

Hybrid Welfare

The Transformation of Labour Market Regimes
in Poland and the Czech Republic

Dissertation

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List of Acronyms

| | |
|---------|---|
| Acquis | Acquis Communautaire |
| ALMP | Active labour market policy |
| Art. | Article |
| ASO | Association of Independent Unions (Czech Republic) |
| AWS | Electoral Action Solidarity (former political party in Poland) |
| CASE | Centre for Socio-economic Research (Poland) |
| CBOS | Centrum Badania Opinii Społecznej/Public Opinion Research Center |
| CEE | Central and Eastern Europe |
| CEEC | Central and Eastern European Countries |
| CEORG | Central European Opinion Research Group |
| Cf. | Compare |
| CME | Coordinated market economy (<i>Varieties of Capitalism</i> approach by <i>Hall/Soskice</i>) |
| ČMKOS | Czech-Moravian Confederation of Trade Unions (Czech Republic) |
| COMECON | Council for Mutual Economic Assistance |
| ČSFR | Czech and Slovak Federal Republic (1990-1992) |
| ČSSR | Czechoslovak Socialist Republic (1960 – 1990) |
| ČSSZ | Czech Administration of Social Security |
| Dz. U. | Journal of the Republic of Poland (Dziennik Ustaw) |
| et al. | And others |
| EBRD | European Bank for Reconstruction and Development |
| EC | European Commission |
| EES | European Employment Strategy |
| EFF | Extended Fund Facility Programme |
| EIRO | European Industrial Relations Observatory |
| EPL | Employment Protection Legislation |
| ESF | European Social Fund |
| ETUC | European Trade Union Confederation |
| EU | European Union |
| FDIs | Foreign Direct Investments |
| ff. | Following pages |
| FUS | Social Insurance Fund (Poland) |
| FZZ | Trade Unions Forum (Poland) |
| GDP | Growth Domestic Product |
| GDR | German Democratic Republic |
| GUS | Central Statistical Office of Poland |
| GVG | Gesellschaft für Versicherungswissenschaft und –gestaltung e.V. |
| HCLA | Higher Level Collective Agreement (Czech Republic) |
| IDEA | International Institute for Democracy and Electoral Assistance |
| IFIs | International Financial Institutions (International Monetary Fund, World Bank) |
| IPF | Investment Privatization Funds (Czech Republic) |
| ILO | International Labour Organization |
| IMF | International Monetary Fund |
| IPiSS | Institute for Labour and Social Affairs (Poland) |
| ISP | Institute for Public Affairs (Poland) |
| KOR | Workers' Defense Committee (socialist Poland) |
| KPP | Confederation of Polish Employers |
| KRUS | Farmers' Social Insurance (Poland) |
| KUK | Art and Culture Confederation (Czech Republic) |
| LME | Liberal Market Economy (<i>Varieties of Capitalism</i> approach by <i>Hall/Soskice</i>) |
| LMP | Labour Market Policy |
| MgiP | Ministry of Economy and Labour (Poland) |
| MPiPS | Ministry of Labour and Social Policy (Poland) |
| MPSV | Ministry of Labour and Social Affairs (Czech Republic) |
| MZ | Ministry of Health (Poland) |
| NAP | National Action Plan |

| | |
|---------------|---|
| NSZZ | Independent Self-Governing Trade Union Solidarity (Poland) |
| OECD | Organisation for Economic Cooperation and Development |
| OF | Civic Forum (former political party in the ČSFR) |
| OH | Citizens' Movement (Czech Republic) |
| OMC | Open Method of Coordination |
| OPZZ | Umbrella Organisation of Polish Trade Unions |
| PAYG | Pay-as-you-go |
| PHARE | Poland and Hungary Assistance for Reconstructing of the Economy |
| PIP | National Labour Inspectorate (Poland) |
| PKPP-Lewiatan | Polish Confederation of Private Employers |
| PPP | Purchasing Power Parity |
| SdRP | Social Democracy of the Republic of Poland (former political party) |
| RDSP | Council for Dialogue of the Social Partners (Czech Republic) |
| RHSD | The Federal Council on Economic and Social Agreement (Czech Republic) |
| RILSA | Research Institute for Labour and Social Affairs (Czech Republic) |
| SBA | Stand-by Arrangement Programme (IMF) |
| SME | Small and medium enterprises |
| SSPTW | Social Security Programs throughout the World |
| TEC | Treaty establishing the European Community |
| TK | Tripartite Commission for Social and Economic Affairs (Poland) |
| UEF | Union of European Federalists |
| UKIE | Office of the Committee for European Integration (Poland) |
| UW | Freedom Union (former political party in Poland) |
| VoC | Varieties of Capitalism |
| VPN | Public Against Violence (former political party in the ČSFR) |
| ZRP | Polish Craft Association (Poland) |
| ZUS | Social Insurance Institution (Poland) |

Relevant political parties in Poland

| | |
|--------------|---|
| KPN | Confederation of Independent Poland |
| KPP | Polish Communist Party |
| KPEiR | Poland's National Party of Senior Citizens and Pensioners |
| LPR | League of Polish Families |
| NOP | National Revival of Poland |
| Nowa Lewica | New Left |
| PD | The Democratic Party |
| PiS | Law and Justice |
| PJN | Poland Comes First |
| PL | Polish Left |
| PPP | Polish Labour Party |
| PO | Civic Platform |
| PPS | Polish Socialist Party |
| PSL | Polish People's Party |
| Racja PL | Anti-Clerical Party of the Polish Left |
| RKN | Catholic-National Movement |
| ROP | Movement for the Reconstruction of Poland |
| RP | Palikot-Movement |
| SRP | Samoobrona (Self-Defence) of the Republic of Poland |
| SD | Democratic Party |
| SDPL | Social-Democratic Poland |
| SLD | Democratic Left Alliance |
| UP | Labour Union |
| UPR | Union of Real Politics |
| Zieloni 2004 | Greens 2004 |

Relevant political parties in the Czech Republic

| | |
|-----------------|---|
| ČSSD | The Czech Social Democratic Party |
| KDU-ČSL | Christian Democratic Union / Czech People's Party |
| KSČM | Communist Party of Czechoslovakia and Moravia |
| ODS | Civic Democratic Forum |
| Strana Zelených | Green Party |
| TOP 09 | Tradition, Responsibility, Wealth |
| US-DEU | Freedom Union–Democratic Union |
| VV | Public Affairs (Věci veřejné) |

Part I Theory and method

The development of welfare states has been one of the most fundamental achievements of European societies on their way into the 20th century. In a comparative consideration, different European welfare solutions mirror country-specific historical and socio-political conditions. Such is the case with the emerging Central and Eastern European welfare capitalisms and labour market regimes which are the product of a unique transformation dynamic.

The transformation outcome in the Central Eastern European countries (CEEC) has been subject of intensive research activities, often referring to *Esping-Andersen's* typology of welfare regimes and mostly with the result of asserting a mix of conservative and liberal elements (i.e. Fenger 2007, Inglot 2009, Cerami/Vanhuyse 2009, Kollmorgen 2010) or the search for compromises between marketization and social protection (Bohle/Greskovits 2007). By contrast, the origins and influencing factors of the post-1989 social policy discourses and dynamics remain controversial questions. The dissertation aims to contribute to contemporary research by not only providing evidence of variation in the region, but also by identifying mechanisms of change in order to understand the origins of divergence and hence develop conceptions of how domestic systems change in times of various parallel transformation dynamics.

Chapter 1 Introduction and relevance of the research topic

1.1 Research interest

Post-1989 labour market transformation processes are a particularly interesting research field as they have challenged policy-makers with contradictory tasks: there has been need to rapidly redesign social security and labour market arrangements in times of heavy financial restraints and transformation hardship in need of compensation. One major transformation problem thus consists of the incompatible requirement of increased social spending going hand in hand with indispensable welfare retrenchment, pressuring the reformers to find politically acceptable, but economically feasible solutions.

At the same time, the transformation process in Central and Eastern Europe (CEE) is embedded in an overall transformation context of today's social policies due to globalisation pressures and demographic problems. Research in this field is particularly interesting because we find a case of previously radically closed economies which after 1989 entered into a rapidly globalising environment forcing them to open up quickly (Bohle/Greskovits 2007).

How does the labour market transformation proceed in this dynamic context? Despite the recourse to common institutional historical settings, those countries have found distinct ways to cope with these challenges. Whereas some authors mainly hold institutional factors as decisive mechanism of policy outcomes (Hall/Soskice 2001), others focus on actor-centred explanations (Scharpf 1997,

Mayntz/Scharpf 1995) and power resources as explanatory factors (Esping-Andersen 1990, Schmidt 1998, Korpi/Palme 2003).

Assuming that a combination of the above mentioned approaches provides the most adequate tool, the dissertation's objective is to understand the mechanisms of change which have motivated country-specific labour market solutions. The research unit of the labour market regime¹ has been the key feature of former socialist governance² and remains a central area of economic modernization and political stability whose performance has become an important benchmark for national success (Kohl/Platzer 2004). What are the sources of variation between those countries that previously shared not only common socialist paternalist welfare, but also common pre-communist insurance-based Bismarckian structures?

The research project focuses on the instruments and measures of government actions and concrete policies (*what*), being understood as formal constitutive elements of public policies, and on the way these actions were translated into political practice (*how*) while steering the emergence of a new social order and stratification. Facing fundamental questions on the political legitimacy and stability of the relatively young market economies, the need for further research is based on the fact that the success of reforms and policy advice increases when prevailing domestic structures are considered (Cerami 2009: 35, Cerami 2006, Ackermann 2001: 219).

One of the main challenges remains to identify the dynamics of the reconfiguration of domestic actors, resulting from the continuous process of structuring, de-structuring and restructuring of existing welfare institutions (Cerami 2007). As anywhere else, actors agreed on some matters while a lack of consensus dominated on others. It was certainly not questioned that democratic capitalism represented the main transformation goal and both countries have moved from state socialism towards democratic capitalism while adopting similar basic state institutions. Apart from basic preferences as concerns the objective to install democratic capitalism, conflicts appeared above all on normative views on solidarity, individualism and redistribution - all referring to the market's and the state's sphere of dominance. When regarding lower level changes, country-specific variation shows as concerns the types of emerging labour market regimes, characterized by county-specific hybrids based on a struggle between two broad perspectives of the sphere of influence of the market and of the state.

¹ In line with *Bohle/Greskovits*, I define a regime as a political economy which pursues and institutionalises marketization and social protection in a distinct form and vigour (Bohle/Greskovits 2007). A labour market regime comprises labour market institutions and labour market regulations setting out the rule of the game as its institutions provide stability and predictability. At the same time, a regime comprises labour market policies, meaning activities carried out by actors and thus maintaining the institutions and structural features of the labour market such as employment rates, types of employment, working time patterns or wage levels. Finally, it comprises features of social dialogue and industrial relations, labour law and legislation, regulating the labour market in terms of the flexibility-security nexus (Keune 2006).

² In line with the World Bank definition, I understand governance as "the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them" (worldbank.org).

The labour market regime used to be the core of the former paternalist welfare regime. With its institutional structures³, regulation⁴ and policy⁵ approaches it can be regarded as a main pillar of welfare regimes since it determines decommodification⁶ and stratification⁷ effects, leading to more or less protection and redistribution. It is what *Offe* calls the essential feature of the welfare state: a sorting machine (2009). Given that this ‘sorting machine’ had to be entirely re-designed after 1989, it is an interesting research unit for comparative analysis of the strategies to combat two major risks of modern society which the socialist propaganda formally declared as non-existent during socialism: unemployment⁸ and poverty⁹.

In view of various possible welfare state solutions, the exceptional role of social security and employment in CEE due to the historical legacy of paternalist welfare has to be taken into account. Despite the fundamental need to redesign labour market regimes according to the market economy’s needs, the underlying elements of labour market institutions, regulation and policy approaches present a particularly sensitive basis for the legitimacy of the new political system (Götting 1998: 25, Schramm 1999: 2). My research interest refers on a first level to ‘understanding’ the nature of the emerging labour market regime, while on a second level it aims at ‘explaining’ the underlying mechanisms of change and continuity. This research interest is expressed by the following research questions:

Research question 1: What is the nature of the labour market transformation outcome in CEE and which differences and similarities can be found between the emerging labour market regimes in the region?

Research question 2: What are the underlying mechanisms accounting for the variation in the labour market regimes in CEE?

³ With reference to *Belke/Hebler*, I define labour market institutions as all systems of rules (regulations) and action sequences (organizations) framing the relationship of supply and demand for work (employer and employee) (Belke/Hebler 2002: 62).

⁴ Referring to *Lange/Regini* (1989), I define regulation not as equalising state intervention, but as coordinating and thus opposing the pure workings of the market, these often being understood as the ‘natural’ principle of the economy. An economy’s regulation encompasses “the various ways in which the set of activities and relationships associated with the production and distribution of economic resources is ‘coordinated’, resources allocated and the related conflicts, whether real or potential, structured, that is, prevented or reconciled” (Lange/Regini 1989: 4).

⁵ A policy is “a course of action or inaction pursued under the authority of government. It is employed as a concept at the middle-range level of analysis, larger than a decision (for example, increase benefits this year, extend coverage to women) and smaller than a social movement (i.e. women’s rights, working-class mobilization)” (Hecló 1974: 4).

⁶ According to *Esping-Andersen*, de-commodification is an indicator of social rights. The higher the level of de-commodification, the less an individual relies on income from his or her labour, meaning that in a situation of social risk this person may leave the labour market and sustain her or his standard of living (Esping-Andersen 1990).

⁷ Social policy approaches can consolidate social hierarchies or encourage social mobility through redistributive strategies, entailing different ways and degrees of social stratification.

⁸ According to the ILO, unemployment is defined as follows: “(1) The ‘unemployed’ comprise all persons above a specified age who during the reference period were: (a) ‘without work’, i.e. they were not in paid employment or self-employment; (b) ‘currently available for work’, i.e. were available for paid employment or self-employment during the reference period; and (c) ‘seeking work’, i.e. had taken specific steps in a specified reference period to seek paid employment or self-employment.” (<http://laborsta.ilo.org/applv8/data/c3e.html>)

⁹ According to the OECD, “[p]erceptions of a decent standard of living vary across countries and over time. As a consequence, no commonly agreed measure of poverty exists across OECD countries. [...] People are classified as poor when their equivalised household income is less than half of the median prevailing in each country” (OECD 2011).

1.2 Outline of the dissertation

I assume that the transformation of labour market regimes is not a process built from scratch, but upon partly prevailing institutions and policy solutions. It is framed by a combination of endogenous and exogenous factors which enable or restrict not only if change comes about, but which qualitative direction it takes. Labour market transformations, besides not always being linear and intended processes, are shaped by “historically traceable political tensions and power struggles within specific institutions, deeply embedded in a country’s social, economic and political history”, it is thus essential to understand that “policy makers work with material they have at hand and which by its very nature is historically contextualised and linked to other elements of social systems” (Polakowski 2010: 241f.).

Economic and political transformations in CEE are always multi-layered processes of adjustment (Hall 1999), entailing economic uncertainty in a situation when completely new social risks emerge with the transformation of the labour market. All CEECs have managed to achieve economic growth and new possibilities of consumption after the first years of recession until the mid-1990s. This process was accompanied by social stratification dynamics as different degrees of opportunities arose for different social groups with most of them facing new uncertainty (i.e. former workers) while others took benefit from the new system. CEECs, while establishing democratic capitalism, were constantly contributing to the institutionalisation of individualism. And if this development is indeed visible as a European or global trend, it appeared in CEECs in a much more radical pace and intensity than in the West, resulting in the situation that CEE has surpassed the rest of Europe when it comes to marketization through the backdoor of formerly socialist countries. I explain this phenomenon with the experience of socialism which had completely decoupled individual professional achievement from remuneration. After the regime change, the public evaluated the achievement principle of social justice much higher than the inclusion principle (Brusis 1999: 83). As a result, reform policies focused on the consolidation of status differences, but doing so to different degrees.

Following the introductory chapter outlining the research interest, Chapter 2 presents the most relevant approaches to comparative welfare capitalism, labour market research and transformation processes. The most adequate theoretical tool is deduced with particular consideration of the labour market transformation in CEECs in order to formulate a set of hypotheses. The first hypothesis refers to the nature of the emerging labour market regime as linked to institutional path dependencies. The second refers to the role of international actors for the transformation outcome. The third claims domestic actor dynamics as significant mechanisms accounting for the transformation process and its outcome.

Based on the theoretical setting, Chapter 3 develops a set of three independent variables in order to analyse labour market regime variation and hybridity as the transformation outcome. The set is based on (i) institutional and economic framework variables, (ii) international actor variables and (iii) domestic actor variables as potential explanatory factors of the labour market transformation process in CEE, concerning which the labour market regime is defined as the dependent variable.

Further, an adequate research heuristic is developed with reference to the typologies by *Esping-*

Andersen (1990) and *Hall/Soskice* (2001), based upon which I aim to identify the nature of the labour market regime in the categories ‘decommodification’ and ‘market orientation’ in order to draw basic differences between CEECs. By combining elements of the two approaches, I aim to deduce the most useful tools to identify strategies of risk-sharing, redistribution and decommodification and thus highlight the relationship between the state and the market. Coming to institutional change and the emergence of new welfare arrangements in the context of transformation processes as it is the case in CEE. On the basis of a most similar case research design, Poland and the Czech Republic are selected as suitable cases to examine labour market regime variation in CEE due to their commonalities as concerns two of the independent variables: they share a wide range of common historical-political legacies before 1989 as well as developments after the regime change. However, they show important differences as concerns the emerging labour market regimes.

Part II is dedicated to the empirical nature of the emerging labour market regimes and considers the institutional, regulation and policy trajectories over time. It was during the early 1990s that the basic capitalist labour market institutions were established on the way towards capitalist welfare and the increasing need of labour market regulation and policies. The dissertation’s main empirical body presents the transformation results as being embedded in a complex mechanism of institution-building. Ideas, interests and institutions have been mutually influencing each other, entailing change or continuity of the status quo and contributing to the hybridization of the labour market regime.

Chapter 4 focuses on the labour market and social security institutions and regulation as two linked dimensions of the labour market regime. Due to their strong reciprocity they will be presented in one chapter. Initially, the chapter illustrates the most relevant labour market institutions, social security structures and questions of financing in the two cases. Further, it focuses on labour market regulation aspects, including the flexibility-security nexus with aspects of risk distribution and protection from labour market risks (employment protection, degree of decommodification), the configuration of the industrial relations¹⁰ as governing mechanisms of labour market regulation, and the employment relationship (wage regulation, non-standard and standard employment).

Chapter 5 focuses on the policy field of passive and active labour market policies as the other important dimension of the labour market regime. This branch of the welfare state dealing with the management of labour market flows has been established in a field where no equivalent policy was existent before the regime change in 1989; hence a new policy has emerged, which make questions of distribution and regulation particularly interesting.

¹⁰ According to the ILO definition, “[t]he field of Industrial relations encompasses the relationships between employers and employees, between employees and other employees, between employers and their unions and advisors, between employees and their unions, between workplaces in the labour market, the environment created by historical, political, legal and social forces, cultural norms as well as the products of the industrial relations systems including industrial action, collective agreements, grievance handling and other problem-solving mechanisms. Indeed, industrial relations can exist even where collective agreements do not materialize” (see www.ilocarib.org.tt/Promalco_tool/productivity-tools/manual10/m10_2.htm).

Finally, Part III provides the main comparative analysis of the independent variables which I rely on to check the hypotheses formulated in Part I. It discusses the explanatory power of historical institutional and economic framework variables by referring to the pre-communist and communist period as well as the economic conditions and transformation strategies (Chapter 6).

In a further step, the most relevant international actor variables are tested with a focus on the IFIs and the EU (Chapter 7). After 1989, CEECs found themselves in a situation with collapsing institutions, and the need for administrative advice and experience to deal with new policy issues, appearing to be receptive and vulnerable to external policy influence. Domestic governments were forced to seek out new social policy ideas and solutions not only within the domestic area, but also from foreign sources, including international organisations, bilateral aid agencies, external consultants and financial support, and in the case of the IFIs and the EU, linked to different kinds of conditionality, but also to institutional borrowing and policy learning (Polakowski 2010).

Finally, Chapter 8 revises the country-specific political regime changes, the structure of the emerging party systems and the reconfiguration of actor constellations (government coalitions and the social partners). It is assumed that the dependent variable might be linked to the reconfiguration of domestic actor constellations before, during and after the regime change as a potential mechanism of labour market transformation and hybridization. Linked to the actors' ideas and interests, power games might play an important role deciding about the institutional framing and processes of policy learning.

Based on an assessment of the hypotheses, Chapter 9 summarizes the main research findings.

Chapter 2 Literature review and theoretical approach

International comparative welfare state and labour market research has lived through significant changes in recent decades.¹ Societal changes, accompanied by the transformation of political ideas, have been constantly shaping the research object and its science alike. Various factors of the welfare state's dynamics have always led to controversial debates among researchers about the mechanisms accounting for continuity and change of welfare regimes.² Especially the important role of ideational processes in politics and policy has been increasingly discussed (i.e. Orenstein 2008, Palier/Surel 2005, Cerami 2006, Stone 2001). Given the dynamic character of ideas and interests, we may doubt the existence of *the* welfare state or *the* welfare state research being carved in stone. Instead, scientific

¹ I will equally refer to the terms 'social' and 'welfare', as they stand side by side in the literatur.

² The regime approach builds upon assumptions of political and ideological premises in a given society: "A social regime is a conceptualisation of an institutional setting which is dynamic and which involves a number of actors (rule makers and rule takers). The emphasis on actors is essential, as it is actors who influence the rules (by setting, implementing and challenging them) [...]" (Polakowski 2010: 54).

research faces the challenge of adapting its analytical tools in accordance with changing country-specific social phenomena and approaches to welfare, as *Offe's* welfare state definition illustrates:

“[W]elfare states can be looked at as sorting machines which assign deserts, rights, or legitimate needs-to-be-taken-care-of to categories of people in specified conditions, while leaving other conditions to the sphere of what is considered "normal": you have to cope with them by your own means, relying on markets and family support, or, failing that, simply accept them as unfortunate facts of life. Within welfare states and longitudinally, this demarcation line is never fixed and essentially contested. But cross-sectionally and between welfare states, the location of this divide differs greatly between individual states as well as types of welfare states” (Offe 2009: 239).

The understanding of welfare states as ‘sorting machines’ is in line with my understanding of social policy which is based on divergent ideas of who and where is the source of responsibility of welfare production: *Titmuss* (1974) draws a fundamental distinction between the institutional redistributive model and the residual model of social policy: the residual model assumes that markets and families are the actors to provide welfare while public social policy actions should only intervene temporarily when these do not function. By contrast, the redistributive institutional model regards social policy as an integrated part of public policies with the task of delivering welfare services for citizens on the basis of needs and outside the market sphere. It is here that we find relevant indicators which can be applied in order to typologize labour market transformation processes.

Section 2.1 provides an overview on the usefulness and operationalization of comparative welfare capitalism research, helping to explain specific national policies and allowing us to understand continuity and change of capitalist welfare regimes. Afterwards, the relevant theoretical concepts and their analytical value for this dissertation are discussed. Section 2.2 elaborates relevant conceptions of transformation research and institutional change. In a second step, relevant processes of policy learning and policy transfer in the transformation context are framed while considering the key actors involved in those processes (Subsection 2.2.1). Subsequently, the main underlying transformation strategies, shock therapy and gradualism, in direct relation to social transformation phenomena, as the choice and implementation of economic reform strategies might mark a first trend-setting step of social transformation (Subsection 2.2.2).³

2.1. Comparative welfare capitalism and labour market research

In view of the European integration process and increasing transnational cooperation of EU member states, it is interesting to note that despite common social policy challenges, the harmonization of procedures and policies in the area of welfare is limited. In spite of general welfare gains due to increased transnational cooperation, distinct national differences persist in terms of capitalist welfare organisation and the member states show reservations concerning further integration steps in this policy field. The persistence of national welfare solutions can be largely traced back to the historical development of welfare approaches that is closely linked to country-specific conditions.

³ It has to be emphasized that different regions have also witnessed unequal systemic changes and transformation processes, i.e. Latin America, South Eastern Europe and CEE.

With the beginning of welfare state activities in Europe in the late 19th century, although some common welfare policies emerged, we find a variety of approaches to what welfare means. At the core of these approaches are country-specific reasons for and interpretations of socio-political problems as well as the preventive and curative treatment of them. Comparative welfare state research helps to render these phenomena comprehensible. It provides tools for connecting different prevailing national socio-political situations with social philosophies, values and ideas, and provides mechanisms for distinguishing the institutional framing of welfare states such as the distinction between the Bismarck and Beveridge model⁴: the latter is generally found in the liberal Anglo-Saxon context whereas the former rather characterizes continental European countries (Esping-Andersen 1990). As illustrated in Table 2.1 below, the Bismarck model is based on the insurance of employees, providing social security according to individual assessment on the basis of failed income and financed by the payment of contributions. By contrast, the Beveridge model covers the society as a whole and is financed by taxes. It provides social benefits on the basis of universal flat-rates with a comparatively low intensity of transfer, whereas the Bismarck model is characterized by a comparatively high intensity of transfer.

Table 2.1 Bismarck and Beveridge models of the welfare state

| | Insurance (Bismarck) model | Provision (Beveridge) model |
|------------------------------|---|------------------------------------|
| Insured person | Group of insured employees | The society as a whole |
| Financing | Contributions according to remuneration | State budget (taxes) |
| Benefits | Assessment on the basis of failed remuneration and income | Universal flat-rate |
| Intensity of transfer | High | Low |

Source: Schmid (2002: 59), own additions

The Bismarck and Beveridge models are simplifications and lack any further differentiation as concerns for example the distinction between ‘high’ and ‘low’ regarding the intensity of transfers (Esping-Andersen 1990). However, the value of classifications or typologies refers to the systematization of reality's complexity, simplifying and ordering arguments for obtaining indicators in order to answer research questions (Borchert 1998). They are especially appropriate for problem-specific treatment of mechanisms accounting for social transformation processes: differences in labour market regimes can for instance be analysed as to whether they are a result of the competition of different institutional frameworks, generating best practices for addressing specific problems which might also be adopted by other countries through imitative learning or policy borrowing (Belke/Hebler 2002, Schmidt 1995).

Looking at variations of risk and crisis management in international welfare regime comparison on the qualitative empirical level, there are certain types (variations) of direct response to external shocks across policy domains (such as economic, social, labour market). It is interesting to identify

⁴ Starting in 1883, Germany's Chancellor *Bismarck* gradually introduced the world's first modern social insurance system that was stratified along occupational and class lines. This pay-as-you-go system was based on contributions while the liberal British welfare state developed into a model in which universal benefits and services were largely expanded by state intervention due to the need of care for Britain's fighting workforce and its need of benefits and services beyond minimum levels. *Lord Beveridge* introduced general standards of care for every citizen.

mechanisms which generate these variations of continuity and change over time. Approaches can refer to the quality of policy outcomes, but they can also focus on identifying the underlying mechanisms driving change. By these mechanisms I understand, in line with *Cerami*, “steering procedures and processes, whose main characteristic is repetitive action aiming at pursuing a specific institutional change through an alteration of the main organisational relations” (Cerami 2009: 39).

Whilst the historical formation of national institutions and a distinct nation state was regarded as a precondition for welfare state activities, these dimensions are increasingly in flux today and transnational and supranational cooperation triggers ambivalent dynamics: to some extent, we find institutional convergence at the expense of national control while on the other hand, country-specific settings generate divergent institutional solutions. Referring to *Hall/Soskice* (2001), I consider institutions as central variables shaping social transformation processes, embodying of a set of informal and formal rules which actors follow for normative, cognitive or material reasons. Institutions reduce the actors’ uncertainty about the behaviour of others and allow them to make credible commitments to each other. *Hall/Soskice* suggest that institutions provide capacities for (a) the exchange of *information* among actors, (b) the *monitoring* of behaviour, and (c) the *sanctioning* of deviation from cooperative behaviour. *Hall/Soskice* point to the importance of institutions because they

“[...] can enhance the capacity of actors in the political economy for strategic action when faced with new or unfamiliar challenges. This is far from irrelevant since economies are frequently subject to exogenous shocks that force the actors within them to respond to situations to which they are unaccustomed” (Hall/Soskice 2001: 12).

Researchers have increasingly focused on labour market regimes as a central dimension of the welfare state. They find a close link between the type of welfare (capitalism) and the labour market regime (Alber 2000, Esping-Andersen 1990 and 1991). The contributions either focus on the effect of labour market institutions and historical path dependencies (Fialova/Schneider 2008, Keune 2006), the role of actors in shaping those regimes (Avdagic 2003, Thelen 2001), or on policy strategies to deal with labour market challenges in times of transformation (Schmid 2007 and 2008, Cases/Nesporova 2003, Regini 2000).⁵ Instead of an overall trend of convergence, we find consensus on a persisting divergence of labour market regimes (Thelen 2001, Gilbert 2002, Alber 2001). Yet, the debate over the nature of the transformation outcome in CEECs is ongoing (Fenger 2007, Inglot 2009, Cerami/Vanhuyse 2009, Kollmorgen 2010).

In order to attain new findings in this debate, my contribution builds upon a combined approach that focuses on institutions, actors as well as the transformation context to adequately examine the multi-level framework of labour market regimes.

Different to theoretical approaches during the 1990s, newer contributions emphasize the variety of causal mechanisms that have driven transformation in CEE, of which I will briefly discuss

⁵ The literature on EU compliance and non-compliance in the area of labour market policies mainly emphasizes soft mechanisms like policy learning and diffusion (Cerami 2007, Schüttpelz 2004, Benz 2004).

- (1) rational choice theories;
- (2) theoretical concepts of neo-institutionalism and path dependence;
- (3) and approaches focusing on the relationship between institutions, actors and path dependence.

(1) Of the rational choice theories, the power resources approach is the most interesting for my research project as it regards power-relations as decisive mechanisms of change and continuity (for instance a growing power of the labour movement or the configuration of party competition). According to this approach, actors behave in their mission of self-interest as rational maximisers in order to attain the optimal aggregate efficiency and prosperity. The assumption of an ever-increasing efficiency leads to an ideal-type market, bringing along convergence in the long run. This approach has been criticised because it neglects the influence of historical institutional legacies and of exogenous factors (i.e. Szikra/Tomka 2009).⁶ It might however help to understand how distinct transformation choices came about. Even if the power resources approach falls short on certain aspects, it has become an often applied supplement for explaining labour market transformations, focusing on the impact of political parties, ideologies, veto players and general power constellations (Inglot 2009: 73). I argue in line with *Korpi/Palme* that the power resource approach remains relevant as it “leads to a conceptualization of welfare states in terms of policies to affect outcomes of, and conditions for, distributive processes in the sphere of markets so as to decrease inequality and/or poverty” (Korpi/Palme 2003: 428).

Modernization and globalization theorists assume welfare capitalism convergence by external influences, pointing towards structural developments such as industrialization and democratization as crucial factors. However, they neglect the structural and cultural background of individual countries (Müller 2002, Juchler 2002). Without doubt, most institutional and policy changes stand in close connection also to the pressures which are triggered by globalisation processes. The loosening of financial regulations, increasing foreign direct investment, free trade, technology changes and other processes of global capitalism, have presumably converted welfare states into competition states (Deacon 2000: 156). Nonetheless, globalisation processes provide only partial explanations because due to low labour costs in the region, the CEECs have benefited from the internationalisation of the economy, contradicting the globalisation variable (Szikra/Tomka 2009).

However, little evidence is found concerning the arguments of ever-increasing efficiency and convergence. Research findings rather disprove the adequacy of the convergence approach to social transformation while claiming that large differences persist between national models. Despite several tendencies of convergence due to harmonization dynamics (at EU level and globally) an overall convergence is not expected (i.e. Scharpf 2002). Especially in CEE, significant differences persist as to what the states offer their citizens, touching underlying questions of regulation and redistribution (Polakowski 2010). This is why despite the clarity and simplicity of rational choice approaches, it is perhaps precisely because of these shortcomings that they do not entirely explain transformation paths in CEECs, as they tend to ignore relevant aspects.

⁶ The power resources approach is supported for instance by *Esping-Andersen* (1990) and *M. G. Schmidt* (1998).

(2) Prominent approaches to welfare capitalism research are the neighbored theories of institutionalism and path dependence which focus on dimensions of historical continuity, at times at the expense of their explanatory value regarding a possible paradigm change. Path dependence plays an important role in welfare state research (Szikra/Tomka 2009, Inglot 2008). The path dependence approach stresses the continuity of divergence based on domestic variables for welfare state developments (institutional and structural factors) claiming that once a choice has been made from the initially available options, it is easier to stay on that path than to revert to a different choice.

Equally, institutionalist approaches are defined by three characteristics referring to decisive early elements, marking the start of a sequence, and phenomena of deadlock, making changes increasingly difficult over time. Out of the old institutionalist approaches which were mainly referring to formal institutions, different sub-approaches of new or neo-institutionalism have developed in the 1970s and 1980s which integrated also informal institutions as for example ideologies (Hall/Taylor 1996, March/Olsen 1989). These neo-institutionalisms stem from the three disciplines of economics, sociology and historical science, as *Koelble* summarizes:

“To rational choice institutionalists, institutions are an intervening variable capable of affecting an individual's choices and actions but not determining them. To the historical institutionalists, institutions play a determinant role since they shape the actions of individuals but are at times affected by collective and individual choices. To the sociologists, institutions are themselves dependent upon larger 'macro level' variables such as society and culture, and the individual is a largely dependent and rather unimportant variable” (Koelble 1995: 232).

All neo-institutionalisms focus on the interaction of formal and informal institutions as explanatory factors for the behavior of individual and collective actors who produce a certain policy outcome.

To rational choice institutionalism proponents, political actors' rational choices are constrained by 'bounded rationality' and the actors realize that their (fixed) objectives can be best achieved through an institutional environment which provides systems enabling them to maximise their own utilities. Due to the institutions' reduction of uncertainty and creation of certain structures, the approach assumes that institutions serve as tools to reduce transaction costs of actors' activity. It explains policy outcomes as a product of strategic interaction based on clear preferences and institutional settings, claiming that institutions matter as they perform certain tasks in a context where actors behave rationally. Yet, this precondition cannot be assumed in times of a critical juncture and a context which requires an entire reconfiguration of institutions and actor constellations, hence not immediately generating stable and unambiguous institutions, but rather hybrids of old and new patterns. *Stark/Bruszt* rightly claim that “the introduction of new elements takes place most typically in combinations with adaptations, rearrangements, permutations, and reconfigurations of already existing institutional reforms” (Stark/Bruszt 1998: 80). This observation limits the adequacy of the approach to capture the dynamic post-socialist social transformation.

By contrast, sociological institutionalism follows the normative “logic of appropriateness” (March/Olsen 1989), according to which actors' behaviour is guided in the context of institutional settings. Different than the rational choice institutionalism, it claims that actors' behavior is not merely

determined by their aim to maximise their benefit, but by the obligation to comply with the institutional rules and settings. Sociological institutionalism includes the role of ideologies, (political) discourses and actors' ideas, partly developed in interactions with institutions, into the dynamics explaining policy outcomes. This approach is better fitting the context of societal upheaval and paradigm change; however it does not necessarily consider the historical dimension as an explanatory factor of transformation processes.

Finally, historical institutionalism fulfils this task by focusing on the impact of policy patterns and interactions on political outcomes as well as the cycle of shaping and re-shaping of policies and institutional rules in historical perspective. Its strength lies in considering the cultural and social context of individual decision-making, stressing the importance of historical paths (Hall 1996, Thelen 1999, Pierson 2000, Hall/Taylor 1996), while sociological institutionalism rather focuses on rules (formal or informal) that actors cling to based on different social and cultural motivations (March/Olsen 1989).

Institutions matter in decision-making since they set parameters for individual choice and thus support cooperative decision-making. It is of particular interest in this context how institutional change in the course of social transformation comes about and what it looks like in the course of development from a socialist to a capitalist society, thus making it plausible to include the historical perspective. Welfare state institutions as general regimes, helping to solve social problems, are relatively stable and inertial, and they can continue existing informally even after a critical juncture.⁷ They provide key data supporting actors' ideas and hence influence decision-making processes based on the actors' interests, again shaping institutional arrangements. Within this process, certain policy patterns and orientations find their way to influencing social policies, while others are neglected.

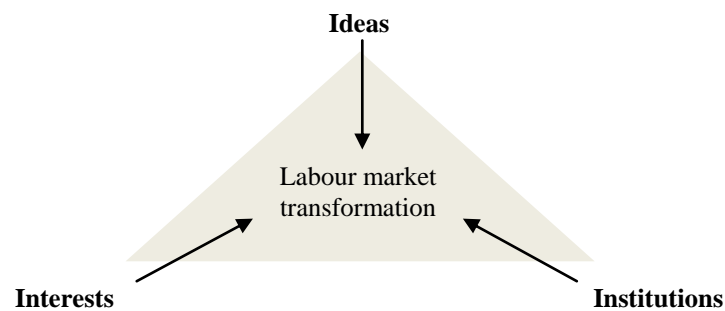
Ideas and policy discourses play a major role in the reshaping of social policies after a critical juncture since the process of institutional creation and the development of a new social policy agenda do not appear overnight, but are significantly shaped by already existing ideas, interests and institutions in the concerned country.⁸ At the same time, the political context in which governments operate is increasingly tied to the transnational, the European and the global level, generating pressures and connections that "are enforced by supra-national institutions such as the European Union, the OECD or the World Bank, that play a role in coercive policy transfer by pressing countries to adopt a certain policy line" (Kan 2005: 3). These dimensions might be relevant mechanisms of transformation, taken into account by the institutionalist approach which according to *Thelen* "provides a more reliable foundation for theorizing because it takes us beyond the formal structures to identify the quite different behavioural logics that characterize various political economies" (Thelen 2001: 102).

⁷ Even if the CEECs lived through an institutional rupture after 1989, the former institutional setting influences the development of new structures. This is why the distinction between formal institutions (laws, authorities or courts) and informal institutions (attitudes, values or customs) is essential (Skreta 2001: 74). Further it has to be examined whether institutions were not only renamed while they continued functioning along old patterns.

⁸ These may have a crucial impact on (1) the choices and beliefs of actors, (2) the formation of interests, (3) the actors' strategic interactions, (4) the creation of specific institutions, and (5) the promotion of mutual and transnational learning, thus opening new windows of policy opportunity (Cerami 2006: 4).

Institutionalist approaches stress the significance of ideas, interests and institutions as interrelated entities: “Institutions delimit the arena where the battles for change take place, interests crystallize the individual’s and institutional dominant concerns, while ideas provide the substantive reasons for immediate action” (Cerami 2009: 37). Interests and ideas lead to certain expressions of relationships among these actors. These ideas are neither always rational nor feasible since they are embedded in a normative context, trying to shape economy and society in different ways. They are the basis for subsequent action, because they bring about the motivation for (political) activity. Ideas might originate in traditions, in religion or in rational approaches due to policy learning⁹ – and they can generate policy outcomes with respect to labour market programmes, labour law or social assistance schemes. They set out the basic values as guidelines for policy-making in a particular national or international context and policy area as they influence the process of action (operationalisation) (Hall 1993). According to *Hall*, certain normative assumptions and ideas frame the change of social policies due to their considerations of what the social policy institutions should look like in terms of appropriateness or efficiency (Hall 1993). At the same time, the actors’ behaviour is embedded in a certain institutional context which enables or prevents the actors’ behaviour according to their ideas and interests. As an example, new policy ideas, such as the three pillar scheme of the pension system, shape new interests (i.e. related to the business of private pensions) and institutions (associated with the management of newly established pension funds). The ‘three I’s’ can thus be described as a triangle, in which each angle produces an impact on the final social policy outcome as illustrated in Figure 2.1 (Cerami 2006: 4).

Figure 2.1 The three I’s and the labour market transformation process



Source: own compilation based on Cerami (2006: 5)

(3) *Mayntz/Scharpf* (1995) have developed a theoretical model of political governance, of which the core refers to the integration of actor theoretical and structure theoretical explanations. The approach has been developed in view of the governance and self-organisation on the level of entire social subdomains. The authors assume that social phenomena are the result of interactions between

⁹ *Stone* (2001) considers policy learning as a mode of new governance reacting to the need for flexible, participatory and deliberative problem solving. 'Lesson-drawing', 'policy band-wagoning', 'policy borrowing' or 'policy shopping' all refer to a transfer as being a voluntary development. In sum, “the aim is to enhance one's competitive state by comparing achievements to those of the best performers” (Kan 2005: 4).

intentionally behaving actors which again are framed by the institutional setting. *Mayntz/Scharpf* do not apply a subject of governance, but a structure of performance and regulation, meaning those conditions under which the performance of a certain social subdomain is achieved (not only delivered by the state or market, but also by differentiated subsystems). They ask for the relationship between political-administrative steering interventions and endogenous developments including path dependence and inertia in the context of the social regulation fields (Mayntz/Scharpf 1995: 11). Their basic approach consists of the following assumption:

„Der institutionelle Rahmen, der die Regeln definiert, deren Einhaltung man von anderen erwarten kann und sich selbst zumuten lassen muss, konstituiert Akteure und Akteurkonstellationen, strukturiert ihre Verfügung über Handlungsressourcen, beeinflusst ihre Handlungsorientierungen und prägt wichtige Aspekte der jeweiligen Handlungssituation, mit der der einzelne Akteur sich konfrontiert sieht. Der institutionelle Rahmen umschließt jedoch nicht alle Arten von Handlungen und handlungsrelevanten Faktoren, und er bestimmt auch dort, wo er gilt, Handlungen nicht vollständig“ (Mayntz/Scharpf 1995: 49).

As concerns the factors determining actors' behaviour, the authors describe interests, norms and identities, which influence within a complex interplay and dependent on concrete situations the behavior of actors. *Inglot* states that those theoretical approaches assuming the interactive relationship between actor constellations, institutions and path dependence “have become the most popular explanatory frameworks of ‘transformational’ post-communist social policy” (Inglot 2009: 73).

Europeanization¹⁰ approaches often refer to ideas of international policy diffusion and combine actor-centred perspectives with cross-border cooperation while focusing on the transfer of ideas and interactions between informal and formal networks. However, they rather neglect path dependencies and institutional continuity. According to the Europeanization literature, factors that make the more recent cases of candidate Europeanization distinctive are not only the particular socio-economic characteristics of the post-communist countries, but also the sustained attempts by the EU to transfer its rules to non-members prior to accession, underpinned by accession conditionality, top-down (rather than two-way) Europeanization; and the significant power asymmetry between the EU and the targets of Europeanization (Börzel/Sedelmeier 2006; Goetz 2005; Grabbe 2003; Héritier 2005; Schimmelfennig/Sedelmeier 2005).

From the perspective of Europeanization approaches, Europeanization shapes domestic policies and triggers domestic change, policy transfer or rule adoption through an internalization of EU rules at the domestic level and the transposition of EU law into domestic law. As *Börzel/Sprungk* (2007) assume, Europeanization changes the vertical power distribution as the “transfer of domestic competencies to the European level empowers the central state vis-à-vis the subnational levels of government” and would challenge the horizontal and vertical balance of powers “in favour of the executive” (Börzel/Sprungk 2007: 114).¹¹ Europeanization processes hence induce a restructuring of domestic

¹⁰ Europeanization can be defined as domestic change caused by European integration. *Börzel* describes it as a process by which domestic policy areas become increasingly subject to European policy-making (Börzel 2000 and 2002).

¹¹ This could be an interesting aspect as concerns i.e. to the establishment of administration bodies of labour market policies in the transformation countries. The authors find that in selected countries, based on an increased mutual

political practices according to EU standards and basically refer to all levels of the political system, polity, policy and politics (Schimmelfennig/Sedelmeier 2005, Radaelli/Featherstone 2003, Börzel 2002, Cowles et al. 2001). But what effects does the EU have on labour market transformation processes, a field in which the EU lacks competencies? The literature suggests that EU compliance in the area of social and labour market policies is mainly characterized by soft mechanisms like institutional borrowing, policy learning and diffusion (Schüttpelz 2004, Benz 2004, Cerami 2006 and 2007).

The convergence vs. divergence debate and the case of CEE: Apart from explaining mechanisms of institutional change and continuity of welfare state arrangements, scholars aim to predict if in the context of globalization and Europeanization, welfare states will converge on one single model or if they will continue to find country-specific solutions and thus be characterized by persistent divergence, or if they will even further diverge. The divergence approach assumes primarily economic development, industrialization and demographic trends as decisive variables shaping welfare state structures. The convergence approach suggests that in response to structural changes, countries adapt their social spending in the framework of similar institutional arrangements and thus increasingly converge in the long run. The argument is epochal: Fordism is followed by Post-Fordism (Borchert 1998: 163). Given the welfare retrenchment in most European countries, researchers aimed to find out whether different (national) welfare arrangements in Europe are converging on one particular model, corresponding to *Esping-Andersen's* liberal world of welfare capitalism or the category of LME with reference to *Hall/Soskice*.¹² If during the 1990s, these converging dynamics were stressed, later studies started to look in a more detailed way how changes of welfare states in response to globalisation pressures and national challenges over time came about. As concerns the debate about CEECs, there is no agreement on the emergence of a peculiar post-communist welfare model. Authors claim it to be more mixed and volatile than in Western capitalist democracies (Szirka/Tomka 2009) due to the fusion of pre-communist, communist and post-communist features, melting liberalism and corporatism¹³ (Cerami 2009, Bohle/Greskovits 2007).

Divergence theory approaches emphasize the influence of socio-political factors, constituting the basis for cultural dispositions and interests that are reflected by, for instance, different institutional arrangements of social security and labour market arrangements (Gilbert 2002, Alber 2001, Esping-Andersen 1990). While these approaches also suggest a convertible change, they consider different traditional national, political and social structures (Borchert 1998). As a result, from the perspective of

dependence of the central state and its regions, both levels have established institutions to facilitate intergovernmental cooperation in EU policy-making (Börzel/Sprungk 2007: 123).

¹² Above all in the area of labour market policies, an increased tendency of activation, flexibility and the shift from entitlements to obligations is visible. Welfare is more than ever concerned with the promotion of the country's competitiveness at the expense of the citizens' welfare through redistribution. This could entail a focus on economic success through fiscal discipline at the expense of social policy in terms of social protection and decommodification in exchange of an emphasis on workfare and recommodification and flexibility.

¹³ I refer to corporatism as a system of political, economic and social organization which involves its members in the form of corporate groups, one of the main types being tripartism: the negotiations between business, labour and state interest groups with the objective to establish guidelines for labour market regulation and policy.

the divergence theory, a catching-up of CEECs with Western European standards is detected, while pointing to prevailing country-specific differences due to different starting positions and transformation courses, for example as concerns labour union development.

“In contrast to Western Europe, where unions met the global ‘post-Fordist’ economy from a position of institutional strength, communist-era legacies meant that labour unions in Eastern Europe were faced with the introduction of capitalism and global pressures from an initially weak position” (Crowley 2004: 427).

The opposite perspective takes into account actor constellations and interests as well as the existence of varying underlying welfare state models, which are shaped by the competition of social interests and the potential for political mobilization (Gilbert 2002: 18). Within this perspective of divergence, the power resources approach stresses the relevance of social democratic participation in government coalitions and the strength of trade unions and political opposition indicators. The welfare state and labour market are regarded as a product of continuous social interaction, and its setting is seen as being largely determined by government decisions, however framed by other actor constellations and institutions.

Specifying the question if the transformation of labour market regimes as a matter of convergence or divergence, from a global perspective, the turn to capitalism in CEE after 1989 can indeed be identified as a converging development of not only a general harmonization process of EU policies, but also a general turn from Keynesianism to neo-liberalism in the West, which had already begun in the 1980s.

Besides the fact that there exists no general definition of neoliberalism, new structural forces in the context of globalization affect the general controllability of welfare states dynamics. Social expenditures in many countries have been retrenched in order to meet budget constraints due to high unemployment, globalization pressures and demographic challenges, while “welfare programs have been repeatedly recast as part of the very problem they were designed to solve” (Gilbert 2002: 23, cf. also Rieger 1998: 83). Overall, a variety of reasons make it implausible that political economies converge on one unique (superior) model, among them the facts that (i) the effect of economic internationalization on domestic economies differs, (ii) external pressures are perceived differently by national actors, (iii) the pervasiveness of external pressures and role models as a source of policy transfer depends on domestic settings, and finally (iv) national institutions as well as interests and power distribution are changing in the face of the economic and political reform.

2.2 Transformation research and institutional change

In the aftermath of the events of 1989, researchers focused on the similarities of transformation processes. Transformation was understood as a rapid rebuilding of institutions in line with liberal-capitalist societies. The general assumption was that in transformation countries, a completely new order should be established on the ruins of the old system. Meanwhile, this approach has been modified because it misleadingly assumes an institutional vacuum following a regime collapse and thus failed to consider the historical political, cultural and social legacies which might affect the ideas and capabilities of the reform-actors. Country-specific conditions and path dependencies have increasingly captured more attention (Kohl/Platzer 2004, Cerami 2007, Inglot 2009, on the ‘transformation of

transformation research' cf. Müller 2001). At the same time, various authors have discussed the influence of international actors on national transformation processes (Orenstein 2008, Stone 2001, Deacon 2007, Cerami et al. 2009, Zaborowski 2005). However, those international actors have not been veto players as their range of impact "remains conditioned and bounded by international and national structural realities" (Haas 1992: 7). Today's transformation processes are characterized by ambivalence: they are subjects of globalizing and unifying changes in the economy, society and politics in the direction of a convergence of Western European standards. On the other hand, there is an individualized, in some aspects particularizing division of national dynamics. This consideration of the dual nature and causes of transformation processes has intensified in social sciences over the last decade (i.e. Pierson 2004, Streeck/Thelen 2005, Cerami 2009, Orenstein 2001 and 2005).

Economic transformation in CEE refers mainly to the change of the former command economy towards a capitalist market economic framework. By contrast, the concept of social transformation indicates that in the majority of social policy sectors there have been fundamental institutional changes to the status quo ante. The new governments have initiated a complete change of shape of the welfare state (Götting 1998: 24).¹⁴

Although the term transformation had already appeared at the beginning of the 20th century in attempting to theoretically grasp situations of radical change of interdependent functional areas - such as the transition from feudalism to capitalism - the concept of transformation has not experienced an explicit definition (Hopfmann/Wolf 2001, Boeckh 2000). Further, *Merkel* notes that social sciences are far from a general theory of transformation (Merkel 1998). As it is obviously difficult to identify a universal mode of change or to predict the result of transformation, the notion of transformation as an open process has been largely accepted.¹⁵ Following the assumption of the theoretical openness of the *process* of transformation, the initial starting point of my dissertation is that accordingly the *result* of the transformation is open as well. A comparative analysis of post-socialist societies thus seeks to understand ongoing negotiations of ideas and interests, accompanied by alliances shaping the multiple possibilities of future social policy in contemporary CEE (Stark/Bruszt 1998).¹⁶ Transformation processes are influential country-specific (power) constellations, being in favour of a specific outcome based on what we can call four options of institution-building: (i) an independent renewal, (ii) a recourse to pre-socialist national models, (iii) transfer or the copying of external (Western) models, (iv) a mixed strategy (Hopfmann/Wolf 2001: 34). While there is no doubt that an independent renewal has taken place on the level of regime change from socialist to capitalist structures, it is more difficult to

¹⁴ Examples are the decoupling of economic and social policy, changes in the significance of the provisioning institutions of the market, state and family, or the redefinition of social policy tasks.

¹⁵ *Merkel* tries to systemize and differentiate the terminology. He distinguishes *system alteration* (*change of a system*) as an evolutionary, profound change in the functions and structures of a system, from the idea of *system change* (*exchange of the system*), implying an already proceeded passage towards a different system. As to the process itself, *Merkel* differentiates between (1) *transition*, which already implies the direction and aim of the transformation process, especially referring to the passage from autocratic into democratic systems and (2) the term *transformation*, which implies all mentioned items and is used as a generic term for all forms of temporal structures and aspects of transition and system change (Merkel 1999: 74 ff.). See also *Pickel* who claims that transition in the sense of a transition towards the 'Western model' still is by far the most politically influential idea (Pickel 2001: 136).

¹⁶ I use the terms post-socialist and post-communist interchangeably.

grasp the other approaches to institution-building. Thus, an examination of transformation processes has to broaden the narrow perspective of a transition to democracy¹⁷ with a multi-level perspective on transformation dynamics. In the light of the importance of for instance social security for the acceptance and legitimacy of the socialist system, its reorganisation might be an essential factor for further development paths of the new systems.¹⁸ The guarantee of stable social security and efficient labour market policies is likely to be an important criterion for assessing the newly formed political and social systems in transition societies (Boeckh 2000).

Due to the complexity of formal and informal institutional transformation, different cases require different reform approaches. Institutions are not homogenous across countries and even similar institutional designs may have divergent effects in different countries, leading us to the importance of the actor-level in transformation processes (Pickel 2001: 138, Fiolova/Schneider 2008: 2). As discussed above, mechanisms of institutional change are closely linked to relations between actors (for instance the relationship between policy-makers, trade union and employers), institutions (for example ministries of labour or finance), interests (for example higher social protection vs. increased labour market flexibility) and ideas (for example basic preferences for higher decommodification or market orientation) (Cerami 2009: 38). Those dimensions (*three I's*) correspond to an overall picture of interdependencies and interaction which have to be analysed to understand the relationship between institutions and actors' behaviour (Kohl/Platzer 2004: 20/21).

Many stakeholders are acting within a global picture of transformation and determining the pace, scope and quality concerning (i) the transformation policy of the concerned country, (ii) the constellation of structures and framework conditions (economic and political factors), (iii) the support and acceptance by the population (elites as well as broad public acceptance), (iv) the influence of the international environment (bilateral and multilateral relations) and (v) the prevailing traditions and belief-systems (former experiences from the time before or during state socialism, i.e. as regards state orientation vs. decentralization) (Kohl/Platzer 2004: 20/21).¹⁹ With a research focus on the actor level, transitions between social formations are explained by identifying patterns about *what* actors do or don't do, *why* they do it (or not), and *what* consequences these actions (or non-actions) imply for policy learning and transfer (Schmidt 1995: 567, Hopfmann/Wolf 2001).

