Ágnes Orosz

The Development of Social Spending in East Central Europe[1]

The overall aim of the paper is to provide a comprehensive analysis of welfare state policies and expenditures of the East Central European (ECE)[2] countries. The article collects the historical-institutional features of East Central European welfare states after transition and analyses the composition of welfare state spending. Since the outbreak of the financial crisis enforced welfare state retrenchment in the ECE region as well, recent developments play a key role in understanding the major features. The development of welfare services shows that the East Central European countries are at the very beginning of building a modern and efficient market-driven welfare state with several challenges ahead of them.

Keywords: East Central Europe, welfare state, welfare regime

JEL classification: H53, I39

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2 East Central Europe is referred to as the examined six new EU member states which are members of the OECD as well, namely: the Czech Republic, Estonia, Hungary, Poland, the Slovak Republic and Slovenia. CEECs are referred to as the whole Central and Eastern European region (broader term).

Introduction

The formation and development of the welfare state in East Central European (ECE) countries has brought much attention. The collapse of the communist regime was followed by rapid and radical changes, institutions of parliamentary democracy have emerged and produced laws to harmonize with the new system, installing a market-conform legal infrastructure. While the private sector developed rapidly, the reform of the pension system, medical care and social assistance systems have been laid aside for several years. (Kornai, 1997)

However, there are studies claiming that the post-communist welfare state does not follow a single pattern (Cerami, 2005), Deacon (1992), for instance, predicted that the East Central European countries will develop their social policies in the future into distinct regimes that may even lie outside the three worlds of welfare capitalism described by Esping-Andersen (1990). The theoretical argument whether there is a specific ECE (CEEC[3] or post-communist) welfare state model is still inconclusive. The transition of the post-communist welfare states involves communist legacies and strong elements of path-dependency, as well as innovations and path-departing changes. (Cook, 2010)

Inglot (2008) pointed out that the welfare states of East Central Europe are dynamic historical entities, "works in progress", rather than static, finished models. (Inglot, 2008: 8) It is a common feature of the countries of the model that due to delayed and obstructed political and socioeconomic development, no consolidated "regime types" may appear among the late-developers. These countries are more likely to remain "permanent construction sites or layered structuring of social policy institutions, which often incorporate highly inventive combinations of old and new benefit programs". (Inglot, 2008: 307) This paper argues that due to historical legacies and institutional similarities East Central European countries can be treated as a distinct welfare state regime. It is essential to understand the different social policy changes, reforms within the European Union, especially in East Central Europe. The study seeks to answer what are the distinct features of the East Central European welfare states.

The structure of the article is as follows. The next section presents the historical-institutional features of East Central European welfare states after transition. There follows the analysis of the composition of welfare state spending. The third part collects recent features of welfare state development of the region. The main findings are summarized in the conclusion part.

[3] "Central and Eastern Europe seems easier to define by what is not, than by what it is. It is an area without clear geographical borders. (Batt, 1998: 1; Pásztor, 2012; Pénzes et al., 2014) Based on the definition of the OECD, Central and Eastern European Countries (CEECs) is an OECD term for the group of countries comprising Albania, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, Slovenia, and the three Baltic States: Estonia, Latvia and Lithuania. Therefore, the dissertation does not use the term CEECs, it limits itself to the concept of East Central Europe (ECE), including the four Visegrád countries, plus Slovenia and Estonia. In welfare state literature these countries are often referred to as CEECs or post-communist welfare regimes; however, in general, the scope of analysis is varying.

Historical-institutional Features of East Central European Welfare States

East Central European countries share a common communist legacy with markedly different political and welfare cultures compared to Western capitalist democracies. Since the concept of welfare state is typically applied for parliamentary democracies and market economies, this paper focuses only on the development of the region after 1990. Earlier stages of welfare state development of the region are well described by Szikra and Tomka (2009) who defined the major features of communist welfare regimes in East Central Europe. Their systematic analysis collects "peculiarities of pre- and post-war development" (Szikra–Tomka, 2009: 17) and describes the operation of welfare policies under communism.

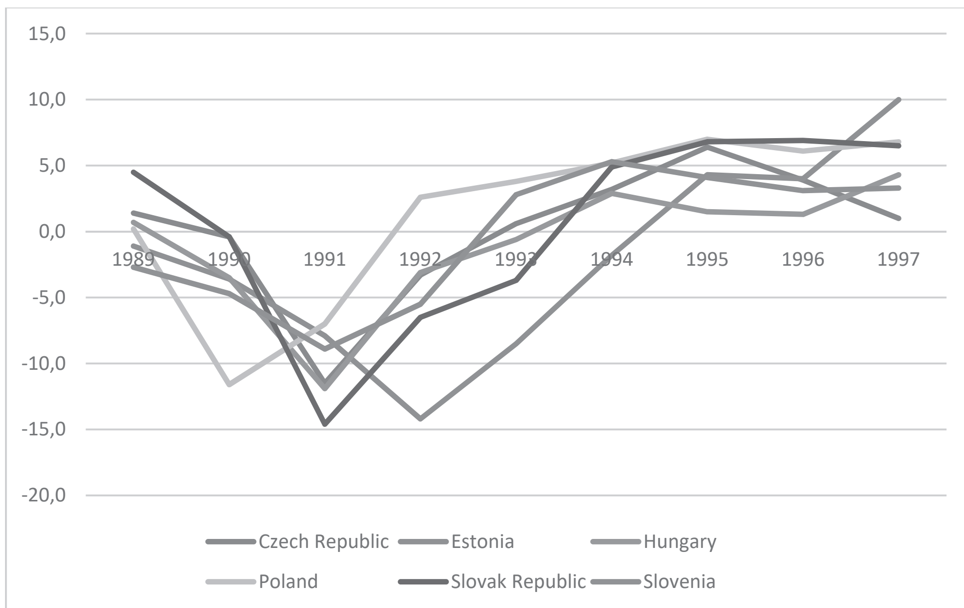

Figure 1.
Real GDP growth rate in countries of the ECE model (1989–1997)
Source of data: Pittlik, 2000: 41

