and the benefit level is then adjusted accordingly). The total benefit level over the duration of the leave remains the same regardless of the length, but those opting for shorter leave receive a higher monthly benefit giving some incentive for parents to return to work earlier. This gave greater choice to parents (though given insufficient institutions for childcare under the age of three, some claim that options are still limited). For parents who opt for three years of benefit, the benefit level remains unchanged. For parents taking two years of leave instead of four, the benefit level increased by 50% (from 7582 to 11400 Kč), but for those parents who maintained the four years of leave that the earlier benefit allowed, the average monthly payment fell by 25% (from 7582 to 5700 Kč). This meant that overall the reform also implied lower spending and the nominal level of the benefit has remained constant since 2008 resulting in decreasing generosity through passive austerity. The generosity of the insurance-based maternity leave however increased, as the government nearly doubled the maximum benefit limit. Like the right-wing governments in Poland, the Topolánek government passed reforms increasing the generosity of insurance-based parental leave benefits, meanwhile reducing the generosity of extended parental leave and further targeting child allowances.

4.2.3.4. Broad austerity measures to spare maternity benefits under caretaker and right-wing governments (2009-2012)

After a collapse of the government in 2009, the caretaker government led by Prime Minister Jan Fischer passed many austerity measures (sparking a heated debate between ODS, KDU–ČSL, and ČSSD MPs), including cuts in maternity benefit from 70% to 60% of previous wages with an additional passive measure applying the replacement rate to 90% of the wage base instead of 100%. The debate over austerity measures leading up to the 2010 budget clearly highlighted the divisions between the parties with ODS and TOP09 advocating across the board austerity, ČSSD and KSČM supporting welfare generosity to help citizens cope with the crisis, and KDU–ČSL backing austerity in pensions but not in maternity benefits (CTK 2010a). After the tense debate accompanied by substantial pressure to rein in the deficit, the parliament passed austerity measures, but restored the more generous level of maternity benefits (which was supported by KDU–ČSL, ČSSD, KSČM, and SZ, but opposed by ODS, TOP09, and Prime Minister Fischer) even overriding a Senate and Presidential veto. Notably maternity and parental benefits were spared from austerity measures; while child allowances were not. This is at least in part due to the pivotal role that KDU–ČSL played in joining forces with the left-wing to support paid leave for mothers, but did not protect child allowances which support low income and middle class families. The protection of maternity benefits in the face of significant pressure for austerity also reflects the high public support for this benefit. In the 2010 election campaign, both conservative parties removed proposals to reduce the generosity of maternity benefits from their proposals (CTK 2010b, 09). As in

Hungary, the coalition for protecting the benefits of low income families from the targeted child allowance system was weaker.

The coherent conservative center-right government that formed between ODS, TOP 09, and VV (under Prime Minister Petr Nečas) after the 2010 elections generally supported austerity measures to balance the budget. Completing the austerity bill passed during the Fischer caretaker government, the Nečas government decreased the level of parental benefits. This was vetoed by the ČSSD-dominated Senate (upper house), but the veto was easily over-ridden due to the clear majority held by the governing coalition. Given the quite recent large austerity bill, which the parties in the government had supported, no further family benefit reforms were passed before the government failed over corruption scandals in July 2013.

4.2.3.5. Summary of Czech family policy

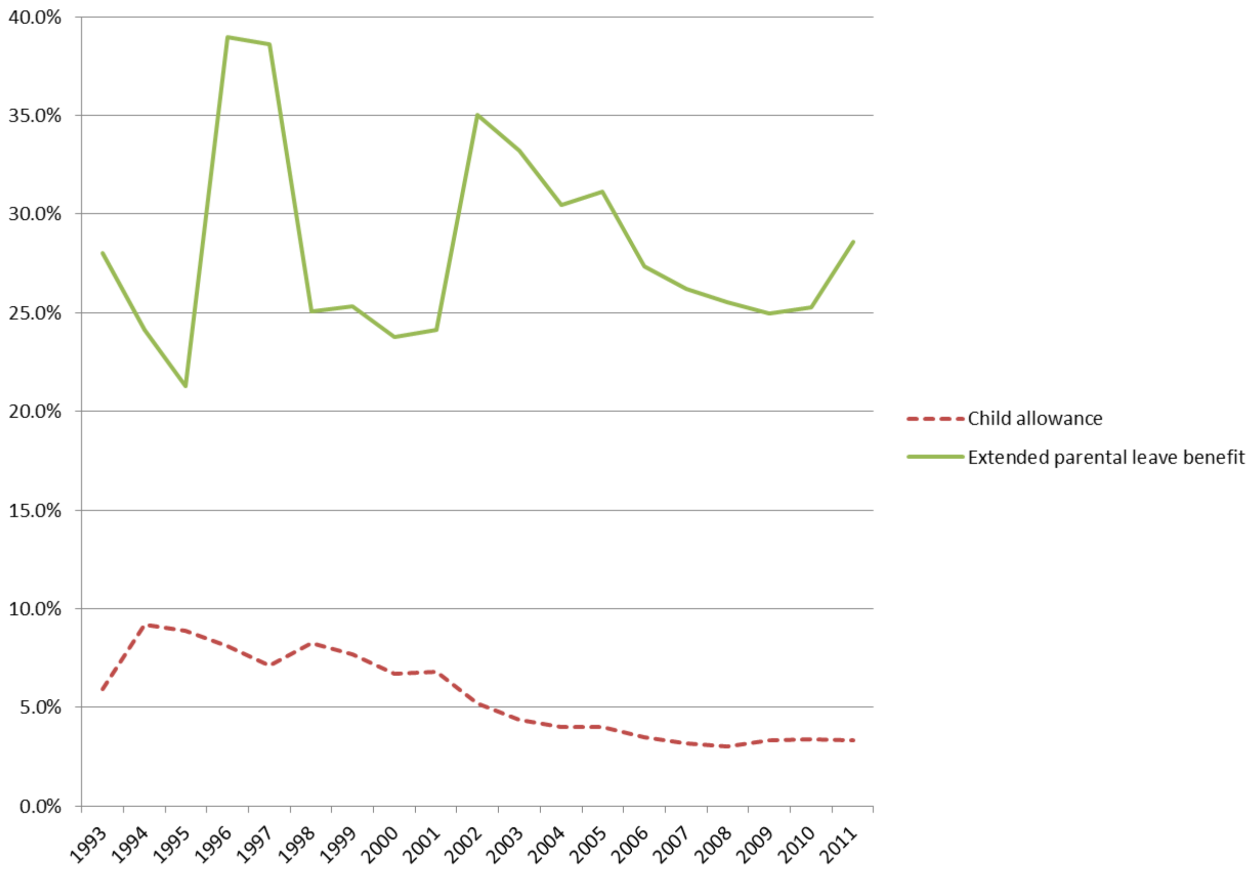
Similar to the case of Czech pension reform, the lack of coherence of governments significantly limited reforms, especially on the left as ČSSD generally lacked a like-minded coalition partner. On the right, the coherence on family policy actually seemed to be higher than in the case of pension reform given that, like in Poland, right-wing parties could reach compromises between austerity measures and those supporting traditional family values (i.e. longer maternity leaves). Reforms by right-wing governments combined reductions in generosity of child allowance with expansion of the duration of parental leave (often without increasing its generosity). Reforms by ČSSD-led governments rather focused on expanding the generosity and coverage of child allowances. The resulting family benefit arrangements more closely resemble those of a conservative welfare state; while other aspects of the Czech welfare state (pensions and social assistance) much more closely resemble a social democratic model. Therefore the patterns of coalition formation and the coherence of the right-wing governments on family policy (but not on other dimensions) help explain the emergence of the Czech patchwork welfare state.

4.2.4. Slovakia

In 1993, Slovakia had a universal child allowance (prídavky na deti) for which the benefit level per child increased based on the age of the child (maintained from the Czechoslovak policy) that was around 9% of the average wage. Similar to pensions, reforms to the child allowance system were frequently made by coherent governments with very different approaches to welfare. Like in the other countries studied, there was an insurance-based maternity benefit (Peňazná pomoc v materstve) available to women who were employed at least 270 days of the two years before the birth of the child. The entitled women received the benefit for 28 weeks at 90% of her previous net income with the maximum daily benefit level set at a nominal rate of 200 SKK. There have been no major reforms to the maternity benefit, except for adjusting the maximum benefit level. Finally, the extended parental leave (Rodičovský príspevok) is a universal, flat rate benefit given for three years. Although the logic of the extended parental leave and the duration of the benefit was not changed from 1990-2012, there were many parametric reforms to the benefit level and the method of indexation.

Figure 4.8 displays the average child allowance and extended parent leave benefit as a percentage of average net wage from 1993-2011. Despite its universal nature, the real value of the child allowance in Slovakia has diminished significantly, which supports and extends earlier findings (Svorenova and Petrasova 2005, 253).

Figure 4.8: Average child allowance and extended parental benefit as a percentage of average net wage



Sources: MONEE project database (1990-1997); Own calculations based on Slovak legal documents (http://www.zbierka.sk/), Slovak national statistics, MISSOC (1998-2012)

4.2.4.1. Maintaining or increasing benefit generosity under the left-nationalist government (1993-1998)

In 1993, the Mečiar government reduced the generosity of the child allowance and introduced means-testing into some parts of the benefit, but it remained universal as all families were entitled to some part of the benefit.[51] In July 1994, the child allowance benefit was reformed from a universal to a means-tested benefit by the Moravčík government (DUS-SDL-KDH coalition who formed the government after the vote of no confidence against the Mečiar government in March 1994). Only families with household income levels below two times the minimum living standard (MLS) received a child allowance. The benefit level was also indexed to the MLS with 50% of the MLS for the child if household income was under 1.5 times the household MLS and 33% of the MLS amount of the child if the household income was between 1.5 and 2 times the household MLS (Terrell, Lubyova, and Strapec 1996, 231). This increased the nominal value of the benefit and also maintained the generosity of the benefits as MLS was regularly increased under Mečiar's governments in the 1990s. The level of child allowance benefit still increases with age, given that the MLS level is higher for older children. Similar to targeting in each of the other countries considered, more than 80% of families still received the benefit (Kvapilova 1999, 62). Therefore, means-testing excluded only high income households. When HDZS and Mečiar once again led the government after the 1994 parliamentary elections, they did not reverse the means-testing of child allowances.

In September 1996, the Mečiar government passed a reform increasing the extended parental leave benefit level to 1.68 times the MLS, which doubled the nominal value of the benefit and, as with the child allowances, indexed the benefit level to the MLS. Despite declining number of recipients since 1995 (due to falling fertility rates), the spending on parental allowances grew dramatically as a result of the increased generosity of this benefit (Kvapilova 1999, 63). In April 1998, the same government reduced the benefit level to 0.913 times MLS. This brought the value of the benefit as a share of average wage approximately back to the level it was at before the 1996 reform (see Figure 4.8).

4.2.4.2. Compromised reform under a grand coalition (1998-2002)

The means-testing of the child allowance remained until near the end of the term of the first Dzurinda government, a grand coalition between right-wing parties (SDK, SMK, SOP) and the former Communist party (SDL). Making the system of child allowances

[51] Some degree of targeting to family price supports was introduced in 1993 under the Meciar government. That program was discontinued in 1994.

universal again in May 2002 was seen as a concession (i.e. logrolling) offered to pro-welfare sections of the government (predominantly SDL) that opposed other austere reforms passed by the same government (Inglot 2008, 252). While restoring the universal benefit, the reform also dramatically reduced the benefit for the low income households who were previously receiving benefits (Jurajda and Mathernová 2004, 23).[52] For example, for the lowest income family with a child between the ages of six and ten, the benefit level fell almost 30% from 830 SKK to 590 SKK (MISSOC 2002). The Dzurinda government also increased the maximum benefit level for the insurance-based maternity benefit. At the same time (also a few months before the parliamentary elections), the first Dzurinda government increased the nominal value of the extended parental leave by more than 35% and also disassociated the benefit level from the MLS and setting it at a flat rate (3790 SKK) that only can be raised by passing a bill in parliament. The nominal value of the benefit was constant from May 2002 until August 2005 representing a phase of passive austerity, but since then each year the parliament has passed a law increasing the nominal value of the benefit.

4.2.4.3. Austerity under a coherent center-right government (2002-2006)

In November 2003 under the second Dzurinda government (now a coherent coalition of center-right parties), along with other austerity reforms, the benefit levels were further decreased for children over six by 15-20%. In addition, the benefit levels were de-linked from the MLS and the differentiation of benefit by the child's age was removed. The benefit became a flat rate benefit of 500 SKK without any mechanism for automatic indexation. Since 2003, no parametric changes have been made to the child allowance benefit, but laws were passed to increase the nominal level of the benefit in 2005 by the Dzurinda government as the April 2006 elections approached. In 2004, the Dzurinda government lowered the replacement rate for maternity benefits from 90% of net earnings to 55% of gross earnings with the maximum benefit level at the average wage.

4.2.4.4. Expansionary reforms of the coherent left-nationalist governments (2006-2010) and reversal by coherent right-wing government (2010-2012)

The subsequent left-nationalist Fico government (Smer-SD, SNS, LS-HZDS coalition) was a coherent government that supported more generous family policy. The government introduced a new child allowance for working parents intended to subsidize the

[52] Given that the reform increases the benefit for many by making it universal, this reform was coded as positive second order change. Given that the average level of the benefit among those who were previously receiving benefit (i.e. low income families) decreased, this reform was coded as negative first order change.

cost of childcare arrangements, but notably did not invest significantly in public daycare centers (Hašková and Klenner 2010, 282). The Fico government also increased the generosity of family benefits in 2009, the year before the election. First the government increased the nominal value of child allowances and also introduced the automatic valorization of these benefits at the rate of increase of the MLS, which was done in the Czech Republic until 2008. Second the Fico government passed legislation that also added a higher level extended parental leave benefit (256 EUR compared to 164 EUR) for parents who had been insured (i.e. employed) for 270 days prior to the birth of the child. The higher benefit would have been received for two years, but the subsequent Radičová government (SDKU-DS, KDH, SaS, Most-Hid) reversed this decision in December 2010, but passed a lower, but universal increase to the benefit level by 15% and extended the duration of insurance-based maternity leave from 28 to 34 weeks. At that time, a reform was also passed enabling a three month 50% reduction of the extended parental leave benefit for recipients who do not ensure that his or her children are attending compulsory education (MISSOC 2002).

4.2.4.5. Summary of Slovak family policy

Slovak family policy was determined by coherent governments with clear partisan divides with left-wing governments increasing the generosity of the benefits and right-wing governments decreasing the generosity of benefits, but extending the duration of parental leave. The use of passive austerity measures also supports the framework, as they were utilized by the one non-coherent government (1998-2002) and those right-wing coherent governments that also passed austerity reforms. Notably the Mečiar government in the 1990s maintained the generosity of family benefit levels through regular indexation; whereas passive austerity measures began much earlier in the Czech Republic. The automatic valorization introduced by the Fico government has led to the maintenance of family benefit levels, but at a relatively low level compared to the 1990s (approximately three percent of the average gross wage). Until 2002, the changes in the extended parental leave generosity can be explained by the reforms and between reforms the value was maintained by indexation to the MLS. In 2002, the benefit level was set in nominal terms (de-linked from the MLS) leading to years of passive austerity under center-right and left-nationalist governments.

4.3. Conclusion

In a cross-country comparison, the partisan direction of reform is muddled as the role of right-wing and left-wing parties varied across countries, which is largely a result of the multidimensional nature of family policy and distinct patterns of coalition formation. Pronatalist arguments were used by Hungarian and Polish conservative parties (MDF, Fidesz, AWS) and Czech and Slovak social democratic parties (ČSSD, DUS). There was also a diverse group of parties that emphasized family policy as a tool for poverty reduction, including the Hungarian Socialists (MSZP), Polish social democratic (former Communist) party (SLD), and Czech and Hungarian liberal parties (ODS, SZDSZ). While parties had largely consistent approaches to family policy over time, due to the diverse influence of pronatalism, a partisan theory of welfare reform would not be effective for explaining the direction of reform in a cross-country comparison. The likelihood of those proposals being passed clearly depended on the degree of government coherence. Under coherent governments, the Czech Republic and Slovakia display clear patterns of left-wing governments increasing generosity and right-wing governments decreasing generosity. In Hungary and Poland, reform was also more likely under coherent governments, but the dynamic is less clear for two (unrelated) reasons. First, in both countries, the left was dominated by former-Communist parties that lacked internal coherence as they contained both pro-welfare and market liberal factions. Second, due to the popularity of family policy in Hungary, neither left-wing nor right-wing dared to overtly reduce generosity. In Poland, the public reaction to family policy austerity was much less. This may be a result of the higher degree of influence of the Catholic church in Poland (in interaction with the conservative parties), as well as more conservative ideas about the role of mothers in public opinion (Korkut and Eslen-Ziya 2011). Even the recent governments in Poland supporting pronatalist policy maintained, rather than increased, relatively low benefit levels. Figures 4.9 and 4.10 show the generosity of benefits allowing comparison across countries and over time. The benefit levels in Hungary are consistently higher than those in Poland and this difference is magnified by the fact that the benefits are universal in Hungary and means-tested in Poland. The generosity of the Czech and Slovak child allowances generally erodes over time remaining between the higher level in Hungary and the lower level in Poland. The extended parental leave generosity fluctuates significantly over time (especially in Slovakia), which reflects the partisan coloring of the government, as summarized in the case studies above.