Analysing institutional change: With the beginning of the 1980s, economic policy was marked by a radical shift from Keynesian to monetarist modes of regulation. Collective responsibility has shifted in favour of individual responsibility. Particularly in Bismarckian welfare states where protection and

¹⁷ This is the title of an international research project in the 80s, referring to developments in Latin America and Southern Europe (Merkel 1999: 75).

¹⁸ With reference to *Merkel*, I define legitimacy as the belief that the ensemble of the existing political institutions and procedures is better than any alternative system (Merkel 1996: 52).

¹⁹ See also *Götting* who mentions similar aspects: the economic situation, external actors, the government's power, the state administration's capacities and the structure of union organization (Götting 1998: 31).

benefits are linked to employment²⁰, status becomes increasingly eroded by reforms focusing on individual provision and tending to reduce differences between occupational categories.

How can these kinds of complicated processes of change be mapped if transformation countries are experiencing not only a paradigm shift from one capitalist regulation approach to another (Keynesianism to monetarism), but a threefold shift: the change from socialism to capitalism and from command economy to privatization (polity) translates the new regulation principles into policies (policy) which are administered and shaped by the emerging actor constellations and reconfigurations (politics). However, there has been no chronological procedure of initial institutional stability (socialist period), followed by a critical juncture (system collapse) and a process of transformation with the result of institutional stability (new labour market regime). Instead, parallel processes of change and continuity characterize the transformation, which is why *Streeck/Thelen* suggest to examine (i) the continuity and change of defined instruments and institutions, (ii) continuity and change of existing policy programmes (agenda of government coalitions), and (iii) continuity and change of debates and existing paradigms in the broad policy agenda. The authors claim these levels to represent the main dimensions triggering institutional transformation (*Streeck/Thelen* 2005).²¹

Policy change is more than institutional change, since it refers to a variation of ideological paradigms and institutional rules. Applied to the labour market, new paradigms construct policy problems in a specific way as a result of their role as ‘sorting machines’ (Offe), thus limiting the available solutions for policy makers who need some degree of legitimacy to pursue their own priorities. At the same time, policy-makers are part of larger networks with (only) a relative power to shape new institutional rules themselves: According to *Hall*, “[p]olicymakers customarily work within a framework of ideas and standards that specifies not only the goals of policy and the kind of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing” (*Hall* 1993: 279).²² These paradigms set the political goals and ways of state intervention (or its absence) to achieve a particular social order.²³ Institutions embody all underlying normative assumptions connected to the existing belief-system, framing (and reducing) the available (technical and social) instruments for achieving the policy objectives. According to *Hall*, a change of institutions can be induced by different triggers entailing first, second and third order change (*Hall* 1993):

²⁰ I define employment in line with the ILO Resolution, 1982: “The “employed” comprise all persons above a specific age who during a specified brief period, either one week or one day, were in the following categories: (a) “paid employment”, (a1) “at work”: persons who during the reference period performed some work for wage or salary, in cash or in kind, (a2) “with a job but not at work”: persons who, having already worked in their present job, were temporarily not at work during the reference period and had a formal attachment to their job, b) “self-employment”.”

(ILO <http://laborsta.ilo.org/applv8/data/c2e.html>)

²¹ The authors develop a typology with five dimensions of institutional transformation (displacement, layering, drift, conversion and exhaustion) being evoked by five mechanisms (defection, differential growth, deliberate neglect, redirection/reinterpretation, depletion) (*Streeck/Thelen* 2005).

²² In this context one can point to Keynesian and neoliberal (or neoclassical) economic thought, representing two paradigms implying contrasting visions of a well-functioning market economy. Without doubt we can state that the former pushes welfare policies in general while they tend to be confined to minimal standards with the latter.

²³ We can take the combination of modes of financing, benefits and eligibility rules in systems as an example of risk redistribution and operating principles included in policy programmes. These programmes differ not only with respect to the degree of protection, but also as to the relationship that they establish between the contributors or taxpayers on the one hand, and the beneficiaries on the other (*Spieser* 2009: 81).

(1) First order change includes the adoption of technical procedures and the setting of basic policy instruments. Regarding employment policies, these would for example affect the level of benefits or the number of months that people would have to pay contributions in order to be eligible for benefits.

(2) Second order change includes greater possibilities for change, involving doubts about the adequacy of existing institutional arrangements. The consequence is a more substantive reform, for instance as concerns the conditions of eligibility for a particular scheme and the creation of new policy instruments.

(3) Third order change implies significant reforms on the basis of a changed conceptualisation of policy problems and objectives. Given the fact that unemployment was declared not existent during socialism, the handling and curative treatment of this ‘new’ phenomenon in terms of social security institutions and employment policies had to be defined.

Transferred to the research subject, it is (i) about examining first, second and third order change in the two countries, and (ii) the mechanisms accounting for change and continuity.

Table 2.2 Levels of institutional and policy change

| Level of change | Policy elements | Practical example | Labour market policy example |
|-----------------------------|---|--|--|
| 3rd order | Policy paradigm (goals and principles) and institutions | Changed policy objectives. Major change in source of financing and benefit provision. Changed provider-beneficiary relationship, influencing policy objectives. | The introduction of market economy institutionalises the risk of unemployment and requires choices about its treatment in terms of (i.e. social security) institutions and policies. |
| 2nd order | Instruments and programmes | Changed programmes/instruments for policy objectives. Changed eligibility criteria for existing arrangements, policy paradigms are maintained (objectives remain unchanged). | Labour market problems are dealt with by the introduction of activation policies inducing changed eligibility criteria for unemployment benefits. |
| 1st order | Instruments and programme parameters | Modification of benefit levels (and existing parameters). Adjustment or organisational change of competent authorities. | Change of the number of months that employees have to pay contributions in order to be eligible for unemployment benefits. |

Source: based on Hall (1993), own additions

Hall suggests a reciprocity between the three levels of change, claiming that third order changes, such as a change in ideas (cognitive and normative frames), leads to second order (range of basic instruments for pursuing defined goals, such as certain labour market regulation and policies) and first order (specific setting of instruments such as passive or active labour market policies) change.

The international arena as a potential mechanism of change ever more influences domestic discourses. Even if international actors are not always explicitly involved in the national policy-making context, they largely contribute to shaping social transformation processes through conditionality or policy transfer (Sirovatka/Rakoczyova 2009). It is at the same time convincingly argued that the national context and ‘proximity’ matter for the domestic reception of exogenous ideas (Cerami 2006, Kan 2005). But how far are domestic actors able to act independently and autonomously from international actors? On the one hand, learning processes suggest that social transformation occurs within the domestic framework that is providing policy choices with reference to domestic policy preferences.²⁴ On the other hand, the approaches of external conditionality and policy transfer suggest that law making and the adjustment to new rules entail constraints and reduce the national actors’ freedom of choice.²⁵ Institutional changes can hence equally be pushed by international and domestic actors, keeping in mind that the way these actors behave is shaped by the national context and networks in which they operate (Haas 1992, Sabatier 1993, Sirovatka/Rakoczyova 2009, Stone 2001).

2.2.1 Policy learning and coercive policy transfer

In times of globalisation, the analysis of mechanisms of change needs to consider transnational policy transfer and policy learning. Approaches based on learning are relevant especially in light of compliance with non-legally binding regulations as it is the case with labour market policies in the EU which are mostly subject to soft policy transfer through diffusion processes, for example pursued by the Open Method of Coordination (OMC).²⁶ The constituencies of the emerging labour market regimes in CEE are significantly affected by those learning processes.²⁷ In line with this, approaching processes of Europeanization exclusively from a top-down rather than from a bottom-up perspective may fall short of recognizing the complex causality of European integration.

In this context, *Schimmelfennig/Sedelmeier* claim three principal factors to determine if a rule is adopted: firstly, the adoption of rules is more probable if they appear to be legitimate. Their legitimacy is based on the community’s constitutive values and norms, which are closely connected to decision-making processes. This legitimacy increases with the existence of an (international) consensus on rules. Second, states are more willing to adjust and implement rules if they regard the outcome as becoming a member of an ‘aspiration group’, representing a collective identity to which they want to belong. This is connected to the identification with the target group and the society that has established the concerned rules. Finally, the domestic situation is decisive: external rules are more likely to be adopted if there is a lack of rules in the domestic sphere or when the (former) domestic rules have been delegitimized (*Schimmelfennig/Sedelmeier* 2005: 19).

²⁴ With respect to the EU accession process this conception is close to being a cognitive Europeanization (*Radaelli/Featherstone* 2003).

²⁵ This assumption is often associated with the IMF-supported programmes in the early 1990s (*Spieser* 2009).

²⁶ The OMC has been initiated at the Lisbon Summit in 2000 as a form of EU soft law, a process of policymaking which does not lead to binding EU legislative measures nor require Member States to change their law. The OMC aims to spread best practices and achieve greater convergence towards EU goals. Historically, the OMC can be seen as a reaction to the EU’s economic integration in the 1990s.

²⁷ They can also refer to modes of decision-making, methods of financing, or the strictness and generosity of the benefit system (accession, period of payment, obligation of beneficiaries).

On the other hand, even if international consensus might be visible in terms of certain best practices as for example the relevance of *flexicurity*²⁸ approaches, consensus might not always be found at the local level, and some countries might (unenthusiastically) follow best practices only because conditions on loans and structural adjustment packages require them to do so (Stone 2001: 11).²⁹ This describes a situation where even if lessons are imposed, learning remains somewhat shallow and not sustainable. Local political realities may prevent this consensus from taking root in a particular environment, thereby leading more probably to a significant variation in actual policy from one country to another.³⁰

Content of policy learning: Governments have always looked at each other's experiences and used learning as a deliberative attempt to adapt the objectives and techniques of policy in response to new information and past experience. It is dependent on the interplay of political, economic and administrative variables in the domestic and international environment. Economic crises are often found to be origins for learning processes (Bandelow 2003). The significance of policy learning approaches has increased steadily and researchers have started to pay more systematic attention to learning as a tool for policy-making. Their approaches claim to contribute either to the improvement of applied policies or to the explanation of policy changes (Kan 2005, Bandelow 2003).

Policy learning can imply changes in the decision-making structures, changes of actors' norms and objectives as well as changes with respect to certain strategies applied. However, one difficulty is the fact the most relevant decisions are not made by individuals alone, but by corporative groups. An analysis of processes of socially creating and shaping institutional environments should thus start at the point where belief-systems find their origin and specific power constellations come about. And rather than assuming that all actors engage in a functional exercise while they are learning, we have to consider that they can also pursue politically motivated strategies for instance while adopting certain EU policies in order to prove compliance on first regard, but without sustainably implementing the content ('shallow learning').

Policy learning is often linked to the assumption of policy convergence, mirroring the belief that policy transfer can arise as a consequence of structural forces as suggested by functionalist arguments. This presumption is based on a macro level idea to describe increasing interdependence between countries, rooted in increased globalization, industrialisation or regionalisation. This has indeed shown to be true within comparable political, economic and social settings: these countries develop partially comparable policy arrangements as learning processes occur based on appropriateness. *Cerami* thus convincingly argues that the domestic course of transformation and the scope of external policy transfer depend upon economic, historic-cultural and political-ideological proximity of the concerned country (Cerami 2006). When patterns of political or economic formation change, policy arrangements do change as well.

²⁸ *Flexicurity* is an integrated strategy strengthening flexibility and security on the labour market. It aims at combining the employers' need for a flexible workforce and the employees' need for job security in order to prevent long-term unemployment (see <http://ec.europa.eu/social/main.jsp?catId=102&langId=de>).

²⁹ In this context, *Stone* speaks of different categories of learning processes: 1. Enforced learning, 2. Instrumental learning, 3. Trial and error processes of learning, 4. Model-based learning, and 5. Learning in laboratory such as might result with 'pilote tests' (Stone 2001: 11).

³⁰ Political and bureaucratic interests are influenced by electoral considerations, feasibility, consensus or conflict, and last but not least funding, that all have the potential to either prevent or to promote certain policy changes or transfers.

These processes are exemplified by European integration and partly realized community policies that are driven by convergence. However, we have to differentiate between two understandings of international norms: one is referring to strategic expectations on the consequence of compliance while the other is based on the logic of appropriateness (March/Olsen 1989) - both understandings trigger different orders of change.

According to the power resource approach, the distribution of power and the successful coordination of resources determine whether ideas are being heard and being implemented through policy-formulation. In line with the power resource approach, it could be about the persuasiveness of actors and their ideas, interests and power. On the other hand, according to institutionalist assumptions, the broader institutional framework, existing resources and mobilizing agents as well as external factors are actually deciding on the actors' power to impose their paradigms over others. This argumentation can be applied to party politics, government coalitions or actors' configurations in the framework of social dialogue.³¹ Changes in power relations and conflicts can thus entail policy learning dynamics as a result of the dominance of certain ideas – and a potential institutional change triggered by the interplay of institutional and actor variables. The potential for policy learning will increase when political actors face uncertainty about the particular consequences of policy choices, when lack of domestic policy solutions prevails while at the same time they rely on (scientific) experts that are able and keen to provide advice. In the context of labor market transformation, as uncertainty constantly goes along with the increasing complexity of political and economic upheaval, the relevance of external policy paradigms thus gains importance.

Learning via networks. Governments and international organisations are no longer able to design or implement effective public policies independently. Policy transfer and learning takes place in a multi-organisational context. These communities are not simply policy entrepreneurs but they can encourage policy learning processes in so far as their actions lead to the creation of a common identity and consensual knowledge which in turn helps to bind together policy communities and networks that spread ideas in the sense of collective policy learning. According to *Stone* networks are thus the location and structural framework for learning (*Stone* 2001: 6).³²

One key feature of a network is a shared interest and problem on which an exchange of information, debate, persuasion or disagreement takes place, finally generating solutions and policy responses. Networks thus provide a structural framework for policy-oriented learning. A distinction can be drawn between the Anglo-Saxon and the continental approach, as the Anglo-Saxon approach is concerned with interest representation on a rather pluralist basis, whereas the continental approach refers to

³¹ Social dialogue is a particular form of a debate on different social interests. According to the labour law, different partners participate in social dialogue. These social partners are self-governing bodies and professional self-governing bodies, trade unions, employers' associations and other social organizations (www.mpips.gov.pl).

³² According to *Stone*, "a key feature of a network is a shared problem on which there is an exchange of information, debate, disagreement, persuasion and a search for solutions and appropriate policy responses. [...] Through networks, participants can build alliances, share discourses and construct the consensual knowledge that defines an international policy community. Networks also enable actors to operate beyond their domestic context, and networks are the means by which organizations individually and in coalition can project their ideas into policy thinking across states and within global or regional forums" (*Stone* 2004: 560).

corporatism as the specific type of relationship between interest groups and the state (Kan 2005: 12). The domestic corporate actors referred to in this dissertation (political parties, trade unions, employers' associations) can be called interest groups as they represent the interest of selected groups in society.³³ The political dynamics of networks entail that negotiation, compromise and persuasion is unavoidable since the international spread of ideas and practices cannot be seen as independent from the policy process. Knowledge is not apolitical and ideas that are transferred are always forms of indirect coercive transfer, based on the fact that diffusion and voluntary transfer includes a selection of some ideas while others remain ignored (Stone 2001: 34). Networks bring together different actors and societal groups such as representatives from state and non-state organisations: politicians, the media, trade unions, grass roots organisations or business representatives. These networks become more powerful the more they can rely on relevant knowledge, information and expertise. They can perform actions such as initiating research and developing network infrastructure, building data-bases, organising conferences or preparing submissions, and in this way influencing the policy process. These activities are based on a shared interest and common problem perception. How are power, interests and ideas linked? Depending on the strength and the power of a particular social group there will be a more or less likely articulation and implementation of the ideas and interests of a certain segment of society.³⁴

Linked to the increasing impact of networks, concepts such as 'epistemic communities' and transnational 'advocacy coalitions', holding members of shared beliefs, a set of causal axioms and policy goals, are established in comparative public policy research (Sabatier 1998, Haas 1992, Stone 2001: 14). These concepts present analytical entities in order to identify policy-changes. According to *Haas*, an 'epistemic community' is "[...] a network of professionals with recognized expertise and competence in a particular domain" (Haas 1992: 3). Transferred to policy learning processes, these professionals can influence policy decisions. *Sabatier* (1991 and 1998) has developed the actor-centred approach of 'advocacy coalitions' according to which policy oriented learning takes place based on belief-systems. According to the author, actors such as journalists, researchers, and policy analysts as well as government officials operate and exchange in the framework of sub-systems, thereby promoting the development of advocacy coalitions. The distinct feature of an advocacy coalition is a basic set of values, causal assumptions, and problem perceptions that taken together provide a framework for political action (Sabatier 1998), making up the glue that holds these coalitions together by certain core beliefs, ideas and interests. According to *Sabatier*, a dominant coalition is unlikely to be completely changed by analytical debate, it is more due to external events that significant changes transform the debate or create uncertainty. This is where the transition countries come in since it was external shocks that created a completely new political, economic and social setting after the collapse of socialism. In

³³ In the international context of learning, we find a functional interdependence between public and private actors, in particular where government structures are more diffuse and lack central coordination. Nonetheless, I want to emphasize that due to complexity reasons, this dissertation does not focus on private actors (i.e. business), but rather concentrates on domestic actors formally involved in the reconfiguration of the labour market regime.

³⁴ As *Scharpf* (1997) suggests, it is necessary to differentiate between a basic self-interest, a normative role orientation, an identity (specific self-description), and interaction orientations. As a result, a representative of an employer's association will probably argue differently than a representative of a trade union.

periods of relative stability and routine, advocacy coalitions are unlikely to have significant impact on policy changes, but in situations where consensus is decaying - like the ones where new labour market policy approaches were to be set up - the opportunity is increased. In this context, learning might be used as an instrument to enhance the legitimacy of national policy directions, at the same time learning strategies certainly aim at increasing the policy-makers' political power and status.

Overall, advocacy coalitions and epistemic communities are related in regarding networks as the major agents of change and emphasizing the relevance of ideas for policy change. However, they differ in terms of their frame of reference: epistemic communities are knowledge-based while advocacy coalitions are value-based.

'Hard' policy transfer via conditionality and convergence: The literature suggests that policy transfer is focused on understanding the process by which policies move from 'exporter' to 'importer'. Transfers can be voluntary, coercive or combinations of the two; it is however not obvious that policy transfer always leads to the successful implementation of new sustainable policy arrangements. According to *Stone*, those researchers who adopt the policy transfer concept tend to focus on meso-level processes that lead to policy transfer (*Stone* 2001). They treat transfer as a dependent variable and thus as something that has to be explained.

Learning is a process taking place through horizontal coordination between national governments, but it is also increasingly subject to vertical coordination with international organisations and even through steering from below in the framework of bottom-up activities (*Kan* 2005). One of the most influential experimental grounds is found at the EU level with the OMC, representing a new format of the division of responsibilities of the member states and European institutions based on multi-level governance.

In this context, domestic actors can behave as advocates or policy entrepreneurs to become involved in coercive or voluntary policy transfer. But they depend on further actors, i.e. in the domestic context of another country, providing them with the resources needed while advocating policy ideas and spreading information within networks through political parties and bureaucracy, and into media and civil society while internally evaluating useful information (*Stone* 2001: 19).

We have to differentiate between international law (which can for instance be implemented by organisations like the World Trade Organisation) and a threat of sanctions (implemented by actors like the EU or the World Bank), which can both be a force for compliance in forms of coercive policy transfer. In this context, transnational policy advice through the international activities of the IFIs and the EU is of special interest.³⁵ There have been critical remarks pointing out the limited attention that is paid to the particular context of the concerned national framework when consulting in a sense of a 'one size fits all' perspective as mentioned already with respect to the Washington Consensus.

³⁵ Especially in transformation countries, consultancy firms have become important transformation actors with respect to privatization, legal reform and financial liberalization. *Stone* even speaks of an 'Americanization' since there exists an international network of American-based management consulting organisations which have found an audience among decision-makers in transformation countries that want to learn about best practices in the private sector in order to modernize the public sector (*Stone* 2001). This trend without doubt fits the general Europe-wide development.

A second important aspect of policy transfer is the use of foreign loans.³⁶ Loans are often supplemented by assistance in the form of consultancy which can lead to a constraint on the development of in-country policy expertise and thus dependency on foreign expertise (Stone 2001: 26). The receiving countries' desire might be so pronounced that potential negative consequences are neglected, based on close interaction and growing institutional integration of different external expert communities.

'Soft' policy transfer via social learning and diffusion: Learning is the ground on which lesson-drawing, diffusion or policy transfer can occur, meaning that the transfer of ideas and practices is underpinned by deeper and prior processes of learning. Learning, as well as the subsequent transfer of programmes, is a social and collective process relying on the interaction of domestic social groups.

An important approach in the learning literature is *Hall's* model of social learning (Hall 1993). *Hall* departs from a domestic state-centred institutional focus, but at the same time takes into account the manner in which developments outside the state influence certain policies and how ideas can link the state, civil society and to a certain degree also international organisations. *Hall* explicitly refers to *Hugh Hecló*, saying that "we can define social learning as a deliberate attempt to adjust the goals and techniques of policy in response to past experience and new information. Learning is indicated when policy changes are the result of such a process" (Hall 1993: 278). *Hecló* (1974) emphasizes that actors are involved in the 'puzzling' or 'powering' of knowledge, constituting a process of learning. It occurs when policy makers adjust their cognitive understanding of policy development in the light of new knowledge gained from past experience. We can apply this to the experience of pre-communism and communism. Knowledge gained in policy learning has a particular significance as the critical event of economic and policy failure in CEE with the collapse of socialism entailed an immediate interest in alternative ideas and policy solutions. As elaborated above, three levels of change correspond to three orders of learning: (i) minor adjustments in the application of existing policy instruments, (ii) re-tooling and introduction of new policy techniques, (iii) a radical shift in the hierarchy of objectives and the set of instruments applied to reach these objectives based on a new paradigm (Hall 1993).

No matter which orders of learning are concerned, transformation processes are likely to contain dynamics of incremental change, meaning that continuous adjustments, re-tooling and new policy techniques are introduced over time while a general paradigm change takes place at the same time as institutional inertia persists. It is difficult to capture a situation where basically everything is dynamic and object of transformation: the system, the actors, the preferences and the institutional framework. As regards lower-level changes like government coalitions and ruling elites, ideational positions are modified within the domestic interplay of actors, continuously influenced by external factors.

2.2.2 Economic transformation strategies

To start with the first relevant step of actors' choices, I will point out the basic options of economic reform strategies and the implied socio-political consequences which their implementation might have.

³⁶ Policy transfer can include processes of penetration and coerciveness, entailing a compulsion to conform. In this context, international organisations like the World Bank or the IMF can act as penetrators, connecting their loans to certain policy reforms in the concerned country following the motto 'no reform, no money'.

Regarding the economic transformation strategy from a command economy to (social) market economy we can differentiate two basic approaches: shock therapy and gradualist reform.³⁷ The choice of the transformation strategy might imply consequences for the above mentioned options of institution-building (renewal, recourse to historical tradition, transfer of external model, mixed strategy), as the shock therapy is assumed to reject the previous status quo with rigorously with the introduction of something new while the gradual approach introduces changes to the status quo in an incremental manner and thus at least temporarily maintains practices of the former status quo.

It is, at least theoretically, up to each transition country to choose an appropriate economic transformation strategy upon the basis of its institutional and cultural characteristics. As regards transformation research, in particular two strategies are distinguished: the shock therapy and the gradualist reform. They describe the speed of the establishment of market-economic structures and are likely to imply consequences also for future political transformation. According to *Kosta*, it is the choice of the transformation strategy and its consequent enforcement which is the decisive aspect determining later economic results (Kosta 1998: 114, cf. also Boxberger 1997: 55). In the wake of what is also known as the *big bang* strategy, the political project of transformation is realized in a sudden manner. This is due to the view that any delay in the economic system change will only be a waste of time and resources (Boxberger 1997: 55). Gradualism, in contrast, emphasizes a gradual change temporarily preserving the worthy old structures of the previous system. In this section, I present the two transformation strategies according to their content and their procedural dimensions, as well as their advantages and disadvantages for transformation countries.

The proponents of the shock therapy (such as the OECD, World Bank, IMF) are referring to concepts like the Washington Consensus³⁸, designed for developing countries by the IMF (Naim 1999, Boxberger 1997).³⁹ This economic strategy regards the transformation process from the perspective of the well-known metaphor for overcoming the abyss between socialism and capitalism - the abyss is obviously not manageable with small hoppers across (Ackermann 2001: 198). Thus, following the leap into capitalism, the theoretical assumption of economic development considers the J-curve model most probable, according to which a sharp drop in production is followed by rapid economic recovery, resulting in a much higher production level compared to the initial situation. Compared to the gradualist approach, an advantage of this approach theoretically includes a relatively short recession and the expectation of faster economic growth. Critics argue that a disadvantage of the radical market liberalization is however an excessive depreciation of existing production and an unnecessarily high fall of demand, which may cause a deeper economic recession than actually predicted (Boxberger 1997:

³⁷ These areas imply (i) privatization, restructuring of businesses and the establishment of market conformist institutions (Kosta 1997: 112), (ii) market reforms (price liberalization, liberalization of external trade and convertibility, competition policy), (iii) financial reforms (bank reform, interest liberalization, capital markets), (iv) reforms of investment law (Kohl/Platzer 2004: 20).

³⁸ It was *John Williams* who called the process of promoting privatization, price and trade liberalization as well as macro-economic stabilization in 1990, the 'Washington Consensus' (Cazes/Nesporova 2003: 33).

³⁹ The general consideration of transformation processes within the categories of developing countries can be criticised due to the lack of a region-specific differentiation in order to tailor reform strategies respecting particular situations.

55). In addition to that, social hardships as by-products of the shock therapy have to be compensated through higher spending on social services in order to ensure societal support for the policy-makers' reform agenda. The economic recession (*bottom of a valley*) and the social transformation costs are particularly crucial parameters for redesigning welfare policies, since the fiscal issue closely links economic development and social policies, nourishing controversy among authors who regard social policy as necessary only in times of economic crisis.

At first glance, the transition costs do not differ as to the two strategies: the gradualist route seems to bear less short-term costs for the population when compared to the shock therapy - the 'valley of tears' (Dahrendorf) is less deep, but it is wider. The gradual route implies lower costs at a time, but incurred over a longer period of time. The metaphor for gradualism in contrast to shock therapy regards transformation as the ascent of a hill, whose summit is impossible to reach with only a jump (Ackermann 2001: 198).

If it can be assumed that the overall transformation costs deriving from both strategies are the same, *Boxberger* describes the gradualist strategy as favourable regarding social support of the reform agenda since the gradual transformation enables the state to offer 'side payments' to the transformation losers, partly compensating individual disadvantages (Boxberger 1997: 55). On the other hand, it shows that during transition phases there is evidence of a relatively high tolerance potential of the population in accepting transitional disadvantages (i.e. in the Czech Republic⁴⁰), suggesting that not only economic factors are relevant for the transformation strategy but also political ones. It seems that it is only in the course of time, facing a lack of transformation gains and prevailing costs that transformation processes indicate social conflicts and a withdrawal of political legitimacy (i.e. in Poland). With regard to a possible threat to the democratic order it is thus the question of whether economic prosperity and social stability can be better secured facing rather short-term, but higher, or lower, but longer term costs (Merkel 1999: 386f.).

Overall, both strategies carry risks: problems in the course of a shock therapy approach can lead to organisational and human resources irregularities, and especially imply social hardships in the wake of radical change (Kosta 1998: 112). Furthermore, permanent unemployment and high real income losses can result and jeopardize the continuity of reforms by evoking serious transformation problems (i.e. lack of economic growth). The gradualist transformation however involves a risk that the institutional transformation is delayed due to poor implementation at the administrative level and a slow transition from the old to the new system, which can also lead to problems such as rising costs or a blockage of the reform projects.⁴¹ Following *Merkel's* assumption, however, reform experiences in CEE reveal that transformation processes never go along rectilinear paths within one strategy, as the interaction of economic reform, interests and power constellations of political elites leads to a mix of strategies. He argues that there are logical and at the same time empirically confirmed reasons why economic

⁴⁰ It is interesting to note that the *shock therapy* in the Czech Republic experienced 8 years of societal support, pandering the continuous reform path (i.e. concerning the relatively stable government coalitions in contrast to Poland).

⁴¹ *Kosta* argues that the *shock-like* transformation is comparable to the special case of the implementation of market economy in Eastern Germany (Kosta 1998: 114), in CEE it is Hungary that follows a more gradual transformation while Poland and the Czech Republic have implemented the shock therapy.

transformation paths usually follow a zigzag course between radical reforms, gradualism and status quo orientation (Merkel 1999: 393). As a first reason, *Merkel* identifies the failure of the post-reform governments facing the weight of reform with an inability to meet the (social) expectations provoked before the elections. Secondly, economic policy would be generally inconsistent within the government legislature, since immediately after the election victory the initially radical reform plans would most likely be replaced by more gradualist policies, in consideration of the upcoming next elections.

Similar to *Merkel's* argumentation, *Boxberger* stresses the importance of the domestic setting for the choice of the transformation strategy. He claims that the general degree of reform support by social groups, the mobilizing force of reform elites, the social partners, and, finally, the potential tolerance by the population of the expected transformation costs represent determining mechanisms of the transformation course (Boxberger 1997). The choice of an economic reform strategy however not only includes the awareness of the advantages and disadvantages of the approach. In the light of implementing one transformation strategy we face a dilemma as to economic transformation's social dimension: if increased financial resources are used for the social cushioning of the reforms, these resources are lacking for the market's economic restructuring. The society and individuals are confronted with opportunity costs in terms of lost economic gains (Boxberger 1997: 56). On the political level, this conflict is symbolised by the ambivalence of emphasizing the importance of government regulation while at the same time being in favour of market orientation and clearly abolishing state paternalism with its overregulation. The controversy over the appropriate economic transformation strategy is thus closely linked to political preferences inspired in light of the inherited level of economic performance and economic conditions.

Parallel to the economic transformation (the shift from command to market economy), the CEECs are exposed to the systemic political transformation (the transition from dictatorship to democracy) and are thus confronted with the 'dilemma of simultaneity' (Offe 1996). These countries faced and still face an economically difficult situation requiring welfare state investments that were simply not financially viable (Boeckh 2000: 125, Merkel 1999: 377f.). In what way are they addressing these manifold challenges? Processes of policy transfer and learning play an important role as inexperienced domestic actors looked for foreign solutions which appeared promising for domestic problems on the one hand, while on the other, international actors (IFIs, EU) initiated policy transfer due to soft and hard forms of conditionality. As will show, processes of coercive policy transfer and learning often go hand in hand.

2.3 An actor-centred institutionalist approach to labour market transformation processes

The decision about the most adequate theoretical approach follows the basic interest of social sciences, namely understanding human action. How can the things that people do be explained? Where shall we look first to find theoretical approaches: at the individual or at the social and institutional context? This is a tricky question, similar to the hen and egg dilemma. We have to consider that the institutional framework, the historical-political dimension, and individual rational calculation of utility together with cultural ideas and values might equally play a role in the actors' behaviour and decision-making.

Based on the above developed theoretical concepts aiming to explain how and when national systems change, I assume that institutions and policies are a product of processes of interaction (politics) and are hence an object of change themselves. Even if regularities and patterns can be observed in societies' developments, there is no empirical evidence to believe that these are carved in stone. On the contrary, critical events – endogenous or exogenous – dispose of the potential power to overthrow existing structures, as we see with the collapse of the political system in CEE and the establishment of a new one. How can we then explain these changes deriving from situations of upheaval? In my argumentation, the most comprehensive approach will explain the relationship between (changing) institutions and behaviour and thus combines institutional and behavioural variables as also suggested by *Avdagic* (2003: 2), while taking into account that behaviour can generate new institutions as it can also lead to their abolition.

The literature review has summarized common explanatory approaches of comparative welfare capitalism and transformation research, among them rational choice theories including the power resource and modernization approaches, the theories of neo-institutionalisms (rational choice institutionalism, sociological institutionalism, historical institutionalism) and path dependence, and theoretical approaches focusing on an integration of institutionalist assumptions with actor dynamics in order to explain institutional change, as actor-centred and diffusion policy approaches.

In light of the above discussed deficiencies and merits, my dissertation draws on the observation that a fundamental puzzle of post-communist politics remains: social scientists are still facing the challenge to understand and explain the divergent outcomes of transformation in CEE (Ekiert 2008: 24). I argue that little attention has by now been paid to the country-specific configuration of organized interests (political parties, trade unions, employers' associations) with varying capacities to influence social policy-making and to construct an institutional setting according to their preferences and the diffusion of ideas in order to create new paths. The successful coordination of resources in the framework of clear-structured policy environment based on political predictability of actors' behaviour displays an important prerequisite for actors' capacity to make their ideas heard and implemented through policy-formulation. This dissertation supports the assumptions that history matters, whereas politics is decisive. Yet, this observation has rarely been developed in order to explain transformation processes in CEE (Cerami 2009).

Based on these presumptions, the most relevant approach for my research project combines actor-centred institutionalist with power resource assumptions. Understanding welfare states as “sorting machines” (Offe 2009), any change of the status quo touches questions of distribution and is thus likely to provoke protest by certain groups of actors in fear of losing their entitlements. As a result, the change or continuity of any welfare arrangement can be expected to be the result of a power game between actors. At the same time, historical and cultural legacies have formed a domestic identity and

understanding of what welfare means, a fact which challenges the implementation of successful welfare solutions from one domestic setting into another.⁴²

I assume that in a given institutional context, the interplay of actors allows them to mobilize their resources in order to change or maintain policy solutions. On the other hand, a policy outcome certainly does not generate from a particular set of formal institutions alone. Instead, specific types of labour market institutions follow different organisational structures as well, based on a set of informal rules and understandings about what actors are likely to do, or about what is appropriate to do in a certain situation. This means that policy-making is bound up with its history since “repeated historical experience builds up a set of common expectations that allows the actors to coordinate effectively with each other” (Hall/Soskice 2001: 13).

In line with assumptions of institutional path dependence, I assume that the collapse of socialism has not left an institutional vacuum in CEE into which new designs may be transplanted by mimicking and imitating. I believe that policy transfer and learning most likely results in a hybrid or combination of lessons and policy ideas that best fit the domestic conditions. Assuming that external transfer is more probable in a domestic environment marked by political instability, lack of consensus and weak and loose actor constellations, we must examine the situations in which policy learning triggers institutional change and on which levels this change occurs.

The actor-centred institutionalist approach allows for analysing social transformation processes with respect to the important differentiation between institutional reforms and paradigm change and the approach to social problems within existing institutions, implying continuity and inertia, and thus integrates path dependent and path departing developments (Inglot 2009, Götting 1998).

2.4 Hypotheses

Based on my research interest, the hypotheses refer to a content-related and a process-related dimension of the transformation process. They claim that the labour market transformation outcome is based on a combination of a return to previous political and historical arrangements, together with an institutional third order change. It combines the reform of existing policies and institutions with the creation of new domains which did not exist during communism. The first hypothesis relates to the consolidated hybrid nature of the labour market regime as a product of institutional recombination.

Hypothesis 1: A system change (critical juncture) has two consequences for the nature of a labour market regime:

- i. A recombination of old and new elements results in a hybrid.
- ii. Initial decisions and dynamics are essential for the transformation outcome and cause path creation.

⁴² This is for instance demonstrated by a best practice in the context of labour market policy: “[...] the efficiency of the Danish *flexicurity* model is based on a strong public-spirited attitude that is largely absent in other European countries. Those attitudes are not easily influenced by policy or by the economic environment since they are usually the product of historical and cultural legacies” (Nunziata 2008: 27).

The second hypothesis focuses on explaining the relationship between the emerging labour market regime and the influence by international actors. It suggests that the scope of coercive influence by international actors is linked to certain conditions in the target country, as for example the domestic need of foreign capital, political receptivity for external advice or the wish to 'join a club' as the EU.

Hypothesis 2: Dependence on an external actor leads to policy transfer into the target country.

Finally, domestic dynamics have shaped the social transformation process due to different preferences on the redistribution of responsibilities and social equality, institutions or administrative arrangements. The third hypothesis hence refers to the domestic actor variables as mechanisms shaping the transformation process. It suggests that the patterns of political cleavages and conflict are linked to reform priorities (Bohle/Greskovits 2007). At the same time, the distribution of power not only among policy-makers, but also among other actors involved in the labour market regime (i.e. the social partners or benefit-recipients), influences the quality of politics and policies. An analysis of the reconfiguration of domestic actor constellations might explain the mechanisms of labour market transformation.

Hypothesis 3: Conflict and fragmentation of domestic actor constellations delay the consolidation of the transformation subject 'labour market regime' and foster its hybridization.

2.5 Chapter summary

Welfare capitalism typologies help to categorize different labour market regimes as a basis for developing explanations how these regimes came about. Researchers aim to identify patterns of labour market transformation and mechanisms driving institutional change and continuity. It is assumed that countries do not have analogue systems because: (i) labour market dynamics include consequences of unique critical decisions and institutional choices (such as critical junctures) on the basis of the prevailing system and immanent values, (ii) there exist formal and informal path dependencies, (iii) we find different coalitions of political forces and class relationships among the European countries, (iv) we find different country-specific political challenges and historical sequences (highlighting the importance of wars and crises) (Esping-Andersen 1990, Piątek 2001: 201). Despite convergence processes on the European level, I suggest that differences between welfare and labour market regimes also influence their 'renovation' in the context of reform and transformation.

Chapter 2 revised the merits and deficiencies of appropriate theories in light of potential explanatory variables shaping the transformation outcome. It appears that theoretical approaches based merely on rational choice assumptions only apply partially. Since the institutional context and non-institutional factors equally influence actors' behavior, their configurations and constellations shape the interaction procedure and thus influence the social transformation outcome framed by the triangle of ideas, interests and institutions. At the same time, if theoretically transformation processes are understood as open-ended processes, there are basically four options of institution-building in CEE: (i) an independent

renewal, (ii) recourse to pre-socialist national models, (iii) transfer or the copying of external (Western) models, (iv) a mixed strategy (Hopfmann/Wolf 2004).

Even if new capitalist labour market institutions, regulation and policies emerged in the transformation countries, it would be misleading to assume that institutional change took place within an ideal-type development along the steps of (i) a critical juncture with the collapse of socialism, (ii) followed by comprehensive change, (iii) leading to institutional stability. Pre-communist and communist structures existed well before the regime change and it is interesting to examine in how far path dependent patterns have survived despite the political paradigm change.

Thus, institutional change comes about by differentiated orders of change as defined by *Hall* (1993): social transformation in CEE implies first (instruments), second (programmes) and third order (policy paradigms) change. These changes can be triggered by different dynamics. As concerns several areas of the labour market regime, there was not much ‘fresh’ experience to build upon. Learning approaches are thus important to consider when analysing how the new policies emerged in the dynamic context of transnational cooperation and EU integration. I regard policy learning based on ‘hard’ transfer based on coercion as well as ‘soft’ transfer based on social learning and policy diffusion as the most relevant. Policy learning and institutional change in the context of CEE suggests that the reconfiguration of relevant actors in the field of social transformation has significantly determined its nature and pace according to the underlying interdependent triangle of ideas, interests and institutions. The emerging labour market arrangements have been object of multi-faceted influence by particular domestic and international groups. Social groups share a common interest and act in the context of networks, epistemic communities or advocacy coalitions with the potential capacity to have their interests represented in a certain policy field. At the same time, from the institutionalist perspective, the economic framework, economic transformation strategies (as i.e. focusing on shock therapy approaches or gradual reforms) and the political framework (the politics of regime change or path dependence) can generate path-creating policy approaches, meaning that new paths are created. The dynamics of path-creation depends on the actual distribution of power among the key actors, their concrete interests, programmes, and decision-makings as well as particular constellations of co-operation and conflict on the national and international level (Kollmorgen 2010: 5).

Based on the theoretical discussion, I deduced a combined approach of the actor-centred institutionalist and power resource approach as the most adequate theoretical tool to analyze labour market transformation processes. Drawing upon the above said, three hypotheses have been developed to explain the relationship between my research object and potential explanatory factors for the consolidation of hybrid labour market regimes.

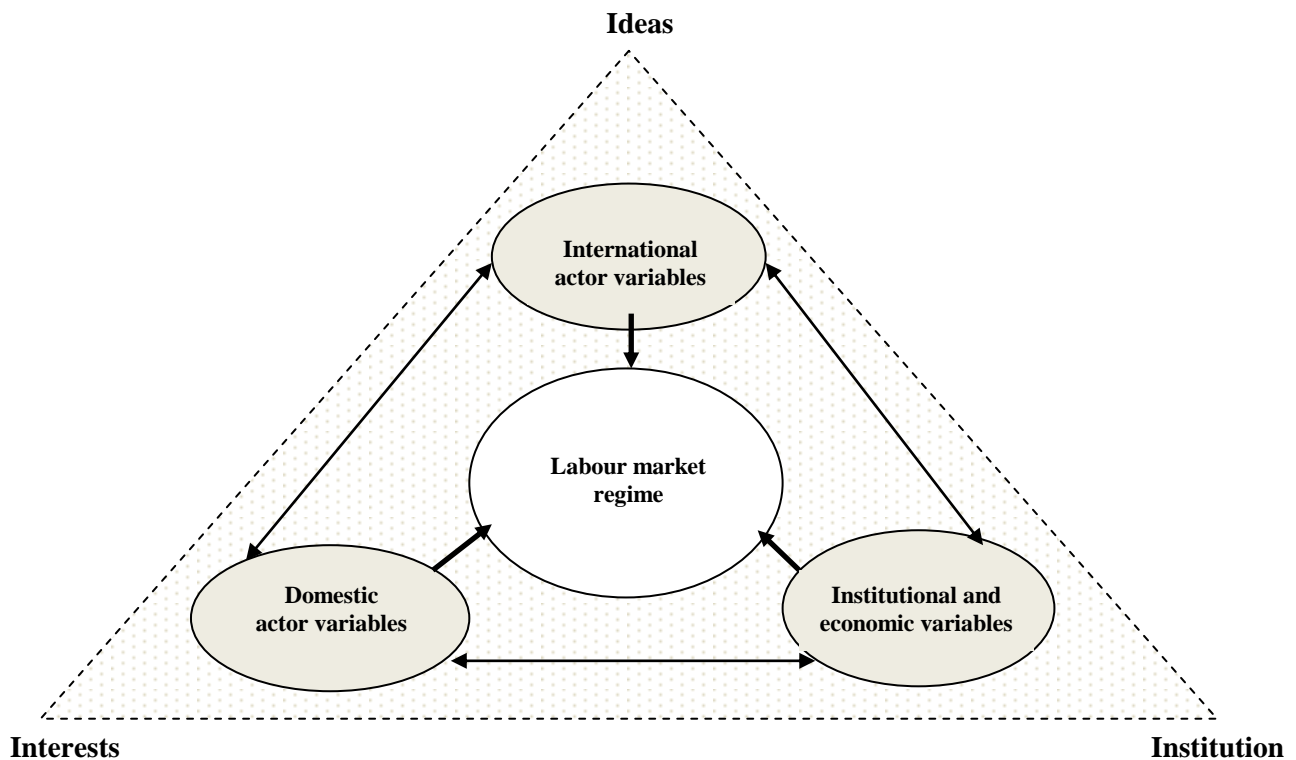
Chapter 3 Research design

3.1 The independent and dependent variables

The independent variables: In order to explain labour market transformation outcomes and its underlying mechanisms triggering one or the other option for institutional change, I have chosen an actor-centred institutionalist theoretical approach. Deduced from the theoretical approaches outlined in the previous chapter, this environment consists of three partly dynamic dimensions of interaction, presenting the independent variables. I take a multi-level perspective for analysing institutional change by considering explanatory variables referring to (i) historical institutional and economic framework variables, (ii) international actor variables, and (iii) domestic actor variables. These dimensions imprint the political environment in which reforms take place or are being blocked and determine what consequences these processes entail. The independent variables are elaborated below:

1. **Historical institutional and economic framework variables.** In line with historical institutionalist assumptions, the explanatory power of the historical experience of the pre-communist and communist period will be tested. These variables are assumed to have influenced the emergence of labour market regimes due to socio-political legacies and path-dependencies. At the same time, by structuring the framework for action, the economic transformation might constitute the frame of action for political actors.
2. **International actor variables.** Based on actor-centred assumptions taking into account power resources, it is assumed that with the opening of the countries' economies and increased supranational cooperation, the international actors IMF, World Bank and EU gained significant influence on the social transformation process. The explanatory power of this independent variable will be tested in terms of 'hard' (i.e. conditionality) and 'soft' (i.e. policy diffusion) forms of policy transfer.
3. **Domestic actor variables.** On the basis of a combination of actor-centred and power resource assumptions, the reconfiguration of domestic actor constellations, taking into account the country-specific political dynamics of regime change, the emergence and consolidation of the party system, the configuration of the government coalitions and the reconfiguration of the social partners, will be tested according to their potential influence on the quality and coherence of the transformation process.

Figure 3.1 summarizes the above presented dimensions and provides a model for analysing institutional change. It presents the transformation outcome as being shaped by the three dimensions of independent variables (institutional variables, international and domestic actor variables) in an overall context framed by ideas, interests and institutions.

Figure 3.1 Independent variables and the labour market regime

Source: own illustration

In considering the above mentioned factors, I take an ex-post perspective to describe and evaluate the transformation with respect to its requirements, content and effects. I will focus on those actors who are directly or indirectly involved: decision-makers and agenda-setting agents as governments, ministries, trade unions and employers' associations.¹ The most relevant international actors are the EU, the IMF and the World Bank. I will focus on the relationship between the organisation and rules of the decision-making process on the one hand and the scope of action, of choices and of the content of government activity on the other hand (Schmidt 1995: 583). This interdependency can be best examined by combining actor-centred theory and institutional models in order to reveal 'old' and 'new' institutional conditions and mechanisms driving changes in the parameters for the labour market regimes. The institutional approach can successfully point to political management governance, identifying the strength of abundant interest groups in politics and society as well as their capacity for coordination and concerted action being decisive for crisis and problem solving (Schmidt 1995: 584).

The labour market regime as a dependent variable: In order to analyse processes of institutional change and continuity of capitalist welfare regimes, we have to structure more concretely the research field by defining the subject that has to be covered conceptually. The dissertation categorizes and analyses the emerging post-socialist labour market regimes based on their institutions, regulation and policies. Therefore, the dependent variable is defined as the labour market regime in CEE. This variable

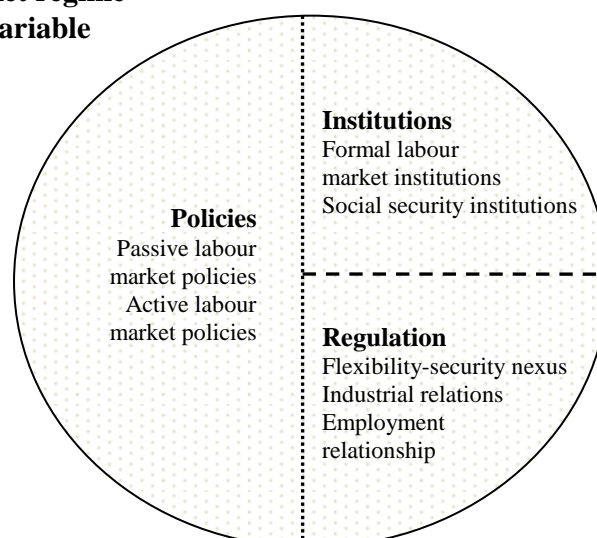
¹ Public opinion will only be included sporadically, as I do not focus on civil society actors.

used to be the core of the socialist logic and mainly fulfilled legitimizing objectives based on political propaganda. With the introduction of market economy, this arena has become subject to dramatic upheaval, embodying the central conflict between socialist and capitalist labour market organisation as concerns the definition of the sphere of influence of the state and the market. Despite the similar arrangements of socialist labour markets and partly also pre-communist labour market organisation, CEECs show variation when it comes to the emergence of post-communist labour market regimes. This phenomenon makes an examination of the social transformation process particularly interesting.

Whilst many policies account for the performance of the labour market, *Rashid et al.* identify several areas that are most often cited in the literature as shaping labour market regimes in transition countries which I also refer to: labour market institutions and regulation approaches deal with the new phenomenon of unemployment and promote labour market flexibility while labour market policies provide social protection benefits and strive at enhancing labour market skills (Rashid et al. 2005: 65). These fields of labour market institutions, regulations and policies represent essential features of the emerging welfare states in CEE, assigning duties or rights to certain categories of people in specific conditions (Offe 2009). It thus redistributes risk and protection, particularly relevant in the process of post-communist transformation as social stratification develops again (from the basis) along a new logic. The labour market is that part of the welfare regime which is most likely to integrate features of de- or recommodification and redistributive policies, entailing stratification effects as it produces immediate coercion by defining the actors' reliance on the market. This dynamic enables us to typologise underlying systematic patterns.

In the following, I elaborate the dimensions that compose a labour market regime as illustrated by Figure 3.3 below: (ia) labour market institutions and (ib) labour market regulation, and (ii) labour market policies. These dimensions embody how the relationship between the state and the market is balanced in a given labour market regime.

Figure 3.2 The labour market regime as a dependent variable



Source: own illustration

(ia) Based on formal labour market institutions, the rights and obligations relating to employment are defined, facing the challenge of high unemployment in CEE and a complete shift in the state's responsibilities in securing social risks by means of social security institutions, for example in the case of job loss. Labour market institutions as social security schemes and institutions are likely to influence patterns of potential social cleavages and bases for the formation of interests and ideas among citizens and thereby affect patterns of mobilization for collective action (Korpi/Palme 2003: 441). Labour market institutions and regulation as closely intertwined, which is why they can be only partially regarded as separate dimensions.

(ib) The regulation of the labour market is a segment of the welfare regime insofar as its objective is to provide protection against potential asymmetries with respect to economic and social interests due to (changing actors) constellations, power relations and the existence of available information. It can be defined as control mechanisms designed to foster the long-term and equitable employer-employee relationship while establishing a balance between flexibility² and security. In historic perspective, market mechanisms have not always responded perfectly to the needs of the labour market (which is to be seen in the national and supranational context of ideas, history and social norms, see Polanyi 1957), regulation is required to balance not only the employment conditions, but also the general relationship of flexibility and security. Historically, after World War II, labour market regulation in Europe became increasingly important due to the unions' demand for job and income security as a priority. In this context, the institutionalisation of collective bargaining on wages and working conditions as well as legislation on the protection of jobs and workers' rights was set on the political agenda. In addition, labour market regulation slowly began to be looked at in terms of consumer behaviour and capacities, being a major factor for economic development and political legitimacy – two aspects of crucial importance especially in the comparatively young democracies in CEE. Since World War II most European countries have set social contracts with the objective of redistribution in order to balance inequalities produced by the market. These objectives have been pursued primarily by means of regulatory approaches (Regini 2000).³

What is the main objective of labour market regulation? On the one hand, it guarantees some degree of income security and appropriate working conditions (physical and ideally), whereas on the other hand it coordinates the smooth functioning of job-allocation and motivation of the workforce in terms of the market's needs. Those actors who determine labour market regulation are seldom guided by price signals alone and are instead embedded in a network of social relations which largely shape their behaviour and thus the regulation outcome (Regini 2000: 1).

² It is generally referred to numerical (or external, or employment) flexibility, functional (internal or technical-organisational) flexibility, wage (or financial) flexibility, and temporal (or working-time) flexibility (Regini 2000: 6).

³ Interestingly, there is a tendency that flexibility and de-regulation of labour markets are treated as one and the same thing, even if they actually address different phenomena and the former refers to a feature of the labour market while the latter describes a policy approach (Regini 2000: 4f.). The term 'regulation' is often reduced to state intervention as opposed to the workings of the market. However, *Regini* stresses that regulation refers to various activities concerning the (re-) distribution of economic resources and how related conflicts are structured (Regini 2000: 12).

Today, the employment relationship is one central institution of the labour market and the contract of employment ensures a certain defined framework or status within which the worker has obligations and rights. Depending on the particular labour regulation, the contract contains different dimensions and scopes of obligations and entitlements.⁴ Generally, public and legislative authorities agree on certain adopted legal employment frameworks, while the social partners can intervene by bargaining on certain collective agreements⁵ that they have signed. In Europe, strong codes on industrial relations and employment have developed, varying in scope and content due to varying power relations and mechanisms of enforcement. Labour regulation also determines the employee's right to bargain and organize by for instance becoming member of a trade union, hereby representing an asset to the existing labour law, but not substituting it or standing independently. As a consequence, the above mentioned conditions are applied only to those integrated in the labour market and having an employment contract. After the success of Keynesian welfare policies and labour market regulation in the 1960s and 1970s, these modes began to be criticised in the 1980s, and this criticism has continued until today. Rigidities, state bureaucracies and incapacities to adjust to requirements of today's labour markets face flexibilisation needs and an increasingly mobile workforce. If state intervention is too pronounced it is said to produce even more unemployment by preventing companies from creating jobs. Following this debate, European countries today increasingly look for solutions in the international context, generating new modes of policy learning with respect to international best practices, leading to a situation of increased mutual learning and an increasing external influence on domestic policies due to transnational cooperation and interdependencies. This development makes a study of social transformation in CEE particularly interesting since these countries are confronted with a twofold transformation: as I have already mentioned, their political and economic systems transform in a dynamic context of a pan-European transformation process taking place at the same time. A dynamic approach based on institutional and behavioural variables therefore best takes into account the interplay between institutional structures and political strategies (Avdagic 2003: 6).

(ii) Naturally, as labour market institutions and regulation interact, so do labour market regulation and policy. Still, labour market policies can be defined as concrete state intervention strategies in order to attain a certain economic, political and social outcome. According to the ILO definition, labour market policies “comprise all kinds of regulative policies that influence the interaction between labour supply and demand. They consist of policies that provide income replacement (usually called passive labour market policies) as well as labour market integration measures available to the unemployed or those threatened by unemployment” and have thus a distributive and partly redistributive function

⁴ In this context, labour law as part of labour market regulation mechanisms is essential to balance the flexibility-security nexus and hereby coordinating the mobility of workforce. It determines not only the conditions on which an individual is hired by a company but it also defines the level of security that is provided to the employee.

⁵ A collective agreement can be defined as a written agreement concluded between one or more employers or an employer organisation on the one hand, and one or more workers' organisations of any kind on the other, with a view to determining the conditions of individual employment and, in certain cases, to the regulation of other questions relative to employment (see www.ilo.org).