Social, political and economic transition in East Central Europe shaped the operation of welfare systems. Transition to market economy negatively affected welfare systems in several different ways, former practices diminished, and demand for welfare services increased, while the number of contributors to social insurance budgets significantly decreased. (Szikra–Tomka, 2009) Transition brought three major challenges for the post-communist welfare states: the elimination of most price subsidies, the end of full employment, and the transformation of state-owned enterprises into profit-making

companies. These shocks, accompanied with growing social need and economic reforms caused a massive recession. (Orenstein, 2008)

A common pattern of ECE countries is that all of them experienced a severe output decline (Figure 1). Countries of the model returned to pre-1989 levels of economic output within four to five years and then began a period of solid economic growth; however, the transformation process took massive tolls in the long term negatively affecting the socio-economic environment.

The dramatic effect of the end of full employment can be demonstrated by Figure 2. With respect to labour market developments, economies of the ECE region experienced a salient rise in official unemployment rate exceeding 10%, with the exception of the Czech Republic where it stayed below 5% until 1997 and in Estonia where unemployment rate fluctuated around 5.5% between 1992 and 1996.

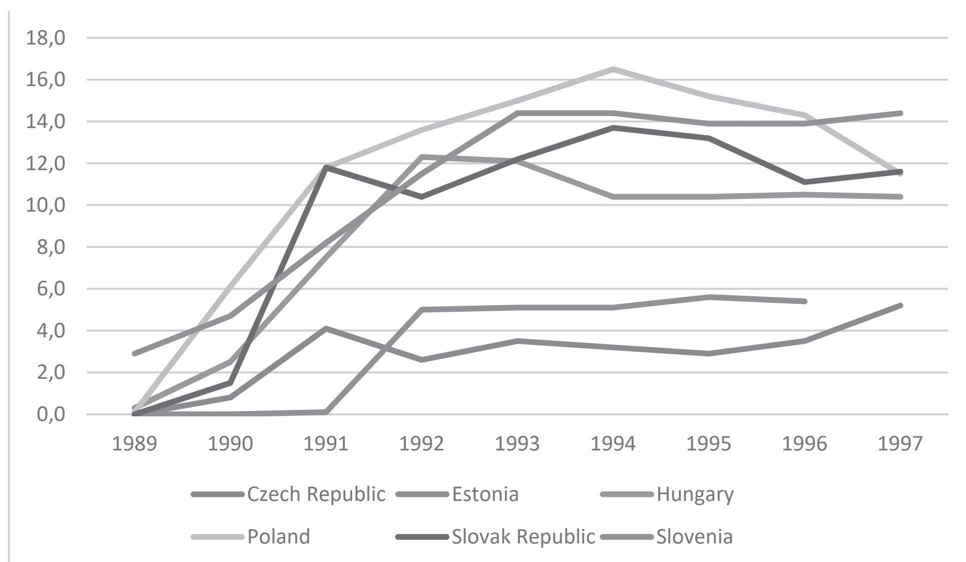

Figure 2.

Unemployment rate in countries of the ECE model (1989–1997)

Source of data: Pittlik, 2000: 41

At the beginning of transition, inflation in Poland and Slovenia exploded to rates of more than 600 and 270%, respectively, in 1989. Estonia experienced hyperinflation of 300% in 1991 and almost 1000% in 1992. Table 1 illustrates that inflation varied considerably. Hungary, for example, never had an inflation rate above 35% and the Czech level only exceeded 50% in 1991, later stabilizing around 10%. Inflation in Slovakia was the lowest during almost the whole period, and after its peak in 1989 and 1991 Slovenia could keep inflation level below 10 %.

Table 1.
Inflation rate in countries of the ECE model (1989–1997)

	1989	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**
Czech Republic	1.5	18.4	52.0	12.7	18.2	9.7	7.9	8.6	10.0
Estonia	n.a.	n.a.	303.8	935.5	35.6	42.0	29.0	15.0	12.0
Hungary	18.9	33.4	32.2	21.6	21.1	21.2	28.3	19.8	18.4
Poland	639.5	249.0	60.4	44.3	37.6	29.4	21.6	18.5	13.2
Slovak Republic	1.5	18.4	58.3	9.3	25.1	11.7	7.2	5.4	6.4
Slovenia	272.0	105.0	247.1	92.9	22.9	18.3	8.6	8.8	9.4

Note: CPI end of year. N.a.: not available.

Source of data: Pittlik, 2000: 41

Transition resulted in worsening macroeconomic conditions during the first four or five-year long period, policy reforms were accompanied with a serious transition recession (deterioration of economic performance, rising unemployment).

How did the transition affect welfare systems of the model? Before transition, communist economies did not perform particularly well; they only ensured a basic standard of living for all. As this guarantee began to diminish, governments introduced emergency responses to address the growing social crisis, which shaped welfare-state policy through the mid-1990s. Coordinated policy responses began to emerge only later. (Orenstein, 2008) In some cases the social costs of transition were compensated through the welfare system. (Szanyi, 2013)

A distinct period of transition among East Central European countries lasted roughly from 1989 to 1993 which can be defined as the first phase of welfare state development. Due to deep economic recession, policymakers expanded welfare provision to mitigate the immediate social distress of mass unemployment resulting from the dismissal of workers from state-owned enterprises and poverty. (Hemerijck, 2013) Cerami (2010: 242) called this period "compensating for the transition" in which the temporary growth of welfare service provisions were aimed at solving the problem of mass unemployment by introducing extensive early retirement policies and by establishing relatively far-reaching unemployment and social assistance programs. Vanhuysse (2006) defined these actions as a "divide and pacify strategy" meaning that "the work-welfare status of individuals can be manipulated by governments in order to reduce the capacity of reform losers for mobilizing". (Vanhuysse, 2006: 49) This strategy led to relatively generous welfare benefits, especially if we take into account the real performance of these transition economies. (Cerami, 2010)