Figure 4.9: Cross-country comparison of child allowance as a percentage of average net wage

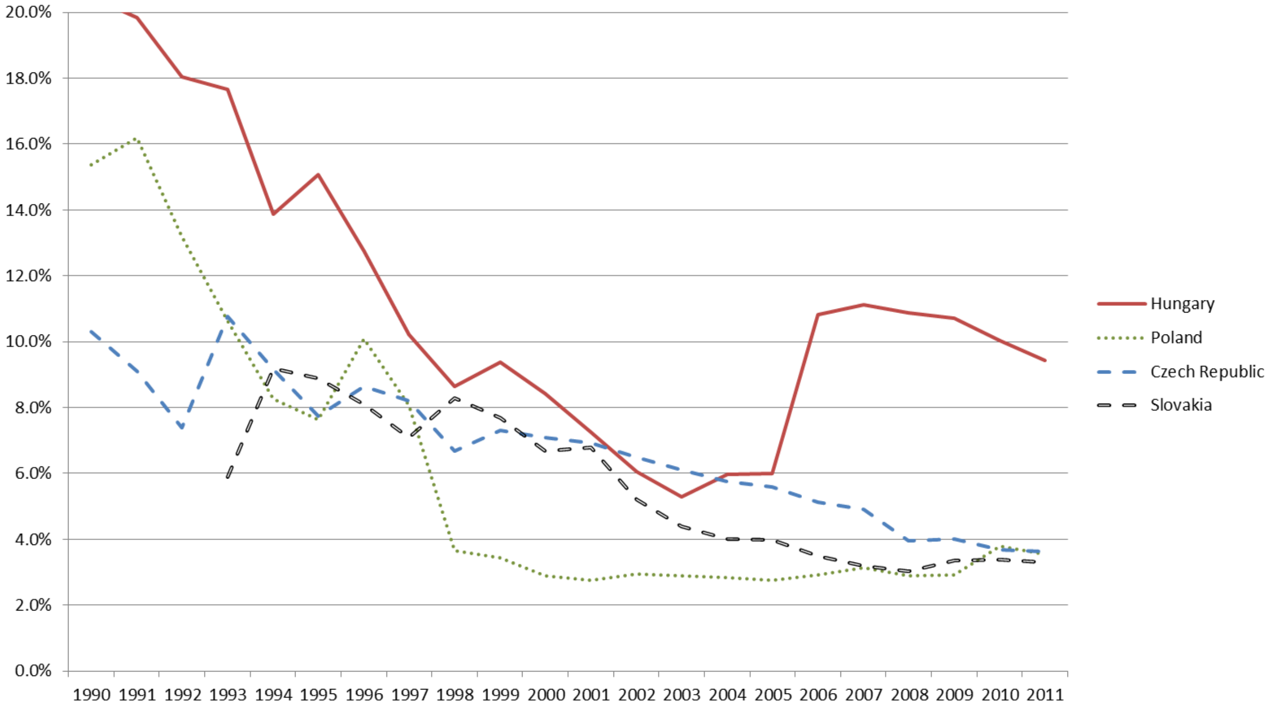
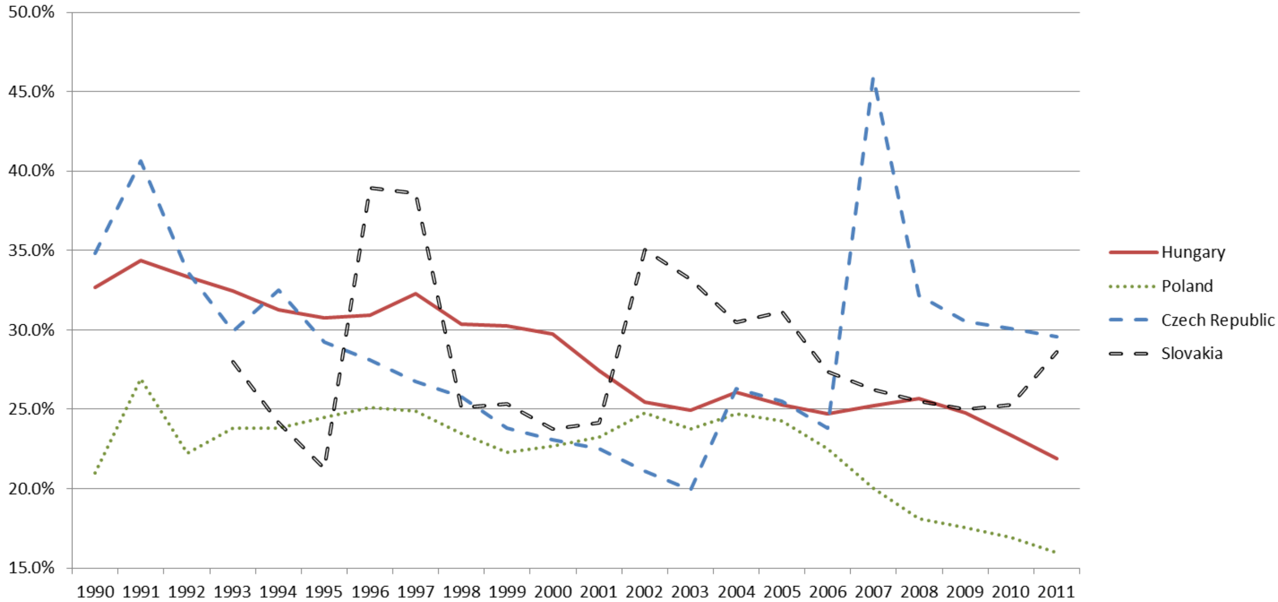


Figure 4.10: Cross-country comparison of extended parental leave benefit as a percentage of average net wage



Further, in comparison with pension policy summarized in chapter 3, the presence of technocrat-led reforms was much lower than in pension policy, likely because family policy takes up a smaller share of the budget, even in Hungary where spending is the highest. The only time that we saw technocrat-led reforms under non-coherent governments was in 1995 in the Czech Republic, Hungary, and Poland when child allowances were targeted as a part of broader austerity packages and under caretaker governments (such as Slovakia in 1994, the Czech Republic and Hungary in 2009).

5. Unemployment and non-employment policy: Widespread erosion of benefits

5.1. Introduction

Unemployment benefits offer a very different context to test the framework due to the following reasons. First, there is a lack of interest group or other actors defending the unemployed in ECE (and elsewhere too). While trade unions may serve to protect unemployment benefit schemes, there was little evidence of this in ECE. Unemployed individuals, especially those facing long stretches without work, are often also politically disengaged. Second, given the official nonexistence of unemployment in the Communist era, these benefit schemes were designed from scratch near the beginning of the transition. As a consequence, the design of the benefit should be more flexible compared to the other policy areas where the benefit schemes dealt with public expectations that result from historical legacies of the Communist era social policies. Finally, each country introduced a highly generous scheme in the early 1990s, which was likely aimed to calm social fears related to the anticipated explosion of unemployment. The highly generous benefit schemes of the early 1990s were reduced dramatically in each country, meaning that the direction of reforms was predominately reducing benefits through reforms of passive austerity. So this chapter is primarily a story of retrenching reforms and passive austerity.

A few studies have investigated the cross country variation in unemployment systems in Central and Eastern Europe (Vodopivec, Wörgötter, and Raju 2005; Polakowski and Szelewa 2007), but they either provide a snapshot at a single point in time or use indicators that are too general to detect change as required for testing the current explanatory framework. In this chapter, I present a qualitative summary of the system of unemployment benefits over time and alternative policy tools that supported jobless individuals. Below I summarize the development of the unemployment insurance benefit over time, including adjustment to the replacement rate, duration of benefit, eligibility requirement, and minimum and maximum benefit limits. Incorporating the minimum and maximum benefit limits demonstrates how the unemployment insurance systems underwent a functional transformation while maintaining their formal structure. Specifically in the Czech Republic in 1995-2006, Hungary after 1993, and Slovakia until 2006, the range between the minimum and maximum benefit level was so narrow that the benefit more closely resembles a flat-rate benefit than one based on wages. Therefore the analysis of replacement rates and their adjustments is incomplete and sometimes misleading. The Czech Republic and Slovakia more recently raised the maximum benefit limit and linked it to average wage, which increased the range of possible benefit levels and the degree of association with previous wage.[53]

Given that early retirement and disability pensions are sometimes used as alternative compensation mechanisms for non-employed individuals, the major reforms to these systems will be included in the case studies and the term 'non-employment benefits' refers to unemployment benefits as well as these alternative policy tools. The disengagement of jobless people was likely magnified by policies that subdivided the non-employed into groups (unemployed, retirees, disabled persons) with divergent policy interests, as suggested by the 'divide and pacify' strategy (Vanhuysse 2006). In Hungary and Poland (but not in the Czech Republic and Slovakia until after 2004) the replacement rates for old age pensions were higher than those paid for unemployment in both 1990 and 1995 (Vanhuysse 2006, 84). Second, the duration of benefits was indefinite (providing greater security). In addition to early retirement, in Hungary, the number of disability pensioners increased by 50% between 1989 and 1996 (Vanhuysse 2006, 87).

Before presenting the indicators, I outline how I will measure change specifically in unemployment and non-employment policies in Table 5.1. Unlike the other two policy areas analyzed in this dissertation, in unemployment insurance there were almost no reforms representing changes to the instruments or logic of the policy area in the four countries studied, with the one exception of Poland's move from a benefit level based on previous earnings to a flat rate benefit in the end of 1991. Early retirement and disability schemes, however, were changed more dramatically. As in the previous sections, reforms are considered any 1st, 2nd, or 3rd order change; while passive measures are the 0th order change.

[53] In relation to more recent literature that studies the welfare state from a dualization perspective (Emmenegger et al. 2012), the widening band between minimum and maximum limits could be understood as increasing dualization (i.e. the inequality of benefits between labor market insiders and outsiders). For the sake of consistency with other policy areas, I interpret increasing the limits as increasing (passive) generosity and decreasing them as (passive) austerity.

Table 5.1: Indicators measuring change in non-employment benefits

Level of reform	Measurement	Example
Changing the instruments or logic of the policy area (2nd or 3rd order change)	Introducing a new program or benefit	New early retirement scheme
	Changing basis of eligibility for benefit	Moving from employment-based insurance benefit to universal benefit
Adjusting the parameters of the policy instruments (1st order change)	Real benefit amount changed by +/- 10%	Changes to replacement rate of passive unemployment benefit
	Duration of benefit changed by +/- 10%	Changes to number of months benefit is received
	Parametric changes to eligibility requirement changed by +/- 10%	Length of employment requirement
Passive change to real value of benefits (0th order change)	Changes to the indexation method	Moving from wage-based to inflation-based indexing
	Changes to maximum or minimum benefit level	Changed by +/- 10%
	The average benefit level as a percentage of average wage	Changed by +/- 10% (per year)
No change	None of the above occurred.	

5.2. Changes in the parameters of non-employment benefits

In Table 5.2, I present the changes in replacement rates[54], the duration of benefits and eligibility criteria for unemployment insurance benefits over time. In general, unemployment benefit systems decreased in generosity over time through usually incremental (1) decreases in replacement rates, (2) reductions in benefit duration, and (3) most importantly passive austerity measures via changes in benefit indexation or reduced maximum benefit levels. The many adjustments made to the unemployment benefit systems can be interpreted as the governments' method of coping with increasing unemployment and high social needs (especially in the 1990s and 2008-2012), on the one hand, and fiscal pressure to reduce spending on the other. In the context of these pressures, I claim that the timing of reforms and use of passive austerity highlight the importance of politics, specifically the coherence of the government.

[54] Direct comparisons of the replacement rate data should only be made over time, not across countries, given that benefits are taxed in Hungary and Poland, but not in the Czech Republic and Slovakia. In the Czech Republic, replacement rates are a share of net income. All other replacement rates are for gross income.

Table 5.2: Unemployment benefit replacement rates, duration of benefits, and eligibility criteria, 1990-2012 (Sources: OECD reports, MISSOC)

	Czech Republic				Hungary				Poland				Slovakia			
Year	Replacement rate (%)- Phase I	Replacement rate (%)- Phase II	Duration of benefits in months (length of phase 1)	Eligibility criteria (years of employ-ment)	Replacement rate (%)- Phase I	Replacement rate (%)- Phase II	Duration of benefits in months (length of phase 1)	Eligibility criteria (years of employ-ment)	Replacement rate (%)- Phase I	Replacement rate (%)- Phase II	Duration of benefits in months (length of phase 1)	Eligibility criteria (years of employ-ment)	Replacement rate (%)- Phase I	Replacement rate (%)- Phase II	Duration of benefits in months (length of phase 1)	Eligibility criteria (years of employ-ment)
1990	60	50	12 (6)	1 out of 3	70	60, 45	24 (6, 6)	1 out of 4	70	50, 40	indefinite (6, 3)	0.5 out of 1				
1991					70	50	24 (12)		Flat-rate, 36% of previous quarter's average wage	N/A	12 (18 in "crisis regions")					
1992			6 (3)													
1993					75	60	12 (3)	Shorter duration if <4					60	50	6 (3)	1 out of 3
1994															6 (3) - age 15-29, 8 (3) - age 30-44, 9 (3) - age >45	
1995											18 if 25/30 years (female/ male) employ-ment				6 (3) - age 15-29, 8 (3) - age 30-44, 9 (3) - age 45-49, 12 (3) - age >50	
1996																
1997	50	40										1 out of 1.5				
1998																
1999					65	-	9 (9)		Flat-rate, indexed to consumer price index	N/A	6, 12, 18 based on regional unemp rate				6 (3), 9 (3) if >15 years contribution	2 out of 3
2000													50	45		
2001								0.5 out of 4	Benefit amount adjusted for <5 years eligibility (80%) and >20 years (120%)							
2002										N/A						
2003																
2004	50	45	9 months (age 50-55), 12 months (age >55)										50	-	6 if employed for 3 of 4 past years, 4 if employed for 2 of 3 past years	3 out of 4
2005																
2006					60	Flat-rate	9 (3)	1 out of 4								
2007																
2008																
2009	65	50, 45	5 (2, 4)								6 or 12 based on regional unemp rate					
2010									Flat-rate 27% higher for first 3 months	Flat rate, increased annually	6 or 12 (3)					
2011																2 out of 3
2012				1 out of 2				1 out of 3								

The most comprehensive comparison of ECE unemployment systems (Polakowski and Szelewa 2007), like so many other analyses, uses only the nominal replacement rates to measure generosity without taking into account the minimum and maximum benefits. The reported replacement rate only applies for those who fall between the minimum and maximum limits, which in the case of ECE countries are often quite restrictive. Therefore, to understand changes in the generosity of unemployment benefit systems, it is also important to monitor changes in the benefit limits over time. These changes may even impact more beneficiaries than changes to the replacement rate and yet they are neglected in both the academic and policy debates. Table 5.3 summarizes the basis for calculating the maximum benefit level for the four countries from 1990-2012, noting any changes to the indexation rules.

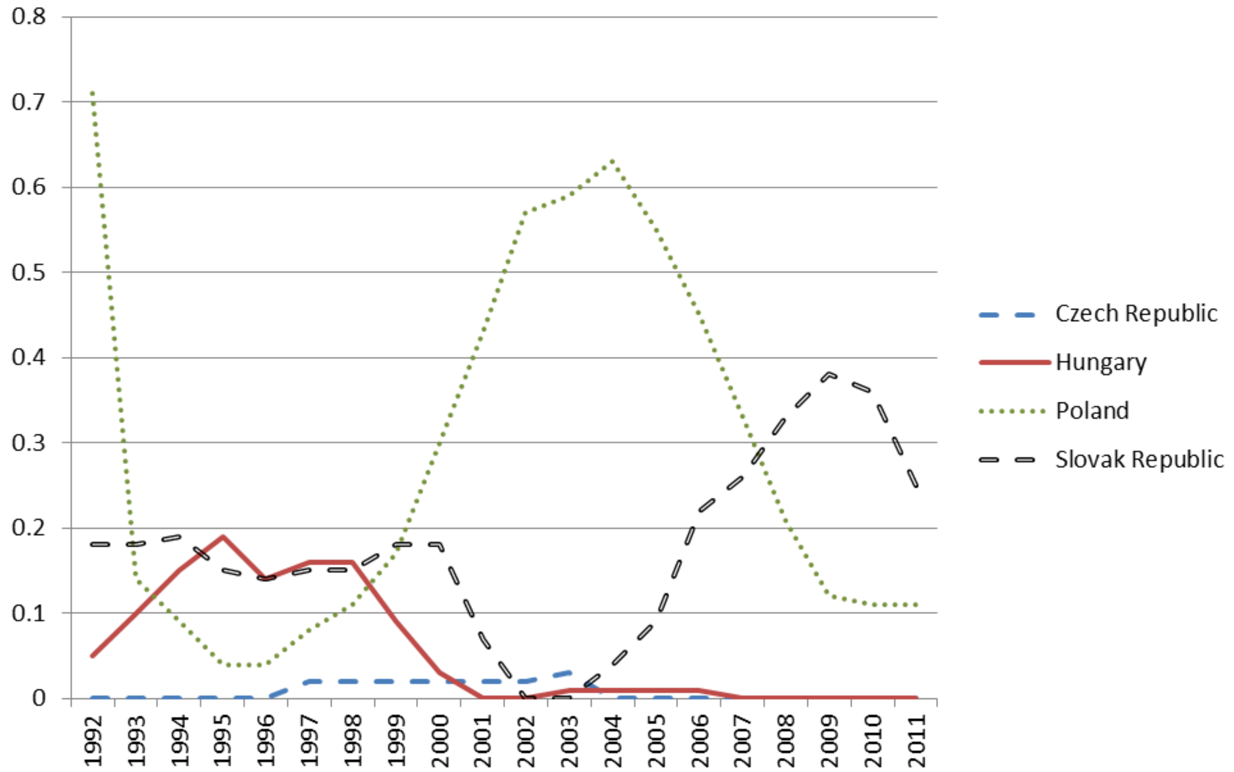
Table 5.3: Approach for determining maximum unemployment benefit level, 1990-2012

Year	**Czech Republic**	**Hungary**	**Poland**	**Slovakia**
1990	Fixed amount	200% of minimum wage	None	See CZ
1991	150% of minimum wage			
1992			Fixed benefit	
1993				150% of minimum wage
1994				
1995	150% of minimum living standard			
1996				
1997				
1998				180% of minimum wage
1999	250% of minimum living standard	180% minimum old age pension		
2000				150% of minimum subsistence income
2001				
2002				
2003				
2004				
2005				
2006		120% minimum wage (3 months), 60% minimum wage (6 months)		150% of average gross wage
2007	58% of national average wage			
2008				
2009				
2010				200% of average gross wage
2011				150% of average gross wage
2012		100% of minimum wage		

The maximum benefit level may be calculated based on minimum wage, minimum living standard (MLS), minimum pension, or average wage levels. In analyzing the changes to the benefit limits over time, it is clear that some approaches were designed to maintain the real value of benefit levels and others facilitated passive austerity. In many instances, the increase of benefit levels with inflation or wages required an active decision by the parliament, which it neglected to do in many cases. This simple, non-visible method for decreasing benefit generosity represents an opportunity for blame avoidance by governments who face conflicting pressures, namely fiscal pressure to reduce spending and electoral pressure to maintain or improve social protection.