(www.ilo.org).⁶ Labour market policies define the scope and character of support that employed or unemployed individuals can rely on in terms of financial compensation and reintegration. At the same time, they impose obligations and sanctions on individuals through direct or indirect coercion and thus directly affect directly the individual's behaviour. They are redistributive as they modify the distribution of existing resources and thus shape the individual's status through an indirect restriction, dividing a society into beneficiaries and non-beneficiaries.⁷ At the same time, they have stratification effects since they influence the allocation of income and work also in terms of 'insiders' (i.e. those with a job) and 'outsiders' (i.e. those without not).

The implementation of labour market policies can be differentiated between passive labour market policies (PLMPs⁸) and active labour market policies (ALMPs⁹), a distinction of great importance in particular when looking at the CEECs. Even if both active and passive policies go hand in hand, it is a matter of the domestic context how far both approaches are balanced or shift more towards one or the other. The EU started to promote active labour market policies from the 1990s in order to meet new labour market challenges, especially by focusing on 'activation' recommendations formulated for example in the framework of the OMC. At the same time, the activation of the unemployed not necessarily by ALMP measures, but simply by putting restraints on unemployment benefits, appears to be a common strategy to meet the financial pressures of social security. Another difference refers to the fact that while passive policies are based on legal rights and do not imply the inclusion of private agencies or resource allocations by policy-makers as the state is the actor concerned with welfare provision, active policies leave more flexibility to policy-makers when it comes to certain strategies, such as mandating private agencies in order to conduct activation and job-placement. Finally, the implementation of either type of labour market policy tells us about the underlying social preferences even if they are obviously linked to economic restraints.

In conclusion, the following aspects constitute the labour market regime as a dependent variable:

- (i) It is characterized by regulatory incompatibility and new policies in all CEECs, being thus subject to various endogenous and exogenous dynamics and influences.
- (ii) It is highly relevant in terms of the success of economic reform, political legitimacy and the accession process to the EU.
- (iii) It is at the core of post-communist transformation processes because it represents a dynamic area that is exposed to the most comprehensive upheaval.

⁶ It is important in this context do distinguish the terms 'labour market policies' and 'employment policies' as the latter corresponds to measures promoting high employment rates (www.ilo.org/empelm/areas/index.htm).

⁷ Redistributive policies generally exercise a soft influence as, for example, income tax or welfare state programmes.

⁸ To be understood as income compensation in case of unemployment.

⁹ To be understood as activities in order to reintegrate unemployed persons into the labour market, consisting mainly of subsidies and services provided to jobseekers to improve their employability and re-entry into the labour market. ALMPs include all social expenditure (other than education) which is aimed at the improvement of the beneficiaries' prospect of finding gainful employment or to otherwise increase their earnings capacity. This category includes spending on public employment services and administration, labour market training, special programmes for youth when in transition from school to work, labour market programmes to provide or promote employment for unemployed and other persons (excluding young and disabled persons) and special programmes for the disabled (Cf. An Interpretative Guide to the OECD Social Expenditure Database (SOCX), OECD, p. 15).

- (iv) It faces a twofold transformation: the systemic transformation from socialist to capitalist structures and the Europe-wide trend of decommodification.

3.2 Case selection

The institutional, economic, political and social changes in CEE have attracted scholars' attention in trying to identify the causal factors in shaping alternative welfare capitalism regimes in Europe. The CEECs share similar Bismarckian pre-war welfare institutions and readapted to socialist and post-socialist needs, however, we find country-specific and regional peculiarities.¹⁰ If during the 1990s, authors aimed to typologize CEECs' emerging regimes in contrasting them to Western European countries, research today aims to explain the origins of variation and emphasises country-specific pathways that have evolved as to the ideational basis and the institutional consolidation (Inglot 2009).

Despite the comparable external influence by international actors, the emerging labour market regimes in CEE remain unique in their reconfiguration, making an examination of their origins particularly interesting. Two cases which appear suitable for such an analysis are Poland and the Czech Republic as they share basic historical legacies and belong to the first group of economically successful transformation countries which accessed the EU in 2004. Interestingly, if Poland and the Czech Republic show important similarities in terms of historical-political institutional factors, their emerging labour market regimes differ. This variation is the basis for the case selection elaborated below.

Why comparing Poland and the Czech Republic?

Poland is an interesting case of social transformation for several reasons: it is the largest country among the new member states with diverse economic regional features. Its procedure of social transformation is far from linear and more contradictory than consistent. However, it is the first country that recovered from the implemented shock therapy with a flourishing economic development. At the same time, Poland has experienced distinct recommendations by the IFIs pushing for privatization and liberalization. Finally, this country experienced the highest increase of unemployment while having the lowest employment rate among the 27 EU member states throughout the transformation period under consideration. Today, unemployment no longer seems to be the most urgent problem. Even if Poland belongs to the group of new member states with low social security, the country's social expenditure is comparatively high. It is also the unique social movement and labour union *Solidarność* with the number of 10 Million members in 1980 – a time when the neighbouring communist countries' system closure and socialist ruling culminated – that makes Poland an especially interesting case since it is usually assumed that Polish trade unions and social mobilization would turn out as power actors in the policy-formulation process. But government coalitions, policy preferences and decision-making show to be less consistent than in other CEECs – as for example in the Czech Republic.

¹⁰ These include the legacies of the pre-war Austro-Hungarian (the Czech Republic, Hungary, Slovakia), Turk-Ottoman (Bulgaria, Romania), Prussian (Poland) and Soviet (Estonia, Latvia, Lithuania) empires (Cerami 2009: 2).

Of all of the post-communist states in CEE, the Czech Republic has lived through one of the most promising transformations to democratic market capitalism. Before its currency crisis in 1997, the Czech Republic could have been described as a role model of Central and Eastern European transformation. Soon after the system collapse which had actually been a ‘velvet revolution’, the country’s economy recovered while the country experienced almost no unemployment compared to its neighbours, in particular Poland. With the end of the 1990s, the Czech economy began suffering from a downturn and has yet to recover from the financial crisis in 2009. However, before this, and in contrast to a struggling Poland in terms of political stability and a coherent social policy reform path, the Czech Republic was considered a political and economic success story, with rather stable government coalitions, a quite stable currency, low unemployment, low national debt and rather low inflation. How come that the social transformation proceeded comparatively smooth in the Czech Republic?

The above mentioned differences might be astonishing when taking into account the similarities between the two countries. These are briefly summarized below and legitimize a most similar case perspective in order to search for explanations for variations in the effectiveness of the social transformation process despite similar formal requirements:

- Both countries had Bismarckian social security systems before the communist period.
- During the post-communist period, both cases implemented the soviet type egalitarian, state-controlled labour market regulation and comprehensive social security schemes.
- Poland and the Czech Republic belong to the group of CEECs that implemented a successful (political and economic) reform agenda after 1989 and accessed the European Union in 2004.
- Both neighbours are geographically situated in Central Europe, neighbouring the strong economic partner Germany.
- They belong to the upper segment of Gross Domestic Product (GDP) compared to other CEECs.
- Both countries implemented the economic shock therapy right after 1989/1990.

Without doubt, the two countries also differ in fundamental aspects: first of all, their geographical size and size of population is dissimilar (Poland 40 Million inhabitants, Czech Republic 10 Million inhabitants), at the same time both countries show different basic parameters as to their economic preconditions (branches of industry and economic sectors, resources and trade) and as concerns the mechanisms and dimensions of system domination and system change even during the communist period. While for example Poland had already liberalized its system before 1989 in parts (for example through the legalisation of the independent trade union Solidarność), the ČSSR remained a closed system. Despite these facts, a most similar perspective appears adequate as in reality we do not find two countries or policy fields that are identical in all relevant aspects. Social sciences are hardly ever able to provide *absolute* answers to social phenomena, given the probable existence of alternative explanations to those that will be identified in the framework of this dissertation.

3.3 Methodological implications

How can we proceed methodologically in order to find valid explanations for variation as concerns central pillar of the welfare state, the labour market regime? While some studies focus on the comparison of data like the social expenditure rates (i.e. Bohle/Greskovits 2007), this dissertation will be developed on a more qualitative basis since social expenditure rates do not tell us much about the motivation and the policy targets behind this quantitative element. *Esping-Andersen* rightly argues that differences between social policies are not only of a degree, but also of a kind (Esping-Andersen 1990). To give an example, it is necessary to take into account eligibility criteria which define access to benefits *and* their generosity when analysing unemployment compensation (Polakowski 2010).

Research heuristic: Coming to the initially drawn difference between the residual and the redistributive model as suggested by *Titmuss* (1994), several indicative aspects of the explanatory variables are of particular importance. Institutional logics of labour market approaches are reflected by the above mentioned principles of decommodification and stratification as suggested by *Esping-Andersen*, mirroring the (power-) relationship between the sphere of the state and the market. The aspect of decommodification refers to the governments' (or partly other actors) activities to reduce the individual's reliance on the market as the individual's contribution to society is commodified. Thus, high degrees of decommodification indicate low dependence on the market for well-being. In the long run, strategies of de- or recommodification lead to distinct social stratification dynamics.

The degree of stratification tells us whether regulations and policies have become more or less redistributive, if they are pooling risks or emphasizing individual responsibility. By analysing redistribution policies, we will be able to identify the role of the state and the individual, patterns of eligibility, generosity and quality of social policies as well as passive and active employment policies.

Analysing this framework allows us to identify variation in one or the other direction, together with other features which indicate higher decommodification or market coordination. Interestingly, while there has officially been full decommodification and no stratification at all during socialism, this seems to have turned to the exact opposite: decommodification is rather low while a strong social stratification is evident. These indicators have thus obviously been subject to new policy approaches.

In the following, the two most influential typologies of welfare capitalism and capitalist political economy are presented in order to deduce a heuristical instrument for my analysis.

'Three Worlds of Welfare Capitalism': The typology 'The Three Worlds of Welfare Capitalism' (Esping-Andersen 1990) is undoubtedly one of the most influential works of comparative welfare research since the 1990s, to which I will refer for categorizing the phenomena of Polish and Czech social transformation. *Esping-Andersen* screens the interplay between state and market, public and private, largely contributing to the analysis of nation-state configurations through his concept of regime typologies of a liberal, a conservative continental European and a social democratic welfare model. Table 3.2 below summarizes *Esping-Andersen's* typology. It shows that the liberal-residual model is characterized by lower degrees of social protection and decommodification while the social democratic model reveals high protection and the continental model performs on a moderate level. The social

democratic and the liberal welfare state share their low steering of social stratification while the continental welfare state functions as a mechanism of social stratification due to its corporatist structure with different security schemes for professions which does not exist in the other models. Finally, in line with the market primacy, the liberal model lacks a coordination of industrial relations while the continental model with its family primacy shows industrial relations which are coordinated by the social partners. The social democratic welfare state emphasizes the importance of the state and it is the strong trade unions which fulfil the task of coordinating the industrial relations.

Table 3.1 Welfare typology based on Esping-Andersen - features of different welfare models

| | Liberal-residual (USA, GB, IRL) | Continental European (F, D, NL) | Social democratic (NOR, FIN, S) |
|---|--|--|--|
| Protection against loss of income, Decommodification | Low | Moderate | High |
| Welfare state as mechanism of social stratification | Low | High | Low |
| Relationship state, market, family | Market primacy | Family primacy | State primacy |
| Differentiated security schemes according to occupational groups | No | Yes | No |
| Coordination of industrial relations | Lacks | Social partners | Trade unions |

Source: own compilation based on Esping-Andersen (1990), Schmidt (1988), Kohl/Platzer (2004)

The underlying idea is to differentiate regimes in terms of their decommodification of labour and in terms of their stratification mechanisms. Stratification indicates the intensity of redistribution and the level of universality that is entailed by the welfare state. Low social stratification and high degrees of decommodification indicate higher degrees of state intervention and lower degrees of market orientation and vice versa. I apply this heuristic in order to categorize hybrid welfare state phenomena. It would not be adequate to apply the entire approach by *Esping-Andersen* to my research object because one of the three regime types has never been an option for any of the CEECs: the social democratic model is much too costly to be a serious option in times of economic transformation, at the same time, it implies negative memories of the former paternalist state. This is why I will consider another influential approach to systemizing capitalist regimes.

‘Varieties of Capitalism’: *Esping-Andersen’s* approach has been increasingly criticized and supplemented in recent years. One of the most well-known concepts aiming to explain varieties in capitalist economies is the approach presented in the ‘Varieties of Capitalism’ approach by *Hall/Soskice* (2001). The authors focus on the actor ‘company’ as starting point, concerning which the coordinating style towards the economic process indicates a certain type of capitalism. Accordingly, the companies’ coordinating styles do differ and generate what the authors call market relations, hierarchies, hybrid

forms, cooperation or deliberation – depending on what characteristics dominate, market economies are labelled liberal market economies (LMEs) or coordinated market economies (CMEs). Changing dynamics of political interests or historic path dependencies shape the dimension of the above illustrated triangle of ideas, interests and institutions, whose interactions are far from linear and which tend to influence each other mutually. According to the authors' approach, complementary relations between institutions entail the situation that the functioning of one institution (for example the system of industrial relations) influences the functioning of another institution (for example the employment legislation). As a consequence, a change in the functioning in one institution may trigger spill-over effects for other institutions as well. Finally, the varieties of capitalism approach points to different incentive mechanisms which generate distinct comparative institutional advantages – thus, some companies (or economies) are more successful than others in certain areas. This conclusion rejects the assumption which suggests that economies converge on one liberal model.

The 'Varieties-of-Capitalism' approach stresses historic path dependencies and, in line with this, the continuity of certain types of capitalist welfare. The approach is based on the assumption that a market economy consists of various interdependent and interacting subsystems which due to their particular configuration generate a comparative ability to compete.¹¹ Depending on how these subsystems are organized, the authors distinguish two ideal types of market economies: the liberal, uncoordinated and the coordinated type of capitalism (Hall/Soskice 2001: 17ff.). Thus, the concept regards markets and hierarchies as features of either liberal market economies (LMEs) or coordinated market economies (CMEs), stressing the existence of systematic variation concerning the corporate structure (or hierarchy) across economies. According to the authors, political economies dispose of coordinating institutions which offer a set of opportunities while actors will apply strategies to take advantage of these opportunities. As a result, "there are important respects in which strategy follows structure" and "differences in the institutional framework of the political economy generate systematic differences in corporate strategy across LMEs and CMEs" (Hall/Soskice 2001: 14 ff.). The type of coordination equally depends on the existence of common belief-systems as well as trust in the relevant institutions. Critical junctures can unsettle these underlying understandings. Many of the most essential institutional structures, as for example labour market regulation or corporate governance, would depend on the presence of regulatory regimes in the nation states.¹²

Table 3.3 below summarizes selected indicators of the 'Varieties of Capitalism' approach. It illustrates the main features of the two categories LMEs and CMEs, considering mainly labour market aspects. On a general level, innovation in LMEs includes radical innovation while CMEs' reforms are based on

¹¹ These refer to particular systems of production, financing of companies and the companies' relations among each other, a particular model of industrial relations as well as specific models of labour relations and regulation.

¹² "In liberal market economies, firms coordinate their activities primarily via hierarchies and competitive market arrangements. [...] In many respects, market institutions provide a highly effective means for coordinating the endeavors of economic actors [...]. In coordinated market economies, firms depend more heavily on non-market relationships to coordinate their endeavours with other actors and to construct their core competencies [...]. In contrast to liberal market economies (LMEs), where the equilibrium outcomes of firm behaviour are usually given by demand and supply conditions in comparative markets, the equilibria on which firms coordinate in coordinated market economies (CMEs) are more often the result of strategic interaction among firms and other actors" (Hall/Soskice 2001: 13).

incremental steps. Labour market regulation in LMEs is very low and the institutions' function reduced to enabling competitive market arrangements while CMEs show rather high degrees of regulation integrating mechanisms of non-market relations and institutions functioning as monitoring agents. Deregulation and flexibility are main policy objectives in LMEs while collaboration and long term (and rather immobile) employment features of the CMEs. In line with this, income distribution is low in LMEs while wage bargaining takes place at the decentralized firm level while CMEs display rather equal wage dispersion based on bargaining at industry level. Finally, LMEs have low or no employee participation at all whereas CMEs industrial relations include employee participation.

Table 3.2 'Varieties of Capitalism' based on *Hall/Soskice*, selected indicators

| | Liberal market economies | Coordinated market economies |
|---------------------------------|---------------------------------|---|
| Institutions' function | Competitiveness | Monitoring |
| Labour market regulation | Low / none | Strong |
| Mechanism | Competitive market arrangements | Non-market relations |
| Policies | Deregulation, anti-trust | Encourages information sharing, collaboration |
| Employment | Short-term, flexible | Long term, immobile |
| Income distribution | Unequal | Equal |
| Unionization rate | Low | High |
| Wage bargaining | Firm level | Industry level |
| Employee participation | None | Existent |
| Innovation | Radical | Incremental |

Source: Hall/Soskice (2001)

Hall/Soskice claim that their approach goes beyond the perspectives on institutional variation that have dominated the study of comparative capitalism in the preceding thirty years, stating that the "variety of capitalism approach to the political economy is actor-centred, which is to say we see the political economy as a terrain populated by multiple actors, each of whom seeks to advance his interests in a rational way in strategic interaction with others" (Hall/Soskice 2001: 11). *Hall/Soskice* assume that after an economic shock, there will most likely be an effort to re-establish the forms of coordination on which the competitive advantages were once built, and these attempts may require reforms of the existing institutions or policy instruments. When, as in most of the CEE, the fundamental economic transition did not leave much to restore, the question about the frame of reference becomes even more interesting. The authors argue that the process of adjustment entails a certain period of conflict and provisory outcomes because each side tests the power of its counterpart. At the same time, "the presence of institutions that entrench the power of the actors, whether the employer or trade unions, give them strong incentives to co-operate with each other, and the availability of deliberative institutions facilitates coordination" (Hall/Soskice 2001: 65). It is here that we find a weak point of the approach as it assumes an explanatory power of consolidated national institutions and does not adequately consider the dynamics of critical junctures and transformation processes. In the case of CEECs, many of the institutions shaping the social transformation were not in place before 1989 and it is thus not institutional continuity but institutional change which dominates (Bohle/Greskovits 2007,

Streeck/Thelen 2005).¹³ However, as *Thelen* rightly argues in the volume edited by *Hall/Soskice*, “[c]ontemporary changes are best understood not as movement along a continuum (deregulation culminating in convergence) but rather in terms of continuing and if anything increasing divergence between the 'coordinated' and 'liberal' market economies” (Thelen 2001: 72).

In conclusion, neither *Hall/Soskice*'s nor *Esping-Andersen*'s approach do fully fit the context of post-socialist transformation, but their combination provides a valuable tool for orientation: *Hall/Soskice*'s frame of reference provides two the interesting ideal types of capitalist political economy organisation, the liberal market economy and the coordinated market economy, which I will apply to the labour market regime and translate into the categories of decommodification and market orientation. Supplemented by the two indicators of decommodification and stratification, as suggested by *Esping-Andersen*, this research heuristic allows examining the quality of hybridisation in the case countries. The two categories are marked by the following characteristics:

- **Decommodification:** the state's role includes coordination to reduce negative market-effects. It regulates labour market mechanisms such as the flexibility-security nexus and organises status-related social security based on the insurance principle by linking social transfers with previous income. We find high redistributive effects. The state is influenced only marginally by domestic or international actors while it is designing and implementing social policy. Corporatist arrangements between the state, trade unions and employers' associations exist and shape social policy on the basis of tripartism.
- **Market orientation:** the state is neutral in the relations between market and society, thus market governance dominates. Social policy solutions focus on means-testing, modest universal or social insurance benefits in a residual manner, stressing individual responsibility. The labour market is regarded as the main mechanism of wealth distribution, generating rather low decommodification and low redistributive effect (entailing strong social stratification). The domestic actor constellations are characterized by pluralism, and social dialogue is rather weak and fragmented.

Table 3.4 summarizes the analytical framework in order to identify the hybridization of labour market regimes in Poland and the Czech Republic over time. Needless to say that neither of the indicators is observable in all aspects as they merely serve as idealised points of reference.

¹³ However, recently, *Hall and Thelen* (2009) have refined the approach with their contribution '*Institutional change in varieties of capitalism*', now focusing on the analysis of path-stabilization by minor steps of adaptation to environmental changes without changing the core principles. Their contribution will however not be considered in my dissertation.

Table 3.3 Labour market regime characterized by decommodification and market orientation

| Concerned field | Indicator | Market orientation | Decommodification |
|---|--|--------------------------|-----------------------------|
| Labour market and social security institutions | Social security schemes | Private insurance | Public insurance |
| | Financing | Tax-based and private | Contributions-based, public |
| | Provision | Flat rate | Earnings-related |
| Labour market regulation | Labour market regulation | Deregulation | Regulation |
| | Decommodification | Weak | High |
| | Role of the state | Reluctant | Active |
| | Flexibility-security nexus | Flexible, low protection | Inflexible, high protection |
| | Industrial relations | Pluralism | Corporatism |
| | Wage bargaining | Plant level | Industry level |
| | Wage dispersion | High | Low |
| | Employment relationship | Non-standard employment | Standard employment |
| Labour market policies | Residualism | Strong | Weak |
| | Policy as a mechanism of social stratification | Weak | Strong |
| | Redistribution | Weak | Strong |
| | Social stratification | Strong | Weak |

Source: own compilation based on Esping-Andersen (1990) and Hall/Soskice (2001)

I apply the indicators above to the fields of (i) labour market institutions, regulation and (ii) policies.

(ia) Labour market institutions in a market oriented regime are based on private social security schemes whose financing tends to be tax-based and private, while provision is granted on a flat-rate basis. By contrast, institutions in a regime characterized by decommodification include social security based on public insurance schemes which are based on contributions and public financing, while provision of benefits is granted on an earnings-related basis.

(ib) Labour market regulation in a market oriented regime is focused on deregulation and flexibility with a weak degree of decommodification. The state's role remains rather reluctant and employment protection is low with high shares of non-standard forms of employment. Industrial relations are rather pluralist with a weak participation of employees. Collective bargaining is decentralized and takes place at plant level while wage dispersion is high. By contrast, regulation in a regime characterized by decommodification is pronounced. The state's role tends to be active and employment protection high. Industrial relations are characterized by corporatism and rather strong participation of employees. Collective bargaining takes place at industry level while wage dispersion is low.

- (ii) Labour market policies in a market oriented regime are residual while the policy's function as a mechanism of social stratification remains weak with the result of low degrees of redistribution and a strong social stratification. By contrast, policies in a regime characterized by decommodification are based on weak residualism while they function as a mechanism of social stratification with high degrees of redistribution and low social stratification.

Data and sources: This research project only partly relies on quantifiable indicators and instead focuses much stronger on the significance of endogenous and exogenous variables in the decision-making process and the policy-outcome. I develop my research activity in the following stages:

(1) The first stage of the analysis involves an extensive review of secondary literature on comparative welfare capitalism research, on transformation research and policy learning processes, both country and policy field specific. I refer mainly to data provided by Eurostat, ILO, the Czech and Polish statistical offices, ministries, and the OECD, as there is no better dataset with unified methodology on labour market indicators and institutions available. The data covers the defined period under consideration according to its availability.

(2) At the second stage, primary materials (government documents, framework policy documents), provided by the relevant institutions such as the EU, the World Bank and IMF, academic institutions, unions and research institutes or sources like the Mutual Information System on Social Protection in the Member States of the European Union (MISSOC) are valuable sources of information on political strategies and their objectives. They are of programmatic and qualitative quality and allow a more detailed institutional policy analysis of underlying concepts and activities.

(3) The third stage finally involves qualitative expert interviews and seminars with international and domestic key actors conducted by the author. The interviews help in exploring new perspectives to the formulated research questions as they serve as a monitoring tool. However, the number of interviews within my fieldwork remains limited and I emphasize the interviews' control function rather than the objective to prove and cover empirical evidence. The fieldwork, meaning interviews and archive work, was conducted in Prague, Warsaw, Copenhagen, and at the European University Institute in Florence. This dissertation is a tertiary work with the aim of a retroactive analyse of the hybrid welfare in the selected countries together with explanations why the social transformation has proceeded differently. By doing this, I aim to fulfil the objectives of comparative welfare capitalism and transformation research, which is to name the empirical outcome and the determinants of continuity and change related to the research unit. A method and theory mix is adequately responding to the complex processes of social transformation that can only be traced in combination with complementary perspectives and approaches (Hopfmann/Wolf 2001).

The time frame of the analysis encompasses the years 1989 to 2009. Changing policy paradigms cannot be entirely captured in technical terms, but rather through a qualitative approach along a process-tracing

methodology, focusing on key periods and events. Based on a most similar research perspective, I continuously refer to the two cases in separate sections which are concluded by a short analysis. In order to identify the reasons for the variation in labour market regimes, comparative policy analysis is the most adequate approach.

In line with my research interest referring to the relationship between the labour market regime and institutional, international and domestic actor variables, the first period under consideration covers (i) the first transformation years 1989-1996 during which the regime and economic collapse hit the two countries hardest and key reforms of social security and labour market institutions were initiated while the potential influence by the IFIs is supposed to have been the strongest due to indebtedness and need of financial support; the second period under consideration covers (ii) the pre-EU-accession period 1997-2003, during which 'hard' *acquis* conditionality might have initiated processes of policy transfer and learning¹⁴; the third period under consideration covers (iii) the membership period 2004-2009 during which Europeanization processes might have induced rather 'soft' policy transfer through diffusion policies and the support by EU structural funds in times of Europe-wide welfare retrenchment.

3.4 Chapter summary

The research design is based on a theoretically driven comparative policy analysis within a most similar case perspective covering the period under consideration 1989 until 2009.

Within a multi-level analytical framework, the independent variables are defined as (i) historical institutional and economic framework variables, (ii) international actor variables, and (iii) domestic actor variables. These three dimensions of independent variables are assumed to be significant mechanisms of change and continuity with regard to the emergence of hybrid labour market regimes.

Due to their similarities in a variety of historical-political aspects, but their variation as concerns the dependent variable, Poland and the Czech Republic are selected as cases. The research heuristic combines elements of the two most prominent approaches to welfare capitalism and political economy: the 'Varieties of Capitalism' approach by *Hall/Soskice* (2001) and "The Three Worlds of Welfare Capitalism" by *Esping-Andersen* (1990). It serves as an instrument to map the hybridization of labour market regimes and refers to the idealised types of decommodification and market orientation, revealing distinct features as concerns the labour market institutions, regulation and policies.

3.5 Interim results of Part I

One central activity of welfare capitalism research refers to the comparative analysis of labour market arrangements with the objective to explain similarities and differences. Whereas some researchers believe that labour market regimes will sooner or later converge on one model, others claim that country-specific differences will persist or even diverge. Given the turbulent transformation dynamic in CEE, the transformation of labour market regimes in this region is a particularly interesting research

¹⁴ The history of the accession preparation started already in 1993 with the formulation of the Copenhagen Criteria, however, I argue that the more important period of influence started with the accession negotiations.

field. A variety of influences has shaped the new design and configuration of what used to be the core of state socialist organisation. Despite similar domestic and external constraints, CEECs have responded to these pressures in distinct ways. Against authors who claim that the Visegrád countries have converged on one regime (i.e. Bohle/Greskovits 2007, Kollmorgen 2010), I argue that we find variation concerning the process and the outcome of the labour market regime transformation. Based on this, the dissertation aims to interpret the nature of the emerging regimes and the underlying mechanisms of change.

How can we map the differences between countries that are sharing not only the same socialist legacy, but also common pre-war Bismarckian structures? The most suitable approach combines findings of welfare capitalism and transformation research. It considers the reciprocity of institutional structures and actors' configurations. An actor-centred institutionalist approach integrating a power resource perspective is chosen as theoretical setting, claiming a dynamic perspective on the triangle of ideas, interests and institutions (*three I's*) which significantly frame transformation choices (Stark/Bruszt 1998, Cerami 2007).

The hypotheses refer to the consolidated hybrid nature of the emerging labour market regimes in the two cases, suggesting that the underlying configuration of domestic actors is crucial in promoting or hindering not only if, but also what kind of policy change comes about. Change is triggered not only through coercive top-down processes, but also in terms of bottom-up policy learning which can be induced endogenously and exogenously. International actors' advice can facilitate change, but never induce it independent from national interest (Cerami 2009).

Methodologically, I apply a set of three independent variables within of a multi-level heuristical framework: (i) historical institutional and economic framework variables, (ii) international actor variables, and (iii) domestic actor variables. The labour market regime is defined as the dependent variable. In order to identify not only the nature of the emerging labour market regimes in Poland and the Czech Republic, but also the explanatory power of the independent variables, I combine the two most prominent analytical approaches to welfare capitalism and political economy: the "Varieties of Capitalism" by Hall/Soskice (2001) and the "The Three Worlds of Welfare Capitalism" by Esping-Andersen (1990). The research design is based on a most similar perspective as I focus on two cases that are as similar as possible in a wide range of variables as concerns the historical political and institutional framework, but significantly differ concerning the empirical outcome under investigation with its key variable, which is the labour market regime.

The dissertation is based on a comparative policy analysis of the period 1989-2009, focusing on key events during three major reform periods. These are defined as (i) the first important transformation years during which the basic steps of the social transformation process were taken (1989-1996), (ii) the period of dynamic economic development and EU pre-accession phase during which the EU's influence increased significantly (1997-2003), and finally (iii) the period of EU membership (2004-2009).

Part II Varieties of hybrid welfare

“Czechs like to be liberals: with a state wind supporting their backs.”

Miroslav Purkrábek, Czech sociologist

“In Poland, a new model has come into being which can be labelled a paternalistic-market hybrid.”

Stanislawa Golinowska, professor at the Warsaw Institute for Labour and Social Affairs

After 1989, all CEECs experienced a rapid transformation of their economic, political and social regimes from state-paternalism to something new. A paradigm change took place “from central-planning to market-based welfare provisions, from public to private responsibility, from universal and flat-rate to insurance-based and contributions-related benefits” (Cerami 2006: 2). As Table 4.1 illustrates, Poland and the Czech Republic established similar constitutional features after the political regime change, consisting of a bicameral structure of parliament and a proportional representation in the context of the electoral system with only one difference: Poland had a dual executive until 1997 when the new institution has finally been enforced, meaning that both the president and prime minister used to be leaders of the government.

Table 4.1 Constitutional features and power concentration in Poland and the Czech Republic

| | Separation of power | Structure of Parliament | Electoral System | Referendum system | Dual Executive |
|-----------------------|---------------------|-------------------------|-----------------------------|-------------------|-----------------|
| Poland | No | Bicameral, asymmetrical | Proportional representation | No | No (after 1997) |
| Czech Republic | No | Bicameral, asymmetrical | Proportional representation | No | No |

Source: Sengoku (2004: 255)

But a glance below the surface shows that the devolution from the communist regime to the establishment of market economy has originated distinct outcomes. Part II dwells on the first research question about the nature of the emerging labour market regimes in the period 1989-2009.

The loci where labour market transformation processes are prepared and implemented concern the institutional relations (constitutive governance through the creation of policy frameworks), the political and administrative level (direct governance through the design of legislation), and the policy level (operational governance through local implementation policies) (Sirovatka et al. 2006: 3).

As will be shown, both cases continue the tension evolving in the 1990s “between the aspiration towards a European-style social-market economy (or conservative corporatism) and a budget-induced and IMF-World Bank-backed residualism” (Deacon 2000: 156, cf. on this topic also Götting 1998, Brusis 1999, Bohle/Greskovits 2007, Cerami 2007). While they link benefits to the employment status and the payment of contributions, they constantly cut benefits and tighten eligibility criteria, often fail to adjust benefits to price increase and trigger recommodification effects (Brusis 1999: 81, Potůček 2008).

The main empirical findings are twofold:

As concerns the nature of the transformation outcome relating to the first research question (*content-related dimension*), both cases returned to their institutional settings from the pre-communist time. The institutions indicate for both countries different features of decommodification, while Poland shows some remarkable elements of market orientation, for example in form of flat-rates in the context of the unemployment benefit system. At the same time, both cases show a clear trend towards market orientated labour market policies with increasing flexibilization, privatization, residualisation and recommodification tendencies, emphasizing individual responsibility before solidarity. They follow these trends to a different scope and in a different pace. Poland is the case of higher degrees of market orientation, this fact disproving the assumption that the Visegrád countries, would converge on a similar model. However, if the Czech Republic has been rather clearly characterized by decommodification during the first two reform periods under investigation, the third reform period is following the trend of marketization as well. Finally, several socialist legacies imprint the social transformation outcome especially in Poland, whereas there are no such legacies found in the Czech Republic. Both cases have consolidated upon hybrid labour market regimes.

As concerns the quality of the social transformation process in relation to the second research question (*process-related dimension*), there are crucial differences between the two cases: whereas the Czech Republic's transformation proceeded in a coherent manner and generated a rather quickly consolidated outcome, Poland remained characterised by indecisive approaches of regulation and labour market policies, entailing a belated consolidation of new labour market arrangements.

Part II is structured as follows: Chapter 4 presents the institutional and regulative framework of the Polish and Czech labour market. Both dimensions are reviewed together due to their strong interaction. The role and functioning of institutions determine and regulate labour market outcomes as the level, access and framework of unemployment benefits in the context of labour market policies. I consider the degree of decommodification, market orientation and the survival of socialist legacies by presenting the institutional framework and financing of social security (Section 4.1), labour market regulation between flexibility and security (Section 4.2) and the industrial relations and the governance of the employment relationship (Section 4.3).

Chapter 5 illustrates the emergence and development of the most relevant PLPMs (Section 5.1), including the initial 'emergency' reactions to the labour market upheaval which might have – willingly or unwillingly – consolidated (Cerami 2007), and the development of ALMPs (Section 5.2).

As concerns the methodological proceeding, I present the cases in separate sections and synthesize the main findings in a brief analysis after each section. I refer to the three reform periods which have been introduced in Part I and serve as a pattern for coordination (1. 1989-1996, 2. 1997-2003, 3. 2004-2009). It has to be noted that I focus on a framework of selected key data trends in order to sketch a rough comparison profile of the two cases over time. I thus make no claim to be complete.

Chapter 4 Labour market institutions and regulation

After 1989, all CEECs were facing the challenge to establish new labour market institutions within the shortest possible time. Poland and the ČSFR/Czech Republic implemented structural reforms under the Bismarckian logic which had prevailed in the pre-communist period.

Keywords of the new social policy discourse soon became “professional diversity, differentiation of provisions and privatization of schemes” (Cerami 2007: 10). Comparable to debates in Western countries but certainly more urgent, the domestic and international discourse emphasized the necessity of financial and system stability being confronted with the dilemma of required compensation of transformation hardship. Thus, in terms of regulation approaches, governments needed to promote flexible labour markets while their constituencies called for social protection against transformation risks. Following a short period of costly emergency measures right after 1989, the mid-1990s began to focus on a reduction of welfare expenses (first order change) and the introduction of new entitlement and benefit schemes (second order change), together going beyond simple reform policies, but aiming at adapting the system to emerging problems in the context of globalisation and EU accession. Both cases experienced not only institutional change, but a paradigm change, and developed a new welfare logic (third order), integrating path-dependent pre-communist and innovative elements of market orientation.

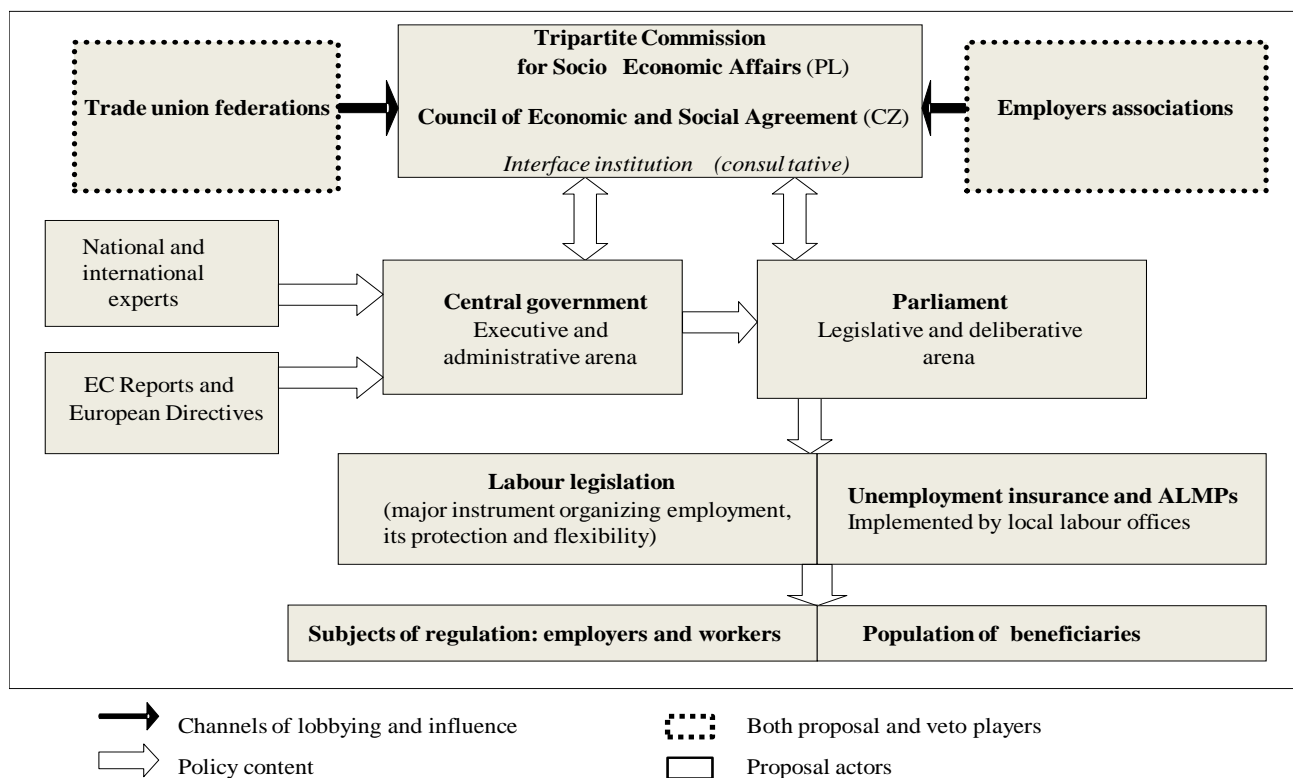
4.1 Halfway back to historical traditions: labour market and social security institutions

Neither ideas nor interests can be expressed if there were no framing institutions enabling their articulation. Formal political institutions like the parliament or the electoral system define the rules of the political game, while economic institutions like the ministry of finance, chambers of commerce or trade unions define the setting of what is seen as the sphere of the market. Legal institutions such as the courts of justice provide regulation of what citizens are allowed to do or not to do. Labour market regime institutions such as pensions, unemployment or social assistance policies function according to their objective of defining who is eligible for state support and thus define the boundaries of citizenship. Similarities become visible in the institutional recourse to historical traditions: in both cases, the state has been the dominant actor in the institutional reform direction after 1989 (see Annexe B for a thorough overview of the institutional framework). The post-1989 structure provides earnings-related social benefits linked to work performance, obviously to less distributive when compared to the socialist system. The main financing mechanism is via social insurance contributions. Comparable to previous historical periods, the state actors directed the reform of labour market regime, confirming the state’s key role also in the context of the post-1989 transformation. On the whole, both cases can be located closer to the decommodification ideal-type than to the market oriented type when it comes to the institutional framework. However, a main difference between Poland and the Czech Republic is that in the latter, governments unanimously enacted the state to play an active role in the 1990s, taking over responsibility for the labour market outcome whereas Polish policy-makers constantly battled about the extent of state intervention with the result of a political zigzag. The countries’ institutional framework of the labour market which is directly linked to social security schemes is presented below.

4.1.1 Institutional framework

Figure 4.1 (below) illustrates the institutions involved in the arena of labour market regulation and policy in both cases. It shows that the central government and the parliament are the central bodies of the labour market arena by designing the labour legislation, passive (unemployment insurance) and active labour market policies, which again are applied to the subjects of regulation and policies (employers, employees, beneficiaries). The government and the parliament deliver policy content to the tripartite commissions and vice versa, with the tripartite commissions being lobbied by the main interest groups in the labour market arena, the trade unions and the employers' associations. At the same time, the central governments' policy-making is influenced by policy content delivered by (groups of) experts and direct influence coming from the EU in terms of European Commission reports or EU directives.

Figure 4.1 The institutional arena of labour market regulation and labour market policy



Source: based on Spieser (2009: 301f.), modifications by the author

Institutional conversion in Poland: Bismarckian tradition, residualisation and socialist legacy: In 1989, as part of the *Balcerowicz Plan*¹, the Act on Employment (in 1991 amended by the Act on Employment and Unemployment) was implemented for setting the new labour market institutions that were necessary for the installing of a capitalist market society. A network of public employment offices, an unemployment compensation scheme and the Labour Fund² which had the task of financing the

¹ The Polish liberalization and stabilization programme is known as *Balcerowicz Plan*.

² According to the ministry of economy, “[t]he Labour Fund has functioned since 1st January 1990 as an extra budgetary fund with no legal status. The director of the Labour Fund is the minister responsible for labour issues. The main goal of the Labour Fund is to alleviate the consequences of joblessness (financing payments of allowances for the

labour market programmes, as well as tripartite employment councils (rady zatrudnienie) were established. The social security system in Poland is part of the general framework of the Ministry of Labour and Social Policy (MPiPS³) and the Ministry of Health (MZ⁴). The system's administrative, legal and financial organisation is independent from that of the ministers. The public Social Insurance Institution (ZUS⁵), already founded in 1934 and remaining the competent body until today, collects the social security contributions and transmits them to the appropriate organisations. Local and regional labour offices provide unemployment benefits. According to *Firlit-Fesnak*, the establishment of Polish labour market institutions were regarded as a provisory solution during the 1990s and the author claims that the state permanently withdraw from responsibility, for example as concerns the difficult establishment of labour offices within 10 years, after which a decentralisation reform left them basically alone in their responsibility putting them under the auspices of the self-governments on the voivodship⁶ level which regulates their financial set-up (Firlit-Fesnak 2000: 4). *Inglot* states that emergency measures in Poland quickly turned into a permanent substitute for fundamental systematic reform: procrastination in the area of institutional reform, the government did not manage to implement any substantial institutional reform, also due to the 1991 election which failed to bring a resolution in the indecisive process of social policy reform (Inglot 2005: 369).

The most typical example of institutional hybridization consists of the Polish unemployment benefit system which is financed by contributions while the payment of benefits is granted on a flat-rate basis as had been recommended by the IFIs in order to reduce financial pressures. At the same time, differentiated welfare systems exists with the Farmers' Social Insurance (KRUS⁷) as an institution that is responsible only for farmers (ca. 1.5 Mio. insured persons) in contrast to the ZUS, which is responsible for all other citizens. Contributions to the heavily subsidized KRUS are much lower with less than one fourth of the amount that all other employees are obliged to pay to the ZUS. In KRUS, pensions are based on a PAYG component, while health insurance is provided on a universal basis.

The Polish Labour Code:⁸ According to *Spieser* (2009), Poland is a case of 'institutional conversion' which allowed for a gradual implementation of a new paradigm of flexible labour relations, in which the Labour Code⁹, established in 1974 and legal benchmark until today, was giving a new function and meaning without being formerly replaced. It however includes the fact that this process avoided the necessity to be approved by the social partners and political actors, a legitimacy that the implementation of a new Labour Code would have required. The first modifications of the Labour Code accommodated

unemployed); and to finance programs which support promotion of employment, alleviation of the results of unemployment, and professional activation. As of 1997, the Labour Fund has also disbursed the pre-retirement benefits and pre-retirement allowances" (Ministry of Economy and Labour 2005: 48).

³ The abbreviation "MPiPS" is commonly used due to the Polish name *Ministerstwo Pracy i Polityki Społecznej*.

⁴ The abbreviation "MZ" is commonly used due to the Polish name *Ministerstwo Zdrowia*.

⁵ The abbreviation "ZUS" is commonly used due to the Polish name *Zakład Ubezpieczeń Społecznych*.

⁶ The voivodship is an administrative Polish subdivision, of which 49 existed from 1975 until 1998, this number being reduced to 16 voivodships with a reform in 1999.

⁷ The abbreviation "KRUS" is commonly used due to the Polish name *Kasa Rolniczego Ubezpieczenia Społecznego*.

⁸ The Labour Code is a legislative form codifying labour laws, specifying the rights and obligations of employees and employers.

⁹ Polish Labour Code of June 26th, 1974.

the emerging capitalism and allowed for dismissals and set a framework for new labour market policies as a result of the end of command economy. Polish policy-makers introduced reforms of labour law, facilitating fixed-term contracting, allowing more flexible working hours, restricting the remuneration for overtime and thus increasing the flexibility of the labour market. At the same time, a comprehensive reform of the Code initially remained undone. When unemployment exploded in the 1990s, overregulation was interpreted as being one major reason for labour market problems and decision-makers thus started to direct their focus towards reforming the Labour Code with respect to two main aspects: labour cost and labour flexibility. Attempts of policy reform were shaped by continuous negotiation between governmental actors and two antagonistic players: employers and trade unions. This interplay was additionally shaped by the underlying changing power relations and obligations on the way to EU accession, as *Spieser* emphasizes:

“Changing power relations and preferences in the domestic policy arena where employers and trade unions occupy a prominent place; external binding obligations in the framework of EU accession (alignment on the *acquis communautaire* and, later, transposition of directives), finally, the individual capacity of employers to choose from a menu of available hiring contracts and thereby express their preferences” (*Spieser* 2009: 2)

In 2002, a committee for the revision of the Labour Code was established for a period of four years, representing an independent body with labour law experts, headed by the labour law professor *Michał Seweryński* who became Minister for Education in 2005. The institutionalisation of the committee can be interpreted as a measure to intensify the technical character of labour law reform and the translation of the *acquis communautaire* (*acquis*) into national Polish law and to depoliticize this process. However, these kinds of committees have been established in Poland on a regular basis in order to reform the wide body of labour law and have not always shown successful. The role of this particular committee, besides the reshaping of the Labour Code – was the implementation of legal projects to fulfil EU requirements (*Spieser* 2009: 192).

As a result, at the end of 2002, a revised Labour Code came into force. The only important change has been the introduction of a new possibility of concluding agreements to suspend temporarily the application of collective agreements and similar provisions at companies and other employing entities faced with financial difficulties (*Gardawski* 2003). As a result of the above mentioned factors, the labour market flexibility was introduced rather implicitly by incremental change through the development of procedures aside the existing labour relations providing for more flexibility and leading to the expansion of atypical forms of work. Only after some time, after these practices had generated a fragmentation of protection and rights, this new flexibility became institutionalised and regulated.

Institutional framework in the Czech Republic: recourse to Bismarck and social liberal features.

Initially, before the country’s split-up in 1992, social and labour market policy was embodied in legislation on both the federal (Czechoslovak) level (Federal Ministry of Labour and Social Affairs) and the national level (Ministry of Labour and Social Affairs of the Czech Republic) and despite the fact that cooperation between the ministries was not ideal, they generally agreed to replace paternalism with

more resilient mechanisms and regulations. Seen from a philosophical perspective, *Potůček* claims that already at that time, “this approach was a combination of socio-liberal and social-democratic philosophies” (Potůček 2008: 7).¹⁰ The Czech system since then has been three-tiered: (i) the first tier provides compulsory public social insurance as a response to predictable social situations in a citizen’s life, based on a pay-as-you-go principle, (ii) the second tier provides state social support, reacting to unforeseeable events, financed through general taxation; finally, (iii) the third tier provides social assistance supporting citizens in an emergency situation, co-financed by central and local authorities, non-profit organisations and clients (Potůček 2008).¹¹

The Ministry of Labour and Social Affairs (MPSV¹²) provides the legal framework for the whole field of social policy while the Employment Service Administration (SSZ¹³) represents the labour market department of the Ministry.¹⁴ The administration is arranged by offices of the Czech Administration of Social Security (ČSSZ¹⁵), which is subordinated and supervised by the MPSV. The ČSSZ supervises the system of the state employment policy (unemployment insurance and employment policy programmes), the basic pension insurance system and the sickness insurance scheme.

As early as 1990, a system of unemployment benefits came into effect and a network of 77 labour offices with 160 extensions was established. The system was responsible for the implementation of labour market policy, financed by general tax revenues, as well as employer and employee contributions (Feldmann 2002). As in Poland, Czech social security is principally uniform for employees and the self-employed. The foundations of the current insurance system applicable to the self-employed were laid in 1990 by adopting the definition of the self-employed and the payment of the premium (for social security and the state employment policy) by the self-employed person (until then, only farmers paid premiums). The self-employed are thus also protected in case of unemployment.

Also right after the political regime change, the social insurance schemes and family-related benefits were transformed into a multi-pillar social safety net which was highly redistributive in favour of low-income groups, providing guarantees of minimum income for several social risks. An example for this is the fact that the Czech Republic has been the only CEEC which used an official subsistence level as calculation base for social benefits, defining the lack of income as eligibility criterion for benefits and obligated social assistance authorities to fill the gap between lack of income and the subsistence level (Brusis 1999: 83). This approach mirrors the underlying idea of Czech policy makers to develop

¹⁰ The reformers developed a “scenario of reform” which focused right from the beginning of social transformation on a universal and unified institutional setting which would offer universal compulsory health and social insurance (complemented by voluntary supplementary insurance), and means-tested state social assistance (Potůček 2008: 7).

¹¹ As part of the complex Czech social assistance system, ‘emergency services’ are calculated individually and financed by municipalities. Since the beginning of the 1990s, spending on social assistance has increased rapidly with a number of recipients being 50 percent higher than the number of unemployed insurance recipients (Kaluzna 2008). Half of the persons on social assistance are considered employable, leading to a situation in which probably more people are supported not by unemployment insurance but by social assistance which is nationally financed and refers to the 2007 defined ‘existence minimum’ and applies for all who fail to actively engage in job search and registration with the PES.

¹² The abbreviation “MPSV” is commonly used due to the Czech name *Ministerstvo práce a sociálních věcí*.

¹³ The abbreviation “SSZ” is commonly used due to the Czech name *Správa Služeb Zaměstnanosti*.

¹⁴ Except health insurance.

¹⁵ The abbreviation “ČSSZ” is commonly used due to the Czech name *Česká Správa Sociálního Zabezpečení*.

universal elements of the welfare model in line with their liberal convictions. At the same time, the institutional framework induces increasingly lower replacement ratios and imposes ceilings on the maximum earnings considered. The design of the system of social security benefits however ensured a rather low at-risk-of-poverty rate over time. The General Agreement in 1991 led to a series of institutional innovations concerning industrial relations and its regulatory framework.¹⁶ International standards played an essential role as a model for redefining the domestic labour market regime. This shows the fact that the ILO conventions were included into the Constitution as being part of the legal system and being even superior to domestic laws. Further, EU standards and regulations have been a fundamental benchmark from the beginning of the 1990s and have constantly been checked.

Other institutions in the labour market arena have been rather weak, as for instance the local employment offices which rely on the Ministry's funding for programmes and staff even if they have some degree of autonomy in designing local labour market measures (Sirovatka et al. 2006: 6). Czech labour market policy is executed "overwhelmingly via assigned public institutions, i.e. labour offices" and thus remains rather centralized (Potůček 2008: 10). The social security institutions were evaluated by *Castle-Kanerova* stating that the "social security system embraces a combination of different models, liberal and social democratic, punitive and solidaristic, paternalist and free market. Ultimately, however, controversy centres on the balance between paternalism and social market approaches" (Castle-Kanerova 1996: 299).¹⁷ Twelve years later, despite increasingly liberal deregulation approaches due to the neoliberal government, many institutions, "originally designed as pluralistic and corporatist, remained firmly in the hands of the state (e.g. the system of social insurance)" (Potůček 2008: 8).

The Czech Labour Code: The Czech Labour Code regulates many innovations as to the collective and individual labour relations. Before the new Labour Code¹⁸ came into force in 2006, it was the amendments which had been adopted over the years that showed to be decisive, the first modification stemming from January 1991. The social partners have actively participated in the process of redefining the Labour Code within the Tripartite Council of Economic and Social Agreement. Legislative changes were made to pursue a new industrial relations system, promoting three objectives: (i) the Labour Code should move from absolute minimum standards and have a more protective character in terms of working conditions, (ii) collective bargaining¹⁹ should be facilitated to fix actual working conditions, (iii) a large amount of the formal, but in reality rather not binding, trade unions' co-decision rights were exchanged by consultative or information rights.

¹⁶ The agreement concluded a low wage-low unemployment policy with the aim of curbing demand by lowering wages in order to slow inflation, provided a tool for central wage regulation and defined a maximum growth of nominal wages in the private and public sector.

¹⁷ It is obvious that at that time, the "social climate of East/Central Europe paternalism has strong negative connotations and is associated with the state's misuse of its role as a distributor of social resources" (Castle-Kanerova 1996: 300).

¹⁸ Labour Code No.262/2006 Sb. effective from 1/2007 superseded the Code of 65/1965.

¹⁹ Collective bargaining is the process of negotiation between unions and employers concerning the terms and conditions of employment of employees, and about the rights and responsibilities of trade unions. It is a process of rulemaking, leading to joint regulation (see www.eurofound.europa.eu/areas/industrialrelations/dictionary/definitions/openmethodofcoordination.htm).

Continuous effort is made on the preparation of new commercial, civil and penal codes in the context of and parallel to the compliance with EU standards. The adoption of the new Labour Code on 1 January 2007 was of greatest importance in the area of Czech labour law. It replaced an earlier code dating from 1965 and arranged the basic principles of labour law with the Czech constitution. It established the principle that ‘anything not forbidden is permitted’ as concerns labour relations (Hala 2009, see also Bluhm 2008). The new Labour Code was designed in 2006 by the governing Social Democrat-led coalition and had been pushed through the Chamber of Deputies of Parliament by the left-wing majority at that time, bringing changes in particular in the field of the subsistence and existence minimum, assistance in material needs, the social services system, state social aid, sickness and pension insurance, social security premiums and the contribution of the state to labour market policies (Hala 2009).

However, in 2007, the new centre-right government drafted fundamental legislative changes in the areas of taxation, social insurance and social policy in order to attain cutbacks of the public expenditure and stabilise the public budget. Some of these reform measures came into effect in 2008 and brought protests by trade unions and left-wing political parties which expected major changes in the social safety net and life quality. Indeed, the new Labour Code provides employers with the possibility to offer a contract of employment for a set period of 24 months without limitations. At the same time, it introduced a reduction in severance pay for employees who worked for a company less than two years, based on the objective to increase labour market flexibility (RILSA 2010). Finally, the amendment to the Labour Code introduced the possibility to work for a company up to 300 hours without social insurance based on a “contract for the performance of a work assignment”, whereas before this possibility applied only for a maximum of 150 hours a year (RILSA 2010).