After 1994, when the cumulative burden of social protection expansion of the previous period (1989–1993) proved to be financially unsustainable, the second phase of post-transition welfare state development has started, in which retrenchment and privatization gained prevailing importance. (Hemerijck, 2013) The early generosity of welfare systems soon became unsustainable, especially due to the escalating number of unemployed. (Cerami, 2010) The new direction of this period resulted in advice from the

IMF and the World Bank and in the introduction and expansion of multi-pillar pension systems in most ECE countries. This period is characterized by three important features: 1. welfare retrenchment and cost containment including shifting away from tax financing to increased payroll financing, linking duration and benefit levels to contribution, plus indexation; 2. pension reform, in particular the privatization and individualization of savings; and finally 3. the creeping re-familiarization of social policies, meaning that by the late 1990s family allowances started to expand. (Hemerijck, 2013)

During the first few years of transition the priority of welfare state reform was subordinated to political and economic aspects, "the transformation of social security system […] could be treated as a second order phenomenon". (Wagener, 2002: 156) The early 1990s were shaped by the dynamism of transition, while the late 1990s and early 2000s were in flux as a part of the EU accession. An economic boom in ECE countries during the early and mid-2000s can be observed (which offered hope for a more rapid convergence with the old EU member states), but the global economic crisis and the European debt crises after 2008 resulted in a serious decline of economic performance in countries of the region (Figure 3). (Nenovsky–Tochkov, 2013)

The second phase of welfare state development, the accession process has contributed to significantly improved living standards in the new Member States, fostering economic and social cohesion within the European Union. Economic catch-up has occurred, income per capita rose from 40% of the old Member States' average in 1999 to 52% in 2008. It is estimated that the accession process boosted economic growth in the new Member States, by about 1.75 percentage points per year over 2000 and 2008, when growth increased from 3.5%, on average, between 1999 and 2003 to 5.5% for the period between 2004 and 2008. (European Commission, 2009) Fostering social cohesion is presented in the Report of the European Commission, welfare states in the ECE countries has operated with declining welfare efforts.

Sachs (1996) argued that high government expenditure – and high welfare expenditure in particular – is considered a threat to economic growth for the countries in the region. This statement is exemplified by the fact that during the early 2000s the highest growth rates were recorded in Estonia and Slovakia where aggregated public social expenditures were the lowest during that period.

The third phase of welfare state development from 2001 to the outbreak of the global financial and economic crisis can be characterized by recalibration of social policies and by policy learning mechanisms. The growing number of unprotected citizens attempting to benefit from the already indebted social insurance funds caused severe problems, while the excessively optimistic expectations for market-driven change did not survive long. (Cerami, 2010) In this period, activation and active labour market and social inclusion policies gained more prominence, partly due to the EU Lisbon Agenda, moreover family benefits further increased in the 2000s. (Hemerijck, 2010)

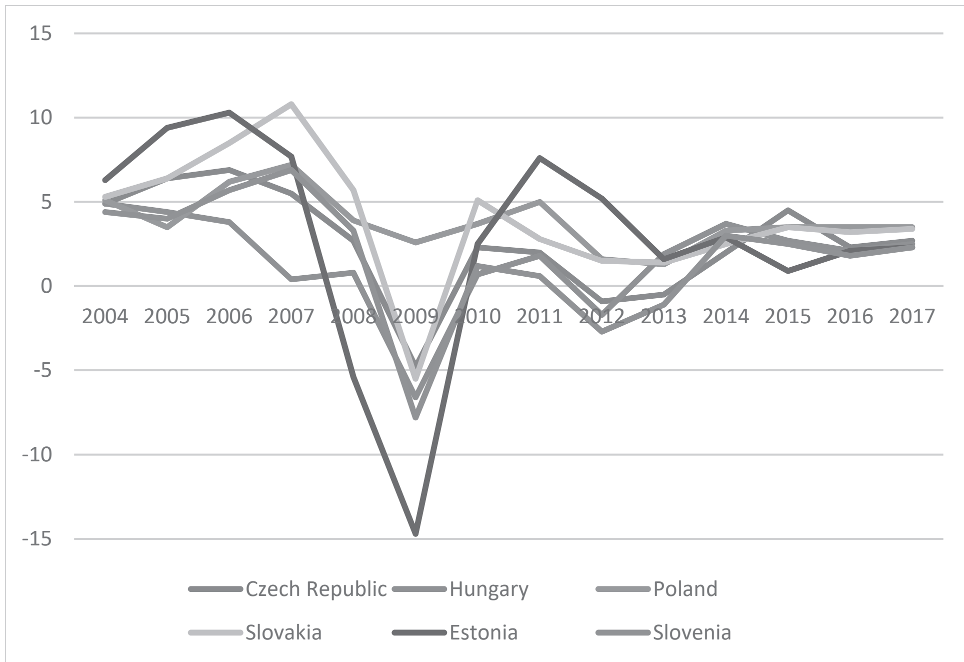

Figure 3.

Real GDP growth rate in countries of the ECE model (1998–2017)

Source: Eurostat statistics, online code: [tec00115]

As a consequence of the above mentioned waves of welfare state formation in East Central Europe, a mixed or "hybridized" welfare model has evolved combining Continental Bismarckian elements, Anglo–Saxon market-based pensions and social services supported by basic egalitarian universalist safety-net provisions. (Zeitlin, 2003)

Composition of Welfare State Spending

The analysis of composition of public social expenditures can be a good indicator to sum up commonalities and differences among the countries of the model for the period from 2000 to 2013.[4] In 2000, the most important item for the ECE countries within public social expenditures was the cumulative level of old age and survivors' pensions, fluctuating around 6–7% of the GDP in the Czech and the Slovak Republic and Estonia, 8% in Hungary and around 10% in Poland and Slovenia. Pension expenditures accounted for 40% of all public social expenditures and even for one half in case of Slovenia (Figure 4–9) in 2000.