In order to assess the use of alternative non-employment benefit, I present the data on social spending on early and disability pensions. Figure 5.1 summarizes the level of expenditure on early retirement benefits as a share of GDP and shows significant variation over time in all cases except the Czech Republic where early retirements were restricted.

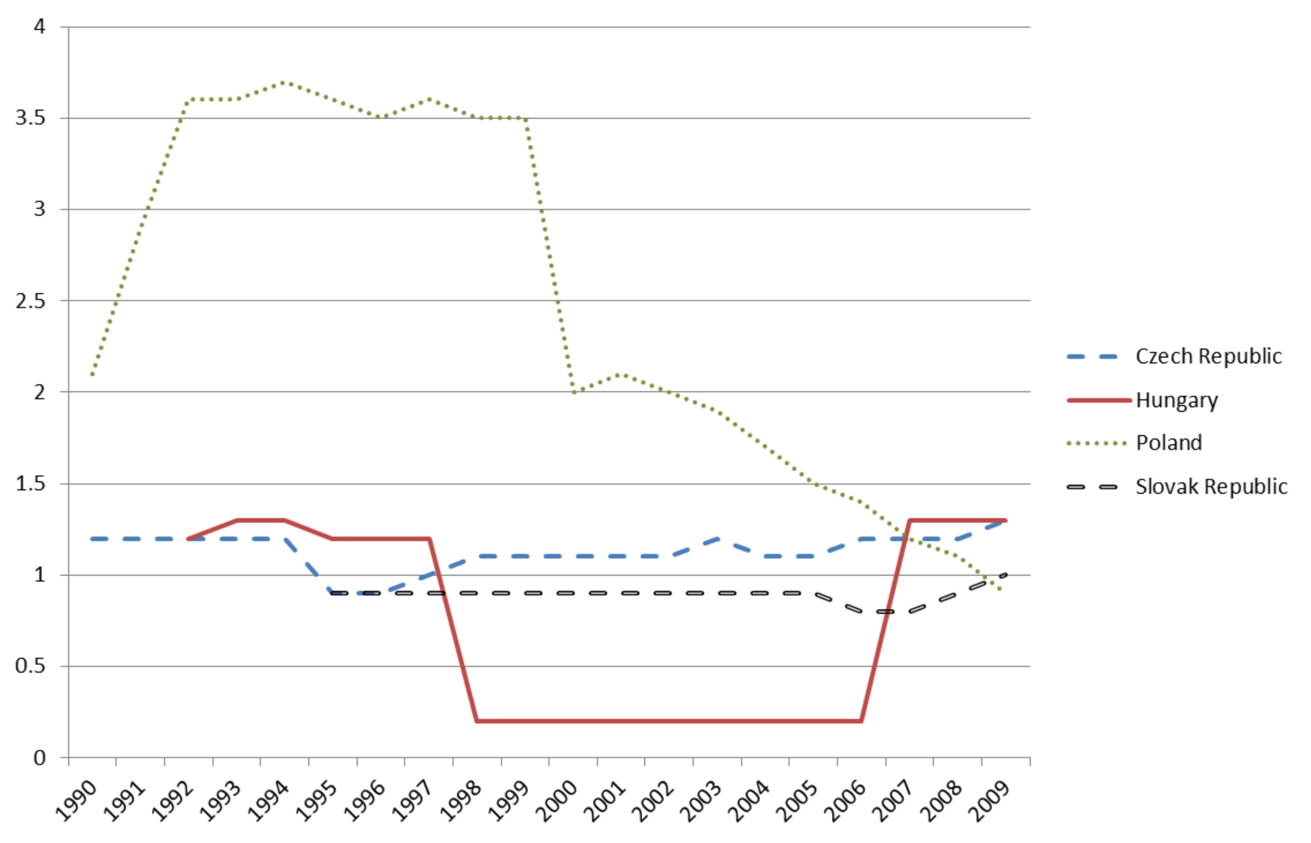
Figure 5.1: Expenditure on early retirement as a percentage of GDP



Source: OECD Labor Market Program statistics

Figure 5.2 shows expenditure on disability pensions as a share of GDP. Spending on disability pensions was very stable over time in the Czech Republic and Slovakia, which suggests that the tactic of adapting definitions of disability to address labor market imbalances was not used. In Hungary and Poland, dramatic changes in disability pension expenditure represent adaptations to accessibility of these benefits, which served as an alternative jobless benefit. These policies will also be explored in the following sections.

Figure 5.2: Expenditure on disability pensions as a percentage of GDP

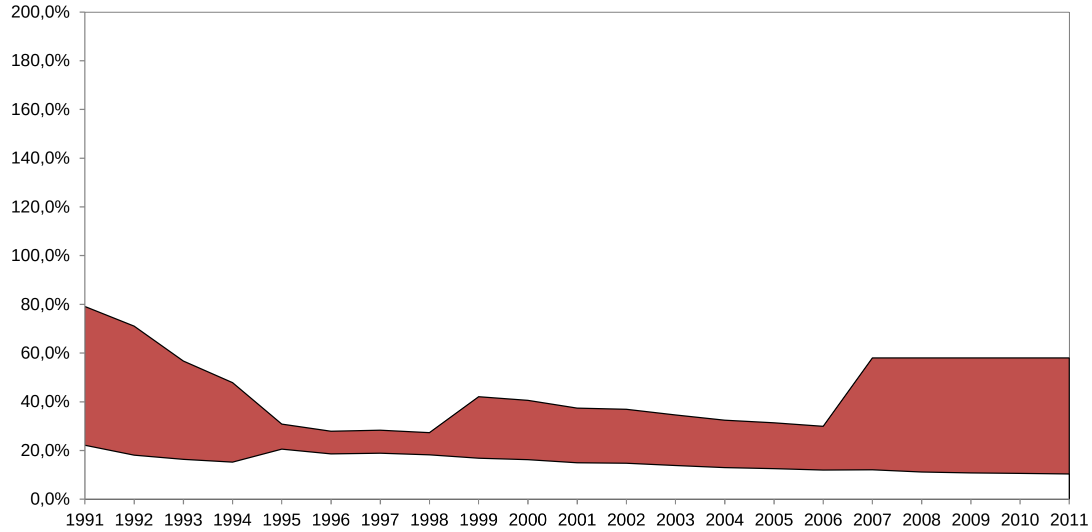


Source: OECD Labor Market Program statistics

5.2.1. Czech Republic

In the Czech Republic, I detect only relatively minor adjustments to the parameters of the unemployment benefit. Unlike the other countries studied, I do not detect significant use of early retirement or disability pensions as alternative methods for supporting the unemployed (as shown by Vanhuysse 2006). There was a slight increase in early retirement after 1996, but it was quickly curtailed. While the Czech Republic had an insurance-based unemployment benefit, the minimum and maximum benefit levels were so restrictive from 1995-2006 that the benefit essentially resembled a flat-rate benefit, as shown in Figure 5.3 that shows the minimum and maximum unemployment benefits as a percentage of the average productive wage.

Figure 5.3: Minimum and maximum benefit limits as a percentage of average wage in the Czech Republic



Source: OECD reports

The first government of the transition, the right-wing Čalfa government introduced a relatively generous unemployment benefit system with a net replacement rate of 60 percent for six months then 50 percent for another six months. The eligibility requirement was to have one year of social security contributions in the past three years. As the costs of this system became apparent, the same government subsequently passed a reform to reduce the duration of the benefit to 6 months in the end of 1991. This was a time when the party was facing internal divisions and lacked coherence about how to adjust the newly formed market economy, but there was sufficient consensus for this reform, which reduced spending quickly and seemed a natural response to a highly generous initial system. Under the same government, the maximum benefit limit was changed from a fixed amount (2400 CSK) to 1.5 times the minimum wage, which represented an initial increase in the limit.

However, given that minimum wage was not adjusted to keep up with rising prices and wages, the relative value of the maximum benefit rate declined substantially under the conservative-Christian Democratic Klaus governments from 1992-1998. In 1995, the benefit limits were indexed to the MLS. By 1995, the range of unemployment benefits is 20-30% of the national average wage. This implies the same benefit level for any unemployed person whose previous earnings exceeded half the national average wage. After the 1996 election, during the second (short lived) Klaus minority government, the net replacement rate was decreased (from sixty to fifty percent) in 1997. However, the highly restrictive minimum and maximum benefit levels determined the benefit level for most recipients, rather than the replacement rate. When the retirement age increase was passed by the Klaus government in 1995, more generous early retirement conditions were offered, which led to an increase in early retirement spending that looks miniscule by international comparison, but created a debate about this approach in Czech politics.

While there were no major adjustments to the replacement rate or duration of unemployment benefits during the non-coherent Czech Social Democratic (ČSSD)-led governments from 1998-2006, the opportunity for early retirement was significantly restricted in 2001 "as the number of early retirees threatened the fiscal balance of the pension fund" (Lesay 2007, 11). Instead the Zeman government increased the duration of unemployment insurance benefits for those over fifty years old. The fact that concern about the fiscal balance of the pension fund arose when Czech spending on early retirement was lower than it had ever been in Hungary and Poland demonstrates that the role of political agency in mobilizing concern about spending levels, as this was not done until much higher levels of spending were reached in the other cases.

In 1999, the Zeman minority government also increased the maximum unemployment benefit level from 1.5 times the MLS to 2.5 times the MLS. The minority government's ability to pass reforms increasing the generosity of the benefit limit was likely a result of logrolling with decreases in generosity of early retirement, which was supported by right-wing parties. The increased maximum benefit limit implied higher benefits for many, but over the subsequent years, the lack of indexation of the MLS implied gradual lowering of the generosity of the minimum and maximum benefit level (passive austerity).

In late 2006 under a caretaker government during stalled government formation, the indexation method for the maximum benefit was shifted from 2.5 times the MLS to 58% of the average national wage from the previous year, which represented a significant increase in the level of the maximum benefit as a share of wages. This change necessarily stabilized the relationship between maximum benefits and wages for the remainder of the period studied, as seen in Figure 5.3 above.

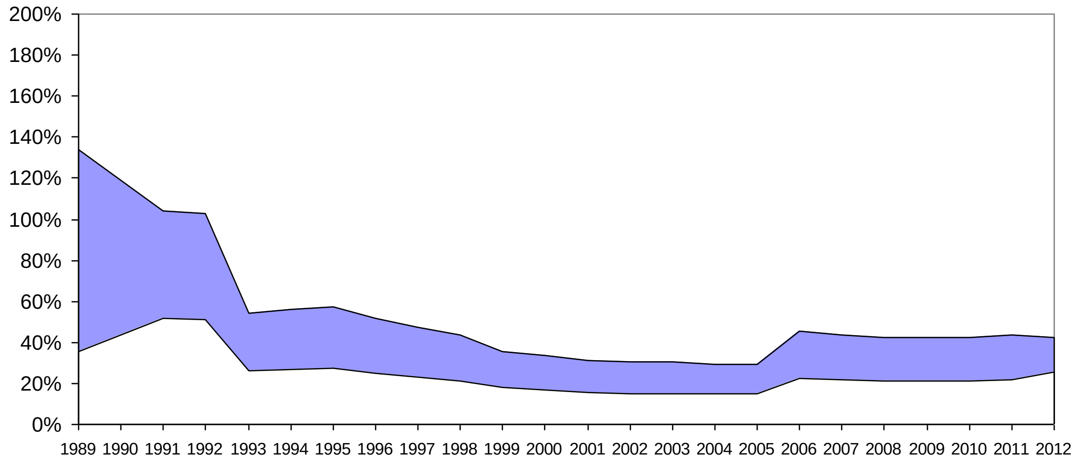
The next adjustment was passed during the Topolánek government, a conservative-Christian Democratic coalition that governed from 2007-2009, which increased the replacement rate and the maximum benefit level, but shortened the duration of benefits by one month. These reforms increased the relationship between benefit level and previous earnings, generally implying an increased benefit level. The most recent government formed by fiscally conservative parties (ODS, TOP 09 and Public Affairs) tightened the eligibility requirement to one year of social security contributions in the past two years and restricted the eligibility based on the reason for unemployment. The latter reform faced strong resistance from the left-wing parties and trade unions.

The Czech case represents little change when comparing the early 1990s and the present. Although benefit limits severely restricted the benefit levels between 1998-2006, the system that exists now closely resembles how the benefit was set up after the 1992 reform. Further given that the benefit limit is now linked to average wages, the use of passive austerity measures are less likely. Further alternative non-employment policy tools were not utilized. So the Czech story is one of continuity with significant changes only in the benefit limits.

5.2.2. Hungary

Hungary began transition with an extremely generous system of unemployment benefits that were paid for two years and had a maximum benefit level at 300% of minimum wage. The replacement rate was 70% for six months, then 60% for another six months, and 45% for the last year. Figure 5.4 shows the minimum and maximum benefit levels as a percentage of average wage (using the same scale for each country). Similar to the Czech Republic, in Hungary since 1993, the actual benefit level is strongly restricted by the minimum and maximum benefit levels, which means that the replacement rate is often not the most decisive factor for benefit level. As an example of the significance of the benefit limits, in 1992, a worker earning average wages would receive 75% of previous wages as an unemployment benefits; whereas in 1999, the same worker would receive only 36% percent of previous wages, despite the 65% replacement rate. While austerity prevailed for unemployment insurance in Hungary, there were alternative arrangements where individuals could receive higher benefits by exiting the labor market by claiming early or disability pensions, which will be summarized below.

Figure 5.4: Minimum and maximum benefit limits as a percentage of average net wage in Hungary



Source: OECD reports

Swift reforms were made by the first right-wing Antall government in 1991 to reduce the level and (gradually) the duration of the benefits to one year. As seen in the other case studies, this was likely a retraction that reflects the sudden strain of this generous system on government resources as unemployment grew in the 1990s. However, given that many individuals were still jobless after one year, several alternative schemes were introduced. The 1991 employment reform also introduced a "pre-retirement" scheme that enabled those who had been jobless for six months, had at least twenty years of employment contributions, and were within three years of the legislative retirement age, which at that time was sixty for men and fifty-five for women (Boeri and Pulay 1998, 321). Another early retirement scheme for those within five years of retirement was offered to individuals who lost their job through enterprise restructuring. Early retirement benefits were equally to full pensions (i.e. with no actuarial deduction) until 1997.

In 1992, the Antall government launched an unemployment assistance scheme intended to address the more than seven percent of the labor force who exhausted unemployment benefits, but still did not have work (Boeri and Pulay 1998, 325). The assistance benefit went to those whose per capita household income was lower than eighty percent of the minimum old age pension and the amount was whatever was needed to provide a single individual with that amount. By 1994, more individuals claimed unemployment assistance than the unemployment insurance benefit (Boeri and Pulay 1998, 325).

The non-coherent socialist-liberal Horn government did not pass any reforms, but given that benefit generosity was linked to minimum wage and the Horn government did not increase minimum wage as quickly as wages grew, the generosity of the benefit relative to wages decreased, as shown in Figure 5.4. This coalition passed austerity reforms in many other areas (including family benefits) and the partial pension privatization, but no substantial unemployment reform to the quite generous unemployment benefit. Why did the Bokros austerity package exclude unemployment benefits? I suppose that it was likely related to the fact that the benefit already was a functional equivalent of a low, flat-rate benefit, which meant that austerity measures in this area would not produce significant fiscal savings. The package in 1995 did however include some restrictions on opportunities for early retirement (but notably they were not effective in reducing spending as shown in Figure 5.1).

During conservative Orbán government from 1998-2002, the replacement rate and the duration of benefits were simultaneously decreased in 1999. In 1998, the early retirement options were restricted more severely and a more generous, extended (but not indefinite) unemployment benefit was introduced for older workers, as was also done in the Czech Republic in 2004. This represented an attempt to prevent older workers from permanently exiting the labor force, as this was highly costly for the pension system. As shown in Figure 5.1, spending on early retirement dropped to negligible levels after this reform and this represented the end of this alternative approach to dealing with unemployment. Further, the ability of individuals to claim disability pensions was restricted by the Orbán government, as their physical status needed to be assessed regularly (rather than once at the time of exiting the labor force). Given the earlier tendency allowing people with some physical capacity to work to remain on disability pensions indefinitely, this change also restricted the options for those without jobs and reduced spending on pensions.

For workers not yet near the retirement age, the Orbán government passed a reform in 2001 that limited the maximum duration of benefit to at most one-fifth of the time employed, but extended a (very short) benefit to individuals with six to twelve months of employment who previously did not receive any benefit. Overall this reform implied much shorter duration for those with less employment history and represented another attempt to force people back into employment. The Orbán government also set the minimum and maximum benefits relative to the minimum old age pensions rather than minimum wage (which lowered the minimum benefit level from 43 to 36 percent of average wage). Given that the government increased minimum wages more than minimum pensions, this switch was likely intended to produce fiscal savings.

In 2005, this was reversed by the socialist-liberal Medgyessy government and the maximum benefit level was once again based on minimum wage, but now at 120% rather than the earlier 200% of minimum wage. Delinking the benefit from the minimum pension level also likely reflects the Socialists' tendency to increase minimum pensions rather than minimum wages. With this change, the maximum benefit level increased from around thirty to fourty-five percent of the average wage, representing the only detected use of passive expansion in Hungarian unemployment benefits. Given that this measure occurred in a pre-election year, it may have indeed represented an attempt to increase support for the government among voters without attracting the attention of IFIs. Also before the elections, access to disability pensions was eased again, as shown in Figure 5.2. Given that unemployment was on the rise, the increased social benefits were likely an attempt to increase the support for the government in the 2006 elections.