Analysis: different paths towards institutional hybridization. In both countries, the institutional design can be traced back to Bismarck. Many years before EU accession, the two candidate countries had established the majority of the labour market institutions which are also found in the older member states. Their objective was to increase labour market flexibility in order to be able to adjust the labour markets to the new economic situation. Despite the common choice of the underlying social insurance principle, hybrid institutional arrangements with decommodification and liberal market orientation elements partly fight against each other for the predominance of influence: the Bismarckian model is combined with Beveridge-type minima schemes. This is best exemplified in the Polish case where we find a contributions-related unemployment insurance which is however granted on the basis of a flat rate. The scheme of unemployment benefits combines residual and insurance-based features on the basis of income replacement financed by contributions in the framework of insurance.

State intervention finds itself increasingly under attack in both cases while alternative approaches run into the direction of private insurance solutions, emphasizing individual responsibility and strengthening market forces. At the same time, the principle of social security is placing employment activity in the centre and mirrors continuity respectively return to the previous frame of reference before socialism:

“Looking at social reforms in the transition economies and the objective to shift policies towards a social insurance based cash transfer oriented social protection system, one could clearly state that the transition economies resemble the ‘continental’, ‘Middle European’ ‘Bismarck’ model of social protection [...] but at the same time the countries are characterised by elements of an anglo-saxon model. The latter might be mainly explained by an explicit political objective to partly privatise the social protection system without neglecting in general social insurance traditions and a clear commitment to mainly state dominated social protection systems“ (GVG 2002: 234f.).

Finally, when looking at the Labour Codes and the codification of labour laws in legislative form, its regime generates hard negotiation processes between the two groups of actors directly concerned: the employers and the workers’ representatives, both actors traditionally holding opposing positions. The Labour Code can be described as a collective good for employers as it is based on the unusually common interest to bring together the small- and large-sized enterprises and the different economic sectors. This applies also to a large extent to workers, because basically all employees are concerned by labour law. Employers usually apply the argument in favour of increased labour market flexibility as it serves for instance their interest of adjusting the number of employees to the business cycle. The impact of stricter labour regulation on hiring and firing practices is often interpreted as a reason of high unemployment due to the unwillingness of the firm to hire new employees. This argument has become part of any debate on labour regulations.²⁰ Among all issues for which employers are likely to lobby intensively, this argument directly concerns the trade unions’ activities.

Throughout the period under consideration, the Polish Labour Code has been amended 31 times, whereas the Czech Labour Code had been amended 14 times before a new one came into force in 2007, afterwards amended in 2008 (and 2010, not corresponding to the period under consideration). This finding can be interpreted on the one hand as an institutional continuity of the historical Labour Code which is rather amended than exchanged, on the other it reveals the subtle consolidation of the reform outcome as has been recently emphasized by former Polish Minister of Labour, *Jerzy Hausner*: “One of the problems is connected to the lack of strategic thinking by the institutions as they are only thinking in short-terms.”²¹ In line with this is the fact that according to NATLEX, the ILO database of national labour and social security legislation, we find the impressive number of 1.127 laws in this policy field in Poland while the Czech Republic enacted the modest number of 217 laws.²²

Newly established institutions can produce change on the one hand, but prevent it on the other. While the Polish and Czech governments were able (and forced) to make a number of changes to the labour market institutions, for example in the framework of tripartite councils²³ as governing mechanisms of industrial relations, these could form obstacles to other changes that the governments aimed at promoting. Once these institutions were fully modified or established, it showed to be difficult to further

²⁰ I argue however that this argument is not convincing since we do not find an unambiguous relationship between the degree of labour law provisions and unemployment or employment in the long-term.

²¹ Speech on the 19th European Social Services Conference in Warsaw, 6-8 July 2011, organized by the European Social Network (see ec.europa.eu/social/main.jsp?langId=en&catId=88&eventsId=338&furtherEvents=yes).

²² For Labour Code and labour legislation cf. www.ilo.org/dyn/natlex/natlex_browse.details?p_lang=en&p_isn=45181

²³ Tripartite cooperation is defined as referring to all dealings between the government and workers’ and employers’ organizations concerning the formulation and implementation of economic and social policy (see www.ilo.org/public/english/dialogue/themes/tri.htm).

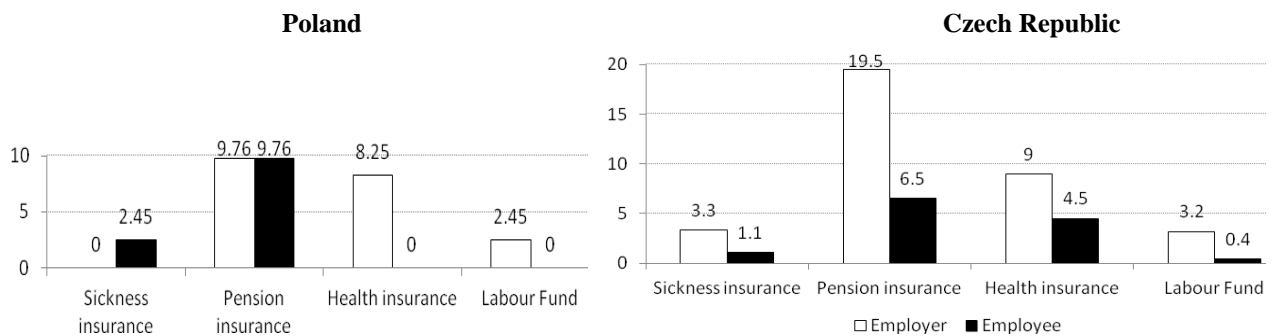
change them because of spill-over effects. As a result, labour market institutions in both cases have proven at the same time to be resilient and to structure action (Keune 2006: 279).

On the whole, the establishment of similar basic labour market institutions and insurance-based social security mirrors recourse to historical tradition in both cases. However, Poland soon institutionalized clear market elements, integrating benefit-cuts and flat-rates in combination with insurance-based social security. This combination of regimes (Bismarckian and Beveridge, cf. Chapter 2) coincides with the advice by *Jeffrey Sachs*, market oriented advisor to the Polish government, claiming that the CEECs' choice between the different submodels - the German social market economy, the Scandinavian welfare state or Thatcherism - could be postponed until later, once the core market institutions are consolidated (Sachs 1994). To put it with *Cerami's* words, the farewell to central planning "opened up space to the cultivation of a new market-oriented social policy logic in which dormant latent institutions and policies have been both rediscovered and reactivated" (Cerami 2009: 46).

4.1.2 Insurance-based structure and financing of social security

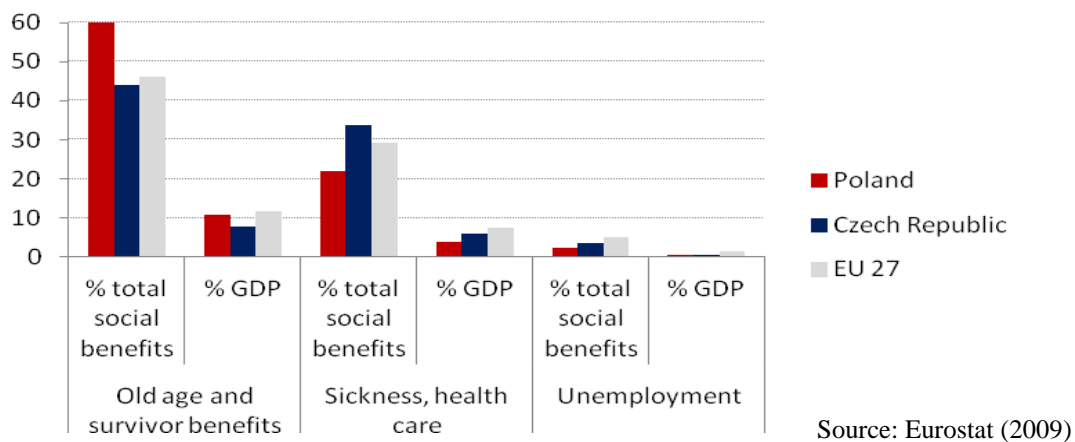
After 1989, Polish and ČSFR/Czech governments rejected to generally link social assistance to the status of citizenship. It was not by coincidence that basic social assistance thus developed rudimentary while the social insurance principle based on contributions as in continental European welfare states had been reinforced. Growing economic status differences should not be removed by social security but were rather confirmed through a status hierarchy and segmentation of society with limited redistribution effects.²⁴ Above that, increasing budget cutbacks led to a residual tendency of social security, especially in Poland, pointing to an evolution towards a mix of continental European and Anglo-Saxon social policy elements, based not on the principle of providence, but on the principle of assistance, neglecting in Poland the principle of digression which is typical for most OECD countries (Esping-Andersen 1990, Firlit-Fesnak 2000). As Figure 4.2 and Figure 4.3 (below) illustrate, we find that the payment of contributions to the social security systems is organised differently in both cases. They show that the employers' obligation in Poland refers to the payment of contributions to sickness and pension insurance while the employee is paying contributions to pension insurance, health insurance and the Labour Fund. In the Czech Republic, these four social security components are financed by both the employer and the employee, while the amount of the employees' contribution to the pension insurance resembles the one in conservative welfare regimes, i.e. Germany. On the whole, the figures show that the employers' contributions are much higher in the Czech Republic (35%) when compared to Poland (20.46%) whereas the Czech employees' contributions (12.5%) are similar to those in Poland (12.21%).

²⁴ *Riedmüller/Olk* stress that in principle the aim of the insurance idea is to preserve the relative income position that has been acquired by the insured person in the labour market, even during the period of entitlement for benefits, e.g. in the phase of the pension (status preservation) (Riedmüller/Olk1994: 14).

Figure 4.2 Contributions to the Polish and the Czech social security system

Source: ZUS (2010), MISSOC (2010), *note for Poland*: pensions insurance: subsidies, state finances 90% of farmers' pensions; Labour Fund: subsidies, fixed by parliament for one year approx. 65%.

Coming to the question of the distribution of social benefits, Figure 4.3 shows the distribution of social benefits by group of functions. In line with the contributions paid, it shows that the group with the highest share of contributions is the old age and survivor benefits. Poland exceeds the Czech Republic and the EU27 by more than 15 percent with a score of 60 percent, while the Czech Republic scores higher than Poland on the share of sickness and health care as well as unemployment benefits.

Figure 4.3 Social benefits by group of functions, 2007

Poland's social security between insurance-based financing and residualisation: In response to the developing crisis and the drastic increase in unemployment, the Employment Law of January 1990 established policies for unemployment benefits, of which 74 percent of funding was from the state budget and 24 percent from a 2 percent payroll tax. 64 percent of expenditures went to unemployment benefits (the remainder to ALMPs) (Rashid et al. 2005: 84f.). The financing of social protection has been under pressure ever since and has thus been subject to various reforms regulating the contributions by employers, employees and from the general tax revenue and state subsidies (Standing 1996: 242).²⁵

²⁵ Contributions of self-employed are entirely financed by the insured person himself, with his or her own funds. The insured self-employed person also calculates and transfers contributions to the appropriate field office of the ZUS as the responsible governing body. Starting from 30 December 1999, the self-employed person must also pay contributions for

Rising demands for transfers and decreasing revenue from contributions (due to high unemployment, lower wages, and the demographic development) have resulted in the fact that the state increasingly has to cover expenditures of social protection.²⁶

Social protection is granted by the social assistance model by virtue of Article 1 of the Law on Social Assistance (29 November 1990) and supports individuals and families to overcome difficult life situations that they alone are not capable to master.²⁷ Social assistance is only subsidiarily granted, meaning that in order to refund social benefits also those persons providing home care can be obligated (for the preconditions for entitlement cf. Szurgacz 2000: 139, Piątek 2001).²⁸ The fact that the decision about possible benefits depends on the particular case, makes the needy person dependent on the social worker as a key actor in the support system (Golinowska 2000, Rybka 1998: 256f.). *Firlit-Fesnak* criticizes that it is often the financial situation of local self-government which decides on the recognition of social assistance (Firlit-Fesnak 2000). Public spending throughout the 1990s was distributed on a wide range of welfare expenses, possibly due to “a continuation of measures used during the real socialism era, but they continue to be enforced because of the need to undertake protective action in response to new social issues such as unemployment and poverty” (Golinowska 2000: 217). As a result, several areas in Poland continued to be heavily subsidised in order to maintain social peace and to win electoral support. *Giermanowska/Hryniewicz* summarized that “[...] the practices of the centrally planned economy still persist, including excessive employment in the public sector and the continuation of low-wage policies which do not reflect the true costs of labour” (Giermanowska/Hryniewicz 1998: 173f.). Even if the real value of subsidies initially declined by 20-40 percent annually since 1990, this trend was stopped by 1996/1997, so that *Golinowska* stresses that “[c]onsiderable effort is made to maintain, or even extend, the scope of socialist solutions” (Golinowska 2000: 249). Some of these particularities have survived until today, for instance with the extensive subsidization of the KRUS and the ZUS.

The large number of temporary social laws prevented a consistent social security approach for a long time, exhibiting a mixture of influences with a tendency to privatization, residualisation, and recommodification. The most striking example is the fact that we do not find work-related unemployment benefits, but a flat-rate system of replacement rates, surprisingly mixing contributions-related elements with the payment of a fixed amount not linked to the contribution.

The Polish Labour Fund: The Labour Fund has been established in 1990 with the aim to finance benefits for workers who lost their job. It finances all passive labour market measures, providing about 75 percent of the total expenses, making labour market policies thus highly dependent on the state

the social insurance of the co-operating persons (such as assisting family members).

²⁶ By 1991, contributions covered 84% of expenditure; it was already less than 80% in 1994 (Standing 1996: 242).

²⁷ Among others, in case of poverty, homelessness and disability, there is entitlement to social assistance. Its financing is affected entirely from the public budget while the municipalities have to bear the costs. At the level of voivodeships, measures of social assistance are financed entirely from the state budget.

²⁸ The principle of subsidiarity was included to the preamble of the Constitution of 1997. The *Polish Social Security Act* also includes individuals in the term ‘family’.

budget, since only the rest is financed through social contributions and a two percent payroll tax. The Fund's resources come from employer contributions levied for persons employed for at least the minimum wage amounting to 2.45 percent of gross salaries since 1999, contributions of the self-employed, combined with EU-funded projects and budgetary donations.²⁹ The Labour Fund cannot be regarded as a full unemployment insurance as it is administered and object of reallocation of funds by the Ministry of Finance due to short-term needs and a growing deficit (Sienkiewicz 2011: 4). At the same time, *Sienkiewicz* spots a tendency towards passive measures, in particular in times of crisis. It can thus be said that "income support measures consume activation measures" (Sienkiewicz 2011: 4).

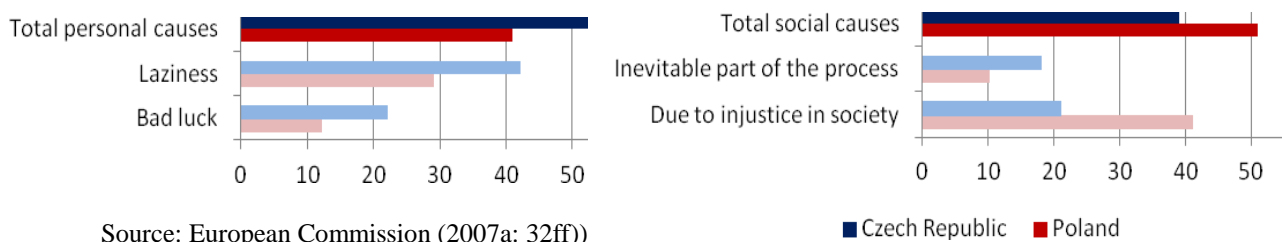
Contribution-based insurance schemes in the Czech Republic: Benefits in the framework of the Czech social security structure are financed by contributions. Characteristics of the system are the required co-financing of the entitled beneficiary and the strengthening of municipalities and private initiatives. Supplementing the social assistance, since 1996, a social support system has been introduced to fill gaps in the welfare system, especially for families. Additionally, a number of separate services have been granted by decision of the relevant municipal and district authorities.³⁰ Czech citizens pay contributions to social security insurance and to employment policy, but other than in Poland with the ZUS, the Czech Republic does not know specialised funds outside the state budget. The compulsory contributions of employers, employees, and self-employed persons represent the main source of financing for social policies, supplemented by state expenditures from general taxation (Potůček 2009: 39). Unemployment benefits are thus part of a state-funded social security. The Czech government aimed at keeping control over the budget for social policy expenses, while in Poland, on the contrary, the government paid 20 percent of the state budget to the Social Insurance Fund (FUS³¹) in 1992, contributing to the difficult fiscal situation. By contrast, the Czech social insurance fund had on the contrary collected a surplus in 1993, again used to subsidize state budget expenditures on social assistance (Orenstein 1995).

The Czech institutional framework corresponds with the tradition of the Bismarckian social security which was only temporarily interrupted by the communist system (Špidla, former Czech Prime Minister, interview in 2011; see also Sirovatka/Rakoczyova 2009). While overall, Czech citizens agree that the state takes an active part in social and labour market policies, they show however increasingly to be in favour of restricted redistribution throughout the 2000 decade. Figure 4.4 (below) reveals twofold: on the one hand, more Czech respondents agree that people are poor due to personal causes (51 percent) than their Polish counterparts (41 percent) while a lower share agrees that people are poor due to social causes (39 percent). This can be interpreted as an attitude placing individual responsibility central while limiting collective responsibility. On the other hand, we can also interpret this information as a more satisfactory social environment since Czech respondents obviously find to a lesser degree that poverty is due to social injustice when compared to Poles (European Commission 2007: 33).

²⁹ The EU resources have declined from 7.6 percent in 2006 to 3.8 percent in 2008 (Kaluzna 2009: 29).

³⁰ As for example child support, housing benefit, public transport allowances, aid for students, parents' allowances, aid for foster care, funeral assistance, etc. Finally, besides these benefits, paid maternity leave and singular grants exist, e.g. for medical expense (Feldmann 2002: 171).

³¹ The abbreviation "FUS" is commonly used due to the Polish name *Fundusz Ubezpieczeń Społecznych*.

Figure 4.4 Perceived causes of poverty in %, 2007

Source: European Commission (2007a: 32ff)

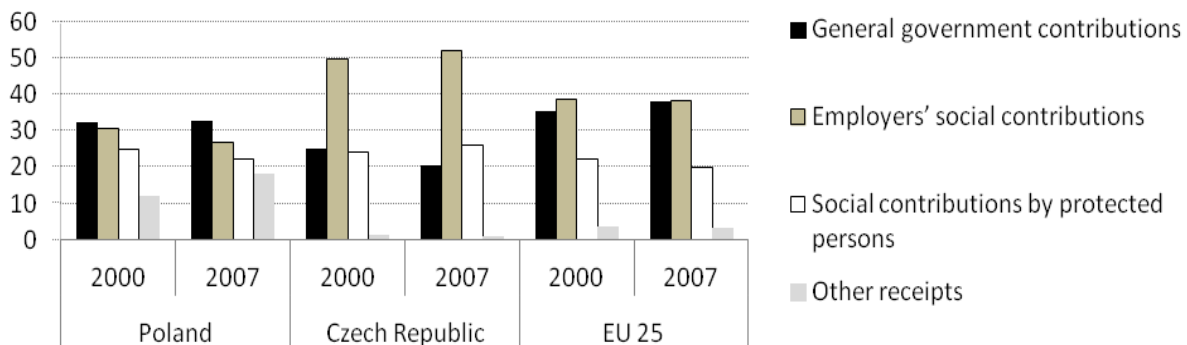
If the 1990s have however been characterized by a comparably generous benefit system, it was increasingly tightened in the third reform period (2004-2009), also while led by social democratic governments. Emphasis shifted towards individual responsibility and the aim to stabilize the public finances, leading to cuts in benefits and restricting entitlement schemes in order to improve work incentives. Taken together, the decision-makers' attitudes seem to be less and less corresponding to the agenda of social inclusion as the means to finance it are increasingly cut. What we find instead is a culture of 'protest avoidance' by government actors, leading to a provision of specific welfare entitlements and labour market programmes for particular social groups (Sirovatka/Rakoczyova 2009).

Analysis: social security between residualisation and redistribution. The re-establishment of benefits related to contributions placed the individual's responsibility and achievements again central. Individualization and privatization was not only functional to the new economic environment, it was also "necessary to re-establish a feeling of independence and of national identity for so many years frustrated by the Soviet occupying forces" (Cerami 2006: 15).³² At the same time, this agenda reinforced the idea of the already discussed 'return to Europe' by the enlargement of the EU to the East, in the candidate countries being anticipated as a natural process.

Czech state administration has been characterized by higher centralisation while Poland decentralised most social policy functions in 1990 placing them under the control of local governments.³³ It shows that on a broader level of social protection, the distribution of financing is different in both cases as has already been mentioned above: we find a low level of the employers' social contributions in Poland when compared to a high level of employers' contributions in the Czech Republic, illustrated in Figure 4.5 (below). At the same time, we find that the Czech general government contributions are considerably lower when compared to Poland and the EU 25. The comparatively high social security contributions in Poland resemble the model in conservative Western European countries as compared to distribution of contributions in the Czech Republic. Finally, it is remarkable that the category "other receipts" has a share of roughly 10 percent in 2000 and even roughly 18 percent in 2007 - this share refers to the existence of the ZUS, which is heavily subsidized by the state, remaining however an independent social security institution.

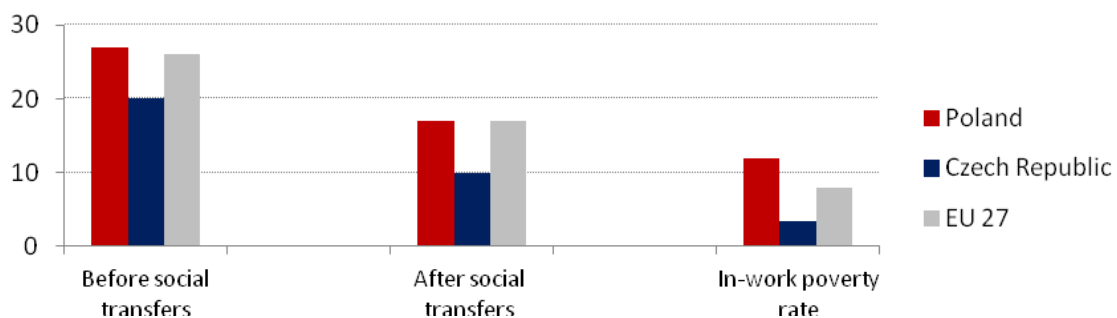
³² The introduction of the Bismarckian pension system was one tool to 'remind' people of their historical tradition.

³³ Orenstein argued that even if this might have been a good thing for democratic reasons, it generated a failure of social service provision in some regions (Orenstein 1995).

Figure 4.5 Contributions by different actors as a percentage of total receipts, 2000 and 2007

Source: Eurostat (2009), European System of integrated Social Protection Statistics (ESSPROS)

Even if the access to social benefits is connected to the payment of contributions, we find a strong tendency towards social assistance provisions for those who would otherwise remain uninsured (Cerami 2007). At the same time that privatisation of the health or pension system is developing, the state is often called for in order to co-finance and subsidise the deficit that results from the lack of contributions to cover the number of those in need of insurance (Cerami 2007). The result of this interplay of state and market as concerns the benefit structure in Poland and the Czech Republic can be summarized as “an ambiguous mix of differentiation and equalisation of provision” (Cerami 2007: 15). However, it shows that that the Czech state manages to reduce poverty rather well with the payment of social transfers. Here, the risk of poverty is reduced by 50 percent as compared to Poland where it is reduced by 37 percent and the EU27 succeeding to reduce poverty by 35 percent.

Figure 4.6 At-risk of poverty rate before and after social transfers, 2007

Source: Eurostat (2009)

To sum up, both cases reveal an ambivalent structure of social security based on the payment of contributions on the one hand, and a strong residualisation of benefits on the other. To a stronger degree than its neighbour, Poland reveals institutional socialist legacies with separate social insurance institutions combined with distinctive liberal aspirations. The Polish institutional framework is object of stronger hybridisation than the Czech system. The Polish social security system still heavily relies on the state, both in terms of financing and guaranteeing the payments of benefits. Table 4.2 summarizes the labour market and social security institutions transferred to the indicators developed in Part I.

Table 4.2 Labour market and social security institutions in Poland and the Czech Republic

| Indicator | Poland | Czech Republic |
|--------------------------------|---|---|
| Social security schemes | Bismarckian public insurance-based system Increasing residualism Partly universalist, corporatist Maintenance of privileges for previous strategic professions | Bismarckian public insurance-based system Increasing residualism Partly universalistic Corporatist |
| Financing | Contributions-based Public-private mix | Contributions-based Remaining public |
| Provision | Hybrid of assistance and providence Unemployment benefits based on flat rate Independent from previous earnings | Principle of providence Earnings-related |

Source: own illustration

4.2 Labour market regulation between flexibility and security

Labour regulation adjusts the flow in and out of employment and between workplaces, a dynamic which was entirely reshaped after 1989. It is a constitutive element of the transformation process while it is also an institutional element of emerging democratic capitalism. Given this importance for the concerned country it is likely that learning processes take place in order to achieve the best results.

Introducing labour market flexibility has become outstandingly important in Poland and the Czech Republic with the beginning of transformation. As in other European countries, flexibility is regarded as an objective to meet global competitiveness and the possibility to adjust labour market conditions to economic cycles. The degree of flexibility and security tells something about the favoured path of reforms, reflecting not only responses to economic pressures, but equally mirroring actors' ideas and interests powerful enough to be pushed through in the interplay of power constellations.

The first step for reshaping the system of labour market regulation in CEE after communism fell in conjunction with the macroeconomic stabilisation and privatisation process. It involved the re-institutionalisation of market mechanisms, especially the practices of hiring and firing.³⁴

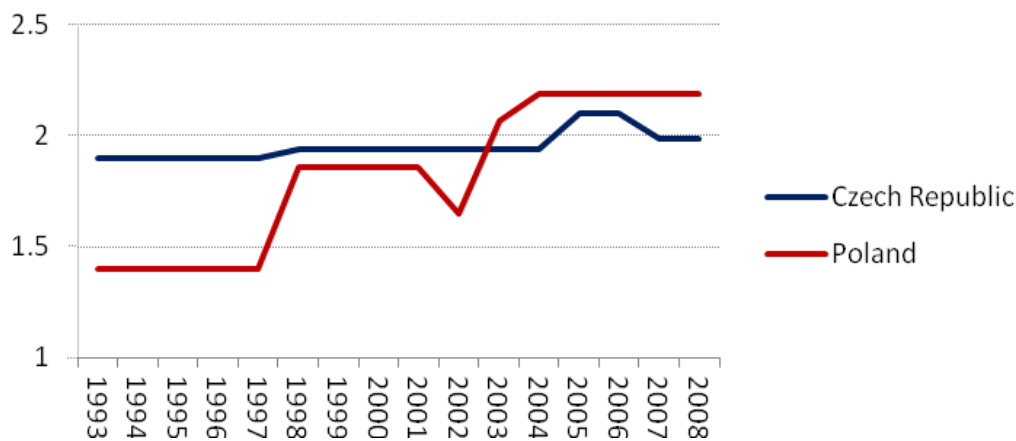
In both cases, the basis for the legislative system has been established in the early 1990s with the adoption of the new legislation, including a new (in the Czech Republic) or modified (in Poland) Labour Code, new employment acts and various other acts that were decided upon. Additionally, many smaller modifications were realised in the whole period of investigation.

Overall, labour market regulations have become markedly flexible over time in both countries. But we find country-specific variation in labour regulation approaches. Flexibility can be achieved through re-organizing work or working time arrangements. Another way is to introduce atypical working contracts (part-time employment, temporary employment). In order to identify elements of labour market

³⁴ For the most important acts regulating the labour market cf. appendix.

regulation in terms of decommodification and market orientation, I partly refer to indicators which take the widely-applied OECD indicator of employment protection legislation (EPL)³⁵ as a basis, but develop it further taking into account also the sphere of industrial relations as an essential body of labour market regulation. The OECD indicator measures the strictness of employment legislation.³⁶ The EPL mirrors the underlying flexibility (assumed to be positive for employer) and security (assumed to be positive for employee) as it seeks to mirror the cost implications of the provision, meaning that the indicator ‘more costly’ stands for ‘more strict’. Figure 4.7 shows that the EPL remained constant in the Czech Republic with a slight increase in 2005/2006 (OECD average in 2008: 2.1). By contrast, Poland was characterised by a low degree of protection throughout the first reform period under investigation comparable to liberal Anglo-Saxon countries like Ireland and the US (*ibid.*). During the second reform period, a high increase in 1997/1998 continues in a positive trend on a high level.

Figure 4.7 EPL in Poland and the Czech Republic



Source: OECD (2011a), scale: 0=lowest, 6=highest

On average, CEECs compare to the OECD countries in terms of strictness on labour regulation. Even if the labour market outcomes are only marginally touched by the EPL, it however affects the speed of mobility between employment, unemployment, job tenure and thus shapes the dimension of (de-)commodification and redistribution. The flexibility-security nexus is one essential feature mirroring decommodification and market orientation, as the degree of flexibility made available to employers is for example one common way to evaluate effects of regulation, decommodification and protection for employees. In the following, the main trends of Polish and Czech labour market regulation over time will be outlined.

³⁵ The OECD employment protection legislation indicators are compiled from 21 items covering three different aspects of employment protection: individual dismissal of workers with regular contracts, aspects of dismissal protection and the regulation of temporary contracts (www.oecd.org).

³⁶ “(i) [T]he difficulty of dismissal, that is legislative provisions setting the conditions under which a dismissal is ‘justified’ or ‘fair’, (ii) procedural inconveniences that the employer may face when starting the dismissal process, (iii) and notice and severance pay provisions” (OECD 2004: 65).

4.2.1 Extensive security and undecided preferences (1989-1996)

Ad-hoc regulation approaches in Poland: Looking at the changing regulatory regime of employment in Poland during the first reform period, it is neither possible to speak of a shock therapy in a *Balcerowicz* style nor of a gradual change. Changes in labour market regulation took place in the manner of ad-hoc decisions based on a lack of political support and compromise on labour relations. With the regime change, even if a new labour law was indispensable, reformers were focusing on economic reform instead and followed the general assumption that the economy came first.³⁷

Among the first steps changing regulation approaches were the introduction of dismissal options and the legal definition of unemployment and employment. The Act on Collective Dismissals (1989) defined the standards of protection of employees who lost their job due to dismissal. The employer had several obligations in case of a reduction of more than 10 percent of the employees, as the announcement to trade unions and labour offices one and a half months before, telling the reasons for dismissal and introducing programmes aiming at the reintegration of the dismissed as well as the guarantee of redundancy payments (one decade in the job = one month's wage). These means helped the employer to avoid the dismissal restrictions and notice periods, however, the MPiPS and the Ministry of Finance could together postpone a collective dismissal for up to three months (Spieser 2009: 176).

With the modification of the Act on Collective Dismissals, restrictive rules for receiving severance payment were introduced and the obligation to consult the enterprise union was decreased. Above that, the procedure of collective dismissal was eased. The act increased working-time flexibility, cut the level of overtime pay and granted special arrangements concerning health and safety to small and medium enterprises (SMEs). However, some of these measures were again taken shortly afterwards.

Apparently, the labour market regulation field reveals a continual conflict to be usually understood in terms of class cleavage. The two competing sides of trade unions and employers' associations were actively negotiating the orientation and reform of labour relations. Dramatic unemployment increase resulted in a compromise favouring more flexibility. In this context, the Tripartite Commission for Socio Economic Affairs (TK) was established in 1994 as a deliberative forum.

In 1995, an elementary reform of the Labour Code was treated as a major issue. The conservative government initiated some reforms to labour law, at that time supported by the centre-left coalition. A parliamentary commission with 26 members (14 of them union militants) was established that worked on the modification of labour law between 1994 and 1996 with their Democratic Left Alliance (SLD) head, *Wit Majewski*. It was not the commission directly that drafted the reform suggestions, but an expert committee on the reform of labour law.³⁸

³⁷ *Balcerowicz's* book 'Eight hundred days' on the transformation process did not even mention the aspect of labour regulation among the challenges that were laying ahead (Spieser 2009). Hence, labour law changes were limited to the formulation of business requirements making the law legitimate to dismiss, while neglecting recommendations referring to the necessity of Labour Code reform.

³⁸ Labour law professors were involved in this committee that had been established by *Tadeusz Mazowiecki* and had been operating since then as an advisory committee to the Ministry of Labour and Social Policy. Between 1991 and 1996, the committee was active under the presidency of *Baczkowski*, who was the Deputy Minister for Labour and

The commission had regular meetings with trade union representatives of the two umbrella organisations OPZZ and Solidarność, employers' associations, the ZUS and the National Labour Inspectorate. Finally, in February 1996, the Sejm passed an amendment to the Labour Code of which the most controversial issue had been the definition of the employment contract. The usual practice to bypass the Labour Code had been to use task-based contracts instead of binding employment contract - obviously at the expense of the worker. Finally, a solution was adopted that introduced 'civil contracts' as a sort of compromise with the employment contract's definition as a work under supervision, referring to the work by independent freelancer and opposed to task-based contracts. However, this measure proved to be insufficient since many employers already used civil contracts. Other changes to the Labour Code were the restriction on multiplying fixed-term contracts to a maximum of two. The OPZZ and Solidarność were satisfied with these changes, but there was still criticism by employers that the Code remained too rigid for enterprises and small businesses. The absence of radical change of the Labour Code can be interpreted as a compromise that was favourable to the unions and the ruling coalition of the SLD and the Polish People's Party (PSL) at that time (Spieser 2009: 183). The project had failed several times, either in parliament or through the 'veto' of trade unions, entailing a political style of a start-stop-start pattern during these first transformation years.

Social liberal regulation approaches in the ČSFR/Czech Republic: ČSFR politicians except from Prime Minister *Klaus* remained more left-leaning on political economy questions, including President *Havel* and his colleagues whose support *Klaus* needed in the early 1990s to get his programme through the government. While *Klaus* won the negotiations on price liberalisation, privatisation and macroeconomic stabilisation, the opposing social democrats won on the matter of social policy and the labour market. In the Czech Republic, the rather low influence by right-wing ideology mattered for the initial direction that social transformation took. The underlying discourse on the shape of the new labour market regime was based on social liberal principles and contributed to generate a society of independent citizens who were in favour of state coordination as regulating principle. As *Orenstein* emphasized, by 1995, the Czech Republic had entered the phase of institution-building and was "well on its way to a 'normal' social policy, while Poland has yet to advance beyond emergency measures. Differences in financial resources and initial conditions alone do not account for observed policy results" (Orenstein 1995: 179). On the contrary, these country differences were closely linked to strategic government choices about the general course of reform. *Orenstein* rightly claims that the first reform period "was radically neoliberal in macroeconomic policy and social democratic in its approach to labour relations and the welfare state" (Orenstein 2001: 72).

Analysis of the reform period 1989-1996: dealing with dilemmas of simultaneity. Shifts towards increased flexibility or security have consequences for different areas of employment conditions and the employment relationship as for example labour market entry and exit, internal mobility and task assignment, the working time or the level and structure of compensation. Except for the centralisation

Social Policy in five successive governments and ensured the continuity of the committee's work on labour legislation before he became minister for a brief time in 1996 (Spieser 2009: 181).

or decentralisation of regulatory structures of employment, all the areas mentioned above are significantly touched by more or less flexibility or protection.

When looking at the regulation of the labour market it is this area that was object of the most drastic changes from socialist overregulation and full employment policy to capitalist liberalism with the consequence of unemployment and the need of regulation strategies for the flow between employment and unemployment: regulation has gradually been adjusted to the functioning of capitalist democracy and market society in times of increasing flexibility as a trend across basically all European countries. While before 1989, the employment relationship was embedded in the socialist command economy; it rapidly had to be re-arranged in the context of market society and a free allocation of work, wage setting and the adjustment of the workforce. The basic direction of labour market regulation was determined already during the first transformation phase, leading to path creating new laws entailing a recommodification of labour and social stratification. *Vanhuysse* claims that

“[t]he post-communist diversity came about in the short window of about three years (1990-1993). Since that time, new regime structures have been more or less ‘locked’ in almost all policies’ (Kitschelt). [...] in the Czech Republic, as in Hungary and Poland, it had become increasingly hard to conceive of major reversals of democracy and the market already by as early as 1996 or 1997. By this yardstick, it could be argued that the free market economy and liberal democracy (at least in its formal and procedural aspects) were fully consolidated extremely early” (*Vanhuysse* 2006: 1131f.).

During the first reform period, state intervention was still emphasized as a priority in labour market regulation approaches. However, recommodification tendencies with a development of decentralisation of the governance of employment connected to security and flexibility (like hiring and firing rules) and a decentralisation of patterns of negotiation of working conditions became visible especially in Poland. Toward the end of the 1990s, flexibility increasingly became a high profile concept while deregulation dominated the political discourse about the legal framework of the labour market.

4.2.2 Flexibilization and preparation for EU accession (1997-2003)

Liberalization of the Labour Code in Poland: Initially, in 1997/1998, a draft bill on more flexible conditions in SMEs failed and an attempt to modify the Labour Code with a view to less protection turned out in even more protection for workers (*Spieser* 2009: 211). These developments took place despite the employers’ associations lobbying – but they appeared to be much too weak to organise successfully. In 1997, the SLD and PSL coalition introduced small changes to the Labour Code which was still regarded as harmful for business. The Code was seen as a testimony for the power to organize by the unions and the employers. Facing continued dramatic unemployment, the labour law reform gained importance for the Electoral Action Solidarity (AWS) coalition which returned to power in 1997. Many reform proposals were made by the unions with the consequence of increasing controversy with the employers, in particular SMEs.³⁹ Several bills were drafted but rejected because the bill’s aims were

³⁹ SMEs are a very important component of the Polish economy. In 2002, 50 percent of the working population was working in SMEs which constituted 95 percent of all enterprises. The suggested measures included substantial

declared to be unrealistic, serving merely the employers' interests, while it provoked the unions who saw the bill as a test to prove their political power. It was only in 1999 that the government published a draft bill trying to find a compromise between the previous proposals. It was in favour of workers, included free Saturdays, a gradual implementation of the 40-hour-week, and additional two days on the annual leave. But it was also in favour of the employers, allowing an extension of the maximum overtime together with a cut by half of overtime pay and the abolition of restrictions on sequential temporary contracts. However, the bill was defeated as the unions argued that it had not been discussed in the TK and announced that the deputies connected with the unions would vote against it (Spieser 2009: 186).

A pitch in unemployment might have been a turning point, leading to a more concerted effort by the SLD-led government in 2001 and a revitalisation of social dialogue. After the elections in 2001, the Minister for Labour and Social Policy, *Jerzy Hausner*, declared that he planned to fundamentally reform the Labour Code regarding the administrative obstacles for enterprises and reducing expenses. Despite the right-wing government's lost power, business preferences remained visible in the Sejm with some deputies openly representing private business while several trade unionist deputies lost their seats in parliament. A clear sign was the nomination of *Jacek Piechota* (SLD) as Minister for Economy and former chair of the committee on SMEs – his first intervention was to circulate a list of demands from SME owners (Spieser 2009: 188). The above said describes how fragile and unclear the regulation approach in Poland at that time was – with blurred political lines across the parties.

In 2002, the first effective step toward a formal institutionalisation of flexible employment conditions took place. The Labour Code became revised and the Act on Minimum Wage formally institutionalised a minimum wage and tripartite decisions with votes of the governing social democratic coalition supported by the liberal Civic Platform (PO), finally passed in the Senate.⁴⁰ How did this legal change come about? There are two decisive domestic factors for the adoption of legal changes towards market orientation at a given time: “[A] shift in policy coalition in favour of employers and a weakening of the pro-labour union stance” (Spieser 2009: 211). Before the government proposal was passed, the PO had presented its own much more radical project, with a number of employer-friendly measures.

At the same time, the redefinition of the employment relationship and the establishment of non-standard employment were enacted.⁴¹ These newly created jobs were mainly temporary employment (more than three quarters) based on the relaxation of labour regulations in 2002 when the duration of temporary contracts was extended and allowed to exceed 6 months (including renewal) (Karwowski 2010). The

extensions to the maximum overtime allowance, a 50 percent cut in overtime pay and softening the limit of two consecutive fixed-term contracts, which could be bypassed by the employers if the duration of at least one fixed-term contract had been longer than 6 months. The SMEs exemptions included the obligation for enterprises with less than 20 employees to display work and pay regulations for employees as well as exemptions for some SMEs from some safety and hygiene rules and finally the removal of the lump-sum payment for retirees of firms with less than 20 employees.

⁴⁰ Act of 10 October 2002 on minimum wage (Text No. 1679), introducing a tripartite system (employers organizations, trade unions and government) to negotiate minimum wage on a yearly basis.

⁴¹ Within the employment relationship ‘the employee agrees to perform a specific type of work for and under the directions of the employer, in a place and at times designated by the employer, and the employer agrees to employ the employee in return for remuneration’ (Article 22(1) of the Labour Code) (Spieser 2009: 191).

ambivalence of regulation approaches were mirrored by inefficient business lobbying and the permanent union pressure leading to a shortened working week, new administrative burdens for employers together with requirements to install internal company social funds. On the other hand, the debate took a step in favour of business, in some cases even departing the pro-worker activities promoted by the AWS.

Taken together, during the second reform period, the Sejm mainly aimed at liberalizing the Labour Code and increasing labour market flexibility: the Act of 2002 suspended the rule that after two fixed-term contracts an undetermined contract had to be offered to the employee until the accession to the EU in 2004. This measure was a form of numerical flexibility, however at the expense of employment stability, showing that convergence on EU standards remained somewhat superficial and hollow due to divergent national interests. The legislative reforms in Poland concentrated on completing the implementation of the *acquis* in the field of free movement of persons, employment and social policy in 2003, including the adoption of different legal texts, at the same time attempting to deregulate employment conditions by only slightly changing the Labour Code.⁴² Throughout the transformation process, the principal element of labour regulation has remained the traditional Labour Code, a fact that indicates rather continuity or at most incremental change. Reforms operated in a cumulative manner by individual acts that remained within the Code even if it was inadequate in many regards.

Increasing labour market flexibility in the Czech Republic: With the new social democratic government in 1998, the idea of a socially and environmentally oriented market regulation initially dominated in the Czech Republic. This idea sharply contrasted with the previous government's approaches. However, the implementation of according reforms was hindered by budget constraints due to the economic crisis leading to a weak position of the government (Potůček 2008: 8).

At the same time, and partly due to the European Employment Strategy (EES), labour market flexibility was increased through non-standard contracts and flexible working time schedules in order to create more employment, again strengthening the role of the market. To prepare the EU accession, new provisions were adopted by the amendment to the Labour Code in the year 2000, improving labour legislation and introducing new legal instruments.⁴³ These concerned for example collective redundancies and protection of employees' claims in case of the employer's insolvency as well as the right to information and consultation in line with the relevant EU directives and in the European Social Charter, as well as several other provisions concerning working time and health and safety (ILO 2012).

Investment in education and employability was an important element of *Zeman's* policy style, as he aimed at strengthening the links between educational institutions and companies (while involving trade unions and employer organizations). Parallel, he was convinced that policies had to meet increased

⁴² Among them are the (1) The Act of 13 March 2003 on special rules for terminating labour relationships for reasons not tied to employees (Journal of Laws of the Republic of Poland (Dz. U.) 90 items 844), (2) the Act of 9 July 2003 on the hiring of temporary workers (Dz. U. 166, item 1608), (3) the Act of 14 November 2003 on amendments to the Labour Code and related laws (Dz. U. 213, item 2081). These Acts finalised the adaption to EU requirements.

⁴³ Act No.155/2000 Coll., amendment on state social support.

flexibility of the labour market and the required adaptability of the workforce.⁴⁴ As a consequence, the Labour Code was modified (modifications came into effect in 2001) to allow for flexible working hours and part-time contracts, while the weekly working time was reduced from 43 hours to 40 hours and annual leave was increased from three to four weeks (in the non-competitive sphere even 5 weeks). The outcome was expected to be greater competitiveness, reduction of working time per employee, increase of employment and better possibilities to combine work and household duties. The amendment also included the possibility to negotiate severance pay without maximum, it promoted equal treatment of women and men, prohibited discrimination, introduced paternity leave, introduced modifications to industrial relations (more information rights to the employees, the right to establish works councils, including European works councils), and aligned collective dismissal with the respective EU directive that required the employer to notify the trade union at least 30 days before any measures of reducing the collective redundancy. Overall, this amendment was directed towards harmonization of the Czech labour legislation with EU regulations. *Sruk et al.* state that in 2003, the Czech Republic and Hungary had the most flexible working legislation among CEECs (*Sruk et al.* 2008).

An important element during the second reform period under consideration referred to the fact that Czech labour market regulation was based on a comprehensive social dialogue under the Czech Social Democratic Party (ČSSD) government, according to *Keune* the result of a combination of endogenous and exogenous pressures (*Keune* 2006). As a result, *Machonin et al.* claim that “the social structure of Czech society represents [...] a hybrid mixture of inherited egalitarianism, of social stratification based on meritocratic principles, and of emerging class relationships” (*Machonin et al.* 2002: 44).

Analysis of the reform period 1997-2003: consolidation of national regulation differences. The national debate about labour market regulation during the second reform period in both cases has been generally dominated by a neoliberal discourse in favour of flexibility and market orientation more than state intervention and protection. It is not only in this context that the transformation processes were increasingly guided by the ideas of market-making and replacing state governance by market economy principles. As regards employment protection, both cases revealed greater flexibility than most Western European countries and, having been marked with an overall EPL indicator of 1.9 (Czech Republic) and 2.0 (Poland) in 2003 and could be compared with the liberal social democratic Denmark (1.8).⁴⁵

Figure 4.8 (below) provides some interesting information: Poland is placed in a slightly higher position than the Czech Republic when looking at the overall EPL, but when taking a closer look at the individual components of the data, it shows the simplification when placing Poland ‘average’ when compared to other European countries.⁴⁶ While Poland scores very high as concerns regular employment, it is on average as to the regulation on collective dismissals and very low on temporary contracts. The Czech Republic shows high EPL on collective dismissals and a still higher EPL on temp

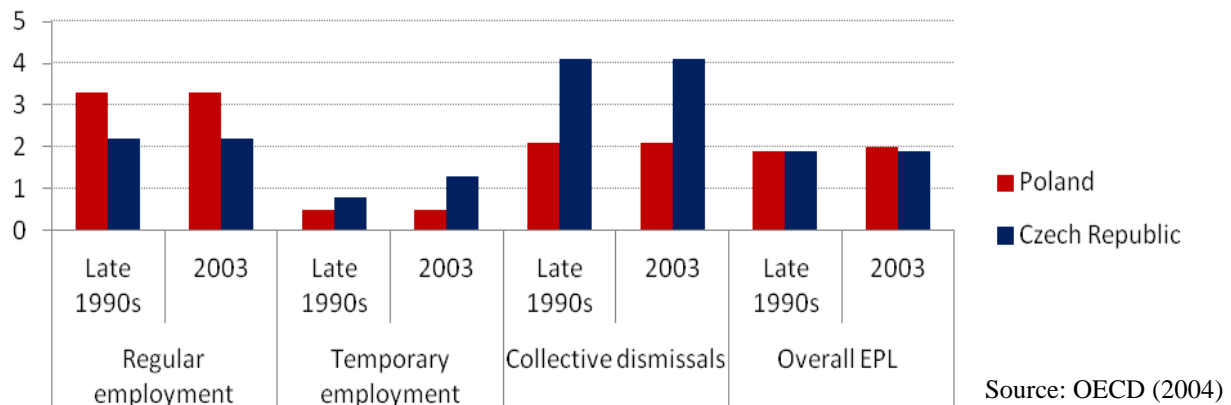
⁴⁴ Government of the Czech Republic and European Commission, ‘Joint Assessment of the Employment Policy Priorities of the Czech Republic’, 11 May 2000.

⁴⁵ On a scale of 0 to 6 high levels show severe restrictions: as an example, Germany at that time was at 2.5; Portugal at 3.7 (cf. OECD quoted after Walwei 2004).

⁴⁶ As concerns this OECD data and the overall EPL, Portugal (3.5) and Spain (3.1) score highest, while United Kingdom (1.1) and Ireland (1.3) score lowest (OECD 2004).

work than its neighbour, while the EPL on regular employment is lower than in Poland. These observations have to take into account the fact that non-standard forms of employment are much more common in Poland than in the Czech Republic, as will be shown later.

Figure 4.8 EPL in Poland and the Czech Republic, different dimensions



To sum up, both cases equally increased harmonization of their labour market regulation with EU standards, improving labour legislation with the introduction of new legal instruments based on the *acquis* (i.e. more information rights to employees, the right to establish (European) works councils, collective redundancies requiring the employer to notify the trade union at least 30 days before any measures of collective redundancy, provisions concerning working time, health and safety). However, what is remarkable is that the negotiations between the involved actors proceeded differently and generated different reform patterns: in Poland, the negotiations proceeded in a rather conflicting and indecisive manner, while in the Czech Republic none of these constraining conflicts were dominating the political negotiations, which were by contrast based on a comprehensive social dialogue.

4.2.3 *Recommodification and EU accession (2004-2009)*

Segmentation of the Polish labour market: In 2003 and 2004, there have been some steps backwards as concerns the flexibilisation of the labour market regulation: the road to EU accession required alignment with EU legislation and policy guidelines characterized by the request for more state coordination as the actual Polish status quo implied. Overall, the Polish Labour Code had introduced elements from thirty different directives that were integrated in preparation for EU membership.⁴⁷ These reforms partly represented the focus on labour market reforms including new modalities of the

⁴⁷ Among these, a few examples include the directives on employment contract information (91/533/EEC), protection of pregnant workers (92/85/EEC), working time (93/104/EC), protection of young workers (94/34/EC), parental leave (96/34/EC), and part-time work (97/81/EC) (for an analysis of these directives' implementation cf. Leiber 2005)

employment contract or a number of provisions increasing working time flexibility from 2002, combined by simplified conditions and procedures advantaging employers.

When regarding the scope of types of employment it can be stated that the rules and procedures governing standard and full-time employment appeared to change more in favour of the employee as compared to those conditions regarding atypical, non-standard forms of employment. It was those growing numbers of workers that created higher degrees of flexibility while not being covered by a standard employment contract and corresponding protection since their contract fell for instance under civil law. *Spieser* says that “[y]et, in recent years a number of acts were adopted with a view to providing minimal regulation of the flexible forms of work (for instance, temporary workers in 2003), largely with the impulse of European directives” (*Spieser* 2009: 287).

The idea of labour market flexibility had become extremely popular in Poland, making the labour market indeed very flexible compared to other European countries: flexible working hours, longer pay periods and atypical contracts offered possibilities to adjust employment according to the employer and the employee needs “while a fairly easy dismissal procedure based on a lack of skills or economic reasons covers a wide range of motives” (*Spieser* 2009: 202). Between 2002 and 2004, the law did not provide any maximum duration for a fixed-term contract nor for a limited number of contract renewals. In accordance with a the European directive⁴⁸, a limited number of fixed-term contracts finally were introduced with Article 25 of the Labour Code, saying that after the completion of three successful contracts it automatically turns into a permanent contract. However, the actual implementation of this law was postponed until the EU accession day, leaving a window of opportunity for unrestricted fixed-term employment contracts. At the same time, the fact that we can observe a continuous rise in fixed-term contracts also after 2004 shows that regulation has no real impact on the length of the employment relationship as the EU directive does not define a maximum duration of the fixed-term contract.

On the whole, the legislation on security and flexibility during the period 2004-2009 has however been rather ambivalent: on the one hand, compared to previous measures striving at greater flexibility, a step towards more security has been the ban on more than two fixed-term contracts while collective dismissals significantly expanded the requirements for information and consultation of workers in case of mass-dismissals. On the other hand, working time rules were also modified again and introduced a more flexible calculation and increase in daily working time combined with the introduction of rules facilitating work on the weekend.⁴⁹ The trend of increasingly liberal regulation of working conditions and labour relations through a growing variation of employment contract schemes continued. Employers gained more power on the choice of their preferred work contract with particular working conditions and the legal framework. This increase in flexibility pushed the development of precarious work through different forms of non-standard work and forms of flexible contracts. One consequence of

⁴⁸ Article 12 of Directive 99/70/EC of 28 June 1999

(Cf. <http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:1999:175:0043:0048:EN:PDF>).

⁴⁹ This requiring for separate contracts in the context of the Act on temporary work, which formally institutionalised these types of flexible work, providing to workers a protection under labour law and also defining their rights and obligations while it “introduced a desperately needed regulation for temporary work agencies and regulated the relationship between the last employer, the temporary worker and the agency” (*Spieser* 2009: 195).

this development has been an increasingly segmentation of the Polish labour market, meaning that the level of protection, the scope of rights and income security heavily depends on the kind of contract.

A new Labour Code in the Czech Republic: In 2004, new legal regulations were planned to increase ‘friendly employment’ based on the belief that legislation was too little encouraging paid work instead of social benefits (Government of the Czech Republic 2004). The Employment Act of 2004⁵⁰ thus tightened conditionality for benefit entitlements and by expanding the power of the labour offices to combat illegal employment. Attempts to introduce an anti-discrimination bill in the same year were vetoed by President *Klaus*. From 2006, a new law introduced the provision of aid to persons in training measures in the form of advantages and sanctions, the latter referring to refusal to cooperate with the system. In the same year, the Subsistence Minimum Act was enacted with the objective to raise the acceptance for work and reinforce the financial advantages of working compared with the declared passive attitude of beneficiaries. Meanwhile, the Employment Act has been amended several times with the objective to introduce higher labour market flexibility, relating for example to tougher sanctions against illegal work, the area of unemployment subsidies and the introduction of green cards for foreign workers (Veverková/Hala 2010).