4 2000 is the earliest year when data for each country are accessible, 2013 is the most recent year for data of social expenditure branches in the OECD SOCX data base.

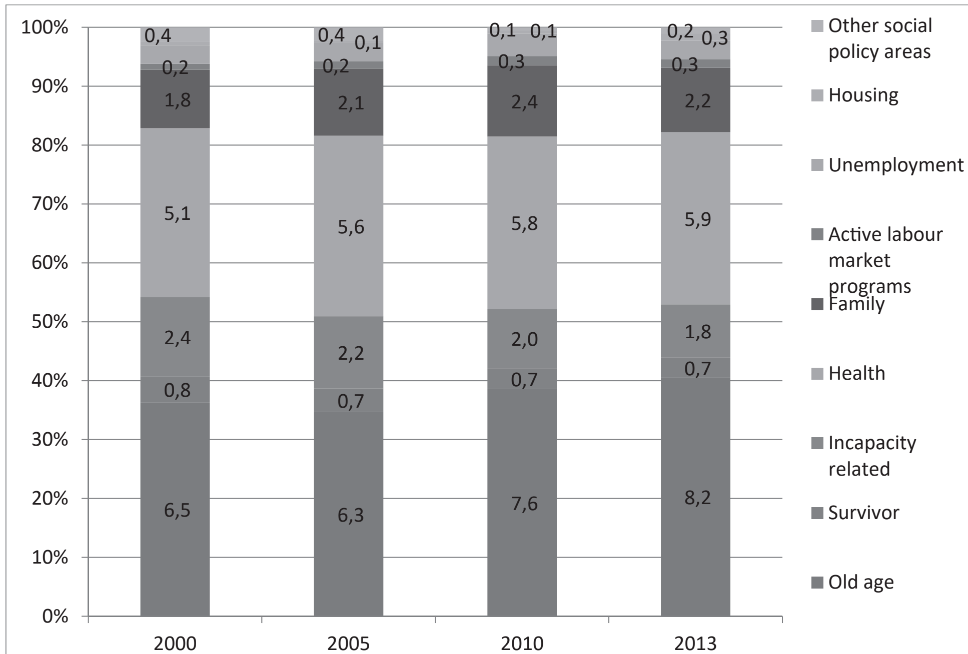

Figure 4.

Composition of aggregated public social expenditures in the Czech Republic

Note: Numbers represent the different types of gross public social expenditure as a percentage of the GDP.

Source of data: OECD SOCX database

The high share of pensioners is due to the economic restructuring of the early 1990s, when early retirement pension was to absorb the large number of unemployed workers. With the exception of Slovenia, all countries of the model experienced salient increase of pension expenditures by 2013, the highest, around 2% points in the Czech Republic and Hungary. In Slovenia the growth of pension spending was minor until 2000, then it started to decrease during the 2000s which was followed by a slight upturn. The distribution of these two categories varies within the model. Survivors' pension was not pronounced during the whole examined period in Estonia, such as in Slovenia which increased survivors' pension spending considerably reaching 1.6% of the GDP, which was the highest value within the model in 2013.

Figure 5.

Composition of aggregated public social expenditures in Estonia

Note: Numbers represent the different types of gross public social expenditure as a percentage of the GDP.

Source of data: OECD SOCX database

Since the mid-1990s, CEE countries have carried out structural reforms on their pension systems. Notably, several countries have introduced a Chilean-type mandatory, privately managed pension system (the so-called second-pillar pension system). The ECE countries that implemented this type of pension system includes Hungary (1998), Poland (1999), Estonia (2002) and the Slovak Republic (2005) (with numbers in brackets indicating the year of implementation). Hungary, Poland, Estonia and the Slovak Republic had pre-existing state pension systems, the reforms resulted in scaling down the state pension systems and partially replacing them with privately managed individual savings accounts. At the same time, state pension systems (now called the first-pillar pension systems) were also reformed by changing some key scheme parameters (extension of qualifying period for pensions, increase in retirement age and transition from wage indexation to price indexation). (Hirose, 2011)

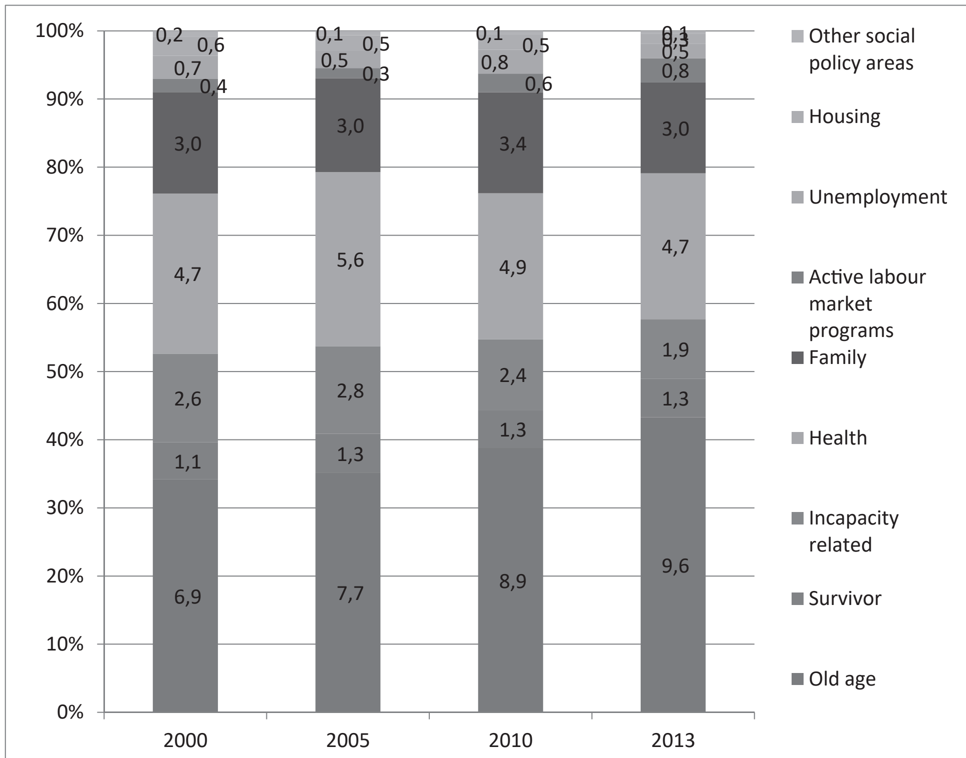

Figure 6.