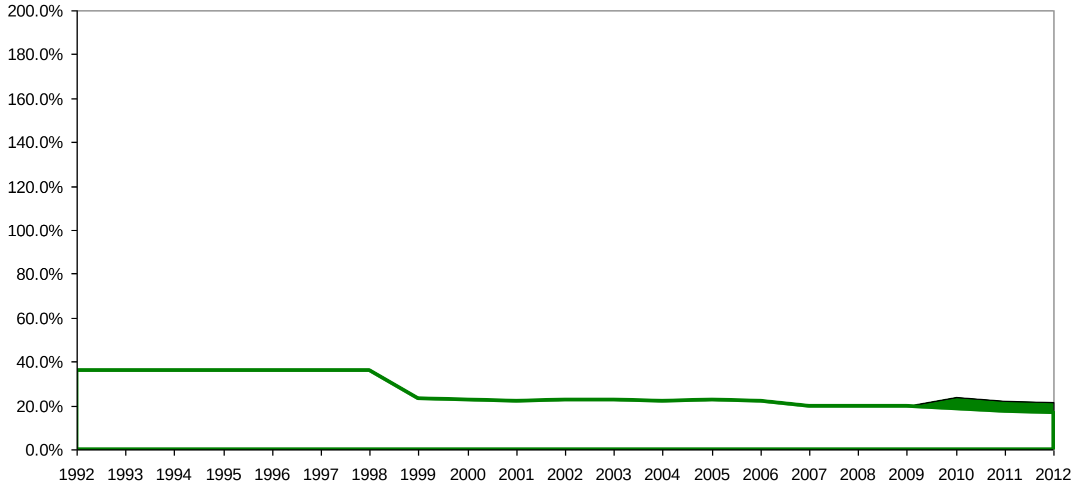
After the elections the Socialist-liberal government remained in power under Prime Minister Gyurcsány. In 2006, the Gyurcsány government oversaw the most significant reform reducing the generosity of the unemployment insurance benefit. The first three months of the benefit still relate to previous earnings, but after that, the remaining six months of benefit were changed to a flat-rate benefit at sixty percent of the minimum wage. The eligibility requirement was increased from 200 to 365 days of employment in the past four years (still a quite low requirement by comparison). This reform occurred under a non-coherent government, but the pro-welfare wing in MSZP put greater priority on protecting pensions and family benefits over unemployment benefits. In 2012, the conservative Orbán government again reduced the duration of the benefit to at most three months or ten percent of the duration of employment.

In summary, several retrenching reforms and the reductions in the maximum benefit level implied low security for unemployed in stark contrast to the highly generous system of the early 1990s. Most of the retrenching reforms were done by right-wing governments, but the 2006 reform under the socialist-liberal Gyurcsány government is an exception, which likely reflects the high pressure for austerity and the difficulty that this government faced in retrenching in other policy areas. Passive austerity measures were used by both the left-wing and right-wing governments. The predominance of austerity from all governments clearly demonstrates that in contrast to families and pensioners, income maintenance of the unemployed was a much lower priority politically. Although the use of early retirement as a non-employment benefit was curtailed, spending on disability pensions remains high and still represents an opportunity to exit the labor force for some workers, especially when contrasted with the low unemployment benefit scheme.

5.2.3. Poland

In Poland in 1990, the unemployment benefit system was also highly generous, especially given the indefinite duration of benefits. Studies found that twenty percent of recipients were actually employed and fourteen percent had income from work in the "shadow" economy, which was a result of ineffective monitoring (Góra et al. 1996, 153). Spending on unemployment benefits rose from 0.34% of GDP in 1990 to 1.38% of GDP in 1991 (Góra et al. 1996, 174) and had the potential to increase even further as unemployment levels proceeded to increase. In response, the generosity of the unemployment benefit was dramatically reduced at the end of 1991 under the Olszewski government, a newly-formed Christian democratic-conservative minority coalition. With this reform, the unemployment insurance system was transformed into a system that pays a flat-rate benefit independent of previous wages (36% of average wage) and reduced the duration of benefits from indefinite to twelve months, but eligibility for the benefit still requires previous employment. However, in the 1990s, workers involved in group layoffs maintained the previous, more generous unemployment insurance benefits. The flat-rate benefit for the rest of the unemployed meant that from 1991 on Poland had the lowest benefit level of the countries studied. Figure 5.5 shows the stable, low benefit levels over time starting in 1992 (data from early years was not available).

Figure 5.5: Minimum and maximum benefit limits as a percentage of average wage in Poland



Source: OECD reports

While unemployment benefits were curtailed dramatically, spending on "abnormal pension" benefits (Vanhuysse 2006), early retirement and disability pensions, was comparatively high in early years of transition, which provided incentives for workers who were laid off and near to retirement age to exit the labor force rather than remain on unemployment benefits. In fact, these deactivating benefit schemes were very generous with benefit levels higher than average wages in the early 1990s, which explains the high uptake of these pensions. In 1993, the left-wing SLD-PSL coalition significantly curbed early retirement, as shown earlier in Figure 5.1, but notably not disability pensions. Given that disability pensions were frequently claimed by farmers (Inglot 2008, 274), the agricultural party in government, PSL, protected those benefits. After the 1997 pension reform, there was also an increase in demand for benefits from the unreformed disability pension and early retirement schemes, which may reflect individuals' desire to enter retirement with secure benefits as opposed to facing the uncertainty of the new system. Disability pension spending remained high and spending on early pensions soared after the major pension reforms in 1997 and 1998.

The next significant reform to the unemployment benefit occurred in 1999 when the right-wing Buzek government (AWS, UW) made the duration of the benefit higher where the regional unemployment rate was twice as high as the national average and lower where the regional unemployment rate was lower than the national average in response to large regional disparity in job opportunities. The benefit level was also decreased and delinked from the average wage, as it became a fixed nominal amount that represented 23% of the average wage at the time (which constituted a significant decrease from the previous 36%).[55] The benefit level was indexed

[55] Although this reform did extend the duration of benefits for some regions, I coded it as reducing generosity due to the decreased benefit level and the decreased duration of benefits in other regions.

according to the consumer price index (quarterly from 1999-2001, annually from 2002-2012). The Buzek government also curbed access to disability pensions, tackling the relatively high spending in this area, which the SLD-PSL governments did not.

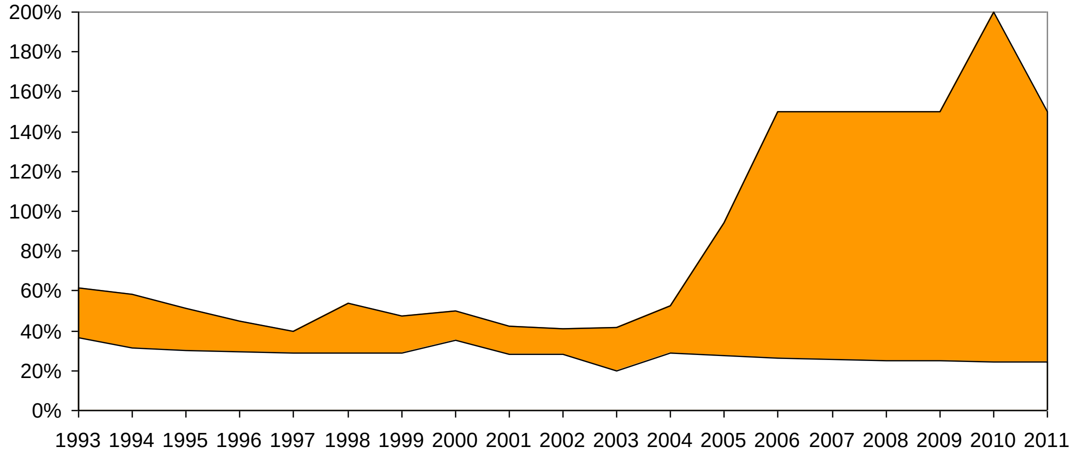
In 2009, the opportunity for early pensions were significantly reduced to only high risk occupations, who received a five year "bridge pension" (SSA 2012). From 2010 on, the Tusk government lowered the benefit level from the fourth month of receiving the benefit, which represented further austerity on an already low benefit level. Especially in contrast to the generosity of pensions and even early retirement, the persistently low level of unemployment benefits in Poland is remarkable. This could potentially be explained by fiscal constraints in the face of high unemployment. However, fiscal constraint did not seem to effectively constrain Polish politicians in other areas. Therefore the absence of reform increasing the generosity of unemployment benefits in Poland emerges as a clear political choice to favor pensioners over unemployed. This policy approach led to severe deactivation of the labor force, which is a problem that persists evident in the low employment rates.

I do not detect any passive austerity or expansion in Poland's fixed rate unemployment benefit, though the opportunity for passive austerity existed as the indexation was not automated This may be due to the fact that the benefit level was already so low that little fiscal savings would be produced or the fact that politicians felt much less need to hide austerity in this policy area as it proved much less controversial politically than cuts to pension or special pension benefits.

5.2.4. Slovakia

Figure 5.6 shows the minimum and maximum benefit limits as a percentage of the average wage in Slovakia. The indexation of minimum and maximum benefit limits was based on minimum wage (1993-1999), then minimum subsistence level (2000-2005), then the national average wage (2006-2012). This meant that until 2006 the indexation of benefit levels depended upon decision of the parliament to increase minimum wage or subsistence levels. After 2006 the benefit limit depended upon economic performance. Until 2004, the range of benefits is quite restricted for all benefit recipients, which then changed dramatically as benefit levels more closely reflected previous wages.

Figure 5.6: Minimum and maximum benefit limits as a percentage of the average wage in Slovakia



Source: OECD Reports

In the other three countries summarized above, I detect primarily continuity or decreasing generosity of unemployment benefits over time, particularly in the early 1990s by conservative or center-right governments. Also Hungary and Poland have extensive early retirement in the early transition that is eventually curtailed. Slovakia demonstrates a different policy path with some increases in generosity in these policy areas. Although fiscal and international pressure existed to cut back the highly generous unemployment systems, in 1995, the left-wing Mečiar government maintained the benefit levels and extended the duration of benefits for any person over 30 (Lubyova and Ours 1998). However, passive austerity measures were used, perhaps as a response to fiscal pressure and due to the high number of recipients (unemployed persons). While there were some options for early retirement, there was not a dramatic increase in the uptake of these benefits, which was observed in Hungary and Poland, likely due to the maintenance of generous unemployment benefits.

The non-coherent Dzurinda government in power from 1998-2002 tightened the unemployment benefit eligibility requirements (requiring two years of employment in the last three years, instead of one) and reduced the replacement rate from sixty to fifty percent. This may again reflect consensus on austerity in unemployment benefits when consensus on other retrenching reforms were not feasible. Further this government restricted access to early retirement, as shown earlier in Figure 5.1. The next (now coherent, right-wing) Dzurinda government further tightened the eligibility requirements to three years of employment out of the past four, which was the most stringent requirement in the cases considered.

The options for early retirement remained limited until the 2003 major pension reform under the coherent Dzurinda government, which enabled early retirement with a significantly reduced pension benefit. The pension benefit was reduced by 0.5% for each month between the actual and the legal retirement age (Golias 2004, 9). Later retirement was also encouraged by offering a 0.5% increase in the pension benefit for every month that retirement was postponed. In 2006, the Fico government limited early retirement options to begin at most two years before legal retirement age. However, spending on early retirement continued to rise.

In 2006, again right before elections, the Dzurinda government (which was at this point a minority government) introduced a maximum benefit level that was 1.5 times the national average gross wage. By comparison with the other Visegrad countries, this is the highest maximum benefit level. This represented a shift towards a system where benefit levels depended on social security contributions to a much greater degree. The change in approach to indexation of the maximum benefit level significantly increased the benefit level for unemployed persons who previously earned higher than the national average wage. Given the government's lack of a majority by this point, this change in approach to indexation was not accompanied by any more visible reform of the benefit system, which suggests again that it was a form passive generosity used with the aim of electoral payoffs.

However, the opposition took over after the elections. The Fico government did not pass any reforms to unemployment benefits, but again in 2010 the year of the next elections, the government increased the maximum benefit level to two times the average gross wage, suggesting another use of passive generosity. When the opposition government took over after the election, the maximum level was decreased back to 1.5 times the average wage (the only instance of passive austerity). The eligibility requirement was also relaxed slightly (to two years of employment out of the last three) during the conservative Radičová government from 2010-2012.

In Slovakia, there is very limited use of passive austerity measures, but passive generosity before recent elections was common. The highly generous benefit system introduced in the early 1990s was already cut back before the Velvet divorce, but the first years of independent Slovakia under the Mečiar governments was characterized by the maintenance of benefit levels and the extension of the duration of benefits. Retrenching reforms took place under right-wing or mixed governments, which also supported increasing the maximum benefit level creating a stronger link between benefit levels and past wages. The left-wing governments maintain benefit structures, but the Fico government also increased the maximum benefit level. Once again, Slovakia provides the strongest evidence of traditional partisan effects under highly coherent governments.

5.3. Conclusion

Comparing across countries, the Czech Republic and Poland mostly exhibited continuity in unemployment insurance benefits at low levels of generosity (with Poland as the only country that has a flat-rate benefit, but the Czech Republic approximated this system through restrictive minimum and maximum benefits limits until 2006). In Hungary, austerity through reforms (mostly by right-wing governments) and passive measures (by all governments) led to the significant deterioration of generosity of unemployment benefits. In Slovakia, more generous unemployment benefits were maintained (though still restricted by benefit limits) and since 2004 the system more closely focuses on wage replacement, implying higher generosity for most individuals. Adjustments in Slovakia generally follow traditional partisan effects. Unlike in family and pension policy, there were rarely large debates to overhaul the benefit system in any of the countries.

Overall government coherence seems less vital in facilitating reform compared to the other two policy areas studied, as many non-coherent governments were able to pass retrenching reforms. This actually may reflect the fact that entrenched interests protecting benefits were less powerful and political backlash lower compared to the other two policy areas. This means that reaching consensus within the (divided) government for reducing the generosity of benefits was easier for unemployment than for other policy areas. When non-coherent governments faced pressure for austerity, cutting spending on unemployment was easier than other benefits.

In the Czech Republic and Slovakia (until 2003), the response to higher unemployment among older workers was to lengthen the duration of the benefit. In Hungary, Poland, and Slovakia (after 2003), these individuals were rather encouraged to exist the labor market via early or disability pensions. Adjustments to these policy areas do not seem to be related to changes in the unemployment benefit schemes, but rather an independent political decision to address labor market imbalances. Also, the partisan effects of these alternative policy tools varies across countries. In Hungary and Poland, right-wing governments reduced access to early and disability pensions. In Slovakia, a right-wing government passed a reform enabling early retirement. However, reforms to 'abnormal pension' opportunities were mostly under coherent governments.

6. Welfare politics across countries and over time: Patchwork welfare states

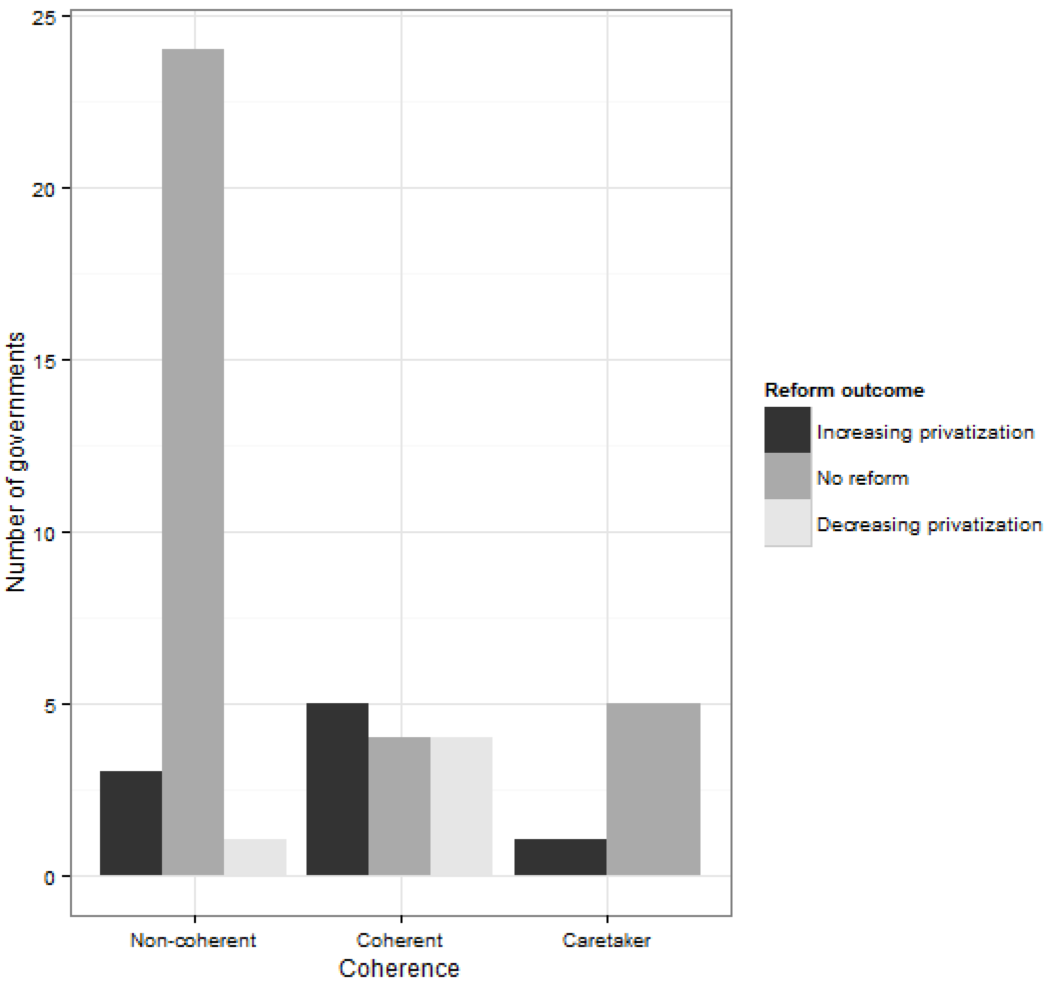
In this chapter, I provide simplified summaries of the reforms for each policy area presented in chapters 3-5 to evaluate the findings related to the explanatory framework outlined in chapter 2. Then I analyze the parallels and contradictions across policy areas to offer a broader view of welfare politics in each country and to reflecting on the emergence of welfare state typologies versus patchwork welfare states.

6.1. Government coherence facilitates reform

The explanatory framework outlined in chapter 2 proposed that welfare state change is conditioned by government coherence with higher coherence associated with higher likelihood to pass reforms. In each policy area, I found strong support for the claim that reform is more likely under coherent governments. In addition to summarizing the support for this claim, this section considers the exceptions to this rule. Non-coherent governments who passed reform often used reformmongering, including tactics coordinated by technocrats to isolate neoliberal reform proposals from opposition within governments as well as logrolling enabling policy tradeoffs between diverse interests within divided governments. Below I summarize the findings related to government coherence and reformmongering exceptions for each policy area.

Figure 6.1 shows instances of reform to the privatized pension pillar. Increasing privatization refers to the introduction of mandatory private pension accounts and expansion of the share of income contributed to them. Decreasing privatization refers to reforms that lowered the level of contributions to the private pillar, made participation optional, or renationalized the private pension accounts (as in Hungary in 2011).