As concerns employment protection and external flexibility, there are no limits to the sequencing of fixed-term contracts; however they cannot be agreed with graduates of secondary or university level, employees specified in collective agreements and adolescents. Moreover, the maximum length of a fixed-term contract is 24 months and at least 6 months are necessary between two fixed-term contracts. Trial periods are 90 days (only less if agreed) while notice periods are 60 days, 90 days if because of internal enterprise problems (ILO 2011). Procedures of dismissals have to include the consideration of training by the employer before dismissal, as well as the consultation of a trade union and the employee’s support in finding a new job while the severance pay is two months and can be increased by collective agreements (Keune 2006).⁵¹ Collective dismissals are regulated by the EU directive. Unilateral termination of an employment relationship by the employer can be effected in case of notice of termination and in case of instant termination of employment for reasons named in the Labour Code.

Analysis of the reform period 2004-2009: the challenge to balance flexibility and security. The need to balance labour market adaptability with adequate levels of security is a difficult task. How do policy-makers achieve this balance in line with the European best practice of *flexicurity* if the CEECs do not obtain the same financial and management capacities as Western European countries? The Czech Republic and Slovenia were the most successful countries to adapt to the new requirements of capitalist labour markets, maintaining quite high levels of employment, connected to economic factors combined with an effective labour market policy. In Poland, by contrast, the consolidation of regulation approaches has been delayed presumably due to the lack of political efficiency and market

⁵⁰ Act on the Promotion of Employment and Labour Market Institutions of 20 April 2004 (Journal of Laws No 08.69.415).

⁵¹ Dismissal is not possible during sickness, pregnancy or maternity leave as well as for union officials.

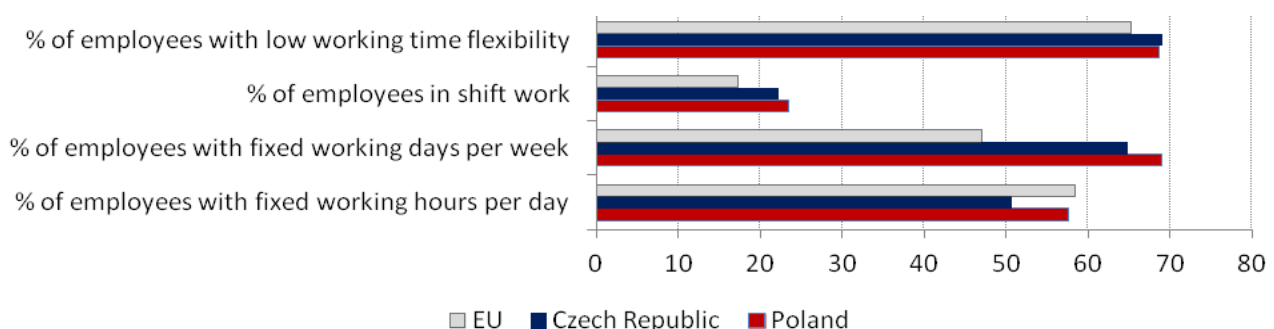
inconsistencies.

Labour market flexibility is important especially in the transformation context because it ensures labour cost adjustment and the reduction of the share of unemployed. Regulation approaches in the third reform period 2004-2009 reflect a manoeuvring between flexibility and security in both cases as the decision to promote more flexibility by giving up protection has been no longer solely an economic but a political one. As emphasized in the MISSOC Analysis of 2008, *flexicurity* is needed to achieve the objectives of the renewed Lisbon Strategy for Growth and Jobs, aimed at combining economic and employment growth with a higher degree of social cohesion⁵² (MISSOC 2008). Concerning the combination of flexibility with forms of security (job-security, employment-security or income security), both countries have had to establish schemes which correspond to the standards set by the EU, but which obviously have not always corresponded to the national interest which has in cases been more market oriented than the EU requirements. As the countries have to comply with EU standards for instance in the field of collective dismissals, domestic settings partly had to be re-regulated in line with the more employee-friendly EU directives. The sphere of market orientation is thus restricted in a way in both countries (Keune 2006). However, the unbroken trend towards market orientation is undisputable as *Nunziata* states that the majority of European countries until now

“have adopted reforms aimed mainly at increasing flexibility at the margin rather than reducing employment protection for insiders. This approach can be explained by political economy considerations: the European median voter is part of the insiders' pool, and the unemployed have less impact at the political level than the employed” (Nunziata 2008: 22).

Figure 4.9 (below) presents an overview of different features indicating flexibility in 2008. They reveal a slightly higher degree of labour market flexibility in Poland when compared to the Czech Republic; when taking into account other EU member states though, overall, both countries' labour markets are more flexible.

Figure 4.9 Labour market features indicating flexibility, 2008



Source: ZUS (2009), Eurostat (2009), Sruck et al. (2008)

⁵² The Lisbon Strategy is a package of policies aiming at higher innovation and productivity in Europe, set out at the Lisbon summit in March 2000 as a new strategy to make Europe more dynamic and competitive. (for further readings see www.eu2007.de/en/Policy_Areas/European_Council/Lissabon.html)

Table 4.3 below provides a concluding summary of the main regulation approaches throughout the three reform periods under consideration in order to illustrate the process of change.

Table 4.3 Labour market regulation approaches in Poland and the Czech Republic over time

| | Poland | Czech Republic |
|-------------------------------|--|--|
| 1. Period 1989-1996 | Commonalities | |
| | <ul style="list-style-type: none"> ● Introduction of market economy faces massive social, political, economic changes and transformation costs ● Institutionalising of a capitalist labour market (recommodification of labour), unemployment status and labour legislation ● The state takes some responsibilities for the collapse of communism, at the same time promotes differentiation in risk management ● Policy change driven mainly by national debate in favour of employee | |
| | Differences | |
| | <ul style="list-style-type: none"> ● Partly maintenance of previously claimed privileges for strategic groups ● Start-stop-start pattern of reform | <ul style="list-style-type: none"> ● Elimination of previously claimed privileges ● Sustainable approaches to regulation |
| 2. Period 1997-2003 | Commonalities | |
| | <ul style="list-style-type: none"> ● Deregulation and flexibilisation of labour law, implicit paradigm shift ● Domestic preferences and power relations are not always in line with EU accession criteria, policy change mainly driven by national debate ● Negotiations on risk management and security, the debate is increasingly in favour of employer | |
| | Differences | |
| | <ul style="list-style-type: none"> ● EPL higher on regular employment ● Shifting between market orientation and paternalism ● Individualisation, liberalization of the Labour Code, institutionalizing flexibility, not counterbalanced by (income) security | <ul style="list-style-type: none"> ● EPL higher on collective dismissals and temporary employment ● Social liberal with increasing liberal trend ● Highly flexible working legislation accompanied by comprehensive social dialogue |
| 3. Period 2004-2009 | Commonalities | |
| | <ul style="list-style-type: none"> ● EU accession and EU involvement is driving change ● Negotiations on risk distribution and security, but new social awareness (market orientation) ● EU regulation is more in favour of employee as compared to PL and CZ domestic preferences (EU compliance) ● EPL more flexible than EU average | |
| | Differences | |
| | <ul style="list-style-type: none"> ● Maintenance of traditional Labour Code of 1974, frequently amended ● Segmentation of the labour market | <ul style="list-style-type: none"> ● New Labour Code (2006) ● Efforts to increase employment, employability ● Centralized at national level, institutions matter |

Source: own compilation based on Potůček (2008) and Spieser (2009)

4.3 Industrial relations and the governance of the employment relationship

Industrial relations function as a governing body of the employment conditions. When tripartite institutions were established in the CEECs in the early 1990s, encouraged by the ILO, they were said to serve a dual objective: on the one hand they ensured political legitimization of the reforms, on the other they were steps on the way back to Europe. Researchers tried to identify whether the emergence of tripartism was a sign of emerging corporatism in the region. But it can also be argued that tripartism in some cases has been used by governments to ‘embed’ their neoliberal policies with a ‘corporatist facade’ (Avdagic 2003: 7). The structure of relations between the state (government) and associations (unions, employers) plays an important role with regard to welfare developments as it provides concrete conflict resolution mechanisms in order to stabilize and channel social conflicts and to supplement the representation of the territorial dimension of the political system (Karolewski 2000: 324).

Before 1989, CEECs disposed of a command economy with the constitutional right to work and the declaration of unemployment of being illegal. Even if a set of rules applicable to the employment relationship was in place, the communist labour market was not governed by the rule of law.

The early 1990s also put the task to restructure the individual working relationship. The main direction of reform in both cases was the shift from prescription to employee protection and from absolute labour standards to minimum standards – this trend reflecting the same development that other areas lived through – from the role of the state to industrial relations. Altogether, the scope of individual and collective bargaining has been enlarged as the role of the statutory regulations has been restricted.

How has the employment relationship changed in the course of political and economic reform? Apart from general labour market regulation approaches as presented above, the sections below focus on three central areas which determined crucial changes of the employment relationship and which can be interpreted in light of more or less decommodification and market orientation. Indicators for determining the form of industrial relations in Poland and the Czech Republic refer to the structure of social dialogue (Subsection 4.3.1), collective bargaining and industrial conflict (Subsection 4.3.2), wage developments (Subsection 4.3.3) and non-standard employment (Subsection 4.3.4).

Tripartism is based on the principle of including of different actors in policy-making and the legislative process. By this means, it functions as a legitimizing factor for governmental policy. Particularly important for transformation societies, tripartism can be said to have been regarded as a way to overcome the legacy of a certain kind of corporatist interest representation linked to the communist regime (Spieser 2009). Institutionalized tripartist social dialogue may provide an alternative system of interest representation that has enabled the development of a market economy since it helped building consensus for reform programmes and secure them in longer term perspective.

From a formal perspective, both countries under investigation have established similar tripartite institutions as will be elaborated below. However, we find traces of three - in parts even contradicting – frames of reference which have inspired the country-specific institutionalisation of regulation patterns. The developments in industrial relations express once more the case variation in combining the etatist legacy, the continental European model of social partnership, and the Anglo-Saxon liberal market model (Bluhm 2008, Spieser 2009: 172).

The Tripartite Commission for Social and Economic Affairs in Poland: The main actors in Polish industrial relations are the organisations which participate in the TK which was formed in 1994 and today operates on the basis of the 2001 Act on the TK.⁵³ The act specifies the criteria of the social partners' representativeness which need to be met in order to be entitled to participate in the TK. In the case of trade unions, it is over 300.000 members; in the case of employer organisations, it is over 300.000 employees in the companies joined in the employer organisation, the government's representatives are appointed by the prime minister (Towalski 2009). When trying to categorise a model of industrial relations, the Polish system is somewhere in between pluralist and corporatist structures, with a clear tendency towards competitive pluralism (Mrozowicki 2010: 3).

There are 10 thematic teams within the TK which has competencies in merely two main fields:⁵⁴ (i) it sets the pay increase indicators in companies and in the state budget sector, entailing direct influence on wages in the public sector; and (ii) it participates in the preliminary phase of drawing up the state budget. The TK has various meetings which tackle items such as the annual pay increase indicator in the state budget sector, the national minimum wage or the situation of healthcare (Towalski 2009).

Throughout the 2000s, the importance of the sectoral-level tripartite negotiations has been decreasing partly due to tripartite negotiations as a whole losing importance. Even if there is no direct confrontation between trade union confederations anymore, the TK remains rather ineffectual (Trappmann 2012: 5, Czarzasty 2010: 7). This is illustrated by the fact that the state stays out of the tripartite dialogue, not strengthening bilateral dialogue but rather weakening the position of the employees. In case of disagreement, the TK's decision-making power is transferred to the government. *Trappmann* claims that as long as liberal parties are in power, this statism negatively effects the employees since the union side in the TK is unable to counter anti-labour positions (Trappmann 2012: 5).

The Council of Economic and Social Agreement in the Czech Republic: The Czech Council of Economic and Social Agreement (RHSD) is the tripartite forum at national level and represents the country's principal institution of social dialogue. In 1990, the RHSD was created at federal and national level as an initiative of the government. The underlying idea was that this forum could help to preserve social peace during the economic transformation with the RHSD having a consultative function. The forum comments on the following areas which are defined by law: economic policy, labour relations, collective bargaining and employment, social issues, public service wages and salaries, public administration, safety at work, development of human resources and education, and the Czech Republic's position within the EU (Hala 2009). Between 1990 and 1992, the Czech government saw the establishment of the tripartite body as a chance to settle fundamental reforms, cushioning social side-effects of economic transformation with the objective of preserving social peace. In this context, some authors speak of 'pre-emptive' corporatism, guided by the belief that tripartism was not only a

⁵³ 6 July 2001 Act on the Tripartite Commission for Social and Economic Affairs and the Voivodeship Committees of Social Dialogue.

⁵⁴ The teams are the following: (1) State economic policy and the labour market; (2) labour law and collective bargaining agreements; (3) social dialogue development; (4) social insurance; (5) public services; (6) the budget, wages and social benefits; (7) cooperation with the ILO; (8) European Structural Funds; (9) the revised European Social Charter; (10) EU affairs.

pragmatic instrument, but a normative idea of the organisation of society beyond elections (Myant/Smith 1999: 266).

Most of the nationally important business sectors, trade union and employer federations were established shortly after November 1989. These actors have nationwide competency and seldom act separately as they are usually members of one of the national confederations and typically hold important positions. It is directly or indirectly that they participate in the national tripartite negotiations. With a few exceptions, these actors are the leaders of social dialogue in their sector and negotiate high-level collective agreements (HLCAs), of which one often applies in the certain sector.⁵⁵ Above that, the social partners are members of at least one European and/or international sectoral structure (Hala 2009).

4.3.1 Social dialogue between pluralism and corporatism

The literature distinguishes between two main types of social dialogue interest mediation: pluralism and corporatism.⁵⁶ These types have different effects on political decision-making. They are of liberal nature in the former and conservative-corporatist nature in the latter case. A fragmented union structure weakens the bargaining power and a more market oriented pattern develops in cases where the labour movement is pluralist and thus more fragmented than in corporatist environments. Pluralistic and fragmented actors' relations are usually associated with market oriented policies. Cooperation between the government and powerful business associations as well as industrial relations favour the establishment and development of market oriented social policies (Schmidt 1998: 184f.).

Pluralist arrangements which tend to be found in liberal-residual models as in the US or UK hold no institutionalized role of stakeholders in the process of decision-making. They are characterized by competing interest groups, each of which tries to influence the market while emerging spontaneously, as none of the groups has a sectoral representation monopoly. In contrast, the corporate bargaining system - more common in continental Europe - incorporates interest groups in the political process and thereby institutionalizes their participation. As a result, workers' interests are usually more involved in policy formulation than they are in liberal systems. Moreover, the interest groups are organized hierarchically, tending to lead to conflict reduction. Finally, the functional interest intermediation is undertaken by large organisations, claiming the monopoly maintenance in certain sectors.

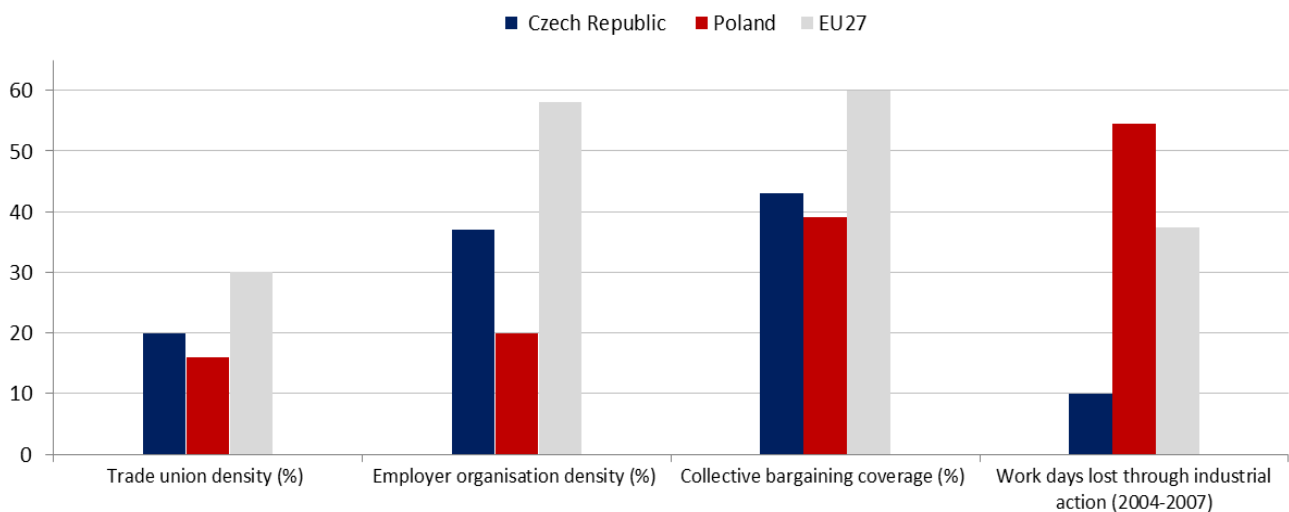
By tracing the development of social dialogue in the Czech Republic and Poland I aim to assess its influence on the emergence and variation of labour market regimes. In contrast the old EU member

⁵⁵ The law distinguishes two types of collective agreements: firstly, enterprise-level collective agreements (ELCAs) concluded between the relevant trade union body and an employer, and secondly, HLCAs, concluded for a larger number of employees by the relevant higher-level trade union body and an organisation of employers. The most common level of collective bargaining is the enterprise level; however, the ELCAs are not centrally registered. With respect to HLCAs, a total of 18 agreements at higher level were concluded out of 32 trade unions in 2008. The agreements covered about 5.364 employers and 607.952 employees (Hala 2009).⁵⁵ HLCAs concluded by the ČMKOS trade unions applied to almost 9.400 employers (compared with 9.304 in 2007) and covered 970.466 employees (998.435 in 2007), representing about 23.2 percent of all employees. When compared to Poland, this is more than 100.000 more employees covered and almost 2.000 more employers covered in a country with one fourth of the population in 2008.

⁵⁶ With reference to *Karolewski* I understand pluralism as a structure marked by a diversity of selective relationships of influence, whereas corporatism is considered as a structure characterized by a well-ordered and permanent link between the state and associations (*Karolewski* 2000: 325).

states, where collective bargaining is carried out at the sectoral level, it is mainly exercised on company level in the CEECs. However, the two cases under consideration differ insofar as in Poland, collective bargaining at the sectoral level does not exist as all negotiations take place in the company. In the Czech Republic, negotiations can take place at both levels, but collective bargaining at the company level has become more common. Figure 4.10 (below) provides an overview of the main industrial relations indicators, showing that the Czech Republic scores slightly higher on trade union density, employer organisation density and collective bargaining coverage⁵⁷, while the number of working days lost through industrial action is higher in Poland, passing the EU27 average.

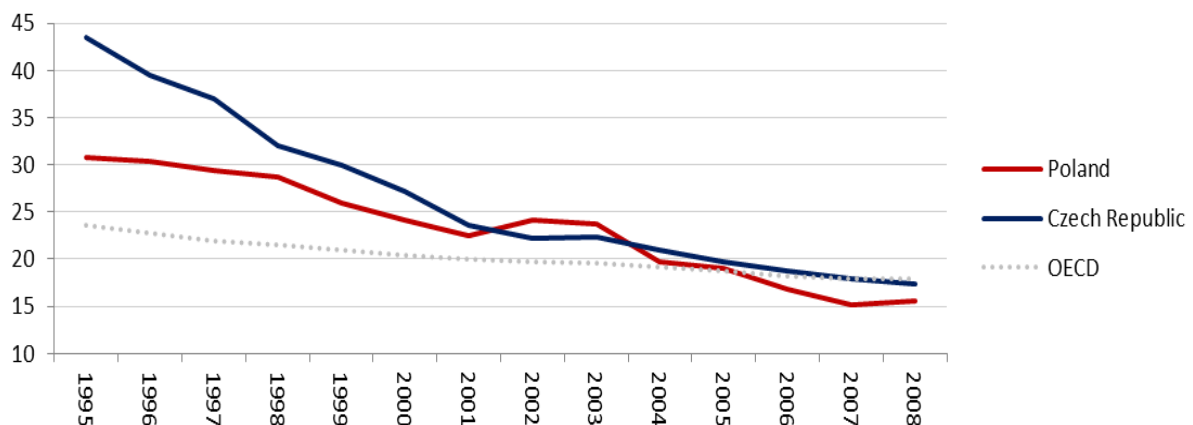
Figure 4.10 Industrial relations, 2007-2009



Source: European Commission (2011), *Work days lost through industrial action*: EIRO

As concerns trade union density, we find a decreasing trend in both cases as Figure 4.11 illustrates.

Figure 4.11 Trade union density*



Source: ILO (2011), * % of employees who are members of a trade union

⁵⁷ The collective bargaining coverage is an indicator of the extent to which the terms of workers' employment are influenced by collective negotiation. It is the coverage rate, i.e. the number of employees covered by the collective agreement, divided by the total number of wage and salary-earners (OECD Employment Outlook, July 1994, Chapter 5, Collective Bargaining: levels and Coverage, page 171, cf. <http://stats.oecd.org/glossary/detail.asp?ID=3554>).

Social dialogue in Poland: Because of the legacy of *Solidarność* as a strong social workers movement, many analysts were expecting Poland to develop towards a form of inclusionary democracy that was based on a strong input of organized labour. However, in European comparison at that time, the record of tripartite negotiations in Poland in their first official shape was evaluated negatively (Avdagic 2003). This led to the statement that the overall Polish transformation strategy was decided upon without tripartite negotiations, also because the formal institution TK was only established later than in other post-communist countries, namely in 1994 as a first reaction to the industrial conflicts in 1992 and 1993 in order to institutionalize tripartite social dialogue.

However, the idea was not to establish tripartism as a general social contract, but a partial social contract in form of the Pact on State-Owned Enterprises, developed in 1993 by *Jacek Kuroń* (Spieser 2009: 150). *Solidarność* inspired this pact to a large extent, and responded to the expectations of the working class that regarded social dialogue as the best instrument to fight for their interests. However, the act was only implemented by the social democratic government that came into power in 1993.

Tripartism and social dialogue had solely a consultative function during the 1990s as *Avdagic* underlines: “Neither the centre-right conservative nor the social democratic governments showed a true commitment to treating institutionalized social dialogue as an essential pillar of the policy making process” (Avdagic 2003: 12). There was one major problem concerning the trade unions within the social dialogue, since rather than cooperating with other unions, they mostly were loyal towards government members when their allies were in office and systematically opposed the government when they were not. It was thus only smaller scale social dialogue that seemed to work well, like the team responsible for drafting new statuses for the tripartite body, while the plenary commission was paralyzed (Spieser 2009: 151). On the whole, the entire institution of social dialogue has been highly politicized and pluralistic given a variety of Polish trade unions with highly particularized interests, making it an object of political dynamics instead of an institution governing the politics of transformation. During recent years, the system of social dialogue in Poland has been functioning in a rather positive economic environment. Due to important changes to labour law, mostly focusing on increasing flexibility and decentralization, the position of entrepreneurs steadily improved. Altogether, it appears that the shift in social dialogue to the company level is irreversible (Towalski 2009).

Social dialogue in the Czech Republic: With the Civic Forum (OF) and the Public Against Violence (VPN) a neo-corporatist experiment started in 1990. As early as 1991, *Václav Havel* emphasized the need for social partners’ cooperation in order to maintain social peace. The unions at that time possessed a heterogeneous membership structure, consisting not only of workers but to a large extent of pensioners and reform losers. All these actors pushed for tripartism, partly to maintain their influence on social policy reform. The unions argued for a binding character for tripartite agreements, but were not successful since political expectations were mainly connected to increasing unemployment and social unrest. However, the unions succeeded to use the tripartite negotiations to launch one of the most important achievements for organized labour with the Law on Collective Bargaining (1991) which extended the unions’ bargaining power.

Especially for former dissidents like *Calfa*, tripartism was a role model. Decision-makers were aware of the fact that they needed the social partners to efficiently implement reforms. *Klaus* accepted tripartism as a provisional instrument, while regarding bipartite negotiations as the final objective. On the whole, there was a consensus between government, unions and employers as concerns the common direction of tripartism. The RHSD fulfilled the task of negotiating the content of new legislation and monitored the economic and social policy developments, in particular aspects of employment, living and working conditions. Compared to Poland, the scope of influence of the RHSD was much broader.

A first result of the RHSD's activities was the General Agreement in 1991, a Social Pact on socio-economic policy. In order to establish a wage baseline, a minimum wage was fixed and in 1991 as part of the agreement (for further reading see Keune 2006). However, wages decreased more than expected. In June 1991, wages unexpectedly dropped by 26.7 percent and led to the protest of unions against the central regulation of wages in 1992. As a consequence, many private companies and joint ventures were excused from the low wage policy, leading to increased market influence and creating room for a growth in real wages – this trend broadly continues to this day. This solution shows that the RHSD, for example with its agreement on socio-economic policy, indeed was able to influence the government's policy decisions. Neo-corporatism appeared to work as a key instrument of negotiations by the social partners in the first transformation years since it contributed to reshaping the new labour market regime.

The government obliged employers to unite within the Confederation of Employers' and Business Associations with the aim of facilitating social dialogue, and as the employers had also been rather weak they failed to resist this decision. The year 1995 marks a turning point when the government replaced the RHSD with the Council for Dialogue of the Social Partners (RDSP), clearly reducing this institution to a consultative body. According to *Klaus*, the transformation had now come to an end making tripartism dispensable. In fact, the RDSP never succeeded in agreeing on any significant issue and it was in 1995 for the first time that no general agreement was concluded. The unions started to be more confrontational and industrial relations became tenser. However, the most important steps towards a rather consolidated social dialogue based on corporate structures had already been realized during the decisive first transformation years and the first reform period under consideration (1989-1996).

It was in 1997 with the economic crisis and increasing social unrest that neo-corporatism regained power and a reconstitution of the RHSD took place. The trade unions however continued demonstrating, trying to accomplish the fall of government, which finally took place in 1997.

From 1998, with the new social democratic government, *Zeman* aimed at integrating neo-corporatism with other forms of workers' participation in policy making. The government continuously emphasized the importance of ongoing social dialogue and communication between the government, trade unions and other social organisations.⁵⁸ It further assured its interest in increasing the significance of tripartism to negotiate a long-term pact of social stability.⁵⁹ Tripartism consequently gained new relevance and as the ČSSD was politically close to the trade unions, ČMKOS followed a more neutral strategy than in

⁵⁸ See ČSSD Election Programme 1998, www.cssd.cz.

⁵⁹ Policy Statement of the Government of the Czech Republic, Prague, August 1998, www.mzv.cz

the beginning of the 1990s and slowly developed cooperation with the political party, while the ČSSD equally integrated the employers' associations. The former Pact on Social Stability - which was not signed due to the lack of power of the minority government – focused on coordinating the various social partners' interests with the objective of promoting competitiveness and economic performance on the way to EU accession. At the same time, another motive was the observation of successful Western European developments in the context of social dialogue and the effort to follow this path. While a pact on social stability failed, neo-corporatism regained importance: the preparation of the 1999 amendment of the Employment Act and the new Act on Employee Protection in case of insolvency of their employer was to a large degree negotiated by the RHSD and several round tables in 1999. It followed the idea of bringing together experts to prepare an amendment of the Labour Code – the success of these round tables was reflected in parliament adopting it without fundamental change. The social democrats therefore institutionalized a compromise between the social partners and the government, involving not only trade unions but also employers at lower levels, setting up regional economic councils in 2000 (Keune 2006: 206). Finally, the ČSSD established the so-called 'social conferences', voluntary discussion platforms open for citizens from various social groups, NGOs and the social partners, headed by the Ministry of Labour. It was in the context of these reforms that the European Commission positively evaluated social dialogue in the Czech Republic (European Commission 2001a and 2003b).

Analysis: varieties of social dialogue between pluralism and corporatism. Certain types of actor relations apparently correlate with certain types of labour market regimes: neo-corporatist actor relation tend to indicate decommodification while pluralist actor relations are often linked to market orientation. Certainly, in both countries the state has to some degree acted as a coordinating agent, however, especially in the Czech Republic, neo-corporatist elements have been visible, exemplified by the trade unions' influence under the *Zeman* government (1998-2002), leading *Keune* to the statement that “[t]his fits the longer-term history of the Czech(oslovak) case where the first *Klaus* government rather appears to be an anomaly than the start of a new trend” (Keune 2006: 227). By contrast, social dialogue Poland has been characterized to a higher degree by pluralist structures.

Whereas in Poland, tripartite consultation has in practice focused on industrial relations while leaving out general economic policies, in the Czech Republic the consultations involved a broader range of not only social and labour issues but also economic policies. Particularly the first General Agreement of 1991 represented a social contract as concerns the main direction of the transformation. Above that, different from other countries in the region, the Czech government's policy and legislative proposals were not obliged to be submitted to Parliament or enacted through the ministries before they have been discussed in the tripartite institutions (Avdagic 2003: 9). The Czech tripartism has been one of the highest as concerns effectiveness and its benefits for labour in general with one of the most relevant outcomes was the low-wage low-unemployment policy which had been accorded with the government and which exchanged direct material sacrifices with social policy concessions to compensate the wage decrease. Interestingly, the trade unions accepted this policy given the fact that mass lay-offs should be

avoided together with the general economic reform principles, which makes the Czech case unique in the region (Avdagic 2003: 10). Compared to Poland, the Czech unions acted in a quite favourable environment, as for example with the 1991 General Agreement which provided them with the supervision of ALMPs and the setting up of the labour offices.

Tripartite negotiations in Poland never became equally important for the general social transformation process. Actually, their record was without doubt one of the poorest in CEE (Avdagic 2003: 12). Obviously, many expected the country of the *Solidarność* to generate the exact opposite with corporatist arrangements which would promote social inclusion together with strong unions. However, the contrary became reality and the labour market reforms were largely decided without tripartite negotiations. Interestingly, neither the center-right wing government nor the social democrats showed real commitment towards social dialogue and tripartist negotiations as an important pillar of policy-making. During the centre-right government in office (1997-2001), tripartism remained largely inexistent, and only during the social democratic period it was that four annual indicative wage arrangements were realized. At the same time, *Avdagic* states that regardless of the differences, all governments tried to bypass the tripartite institutions and go directly to parliamentary debates instead (Avdagic 2003: 12). In sum, tripartism and social dialogue in Poland has never played a role as important as in the Czech Republic and its shape remained rather reactive and pluralist when compared to the Czech initiatives. As a result, it can be concluded that originally similarly designed tripartite institutions have produced different outcomes over time according to their national contexts.

4.3.2 Collective bargaining and industrial conflict

Data on collective agreements in the two countries remains limited. In the Czech Republic, only data on the agreements made by ČMKOS is available. It is however possible to make some remarks on the role of collective agreements in the two cases. Overall, we have to consider the structural configuration of collective bargaining in terms of the organisational level where bargaining takes place. This structure influences the power position of labour market actors. *Thelen* argues that “observed trends toward decentralization and flexibility are often viewed in zero-sum terms, that is, decentralization is explicitly or implicitly equated with a general weakening of labour because it impinges on the ability of unions to establish and enforce uniform national standards” (Thelen 2001: 75).⁶⁰

Collective bargaining in Poland: Bargaining in Poland takes place at a much decentralised level, leading to wide differences in pay as there is no tradition of sectoral bargaining, but rather a tradition of bargaining in the enterprise (European Commission 2011a). The Polish legal regulations for collective agreements are based on two levels: (i) company agreements (employer and the trade union organisation at company level) and (ii) multi-employer agreements (sectoral or regional trade union

⁶⁰ Even if this may be applicable to countries like the United States and Britain “developments elsewhere are more complicated. Sweden and Denmark, for example, have abandoned peak-level negotiations but retained systems of highly coordinated multi-industrial bargaining. In Italy and Spain, the trend has been toward centralization, not decentralization and the renewal of tripartite bargaining” (Thelen 2001: 75).

organisation and the employer organisation).⁶¹

In 2007, a total of 2.648 company-level collective agreements were in force, covering 121.500 employees (Towalski 2009).⁶² Above that, the process of decentralisation and rejection of multi-employer or sectoral agreements can be identified as a lasting tendency in the industrial relations system. In 2008, the multi-employer and sectoral collective bargaining agreements registered 169 subjects, 500.000 employees in 3.480 companies, establishing minimum standards for company-level negotiations.⁶³ Parallel to the proceeding transformation, workers increasingly lost interest in organizing in unions, partly because of legitimacy problems from their role in the past, especially *Solidarność*, but also because of the opposition by employers.

Only a minority of Polish employees is covered by collective bargaining while pay and conditions are set unilaterally by employers. Wage setting and the definition of working conditions are thus increasingly left to the market as a consequence of the downscaling of collective bargaining. However, as there are some 12.1 million employees, the collective bargaining coverage has been somewhere between 14 and 18 percent as estimated by the European Trade Union Institute. EIRO has a higher figure, assessing the collective bargaining coverage at 39 percent between 2007 and 2009 (cf. Figure 4.10).⁶⁴ *Bluhm* mentions that this rather high coverage can be explained by the public sector and public enterprises which during the 1990s had exclusively concluded sectoral contracts (Bluhm 2008: 65).

Industrial conflict and strike: In the last years, an increasing number of collective disputes⁶⁵ and strikes⁶⁶ have been visible in Poland. For the last three quarters of 2008, the Polish Central Statistical Office (GUS) registered 12.800 strikes involving more than 208.000 employees. This shows a noteworthy increase when compared with the years 2007 when 1.700 strikes were reported for the last three quarters, involving 36.000 employees. At the same time, the strikes in 2008 were much shorter (only a couple of hours) than the year before (on average 20 hours) (Towalski 2009). Active protest occurred foremost in the public sector (educational institutions, healthcare institutions and transport), but also the machine industry, metalworking and food factories were striking. As concerns collective disputes preceding the strikes, it shows that 2.869 notices of collective disputes were recorded in 2008, which was 4.5 times more than in 2006. We can explain this increase in industrial action with the expanding economy and declining unemployment in 2008, enlarging trade union demands, calling for wage increase, an annual pay review and a change to the rules on calculating bonuses. Additionally, the

⁶¹ The collective agreements mostly regulate wages, working time and social benefits, referring to issues such as training and trade union rights. Other topics covered by the collective bargaining are rather marginal. Chapter XI of the Labour Code (Act of 26 June 1974 – Official Journal (O.J.) of 1998, No. 21, item 94, as amended) defines the rules of contracting collective agreements (Towalski 2009).

⁶² 164 of these were new collective agreements, 54 of which were initiated by employers who had not practiced collective bargaining before.

⁶³ According to the law, if there is a collective agreement at company level, it covers all of the employees.

⁶⁴ Cf. www.worker-participation.eu/National-Industrial-Relations/Countries/Poland/Collective-Bargaining#note4

⁶⁵ A *labour dispute* is a state of disagreement over a particular issue or group of issues over which there is conflict between workers and employers (cf. <http://laborsta.ilo.org/applv8/data/c3e.html>).

⁶⁶ A *strike* is a temporary work stoppage effected by one or more groups of workers with a view to enforcing or resisting demands or expressing grievances, or supporting other workers in their demands or grievances (cf. <http://laborsta.ilo.org/applv8/data/c3e.html>).

violation of trade union rights was another reason for disputes, especially as concerns trade union rights provided by agreements signed between employers and trade unions. The conflicts usually ended in the intellectual exercise of signing an agreement of disagreements. The Polish law requires that mediation procedures are launched in a second step. In reality, the parties tend to remain in a state of collective dispute for a long time.

Collective bargaining in the Czech Republic: From 1991, the Act on Collective Bargaining regulates the procedure of collective bargaining and disputes, including mediation, strikes and lock-outs.⁶⁷ The underlying philosophy of the act was to strengthen the employee's role and that of the trade unions. Collective agreements can only deviate from the law if they are in favour of the employee. Additionally, regulations include the option of higher level agreements and the extension of agreements to non-participating employers.⁶⁸

From 1991, there was an extension of HLCAs which concerned 119 employers mainly in the metal and chemical industry and mining. In 1992, it was already 650 employers now including instruction, textile and food industry, transport, and a number of services (Keune 2006: 152). Collective bargaining is coordinated by ČMKOS through annual targets in the field of wages, training, social benefits and other issues. The coordination process is linked to the targets announced by the European Trade Union Confederation (ETUC).⁶⁹ Different to Poland, collective bargaining in the Czech Republic remains rather stable on a semi-centralized level with an employee representation that is governed by the unions, and today also increasingly supported by the works councils. Both actors have to inform all employees about their engagement in negotiations with the employer. Trade unions are the central actor in employee representation - it is them who represent employees in labour relations and collective bargaining, the task codified by law, with the result of collective agreements in the framework of tripartite negotiations in the RHSD.

On major obstacle to collective bargaining is the fact that in the public sector, no HLCAs can be concluded because public sector employers may not establish employer organizations by law. On the other hand, in the private sector, employers' associations often have either no interest or no mandate from their members to conclude agreements. Finally, the centrally regulated wage policies were also limiting the space for wage bargaining until 1995 (Keune 2006: 152). On the whole, the coverage of collective agreements has thus declined since the early 1990s, because actors were often not willing or able to fulfil the extensive collective bargaining included in the Labour Code.

The number of company collective agreements and HLCAs steadily declined after 1990 and while they covered 2.8 million employees in 1995, this number decreased to 1.4 million workers who were covered by any form of collective agreement in 1998 (29 percent) while 522.000 workers were covered by

⁶⁷ Collective Bargaining Act (Act No. 2/1991), entry into force on January 2, 1991 (see www.ilo.org/dyn/natlex/natlex_browse.details?p_lang=en&p_country=CZE&p_classification=02&p_origin=SBJECT).

⁶⁸ The law distinguishes between company collective agreements (CCA) between the relevant trade union authority and the employer, and higher level collective agreements (HLCA) between the relevant higher level trade union and an employer organization. Usually, talking about collective agreements in the Czech Republic, it is referred to HLCAs.

⁶⁹ The ČMKOS and Solidarność both joined ETUC in 1995, and finally, in 2006, the Solidarność consented also to OPZZ's membership of the ETUC.

HLCAs, as stagnating trend also in the 2000s.⁷⁰ In 1999, the new social democratic *Zeman* government tried to improve the coverage of collective agreements through extensions. Their efforts resulted in a higher coverage, accounting between 399 and 3.500 employees in the period 1999-2002 (Keune 2006). If we look at the coverage by any type of collective agreement, the number amounted to some 1.8 million people in the Czech Republic in 2001, corresponding to 44.7 percent (Keune 2006: 248).

After 2004, the process of social dialogue became more European in terms of European topics entering this dialogue in HLCAs. This Europeanization of collective bargaining was also found in the methods and coordination of its objectives on the trade union side. With regard to the quality (the scope of employee coverage) and quantity (the numbers of company-level collective agreements and HLCAs negotiated), developments between 2004 and 2007 were rather stable. The dynamics of extending the scope of collective agreements to other employers continued. The HLCAs with their binding character were expanded to include another 3.975 employers with 362.000 employees. According to ČMKOS, in 2008, 3.119 HLCAs were concluded with 6.344 employers, applying to 1.110,109 employees which represented 26.5 percent of all Czech employees,⁷¹ The latest figures by the Czech Statistical Office show that 41.2 percent of all employees were covered by collective bargaining in 2009, with 41.3 percent not covered, and 17.5 percent where the position is unclear.⁷² The Czech social partners currently focus on programmes for cushioning the negative effects of the economic downturn, mainly at the central national level.

Industrial conflict and strike: No legally fixed reporting duty exists for industrial conflicts. Activities by the social partners have not been centrally monitored and in terms of conflict resolution, the regulations are set by law. A dispute has been ended with the help of a mediator in three HLCA-cases in 2008 (none in 2007) and 12 ELCA-cases (five in 2007). No strike alert was announced during the negotiation of an HLCA in 2008 (same in 2007). As concerns ELCA's however, seven strike alerts were announced during the negotiation phase (one in 2007). Four strike alerts were announced outside of collective bargaining in 2008 (three in 2007). No strike took place during the negotiation of an HLCA or ELCA in either 2007 or 2008. There were three strikes outside of collective bargaining in 2008 (one in 2007) (Hala 2009). The first was against budget cutting in relation to the regional educational system and wages. The second action was a one-day strike against public health policy. The third strike was against restructuring in a factory of the electrical and electronics manufacturer *Siemens*, which was moving production out of the Czech Republic (Hala 2009). Different protests and demonstrations took place in 2008, for example against pension and healthcare reform, against public finance reform or against mergers of public hospitals (Hala 2009). The public sector was the main sector involved in

⁷⁰ The coverage of company collective agreements fell from 1.4 million in 1998 to 1 million in 2001, the coverage of higher level agreements decreased from 522.000 in 1998 to 447.000 in 2001 (Keune 2006: 214). While in 2001 only 288.000 employees were covered by higher level agreements by virtue of extension decided by the Ministry of Labour, this number increased to 730.000 in 2001 with this instrument of increased state governance, leading to increased association governance as well.

⁷¹ See EIROOnline www.eurofound.europa.eu/eiro/country/czech.republic_4.htm

⁷² See www.worker-participation.eu/National-Industrial-Relations/Countries/Czech-Republic/Collective-Bargaining#note1

strikes. Wages, working conditions as working hours, collective redundancy, and governmental economic measures were the main reasons for strike action. Overall, however, the intensity and number of industrial conflicts and strikes in the Czech Republic can be neglected when compared to the very high numbers in Poland. Unfortunately, concrete data on this topic shows to be rather blurred.

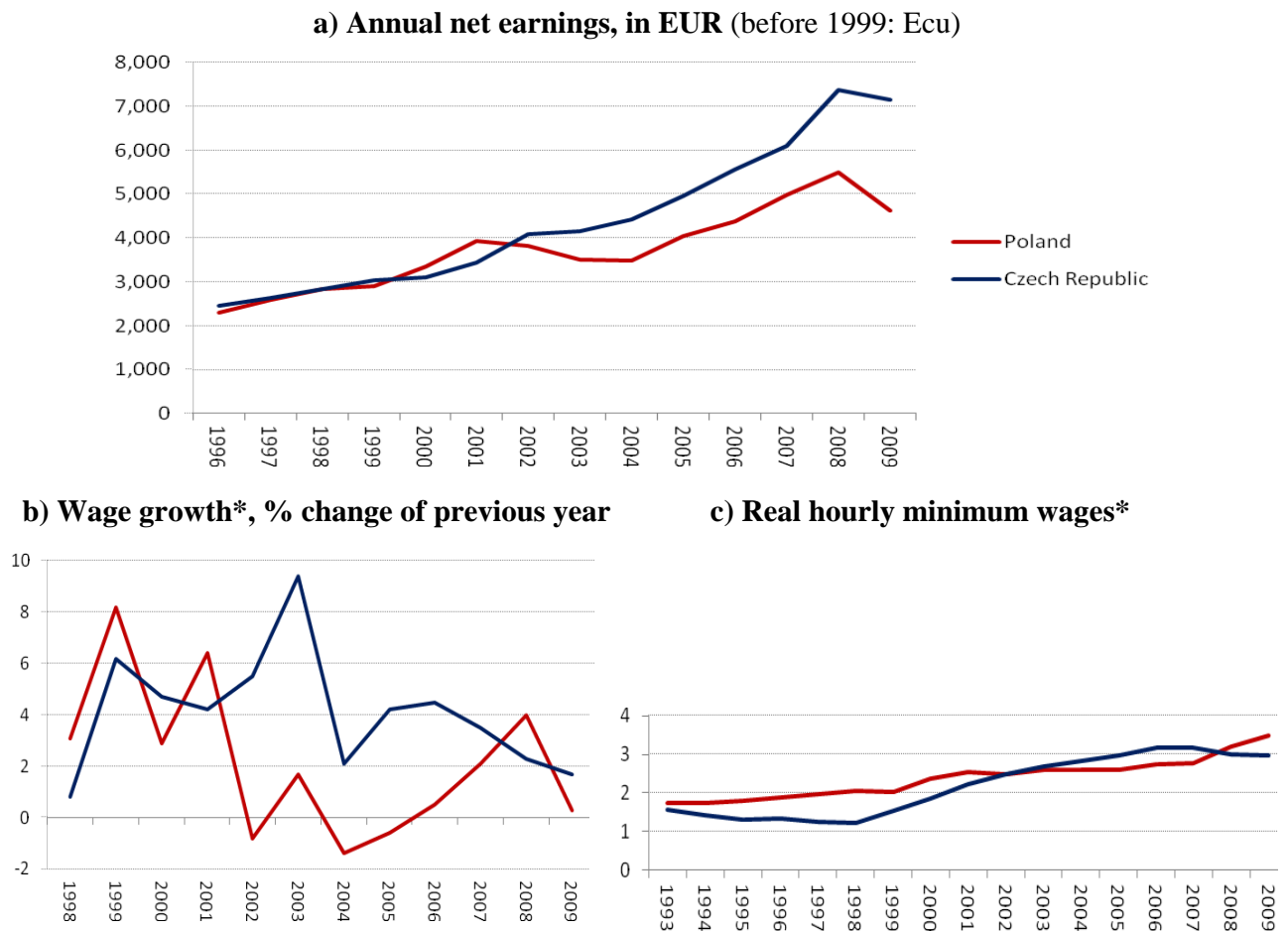
Analysis: between plant-level and central-level collective bargaining. In summary, collective agreements in the Czech Republic cover slightly more employees and tend to be more market-restricting and employee protecting than those in Poland. Given the five years of tight wage control policy, collective bargaining could not establish as a mode of governance in the Czech Republic, simply because it was not effective. The trade unions opposed this situation, arguing that collective bargaining was of vital importance to compensate diminished social protection and to set higher minimum wages. The Czech Republic has a relatively weak pluralist structure, already founded in 1990 by the social democratic government wing through the institutionalization of social partnership with a tripartite Council for Economic and Social Understanding as the main intermediary organisation.⁷³ Compared to this, even if the Polish Solidarność had taken an important position, it had however changed its self-perception since the 1980s and prioritized economic issues over social questions so that the actual worker representation was neglected. While the tripartite structure in the Czech Republic had a cushioning effect on liberal reforms from the beginning of transformation, Solidarność even supported these reforms. Based on these results, we find less a converging than a diverging development in collective bargaining, despite the comparable historical background and structural basis because of the common former socialist system. Collective bargaining in Poland takes place exclusively at plant level whereas in the Czech Republic, these are carried out at plant level as well as on the industry level. Czech trade unions by law have an active role at the enterprise level and in many cases are equipped with rights and responsibilities for example as to further specify collective agreements in favour of the benefit of the employee. Apart from the bargaining rights, even if their role is primarily to comment and to consultate, the philosophy behind refers to the clear presence of unions in the economy.

4.3.3 Wage developments

Before 1989, wages in CEE were fixed. The regime change brought along an end to this procedure with the liberalisation of the labour market und privatisation processes. Figure 4.12 (below) illustrates the distinct wage development in both cases as concerns wage growth, revealing that in Poland wage development shows more alternation of increases and dropdowns when compared to the Czech wage growth which was comparatively continuous until the global financial crisis beginning in 2008/2009.

⁷³ The representatives' task was to influence the shape of labour law, to resolve and prevent social unrest and industrial conflict, to define national wage guidelines, and to take a stand with respect to economic and socio-political issues (Götting 1998: 54, see also Orenstein 2001: 75). Every year, the so-called 'General Agreements' were signed by the social partners. However, they had a more constitutive character and did not fix wage guidelines. Especially in the first transformation years the council had the task of socially securing the economic and social transformation and to strengthen tripartism as an element of control, especially in view of EU membership (Kohl/Platzer 2004: 214).

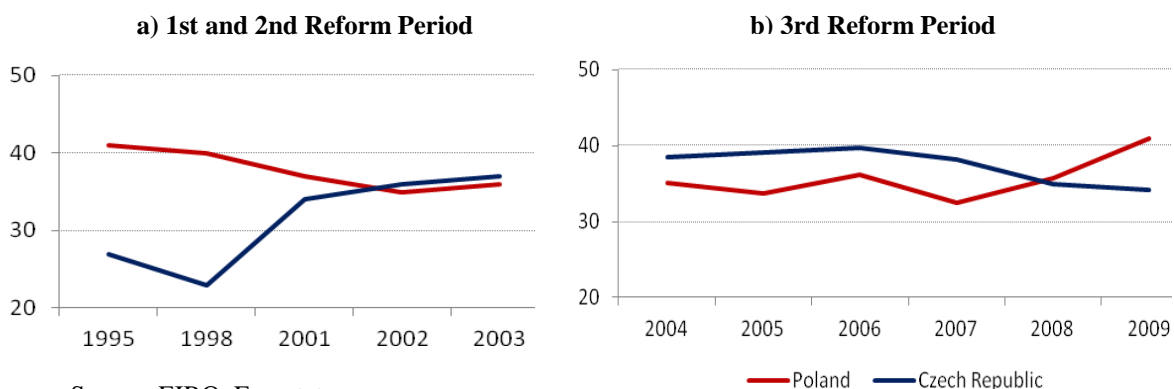
Figure 4.12 Wages in Poland and the Czech Republic



Source: Eurostat (2012⁹), OECD (2011a), Eurostat (2009), *USD in PPP

As concerns minimum wage developments as a proportion of the average monthly wage, we find a rather similar development showing more or less continuous increase in both cases. Exceptions are the dropdown in the Czech Republic from the beginning of the 1990s until 1998 due to a low wage-low unemployment policy approach of the government, illustrated in Figure 4.13.

Figure 4.13 Minimum wages as % of average gross wages, 1995-2003 and 2004-2009



From centralised control of wages to plant-level bargaining in Poland: Because of the fight against inflation due to the price liberalisation in 1989, state control over wages through tax-based policies remained a labour market regulation instrument. Excessive wage increase was penalised by progressive taxation, called ‘popiwiek’⁷⁴, which had initially been focused on the wage costs of enterprises. Having been revised in 1991, it also focused on the average individual wage. This regulation concerned mainly the public sector and actually led to wage decline and restricted potential for union pressure on wages. From the mid-1990s, wage negotiations were left to the social partners with the introduction of tax-based income policies. The TK provided the main instrument for wage negotiations. It made propositions concerning the growth of wages in enterprises in 1994, the level of resources to be allocated to budget sector institutions in 1995, the maximum wage growth rate in enterprises in 1995, 1996 and 1997, and finally the level of average pay in the budget sector and pay differential in sub sectors (Spieser 2009: 178). A growing lack of cooperation between Solidarność and OPZZ led to the suspension of the negotiations in 1996. From this time on, the TK had no longer any influence on wages in the private sector. Interestingly, right from the start, Solidarność “rather eased plant-level collective agreements” (Bluhm 2008: 64).

Due to decentralization, wage bargaining took place at local plant level in over 80 percent of Polish enterprises in the 1990s, mostly without the involvement of any shop floor union while surprisingly, Solidarność showed to be in favour of performance-based pay (Spieser 2009: 179). This attitude fits rather in the picture of a union that prioritizes market orientation over the representation of workers’ interests. At the same time, however, with regard to the wage structure, up to 1998, it was remarkable that in the public sector wages in Poland remained higher than in the private sector (in 1998 up to 15 percent) and around the year 2000, the highest wages were found in the mining sector with mainly large companies, where the average wage was 50 percent above the average wage (Torres et al. 2001: 19).⁷⁵ After a short peak in 2001, wage increase extremely dropped and only slowly recovered from 2004 until the first signs of the European financial crisis were visible. However, the years 2007 and 2008 were still a period of wage increase, especially in the financial and construction sectors.⁷⁶ At the same time, 2008 marks the last year with such positive development and in 2009, wages sharply decreased.

Overall, Poland is among the L9 EU countries, namely those 9 member states with the lowest real household income per capita, while its minimum wage is the highest in the new member states. At the same time, low wages are coupled with low net transfers and high inequality: low in-work benefits are targeted to low-wage earners but these benefits are off-set by the high social contributions and a tax system which is not progressive (European Commission 2011a). Due to the crisis in 2008, a slowdown in real wage growth aimed to limit employment cutbacks (OECD 2010a). As a procedural characteristic concerning wage negotiations, the Polish system is largely decentralised.

⁷⁴ Indirect wage tax in Poland (1984-1992).

⁷⁵ An ambivalent development of state and market based power is identified: “The growth of state employment can be attributed to the efforts to reorganize the old while building new spheres of the state administration in order to respond to new domestic and international challenges and regulatory needs by the emergence of markets” (Ekiert 2001: 17).

⁷⁶ According to Towalski, a survey by the *Wynagrodzenia.pl* internet portal of young educated individuals, the average pay had increased by 26.7 percent. The survey highlights the variation concerning employee wages at different levels of management: in 2008, rank and file managers earned 4.5 times less than board members (Towalski 2009).

Minimum wage: After the political regime change, the minimum wage in the two countries should provide the protection of workers against exploitation and impoverishment. Nevertheless, the fact that the governments kept the minimum wage as a benchmark for other social services initially very low, led to an erosion of social protection.⁷⁷ Initially, the level of the Polish minimum wage depended on government decisions, but it is today negotiated by the TK. In 1997, the Polish Constitution officially recognised a minimum wage set by the MPiPS. The minimum wage was intended to reflect regional differences and should be implemented in varied levels. While *Solidarność* supported a higher minimum wage, set at 40 percent of the average wage, it was against the indexation of the minimum wage on inflation and the introduction of a lower wage for labour market entrants at the end of the 1990s. In 2002, the minimum wage was increased with a new legislation that also established a lower rate for school-leavers (aiming at promoting youth employment at a time when youth unemployment was higher than 40 percent). From 2003, the TK negotiates the minimum wage on the underlying government proposal (in cases of a lacking consensus, the wage is set by a government resolution).

Since 2000, the minimum wage has been one of the lowest among EU member states, only increasing during the last years from 34.8 percent of the average wage in 2007 to 41.1 percent in 2009 (Sienkiewicz 2011: 7). In 2009, the minimum wage had amounted to 381 EUR (1.276 PLN) and applied for 4.2 percent of all employees (European Commission 2011).

On an annual basis, the amount of the minimum wage is negotiated by the TK. The government remains heavily involved in minimum wage negotiations as for example between 2005 and 2009, it pushed the minimum wages to increase by 14 percent relative to average wages, exceeding the OECD average when regarding the ration between them (OECD 2010a: 7).

Czech wage policy and the low wage-low unemployment strategy: With the transformation, centralized wage control for medium and large enterprises forced wages to decline strongly as part of the governments' low wage-low unemployment strategy, included in the 1991 Central Agreement. Wage setting during the first transformation years remained an important instrument of state coordination, even though the negotiations were subject to tripartite negotiations. As a consequence, "the state sometimes raised public sector wages in function of elections or to defuse protest, while at other times they were depressed in function of inflationary or budgetary objectives, or to force down wages in the entire economy" (Keune 2006: 239).