Composition of aggregated public social expenditures in Hungary

Note: Numbers represent the different types of gross public social expenditure as a percentage of the GDP.

Source of data: OECD SOCX database

Surprisingly the effects of these reforms cannot be observed in the figures. Pension spending significantly increased in the Czech Republic (from 6.5% to 8.2% of the GDP) and in Hungary (from 6.9% to 9.6% of the GDP). In Poland, old age and survivors' pension expenditures soared dramatically and continuously during the analysed period, reaching their peak of 11.8% as a share of the GDP in 2009, exceeding half of all pubic social expenditures. Estonia, Slovakia and Slovenia maintained a slight growth rate of pension spending. It is worth noting that none of the ECE countries that implemented pension reforms witnessed reduction of pension spending.

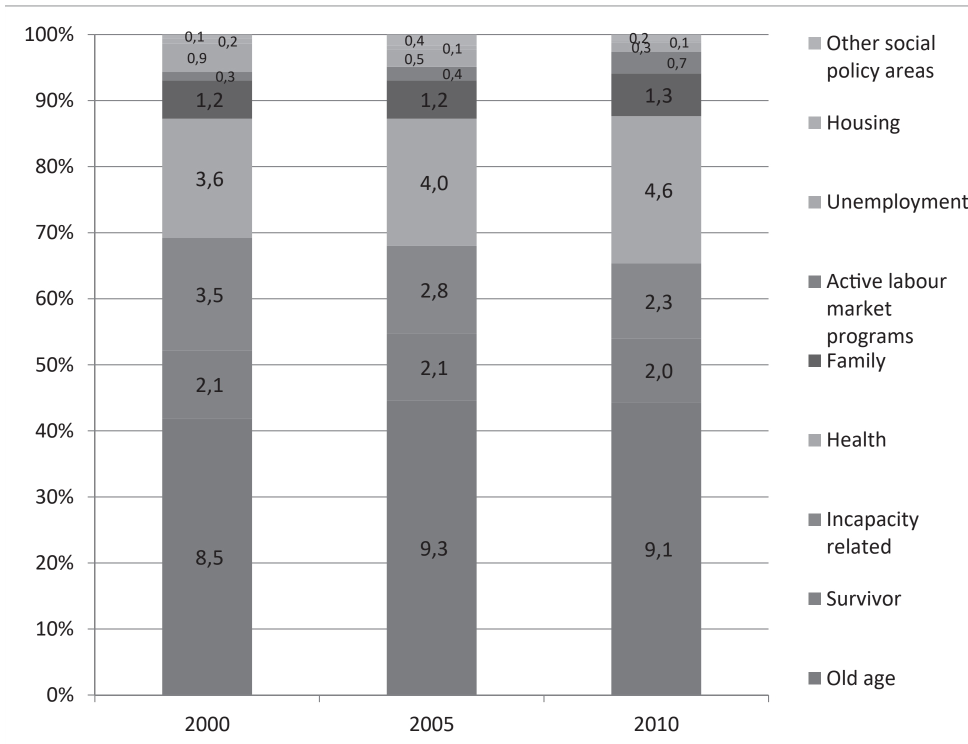

Figure 7.

Composition of aggregated public social expenditures in Poland

Note: Numbers represent the different types of gross public social expenditure as a percentage of the GDP.

Source of data: OECD SOCX database

In 2000, the share of pension expenditures compared to the total amount of public social spending was the highest in Slovenia, reaching almost 50% (10.3% of the GDP in 2013). Until 2009, Slovenia managed the same levels in both terms; however, the structure was changed, shifting towards more support for survivor. After 2009 pension expenditures have started to increase.

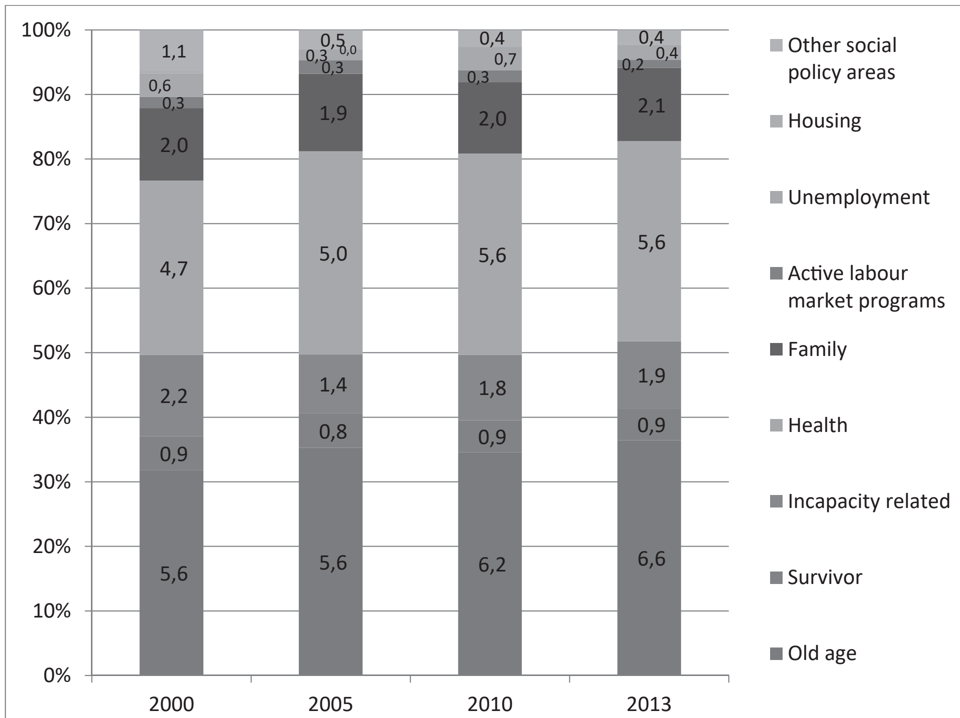

Figure 8.
Composition of aggregated public social expenditures in Slovakia
Note: Numbers represent the different types of gross public social expenditure as a percentage of the GDP.