Figure 6.1: Reforms to mandatory private pension accounts by government coherence

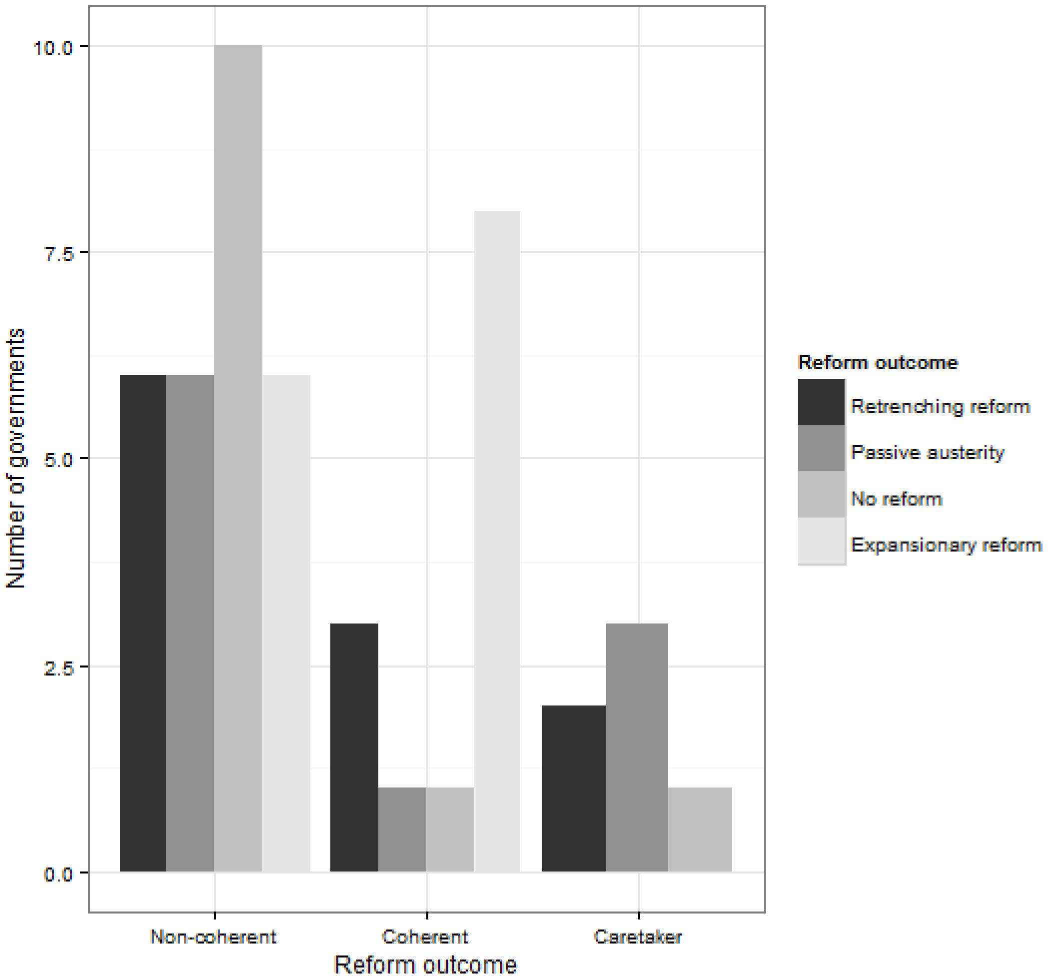


Chi-squared test p-value<0.01

Most coherent governments passed reforms (9 out of 13). Among non-coherent governments, the most likely outcome is clearly no reform. The three instances of privatizing reform under non-coherent governments were instances of technocrat-led reform, as shown in section 3.2 (the introduction of pension privatization in Hungary and Poland and the continuation of the reform in Hungary by the MSZP-SZDSZ coalition in 2002 in response to Fidesz's reforms to weaken the degree of privatization). In these cases, despite lack of consensus on pension privatization, technocrats gained influence within the government and managed to push through reforms. Unlike the technocrat-led reforms in Hungary and Poland, the Slovak and Czech pension privatizations took place under coherent right-wing governments. Consequently both of the latter reform processes were faster and consultation with social actors was largely circumvented, as there was no need for building consensus. In Hungary and Poland, the lack of government coherence meant that reformmongers had to construct consensus. Some government MPs in Hungary demanded consultations with the trade unions as a condition for supporting the reform, which notably weakened the extent of privatization in the final reform. In Poland, reformmongers also involved trade union representatives (including Solidarity advisers helping to draft parts of the bill), which helped gain support among the public and the opposition parties. Even the limited inclusion of trade unions in Hungary and Poland influenced the reform proposals, for example by including government guarantees of private pension accounts. No similar guarantee was included in the Slovak reform. This suggests that the path to reform also has implications for the reform outcome.

The summary of reforms for family benefits presented in Figure 6.2 also supports the importance of government coherence for enabling reform. This figure contrasts reforms that increase or decrease the generosity of benefits with exclusive use of passive austerity (i.e. no other changes) and no reform.

Figure 6.2: Reforms to family benefits by government coherence

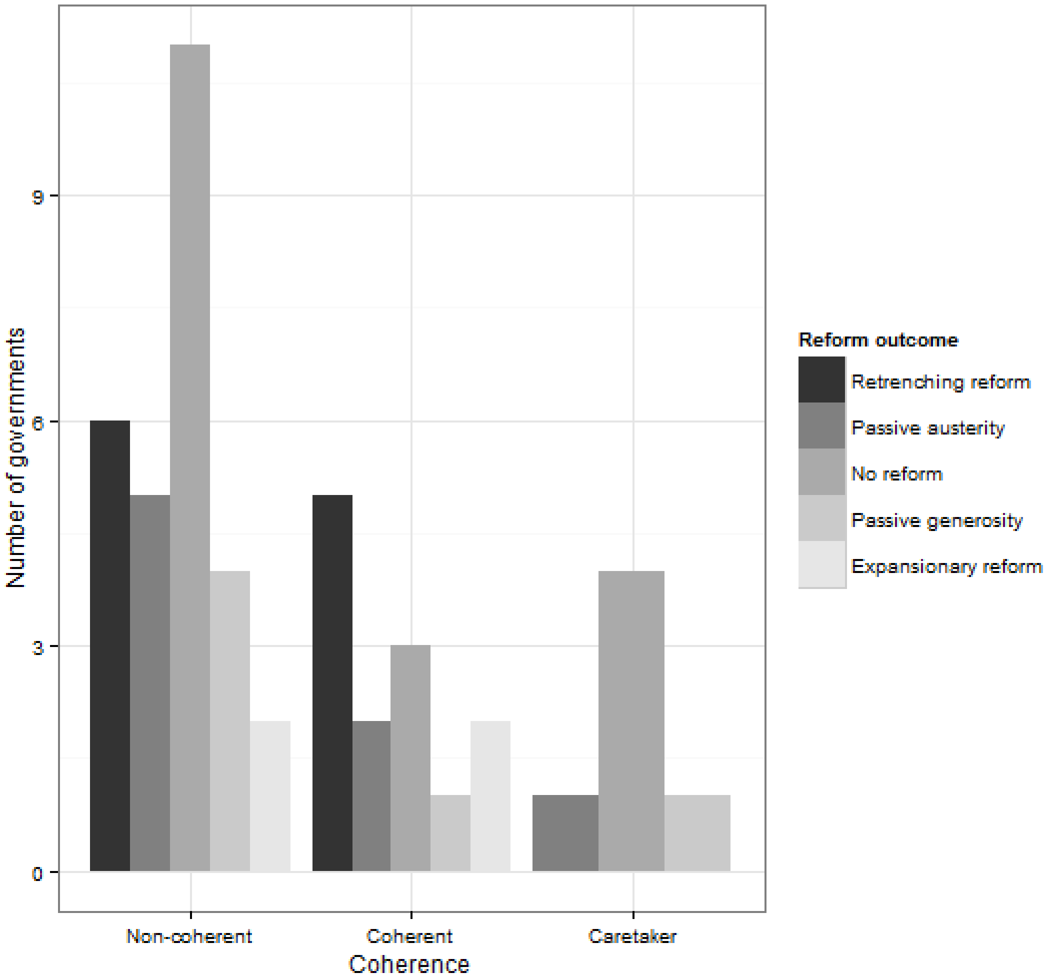


Chi-squared test p-value <0.05

Most coherent governments pass reforms (11 out of 13); while no reform is the most common outcome among non-coherent governments (10 'No reform' plus 6 'Passive austerity' out of 28). Austerity is common among caretaker governments with instances of passive austerity and retrenching reform, but no instances of expansionary reform. There are notably more exceptions in the case of family policy compared with pension privatization. Among non-coherent governments that pass retrenching reforms, these include more instances of technocrat-led reforms, which occurred in the 1995 targeting of child allowances in the Czech Republic, Hungary, and Poland, as demonstrated in the case studies in chapter 4. Additionally, retrenching reforms occurred under minority governments (in Poland in 2003 and Slovakia in 2004) and caretaker governments. Retrenching family benefits seems more politically feasible than pensions, suggesting the relatively lower salience of this policy area with Hungary as an important exception. There were also six non-coherent governments that passed reforms expanding the generosity of family benefits. These include mixed coalitions in the Czech Republic with the Christian Democratic party which approved longer parental leave, though opposed expansion of the welfare state in other areas. This emphasizes the multiple dimensional nature of this policy area, as a party may simultaneously support the expansion of parental leave benefits supporting a traditional family model and retrenchment of child allowances based on general support for austerity social and economic position. Similarly, left-right coalitions in Poland and Slovakia agreed on the extension of the duration of parental leave schemes. The support of conservative parties for longer or more generous parental leave represented a rare point of agreement for parties with otherwise divergent welfare policy preferences.

Unemployment benefits show a similar, though weaker, pattern with reform as the most likely outcome for coherent governments (7 out of 13) and non-reform as the most likely for non-coherent governments (11 out of 28).

Figure 6.3: Unemployment benefit reforms by government coherence



Chi-squared p-value >0.10, not statistically significant

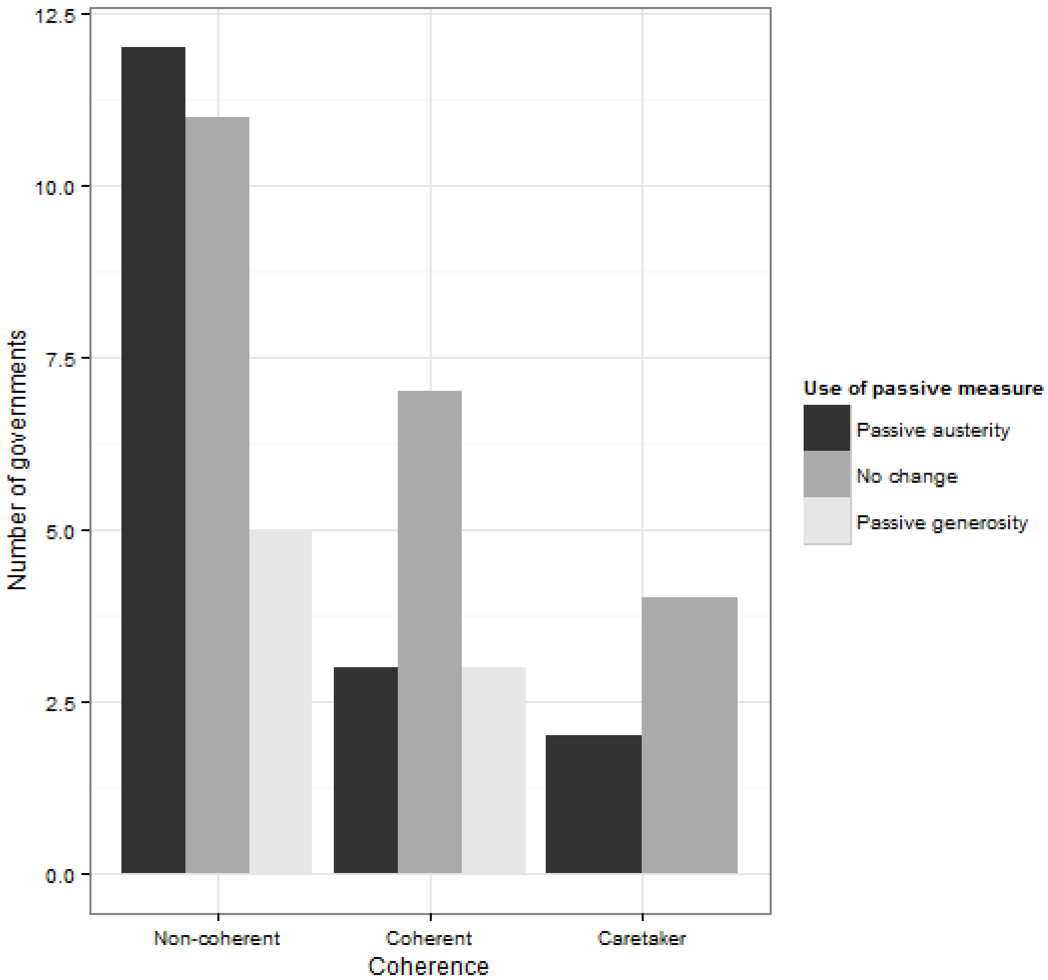
The non-coherent governments that passed reform retrenching the unemployment benefit were mostly coalitions between diverse parties on the right in early transition, which reflected the adjustment of the original highly generous benefit schemes. Given the sudden rises in unemployment, reducing the generosity of these early schemes was seen as urgent and therefore this was one of the few welfare policy reforms that took place in the early years of transition under non-coherent, right-leaning governments. As noted in chapter 5, there are notably less reforms in unemployment benefits overall and the use of passive austerity is the main form of change in unemployment benefits, which will be evaluated in the next section.

6.2. Non-coherent governments rely on passive measures

Another claim of the dissertation is that non-coherent governments, which are less likely to pass reforms, will rely more extensively on passive measures to adjust benefit levels. In this section, I demonstrate the use of passive austerity and generosity contrasting coherent and non-coherent governments. While in Figures 6.2 and 6.3 above, passive measures referred to governments that used *exclusively* passive measures, I detected frequent use of passive measures *in addition* to substantial reform. As a consequence, in this section, I evaluate all instances of passive measures as these had incremental, but transformative impacts on benefits.

Figure 6.4 shows the frequency of passive measures affecting pension benefits implemented by various types of governments. This demonstrates clearly how frequently such measures are used by non-coherent governments (in 17 out of 28 instances, 60.7%) compared with coherent governments (6 out of 13, 46.2%). The difference in the use of passive austerity is particularly striking, suggesting that non-coherent governments utilized passive austerity measures to reduce spending. The use of passive expansion shows little difference with even a higher rate for coherent governments (23.1%) than for non-coherent (17.9%). Given that passive expansion mostly occurred before elections when government coherence is usually waning, the similarity is not surprising.

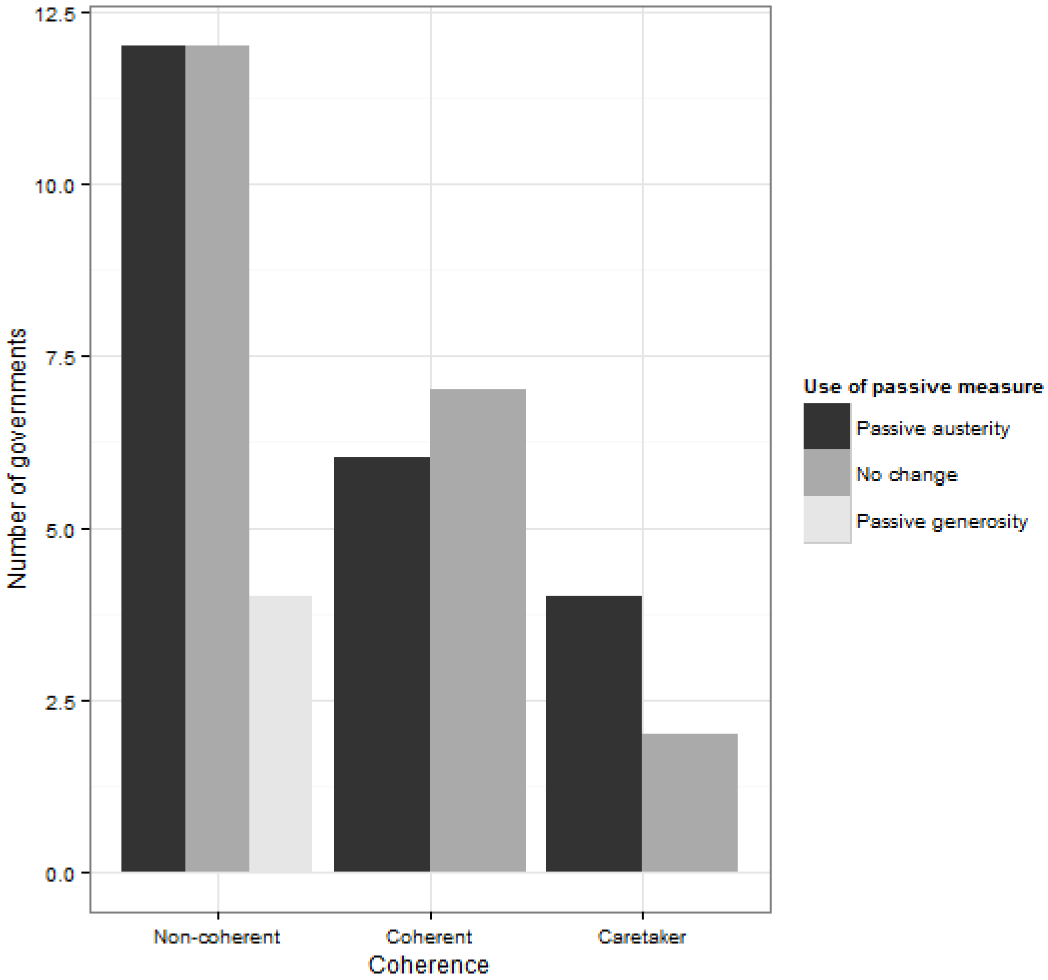
Figure 6.4: Use of passive measures for pension benefits by government coherence



Chi-squared p-value>0.1

Figure 6.5 shows the number of coherent and non-coherent governments that used passive measures for child allowances. The rates for coherent (46.2%) and non-coherent governments (42.9%) are quite similar. However, almost all coherent government utilizing passive austerity used it *in addition to* passing major reforms. The extensive use of passive austerity for this policy area suggests that it represented a simple way to reduce spending across all types of governments, including (but not exclusively) non-coherent governments that were unable to reach a consensus on reform.