In public, Prime Minister *Klaus* favoured limited state intervention concerning working contracts and labour market regulation in general: "We do not agree with regulating the labour market, as it always has a negative impact on economic competitiveness" (ODS political programme of 1996).⁷⁸ However, contrary to what he proclaimed, *Klaus* had reintroduced wage regulations already after the elections in 1992, trying to meet the social tensions which followed a decline in the living standard. These regulations focused on controlled wage increase, allowing a maximum of 5 percent growth per year, independent from economic development. Wage policy was thus turned into a micro-economic

⁷⁷ Meanwhile, social benefits are indexed to the average wage.

⁷⁸ ODS political programme 1996 (see www.ods.cz/docs/programy/program_1996.pdf).

instrument applying to state enterprises. As a consequence, since these enterprises found themselves in a disadvantaged situation compared to non-state enterprises, a wage gap between the two sectors developed and made collective bargaining in state enterprises difficult. The limit of 5 percent was extended to almost the whole economy after 1994 when many of the state enterprises had been privatized. Wage control appeared to be a suitable instrument to remain competitive, to address budgetary problems and to keep unemployment low.⁷⁹ In this context, *Keune* argues that

“[f]or the monetarist neoliberals, including IMF and the World Bank, somehow the labour market is the only area of the market economy where the market can be suspended at convenience to achieve other policy objectives. Wage restraint is with great ease incorporated into the discourse of the main promoters of the market” (Keune 2006: 197).

After the procedure of wage-control had been abolished in 1995 because of the attempt to stop inflation, wages had increased by 8.7 percent in 1995 and 1996 as a result of low unemployment and the influence of the unions. The economic crisis of 1997 entailed a situation in which wages – which were still effectively owned by the state - in the public sector and in large enterprises were frozen and the minimum wage lost its real value. Step by step, the design of the labour market actually looked like a market with i.e. foreign investors paying higher wages than their domestic counterpart (Schmid, German Embassy in Prague, interview in 2011).

With the economic crisis in 1997, the government again intervened and froze wages in large enterprises and the state sector.⁸⁰ Wage control was followed by a new interest in social dialogue by the government, stating that “[t]o solve the same problem in enterprises not owned by the state, we shall strive for maximum co-operation and understanding of our social partners, i.e. trade unions and employers” (www.vlada.cz/en).⁸¹ Following this policy, wages in the private sector only increased by 1.3 percent in 1997. In 1998, further wage cuts were implemented, positively recognized by the IMF, stating that wage restraint was an instrument to maintain adjustment and welcoming the intended reduce in nominal wage growth in state-controlled enterprises in 1998 (see IMF Press Information Note No. 98/12).⁸² The *Klaus* government tried to curb real wage growth to two thirds of growth in labour productivity, however, neither the government nor unions could control wage developments at the micro level, leading to the problem of non-payment of wages addressed by improved bankruptcy and insolvency legislation. At the same time, in 1999, due to the crisis, many workers did not receive their wage. Unions put strong pressure on companies and the government to improve the bankruptcy law in order to guarantee wage payment. The only actor opposing this claim was *Klaus*, but his protest did not succeed since the Act on Protection of Employees in Event of their Employer’s Insolvency was adopted

⁷⁹ According to *Keune*, the unintended effect of this policy was however that wages in some cases increased more than they would have without this policy (Keune 2006: 196f). This led to a situation in the period between 1992 and 1995 during which productivity increased less than wages did and paved the way for inflation.

⁸⁰ In 1997 the parliament adopted the package “Correction of Economic Policy and Other Transformation Measures” designed by *Klaus* (see www.vlada.cz/en/).

⁸¹ “Correction of Economic Policy and Other Transformation Measures” (see www.vlada.cz/en/)

⁸² Cf. IMF Press Information Note No. 98/12, March 6, 1998: IMF Concludes Article IV Consultation with the Czech Republic, www.imf.org/external/np/sec/pn/1998/pn9812.htm, for further readings see www.imf.org/external/country/CZE/index.htm

in 2000.⁸³ This act implemented the EU Directive and entitled workers to receive their wage for a maximum of three months in case of insolvency of their employer. The union pressure ensured that the implementation became effected long before planned schedule.

Wage policy under social democratic Prime Minister *Zeman* (1998-2002) differed from that of *Klaus*: competitiveness and productivity were the main basis for sustainable economic growth from his point of view, but also the rejection of low wage strategies. *Zeman* rejected the idea that cheap labour had the potential to become the fundamental comparative advantage in a globalized economy. According to him, even well-paid labour with high productivity was needed.⁸⁴ Above that, inflation and the budget deficit should be kept under control – but rather in order to meet EU requirements than out of monetarist beliefs. One of the government's main objectives was to raise employment by promoting incentives for unemployed people to take a job, for example by enhancing the income from work.

Taken together, the government's measures included wage regulation changes, stressing the importance of responsible wages developing in line with economic performance as had been emphasized by the European Commission: "Real wage increases in relation to labour productivity growth should take into account the need to strengthen the profitability of investment and international competitiveness, whilst allowing a steady increase in purchasing power and private consumption" (European Commission 2000). On the other hand, the *Zeman* government clearly favoured investment over consumption, a strategy that found agreement by the European Commission while it indicated rather market oriented approaches. Trade unions argued that wages should develop in line with productivity, but actually, wages increased faster than productivity did. In 2001, a pre-election year, similar to Poland, wages in the public sector even topped wages in private business. In the period 2004-2007, the Czech Republic witnessed an overall increase in wages and labour costs. However, both were about three times lower than the EU average.⁸⁵

The Czech Republic is among the L9 group of EU members with the lowest real household income per capita in the EU. At the same time, the low in-work poverty rate in the Czech Republic is due to a high redistributive effect of the welfare state which generated very low rates of inequality – in fact, the Czech Republic is among the countries with the lowest income inequality in the EU. The Gini coefficient shows that the Czech Republic in 2009 has been the country with the fifth lowest inequality in the EU (European Commission 2011a). The income distribution is relatively compressed with the consequence that the number of households with incomes below the 60 percent threshold is relatively few. According to the European Commission, the low rate of inequality has actually been achieved

"by an effective targeting of social transfers towards low earners, consisting of a combination of progressive income tax and targeted income-tested benefits which supplement low earnings, mainly for working families with children. Since the early 1990s such targeted policies have been put in place during the transition to a market economy to compensate for the increased living costs of low-income groups" (European Commission 2011a).

⁸³ Cf. Act 118/2000 Coll.

⁸⁴ Policy Statement of the Government of the Czech Republic, Prague, August 1998 (see www.mpsv.cz).

⁸⁵ In 2007, the average earnings were 956 EUR, compared with 799 EUR in the year 2004 (Hala 2009). The average labour costs corresponded to 1.195 EUR in 2007, while they were at 941 EUR in 2004 (Hala 2009).

Compared to Poland with its increasing inequality, it is remarkable that the picture looks different in the Czech Republic. Referring to the categories of decommodification and market orientation another difference shows in the semi-centralized wage negotiations achieved through collective bargaining and involvement of the social partners in the Czech Republic.

Minimum wage: The General Agreement of 1991 defined for the first time a national minimum wage by the social partners in the framework of the law on The Subsistence Level. Low inflation was an objective in both countries during the transformation period; however, the Czech Republic was more successful in meeting this objective. Inflation is an important variable effecting wages. In 1991, combined with strong wage control, wages in the Czech Republic fell dramatically to about 70 percent of their 1989 level due to high inflation (Keune 2006: 257). Since then, wages however continuously increased until today. They had already recovered in 1996 and reached their 1989 level, attaining a level in the Czech Republic which was 28.5 percent higher in the year 2003 than in 1989. For President *Klaus*, the minimum wage has always been a market-distorting element. And as the minimum wage just as in Poland was the basis for the calculation of a variety of social benefits paid from the state budget, the government did not have a pronounced interest in increasing the minimum wage. As a consequence, the minimum wage of just over the half of the average wage in 1991, was reviewed only three times 1992-1998 and lost its real value to reach only 23 percent of the average wage (see Figure 4.11), losing its function as an effective wage floor.

Zeman progressively increased the minimum wage and the subsistence minimum between 1999 and 2002 after negotiations with the social partners and the minimum wage reached 36.3 percent of the average wage by 2002 (Hala 2009). The objective behind was to make people taking up employment, reducing the dependency on social benefits and to slightly improving the living standard. It functioned thus as an activation instrument, at the same time reducing the social expenditure and poverty. While some employers protested first, the number of people receiving the minimum wage was low enough to guarantee competitiveness.

After several increases, the minimum wage was at 40 percent of the average wage (222 EUR) in 2004 and at 308 EUR a month for 40 hours a week in 2007 (Hala 2009).⁸⁶

In 2009, it had amounted to 327 EUR, and applied to 2-3 percent of all employees (European Commission 2005: 124, European Commission 2011). The only slight difference between the level of social assistance and the minimum wage continues to be criticized from the liberal side (Soukup, RILSA, interview in 2011). However, as the Czech minimum wage is not indexed, there has been no automatic adjustment to the overall wage inflation. Labour legislation regulations have been valid only for the definition of a minimum wage by the government, equal pay for women and men, fixed in the Act on Wages, Remuneration for Stand-by and Average Earnings; and Wage Supplements for Overtime, Shift Work, Work on Holidays and Work on Night.⁸⁷ According to the Labour Code, the minimum wage is decided upon by the government after consultation of the social partners. The influence of the trade

⁸⁶ Government Resolution No. 567/2006 Coll.

⁸⁷ Consolidated Text No. 54/2001 of the Act on Salary, Remuneration for Stand-by Work and Average Income, entry into force on 1 January 2001.

unions through central agreements during the social democratic government (1998-2002) focused on securing that even if the average wage was reduced under the low wage-low unemployment strategy, there was a comprehensive wage bottom protecting people from extreme income loss. Today, the statutory minimum wage is lower than in the old EU-15 member states, but it is among the highest in the EU member states that accessed the EU in 2004 (European Commission 2011a).

Analysis: wage regulation between state intervention and market dynamics. Data on wage developments in Poland and the Czech Republic reveal several interesting findings:

(i) As concerns state intervention and control of wage development, both cases are characterized by those interventions to coordinate the transformation of the labour market. However, these interventions proceeded differently: with the beginning transformation, the ČSFR government chose to end price control and promoted a heavy wage decline as a drastic adjustment to the new economic situation and instrument of the new low wage-low unemployment policy. It was supported by Czech trade unions as an important player in the decision making process which accepted the initial wage decline with the objective to preserve employment instead of pushing for labour market exit. The Czech government implemented centralised wage control until 1995 through punitive taxes on wage increases, limiting the market to a large extent and keeping employment rates high. Especially *Klaus* promoted the low wage policy not only with the aim to keep workers employed, but to guarantee the export of goods during the period of privatization and restructuring. A side-effect of this policy – certainly in line with *Klaus*' convictions – was the increase in competition, safeguarding the position of state enterprises as a micro instrument. Interestingly, Czech actors succeeded with this radical reform step and could count on extensive public support. Yet, their reforms were politically legitimated, for example linked to the fact that *Klaus* and his team spent a year to prepare the public for transformation hardships (Bell 2001).

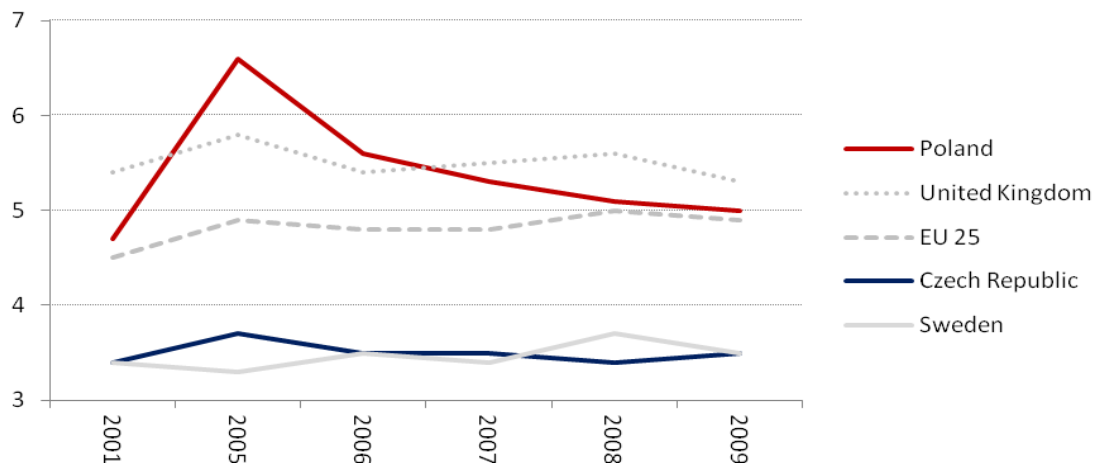
The Polish situation reflected a lack of social acceptance of the reform directions and the way how democracy functioned.⁸⁸ At the same time, the Polish low wage policy might be interpreted as socialist legacy, cost pressure *and* market oriented policy at the same time. In addition to that, especially in Poland, but also in the Czech Republic, the moderate relationship between productivity and wages may be a relic of the old system. On a scale of 1 - 6.5 (high values indicate a strong link between wage and productivity), Poland had an average value of 4.0 for the years 1997-2002, while the Czech Republic was at 4.7. Britain was rated at 5.25 and the US at 5.85 (OECD quoted after Feldmann 2004: 12).

(ii) As concerns wage negotiations, the Czech employees were in a better position as negotiations were carried out on the industry and the plant level, whereas in Poland these negotiations were reduced to the plant level. Therefore, in the Czech Republic, both individual and collective (trade unions) actors were in a stronger bargaining position to negotiate wages with employers than they were in Poland.

⁸⁸ In May 1991, opposition by the Poles against the *Balcerowicz* plan became stronger than support and from that date on remained constantly higher than the public support (Bell 2001). In the years 1993-1995, between 51 and 68 percent of respondents were dissatisfied with the way that Polish democracy functioned (CBOS 1997). In contrast to this, over 70 percent of the Czechs trusted the reform actor *Klaus* even in the 2000s (see www.proyectos.cchs.csic.es/euroconstitution/Treaties/Library%20%28Since%20June%202007/Rihackova%202007.Pdf).

(iii) Another difference between the cases is the fact that evolving wage dispersion with the effect of pronounced social stratification (Hölscher 2002: 216f.) in Poland resembles the level of liberal Anglo-Saxon labour markets. By contrast, the Czech wage dispersion is comparable to the low level of Sweden as illustrated in Figure 4.14. *Potůček* claims that the country's general inequality is still noticeably lower than in many old EU's members (Potůček 2009: 52).⁸⁹ As a result, as concerns this indicator, we find that Poland shows rather market orientation than decommodification.

Figure 4.14 Wage dispersion



Source: Eurostat (2009 and 2010), EU-SILC, scale: 0 (low) – 9 (high)

Finally, in-work-poverty rates have developed differently in both cases, even if the Polish minimum wage was higher and the average wage (in PPP) at least until 2002 comparable. In 2007, the in-work-poverty rate in Poland was at 12 percent while it was at 3.5 percent in the Czech Republic (EU: 8 percent, Eurostat 2009). This data certainly needs to be interpreted with caution; it might however reflect trends of the labour market regimes over time. Accordingly, the findings can be interpreted as indicators of decommodification in the Czech Republic and indicators of market orientation in Poland.

4.3.4 Non-standard employment

With the post-1989 transformation, a shift from overregulated employment to less regulated sectors took place. This phenomenon was a result of privatisation due to which large parts of the workforce left the public sector for the private and less regulated sector. Conditions in the private and state sector were brought closer together. Additional to legal changes in standard employment it is necessary to consider the trend of de-standardisation and atypical employment which is rarely covered under labour law. Non-standard types of employment express labour market flexibility while they raise potential precariousness. These types also indicate the nature in the categories of decommodification and market orientation as they reveal aspects of social stratification, flexibility and protection.⁹⁰

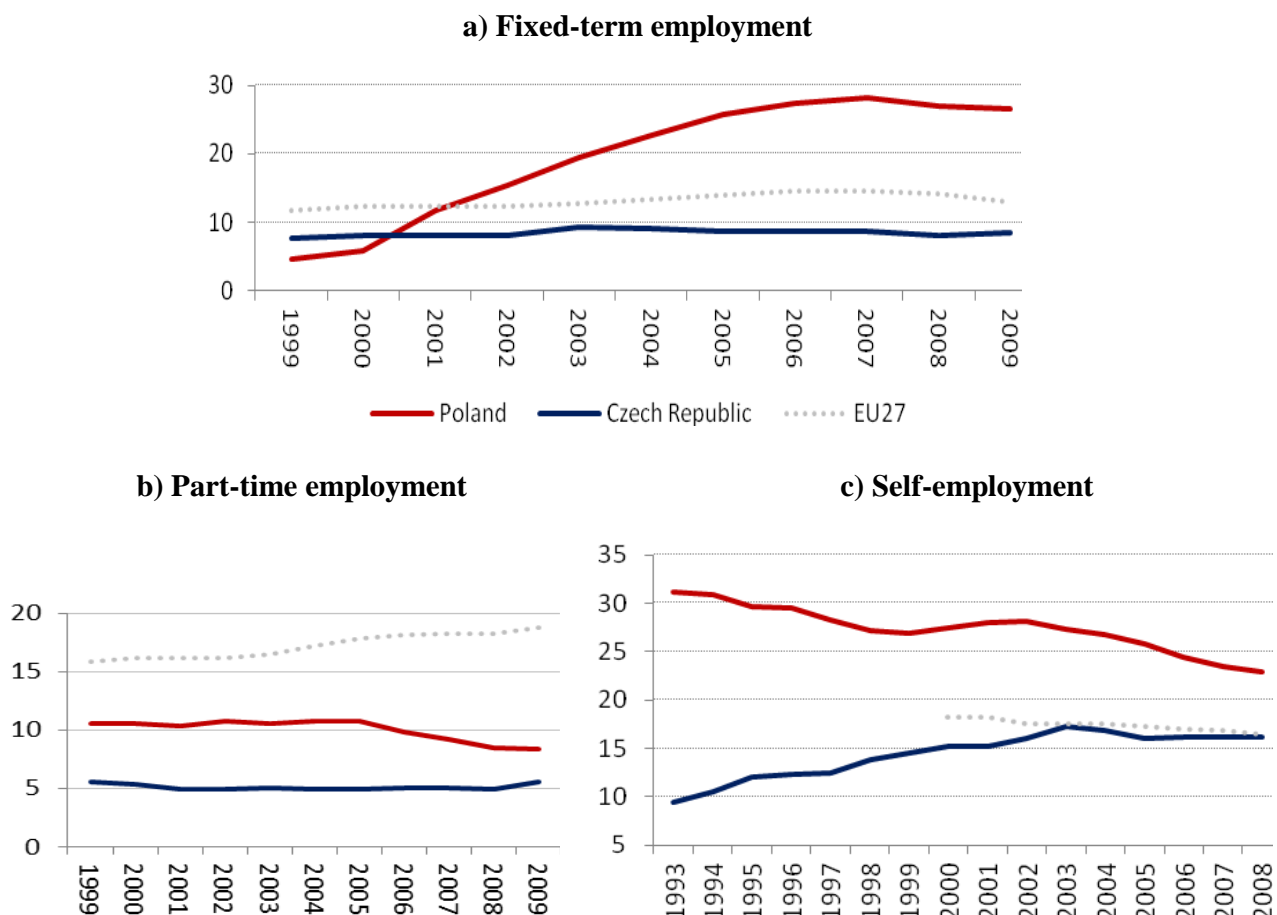
⁸⁹ Wage regulation implies a controversy: under economic assumptions, wages are a cost component and their increase raises inflationary pressure. From a social perspective, wages are the decisive indication for life-standard.

⁹⁰ The main forms of non-standard work are fixed-term contracts, part-time work, self-employment, agency work,

Overall, a paradigm change concerning the regulatory regime in favour of increased labour market flexibility can be found for instance in the increasing share of non-standard work and self-employment. If employers have the unrestricted possibility to create employment contracts and relationships according to their preferences, this will lead to a diminishing portion of standard employment contracts. Types of this kind of work range from fixed-term to task-based and part-time employment contracts which do not provide a stable employment relationship, but rather imply a parallel increase in employment in the informal and shadow economy. The result is a growing segmentation of the labour market and a differentiation of the security and protection that workers enjoy.⁹¹

Figure 4.15 provides an overview of the distribution of the three most typical forms of non-standard employment prevailing in the Czech and Polish labour market. We find that non-standard forms of work have been almost constantly higher in Poland than in the Czech Republic.

Figure 4.15 Non-standard employment, % of total employment



Source: OECD (2010)

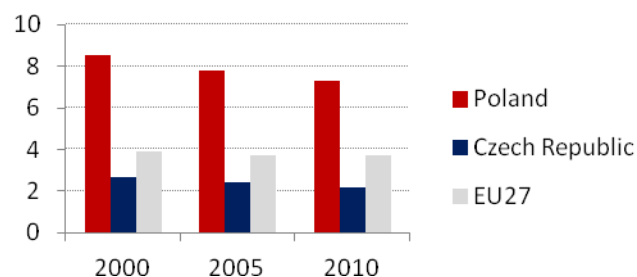
contractual work and informal work ignoring legal rules referring to informal work.

⁹¹ It is important to note that flexible work, being governed by a contract which is subject to minimal regulation, does not necessarily imply individualisation and higher risk and uncertainty – it rather depends on other segments of the welfare state in how far this situation is being compensated and balanced by other mechanisms. As a consequence, we have to identify “whether, and the extent to which greater labour flexibility was balanced by institutions aiming at bridging the security and protection gap for the workers concerned by these flexible types of work” (Spieser 2009: 214).

Figure 4.14a) illustrates the fulminant increase in ‘temp work’ in Poland, which is the highest share of temporary workers in the EU, of which 20 percent of those in temporary contracts do it involuntarily according to EU surveys (Eurostat (2012, European Commission 2011a). Figure 4.15b) shows that also part-time employment is more common in Poland while remaining constant and below EU average in both countries. Figure 4.15c) shows that self-employment has become a typical form of work in Poland since about one fourth of the working population is self-employed according to the OECD whereas the Czech score remains lower and rather stable at 10-15 percent self-employment.

Even if the majority of employees in both countries work in the framework of standard employment (permanent, contract-based, full-time job), it is important to take a closer look at the degree to which employers (and employees) actually make use of these different types of non-standard employment. One problem when considering official data by international organisations or research institutes is the fact that mostly long-term, relatively protected, standard contracts are mirrored in these data. However, looking at the political reality, it is more and more non-standard work that is replacing the above mentioned characteristics and thus data does not provide to us the complete picture of the labour market situation.⁹² The phenomenon of several parallel jobs (and thus have non-standard employment) is spreading. Figure 4.16 (below) shows that Poland has remained front runner with more than three times more persons who have a second job when compared to the Czech Republic.

Figure 4.16 Employees with a second job, % of total employees



Source: Eurostat (2012)

In the following, I revise the extent of non-standard employment in the two cases while focusing on temporary employment, part-time work, self-employment and contractual work.

Non-standard employment in Poland: The degree of non-standard work is on the rise since the year 2000. Even if this trend is also visible in other European countries, it is peculiar in Poland since it follows a certain combination of two logics: a faster growth of activities relying on non-standard work, and a greater institutionalisation of work which is outside the regular employment contract (Spieser 2009). During socialism, fixed-term contracts were a rare form of employment and in 1987, only 4.5 percent of Polish employees were working under an employment contract with a duration less than one year (Spieser 2009: 204). With the regime change and beginning privatisation also the length of

⁹² Nunziata observes that looking at younger workers, more than 40 percent of young employees on average had been employed under a temporary contract in the EU in 2006 (Nunziata 2008: 22).

employment contracts changed and in particular between 2000 and 2004, due to a very liberal legislation the percentage of people working in the context of fixed-term employment rapidly increased to reach one in four (within the EU only topped by Spain) (Spieser 2009). In 2002, the labour legislation governing temporary employment was relaxed and allowed temporary employment for an indefinite length until 2004, when EU accession requirements had to be fulfilled (Karwowski 2010: 5). It is noteworthy that however, temporary contracts are not primarily accorded through temp agencies (less than 2 percent), but rather directly between the employer and employee (Karwowski 2010: 5). Interestingly, employers exploit much less the flexibility provided by contracts with shorter working hours in Poland. Only a small proportion of employees works shorter hours for economic reasons (like workforce adjustment in the company) (Spieser 2009: 205). In 2004, the Polish Labour Force Survey provided an overview of the situation of those workers and *Spieser* claims that “[i]t revealed that one third of employees working part-time (incomplete working week, workday or both) did so because they could not find a full-time position, yet it is worth noting that 40 percent of those with incomplete working hours were found in the agricultural sector” (Spieser 2009: 206).⁹³ There are no limitations for employers regarding the reasons for concluding part-time contracts with employees. However, limitations exist since 2004 as concerns the maximum duration of such contracts. Conditions for chaining part-time contracts have thus been tightened and the legislation for part-time contracts through Employment Services has also become stricter. Part-time work in Poland remains below EU average, mirroring not only traditional stereotypes but also a limited access to flexible work and the lack of financial support through grants, subsidies or tax rebates as claimed by the Commission (European Commission 2011a). At the same time, a Polish employer can only sign a part-time employment twice; the third contract automatically becomes a full-time contract.

While self-employment was a rare phenomenon during socialism, it has become a very popular type of work and in Poland in the 1990s. 80 percent of people asked about their job situation in 1997, stated that they would prefer to be self-employed rather than being employed in a company. This was the highest share among the twenty countries participating in the survey (Blanchflower et al. 2001: 683 quoted after Spieser 2009: 206).⁹⁴ Self-employment is often associated with independence and entrepreneurship, values that are of major importance in the Polish society. Another motive for choosing self-employment in Poland can be the lower flat-rate taxation on business entities from 2004 onwards, as opposed to progressive taxation from work income, particularly as the law does not impose a strict control on the independence of the person that has registered as a business entity. Self-employment in Poland also results from workers that formerly have been working in state-owned enterprises and started to use self-employment – sometimes also in the shadow-economy - as a way to continue their economic activity in times of privatisation. To escape the constraints of employment regulation, including social contributions and income taxes, self-employment is a popular measure, while it is often also an entry into the informal economy. In the 1990s, approximately 800.000 workers were active in

⁹³ See Central Statistical Office of Poland: www.stat.gov.pl/gus/5840_2189_ENG_HTML.htm?action=show_archive

⁹⁴ International Survey Programme, Module on Work Orientations (II), 97/98. The Polish survey concerned 922 adults (www.issp.org/).

the informal economy, while in 2004 and compared to a working population of approximately fifteen million, between 764.000 and 1.317,00 persons were working in the shadow economy (Surdej 2009). With the crisis in 2008, the deregulation of employment conditions has also exacerbated the problems of low wages and more intensive work due to a “reduction of permanent staff numbers in favour of workers on freelance contracts” (Mrozowicki 2010: 1). Shadow-economy and self-employment are in parts pursued for the same reasons, since both avoid taxes and social security contributions, while they seem to offer higher wages. According to *Surdej*, the promotion of entrepreneurial freedom undermines the objective to bring the informal economic activities back into the legal working economy:

“The weakness of employment legality controls is the result of neglect rather than an outcome of policy intent [...]. [M]uch seems to depend on the personality of an inspector and their understanding of their role. Media reports, meanwhile, refer to the employers’ complaints about the bureaucratic zeal of inspectors who staunchly apply the employment laws” (Surdej 2009: 4).

Even if a part of the increasing share of self-employed is indeed working independently, this category also covers the hidden continuity of civil contracts as historic legacies since “the civil contracts can continue to fulfil the same previous function of workforce adjustment to the flow of activity” (Spieser 2009: 208). Overall, the above findings provide evidence of a regime rather supporting market forces than decommodification.

Non-standard employment in the Czech Republic: In all three defined categories, the Czech Republic scores way below Poland and also below the EU average. Effective from 2004 in order to increase labour market flexibility, the use of temporary agency employment replaced the temporary assignment of employees to work for another employer. Today, an employment agency intermediates employment and may allocate its employees temporarily to different employers. Out of a number of 2.153 employment agencies registered at the MPSV in 2008, 1.075 agencies focused on foreign and on low-qualified workers, being the most vulnerable groups on the labour market (Veverková 2010). Because the Czech Republic suffered from a lack of qualified labour in 2008, several companies made use of agency employees, however, the situation worsened especially in the automobile industry.

Part-time employment, casual jobs, on call workers and temp work has played only play a marginal role with 6.4 percent of total employment (Keune 2006). The Czech Republic introduced limitations concerning contract chaining and the overall duration of this sort of employment which cannot be longer than one year, in case of temp work 24 months (Sruk et al. 2008).⁹⁵ At the same time, the Czech law does not allow employers to sign a part-time contract with candidates who have completed probation, secondary school or a faculty period less than two years ago, and who have a clear qualification for certain jobs – except if the candidate accepts such a part-time contract (Sruk et al. 2008). The combination of non-standard and flexible employment as concerning mostly self-employed, fixed-term contracts, and employment without any contract, accounts for 80.9 percent of non-standard employment (Keune 2006: 263). The implications of a non-standard contract or employment often do

⁹⁵ For further details see www.ilo.org/dyn/eplex/termdisplay.empContracts?p_lang=en&p_expandcomments=Y#CZ

not only mean that the concerned person enjoys less protection, they also often go along with placing these persons in the lowest personal income group (Keune 2006: 264). This is true especially for self-employment.

Analysis: varieties of non-standard forms of employment. Non-standard employment is more prevalent in Poland while the share of Czech employees to whom these employment relationships apply is much lower. Transferred to the categories of de-commodification and market orientation, the role of the market is stronger in Poland since employees depend on market developments and the individual contracting partners have more flexibility in negotiating the working contract's content – supposedly not always in favour of the employee. Even if legal employment frameworks have developed considerably, it is the local workplace level that is used for negotiating degrees of flexibility in Poland, representing individual preferences on the employment relationship. This supports an increasing segmentation of the Polish labour market and the degree of social protection while “rules of standard employment change little, but a quickly growing share of workers that are not covered by them” (Spieser 2009: 209).

The data suggests that in the Czech Republic with only limited employment loss in the 1990s, self-employment is rather a product of pull factors (for example income opportunities) while in Poland it is more a product of push factors (alternative for poverty and unemployment).⁹⁶ However, it is remarkable that even in times of a better employment situation as can be found in Poland at latest from 2007, the share of non-standard employment has not been decreasing.

Due to the much higher share of non-standard employment in Poland which is not covered by labour law and additionally leaves the trade unions without influence over working conditions regulated on this basis, precariousness increases. The number of those contracts has risen meteorically as companies try to circumvent labour law by adopting this kind of contract in order to flexibilise employment and cut wage costs (Trappmann 2012: 6f.).⁹⁷ Finally, it is important to note that in Poland, only employees of a company are entitled to become members of a trade union, weakening those working as self-employed or on the basis of contractual work.

By contrast, in the Czech Republic, all three indicators of non-standard work are below EU average and in-work poverty is the lowest in the EU (3.2 percent in 2009, European Commission 2011a). Temporary work is not widespread and also part-time employment makes up a small share of total employment against the average of 19 percent in the EU, making the Czech Republic a case where full-time, permanent employment is the norm which leaves workers with comparatively high levels of employment protection and income security (European Commission 2011a).

4.4 Chapter summary

Chapter 4 illustrates the patterns of the trajectory of institutionalisation of capitalist labour market regimes after 1989 and its variation between Poland and the Czech Republic. It provides empirical

⁹⁶ The portion of employment without a contract is indeed relatively well rewarded (Keune 2006: 265).

⁹⁷ The trade unions claim this to be a violation of the ILO Conventions on freedom of association and the right to collective agreements (ILO Conventions 87 and 98) and ask for an amendment of the law in order to represent the interests of these groups of employees (Trappmann 2012: 8).

evidence of the new formal labour market and social security institutions as well as new patterns of labour market regulation. Beginning with the first laws after 1989 that have promoted the dynamics of labour adjustment by providing for dismissals, we can now observe a clear trend toward reforms aiming at increased flexibility of the employment relationship and employment conditions in general. Taken together, we can identify a halfway recourse to the historical Bismarckian traditions with an insurance-based institutional framework parallel a trajectory towards market orientation and residualisation and a changing regulatory regime from overregulation to deregulation.

However, remarkable differences between the two cases are found. Regarding the change of labour regulation approaches, it is interesting to note that the Labour Code in Poland dates far back to 1974, revealing rather continuity of instruments than change, whereas the Czech Republic has introduced a new Code in 2006. On the organisational and administrative institutional level, decentralisation and devolution of responsibilities have been clear characteristics during the process of social transformation in both countries which have established a similar framework of formal labour market and social security institutions. Today, the Czech and Polish systems function on a basis where the ministries of labour and social affairs are in charge of planning policies and designing legislation for the social security system (except health care) which are then administered at the local level.

The institutions responsible for the administration of the social insurance systems are the ZUS in Poland, which is an institution outside the state budget, and the ČSSZ in the Czech Republic, which remains with the state budget. It is these institutions who pay the benefits through the district and local offices. As concerns the financing aspect, we can clearly see a development from state responsibility towards financing aspects that equalise the employers' and employees' contributions or even individualise social security completely. This trend is more visible in Poland than in the Czech Republic, where contributions by the employers are generally much higher (35%) when compared to Poland (20.46%) (ZUS 2010, MISSOC 2010).

The most striking difference between the countries and an example of hybridization is the fact that the compulsory Polish unemployment insurance is contributions-based while benefits in case of unemployment are granted on a low flat-rate basis since 1992. Apart from that, Poland is to a stronger degree characterized by the survival of socialist legacies, as for example with the separate insurance institution KRUS, which remains heavily subsidised by the state while privileging the powerful social group of farmers. It shows that the Czech Republic has been characterized by higher degrees of redistribution and lower stratification and poverty rates when compared to Poland.

Turning to labour market regulation and the flexibility-security nexus, initially, the underlying principle of employment regulation was to guarantee a certain level of wage and security to employees. At the same time however, interestingly, we can observe a trend of deregulation, in the sense of decentralisation of regulation and dismantling of certain rules. Policy objectives of government actors responded to the needs and demands of employers, aiming to provide more flexibility. However, there was an obvious tension between the two policy objectives of increased security and flexibility. As concerns the OECD indicator of EPL, both countries compare with the EU average.

As concerns the governance of the employment relationship, both countries have established tripartite

institutions in the early 1990s (ČSFR in 1990, Poland in 1994), playing an important role especially in the first stage of reforms. According to *Cerami*, on the second stage, they facilitated the mediation of diverging interests, and on the third stage, they acted as a reminder of the social dimension of reforms (Cerami 2007). However, activities and effectiveness of tripartism has been rather different in both cases: we can speak of a certain sort of corporatism which remains coordinated and semi-centralized in the Czech Republic, while market orientation in the sense of pluralist and decentralised interest mediation is visible in Poland, where also a higher degree of labour conflict prevails. As concerns the unions as important actors of industrial relations, the union centralization index shows that Poland in 2006/2007 had the lowest degree of centralization in the entire EU with 0.2, while the Czech Republic was close to the new EU 12 members average (0.5) with 0.45 (Bokowski 2009: 146).⁹⁸ On the whole, according to the EBRD transition report (2001), industrial relations have been more consensual in the Czech Republic when compared to conflicting industrial relations in Poland, at that time only exceeded by France.⁹⁹ It is found that comparable tripartite structures in both cases deliver an unequal output.

Another relevant indicator of the employment relationship is wage development. Governments in both countries aimed at influencing wage setting through state intervention, generally with the objective to reduce wage increase below those that the market would have created. Governments tried to limit wage growth mostly in the first half of the 1990s, whereas afterwards they focused on the control of real wage growth. However, wage regulation and development differed significantly as it followed a political zigzag course in Poland whereas it slowly, but continuously entailed controlled wage increase in the Czech Republic. In comparison, according to *Keune*, the Czech transformation path has been more 'social' in a way that it was employee-friendly, including more employment and higher wages (Keune 2006: 262). By contrast, employment rates have been much lower in Poland while the country also lived through a comparatively employee-unfriendly path. Finally, as concerns wage negotiations, both cases differ with respect to the level where negotiations are carried out: whereas in the Czech Republic, these take place at plant level and industry level, wage negotiations in Poland are reduced to the plant level, limiting the influence by trade unions and weakening the employees' position vis-à-vis the employer. Finally, an important indicator of the employment relationship and labour market regulation is the extent of non-standard employment. A higher share of non-standard work (here: part-time work, fixed-term contracts and self-employment) implies higher labour market flexibility and more precariousness for the employees since protective regulations and labour law have only a minor effect on this part of the labour market. When taking these indicators into account, the Polish labour market is more flexible and more precarious with a strikingly higher share of non-standard employment as compared to the Czech Republic, where the standard employment relationship is the rule.

On the whole, we have an interesting finding as concerns the emergence of country-specific labour

⁹⁸ Union centralization index: the higher the value the higher the centralization.

⁹⁹ According to company managers and in the framework of the EBRD Transition Report in 2001, industrial relations between employees and employers on a scale from 1 (confrontation) - 7 (cooperation) were recorded in Poland with a value of 3.7 as being far more confrontational than in the Czech Republic with a value of 5.2 (EBRD 2001). In European country comparison at that time, it was only France that ranked below Poland with 2.8

market institutions and regulation procedures in the two cases: apart from the actual result in terms of ‘hard policy’, it is also the process how change came about which distinguishes both cases and it seems that the degree of political stability, coherence and legitimacy of institutional procedures and regulation have significantly shaped the labour market regime. These dynamics are an important matter in understanding how institutional change in both cases came about, as their structures are key indicators for the underlying relationship between institutions and actors’ behaviour.

The institutional change toward a decentralized labour market implied a change in the regulatory regime of employment towards greater flexibility. We thus find not only first and second order change, but also paradigm change when applying *Halls* approach to institutional change (1993). However, this change has not always followed a distinct direction. While Polish reforms often alternated between market orientation and the survival of paternalistic features, the Czech Republic exhibits a rather gradual development from decommodification towards more liberal approaches over time. The two countries are approaching each other. However, Poland’s labour market regime mirrors higher degrees of market orientation than the Czech Republic does, illustrated by Table 4.4.

Table 4.4 Labour market regulation in Poland and the Czech Republic

| | | Poland | Czech Republic |
|---|-----------------------------------|--|--|
| Labour market regulation | | Between paternalism (over-regulation), flexibility and deregulation | Between security (state regulation), increasing flexibility and deregulation |
| Decommodification | | Low | Medium |
| Role of the state | | Active-reluctant | Active-reluctant |
| Flexibility-security nexus | | Flexible Initially very low protection (until 1997) with trend towards higher protection, comparatively high protection on regular employment | Flexible Medium protection on a stable level, comparatively high protection against mass dismissals and non-standard employment, Soft budget constraints for large enterprises through continuation of certain types of state support |
| Industrial relations | <i>Institutions of tripartism</i> | Divided and conflicting, low effectiveness, weak power positions | Consolidated, medium effectiveness, rather smooth and legitimate functioning |
| | <i>Social dialogue</i> | Pluralistic, fragmented | Corporatist, centralized |
| | <i>Collective bargaining</i> | Decentralized, medium employee participation | Semi-centralized, medium employee participation |
| Wage bargaining | | Decentralized, plant level | State intervention (centrally controlled low wage-low unemployment policy, including decline in real wages, but also controlled wage growth in 1992-1995), industry and plant level |
| Wage developments and dispersion | | Zigzag development, underlying increase Strong wage dispersion | Modest, but stable increase (due to initial low wage-low unemployment policy) Weak wage dispersion |
| Employment relationship | | High share of rather precarious non-standard employment | Low-medium share of non-standard employment |

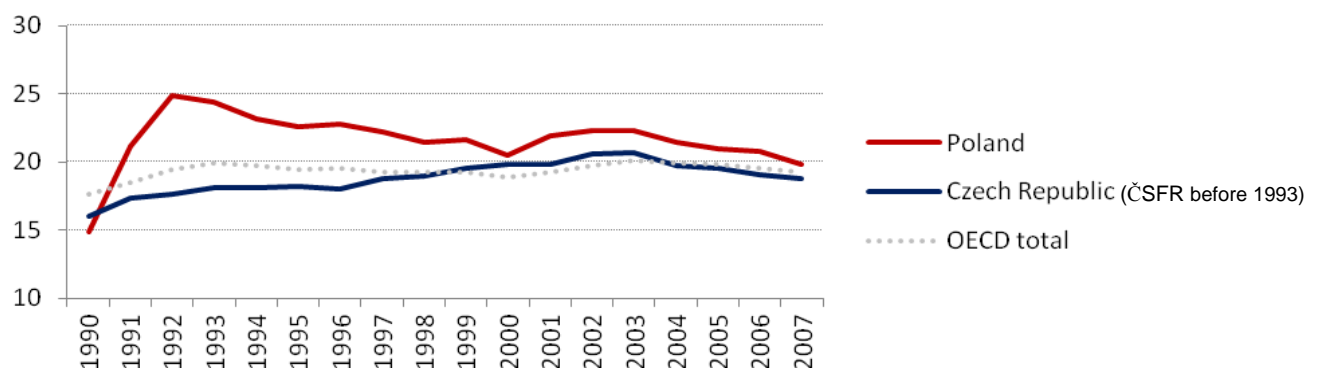
Source: own illustration

Chapter 5 Labour market policies between compensation and workfare

Labour market policy is located at the intersection of political, economic and social aspects. It is social and economic policy as it intervenes and restricts the scope of the market while pursuing normatively defined social objectives. They constitute a clear set of measures and laws through PLMPs and ALMPs decided upon by the national governments, while the execution of the policies is carried out by local and regional labour offices. These activities are connected to a country-specific definition of what seems to be an acceptable individual fate and what is not – meaning that it is about the level of tolerance of inequality and risk in the labour market mirrored in a certain social arrangement. At the same time, labour market policies respond to the market's needs as they prepare the workforce for reintegration into the labour market and thus also pursue fiscal objectives. They tell us about the degree of redistribution and (de)commodification.

Chapter 5 presents the newly created rules, instruments and programmes of passive and active labour market measures in both cases. Figure 5.1 (below) illustrates that during the first reform period, the Polish rate has been remarkably higher than the overall stable Czech one and even exceeded the EU average, a fact that can easily be misinterpreted as meaning more welfare. This is however not the case.

Figure 5.1 Social expenditure¹, % of GDP

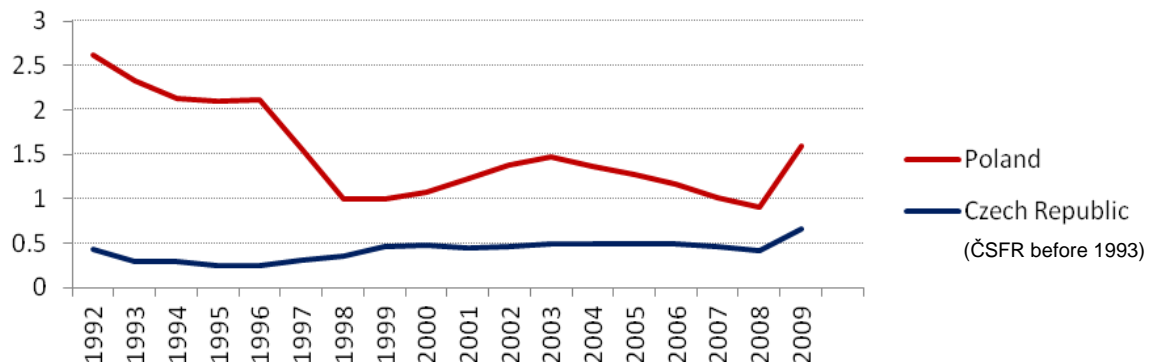


Source: OECD (2011a), OECD Social Expenditure Database (SOCX)²

As said above, a mere regard at the social expenditure rate remains at the surface since we do not know which objectives the spending targets at. The picture already slightly changes when taking into account the spending on labour market policy, presented in Figure 5.2 (below). However, what we find is merely that the Czech expenses stagnate on a low level while the Polish expenses are significantly higher, especially during the first period under consideration (1989-1996), but also with a peak in 2003.

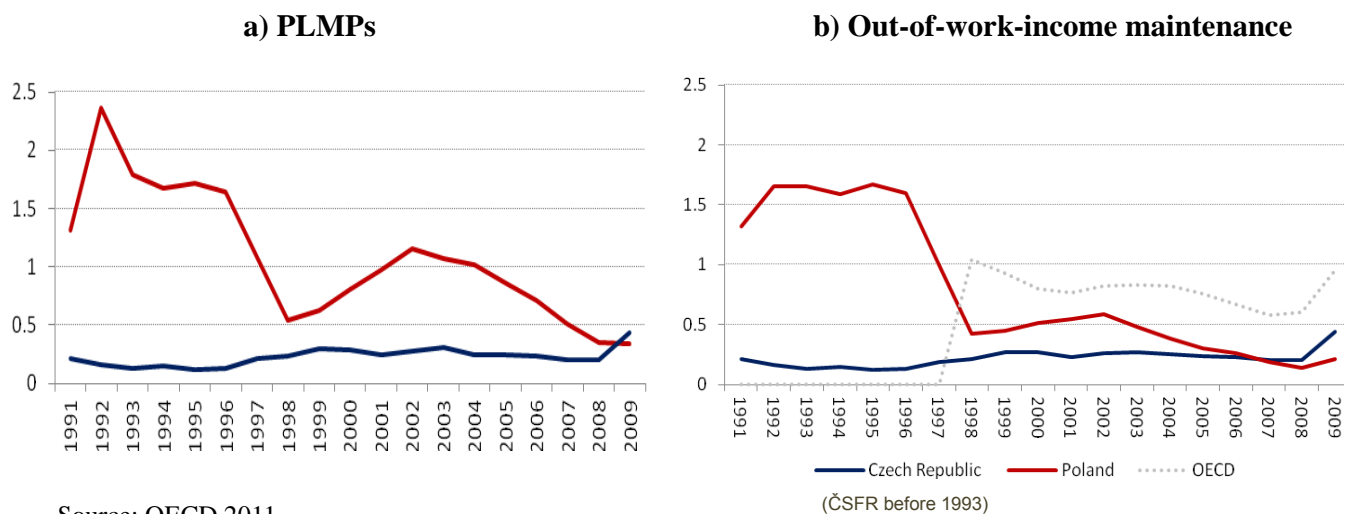
¹ According to the OECD, the social expenditure is the provision by public (and private) institutions of benefits to, and financial contributions targeted at, households and individuals in order to provide support during circumstances which adversely affect their welfare, provided that the provision of the benefits and financial contributions constitutes neither a direct payment for a particular good or service nor an individual contract or transfer (OECD, cf. <http://stats.oecd.org/glossary/detail.asp?ID=2485>)

² Includes estimates of net total social spending in the main social policy areas: old age, survivors, incapacity-related benefits, health, family, active labor market programmes, unemployment, housing, and other social policy areas.

Figure 5.2 Labour market policy expenditure, % of GDP

Source: OECD (2011a)

In a further step, when looking at passive and active labour market policy, we find that the two countries differ in particular as concerns their public expenditure on PLMPs and again we find not much fluctuation in the Czech Republic throughout the whole period under consideration, as illustrated below.

Figure 5.3 Public expenditure on PLMPs, % of GDP

Source: OECD 2011

The figure on expenses for PLMPs in their dynamics correspond to the expenses illustrated in Figure 5.2, showing that the majority of labour market expenses have been spent on passive measures, particularly in Poland. The figure on out-of-work income support again shows the very different development in both countries with an expenditure level in Poland during the first reform period followed by an extreme drop to one fourth of the initial share within one year.³

While labour market policies concern every individual economic actor, they also create social groups of beneficiaries by providing income compensation or subsidising employment. Eligibility requirements are redistributive mechanisms in a society. This is why I will focus on labour market policy effects in

³ The social democratic government lost the 1997 elections and the new liberal efficiency-oriented coalition focused in particular on the reform of public administration.

terms of stratification and de commodification.⁴ Without neglecting the data, I refer to policy programmes and strategies in order to identify hybridity as well as variation between the two cases. Income replacement is costly and active labour market measures require budget resources without any guarantee of sustainable success. At the same time, cutting social expenditures and labour market policy expenses in times of crisis may generate social conflicts and (political) opposition. It is therefore interesting for governments to achieve an equilibrium in which unemployment is socially accepted, while policies remain economically viable, thereby defining a trajectory of policy reform which is particular to each welfare arrangement (Spieser 2009: 216). Policies which aim at improving the employment situation and fighting unemployment are often likely to be consensual, as shows for example in Poland when the Labour Code was modified in order to make it more flexible with the argument to facilitate job creation and increase employment. By contrast, when it comes to redistribution policies, there is much higher resistance and conflict due to the actors' interest in defending their status respectively improving it. This is a particularly important aspect for PLMPs. This chapter traces the shift of passive and active labour market policies in the two cases from supporting the exit from employment during the first period to facilitating the return to employment.

5.1 Passive labour market policies

After the collapse of the socialist system and the change from excess demand to excess supply, unemployment exploded. But what was the origin of unemployment?

First of all, unemployment and employment are constructed categories, illustrated by looking at CEE where the concept of unemployment was officially unknown to the former socialist system and thus did not exist in terms of social intervention or payment of benefits needed. With the regime change, the category of unemployment was introduced to the legal system with the setting of eligibility conditions for unemployment compensation. Without doubt, this was a difficult task for policy-makers who did not have any experience in dealing with unemployment and thus lacked the foresight what kind of long-term fiscal and social consequences would entail certain decisions. Definitions of employment and unemployment were refined several times, becoming more restrictive and matching conventional ILO standards. Especially in Poland, the redefinition served as an instrument to exclude groups of unemployed from the eligibility for benefits and are so strict that they exclude the majority of the poor (Potůček 2008: 5).⁵ Figure 5.4 below illustrates the steady decrease of the share of unemployed receiving benefits in Poland and shows that in 2006, only 13 percent of unemployed have been eligible for benefits. By contrast, even if the share is also remarkably decreasing in the Czech Republic, it has

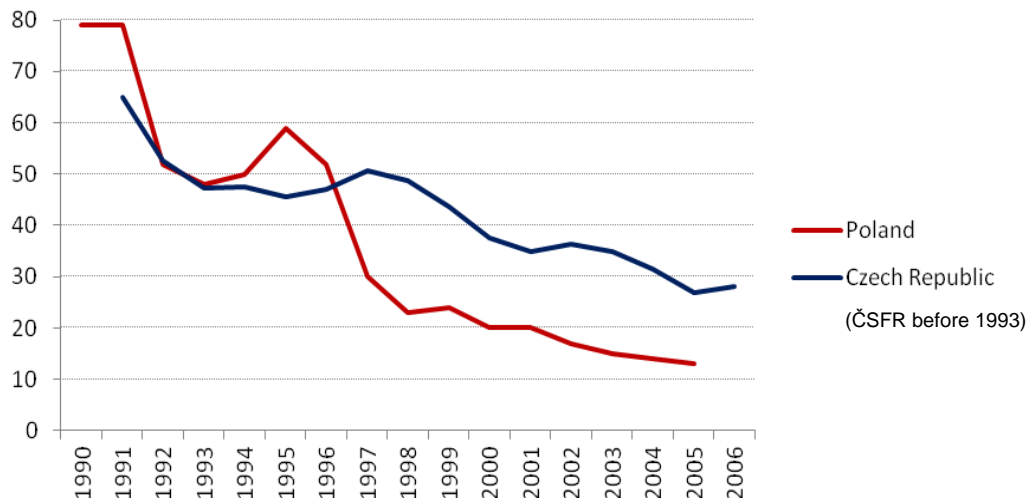
⁴ I agree with *Esping-Andersen* who states in this context that the convention of conceptualizing welfare states in terms of their expenditures would no longer do (Esping-Andersen 1990: 3).

⁵ Until 2003, an unemployed person was defined as someone who is ready to take up employment within two weeks. In 2004, an act established a complex definition, excluding persons that formerly were included in the definition: "the unemployed concerned were Polish or EU citizens aged between eighteen and sixty (women) or sixty-five (men) years of age, not employed, not involved in training nor in any kind of paid work, willing and available to start full-time work immediately, registered with the local employment office and not entitled to an old-age or invalidity pension. In addition, people owning or managing more than two hectares of agricultural measures on the basis of age (twenty-five and younger, and older people above fifty), unemployment duration (the long-term unemployed who were without a job for more than twelve months) or education level (those with little or no qualifications)" (Spieser 2009: 218f.).

exceeded Poland in 1997 and remained constantly higher since (MPSV 2009, Spieser 2009).

As a result, it can be concluded that the term ‘unemployment’ is a dynamic social construction when considering its meaning of a social status with certain consequences as for instance eligibility.

Figure 5.4 Percentage of unemployed receiving unemployment benefits



Source: MPSV (2008) for the Czech Republic, Spieser (2009) for Poland

The most significant form of PLMP is the system of unemployment benefits, granted by the principle of unemployment insurance institutions as has been illustrated in Chapter 4. The systems have gone through successive changes after initial generosity. Today, only modest replacement rates are provided. In order to identify underlying approaches towards decommodification and redistribution, PLMPs can be examined with reference to their strictness vs. their generosity according to (i) the criteria which entitle a person to receive benefits, (ii) the replacement ratio and (iii) the duration of payments.

On a scale between 1 (least strict) and 5 (most strict), the overall strictness of entitlement conditions for unemployment benefits have been at 3.5 in Poland and at 2 in the Czech Republic (Venn 2012: 16). By contrast, the strictness of job-search monitoring is at 4 in the Czech Republic and only at 1 in Poland, which indicates a closer supervision of the unemployed by the employment offices in the Czech Republic (Venn 2012: 17). In line with this, the Czech Republic is also stricter when it comes to the availability requirements with 3.7 in Poland and 4 in the Czech Republic (Venn 2012).