Source of data: OECD SOCX database

In post-communist welfare states disability pension was often considered to be an alternative to retirement for persons failing to meet the requirements of an early retirement pension. The substantial share of disability pensioners, particularly at older age suggests that those who were not eligible for old-age pension applied for disability pension and managed to receive them. This was only possible by using a broad definition of disability (incapacity to perform work) and the tendency of medical doctors to make generous assessments of disability. (Hirose, 2011)

Incapacity-related benefits fluctuated around 2–3% of the GDP with minor variations within the model and over time. The only outlier is Poland, where almost 6% of the GDP was spent on disability pension. Until 2010 Poland radically cut back incapacity-related benefits, reaching the mean value of the ECE model.

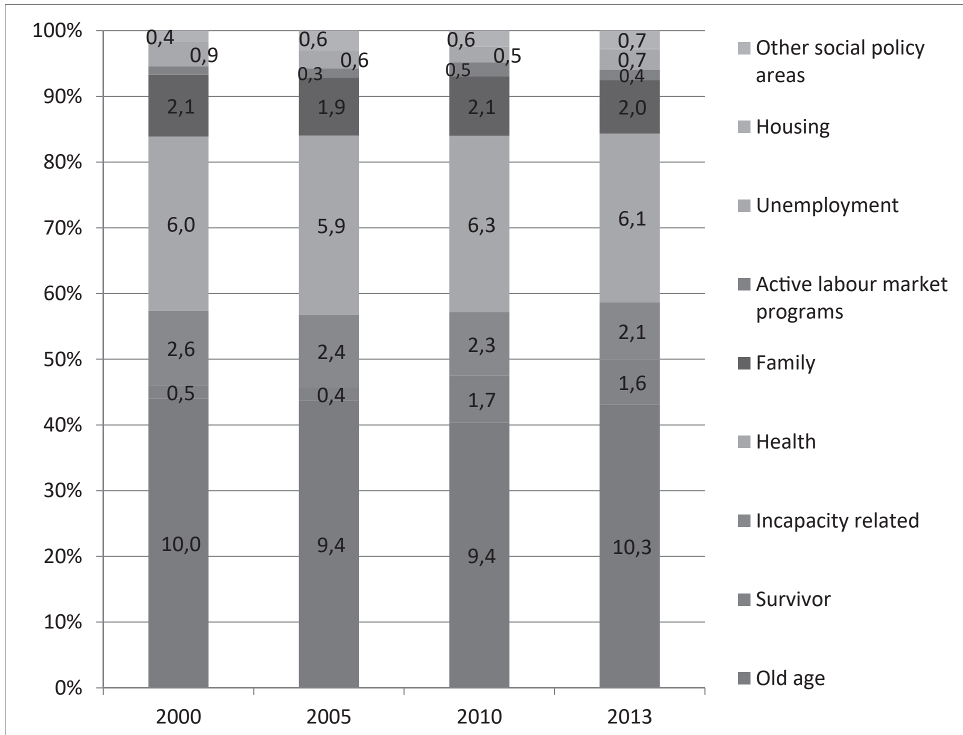

Figure 9.

Composition of aggregated public social expenditures in Slovenia

Note: Numbers represent the different types of gross public social expenditure as a percentage of the GDP.

Source of data: OECD SOCX database

Goldstein et al. (1996) summarized the main characteristic of health financing in the region as follows: these countries "follow the general trend in which the share of GDP spent on health is positively correlated with per capita income. However, the share of GDP spent on health tends to be higher in CEE countries than in developing countries at similar income levels". (Goldstein et al., 1996: 24) This statement can be proven by the fact that in 1995 health expenditures fluctuated around 6% of the GDP in the Czech and Slovak Republics and in Slovenia, higher than in the countries of the Mediterranean model, while in Hungary health expenditures fluctuated around 5% of the GDP. In Poland and Estonia health care spending was considerably lower at 4% of the GDP. Until 2009 health care spending increased in all countries of the model, only in Hungary was health care spending below the initial level in 2009. After the 2009 crisis Estonia, Hungary and Slovenia slightly cut back on their health care spending, while the Czech and Slovak Republics and Slovenia have been able to manage an increasing trend.

A specific feature of the ECE model is the extensive system of family benefits. For example it exceeds 3% of the GDP in Hungary, the level of family support which is similar

to the Continental countries. In the Czech and Slovak Republic, Estonia and Slovenia it fluctuated around 2% during the examined period. The support for families was somewhat lower in Poland and, similarly to the Mediterranean level, it was fluctuating around 1% of the GDP. Within the model, historically, family benefits are the highest in Hungary amounting to around 3% of the GDP.

Active labour market policies (ALMPs) accounted for less than 1% of the GDP in all countries of the model during the whole period examined. The initial level of ALMPs was the highest in Slovakia and Hungary in 1995 (0.8 and 0.7% of the GDP respectively), but the use of these tools was reduced significantly in both countries, however Hungary and Poland as well started to noticeably expand the use of ALMPs after 2009.

Estonia significantly expanded support for the unemployed due to the salient hike in unemployment rate. The first available data shows 0.1% of the GDP being spent on unemployment benefits, peaking at 1.1% as a share of the GDP in 2009. During the 2000s, Poland was able to remarkably cut back on spending on unemployment benefits, from 1.6% in 1995 to 0.3% in 2009. Spending on unemployment benefits does not vary significantly within the model. The patterns did not change considerably during the 2000s, but the 2008/2009 crisis indicated an increase of unemployment benefits until 2010. Apart from Slovenia, all the countries of the model were able to cut back on unemployment spending by 2013.