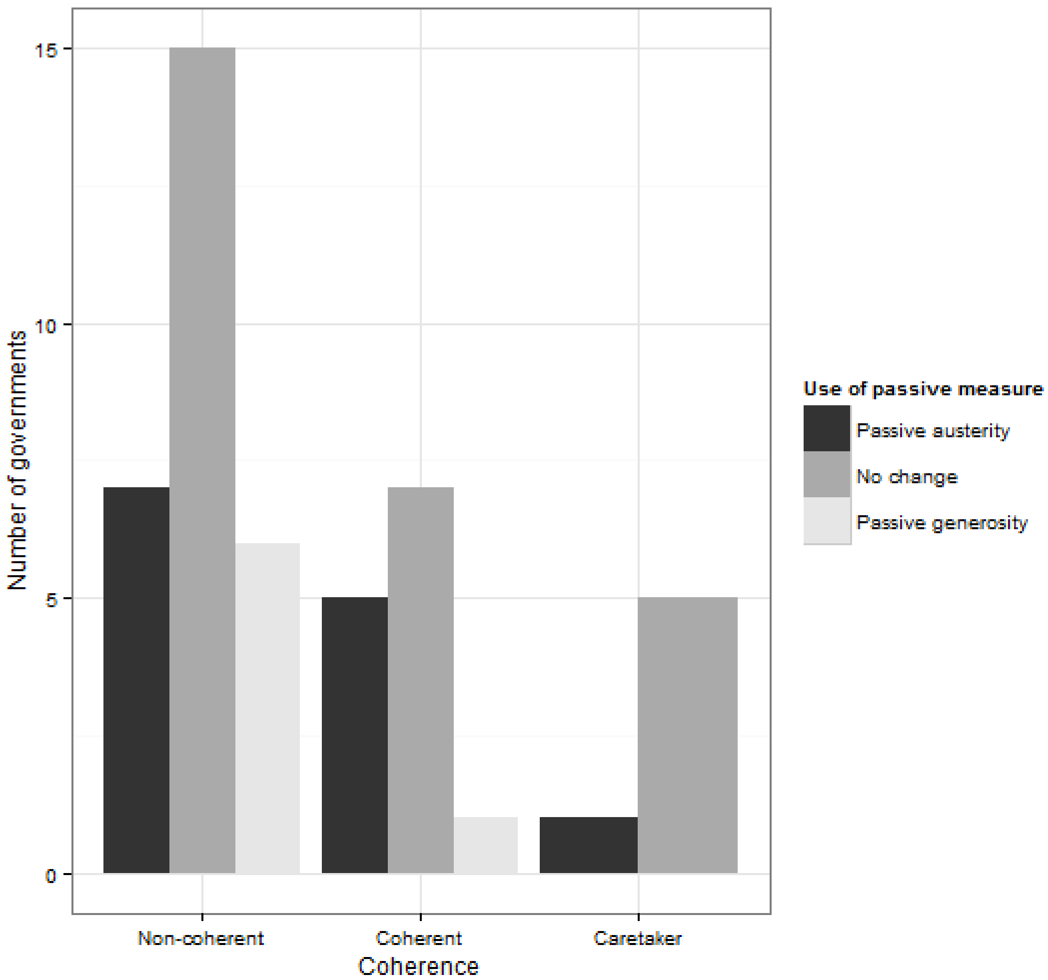
Figure 6.5: Use of passive measures for child allowances by government coherence



Two-thirds of governments made up of right-wing parties (coherent and non-coherent) used passive austerity measures while only 30% of governments made up of left-wing parties did, which suggests that there may indeed be a partisan effect with right-wing governments placing a stronger emphasis on reducing spending.

Passive changes to the unemployment benefit by government coherence are shown in Figure 6.6. Here the use of passive austerity is again common, but does not seem to depend on a government's coherence or partisan affiliation. However, a comparison with Figure 6.3 makes it clear that governments chose either retrenching reform or passive austerity, but did not combine these measures. As shown in chapter 5, passing significant reforms reducing the generosity of unemployment benefits tended to generate less political backlash than was the case with pension or family benefits. Even governments with low coherence were able to retrench unemployment benefits. As a result, fewer governments chose passive austerity measures as there was less blame to avoid. The use of passive generosity implied raising the maximum benefit limit, which favored largely middle and upper class citizens, and was done primarily by right-leaning governments. This may indeed represent an example of increasing generosity of the benefit for voters without wanting to attract the attention of international organizations or investors.

Figure 6.6: Use of passive measures for unemployment benefit by government coherence



From the summaries above, it is possible to conclude that passive austerity was used extensively by many types of governments. Although the exclusive use of passive austerity without other reforms is most common among non-coherent governments (as shown in Figures 6.2 and 6.3 in the previous section), I detect frequent use of passive austerity even accompany major reforms, which suggests that many governments utilize this tool to cut spending with low political costs.

6.3. Traditional partisan effects under coherent governments?

Based on the case studies, when looking at each party one by one, the position of parties towards each policy area are generally consistent over time. However, given that most governments lack coherence, even clear party positions do not translate into clear government positions. When testing the partisan effects of welfare states, many authors use a simplified left-right comparison (Lipsmeyer 2000; Tavits and Letki 2009; Careja and Emmenegger 2009). As shown in the case studies, a simple coding of governments as right or left does a poor job of explaining the likelihood or the direction of reform, given the high frequency of non-coherent governments. This research proposed to address this confusion by testing the partisan effects for only coherent governments. Given that the case studies include only thirteen coherent governments, empirical observations of partisan effects remain quite limited. Additionally since all four left-wing, coherent governments are from Slovakia, the generalizability of the findings is questionable. For this reason, I propose that further research is needed to test the partisan effects of coherent governments.

I detect evidence of a conservative policy profile among the nine *coherent right-wing governments* with cases from each of the four countries included in the analysis. Of the nine coherent right-wing governments, five passed reforms extending pension privatization; while two (both Orbán governments in Hungary) passed reforms restricting pension privatization. These right-wing governments also mostly increased the generosity of family benefits (six out of nine) and decreased the generosity of unemployment benefits (five out of nine). This limited evidence suggests a profile of coherent right-wing governments that matches the expectations of a conservative party: austerity for unemployment benefits combined with generous family policy, as this combination was observed in four of nine cases.

On the left, the findings are even more limited as the four left-wing coherent governments were all Slovak governments. The two Mečiar governments served before pension privation; the two Fico governments passed reforms giving citizens the option to leave the private pillar and establishing government guarantees for the accounts. The effect of these four governments in family and unemployment policy areas were mixed, which suggests that the Slovak left-wing has not demonstrated consistent welfare preferences over time (which is at least in part the result of the emergence of a new dominant left-wing party, Smer-SD). If I expand the analysis to include left-leaning governments with low coherence, the profile of left-wing governments is still muddled, which likely reflects the mixed profile of left-wing parties in ECE that includes former-Communist parties with market-liberal tendencies to Communist parties.

Thus apart from the difficulty of detecting partisan effects given the prevalence of non-coherent governments, cross-country analysis is also challenged by the diversity of positions of 'left' and 'right' parties across countries (as shown by Tucker 2006). However, the fact that political parties do not lend themselves to a simple theory that applies across countries should not lead to the conclusion that party politics does not shape welfare state development as coalition formation and government coherence clearly shape the potential for reform. As the case studies demonstrate, most often it is the position of the government, rather that the parties that is difficult to place. If more coherent governments form, then perhaps the partisan effects of governments could be investigated more thoroughly than the current case studied have allowed.

6.4. Identifying welfare state models or patchwork welfare states

Based on the analysis of welfare politics presented in the preceding chapters, I would expect convergence towards (or maintenance of) a particular welfare state logic if one of the following two conditions exists. First, there is a broad consensus across governments for a specific approach to welfare that also extends across policy areas. This would likely be a result of dominant public support for the given model. Based on the case studies, this degree of consensus seems unlikely.[56] The dynamic politics of the welfare state prevails rather than such consensus. Second, even under the condition of diverse policy preferences between political parties, convergence on a single welfare state model is possible if the only *coherent* governments that emerge support the given welfare state logic. This implies that only one reform direction is *politically feasible* and parties that oppose this approach to welfare consistently lack the coherence to pass its preferred reforms. This pattern of unidirectional reform by one type of government combined with continuity by other types rarely occurs.[57] This means that the politics of the welfare state proposed in the explanatory framework in chapter 2 is likely to consistently challenge the emergence of a singular welfare state logic and any of the proposed mechanisms to bring convergence towards a welfare state model is unlikely.

Deviance from a unified welfare state model, however, may take multiple forms. First, a hybrid model may be a result of diversity of welfare approaches across policy areas. For example, the pension system resembles a social democratic welfare model, but the family benefits resemble a liberal model. This 'patchwork' outcome would be likely if governments specialize in specific policy areas and leave reforms in other areas to governments with different policy preferences. Apart from policy specialization, hybrid models may also be the result of political consensus to prioritize one policy area over another. For example, the emphasis on pensions over family and unemployment benefits is largely accepted by the major Polish parties on the left and right, which results in a hybrid welfare state. A second mechanism that may prevent convergence on a single welfare model is policy instability with frequent major reforms that alter the logic of policy areas. This has largely been the case in Slovakia since 2003 where alternating left-wing and right-wing governments substantially reshape policy directions. While it is still possible that over time alternation of policy will 'settle' on a single model representing a political victory of one side over

[56] One possible exception is consensus on generous family policies that emerged in Hungary after 1998. However, this consensus does not extend to other policy areas.

[57] The unfeasibility of a coherent left-wing government in the Czech Republic produced conditions that closely resemeble this scenario and potentially enforcing a conservative welfare state model. However, given that the right was also divided and its prospects are uncertain, the future of Czech welfare state is also.

the other, there is no clear mechanism that would enforce such stability in the cases considered. Below I explain the emergence of ECE patchwork welfare states as opposed to any consistent model and investigate the country-specific reasons behind this.

6.4.1. Poland

In Poland, there were only a few governments that passed major reforms, but they did so in more than one policy area. Specifically, these included the technocrat-led reforms targeting family benefits and introducing mandatory privatized pension accounts under the SLD-PSL non-coherent government (1993-97). The coherent right-wing Buzek government (1997-2001) introduced individual accounts in the state pension system and cut the unemployment benefit level. Although the coalition partners lacked coherence on family policy, the conservative AWS even managed to pass reform is that area by 'shifting alliances' to increase the duration of maternity leave with an opposition party. The Tusk governments (2007-2011, 2011-) expanded welfare generosity in family and unemployment benefits and also increased the legal retirement age (the first government to do so since Poland's transition). The fact that a few governments managed the major reforms while the rest produced continuity or passive austerity suggests the potential for a higher degree of consistency across Polish policy areas. The pervasiveness of austerity reforms makes Poland a strong candidate for being classified as a minimalist/liberal welfare state. Supporting this claim, widely used passive austerity resulted in meager family and unemployment benefits by international comparison (though durations quite long).

However, in stark contrast to this classification, the generosity of pension benefits is quite high in international comparison and cutting many existing generous welfare state benefits, such as farmers' pensions (KRUS), has proved exceedingly difficult politically. While right-wing and left-wing governments reached a consensus on general austerity measures for family benefits (other than maternity leave), on minimal unemployment payments, and on some degree of pension privatization, they did so while maintaining a highly generous PAYG pensions. In fact, sometimes consensus for austerity in other policy areas was reached via logrolling with increased pension generosity. For example, divisions in the SLD-PSL coalition over the targeting of child allowances in 1995 were overcome by promising that the revenue saved would be redirected to pensions, which persuaded the pro-welfare faction of SLD to support the reform. SLD reformmongers offered further concessions to coalition partner PSL in the form of increased agricultural benefits (PNB 1995). Given that pension generosity reflects current pension payments and the benefits of future generations are less certain, it is possible that Poland will more closely approximate a liberal welfare state model over time. However, as a consequence of the significant reduction in the scope of the privatized pension pillar in 2011, future generations are also going to rely primarily on state pensions. Consequently the continuity of citizens' demand for generous pensions and lack of political will to decrease them seems likely. So rather than minimalist, Poland's model could be aptly labeled as a pensioners' welfare state.

6.4.2. Hungary

Similarly in Hungary, single governments often passed major reforms across multiple policy areas. However, a single welfare model has remained elusive for two reasons: policy instability and the support for divergent policy models under single coherent governments. First, reversal of policy reforms has been quite common in Hungary, most notably in pension privatization. For example, under the MSZP-SZDSZ coalition in the 1990s, reformmonger Prime Minister Horn coordinated large scale austerity reforms and partial pension privatization that clearly pushed in the direction of a 'liberal' welfare model. However, many of these reforms were reversed by the following Orbán government, including restoring the generosity of universal family benefits (which more closely resemble a social democratic model), limiting required contributions to the private pension pillar, and giving the option to opt out. When the MSZP-SZDSZ coalition returned to government, the Medgyessy government increased the contributions to private pension accounts and eliminated the opt-out option. In an unprecedented move, the subsequent Orbán government re-nationalized private pension accounts meaning that currently Hungary returned to an exclusively PAYG system. This degree of policy instability certainly makes labeling the Hungarian welfare state difficult.

However, the greatest challenge to the emergence of a welfare model with a single logic is that, since 1998, single coherent governments (on both the left and right) passed reforms that applied distinct welfare state logics across policy areas. For example, the first Orbán government (1998-2002) passed austerity measures in unemployment, while reintroducing generous parental leave schemes and making family benefits universal again. The Medgyessy and Gyurcsány governments (MSZP-SZDSZ coalitions) accompanied increased pension privatization and further austerity in unemployment benefits with significant increases in family benefits. The second Orbán government (2010-) re-nationalized the private pension pillar and increased generosity of parental leave schemes even more while cutting the generosity of employment benefits again. The only aspect of Hungarian welfare states that is consistent over time is generous benefits to middle class families. So due to both policy instability and governments that simultaneously operate with different welfare state logics, a single model of welfare capitalism remains elusive in Hungary.

6.4.3. Slovakia

The Slovak case gives very little confidence in identifying welfare state models due to policy instability over time. Years of policy continuity and welfare generosity under the Mečiar governments was followed by one term of logrolling reforms under the first (non-coherent)

Dzurinda government (1998-2002) who reduced the generosity of pensions and unemployment benefits while increasing the generosity of family benefits. This was then followed by a large scale neoliberal reform under the second (coherent) Dzurinda government in 2003-04.

Since then welfare state developments in Slovakia are characterized by policy oscillation as a result of coherent, clearly divided governments who alternated power. Unlike in Hungary, single governments generally push single welfare state models. The SDKU-led coalitions under Dzurinda (2002-06) and Radičová (2010-12) generally passed reforms that pushed in the direction of a liberal welfare state model. The Fico governments (2006-10, 2012-) pushed away from a liberal model by reducing the extent of pension privatization and increasing the generosity of family and unemployment benefits. Given the alternation of these governments, labeling the type of Slovak welfare state would indeed seem to be like trying to hit a moving target. However, given that the reforms done by right-wing governments were more comprehensive, while the Fico government seemed to pass ad hoc reforms, the Slovak welfare state still more closely resembles the liberal model, except for its generous parental leave which is also supported by the right-wing governments. Further a change in government still has the potential to bring significant welfare state change.

6.4.4. Czech Republic

In contrast to the other countries where reforms across multiple policy areas were often clustered, in the Czech Republic, governments usually only managed reform in one of the areas studied, if at all. This is likely a result of two decades of pervasive non-coherence of Czech governments. Passive austerity was used extensively, which was facilitated by linking most benefits to the MLS (rather than wages or prices), which is adjusted by parliament. This also meant that instances of passive austerity usually applied across all policy areas.

Non-coherent governments persisted due to divisions on the left and right. On the left, the social democratic ČSSD refused to form a coalition with the Communist party KSČM, who has been in parliament since 1990, but never in government. As a result, ČSSD formed minority governments or coalitions with right-wing parties from 1998 to 2006 producing years of policy stability. Despite ČSSD's pro-welfare position, it was unable to pass substantial reforms and even allowed passive austerity in pensions and unemployment benefits.

The lack of coherence of Czech right-wing governments resulted from divergence in policy approaches between conservative and neo-liberals, which emerged in the 1990s and persists until the present. This prevented some reforms, such as pension privatization, but there was often consensus on fiscal conservatism even if disagreement about how to achieve is persisted. This meant that the Klaus governments (1992-1998) were able to pass austerity reforms in family and unemployment benefits, as well as increasing the legal retirement age, suggesting that the lack of coherence was only partially disabling. The Topolánek government was the next right-wing coalition (ODS, KDU–ČSL, SZ), which formed after a long delay following the 2006 elections, and similarly lacked coherence. Furthermore, alternative welfare logics coexist within ODS, as shown by its 2006 campaign program (the 'Blue Chance' program), which simultaneously recommended pension privatization and generous family benefits (Hanley 2006). Indeed several parametric reforms during the Topolánek government followed diverse logics: it decreased child allowances, but increased extended parental leave; increased the generosity, but reduced the duration of unemployment benefits; and lowered the retirement age, but clearly lacked consensus on pension privatization.

Although many parametric reforms could occur, as a consequence of the lack of major reform, the Czech welfare state arguably comes the closest to approximating a unified model, a conservative/Continental one (Saxonberg, Sirovatka, and Janouskova 2013). Interestingly a few years earlier, some of the same authors lamented the difficulty of placing the Czech welfare state given its Bismarckian roots combined with "neoliberalism through decay" (Saxonberg and Sirovátka 2009). The latter argument is supported by the detections of pervasive passive austerity, which may indicate policy "drift" (Streeck and Thelen 2005) towards a liberal welfare state model.

The move towards a liberal model is further supported by the pension privatization and retrenching reforms of the Nečas government (2010-2013) in each policy area studied. This turning point occurred precisely when the first coherent (right-wing) government formed (by excluding the Christian Democratic KDU–ČSL for the first time), which highlights again how government coherence enables reform. Although the likelihood of reform was also facilitated by the global financial crisis and the heightened pressure for austerity, earlier crises were insufficient for such sweeping change. However, the future direction of the Czech welfare state is uncertain. Although the Nečas government passed significant reforms, corruption scandals brought its term to an abrupt end. If ČSSD will lead the next government, then policy reversals at least in pension privatization are likely. Therefore there is the potential for policy instability like the pattern produced by alternating left-wing and right-wing governments in Slovakia. Thus even if a clear conservative welfare state existed in the Czech Republic, its future is uncertain.