Like most CEECs, the favourite option in Poland and the Czech Republic has been the implementation of an unemployment insurance consisting of unemployment benefits, unemployment assistance and social assistance. Initially, Polish and Czech governments implemented compensatory measures in order to mitigate social transition costs. Sustainable reforms were promoted in varying, country-specific degrees and scopes and it took some time for the labour market approaches to consolidate. The main change in the social policy paradigm has certainly occurred with regard to the responsibilities for the non-working individual and the protection against unemployment. The political discourse concerning unemployment changed quickly, but was ambiguous: whereas at the beginning of transformation,

unemployment was understood as a phenomenon that could occur without one's fault, this view changed to the conviction that unemployment was due to a lack of individual effort, as *Cerami* rightly observed:

“In particular, from the first period of transition, where relatively generous unemployment benefits were granted to the citizens dismissed by the state-owned companies, primarily in order to cushion the negative effects of transition and to ensure social peace, social policy makers unexpectedly turned to a phase where the unemployed was the one to be blamed for his/her own situation. In the mid 1990s, for example, almost all governments in CEE cut unemployment benefits, while, at the same time, raised the minimum contribution requirements and entitlement criteria” (Cerami 2006: 16).

Apart from this institutional similarity, the systems of protection against unemployment and the policy measures in case of unemployment show differences in the developments towards market oriented solutions. Meanwhile, during the third period, recent reforms include a tightening of entitlement criteria, the decrease in the level and the duration of benefits in both countries (Potůček 2008).

5.1.1 Compensation vs. inclusion strategies (1989-1996)

As all transforming countries in CEE, Poland and the Czech Republic experienced a transformation crisis with devastating social and economic consequences. The countries responded to this situation with different available strategies for coping with the negative side-effects and social implications. In Poland, this strategy focused on compensation, while the Czech approach focused on inclusion.

After the start of price liberalization, privatization and the release of workforce, the risk of social decline and poverty suddenly appeared. The collapse of the socialist system resulted in an unavoidable dilemma: during the transition phase from command economy to a prospering market economy, it was inevitable to pass economic recession within an uncertain period of time (Merkel 1999: 386). This fact implied problematic consequences not only for the population, but also for the legitimacy of the newly establishing systems.⁶ Post-communist governments were on the one hand facing the political necessity to socially compensate the losers of the economic change, on the other “it is simply not sufficient to compensate the actual losers but it [the economic policy] has to develop strategies that reduce the uncertainty for those voters who would benefit from the reform but do not know it” (Tomann/Scholz 1996: 14). Initially, the Polish and ČSFR/Czech governments focused on ad hoc counteractive measures. These measures were however limited due to budget constraints, but also for the reason that the most needy welfare recipients of housing, child benefits or in-kind benefits, were not organized. In order to reduce the number of job-seekers on the labour market, governments in the whole region launched various programmes, among them the extension of training periods, incentives for women to refrain from work or approaches of economic flexibility and generous early pension and disability programmes (Brusis 1999: 81f., Orenstein 2001, Golinowska 2000).

In the following, I present two strategies for dealing with the social implications of crisis with reference to the two cases – the compensation and the inclusion strategy. Until today, Poland has focused rather on the compensation of particular social groups while the Czech Republic has been characterized by

⁶ As becomes clear when looking at the example of the Weimar Republic and the Federal Republic of Germany, economic and political (material) outcomes may legitimize or delegitimize a democratic system (Merkel 1999, Benz/Boeckh/Huster 2000: 145).

higher degrees of social inclusion.

One strategy for political actors to meet transformation hardship is conflict avoidance by compensating potential losers. When obtaining material compensation, people are generally less likely to engage in opposition or strong expression of discontent. Transformation losers are however not necessarily easy to identify as they are heterogeneous groups. But there are some areas where they organize and fight open battles and provoke conflict, typically in the sectors of heavy industry, mining or public sector employees, whose difficulties have a mass character and a strong group identity, and thus become more visible than others. It is these groups that were already strong and privileged during the time of state socialism, particularly in Poland, maintaining their power for collective action and high unionization (Spieser 2009: 102). As a result, depending on their representativeness and power, universal compensation policies are developed by policy-makers for example in the form of generous welfare benefits for selected groups in order to prevent social unrest and secure their political power position.

Another option for resolving conflicts over social policy reforms besides the compensation strategy is the inclusion strategy, aiming at involving actors opposed to the reforms in the policy-making process. In terms of labour market policy, the inclusion strategy strives at job-loss prevention strategies and labour market inclusion instead of pushing labour market exit.

Indecisive compensation policies and labour market exit strategies in Poland: The initial fear of unemployment contributed to a situation that brought along extremely tolerant conditions for granting and guaranteeing unemployment benefits which did not survive political and economic reality (Piątek 2001: 210, Firlit-Fesnak 2000). Polish governments attempted to cushion the radical economic *Balcerowicz* programme in order to secure their own popularity. According to the rule of 1989, unemployment benefits were available seven days after the registration as being unemployed and in case that the labour office did not succeed in offering a job.⁷ According to *Piątek*, the share of welfare recipients increased from 800.000 persons in 1989 to more than 3 Mio. in 1992 (Piątek 2001: 219). The benefit level was calculated according to the previous income and the duration of employment, starting at a level of 70 percent during the first three months (within the limit of the average wage, but in practice the benefits were sometimes higher and sometimes lower than the average wage), 50 percent for the following six months and 40 percent in the subsequent months without any limit.

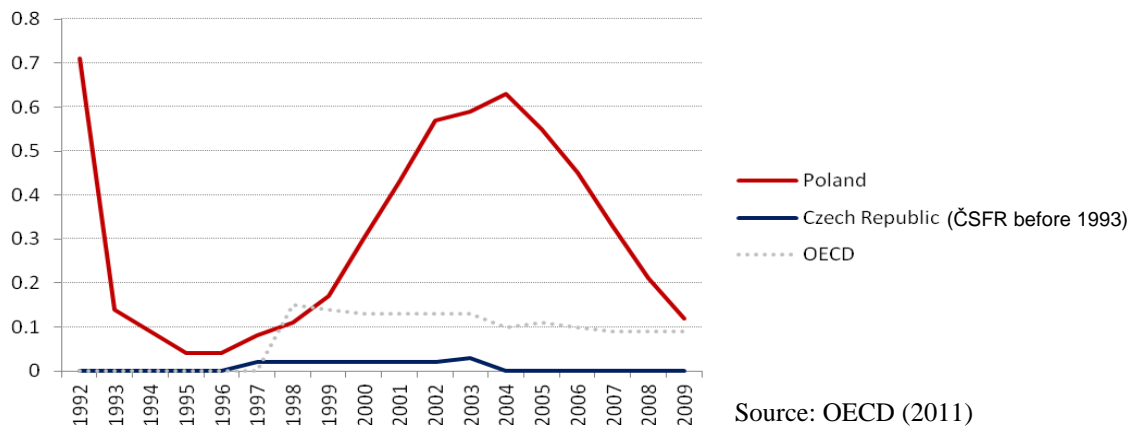
Moreover, Poland focused on the group of elderly workers and pensioners and launched massive early retirement programmes. The cushioning of the transformation had the objective of reducing societal and organized labour protest against the new regime.⁸ In 1991, in Poland, citizens who had worked 35 (women) or 40 (men) years could retire if they had been dismissed, regardless of their age. However,

⁷ These first labour market policy steps had special features when compared to other European arrangements, including the Czech Republic: (i) there was no condition related to prior employment, (ii) young graduates entering the labour market were granted some privileges as a special unemployment status was provided, even if they had not been employed before, and entitling them to benefits that could reach 200 percent of the minimum wage (MPiPS 1995, Gardawski 2002a, Spieser 2009: 221). This situation was modified in 1991, but graduates still received a higher benefit.

⁸ Unemployment was curbed and expenses were conveyed on pension allowances (Brusis 1999: 85).

the Act on Employment and Unemployment of 1994⁹ changed this instrument to limit the number of early-pensioners, while introducing related benefits (called pre-retirement benefits) which were financed by the Labour Fund and aimed at the long-term unemployed. Figure 5.5 below illustrates the unequal extent of early retirement in Poland and the Czech Republic

Figure 5.5 Expenditure on early retirement, % of GDP



The most common form of compensation in Poland during the first reform period was the organized labour market exit in former strategic and privileged sectors (i.e. heavy industry and mining). Vast dismissals entailed heavy protest compared to other sectors. In addition, these sectors had a long tradition of trade unionism and they appeared to be one of the few areas where social opposition concretized during the transformation. In 1989, the Act on Dismissals fixed a legal framework for dismissals and strategies to protect dismissed workers: the employer was obliged to notify the relevant trade unions in advance and name the reasons for redundancy. Employers were obliged to inform the local labour office and launch programmes for retraining and re-employment. The MPiPS, in consultation with the Ministry of Finance, was able to postpone an envisaged collective dismissal plan for up to three months. Dismissed workers received redundancy payments up to three months of wages. The generous compensation scheme had however to be changed when policy-makers discovered that unemployment was not a temporary phenomenon as they had assumed, but a permanent phenomenon of capitalist labour markets, entailing the side-effect of income loss. The level and the entitlement to unemployment benefits were already sharply cut in the framework of policy reforms in 1992, 1994 and 1996. The reforms led to a situation in which an increasing share of the unemployed was suddenly ineligible for benefits, unemployment thus became a social and economic problem since the established unemployment insurance suddenly became a marginalized part of the emerging welfare state. These changes concerned foremost the level of benefits, entitlement conditions, coverage of the unemployed population (Spieser 2009: 245).

The most essential reform touched the unemployment scheme in its very nature: the former relationship between the replacement ration and the former job situation (salary) was abolished and a flat-rate was

⁹ Law on Employment and Countering Unemployment, 1 January 1995 (see www.unhcr.org/refworld/type,LEGISLATION,,POL,3ae6b5b80,0.html)

introduced in 1992, setting the benefits at 36 percent of the average wage for every unemployed and a maximum duration of 12 months. This step meant a goodbye to the Bismarckian insurance character and a step towards the liberal Anglo-Saxon principle of residual assistance. According to the principle of providence, the system of unemployment benefits was however connected to the duration of employment, the unemployment rates in the region and the family structure.¹⁰ In 1996, even further restrictions were introduced concerning the way to define the benefit level in order to allow adjustment independent from the level of the average wage. Furthermore, benefits for graduates that entered the labour market were removed and a marginal amount was offered dependent on the enrolment in vocational training or professional traineeship (Spieser 2009: 223).

Poland's labour market policies during the first transformation period mirrored the frequently changing government coalitions, entailing ad-hoc solutions: they were either organising early retirement or generous short-term compensation of dismissal. These strategies focused on the accommodation of the interests of the most exposed or activist workers while supporting a situation of social peace. Despite the drastic change in the provision of benefits, other forms of compensation were offered with the aim of securing the electorate constituency. The bulk of the Labour Fund, established to finance forms of unemployment prevention and the alleviation of unemployment, was not only spent on unemployment, but on early retirement benefits.¹¹

Polish politicians followed the strategy of blame-avoidance and policy during these years was a reactive policy while job creation was not even pursued (Golinowska 2009: 224, 241). Unemployment became institutionalised as a social status, offering limited rights while PLMPs significantly relied on inactivity benefits to encourage labour market exit. In addition to the clear lack of the politicians' know-how, marginal institutional capacity complicated the situation. Together with the variety of controversial political actors involved, the development of functional programmes was delayed and often inconsistent. It seems that labour market policies at that time focused on the problem of unemployment as an obstacle to political stability much more effectively than they addressed the problem of social deprivation connected with unemployment.

Inclusion and job-loss prevention strategies in the ČSFR/Czech Republic: Although the Czechs had to deal with a dramatic increase in social inequality as well, public support for the reforms could be largely secured by guaranteeing minimum social standards and achieving a psychological basis for the acceptance of radical reforms. Political actors were able to present credible reform strategies and to win social support for pushing them forward (Machonin et al. 2002).¹²

It is interesting to note that the Czech Republic did not pursue the compensation strategies of Poland in the manner of 'divide and pacify' (Vanhuysse), according to which formerly well-organised workers

¹⁰ Dissimilar from most OECD countries, there is no digression principle, according to which the level of wage replacement benefit decreases after 3 months.

¹¹ From 1991 to 1996, around 85 percent of the Fund were spent on passive measures, and yet in 2003, 83.1 percent fell for spending on unemployment and early retirement benefits (Feldmann 2002: 146, ZUS 2004: 56).

¹² The credibility of reforms is no ample condition for reform success. The accuracy is important, such as raised expectations or "the (perhaps self-fulfilling) belief that the shock will be a therapeutic one" (Offe 1996: 46).

were separated through labour market strategies such as early retirement or disability retirement with the consequence of reduced capacity of these workers to mobilise for protests. As *Vanhuysse* underlines, “the fact that they [the divide and pacify policies] were taken in Hungary and Poland, and *not* in the Czech Republic, has had significant political and policy consequences” (Vanhuysse 2006: 1121). It was not exit strategies that the country adopted; nonetheless, the government had to deal with fewer strikes than their neighbour after the political regime change.

Czech protest pre-emption strategies differed from other CEECs especially as concerns the target: the inclusion strategies focused on the avoidance of job-losses and labour market exits. Different than the *Balcerowicz Plan*, the Czech ‘radical strategy’ included a social policy section clearly opposed to the immediate bankruptcy of large enterprises. The Czech strategy furthermore included “a transitional social policy aimed at standing up to the risk of extensive unemployment as well as spiraling inflation and a drop in real wages” (Vanhuysse 2006: 1126). Concrete policy measures were carried out through structural macro-economic policies, labour market intervention and social policies guaranteeing a social minimum. Especially the postponed privatization of large enterprises together with ALMPs already in the early 1990s turned out to be a distinctively softer approach from the very start of the transition until at least the end of the decade (Vanhuysse 2006, Bruszt/Stark 1997, Orenstein 2001). This approach brought a comparatively high level of trust in government and public support for economic reforms, allowing *Klaus* to become the longest-tenured prime minister in CEE. He used his charisma and liberal rhetoric to “mask a range of policies that were, in their detail, politically ‘pragmatic’, proactively social, and at times economically far from orthodox” (Vanhuysse 2006: 1129).

The major transformation actors focused on wide public attention for their reform programme, which is why *Klaus* regularly appeared on television and presented a weekly column in one of the largest Czech daily newspapers.¹³ Undoubtedly, the neoliberal reform agenda triggered social protest and conflict with the unions, which *Skreta* however sees as processes of political mobilizing connected to the social liberalism of transformation, distinguishing the Czech path from other neo-liberal reform approaches (Skreta 2001: 67). Unlike the paralysed Polish power constellations, the decisive reform measures could be implemented during the first transformation period due to a cooperative atmosphere.

The end of socialism entailed an entire paradigm shift in the Czech Republic, characterized by an “almost palpable fear of a return to paternalist socialism” (Castle Kanerova 1996: 287). The Czech Employment Act of 1991 defined the framework of unemployment benefits with its criteria for eligibility, amount and duration of benefits. The first unemployment schemes after socialism were introduced in 1990, providing benefits financed from the state budget for 12 months and amounting 60 percent of the previous wage and up to 90 percent for those who lost their job in the course of a company’s restructuring. Benefits were also accessible for pensioners and those on maternity leave. With the Employment Law of 1991¹⁴, the government under *Calfa* managed to establish a clear

¹³ Keywords that appeared in every newspaper from 1990 were ‘stabilization’, ‘liberalization’, ‘voucher privatization’ and ‘social protection’ (Orenstein 2001: 72).

¹⁴ See www.lexadin.nl/wlg/legis/nofr/eur/lxwecze.htm

conceptual basis for labour market policies and began to develop PLMP programmes comparable to the Western European model (Feldmann 2002, Bertelsmann 2003b). As concerns general emergency measures, compensation for abolished food subsidies were paid directly to the citizens with an extra of five percent of the average wage monthly. In 1991, a living minimum was defined and financially implemented with the help of the ILO and the EU (Orenstein 1995). The Czech unemployment benefit system has often been described as being very generous. However, already in 1991, criteria and benefit level for financial assistance were tightened and even stricter rules were introduced in 1992, reducing the maximum duration of benefits to 6 months and defining a maximum level of 1.5 times the minimum subsistence level. In 1993, the next step in creating a new welfare state was the initiation of a tax reform which instituted separate payroll taxes for pension and sickness insurance, unemployment benefits, ALMPs and health insurance. The Czech tax reform put an emphasis on the insurance principle rather than a universal fee provision from general funds and through this created transparency.

With the split of Czechoslovakia in 1992/1993 a shift to neoliberalism was enabled, by freeing *Klaus* from the need to accommodate the economically weaker Slovak Republic. *Klaus* thus launched several neoliberal programmes between 1992 and 1996; however, social democratic policies were maintained in a number of fields, for example with the low wage-low unemployment policies of social liberalism. *Orenstein* mentions that the Czechs called “the undervalued Czech exchange rate and low wage the ‘two cushions’ of economic transition, and defended rent control and housing subsidies” (Orenstein 2001: 63). Even if most of the former subsidies in various fields were either completely abolished or heavily cut, the remaining subsidies were used for cushioning the social costs of the transformation (for further readings cf. Orenstein 1995). At the same time that these subsidies were transitional measures, they laid the foundation for a social safety net.

The comparatively low Czech level of labour market policy spending – the average for the years 1991-1997 was 0.4 percent in the Czech Republic while 2 percent of GDP in Poland (OECD 2011a) – can however be traced back mainly to the unequal economic situation and the level of unemployment, not necessarily to the idea that the state should stay away from intervention. The total expenditure on labour market policies declined from 0.43 percent (1992) to 0.31 percent (1997) of GDP, however the unemployment benefits included in this expenditure increased from 0.16 to 0.21 percent in the same time (OECD 2011a). The fact that the unemployment fund has been part of the state budget made it interesting for all governments not to spend too generously.

What stands out when looking at the first reform period is that the state supported most former state enterprises and many enterprises did operate without enforced (financial) regulations while even when unemployment started increasing, it remained within a modest scale compared to all other transformation countries in CEE.¹⁵ It is remarkable that between 1990 and 1997, the Czech Republic continued with soft budget constraints, including the weak enforcement of bankruptcy legislation, making this country more employment-friendly than Poland. Above that, between 1990 and 1992, the

¹⁵ Overall, the poverty risk in the Czech Republic developed moderately during the first transformation period, this fact is also due to the delayed privatization of the large monopolistic industries, which was heavily criticized by the European Commission in its statements in the process of pre-accession (Boeckh 2000: 158).

Czech low wage-low unemployment strategy included a high number of subsidized jobs, wage decline and support to SMEs. Between 1992 and 1996, *Klaus* launched several comprehensive reforms in social assistance, health care, family policy and pension policy, the generosity of these reforms being cautiously developed to meet the population's needs. At the same time though, he reduced the severance payment obligation of employers, abolished the employers' social security obligations, allowed night shifts for women and provided employers with the right to make temporary workers redundant without notice (Keune 2006: 199). The trade unions' protest against these policies remained ineffective.

Analysis of the reform period 1989-1996: varieties in emergency policies. Policy-makers had to develop public policies, measures and reforms that aimed at solving several kinds of parallel adjustment problems in order to secure the transformation process and its legitimisation. As an immediate improvement of economic conditions and living standards fell short, the issue of labour market and social policies was increasingly put on the agenda.

While certain professions and workers close to the end of their working lives were retired in excessive numbers, the official unemployment rate was reduced and pensioners received better compensation than unemployment benefits would ever provide. Czech policy-makers, by contrast, followed inclusion strategies with a stronger focus on job-preservation, postponing bankruptcies of large enterprises by maintaining relaxed and sometimes ambiguous standards, supplemented by the early introduction of ALMPs.

During the mid-1990s, the Czech Republic was considered the leader in labour market reform in CEE. *Orenstein* contrasts the country's "strong package of social policies, representing its strategy for a smooth transition" with Poland's "fragmented safety net, exhibiting a lack of policy direction and misallocation of resources" (Orenstein 1995). Different schemes either secured the exit from employment in declining sectors or prevented it by heavily subsidizing. In Poland, the exit measures often targeted at victims of mass layoffs or elderly workers with inadequate skills. Instruments focused especially on severance pays and dismissal compensation as well as different schemes of pensions. These policy instruments were ad-hoc measures with two dramatic consequences: they significantly reduced the number of the workforce and increased the burden on the state budget while the expenditure on pensions heavily increased. This development included the reduction of available budget for other social policy measures as ALMPs or even the general unemployment benefit.

The Czech benefit system has been more generous insofar as the calculation of replacement rates is linked to the last net income - compared to the flat-rate system in Poland. Above that, the eligibility criteria for entitlement have been more open as the share of beneficiaries was larger when compared to Poland. The sharpest restriction in the Czech Republic was introduced with the reduction of the compensation duration from 12 to 6 months in 1992, aiming at the activation of the unemployed (Feldmann 2004, Götting 1998).¹⁶ In total, however, regarding the combination of social support as

¹⁶ Initially, after dismissal related to the transformation recession, 90 percent of previous net earnings were granted in the first 6 months. After the average unemployment benefit in relation to net income fell from 63 percent in 1991 to only 32 percent in 1995, it was again raised in 1997 and is fixed at 50 percent. The share of unemployed beneficiaries had already decreased from 54 (1991) to 48 percent (1993) (Feldmann 2002: 172).

concerns unemployment benefits and social assistance, the Czech Republic temporarily ranged as one of the most generous OECD countries.

To sum up, as concerns immediate governmental labour market measures during the first reform period, I conclude in line with *Vanhuysse* that “without re-sorting to abnormal retirement policies (Hungary and Poland) or job loss avoidance policies (Czech Republic), post-communist governments could not have implemented initial political and economic reform measures as quickly and as irreversible as they have done. Buying lunch makes you run faster” (*Vanhuysse* 2006: 2230). Both cases have thus used promising strategies to cope with potential social unrest; however, they did so in diverging manners, setting off a future trend of policy solutions. And while both countries carried out country-specific reforms with the consequence of increasingly stricter PLMPs over time, Polish PLMPs during this period remained stricter as compared to the Czech Republic.

5.1.2 Retrenchment vs. generosity (1997-2003)

Retrenchment and tightened eligibility criteria in Poland: Already in 1995, the political discourse emphasized a theoretical emphasis of conditionality elements.¹⁷ During this period, external influence through European instruments and guidelines increasingly shaped Polish labour market policies, as the EU focused on employment promotion and set an impetus to redesign labour market policies as a central area of public policy with a clear focus on activation. However, the actual success of the obligations imposed on the jobless by the local labour offices (such as activation programmes) remained limited, given the limited human and financial resources of the labour offices. The logic of activation intensified during the years as new resources were available from EU structural funds.¹⁸ Parallel to the preparation of EU accession, the policy-planning process moved away from a bottom-up strategy and the Polish administration found itself not able to mobilize enough resources to implement sustainable policy reforms. According to *Spieser*, the fact that policy strategies had to be planned in line with EU priorities in order to receive structural funds led to a situation where this objective dominated over the appropriateness of political solutions, generating partly hollow approaches (*Spieser* 2009: 243).

As an example, Poland was expected to adapt to the language and methodology of the EU, leading to a change from nationally framed diagnoses toward a “European language” in the concerned documents. The first comprehensive labour market programme was drafted and approved in 2002 with the National Employment Strategy (NES). It included the EU vocabulary and methodology but was actually never implemented. Former Minister *Michał Boni* admitted that the earlier programmes had been written under high pressure facing the events at that time, and he describes the strategy of 2002 as some form of “intellectual-methodological exercise” since the chances of its implementation were limited from the beginning (*Boni* 2002: 31). This development partly generated an isolation of the social partners and

¹⁷ At the same time, the previous atmosphere in favour of financial state support for the unemployed radically changed: in 1997, it was only about half of the Polish population agreeing that the government should spend money on unemployment benefits, while 90% believed that the state should instead provide a job for everybody and 82% in 1997 and 90% in 2006 said that the government should spend money on early retirement (*Spieser* 2009: 289).

¹⁸ The Polish Labour Fund was supported by the ESF, providing for 3.5 percent of the credits (*Spieser* 2009: 245).

regional authorities from the strategic policy-planning since this process was placed rather in the hand of government experts and elites at the expense of social dialogue and bottom-up policy-making. Eligibility criteria during the second period were tightened again together with an extreme drop in expenses for income-maintenance.¹⁹ With the beginning of the second period, the share of unemployed receiving benefits was drastically lowered from more than 50 percent in 1996 to less than one third in 1997 and further decreasing during this period to 15 percent (Spieser 2009). For those who had been unemployed for more than one year, which accounted for over half of the unemployed at the beginning of the 2000 decade, they were not longer entitled to any form of income replacement and thus depended on the marginal social safety net.

Redistribution in times of crisis and tightened eligibility criteria in the Czech Republic: In light of the 1996 micro census data, the Czech benefit system proved to be the most efficient in Europe in eliminating poverty (Sirovatka/Rakoczyova 2007: 11). Despite the low level of overall social expenditure, the system ranked at 74 percent in terms of effectiveness of social transfers in eliminating poverty, which was right after Sweden (ibid.). However, with the recession in 1998, the Czech labour market miracle subsided and the high labour taxation motivated tax evasion, the growth of the shadow economy and work disincentives. At the same time, the comparatively generous welfare system lowered the labour supply while ALMPs decreased in volume and were not evaluated. *Schüttpelz* claims that the social security systems were not preparing to cope with the ageing population (Schüttpelz 2004: 21).

In the context of the spending cuts during the fiscal instability in the crisis year 1997, eligibility criteria were again tightened. For jobseekers participating in retraining the replacement ratio was set at 60 percent of the previous wage, for others it was set at 50 percent. In 1999, the upper limit of unemployment support was increased to 250 percent of the minimum living standard of a single person and to 280 percent when in retraining (Potůček 2008). During the following years, criteria were slowly but steadily tightened, mirrored by the fact that from 1997, the share of unemployed receiving unemployment benefits continuously decreased from roughly 50 percent in 1997 to 35 percent in 2003 (MPSV 2008, Keune 2006: 234). It is remarkable that even under the social democratic regime, after 1998, the decline continued. Indeed, labour market policies were given importance foremost during the time of the OF government which regarded benefits as important to compensate for lost earnings while it regarded ALMPs as necessary to support structural change and reintegration into the labour market. The EU pre-accession period contributed to the improvement of Czech labour market policy, however pressured by the 1997 crisis. After the government takeover by the social democrats in 1998, the MPSV launched a new labour market policy approach: the Accession Partnership and the National Employment Strategy (NES). The National Employment Plan (NEP) of 1999 stressed the importance of labour market policy as an important pillar of economic policy.²⁰ A ČMKOS expert summarized these

¹⁹ The district labour office in charge pays unemployment benefits only to those whose job offer rejections are justified, and persons that became unemployed by their own fault are entitled to benefits only after 90 days and receive only 80% of the basic amount if they were employed for less than 5 years (Torres et al. 2001: 91).

²⁰ According to the NEP “[...] new labour market realities call for a new definition of objectives, means of employment

employment policy trends based on a former employment situation which had been positive until 1996 with less than 5 percent unemployment: “The situation changed because the elections in 1998 resulted in a more or less social democratic government. So the attention to social and employment policy was higher. Also, we came closer to the EU. This made some rhetoric difference in programmes – the ODS and rights support market forces, not the state” (quoted after Schüttpelz 2005: 25). The Zeman government regarded the adoption of the Social Charter of the Council of Europe as one of the five priorities set and the government’s “Economic strategy of the accession to the European Union” of May 1999 included a range of policies to achieve a sustainable increase in competitiveness and employment.

Overall, during the second reform period, the Czech labour market policy approach focused on full compliance of the employment legislation with the *acquis* and the EU employment guidelines, focusing on employment creation and prevention of social exclusion as two main EU goals.²¹ However, differences between Czech and European objectives (expressed by the EES) remained. For example, as concerns the cooperation between the social partners and local labour market actors, there was backlog demand which was repeatedly criticized by the EU. According to *Schüttpelz*, however, for the first time a coordinated employment policy was approached in the Czech Republic (Schüttpelz 2005: 21).

Analysis of the second reform period 1997-2003: decreased generosity and tightened eligibility criteria. A common trend in Czech and Polish labour market policies has been the downward adjustment of the duration and the level of benefits as well as the tightening of eligibility criteria. This development led to a decline of the share of unemployed that were recipients of unemployment benefits. In particular the second reform period marks a turning point with a drastic drop in the expenditure on PLMPs while the low Czech expenditure remained constant even when the economic crisis started in 1997. Lower expenditures might be an indicator of market orientation or de commodification. However, the level of unemployment has been entirely dissimilar in the two cases, generating different degrees of necessity of policies in terms of income maintenance and redistribution. Redistribution mechanisms in the Czech Republic had been successfully transformed at the beginning of the 1990s; by contrast the social service system reform was extremely slow, underlining the dominant Czech orientation towards income transfers.

In summary, both countries show PLMP developments which are in their trends comparable to Western European countries, continuously tightening their income replacement schemes’ eligibility conditions, the replacement ratios and the period of entitlement. However, they underwent these changes in a more drastic way and a shorter period of time. Poland underwent drastic changes from an extremely generous system in the early years of transformation towards a liberal system with particularly low flat-rate

policies and actors shaping further development. It is necessary to transfer the focus, as well as financial flows, from the ‘mere’ material security which maintains people in waiting passively (relying on benefits) towards the provision of incentives to change the status quo. The National Employment Plan gives a clear preference to the creation of new jobs, improvement of employability, increased flexibility of workers and, on the other hand, discourages reliance on the social safety net” (MPSV 1999 quoted after Schüttpelz 2004: 18).

²¹ In 1999, under the main responsibility of the Ministry for Regional Development, strategic documents were developed (i.e. the JAP and the National programme for the development of education) for receiving support from the EU Funds.

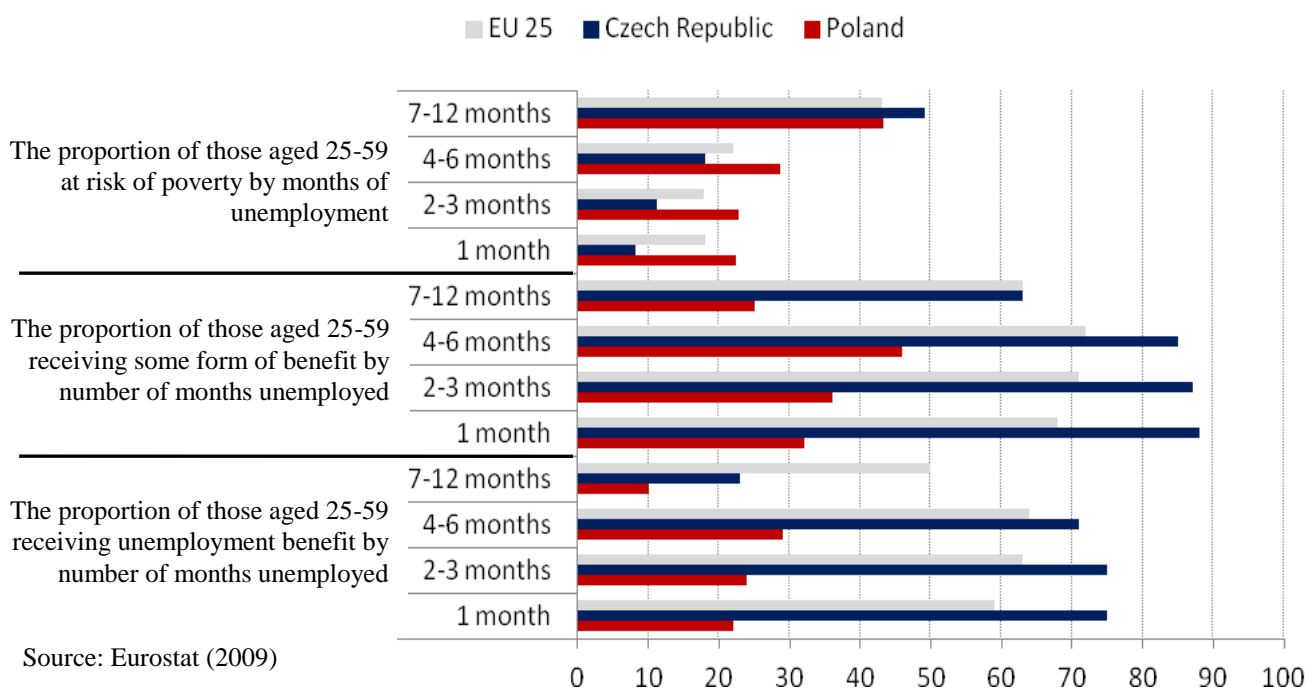
compensation, tight eligibility criteria and obligations for the beneficiaries, leading to the situation that whereas 50 percent of the unemployed had received benefits in 1996, this number was reduced to 15 percent in 2003. For the Czech Republic, this development has been slightly less dramatic, but still remarkable, with a decrease from 50 percent to 35 percent. In Poland, all indicators except the duration of payments indicate a rather market oriented framework with the state's retrenchment and residual solutions that fulfil only minimal needs. In the Czech Republic, despite the state supporting its citizens and the social security system still ranging among the most successful systems in fighting poverty, increasingly liberal elements entered the labour market policies (Polakowski 2010, Götting 1998).

As concerns the preparations for EU accession, both countries adjusted not only the EU language and methodology, but also partly implemented the EU's labour market objectives while launching National Employment Strategies that were in line with the EES.

5.1.3 Towards a market oriented paradigm? (2004-2009)

The gap between Poland and the Czech Republic in terms of generosity is closing. However, comparing the average net replacement ratio of social benefits to wages in a situation of long-term unemployment in 2004, the difference between the two cases is still evident: the average replacement ration in the Czech Republic was at 53 percent whereas in Poland it was 27 percent, being both less when compared to the EU-15 at 55 percent which was however not much higher than the Czech Republic (Sirovatka/Rakoczyova 2007). Figure 5.6 illustrates that concerning the indicators below (poverty risk, general benefits for unemployed and unemployment benefits), the Czech Republic was more generous than Poland, and in many cases the Czech policies are even more generous than the EU 25.

Figure 5.6 Passive labour market policy, 2006



Residualism and the ambiguous role of the Polish state: After EU accession, Poland witnessed further economic extension; it however did not use this situation to improve the structural budget balance as defined by the Maastricht definitions. Even if the country aimed to reduce the generosity of support of farmers, to reduce the retirement age, to save on disability benefits and to improve the efficiency of local administration, the PLMPs carried out were rather implemented in a pro-cyclical manner (OECD 2010a). Especially the fact that the country still provided an overly generous social security system for farmers – a legacy of the former socialist system – triggered incentives to remain in this sector while weighing heavily on public expenditure (OECD 2010a: 6).

It was only in 2004 that a serious approach for people being ‘at risk’ on the labour market was developed with the Act on Employment Promotion and Labour Market Institutions, including not only people under twenty-five but those people of fifty years and more, the long-term unemployed, disabled people as well as single parents (Spieser 2009: 219). At the same time as we can identify further retrenchment of the state in many areas of PLMPs, we find that it has still been dominating various arenas of the labour market as public owner of competitive segments of network industries (gas, airline, electricity, rail and post) (OECD 2010a). According to the OECD Economic Survey, Poland “is the OECD country where the grip of the state on the economy is the tightest, and privatisation was largely stopped in the mid-2000s” (OECD 2010a: 7). The role of the state has not come to a definition yet.

In 2009, a new type of unemployment support was introduced with the payment of mortgages to unemployed people by the Act on State Support in Paying Housing Credits given to persons who have lost their work. This act was launched to support unemployed persons who were entitled to unemployment benefits, paying a maximum amount equivalent to 300 EUR per months of a monthly housing loan instalment. *Sienkiewicz* mentions that by 2010, 46.500 persons had applied for support, amounting to a total of 30 Mio. EUR, the support was however only provided to 1.402 beneficiaries, amounting to around 2 Mio. EUR (Sienkiewicz 2010a: 5). Other measures included mostly programmes financed by the European Social Fund (ESF), for example the monitored dismissal programme, offering persons who had to change their employer for lower pay than previously a one-time allowance. However, all measures taken were rather insignificant for the labour market development except that beneficiaries received lower support. One of the central weaknesses of the Polish benefit system remained in place also during the third reform period: the exclusion of persons who receive less than the minimum wage before becoming unemployed from the right to receive unemployment benefits – this fact actually punished those who worked in the context of widespread non-standard employment.

Increasing market orientation vs. social inclusion policies in the Czech Republic: Between 2004 and 2009, the definition of ‘adequate work’ in the context of eligibility conditions was modified and allowed jobseekers to refuse jobs with wages below a defined level or with temporary contracts of duration less than three months. At the same time, with effect of 1 January 2004, several modifications of the benefit system entered into force, aiming to motivate unemployed to find a job through lower benefits and stricter eligibility. If the jobseeker quit a job without reason or agreed on job termination with the employer preceding the registration at the labour office, the unemployment benefit was reduced to 50

percent of the previous income during the first three months and 45 percent in the following 3 months. The share of Czech unemployed receiving benefits fell below 30 percent for the first time in 2005 due to tightened eligibility rules (MPSV 2008). However, the definition of suitable jobs took into account the jobseekers qualifications and preferences. Usually, jobseekers had to report once a month to their labour office, while referrals to vacancies were actively managed. From 2007, the developments of individual action plans by the municipal social workers at the municipality became obligatory after six months of payment, however, *Kaluzna* claims that social workers had little experience (Kaluzna 2008).

In 2008, further steps towards activation were introduced, including the preparation of an individual action plan after 5 months and the requirement to take up voluntary work for at least 20 hours per month after six months on social assistance. Some authors state that even if the formal rules for receiving unemployment benefits were strict during this period, their enforcement remained rather weak and informal ways were often employed in the Czech Republic (Vercernik 2006, Cerami 2006). From 2004, the government allowed to combine partial unemployment with receiving unemployment benefits, allowing the jobseeker to follow gainful activity (half of the regulated weekly working time with less than half the minimum wage). Labour offices generally cooperated closely with the National Labour Inspectorate which was established in 2005 with the task to check compliance with labour legislation concerning existing employment contracts. It is not easy to measure how many persons lost their entitlement to benefits due to sanctions, but in 2006, because of failure to cooperate with the Personal Employment Service (PES), *Kaluzna* claims that 87.000 jobseekers were removed from the unemployment register (Kaluzna 2008).

In 2008, the MPSV reduced the period of unemployment benefits by another month, leading to a situation in which jobseekers below 50 years of age receive payments for 5 months, jobseekers between 50 and 55 receive payment during 8 months and jobseekers 56 and older receive payments during 11 months. In accordance with the amendment of the Employment Act which is on force since January 2009, another reduction of the payment duration of unemployment benefits has been introduced while the benefit has increased to 65 percent of the previous income for the first two months. The maximum duration of payment is now six months for unemployed persons below the age of 50, nine months for unemployed persons below the age of 55, and 11 months for those at the age of 55 and more (Janicko/Sirucek 2009: 601). As concerns the eligibility criteria, those unemployed who do not meet the conditions of their individual job action plan, those who reject retraining without good reason, and those who during the last six months have repeatedly changed the job which had been provided by the Labour Office, lose their entitlement to benefit.

Analysis of the reform period 2004-2009: Table 5.1 below presents major indicators on PLMPs in both countries summarizing the three reform periods under consideration. They highlight an overall tightening of generosity of PLMPs and thus increased market orientation. The most remarkable difference is the payment of unemployment benefits based on low level flat-rate in Poland as compared to the Czech Republic, where income compensation in case of unemployment is earnings-related. Above that, what stands out is the fact that the duration of payments is longer in Poland as compared to

the Czech Republic, while the benefit rate turns out to be higher in the latter. On the whole, both cases inhibit strict eligibility and low replacements rates.

Table 5.1 Main features of PLMPs in Poland and the Czech Republic over time

| Poland | | | |
|-------------------------------|---|---|--|
| | Eligibility | Benefit rate | Duration in months |
| 1. Period 1989-1996 | 180 days during last 12 months Graduates could receive benefits only three months after registration with the labour office, not possessing agricultural estate >2 hectares, not receiving monthly income >50% of minimum wage (excluding income from interest rates/savings), | Before 1991: 70% 1.-3. month 50% next 6 months 40% following months 1991: min. 33% of average wage, max. minimum wage Since 1992: flat rate (36% of average wage) | 1989-1991: unlimited 12 (from 1991) (in exceptional cases to be exceeded to 18 months) 3 in areas with low unemployment |
| 2. Period 1997-2003 | Employed at least 1 year within last 18 months, not possessing agricultural estate >2 hectares, not receiving monthly income >50% of minimum wage (excluding income from interest rates/savings), not receiving permanent or temporary allowances, training benefits, retirement pension, disability benefit, sickness or maternity allowance | ≈ PLN 400 (≈ EUR 96)* | 12 (areas with unemployment >125% of national rate / for people > 50 years old and payment > 20 years of contribution), in exceptional cases exceeded to 18 months |
| 3. Period 2004-2009 | Employed at least 1 year within last 18 months, not possessing agricultural estate >2 hectares, not receiving monthly income >50% of minimum wage (excluding income from interest rates/savings), not receiving permanent or temporary allowances, training benefits, retirement pension, disability benefit, sickness or maternity allowance The beneficiary must accept suitable work (as well as ALMPs) and loses eligibility in case of refusal. | ≈ PLN 500 (≈ EUR 120)* | 6 (areas with unemployment < 125% of average national rate) 12 (areas with unemployment >125% of national rate / for people > 50 years old and payment > 20 years of contribution) 18 (areas with unemployment twice the national average / those with at least one dependent child and whose spouse is unemployed without the right to the benefit) |

Source: own compilation based on OECD (www.oecd.org/social/socialpoliciesanddata/), Spieser (2009), Kaluzna (2008), European Commission (2010a), Sienkiewicz (2011)

* Note: 80 % of the base for unemployment benefits for those with work experience of < 5 years; 120 % of the base for unemployment benefits for those with total work experience of > 20 years.

| Czech Republic | | | |
|-------------------------------|--|--|--|
| | Eligibility | Benefit rate | Duration in months |
| 1. Period 1989-1996 | Employed at least 12 months within last 3 years or engaged in retraining | 60% of earnings for first 3 months, 50% for second 3 months (maximum 1.5 times the minimum living standard) | Before 1992: 12 6 |
| 2. Period 1997-2003 | Employed at least 12 months within last 3 years or engaged in retraining | 50% of earnings for first 3 months, 45% for second 3 months, 60% in case of retraining (maximum 2.5 times the minimum living standard) | 6 (exceeded for unemployed >50 years) |
| 3. Period 2004-2009 | Employed at least 1 year within last 3 years, or engaged in retraining, No entitlement to benefits if the employer terminated his/her job due to a serious breach of duty or if the jobseeker repeatedly terminated a suitable job in the past 6 months. | 50% of last net earnings for first 2 months (max. 58% of average wage), (Since 2009: 65%) thereafter: 45%, 60% if undergoing training | 5 (<50 years) 9 (50-55 years) 11 (>55 years) |

Source: own compilation based on OECD (www.oecd.org/social/socialpoliciesanddata/), Potůček (2008), Kaluzna (2008), Keune (2006), European Commission (2010a), Sienkiewicz (2011)

5.2 Active labour market policies

As in most European countries, the principle of labour market policies in CEE has changed from securing workers against income loss in the event of unemployment to trying to get people into employment. ALMP is based on the two main approaches (OECD 2011: 100):

- (i) Labour market measures with subsidized employment, training and activation offers
- (ii) Public employment services (PES)

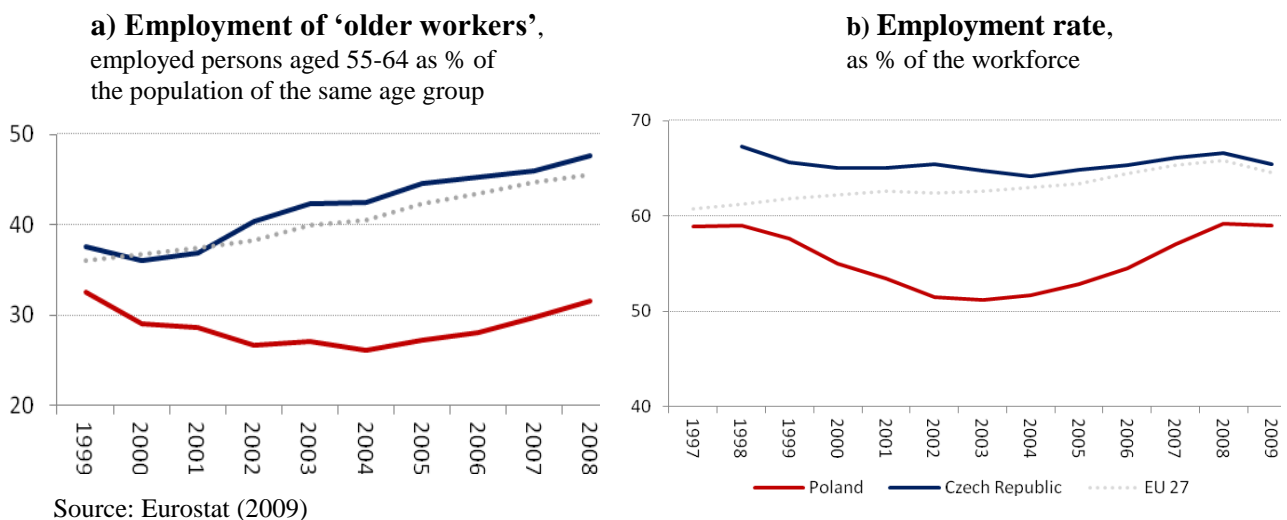
These policies are costly due to the need of personnel and state subsidies. Some approaches imply that the public sector helps remedy the lack of investments in education and training, and encourages firms to retain employees who are at risk of being excluded from the labour market (Bredgaard et al. 2005: 26). Other approaches (increasingly) include offers by private companies providing training or activation programmes. The budget argument makes active approaches increasingly important especially in CEEC when passive measures became too costly as the workforce was basically lost. At the same time, ALMPs are not easily politically accepted because they are often negatively associated with the duty to work in whatever job or training is offered to the unemployed. Above that, active

measures also appear to be costly. Liberal Beveridge welfare states tend to have lower employment protection but higher investments in the employability of individuals (Döring 2005). By contrast, conservative Bismarckian arrangements tend to focus on employment protection instead of high expenses for active measures.

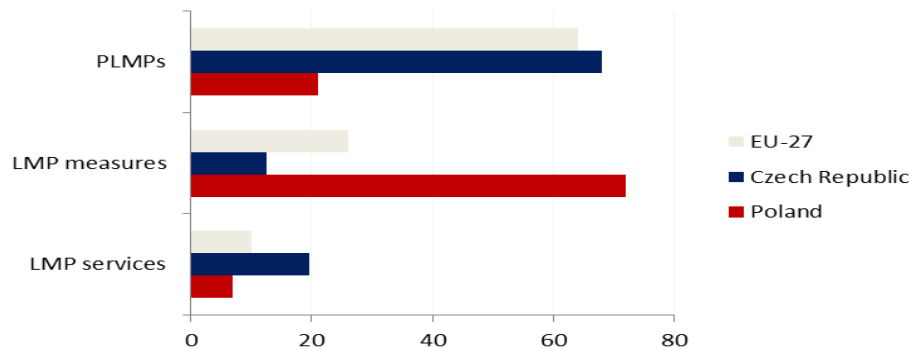
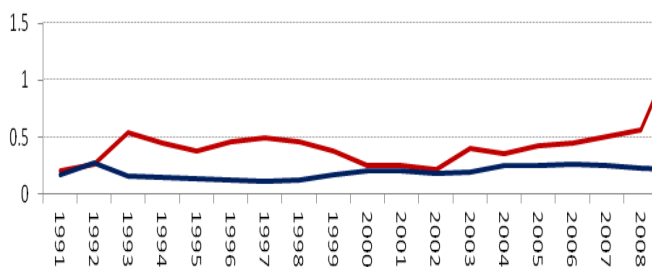
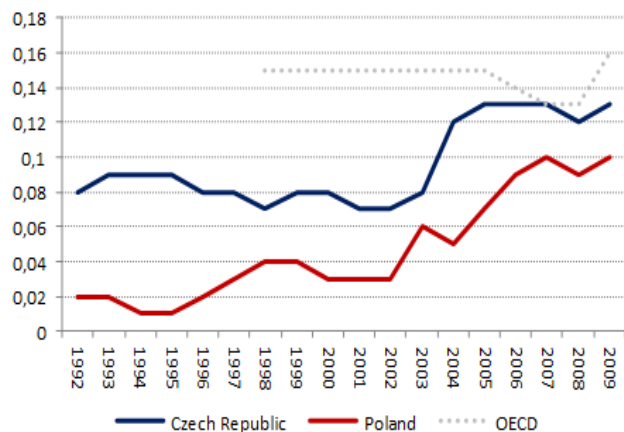
Facing increasing transitions during a working life, systems which focus on promoting employment instead of compensating unemployment improve the possibility to manoeuvre between various forms of work without affecting the general objective of social security and financing (Döring 2005). While many Western European countries already adapted to this attitude in the 1990s given a Europe-wide labour transformation towards ALMPs and activation of the unemployed, the CEECs are still trying to cope with the new experience of unemployment.

As a basis for the necessity *and* the success of ALMPs, Figure 5.7 below shows the employment rates in the two cases over time. They have remained significantly lower in Poland as compared to the Czech Republic, certainly linked to the unequal economic performance.

Figure 5.7 Employment rates



ALMPs are financed from payroll taxes in the Czech Republic whereas in Poland it is a combination of the state budget and payroll taxes. Meanwhile, EU funding plays an increasing role especially for ALMPs. The focus and funding of those policies in Poland and the Czech Republic are planned in the tripartite bodies (state representatives, unions and employers' associations as elaborated in Chapter 4). *Belke/Hebler* argue that expenditures in CEE mirror as a whole that the scope of ALMPs has been comparable to Western Europe throughout the main transformation years in the 1990s (*Belke/Hebler* 2002: 73). A closer glance at the labour market expenditure's targets however shows that there exist very different priorities among the CEECs and also when compared to the EU, illustrated below.

Figure 5.8 Public expenditure on ALMPs**a) Public expenditure on PLMPs, measures, services,
in % of total labour market policy expenditure, 2009****b) ALMPs, % of GDP****c) PES and administration, % of GDP**

Source: (a) Eurostat (2011), (b) and (c) OECD (2011)

5.2.1 Introduction of active policies (1989-1996)

The predominance of income compensation and wage subsidies in Poland: (i) Right after the regime change, the Polish government implemented PLMP and ALMP measures through unemployment benefits and employment services, but active ones did only make up a minimal share: these were small business loans for employers in order to create jobs, provision of training, public service employment or wage subsidy programmes. Initially, even if ALMPs were developed alongside with passive measures, it was mostly government interventions and employment subsidies that could be observed as active measures. In 1992, business start-up loans and training schemes were established and almost 60 percent of unemployed registered in active labour market programmes, this number however decreasing again between 1993 and 1996 to a share of 20 percent, also referring mostly to publicly financed intervention or public work (Spieser 2009: 221). In 1993, the government adopted the Programme for Counteracting Unemployment and its Negative Effects, for the first time attempting to take a step towards a comprehensive perspective on labour market problems. According to *Spieser*, the programme stated three main objectives: halting the expansion of unemployment, limiting the negative consequences of

unemployment and opting for limited public intervention in the labour market (Spieser 2009: 233). However, it showed that the distribution of skills among the workforce and the individual unemployment risk had not been fully considered.

Mieczysław Kabaj, former head of the Institute for Labour and Social Affairs in Warsaw (IPiSS), was the principal opponent of the government's labour market policy. He criticized that employment substitution and income compensation would not create employment (Kabaj 1996: 45). *Kabaj* tried to push for an active 'integrated approach' with the aim to encourage the creation of jobs.

"When economic growth cannot expand employment sufficiently, the macroeconomic policy measures should be adjusted to promote the creation of new jobs. An integrated approach entails two things: first, labour market policy must operate as part of the overall economic policy and should not be treated as a discrete realm; second, labour market policy cannot make for a lack of employment-oriented growth policies" (Kabaj 1996: 45).

Kabaj's ideas were not considered much by the government. Labour market policies between 1991 and 1997 remained characterized by state intervention measures in forms of wage subsidies and public employment programmes (with a share of about 40 percent and 33 percent of active measures) at a participation share of a 65 percent total. These programmes were subsidized by the labour offices with up to 75 percent of the national average wage (Feldmann 2000, Golinowska 2000, World Bank 2001). Wage subsidies and the amount of the unemployment benefits annually promoted about 100.000-200.000 employees and aimed at creating stable new jobs. However, approximately 85 percent of the subsidized employment was released after the ending of the subsidy, so that the target was missed. Numerous unemployed people saw the subsidized employment as a possibility to be entitled to unemployment benefits for 12 months again after 6 months of employment, triggering a revolving door effect (Feldmann 2002: 180). *Giermanowska/Hryniewicz* argue that these measures remained passive:

"Active employment policies have only been implemented to a limited degree because of financial constraints and the lack of qualified personnel, such as labour agents and vocational counsellors. This has contributed to passive attitudes among the unemployed and abuses of the right to benefits by people out of work. Consequently, increasingly restrictive regulations have been introduced, such as the obligation to report regularly to employment offices, even if they have no jobs to offer, as well as more elaborate tests for being officially recognized as unemployed" (Giermanowska/Hryniewicz 1998: 165).

(ii) A survey carried out in 1994 showed that employment offices set up in Poland by the ILO and the EU in the 1990s, had offered a job to only 8 percent of the unemployed in a concerned year, while only 7 percent of those who had successfully found a job did so thanks to the employment offices' support (Feldmann 2002: 150). Due to lacking technical equipment and inadequate staff skills, most job seekers found their job through personal contacts (31 percent), speculative application (18 percent) or with support by one of the increasing private employment agencies (Feldmann 2002: 150).

However, as the years went by, the picture changed to the positive: in 1997, 500 local employment offices existed, the computerization of service was well developed and a National Labour Office with a tripartite governing structure had been established, implementing measures which had been approved

by the ministry level. The office was in charge of creating labour market orientations and negotiated about resources with the ministry. The territorial reform of 1998 reduced the number of voivodships from 36 to 18 and decentralized administrative competences in favour of the local authorities (poviat) that became the primary level of implementation while the voivodships set the main guidelines for the region.²² The scope of unemployment that developed with the beginning of transformation was clearly underestimated by the Polish governments which did not anticipate developing programmes in advance to control the situation. Despite the urging of Western actors, in particular of the EU and World Bank, active measures remained subordinate (Golinowska 2000: 223, Torres et al. 2001: 91, for a detailed overview of the Polish ALMPs see also Chiechanski 1999 and World Bank 2001). When strikes began to spread in the early 1990s, the political dimension of unemployment became clear together with the fact that a government strategy was needed. *Michał Boni*, former minister, summarized:

“When, at the turn of 1992 and 1993, Polish unemployment figures soared, it became obvious how necessary it was to build well-functioning employment services. It was the first wave in the rise of unemployment that showed how important it is to create a system of financial aid for people losing their jobs, to support activity of those unemployed and to develop entrepreneurship as well as job creation. All these aims were set and described in appropriate legal rules stimulating concrete actions of employment services [...] It turned out, though, that what we needed was a comprehensive programme for fighting unemployment. The necessity of such a programme was discussed in political circles, during negotiation meetings with trade unions. In January 1993 the Ministry of Labour set up a working group headed by myself. Its aim was to prepare a government Programme for Counteracting Unemployment and Its Effects. We wanted to avoid the word ‘fight’ in the title of the document, preferring a perspective focused on creating the foundations for the policy, or policies for the job market” (Boni 2002: 29).