Hungary is the only country within the model where housing is part of the social policy. Housing spending fluctuated around 0.5% of the GDP between 2000 and 2010, which was followed by a slight reduction in 2013. In the other countries (except Slovenia), housing accounted for about 0.1% of the GDP. Spending on other social policies amounted to approximately 0.5% of the GDP in the countries of the model, although in Slovakia the initial level of such expenditure was slightly higher.

There are differences between the countries of the model, the level and composition of social spending in some cases show different patterns, but within-model variation is subtle, not higher than in other welfare state models. The main trends are relatively similar, especially in case of pension and health care spending. Ferge (2001) argued that the similarities of the ECE model are due to the influence of globalizing forces on the welfare systems. This so called residualization policy has become the dominant welfare strategy of the East Central European countries. (Sengoku, 2004) Despite the similarities, each country has developed its own approach towards social welfare restructuring. (Potůček, 2008)

The expansion of welfare services among the ECE countries is in accordance with the thesis of Wilensky (1975): much of the expansion of the welfare state can be accounted for as a function of "economic growth and its bureaucratic outcomes". (Wilensky, 1975: xiii) "Once societies attain certain thresholds of economic development, all begin to pass social security, health and other forms of welfare legislation, and over time they devote an increasing share of the public purse to these programs". (Cox, 1993: 9) Castles (2004) identified the problem as how modern welfare states cope with the self-contradiction that while providing welfare services they are also generating increased demand for them.

Recent Developments of Welfare Policies and Spending

The outbreak of the financial crisis enforced welfare state retrenchment in the ECE countries, as well, meaning the end of the expansion of the welfare state. Exceptionally, reduction of welfare spending in Hungary started much earlier in 2003 as a part of a broader consolidation package that has been intensified later due to the negative effects of crisis retrenchment. Within the ECE model, Hungary is the only country in which real public social spending in 2011/12 was considerably (13%) lower than in 2007/08. For the same period growth of real public expenditures amounted to around 20% in Poland and Estonia and exceeded 10% in Slovenia and Slovakia, while the Czech Republic experienced a modest increase.

Aggregated public social expenditures increased after the crisis (Table 2) resulting in less generous welfare services due to the proportionally higher increase of the share of population being dependent on the welfare state (increase of unemployment rate).

Table 2.
Aggregated public social expenditures in ECE countries (% of the GDP)

	1995	**2000**	**2005**	**2010**	**2013**	**2014**	**2015**	**2016**
Czech Republic	16.1	18.0	18.1	19.8	20.3	19.9	19.5	19.4
Estonia	n.a.	13.8	13.0	18.3	15.9	16.0	17.0	17.4
Hungary	n.a.	20.1	21.9	23.0	22.1	21.4	20.7	20.6
Poland	21.8	20.2	20.9	20.6	19.6	19.5	19.4	20.2
Slovak Republic	18.4	17.6	15.8	18.1	18.1	19.3	19.4	18.6
Slovenia	5.7	22.4	21.4	23.4	24.0	23.1	22.4	22.8

Source: OECD SOCX database

During the 2000s, preceding the financial and economic crisis, ECE countries experienced a considerable increase in employment. The only exception was Hungary where employment was stagnant. As a consequence of economic recession, employment in 2009 fell in all countries, though by less than what would have been proportionate to the decrease in GDP. In Estonia the drop of employment was two-digit large. After 2010 employment has started to improve in all countries with the exception of Slovenia. The decline in employment in 2009 and 2010 led to an increase in unemployment rate, although not at a similar magnitude. The rise of unemployment was dramatic in Estonia, but the country experienced fast recovery of the labour market, as well. The increase of unemployment in 2009 was rather moderate and after 2013 a downward trend has started. The only exception is Slovenia, where the unemployment rate has been on the rise since 2012.

The financial and economic crisis have caused a marked decline in economic activity, a sharp increase in unemployment, fiscal constraints to public budgets and an increasing indebtedness. Analysing the overall impacts of the crisis is a complex task, because it varied from country to country depending on a number of factors, such as the country's reliance on global markets, the strength of domestic currency, levels of domestic

revenues and the available room for fiscal manoeuvre with which governments may stimulate the economy, etc. (Romano, 2014; Pásztor–Szíjártó, 2016) Despite the serious effects of the global recession in countries of the ECE model, recovery has been faster and more pronounced for them than in case of the Mediterranean countries. In 2012 and 2013 the highest unemployment rates were recorded in Spain, Greece and Ireland and they were followed by Slovakia, while unemployment rate also reached a double-digit level in Hungary, Poland and Slovenia due to the crisis.

The crisis was accompanied by an expansion of the level of unemployment, by an increase of the budget deficit and by a corresponding increase of the public debt. However, increases of budget deficits are similar to the augmentation of deficits in the rest of the EU, while public debts in ECE countries are lower than in most of the EU member countries, which is due to the short capitalist history of these countries. The only exception is Hungary where gross public debt has been close to the EU27 average during the post-crisis period; however, a slight decline is forecasted.

