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.
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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.
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.
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 “reform mongering” 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). I add a “0th 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. Therefore the number of cases in this study (i.e. number of governments observed across the four countries) is forty-seven (see list of governments in Appendix 1). In the

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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," Gosta 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.