6.4.5. Patchwork welfare states as a 'postcommunist' type?

The reasons that a single welfare state logic is difficult to identify may be traced back to the diversity of approaches across policy areas (Poland and Hungary), policy instability over time due to polarized politics (Hungary and Slovakia), or the elusive consensus for reform that prevented single governments from passing reforms across multiple policy areas (Czech Republic). The "embedded neoliberal" nature of capitalism (Bohle and Greskovits 2007a; Bohle and Greskovits 2012) is reflected not only in the combination of market liberalism with social protection, but even in the combination of different social policy approaches within each welfare state which result from the dynamic politics of welfare reform and differences in which groups of society governments prioritize. It seems that the emergence of institutional complementarities among 'latecomer' welfare states is not more likely than their emergence in the older welfare states.

However, could these countries still be clustered into a postcommunist type? While they share some common traits, such as generous parental leave systems (except in Poland) and mandatory private pension accounts (though no longer in Hungary and only an optional system in the Czech Republic), the diversity of the politics of welfare and the lack of a single welfare logic within any country casts doubt on the utility of clustering these countries, even if they tend to have lower levels of social spending than advanced welfare states. Given that these countries were selected for this project as most similar cases within postcommunist Europe, even further diversity would be expected if the list of countries were expanded (cf. Bohle and Greskovits 2012). Therefore, diversity within and between ECE welfare states clearly challenges the presence of a single 'postcommunist' welfare state model (Castles and Obinger 2008). At best, they could join the many other real-existing hybrid welfare states.

7. Conclusion

7.1. Summary of contributions

The main contribution of this research was to propose an explanatory framework for the party politics of welfare state reform that goes beyond theories that propose the partisan coloring of the government to explain welfare state change. The explanatory model developed in this work rather looks at how political parties interact and how the coherence of the governments that they form fundamentally shaped the likelihood of welfare state continuity and change. This more nuanced approach to understanding the politics of the welfare state offers more theoretical precision, but also clarifies the critical influence of domestic politics vis-à-vis international and historical factors, which are often claimed to 'depoliticize' welfare state development. By demonstrating the essential importance of the types of governments formed for explaining the nature of welfare state reform, this research bolsters the 'politics matters' hypothesis. This is particularly true given that the framework is tested on welfare states of ECE, which exhibited extreme levels of pressure for austerity as small, dependent economies and high involvement of international organizations as well as forces for continuity based on historical legacies and social contracts from Communist-era social policy. While these cases represented a 'hard test' for arguing that domestic politics is the most decisive influence, consistency with which government coherence explains reform outcomes is remarkable.

Further the dissertation investigated how the reform process differs under non-coherent governments applying Hirschman's concept of reformmongering to understand how consensus may be constructed under unlikely circumstances. While previous research on ECE pension privatization focused primarily on the role of international actors, the case studies demonstrate the decisive impact of domestic technocrats and how pension privatization took place only after neo-liberal reformers gained influence in non-coherent governments.

Another significant contribution of this research was to incorporate inconspicuous forms of change into the welfare state analysis. The research is particularly unique in that it proposes measures for these passive forms of change and studies how they are used as alternatives to or in addition to more visible welfare state reforms. The hypothesis of this research was that passive austerity is a tool likely to be used during periods with pressure for austerity when the government lacked the coherence to pass more substantial reform. I do find evidence of the use of passive austerity under these conditions, however, passive austerity policies are so pervasive across countries, policy areas, and over time, that I would rather claim that passive austerity is integrated in the *modus operandi of politics* in this 'era of permanent austerity'. This compels further research on the use of passive policy measures and the resulting consequences for the quality of democracies. If policy making is increasingly occurring at the margins and with attempts to decrease the visibility of measures for the public, then democratic accountability may be seriously threatened.

Finally the analysis of the welfare state reforms across multiple policy areas allowed an assessment of ECE welfare state typologies. As summarized in section 6.4, I argue that the ECE welfare states do not clearly fit existing welfare state typologies nor do they show tendencies towards convergence on any typology. The dynamic politics of welfare reform suggested by the explanatory framework implies that the characteristics of future governments could drastically alter current welfare state arrangements. Therefore, even in cases where we detect a consistent logic to the welfare state, we lack the political mechanism demonstrating why this logic should be reinforced over time.

7.2. Limitations and directions for future research

The primary methodological approach of the dissertation was comparative case analysis focusing on the analysis of mechanisms promoting policy reform and continuity. However, the systematic approach to the case studies resulted in a dataset of government characteristics and reform outcomes that is well-suited for Qualitative Comparative Analysis (Ragin 1987; Schneider and Wagemann 2012) to enable a more systematic analysis of the necessary and sufficient conditions for policy reform and continuity. This represents a logical next step to follow up on the detailed case study analysis of this dissertation.

In assessing the fit of welfare state typologies, I detected significant cross-national variation in the range of policy options that seemed politically acceptable. For example, in Poland increasing the retirement age seemed to present greater political challenges than pension privatization. In the Czech Republic, on the other hand, multiple increases to the retirement age occurred while pension privatization remained out of reach. In Hungary and Slovakia, the universality of child allowances became acceptable to all major political parties; while in Poland all parties view this as a tool to support lower income families. The reality that some tendencies transcend very different governments suggests that there may be important country-level features that explain this variance (based on history, differences in predominant public opinion, degree of ethnic homogeneity, or other attributes). Given that these factors may assist in understanding whether these welfare states approximate existing welfare state types, they warrant further attention in future research.

Although designed through the study of postcommunist welfare states, the explanatory framework of this dissertation is not particularly ‘postcommunist’ and is expected to also inform welfare state development in advanced political economies. Further research would be needed to test and adapt the framework for a wider set of cases. Detailed comparative work that incorporates welfare states from ECE with more advanced welfare states is surprisingly rare, but offers the opportunity for scholars from both perspectives to advance theoretical understanding of welfare state politics.

While the practice of reformmongering explains the emergence of major reform even when government coherence is lacking, the model does not sufficiently explain what other conditions reinforce technocrats enabling their extraordinary influence (i.e. explaining whether the reform outcome is represented by path 4 or 6 from Figure 2.1). While a detailed study of the rationale of individuals who advocated and coordinated reform under rather unfavorable conditions remained outside the scope of the current project, future research on what motivated these leaders to pursue reform (whether ideological, personality, drive for power, or other factors) could further advance our understanding of path departure.

There have been many major reforms since 2008. In most of the case studies, this was a time of coherent or caretaker governments, which makes it difficult to distinguish the effect of coherence from the effect of the crisis. The one instance of non-coherent governments between PO and PSL in Poland who passed major welfare state reform increasing the generosity of benefits in all policy areas suggests that perhaps the crisis did intensify the frequency of major reforms, but it did not have a uniform effect on their direction. Single coherent governments pursued policies of austerity in one area and expansion in another (except the Czech Republic where the Nečas government pursued only austerity and privatization reforms). The effect of the crisis on these welfare states does not appear to have a uniform effect and further research should elaborate on this.

Passive austerity was used much more significantly than the model anticipated. Besides extensive use by non-coherent governments, often coherent governments also neglected the maintenance of the real value of benefits. Further, there was variance in the extent of passive austerity across countries. If policy reforms are made increasing complicated and less visible, this can limit the information and understanding that voters have of their governments' policies with clear negative consequences for electoral politics. This dissertation made significant progress in incorporating inconspicuous welfare state change into the politics of the welfare state and the findings suggest that this is a critical dimension for how understanding how political agency shapes policy outcomes and one that warrants deeper investigation.

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A. Appendix 1: Coding government characteristics

In this section, I summarize the governments and my coding decisions regarding government coherence. Table A.1 summarizes the 47 governments included in the case studies (14 from the Czech Republic, 8 from Hungary, 14 from Poland, and 11 from Slovakia) and the coding for government position and coherence. The coding decision relies on information and knowledge of the parties *prior to government formation*. This is informed by the parties' electoral campaigns, their manifestos, the negotiations between the parties before coalition formation, and assessment of the governments from the party politics literature. A government was coded as non-coherent if at least one of the following conditions were met:

1. The coalition includes parties from different ends of the socio-economic left-right dimension (labeled as 'Mixed' under Position in Table A.1).
2. The campaigns of the parties included clear policy proposals in the opposite directions.
3. Within one of the parties in the government, factions exist with clearly different policy aims (for this analysis, only the postcommunist parties in Hungary and Poland).
4. The government was a minority government (for a clarification of why, see section below).

Conventional wisdom suggests that a minority government would be less effective in passing proposals due to the simple fact that they do not have a natural legislative majority to vote for the proposals. The difficulty of effectively governing under this condition is that it requires parties or legislators from outside the government to support a bill in order for it to pass. Studies of minority governments have challenged this principle and argue that minority governments can even have an advantage in the ability to build different majority coalitions with other parties depending on the policy area (Strom 1990; Green-Pedersen 2001). Denmark is used as the case in point of a country where minority governments govern consistently and effectively. By definition, I will classify these governments as non-coherent in that they almost always resulted from a failed attempt to form a majority government and therefore represent lacking coherence between the government and the opposition parties.

The sections below summarize the governments by country. ECE party systems include the traditional party cleavages plus the regime divide cleavage resulting in more complex cleavage structures. The consequences for government formation often include awkward coalition partners or delayed government formation (the most extreme example being the Czech Republic in 2006 where government formation took 6 months). However, I

Table A.1: Summary of ECE governments

Country	Month, year gov't began	Parties	Premier(s)	Type of government	Position	Coherence
Czech Republic	**June 1990**	**Civic Forum (OF) - including liberals and social democrats**	Čalfa	Single party majority	Mixed	Low
	July 1992	*Caretaker*	Stráský	Caretaker	-	-
	January 1993	**ODS, KDU/CSL, ODA**	Klaus	MWC	Right	Low
	July 1996	**ODS, KDU/CSL, ODA**	Klaus	Multi-party minority	Right	Low
	January 1998	N/A	Tošovský	Caretaker	-	-
	June 1998	**ČSSD (Opposition agreement with ODS)**	Zeman	Single party minority	Left	Low
	July 2002	**ČSSD, KDU/ CSL, US**	Špidla, Gross	MWC	Mixed	Low
	March 2005	ČSSD, US	Gross	Multi-party minority	Mixed	Low
	April 2005	ČSSD, KDU/ CSL, US	Paroubek	MWC	Mixed	Low
	June 2006	Stalled government formation		Caretaker	-	-
	January 2007	**ODS, KDU/CSL, SZ**	Topolánek	Minority	Right	Low
	May 2009	Caretaker	Fischer	Caretaker	-	-
	June 2010	**ODS, TOP 09, VV**	Nečas	MWC	Right	High
	April 2012	ODS, TOP 09 (with support of some VV MPs)	Nečas	MWC	Right	High
Hungary	**May 1990**	**MDF, FKGP, KDNP**	Antall, Boross	Surplus majority	Right	High
	July 1994	**MSZP, SZDSZ**	Horn	Surplus majority	Mixed	Low
	July 1998	**Fidesz, MDF, FKGP**	Orbán	MWC	Right	High
	May 2002	**MSZP, SZDSZ**	Medgyessy, Gyurcsány	MWC	Mixed	Low
	June 2006	**MSZP, SZDSZ**	Gyurcsány	MWC	Mixed	Low
	May 2008	MSZP	Gyurcsány	Single-party minority	Left	Low
	April 2009	Caretaker	Bajnai	Caretaker	-	-
	May 2010	**Fidesz**	Orbán	Single party majority	Right	High

Poland	**December 1991**	**ZChN, PC, PL**	Olszewski	Multi-party minority	Right	Low
	July 1992	UD, KLD, PCD, PL, PPG, PSL, ZChN	Suchocka	Multi-party minority	Right	Low
	April 1993	UD, KLD, PCD, PPG, PSL, ZChN	Suchocka	Multi-party minority	Right	Low
	October 1993	**SLD, PSL**	Pawlak, Olesky, Cimoszewicz	Surplus majority	Left	Low
	October 1997	**AWS, UW**	Buzek	MWC	Right	High
	June 2000	AWS	Buzek	Single party minority	Right	Low
	October 2001	**SLD, UP, PSL**	Miller	Surplus majority	Left	Low
	March 2003	SLD, UP	Miller	Multi-party minority	Left	Low
	June 2004	SLD, UP, SdPI	Belka	Multi-party minority	Left	Low
	November 2005	**PiS (splinter of AWS)**	Marcinkiewicz	Single party minority	Right	Low
	May 2006	PiS, SRP, LPR	Marcinkiewicz, Kaczynski	MWC	Right	High
	August 2007	PiS	Kaczynski	Single party minority	Right	Low
	November 2007	**PO (reformed AWS, UW), PSL**	Tusk	MWC	Mixed	Low
	October 2011	**PO, PSL**	Tusk	Surplus majority	Mixed	Low
Slovakia	**January 1993**	**HZDS, SNS**	Mečiar	MWC	Left	High
	March 1994	DUS, SDL, KDH	Moravčík	Multi-party minority	Mixed	Low
	December 1994	**HZDS, SNS, ZRS**	Mečiar	MWC	Left	High
	October 1998	**SDK, SDL, SMK, SOP**	Dzurinda	Surplus majority	Mixed	Low
	October 2002	**SDK, SMK, KDH, ANO**	Dzurinda	MWC	Right	High
	December 2003	SDKU, SMK, KDH, ANO	Dzurinda	Multi-party minority	Right	Low
	September 2005	SDKU, SMK, KDH	Dzurinda	Multi-party minority	Right	Low
	February 2006	SDKU, SMK	Dzurinda	Multi-party minority	Right	Low
	July 2006	**Smer-SD, SNS, LS-HZDS**	Fico	MWC	Left	High
	July 2010	**SDKU-DS, KDH, SaS, Most-Hid**	Radičová	MWC	Right	Low
	March 2012	**Smer-SD**	Fico	Single party majority	Left	High

Bold face parties indicate that the government formed following an election.
MWC=Minimal Winning Coalition
Government began at the time indicated and ended at the beginning of the subsequent government.

claim that the effects of party politics is this regions is feasible as there is relative (perhaps surprising) stability of party systems (Toole 2000; Hloušek and Kopeček 2008).

Czech Republic

In the Czech Republic, there is a proportional electoral system based on multi-member districts and the degree of proportionality is higher than in Hungary, but lower than in Slovakia (where there is a single constituency). There are several formal reform veto players, but in practice their power is quite weak. Czech Republic has an upper house, the Senate, and a President (who is popularly elected since 2011). Both have the power to veto legislation, but the veto can be overridden by a repeated majority vote in the lower house of parliament. As shown in the case studies, when this veto power was exercised, it could be easily overridden with at most a few months delay in the reform. Legislation can also be referred to the constitutional court, but this has been used less frequently than in Hungary or Poland.

Non-coherence has been pervasive in Czech governments from 1990 to 2010. During this time, three types of Czech governments formed: (1) non-coherent coalitions of right-wing parties (that were also sometimes minority governments), (2) non-coherent coalitions of the social democratic ČSSD with right-wing parties (and similarly a ČSSD minority government in agreement with a conservative party), and caretaker governments after government failure or post-election stalled government formation. The right-wing governments in the Czech Republic in the 1990s (Čalfa 1990-92, Klaus 1993-96, and Klaus 1996-98) were all coded as non-coherent due to significant policy and personal disputes between neo-liberals and conservatives within the right-wing parties, which began within the Civic Forum and persisted after this party splintered (Hanley 2011). ODS capitalized on the breakup of the Civic Forum and inherited the largest share of its institutional collateral, which actually magnified the tensions between ODS and the other newly formed right-wing parties (Hanley 2011, 93). Conflicts over approaches to privatization further heightened division on the right between ODS and ODA. The divisions of the Czech right produced a series of governments lacking policy coherence.

The division of the Czech right meant that despite winning a majority of the votes in the 1998 elections, ODS, UW (a recent splinter from ODS), and KDU–ČSL were unable to form a coalition. As a result, social democratic ČSSD formed a minority government was the Czech opposition agreement between ČSSD and liberal ODS (for a summary of this agreement, see Roberts 2003). The fact that this opposition agreement was feasible, but a right-wing majority coalition was not demonstrates the depth of the divisions of the Czech right. CSSD lacked a feasible coalition partner to form a majority government, given the refusal to form a government with the Communist successor party (KSČM, Communist Party of Bohemia and Moravia) (Grzymala-Busse 2001, 91). The lack of reform within the Communist Party in the late Communist era meant that former-Communist parties had much less chance to compete in Czechoslovakia and later the Czech and Slovak Republics (Grzymala-Busse 2002).

In the 2002 elections, ČSSD won the most votes, but lacked an obvious coalition partner. However, the frustrations of being a minority government produced strong incentives to form a majority government. ČSSD reached an agreement with the Christian-democratic KDU–ČSL and liberal UW. The parties were united in their pro-EU stance rather than on any other policy dimension. The government was led by Prime Minister Vladimír Špidla, but after ČSSD performed poorly in the 2004 European Parliamentary elections, Špidla resigned and the same government was led by Stanislav Gross. In 2005, KDU–ČSL left and then rejoined the coalition.

After the 2006 elections, government formation was stalled for more than six months as the results divided the parliament with 100 seats on the left and 100 on the right. Given the continued exclusion of KSČM from government, a coalition on the right between ODS, KDU–ČSL, and the green party SZ formed with 50% of the seats, but still lacking a majority. KDU–ČSL became a “pivotal party” forming coalitions with both ČSSD and right-wing parties. This government was fragile and collapsed in 2009. A caretaker government formed until the 2010 elections.

In 2010, the right-wing governments won a majority of the seats and ODS finally had coalition partners with which it could form a coherent government. Two new liberal parties, TOP09 and VV, joined ODS to form a government with Petr Nečas as Prime Minister. The government became more fragile over time, but managed to survive two votes of no confidence in 2012 (requested by ČSSD) and passed most of the proposed reforms that year. In April 2012, one of the coalition parties VV split up over corruption charges among the leadership. The remaining parties in the coalition (ODS, TOP09) were able to maintain the government with the support of some of the breakaway VV MPs. In June 2013, after Prime Minister Nečas resigned related to a corruption scandal of one of his advisors, the president replaced the government with a caretaker government headed by Prime Minister Jiri Rusnok, which failed the vote of confidence in the parliament. Early elections will be held in October 2013.