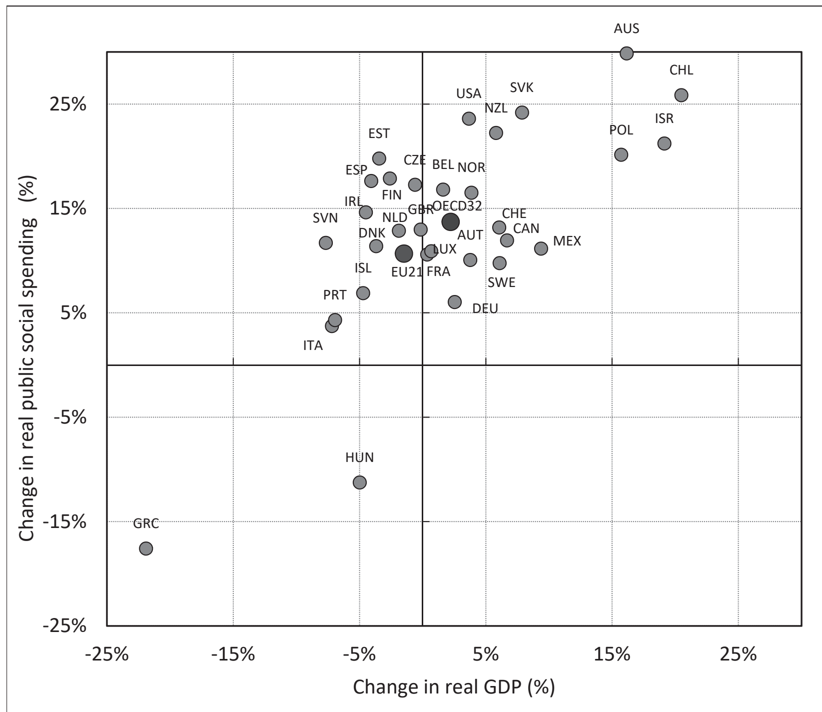

Figure 10.

Percentage changes in real public social spending and real GDP, 2007/08 to 2012/13

Note: Estimates for 2007–08 and 2012–13 are averaged over two-year periods to allow for the different years in which the crisis began across countries and to limit the effect of year-on-year fluctuations.

Source: OECD (2013), OECD Social Expenditure Database (SOCX)

Any crisis has a significant influence on the operation of the welfare states, welfare regimes. Well-functioning systems of social protection increase spending in times of recession, and scale it back as the economy recovers, therefore the welfare state can operate as an effective "automatic stabiliser".

Figure 10 shows us that social spending increased least in countries most affected by the crisis. Countries of the Nordic, Continental and even the Anglo–Saxon model have been equipped with an automatic stabilising function, expenditure on social protection went up in order to mitigate the negative consequences of the financial and economic crisis. Social spending in the countries of the Mediterranean model increased only in the early years of the crisis, however, in 2012 the level of real public social expenditures was significantly lower than in Greece, gently lower in Portugal, the increase was modest in Italy and average in Spain compared to the reference year of 2007. There is a need for cutting back social expenditures in the Mediterranean countries, even as unemployment still remains a dramatic problem in these countries.

The Mediterranean countries have been subject to an austerity regime, at varying degree and harshness. In Greece and Portugal fiscal adjustment is being supervised by the EU, ECB and the IMF. The governments have lost much control over national budgetary decisions. Spain's request for financial assistance was approved by the EU in July 2012, whose "conditionality" is less strict, while in Italy fiscal adjustment has been enforced by the market (large spreads on Italian bonds). The welfare states cannot perform as automatic stabilisers if budgetary decisions are subordinated to the harsh need for fiscal consolidation.

Within the ECE model, welfare states have been able to function as an automatic stabiliser with the exception of Hungary. In Hungary, as in case of the Mediterranean model, economic recession was accompanied by chronic and increasing current account deficit. Indebtedness and current deficits became unsustainable in 2008, when the country signed stand-by agreements with the IMF, being the first joint EU/IMF programme. The automatic stabilising function of the welfare state has been tied by the implemented harsh austerity measures. In times of a crisis the welfare state is able to work primarily via the so-called automatic stabilisers if budgetary decisions are not subordinated to fiscal austerity.

There are several problems in the ECE economies, however, they have been overshadowed to a great extent by the problems of EU periphery countries (Greece, Spain, Portugal) that represent a much more dangerous threat for the future of the EU than the difficulties of the ECE region. Furthermore, the ECE countries performed relatively well lately; Poland is the only EU country which has not faced depression, GDP in Slovakia recovered quickly and the economic circumstances have been improving in Hungary, the Czech Republic and Estonia. (Mencinger, 2013) East Central European countries in spite of drastic increase of their debts managed to avoid the sovereign debt crisis, which heavily hit the Southern regions. In fact, in many ECE countries the debts more than doubled, but remained still below the critical 60% of the GDP.

Even if the crisis caused the deterioration of welfare services, after 2010, the countries of the ECE model have been able to maintain their welfare states, which outperformed the level of the Mediterranean countries in every year since 2010.

Concluding Remarks

The paper analysed welfare state policies and expenditures of the East Central European (ECE) countries. Based on the historical-institutional features of East Central European welfare states after transition and the composition of social spending a mixed or "hybridized" welfare model has evolved combining Continental Bismarckian elements, Anglo–Saxon market-based pensions and social services supported by basic egalitarian universalist safety-net provisions. Since the outbreak of the financial crisis enforced welfare state retrenchment in the ECE region as well, recent developments show that the countries of the ECE model have been able to maintain their welfare states, which outperformed the level of the Mediterranean countries in every year since 2010.

Drahokoupil (2007) argued that among the East Central European countries, the Visegrád countries are competition states. It means that they became structurally dependent on foreign capital, which controls access to technology, know-how and distribution networks. However, this feature is relevant for the whole region, as well. Being locked in the competitive direction has significant impact on social policy developments. Aiming to promote workforce flexibility and employability according to the needs of capital has been the driving force of shaping social policy after transition and this trend will continue. The need for external financing and foreign direct capital might lead to a situation in which social policy is further subordinated to attracting capital and economic competitiveness.

Building a modern and efficient market-driven welfare state in post-communist economies requires decades to reach political consensus in different approaches (health, housing, education, research, etc.) and to develop institutional and legal frameworks. Even the most advanced ECE economies (or other CEE countries) are at the very beginning of this process, the major obstacles of which are the low quality of political debates and the political elite. (Koźmiński, 2011) In general, the correct configuration of the time-frame is a key factor in any socio-economic transition in order to avoid unrealistic expectations and growing resistance in the long run.

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