Hungary

Hungary has the lowest degree of proportionality of the countries studied given its mixed (and relatively complex) electoral system where more than half the members of parliament are elected by first past to post voting in single member constituencies. The remaining seats are filled by proportional representation from country-level and regional party lists. The Hungarian electoral system clearly favors large parties (Benoit and Hayden 2004). This actually provides incentive for factions within a party to stick together even as coherence wanes. This may explain why MSZP persisted as a single party without splintering until after the 2010 elections, despite having clear factions within the party. This also means that the electoral system concentrates power, which may make it more feasible for a party to reach a majority alone. A single party obtaining more than 50% of the seats in parliament occurred more often here than anywhere else. However, this does not guarantee government coherence due to elevated intra-party divisions on the left. Party organization and hierarchical leadership style has maintained coherence within Fidesz (for now). Analysis of Hungary's party system in the 1990s suggested that valence competition is dominant (Kitschelt et al. 1999, 180), meaning that the political parties are competing less on alternative policy approaches and more on their party's competence to introduce them. Grzymala-Busse (2001, 97) observes low polarization between MSZP, Fidesz, SZDSZ, and MDF in 1994. However, my analysis suggests that intraparty divisions within MSZP and MDF were more substantial and polarization between parties grew over time.

Regarding veto players, Hungary does not have an upper house and the presidential powers are relatively weak. However, Hungary had a relatively active constitutional court that did block or scale back some reforms, as summarized in the case studies. Its power has recently been scaled back by constitutional changes under the Orbán government.

The first Hungarian government from 1990-94 was a relatively coherent right-wing coalition between MDF, FKgP, and KDNP. In the 1994 elections, MSZP won a majority of the seats and could have governed alone. However, in an attempt to demonstrate that it had reformed from its Communist past, it formed a coalition with the liberal SZDSZ. Despite earlier claims that they would not participate with a government under Prime Minister Horn, SZDSZ elites were attracted to the opportunity to govern, especially after being excluded from the coalition following the 1990 elections (Grzymala-Busse 2001, 97). The social-liberal coalition not only lacked coherence due to the different policy approaches of the two parties, but also due to divisions within MSZP. Liberal and social democratic factions formed within MSZP and coalition formation with SZDSZ shifted the balance of power in favor of the liberals.

The 1998 elections once again led to a change in power, but now a predictable right-wing coalition was formed led by conservative Fidesz who had gained power and cooperated with FKgP and MDF. These parties had relatively similar conservative policy positions. The 2002 election once again returned the MSZP-SZSDZ coalition to power. MSZP still faced strong internal divisions, which is why this government is again coded an non-coherent.

The 2006 elections were the first where an incumbent party received the most votes and the MSZP-SZDSZ coalition remained in power. The economic situation in the country deteriorated from 2006 on and there were anti-government protests after a tape leaked with the Prime Minister stating that MSZP lied to win the elections. The government survived a vote of no confidence in 2006, but the coalition disintegrated in early 2008 as SZDSZ left the coalition after the failure to pass privatization reforms in the health care system. The combined impact of domestic crisis and the global financial crisis made the economic and fiscal situation in Hungary increasingly bleak and eventually led to an IMF bailout in late 2008. For a short period of time, MSZP remained in power as a minority government. In April 2009, there was a constructive vote of no confidence against the MSZP government selecting Gordon Bajnai as the new prime minister of an MSZP-SZDSZ backed caretaker government.[58]

The 2010 elections returned to the pattern of ousting the incumbents. Fidesz won a sweeping victory and the party held more than two-thirds of the seats in parliament. The government formed a coherent single-party supermajority. The coherence of Fidesz in contrast to MSZP is likely the result of the hierarchical leadership style, as advancing in the party leadership depends on adherence to party principles, which thus far has stifled major decent.

Poland

Like the Czech Republic, Poland has a proportional representative electoral system with multi-seat constituencies. Since 1993, the threshold for a party to enter parliament is 5%;while for a pre-electoral coalition it is 8%. Potential veto players include the popularly elected president who has the power to veto bills and a three-fifths vote is required to

[58] The new government was presented as a caretaker government, but Gordon Bajnai had been in a government post since 2006 when he became a commissioner for development policy and later minister of National Development and Economy.

override the veto. Poland also has an upper house with legislative powers, but if it blocks a bill, the lower house can override it with a simple majority. Poland also has a constitutional court that has been rather active, as summarized in the case studies. Despite the presence of these veto points, they rarely prevented the government from passing social policy proposals as summarized in the case studies.

In Poland, governments formed that were often the second or third best alternatives when it comes to “ideological proximity and complementary policy goals” (Grzymala-Busse 2001, 85). The first parliamentary election in Poland produced an extremely high numbers of parties in parliament. As a result multiple coalitions formed before 1993, which consisted of a high number of parties. These coalitions were quite fragile and chaotic. As a consequence they were coded as non-coherent.

In the 1993 elections, the Democratic Left Alliance (SDL), a coalition of left and former-Communist parties, won the most seats. SDL was unable to form a coalition with the opposition parties due to ideological differences and the refusal of Solidarity-based parties to govern with former-Communist parties. Consequently SDL formed a coalition with the Peasant party (PSL), which was essentially a single-issue party aiming to protect farmers, but “had a common pedigree [with SDL, as] the PSL was a satellite party under Communism, nominally representing the large rural sector, but subservient to the Communist party” (Grzymala-Busse 2001, 95). Thus the SLD-SPL coalition had high policy polarization on social and economic issues. The lack of coherence in this coalition was magnified by the divisions with SDL, which like MSZP in Hungary contained liberal and social democratic factions.

In the 1997 elections, Solidarity Electoral Alliance (AWS) won the most votes and formed a coalition with the liberal Freedom Union (UW). I code this coalition as coherent as the parties had similar approaches to macro-economic policy. Although the coalition was less coherent on social issues and relationship with the church, on a socio-economic left-right dimension, the positions were coherent.

The 2001 elections once again led to a change of power with an electoral coalition between SLD and the social-democratic Labour Union (UP) winning 41% of the seats in the Sejm. SLD and UP formed a non-coherent coalition with PSL adding to the policy polarization of the coalition. The coalition broke up in March 2003 when PSL left the coalition. Substantial divisions also persisted between the neoliberal and social democratic wings of SLD. The dominance of the neoliberal wing became increasingly secure, as can be shown as the social democratic wing split off in 2004 to form a new party, SDPL. Despite its split from SLD, SDPL joined the government immediately.

The 2005 elections led to a major defeat of SLD who went from 216 MPs(from 41% of votes) to 55 MPs (from 11.3% of votes) in the Sejm and the rise of conservative parties (Markowski 2006). The relatively new Law and Justice party (PiS) won the most votes based primarily on a rural voter base obtaining 27% of the seats in the Sejm. PiS was unable to form a majority coalition with the other major right party, Civic Platform (PO), due to policy differences and ended up governing as a minority government until May 2006. At this point, two parties, SRP and LPR, joined the government which were also rural conservative parties forming a coherent coalition. Corruption scandals within SRP led to the breakup of the coalition, leaving PiS as a minority government in 2007 for a few months before early elections were held.

The 2007 elections produced a victory for liberal-conservative PO, which was a splinter party from AWS formed in 2001. PiS obtained the second largest number of seats. Again, a PO-PiS coalition was not feasible and PO formed a non-coherent coalition with PSL, which remained a predominately single-issue party. Although PSL's policy position was shifting towards a Christian Democratic party, it remains a strong advocate of state intervention (especially in agriculture). For this reason, the policy coherence of the PO-PSL coalition remains low. The 2011 elections produce continuity as the PO-PSL government remained in power.

Slovakia

Slovakia's electoral system has the highest degree of proportionality given that the country is treated as a single constituency. Like the other countries, there is a 5% threshold for a party to enter parliament. Slovakia has a unicameral parliament and a president who is popularly elected (since 1999). The president can veto bills, but the veto is overturned by a repeated majority vote meaning that in practice the president at most delays rather than blocks bill. There is also a constitutional court, but it has not actively blocked social policy legislation.

In Slovakia, the former Communist party, SDL faced major ideological divisions, like MSZP in Hungary and SLD in Poland. However, unlike in Hungary and Poland, SDL actually split into multiple parties (SLD, ZRS, SDA) in the first decade of transition and never led a governing coalition (Haughton 2004, 187). Given that former Communist politicians spread out and joined many different parties, the main divide was not between old regime and new regime parties, but between pro-democratic and populist/nationalist parties (Grzymala-Busse 2001).

Although the 1992 elections took place under the auspices of the Czechoslovak election, Slovak voters also voted for deputies in the Slovak National Council. After Slovak independence, the Movement for a Democratic Slovakia (HZDS) governed with the Nationalist party (SNS) as a coalition partner. Vladimir Mečiar was the Prime Minister. In socio-economic ideology, this actually represented a quite coherent coalition with high support for welfare, perhaps enforced by the leadership style of Mečiar. Therefore this coalition was coded as coherent. The government promised a 'third way' of entering a market economy rejecting neoliberal reform paths.

In March 1994, there was a vote of no confidence against the Mečiar government, which led to a broad coalition that formed a minority government until elections were held in October 1994.[59] The government was led by Mečiar's former foreign minister, Jozef Moravčík, and included a broad coalition of parties (DUS, SDL, KDH, with support from other independents), which shared an anti-Mečiar view, but were not otherwise coherent. The Democratic Union of Slovakia (DUS) was formed from a splinter of HZDS with other activists and independents supporting the party who formed a coalition with the former communist party (SDL) and the Christian Democratic party (KDH). Despite the lack of coherence and the limited time frame for governing (given that early elections took place later that same year), the coalition was able to implement some macroeconomic reforms in an attempt to stabilize the economy and increase international engagement.

In the October 1994 elections, HDZS won 35% of the vote and formed a government with SNS again and the Union of the Workers of Slovakia (ZRS). Prime Minister Mečiar was returned to power after the turbulent year. Notably absent from the left-nationalist coalition was the former Communist party (SDL), which had banded with other parties against HZDS in 1994. This again represented a coherent, pro-welfare coalition.

The 1998 election once again delivered the most votes to HZDS, but only marginally more than SDK, which was able to form a coalition of pro-democratic parties united primarily by anti-Mečiarism. High ideological polarization between SDL and SDK persisted, but the threat of the HZDS and the anti-Mečiar sentiment provided strong incentives to form a coalition to promote democratic and market reforms resulting in a SDK, SDL, SMK, SOP

[59] The opposition to the government was initiated by the former Communist party SDL, who proposed initially to join the coalition if Meciar was removed from the position of Prime Minister. When this deal was refused, the opposition called for a vote of no confidence, which passed with 78 out of 150 votes.

coalition under Prime Minister Mikuláš Dzurinda from 1998-2002. In order to exclude HZDS from the government, the center right-wing parties entered a coalition with the former Communist party, SDL, who gained 9 of 20 cabinet positions and acted as a veto player to many reform attempts (Grzymala-Busse 2001, 99). Despite the government's unity on the idea of anti-Mečiarism and motivation for EU accession, the first Dzurinda government lacked policy coherence (Fisher, Gould, and Haughton 2007, 990). In the 2002 elections, support for SDL fell dramatically to below the 5% parliamentary threshold. Further a split in the nationalist SNS party forced the now two divided parties to miss the threshold for gaining seats in parliament (Fisher, Gould, and Haughton 2007, 991). The redistribution of these seats was an enabling factor for the formation of a coherent center-right coalition in 2002.

The election in 2002 represented a major turning point, framed by Deegan-Krause as "Slovakia's second transition" (2003). A coherent coalition of center-right parties, SDKU, SMK, KDH, ANO, formed again with Dzurinda as Prime Minister. The second Dzurinda government enacted many major reforms, generally in a market liberal direction. Slovakia's economic and international reputation improved greatly and the country no longer seemed a laggard when it joined the EU with its neighbors in May 2004. However, the governing coalition was plagued by political scandals that led to an early election in June 2006.

Smer-SD, a social democratic party that broke away from the former Communist SDL party in 1999, absorbed SDL and other center left parties, which unified the left in the 2006 elections and enabled Smer-SD to get more votes than any other party. This left-wing party joined a coalition with two nationalist parties, SNS and LS-HZDS (which was Mečiar's reformed party), which represented a coherent left-wing coalition.

After the 2010 elections, Smer-SD won a plurality of votes, but like HZDS in 1998, was unable to form a coalition. A governing coalition was formed between diverse parties that shared a pro-market stance, SDKU-DS, KDH, SaS, and Most-Hid, and relatively high coherence on the socio-economic dimension (Deegan-Krause and Haughton 2012, 224). Since 2002, Slovak governments have alternated between coherent center-right and left-wing coalitions at each election.

Table A.2 summarizes the distribution of government coherence across countries. This shows that coherent governments were quite rare in the Czech Republic and Poland. The Czech Republic also experienced a high number of caretaker governments. Slovakia, on the other hand, had mostly coherent governments.

Table A.2: Types of governments by country

	Czech Republic	Hungary	Poland	Slovakia	Total
Non-coherent	8	4	12	5	29
Coherent	2	3	2	6	13
Caretaker	4	1	0	0	5
Total	14	8	13	11	47

Table A.3 shows a crosstabulation of government position and government coherence. This shows that there were more coherent governments than on the left.

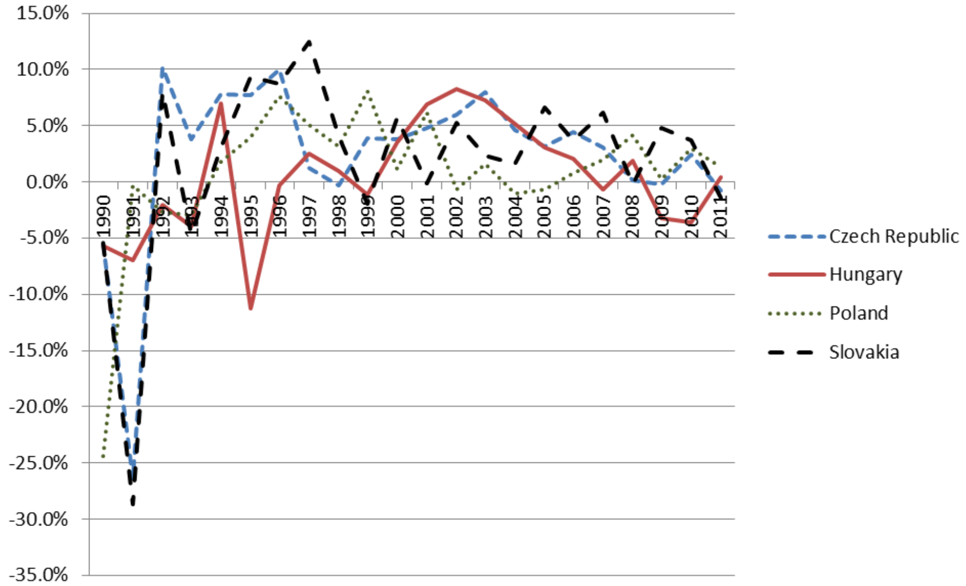
Table A.3: Distribution of government position and coherence

	Left-wing	Mixed	Right-wing	Total
Non-coherent	6	11	12	29
Coherent	4	0	9	13
Caretaker	-	-	-	5
Total	10	11	21	47

B. Appendix 2: Macro-economic data

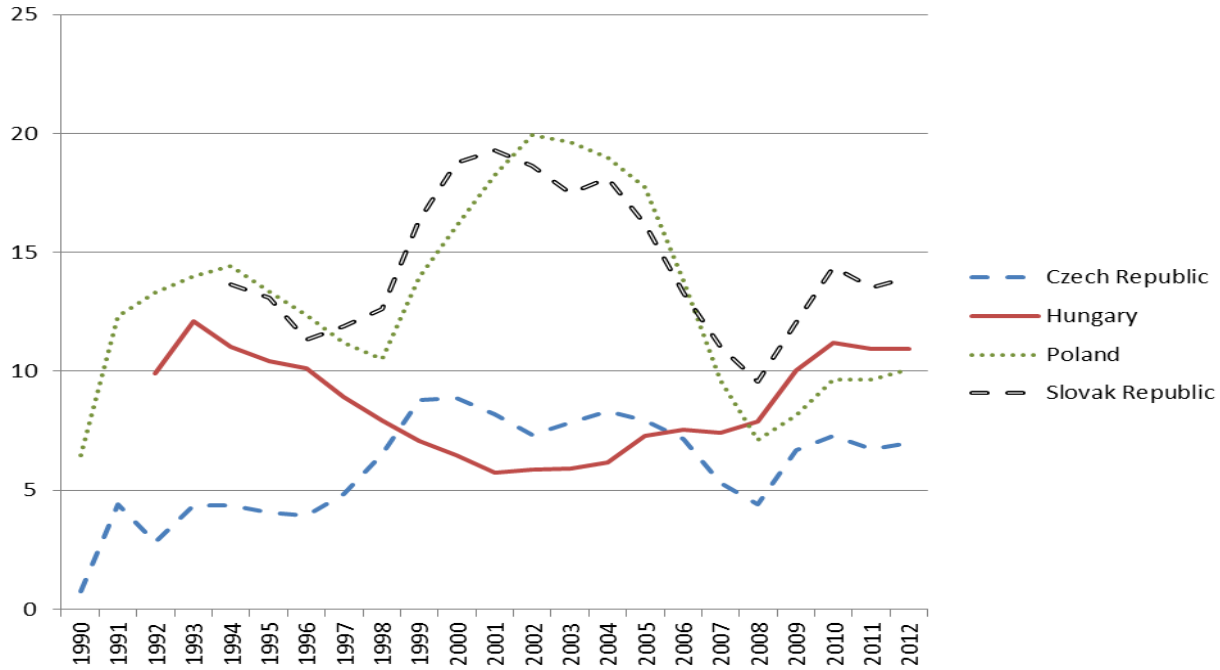
Graph B.1 shows the change in real wage over time and graph B.2 shows unemployment rate.

Figure B.1: Percentage change in real wage, 1990-2011



Source: Unicef 1990-1995(UNICEF. International Child Development Centre 1997), OECD 1996-2011 (OECD 2013)

Figure B.2: Unemployment rate, 1990-2012



Source: OECD statistics