Unemployment was however never treated as a priority by the labour offices though (Rashid et al. 2005: 84). Polish labour offices continued to show a lot of deficiencies in employment services due to administrative, technical and personnel deficiencies.²³ Intermediation was not given the importance that the Employment Act of 1994 had actually proclaimed. Finally, the ratio of 1 to 1.000 as to the employment advisors responsible for the number of unemployed was sometimes not even met (Kabaj 2000).

Training programmes for professional training in Poland recorded an average participant share of 26 percent during the years 1990-1996 while it claimed only 1.2 percent of labour market policy spending, granting a payment of 20 percent of the replacement rate to the participants (Feldmann 2002: 147ff., World Bank 2001: 79). 3-4 percent of the unemployed received training measures during the years 1994 and 1995, when comparing this figure with the average share of 20 percent in the OECD countries; this figure is appalling (Kabaj 1996: 46). Even if these programmes achieved great success, they may not hide the fact that unemployed persons who had participated in such courses were employed only instead

²² Whereas in 1998, the poviats’ employment services had to deliver basically the programmes developed on the central state-level, in 2004 all tasks became the poviats’ own task while the state subsidies dropped from 90 percent in 2003 to only 6.1 percent in 2004 with the consequence that funding comes mainly from the voivodship (Kaluzna 2009: 14). Even if the highly decentralised provision of employment services is largely regarded as a positive step, one problematic aspect is that the local labour offices do not have an umbrella organisation which would initiate and coordinate the exchange of for example best practices and information.

²³ As an example, the so-called ‘activation interviews’ were not about advising the unemployed person with respect to his or her tasks, because the time was primarily spent on administration, the analysis of unemployment figures and the writing of reports (Kabaj 2000).

of those unemployed who had not attended training courses. According to *Feldmann*, the net effect of recruitment appeared to have been at zero (Feldmann 2002: 151).

Promoting self-employment was the least initiative of ALMPs in Poland (subscriber share 0.7 percent, share of expenditure 2.6 percent), however, the World Bank estimated that it effected the employment situation positively (World Bank 2001: 71). Unemployed people could get credits which were released in case of a self-created job for a minimum duration of two years. The programme had great success, as 79 percent of former participants in 1996 were still economically active in 1997, and only 6 percent had re-registered as unemployed. At the same time, the cost factor was very low with only about 100-130 EUR per person as the maximum loan was 20 times the average wage (Feldmann 2002: 154).

Behind the limited ALMPs obviously stands to a certain degree a high fixed expenditure rate of PLMPs due to high unemployment: early retirement and unemployment benefits swallowed a large part of the general labour market expenses, of which the active measures were reduced to ad-hoc policy instruments (European Commission 2005: 185). Given the volatility of the resources available for active programmes, their implementation varied from one year to the other. As the Labour Fund's expenses are covered by contributions (2.4 percent of the salary paid by the employer) it receives ad-hoc and yearly varying subsidies from the state budget depending on the economic cycle and power constellations and interests of involved actors.

High participation in employment programmes and an effective PES in the ČSFR/Czech Republic:

(i) In ČSFR/the Czech Republic between 1991 and 1997, the majority of participants (62 percent) in active programmes were in the area of wage subsidy and employment programmes (Keune 2006).²⁴ The role of the state in ALMPs together with a variety of labour market instruments have been a special feature in the ČSFR/Czech Republic: a crucial step in this context had been the adoption of the Employment Act in 1991.²⁵ This act included a redefinition of the state's role with its primary function as a facilitator of a functioning labour market governed by market processes. Tax incentives and subsidies were defined as key instruments to promote job creation. The act also redefined the citizens' obligations and rights as for example instead of a 'right of employment' it states that every citizen had the right to (a) assistance in finding suitable employment, (b) retraining if essential for finding a job, and (c) financial support in case of unemployment and prior to entering employment (Employment Act, Section 1). The obligation to work was rejected within the act and labour market policy was defined as part of the authority of the Ministry of Labour and Social Affairs. The act described four types of ALMPs (Employment Act, Section 21-24): (a) labour offices provide mediation services to job-seekers and to employers, (b) employment-oriented training and retraining is defined as a means to adapt to

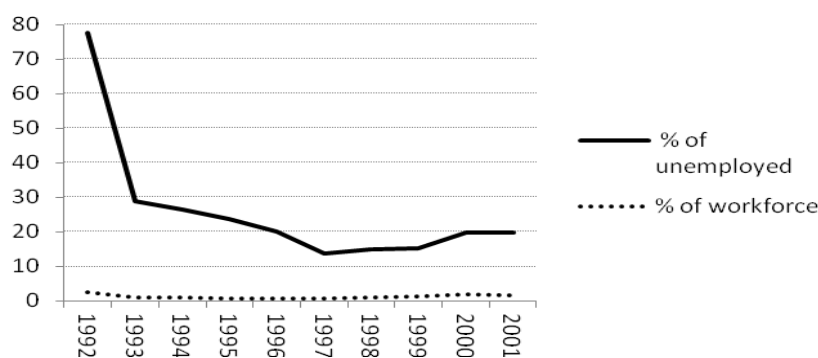
²⁴ With help of the municipalities, socially appropriate jobs were created by subsidies. On the other hand and through wage subsidies, unemployed were encouraged to work as freelancers. Employment usually lasted another 6 months with a subsequent re-entitlement to benefits; the participants received the legal minimum wage while a large part of labour costs was reimbursed.

²⁵ Employment Act of 1991 (www.lexadin.nl/wlg/legis/nofr/eur/lxwecze.htm). The Act has been amended many times, still the core has remained.

labour demand and supply, (c) the act provides for the financial assistance of those employers who are not able to provide fully paid work for their employees because of a new production programme, (d) the act established an absolute right to employment in appropriate conditions for disabled persons, and it introduced a quota of disabled that employers had to respect.

Figure 5.9 below shows that in 1992, the overwhelming share of 77.6 percent of the unemployed (2.5 percent of workforce) participated in some type of ALMP. Already one year later, this situation had however completely changed with a share of roughly 30 percent of unemployed participating in active measures while this share even further decreased during the subsequent years (Keune 2006: 234).

Figure 5.9 Participants in ALMPs in the ČSFR/Czech Republic



Source: Keune (2006: 235, CZ Ministry of Labour: Labour Force Survey and Joint Assessment Paper Progress Report - The Czech Republic 2002)

ČSFR/Czech ALMPs between 1990 and 1992 was characterised by job creation approaches, including support for ‘socially purposeful jobs’ like those created for unemployed persons, start-up costs for self-employed or subsidies on job creation. A network of 77 regional labour offices was set up by the government already in 1990 in order to offer a wide range of services including labour market information and consultation, professional job training or qualification in order to create new employment opportunities. These employment offices were able to reach 92 percent of all persons registered unemployed and had created more than 82.000 new jobs by 1992, over 1.000 places in protected workshops for disabled people, and 25.000 places for community work, while the offices carried out 14.600 cases of re-qualification for workers. In 1993, the expenditure for ALMPs had amounted to 55 percent and was thus even higher than the OECD average of 33 percent, not to speak of Poland with a share of only 16 percent (Vanhuysse 2006). In conclusion, *Inglot* states that in the early reforms, the Czech government “had one major social priority – an active labour market policy that focused on subsidized employment for workers, the protection of the basic standards of living and the preservation of nearly universal access to cash transfers and social services” (Inglot 2009: 79).

Between 1991 and 1997, 17 percent of labour market policy expenditure was invested in education courses reaching a participating share of only 6 percent (Feldmann 2002: 176). However, most training had been tailored with respect to the needs of companies and was conducted publicly and privately, while the course fees were paid by the employment offices. The participants received 70 percent of their

previous net wage. The success of these activities was confirmed by the fact that 75 percent of the participants found a job within 3 months after the course ended in 1996 (Feldmann 2002: 177). At the same time, programmes promoting self-employment received greater attention than in Poland as they had a subscriber share of 17 percent and an expenditure share of 7 percent.

Additional instruments were public works and vocational training. Only in 1991, 82.600 jobs were created through these instruments, and in the following year, 122.800 jobs were created (Nesporova/Uldrichova 1997: 66). Additionally, a small enterprise promotion scheme was developed, providing facilitated access to capital and to supporting services. The objective behind these approaches points to the role of the state in labour market policies in the early transformation years: labour market policy should not be left solely to the market, but the state should take over a substantial role as well. That being said, the above mentioned instruments must not be overestimated even if they proved to work efficiently taken together with the low wage-low unemployment policy of the early reform years.

(ii) The governance of Czech labour market policies is traditionally concentrated in the hands of the PES as a branch of the MPSV. The PES is decided by the government, involving also employers and trade unions. In its current form it dates back to 1991 when the Slovak and Czech Republic began institutionalising job placement, jobseekers' retraining, the management of subsidies for job creation and the administration of the unemployment benefits. The PES monitors and enforces compliance of employers with employment legislation. During the first reform period, the Czech Republic possessed greater capacity for job placements than Poland did: in 1993, one labour office employee accounted for only 30 unemployed, furthermore, as in Poland, a country-wide computer system had been established already in 1990, containing information on job vacancies and registered unemployed. Every other week, unemployed persons were obliged to see their consultants and demonstrate their active job search. Non-compliance with this obligation brought a removal from the unemployment register for 3 months.

Analysis of the reform period 1989-1996: variation in the relevance and effectiveness of ALMPs.

Polish ALMPs, targeting at the creation of employment or activating unemployed persons, developed slowly during the first period under consideration. From 1995, the discourse on active measures became more visible; however, the emphasis on new programmes remained rather a rhetorical one and was not followed by concrete implementation measures, obviously also due to a lack of resources. Policies were mainly following conservative principles of employment subsidies, combined by some investment into human capital development and training measures. Due to lower unemployment and less extensive compensation costs together with a different political approach, Czech actors were able to launch more successful active programmes, attaining further savings and flexibility of the unemployed in addition to low-wage, subsidy and supply side policies (Götting 1998: 138).

On the whole, the initially generous programmes supported also their abuse instead of only promoting the entry into regular employment: they invited companies that wanted to create new jobs anyway to benefit from subsidies; additionally they lacked focus on the 'problematic groups' on the labour market and finally pushed an expulsion of standard employment. *Feldmann* criticizes for Poland that the relapse in unemployment was even promoted by the wage subsidy programme (Feldmann 2002: 152).

Also the World Bank considered these programmes ineffective (World Bank 2001: 64 f.). The Polish participants' qualification had even been impaired, argues *Golinowska*, saying that the programmes were offering only unpretentious, stigmatizing activities. However, they would have turned out to be twice as expensive for the state budget as unemployment benefits (Golinowska 2000: 247).

5.2.2 Stagnation of active measures (1997-2003)

Ad-hoc ALMP programmes in Poland: (i) By 1997, ALMPs were improved in their design and implementation. Polish labor office staff was increased and the National Labor Office with a tripartite governing structure was established to implement labor market programmes developed by the MPiPS. However, while revenues allocated to the Labor Fund grew considerably, to 2.2 percent of GDP, but only 14 percent of these funds (0.3 percent of GDP) were used for ALMPs, compared to 0.75 of GDP in OECD countries (Rashid et al. 2005: 84). The designing and implementation of ALMPs was changed in 1997, touching active measures as well as income compensation. The newly developed programmes included the following measures, which were monitored to evaluate their success: retraining up to 12 months, public works paying up to 75 percent of the average income, intervention works paying 6 months of social security and wages for employees hired by the company, micro-credits for small business start-ups, and general employment services (Rashid et al. 2005: 85).

(ii) Between 1998 and 2002, Poland decentralised the employment service. The new structure was in some respect problematic as the operational costs were generated directly by the concerned territory and under-financing became a common problem, leading to uneven service provision and performance (Kaluzna 2009: 5). Since the Labour Fund's budget decreased again, ALMPs were the first measures to be cut back and supplemented by the World Bank, especially in rural areas (Rashid et al. 2005). And despite the launching of new ALMPs, the scope remained surprisingly limited as *Götting* claims that at the end of the 1990s, the level of ALMPs was in line with liberal regimes like the US or Switzerland (Götting 1998: 140). In 2002, the government introduced the programme "Entrepreneurship – Development – Work", financed by the federal and regional budget and co-finance by the ESF, which aimed to stipulate entrepreneurship and developed measures to encourage employment creation.

Problems of coordination arose between the central state authority and regional labour offices due to belated transfers of resources to the offices and reduced possibilities to launch long-term measures.

By 2002, only 5.4 percent of the Labour Fund's resources were spent on active measures as subsidised work, training, activation and loans for the creation of employment, while 89 percent financed passive policies (Rashid et al. 2005: 82). The programme "Entrepreneurship above all" was approved in 2002 and included all measures geared toward enterprises backed by the idea that removing administrative burdens for entrepreneurs would generate economic growth and produce new jobs.

The relatively high degree of decentralisation provided much autonomy to the local labour offices which still lacked experience and training of the personnel, a situation that might question the positive aspect of ALMPs while generally "decentralization has caused many problems that (for the time being)

are curbing the efficiency of the Polish welfare state” (Golinowska 2009: 240).

By 2002, the National Employment Strategy was linked to EU accession requirements and the National Development Plan, focusing on employment improvement, equality of opportunity, enterprise development, and improving adaptability of the labour market, while unemployment had reached high levels. Interestingly, when the unemployment rate peaked, employment offices were even less equipped since the personnel was reduced about 22.000 persons to 13.000 between 1998 and 2003 – with the amazing result of 7.000 client users for every member of the local labour office (Surdej 2009). At the same time, the share of unemployed participating in activation measures became less with 0.9 percent in 2002, and even the share of 3.3 percent in 2003 does not hide the fact that in total, in times of highest unemployment, extremely few active programmes were realized (Spieser 2009: 238).

Taken together, the scope of ALMP in Poland remained limited in the period 1997-2003 compared to the ‘old’ EU member states, partly due to a lack of financial resources, partly due to different political priority-settings. Even if a positive trend can be observed when compared to the previous period under consideration, the number of ALMP participants and the budget at disposal remained unsatisfactory.

Stagnation of ALMPs in the Czech Republic: (i) Czech ALMP has continued to be designed and coordinated at central state level. In early 1999, the government launched the first National Program on Employment, of which the National Action Plans (NAPs) have been developed and monitored by the European Commission and the MPSV (Potůček 2009: 44). Throughout the EU accession phase, programmes in line with the EES were developed, but remaining vague (Kaluzna 2008).²⁶ Communication between the ministry and the labour offices was disrupted due to problems in decision-making. While the Employment Services Administration (ESA) developed policy goals at the central level, the labour offices had independence in their implementation.²⁷ Further, the labour offices could apply for extra funding, of which 43 regional programmes were approved in 2006 (Kaluzna 2008).

After *Klaus* had been replaced by a social democratic government, ALMPs received 44 percent of all labour market policy expenditures in 2002 (Vanhuysse 2006). It was obvious that the Czech emphasis on job-preservation brought positive results and led to significantly lower shares of long-term unemployment, youth unemployment or unemployment of the elderly. The *Zeman* government (1998-2002) differed from previous governments in terms of its employment policies. *Zeman* combined different aspects as concerned competitiveness, labour rights and higher living-standards with the objective of a flexible and highly qualified workforce that should be paid adequately and be protected. According to him, the precondition for global competition was increased employment and an improved welfare state. The important players in this context were the state, the market and the social partners. *Zeman* followed a combined approach: his strategy was in line with the EES and was adopted in the period when the accession to the EU was the key political issue. According to *Keune*, the Czech Republic “effectively started to ‘shadow’ the EES, including the production of a series of joint documents with the European Commission outlining policy priorities in the employment field and

²⁶ Examples were “Our Chance”, “Chance for long-term unemployed” or “Renewed Chance” (Potůček 2009: 44).

²⁷ Labour offices maintain relationships with local employers, municipalities, trade unions, the church or NGOs.

reviewing policy implementation” (Keune 2006: 210). The National Employment Plan of 1999 hence followed the four pillar structure of the EES: employability, entrepreneurship, adaptability and equal opportunities. At the same time, however, different experts confirmed that Czech policies at any time remained a national product, reflecting domestic views, power relations and the budget situation (Špidla, former Czech Prime Minister; Schmid, German Embassy in Prague; Kornikova, Friedrich Ebert Foundation, interviews in 2011).

Activation took a central role connected with the attempt to reduce welfare dependency. Between 1998 and 2001, expenditures increased from 0.28 percent to 0.44 percent and the number of people involved in activation programmes almost doubled within three years while the percentage of those unemployed receiving benefits decreased from 48.8 to 34.9 percent (Keune 2006: 211). Overall, the Czech government aimed at combining a strong state with the promotion of employment through activation and training with the objective to promote employability and labour market flexibility.

(ii) In 2002, as a pilot project, Individual Action Plans (IAPs) were implemented in selected labour offices which kept the clients informed about job vacancies and intensified their own initiatives in searching for vacancies and winning the employers for cooperation (Sirovatka et al. 2006: 8). In 2002, the research institute RILSA undertook a survey showing that Czech jobseekers were rather optimistic with 70 percent thinking that they will be able to find a job in the same occupation which they had before (Kaluzna 2008). The IAPs were a heavy burden for the labour offices, binding the staff and resources for individual counselling – at the same time, a development of ‘learning’ and ‘institutional reorganisation’ was taken through separating for the first time the procedures of administration from mediation and job counselling. There was increased need for mutual cooperation, improvement of the general management and the enhancement of the counsellors’ competencies (Sirovatka et al. 2006: 8). On the whole, the introduction of IAPs followed the approach of promoting the employability and enforcing labour market participation and between 2002 and 2003, the labour offices slowly developed and from 2004 introduced these plans for all unemployed less than 25 years of age.

Apart from the overall positive developments, the Czech labour market was increasing pressured due to modernisation in industries, referring especially to heavy industries as mining and steelworks. Thus, during the second reform period, the government put more emphasis on individual targeting and on the effectiveness of PES, and aimed to improve job mediation services as well as activation. Deputy Director of RILSA, *Milan Horálek*, called the labour offices which had been implemented with the help of the EU and ILO, “a Trabant version of the Swedish System” (Orenstein 2001: 74).

Analysis of the reform period 1997-2003: introduction of EU ALMP programmes and their domestication. After the first transformation years, the succeeding labour market policy changes were not as essential as the early ones, but they still shaped the agenda and led to changing policy outcomes. At the end of the 1990s, a parallel development appeared across Europe and the new attitude towards ALMPs was one of activation together with a residualisation of benefits, summarised by *Cerami*:

“The main characteristic here is the development of activation measures, while attempting to couple selectivity with universal aspirations. A three tier system of unemployment insurance is now present in almost all ten Central and Eastern European countries, [...] including, usually, a main scheme based on unemployment benefits and unemployment assistance, coupled with an additional third tier which relies on the Guaranteed Minimum Income” (Cerami 2006: 16).²⁸

Targeting at the promotion of employment, active measures and activation played an increasingly important role in European countries, thus, Poland and the Czech Republic had to launch several initiatives on their way to EU accession. The EU Joint Assessment of Employment Priorities included the following priorities: (i) refining wage, tax, and benefit systems to provide incentives for employment, (ii) addressing high regional unemployment, (iii) addressing gender gaps, and (iv) strengthening the employment services and promoting a shift from passive (income support) to active labour measures (Rashid et al. 2005: 85).

Characteristics of these reform approaches referred to the downscaling of the social benefit system together with a shift towards activation measures and stricter eligibility rights in line with the general development in most European countries. From the mid-1990s, the EU became the central model of reference and the fulfilment of the Copenhagen Criteria and compliance with the *acquis* the central objective. As concerned ALMPs, it was about administrative and planning features, redefining the regulatory role of the state and the adoption of a variety of regulations produced in Brussels.

As said above, expenditure rates do not reflect the quality of policy approaches, even if on the whole, the share of active measures of all labour market expenses has been higher in the Czech Republic with 39 percent while it was at 15 in Poland in 2003 (European Commission 2005: 124).

It is difficult to measure the effectiveness of active programmes and also the number of participants in active programmes does not necessarily tell us about the success in finding adequate employment. Additionally, a continuing or even increasing mismatch can often be found with regard to labour market needs (Janicko/Sirucek 2009: 600). Keeping this in mind, after the success of Czech active programmes during the first transformation period, the country performed worse in the second period whereas Poland started slowly to focus on a shift from passive to active measures, investing more in active measures as did most other European countries, focusing on selected target groups as for instance with the First Job programme (2002-2005),²⁹ targeted at the young generation and its entrance into the labour market. On the whole, interestingly, even if ALMP expenditure achieved only a little share of GDP and the participants represented only a minor share of the labour force, the Czech policy approaches appeared rather successful in preventing poverty and high unemployment (Sirovatka/Rakoczyova 2009).

²⁸ The Guaranteed Minimum Income strictly regulates the access to benefits in the Czech Republic and to some extent also in Poland, due to its discretionary character for having access to benefits.

²⁹ Why did the Polish government focus on young graduates? In parts, this was a pragmatic step since graduates were entitled to some kind of financial assistance even if they had no employment history, a legislation that showed to be quite costly. Additionally, Poland had witnessed a slight baby boom around 1980 and 1981 (probably connected to the success of *Solidarność* and entailing hopes for a prosperous future in freedom), thus facing a large cohort of young people at mid- and end 1990s that had to be prepared for a changed labour market structure.

5.2.3 ALMPs after EU accession (2004-2009)

EU priorities and improving ALMPs in Poland: (i) In 2004, the Act on Employment Protection and Labour Market Institutions focused on the actions taken by labour market institutions in order to promote employment and not only the management of unemployment benefits and it also better defined the tasks and available instruments that employment services had to consider (Spieser 2009: 242). Apart from the facilitation of grants for further education and subsidies for business activities, provisions were introduced for the staff of the labour offices with the aim of improving the skills and professional capacities. Overall, at the formal level there were several new aspects introduced revealing a changed focus in this arena. Among other things, the goal of EU accession together with the interest in future benefits from structural funds have probably influenced the promotion of some innovative strategic planning. The Act on Employment (2004) established a legal basis for a broader target group for special programmes. Over the years, these programmes targeting certain social groups became more common, like the programme “50+” (implemented between 2004 and 2009),³⁰ as well as a fund to subsidise the employment of disabled workers, the fund being financed from the state budget and the ESF.

(ii) As concerns the distribution of providers of training activities, non-formal education and training activities are offered to 50 percent by non-formal institutes and by 20 percent by employer. Compared to the EU 27 with only 17 percent of non-formal institutes and 39 percent of employers providing ALMP programmes, these figures show an opposite trend of strong presence of non-formal education and training activities in Poland (Eurostat 2009).

Under the prevailing system, an unemployed person has the right to unemployment benefits and additional activation allowances in case that she or he (i) undertakes part-time employment with a wage lower than the minimum wage or (ii) undertakes employment on her or his own initiative, in this case receiving an allowance of 50 percent of the unemployment benefit (80.50 EUR) for half of the period of entitlement to benefits (Sienkiewicz 2011: 8).³¹ At the same time, employment of persons with general secondary education or less increased by 30 percent while making up one third of all job creation (Karwowski 2010). In case the unemployed had no professional qualification, he or she could receive a training allowance of 20 percent of the unemployment insurance benefit, 40 percent for those below 25 years of age. By contrast, the unemployed loses the benefit for up to 120 days when refusing to take up employment, training or other forms of support without a justified reason (Venn 2012).

Kaluzna states that in 2006, the Warsaw employment service assisted 88 percent of all exits to employment, representing 37 percent of total outflows from its unemployment register, and the service assisted in filling 77.1 percent of notifying job offers. If applied to all job offers in Poland, *Kaluzna*

³⁰ On 17 October 2008, the Council of Ministers adopted the programme ‘Generations solidarity – activities for increase in professional activity of 50+ people’ in order to push people out of early retirement and instead create incentives for employers to employ older persons, corresponding to the Lisbon objective and to be found in different European countries as e.g. in Germany (MISSOC 2009).

³¹ In the period 2004-2007, more than 700.00 jobs were created in Polish manufacturing, 400.000 jobs in construction and 300.000 jobs in the trade and repair sector.

claims a market share of 22 percent of the PES in all job hires (Kaluzna 2009: 5). In 2006, the active spending of the Labour Fund increased by 51 percent because a large increase for services from then on has been provided by local employment service institutions, finally in 2007 the Fund's active spending increased the passive spending for the first time (Kaluzna 2009: 5).

Even if employers are officially obliged to report job vacancies to the labour offices, they do so mainly for low-skilled jobs. In a comparison of the employment service staffing in 2000 and 2006, we find a slightly positive trend which is however still confronting the placement officers with the utopian task to provide job-broking for 1.132 clients as Table 5.2 shows.³²

Table 5.2 Employment Service in Poland

| | 2000 | 2006 |
|----------------------------------|-----------|-----------|
| Placement officers | 1.651 | 2.041 |
| Registered unemployed | 2.702 576 | 1.309 410 |
| Unemployed per placement officer | 1.637 | 1.132 |

Source: Kaluzna 2009: 26

The Employment Act of 2004 increased the role of territorial self-governments in developing employment programmes for their region funded by the central Labour Fund, thus being a step towards decentralised policy-making. On the other hand, the opinion that “labour offices (can) hardly do more than mechanically implement the instruments defined in law has frequently been expressed in reports, as well as by staff interviewed in labour offices” (Kaluzna 2009: 20). Generally, the reputation of institutionally organized job-broking is quite low, which “makes the labour market less transparent and raises the costs of matching both for jobseekers as well as employers looking for workers” (MPiPS “Analysis of the situation in selected poviats labour markets and creation of the methodology of local labour market research in Poland”, quoted after Kaluzna 2009: 28).

Stagnation of ALMPs and EU programmes in the Czech Republic: (i) Apart from the wish to activate the rising number of unemployed during the third transformation period, it has increasingly been in the interest of Czech policy-makers to adapt – at a practical or symbolic level – to the political agenda of the EU, in particular in case that the EU goals appeared also legitimate to the Czech conditions. At the same time, the great interest in taking advantage of EU structural funds contributed to further legitimacy of the EU agenda, not least than the general accession to the EU (Sirovatka et al. 2006: 13).³³ The National Action Plan for Employment (2004-2006) was at least formally developed under strong EU influence through the EES with its guidelines set up in Brussels in 2003. The share of ALMPs stabilized at about one third of the labour market policy expenditure, however, only 8 percent of unemployed participated in active measures and *Potůček* claims that there has been only rare space for the engagement of private enterprises and agencies to engage in active measures (Potůček 2008: 10).

³² The ratio is even worse looking at the ration of vocational counsellors to clients as in 2000, one vocational counsellor was responsible for 5.666 unemployed, this number dropping to 3.238 unemployed by 2006 (Kaluzna 2009: 27).

³³ In 2006, EU structural funds added one third to the amount allocated by the Czech state budget (Potůček 2008: 10).

(ii) The Employment Act of 2004 made unemployment and social assistance benefits more conditional and further pushed the enforced participation and activation strategy (Sirovatka 2004).³⁴ Sirovatka sees the biggest problem in the inadequate cooperation between the PES and the municipalities.³⁵ Labour offices increasingly engage external partners in profiling, activation programmes or training courses. Partly due to better funding through EU support, and in response to an increase in (long-term) unemployment, individual counselling was intensified at the local level and the local labour offices offered vocational and job-search counselling for young persons.

In 2004, the MPSV introduced the programme ‘First Opportunity’ for all young jobseekers below 25 years of age, which aimed at increasing the employability through counselling or training during the first six months of unemployment. Another programme called ‘New Start’ focuses on adult jobseekers above 25 years of age who have been registered unemployed for more than 12 months, for example placing jobseekers in active measures so that in 2006, 20 percent of long-term unemployed took part in active measures (Government of the Czech Republic 2004).³⁶

While in 2007 only 18.6 percent of the public employment service staff in Poland were front-line officers, this share was at 23 percent in the Czech Republic (Kaluzna 2009: 5). Specific activation programmes targeted at younger persons were increasingly tailor-made approaches (Sirovatka et al. 2006: 7). In 2005, several responsibilities went to the newly-created National Labour Inspectorate; however the labour offices remain mostly responsible on a decentralised level and about 100.000 persons per year were placed by the PES, representing 14 percent of all hires in the economy and 25 percent of all flows from registered unemployment to employment (Kaluzna 2008).³⁷ The PES staff in 2004 totalled ca. 5.000 persons per ca. 570.000 unemployed, which in cities with high unemployment meant that one counsellor could in some cases be responsible for 400-600 clients (Sirovatka 2004). By 2007, the ratio improved again, illustrated below.

Table 5.3 Employment Service in the Czech Republic, 2007

| | Number of clients | Number of staff | Jobseeker/staff ration |
|---|-------------------|-----------------|------------------------|
| Registered jobseekers | 370.791 | | |
| PES staff, including management, administrative and blue-collar workers | | 5.109 | 72.6 |
| Of which: frontline placement and counselling staff | | 1.836 | 201.9 |
| Placement staff | | 1.371 | 270.4 |
| Counselling staff | | 465 | 797.8 |

Source: Kaluzna 2008: 25

At the same time, activities such as profiling of the unemployed, stronger cooperation with employers,

³⁴ Increased pressure was carried out towards the unemployed and a stricter definition of a ‘suitable job’ referred to jobs that last for longer than 2 months and an amount of 80% of full time (Sirovatka 2006: 14).

³⁵ Municipalities are responsible for the provision of social assistance for the long-term unemployed, not being interested in a decrease of unemployment due to their dependence on payments from the government budget.

³⁶ In 2006, 30 projects were create in the Ostrava and Most regions, and another 36 projects were created for assisting disadvantaged groups facing social exclusion, for example Roma communities (Kaluzna 2008).

³⁷ Since 1991, employers are obliged to notify vacancies, in case they do not, fines up to 0.5 Mio. CZK have to be paid.

motivation and labour market orientation courses were developed. Interestingly, however, *Sirovatka et al.* have found that the IAPs actually hindered reintegration into the job market showing that in 2006, referring to the category of the age under 25, the outflow from the register of unemployed within 6 months was even higher among people without an IAP (66 percent) when compared to people with an IAP (52 percent) (Sirovatka et al. 2006: 21).

A pressure was felt to activate the unemployed, due to rising unemployment and the EU guideline 'Prevention and Early Activation'. The labour office could remove the jobseeker from the register for 6 months for failing to take up suitable employment or training course or failing to cooperate with the office (Venn 2012). The 2007 RILSA programme applied for the cooperation between PES and employers, being financed by the ministry, the Economic Chamber, the National Training Fund and the ESF. Between 2004 and 2006, 96 percent of the projects supported the enhancement of skills of jobseekers, most of them being medium-sized budgets with an equivalent between 80.000 – 300.000 EUR (Kaluzna 2008). However, *Sirovatka et al.* claim that public spending on placement, counselling and activation measures has been a key problem of the Czech labour market policy, being one of the lowest in Europe due to the low priority given to the PES. By contrast, the increase in active measures was however about 20 percent in 2005 (Sirovatka et al. 2006: 16). In 2008, the MPSV announced further changes focusing on activation. Underlying ideas referred to slogans as 'working individuals must be better off than those who are not in work' and 'solving your situation quickly does pay' (Kaluzna 2008). Parallel to this, the changes included the obligatory development of individual action plans for jobseekers after 5 months and de-registration if the jobseeker fails to fulfil the action plan's tasks. Finally, jobseekers below 20 years of age are not regarded as disadvantaged on the labour market any more. As concerns the distribution of providers of training activities, non-formal education and training activities are offered to 29 percent by non-formal institutes and by 42 percent by employers, accounting for almost the opposite distribution when compared to Poland (Eurostat 2009).

On the whole, we find that during the third reform period a shift towards regionalization of ALMPs is visible due to the increased autonomy of the local labour offices and increased cooperation between various partners (public, private, NGOs) together with the emergence of ESF projects which "have clearly reinforced the process of decentralization of employment policy and the parties involved in it. Conditions thus seem to be forming for a system change of labour market governance" (Sirovatka et al. 2006: 17). These processes have triggered policy formation in a bottom-up manner, focusing on local and individualized needs, which are regarded by counselors on job-mediation as more effective than IAPs which appeared to be rather contra productive (Sirovatka et al. 2006: 22). Finally, the implementation of the IAPs still triggered a process of institutional learning, with the local labour offices learning what it takes to carry out these individualized approaches on the levels of new policy instruments, techniques and approaches while defining and redefining policy goals.

Analysis of the reform period 2004-2009: from passive to active labour market policies? The ALMPs launched in the two countries showed to be not solely dependent on the economic cycle as they followed partly pro-cyclical and partly anti-cyclical strategies: these were apparently the results of

political decisions and policy paradigms by labour market actors whose preferences have been different in both cases. The figures below illustrate two aspects: first, it shows that Polish firms often consider continuing training activities as being too expensive (60 percent) while Czech enterprises often claim that they have only limited time (57 percent). The large majority of Czech enterprises claim that training was performed as needed (65 percent), while 51 percent do so in Poland.

In line with this, 61 percent of Polish respondents found that training was too expensive and they could not afford it, contrasting to 19 percent of the Czech respondents (EU21: 32 percent of respondents) (Eurostat 2009). At the same time, according to 18 percent of the Polish respondents, education and training did not feel comfortable with the idea of going back to something like school, while this was the case only for 2 percent of Czech respondents (EU 21: 24 percent) (Eurostat 2009).

Figure 5.10 Enterprises: factors influencing the scope of Continuing Vocational Training, 2007

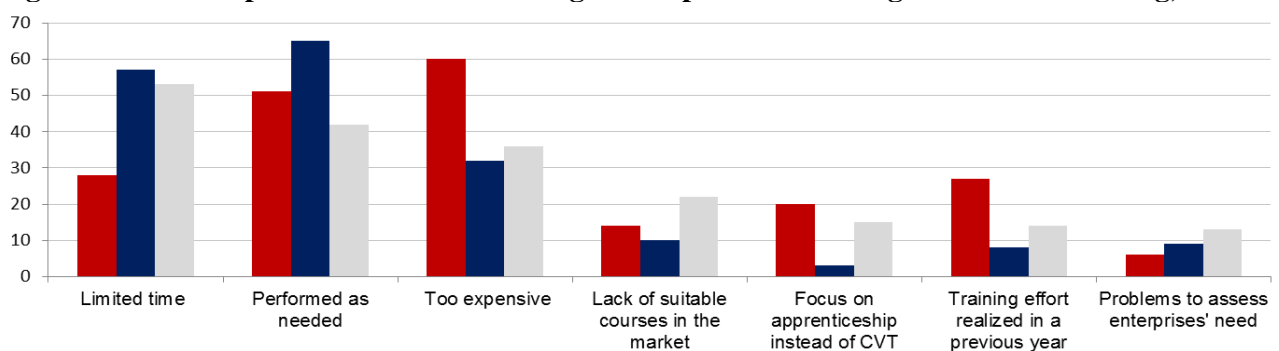
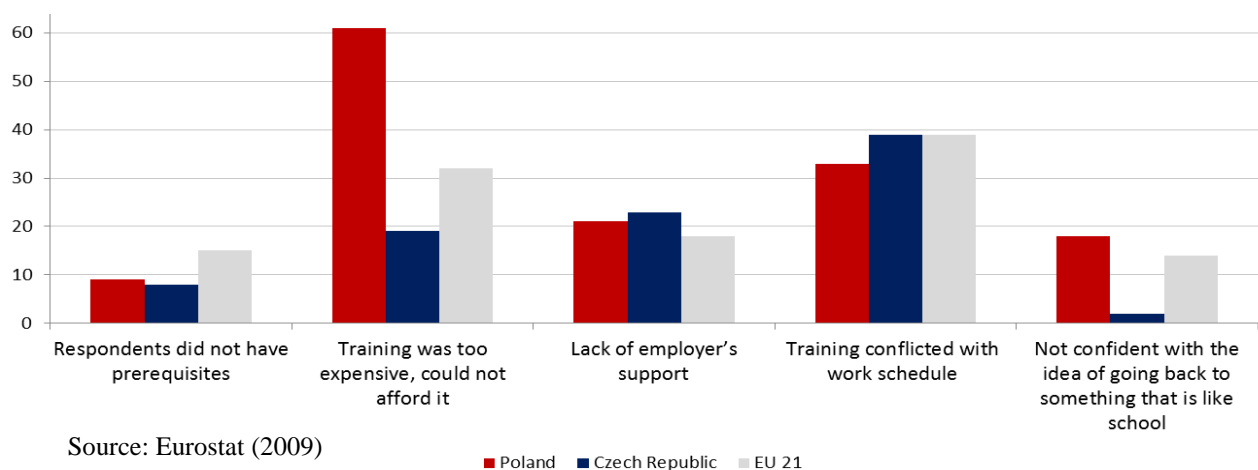


Figure 5.11 Adult education survey: obstacles to participation in education and training, 2007



Overall, the discourse on activation developed steadily in both cases between 2004 and 2009, also given its increased importance in the European context. However, its actual application remained vague, partly due to the difficulties at the local labour offices facing insufficient administrative and personal capacities. Monitoring was introduced in order to manage the working availability of unemployed while generally greater control and an increase in expenditures on activation measures could be observed (Spieser 2009: 246). The implementation of monitoring procedures remained however undermined by the lack of individual tailor-made case management, especially in Poland.

In contrast to the Czech Republic which had implemented ALMPs already during the first transformation years but continued to do so in only moderate degrees, whereas PLMPs had long prevailed as the dominating policy strategy in Poland these more and more replaced by strategies of ALMPs during the third reform period.

It can be concluded that the Czech Republic shows more distinct forms of ALMPs than Poland in the beginning of transition (Feldmann 2004: 176, cf. also Tröster 2000), while this difference between the two cases shifted rather in favour of Poland's ALMPs over time while the Czech ALMPs stagnated. Table 5.4 provides as summary of the ALMP approaches in the two cases over time.

Table 5.4 Active labour market policies in Poland and the Czech Republic over time

| | Poland | Czech Republic |
|---------------------------------|---|---|
| 1. Period (1989-1996) | <ul style="list-style-type: none"> • Slow development of ALMPs • Focus on wage subsidies and employment programmes • 1993: ratio job-broker/unemployed: 1/ 292 (Firlit-Fesnak 2000) • 1990-1996: ALMPs participation share 26% (Feldmann 2002) • 1997: 500 labour offices existed • 1993: expenditure on ALMPs 16% (Vanhuysse 2006) | <ul style="list-style-type: none"> • Effective ALMPs • Focus on wage subsidies and employment programmes • 1993: ratio job-broker/unemployed: 1/30 (Firlit-Fesnak 2000) • ALMPs participation share: 1992: 77.6%, 1993: 30%, 1996: 20% (Keune 2006) • 1990: 77 labour offices existed • 1993: expenditure on ALMPs 55% (Vanhuysse 2006) |
| 2. Period (1997-2003) | <ul style="list-style-type: none"> • Paradigm shift in discourses but only gradual implementation in ALMPs • Adoption of EU agenda: focus on selected target groups: young generation, job-seekers of 50 • Increased efforts to receive EU funding • Focus on entrepreneurship (2002: Programme "Entrepreneurship above all") • Decentralization of employment service • 2000: ratio job-broker/unemployed: 1/1.637 (Kaluzna 2009) • <i>Overall</i>: positive trend towards ALMPs, however ad-hoc measures instead of long-term approach | <ul style="list-style-type: none"> • Paradigm change towards activation • Adoption of EU agenda: focus on selected target groups: young generation, the disabled, job-seekers over 50, long-term unemployed • Increased efforts to receive EU funding • 2002: pilot project Individual Action Plans (IAPs), success however limited • <i>Overall</i>: country performed worse in the second period when compared to successful ALMPs in first period |
| 3. Period (2004-2009) | <ul style="list-style-type: none"> • EU accession influences strategic planning of ALMP, increased EU funding • Continued focus on selected target groups • 2004: Act on Employment establishes legal basis for broader target group • ALMPs providers: 50% non-formal training institutes, 20% employers (Eurostat 2009) • 2006: ratio job-broker/unemployed: 1/1.132 (Kaluzna 2009) • <i>Overall</i>: positive trend continues, increasingly successful ALMPs | <ul style="list-style-type: none"> • EU accession influences strategic planning of ALMPs, increased EU funding • Continued focus on selected target groups • Low priority given to PES • ALMPs providers: 29 non-formal institutions, 42% employers (Eurostat 2009) • 2007: ratio job-broker/unemployed: 1/270.4 (Kaluzna 2008) • <i>Overall</i>: negative trend continues: participation share in ALMPs only at 8% (Potuček 2008) |

Source: own compilation

5.3 Chapter summary

Labour market policies in today's meaning did not exist during the command economy since unemployment was an unknown category, meaning that a completely new policy field emerged after 1989. Different from the historical recourse to insurance-based labour market and social security institutions, the absence of socialist labour market policies placed policy-makers in a particularly challenging situation as they had no domestic experience or frame of reference to refer to. The empirical outcome shows a rather gradual shift from extensive generosity towards increasing strictness. At the same time, the shift from passive compensation measures towards activation and workfare follows the general European trend. Interestingly, even given the particularly high social expenditure in Poland when compared to other CEECs and the OECD until the year 2000 (OECD 2011a), it is striking that the eligibility criteria have been drastically tightened and benefit levels lowered already from 1992 with the introduction of the low flat-rate unemployment benefit. This finding confirms that a mere look at expenditure rates in order to assess the actual generosity or strictness of a regime remains inadequate.

Due to the market oriented reforms, many jobs were lost in Poland whereas in the Czech employment decline was much more moderate. The two countries are the most extreme examples of diverging unemployment development in the course of transformation – but as the data also shows, they began approaching each other in several aspects during the third period under investigation. For example in that redistributive policies have not played an important role or even dominated in the domain of labour market policies in either of the case anymore. In a concluding view of labour market policies, the following findings can be summarized as common features of the two cases:

(1) As concerns PLMPs, both cases link the entitlement to benefits to the employment status and contributions which are collected and paid by central state agencies (ZUS in Poland, ČSSZ in the Czech Republic);

(2) Both cases followed the same transformation path insofar as they started with a universalistic labour market policy approach as concerns the payment of generous unemployment benefits with extensive state intervention. Shortly afterwards (1991/1992), both countries began downsizing financial support and tightened eligibility criteria with a general development of residualism over time. There has been a significant increase in market orientation elements in the form of benefit cuts, privatization, means-testing, and residualization. These schemes can entail clientelism, a mistreatment and evasion of contributions and low administrative capacities, all showing to be present in Poland (Spieser 2009: 290). As a result, a system of 'dualisation' emerges with the tendency to produce 'insiders' and 'outsiders', since only parts of the population are covered by labour market principles and institutions. The situation of insiders, usually working in standard, full-time employment, provides a rather good social protection, while outsiders are increasingly marginalized (Spieser 2009: 291).

(3) Both cases have been approaching a rather liberal minimal state, despite the fact that social and labour policies gain more importance in the context of EU policies. Even if policy-makers stressed the

relevance of the EU objectives of employment promotion, these lacked political realization, partly because ALMPs had been given only little significance in both cases under consideration.

That being said, Poland and the Czech Republic show also divergent developments:

(1) Looking at the initial governmental countermeasures in order to compensate high transformation costs a difference becomes clear: While Poland enacted a strategy based on labour market exit, the Czech Republic tried to keep workers in the labour market and thus rather followed a strategy of inclusion. *Vanhuysse* claims that “a greater extent than anywhere, Czech governments aimed at actively creating employment rather than passively compensating for its loss. This has ensured a higher outflow from unemployment to jobs, as stagnant pools of individuals in danger of rapidly becoming unemployable have been ‘churned up’” (Vanhuysse 2006: 1126). By contrast, Polish policy-makers launched excessive early retirement and other labour market exit programmes until the mid-1990s as they mainly focused on compensation strategies targeted at selected social groups.

(2) In Poland, we find the paradoxical situation of a still greater role of state intervention in PLMPs while a parallel residualization of replacement rates and social standards takes place, mirroring a hybrid of a decommodification competing with distinct market orientation, supplemented by several socialist legacies as concerns the regulation of the labour market and the maintenance of social security and labour market privileges for strategic social groups and professions, contributing to an increasing segmentation of the Polish labour market. Apart from that, the most striking difference to the Czech Republic is the fact that even if the benefit system is based on contributions, it provides payments on the basis of a flat-rate independent from former income, but instead relative to the minimum wage.

(3) The Czech Republic is a hybrid case of a decommodification and market orientation elements as well. PLMPs are mostly developed on the central state level and implemented by public institutions, granting social benefits based on the insurance-principle, while particularly during the third period under consideration, residualism and the state’s retrenchment is on the agenda. Still, the combination of successful ALMPs during the first and second period and a short period of relatively generous wage replacement have supported the country’s successful labour market situation and contributed to the maintenance of social peace. Czech labour market policies do not show any notable socialist legacies.

(4) In sum, Polish labour market policy remained reactive and the level of ALMPs was extremely weak during the first and second reform period, while in the Czech Republic, the state was more involved in setting basic standards in providing for example ALMPs. As a result, the development of labour market policies preceded more employment friendly in the Czech Republic than in Poland because it was able to provide people with more income security, even in case of unemployment.

Table 5.5 provides a summary of the indicators of labour market policies in both cases in order to identify decommodification and market orientation elements of the labour market regime.

Table 5.5 Labour market policies in Poland and the Czech Republic

| | Poland | Czech Republic |
|---|---------------|-----------------------|
| Residualism | Strong | Medium-strong |
| Policy as a mechanism of social stratification | Weak | Medium-strong |
| Redistribution | Weak | Medium |
| Social stratification | Strong | Low-medium |

Source: own illustration

5.4 Interim results of Part II

In view of the emerging labour market regimes after the regime change in 1989/1990, Poland and the Czech Republic established a mixture of old and new structural and ideational principles. The institutional change from a universal and overregulated labour market toward a decentralized and flexible one implied the state's retrenchment in line with the introduction of a capitalist economy and a paradigm change in the regulatory regime of employment towards greater flexibility.

What distinguishes the countries from their Western European neighbours, whose regimes have been the result of national policies, is the fact that they have institutionalised these hybrid structures right from the beginning of transformation in recombining elements stemming from different frames of reference. As concerns the similarities of these emerging regimes, they refer to the social transformation including institutional and policy change on three levels based on *Hall* (1993): (i) a top-down process which can be called an explicit paradigm shift, reflecting a changed orientation by the (market oriented) elites and the power to impose them in forms of the establishment of new institutions, regulations and policies, consisting of third order change, (ii) there has been isolated lower-level change with the introduction of new policy instruments and programmes, referring to second order change, and (iii) we find lower level change, by which changes have occurred within the existing institutions without questioning the policy paradigm, based on bottom-up processes, referring to first order change. However, it was found that this change over time not always followed a distinct direction: Polish reforms often zigzagged between market orientation, decommodification and the survival of socialist features. In contrast, the Czech development exhibits a rather gradual shift based on decommodification increasingly shifting towards market orientation over time. Overall, even if the two cases are approaching each other, Poland's institutional framework and labour market regulation reveals more elements of the market orientation framework as compared to the Czech Republic, while at the same time showing excessive state intervention and the continuation of socialist legacies.

Regarding the institutional framework and regulation approaches presented in Chapter 4, important similarities have been found: both countries equally reveal a halfway recourse to the historical Bismarckian traditions. They have (re-)established an insurance-based institutional framework of formal

labour market and social security institutions based on achievement-remuneration linked to the payment of contributions. Ministries of labour and social affairs are in charge of planning policies and designing legislation for the social security system which are then administered at the local level. At the same time, the parallel trajectory towards residualisation and deregulation triggers hybrid solutions based on a bizarre mix of residual and insurance-based social security. At the same time, both cases introduced basic labour market regulation approaches which are known from Western European countries, based on dismissal protection, wage regulation and the governance of the employment relationship by the mechanism of social dialogue and collective agreements between the social partners whose negotiations are embedded in the tripartite institutions. From the formal institutional perspective, both cases appear to have developed quite similar structures.

However, we find remarkable case variation: the most prominent difference is the fact that the compulsory Polish unemployment insurance is contributions-based while benefits in case of unemployment are granted on a low flat-rate basis since 1992. Moreover, Poland reveals the survival of several socialist legacies, as for example the continuation of occupational privileges whereas these have been abolished in the Czech Republic. Despite the general trend of deregulation in both cases, it shows that the Czech Republic has been characterized by a higher extent of redistribution and a lower degree of social stratification as compared to Poland.

Both cases have established tripartite institutions and social dialogue in the early 1990s (ČSFR in 1990, Poland in 1994), however, the effectiveness of tripartism diverges: the Czech tripartism has been oriented towards corporatism and showed rather effective while Poland's tripartism has remained largely decentralised and ineffective while being characterized by pluralism. Overall, industrial relations have been more consensual in the Czech Republic as compared to the industrial relations in Poland marked by conflict and competition. Finally, a remarkably higher share of precarious non-standard employment is found in Poland as compared to the Czech Republic, where the standard employment relationship is the rule.

The same goes for the policy field of labour market policies, presented in Chapter 5, which both countries had to implement as an immediate response to the formerly unknown challenges of real unemployment: Poland and the Czech Republic have quickly launched passive measures to compensate for transformation costs. The first reform period (1989-1996) can be called the period of comprehensive institutional change and emergency labour market policies and social compensation in order to cushion direct consequences of economic transformation. Risks like mass unemployment were firstly tackled by compensation strategies of labour market exit (Poland) or inclusion strategies focusing on job-loss prevention (Czech Republic) prepared the ground for different pathways which the two cases have continued to follow throughout the transformation. These dissimilar strategies were combined with unemployment and social assistance programmes, initially providing generous compensation in both cases. Overall, they served the objective of political stability and legitimacy. This sequence was without doubt characterized by emergency measures in order to ensure a certain social peace, doing so with different underlying ideas. At the same time, even if intended to be only temporary, the first steps for consolidation of labour market policy were taken already in the first years after the regime change.

Reintroduction of Bismarckian features, unemployment protection and the establishment of basic safety net from universal to individual insurance were similar steps in both cases.

With the second reform period (1997-2003), the initial generosity of the social assistance programmes became financially unsustainable and the increasing expenses of the welfare state had to be reduced. Especially in Poland, state intervention has suddenly been regarded as the cause of the crisis while market mechanisms had gained further importance parallel to the weakening of the state and welfare retrenchment, involving the privatisation of provisions and the strengthening of professional diversity. It was a period of individualisation of social risks and responsibilities with the introduction of means-testing, triggering the consequence of welfare cuts and a focus on market orientation, especially in Poland. In the Czech Republic, *Klaus* reduced the assistance for unemployed especially from the second half of the 1990s onwards. Bismarckian principles were reinforced, while liberal and market oriented ideas continued to trigger hybrid solutions. It is interesting to note that party orientations in terms of social democratic or liberal ideas were not decisive as concerned the role of the state and the market.

The third reform period (2004-2009) left a growing number of citizens unprotected due to increasing market orientation. There has been a recombinant implementation of domestic and international ideas, including a (theoretical) emphasis on social inclusion due to Lisbon Treaty. Poland has followed a reactive path of transformation, which is why the Polish regime appears to be “residual, conservative, and partly socialist all at the same time” (Golinowska 2009: 241). According to *Golinowska*, it is residual, because it tackles social problems to a limited extent, it is conservative, because it still possesses social security insurance schemes, and it is socialist because it continues to offer privileges and special protection of industrial branches as a costly hangover from the socialist period (Golinowska 2009: 241). As a consequence, a new model has come into being which can be labelled paternalistic-market hybrid (Golinowska 2009: 253) based on a paradoxical co-existence of what *Bjork* called “bourgeois economics and Marxist politics” (Bjork 1995). By contrast, the Czech Republic mixes conservative-corporatist and liberal elements, leading to a hybrid of decommodification and market orientation while the institutions remain firmly in the hand of the state. The Czech sociologist *Miroslav Purkrábek* figuratively asserts that the “Czechs like to be liberals, but with a state wind supporting their back” (Potůček 2008).

Part III Explaining the dynamics of labour market transformation

With the end of state socialism, all CEECs were facing comparable pressure for macroeconomic stabilization, increasing competition, and international integration whilst being confronted with heavy budget constraints. As has been shown in Part II, the emerging labour market regimes however defined a path of adjustment characterized by a country-specific combination of decommodification and market orientation with the result of unique hybrid regimes.

Part III examines three dimensions of independent variables: Chapter 6 identifies the institutional historical background and economic points of departure of both countries. The examination of former Polish and Czech welfare state arrangements aims to explain the transformation outcome by referring to institutional and behavioural legacies from the period before and during communism (Subsections 6.1.1 and 6.1.2). Subsequently, the economic conditions and reform approaches are discussed (Section 6.2). Based on these background variables, Chapter 7 investigates the development of labour market regimes with a focus on the potential international influences by the IFIs (Section 7.1) and the EU (Section 7.2) due to soft and hard conditionality¹ and tests their explanatory power for social transformation processes.

Chapter 8 finally tests domestic actor variables in order to explain social trajectories. On the basis of a multi-dimensional model, reconfigurations of domestic actor constellations and political procedures will be investigated according to their impact promoting specific labour market regimes. Section 8.1 focuses on the country-specific actor dynamics of the regime changes, followed by the analysis of the emerging party systems between consolidation and fragmentation in Section 8.2. Section 8.3 discusses the configuration of the government coalitions as key executive actor in the labour market arena, while Section 8.4 focuses on the configuration of the social partners as a potential variable explaining social transformation processes. *Offe* rightly claims that there are causal links between social protection on the one hand, and political stability on the other: “[...] the nature and direction of these causal links remains a matter of great scholarly as well as political interest, with the players within the political party system, the patterns of political culture, and the structure of interest representation playing mediating roles” (*Offe* 2009: 246).

The three chapters are guided by the overarching question of the reasons why, and under what conditioning factors of influence, the hybridization of decommodification and market orientation came about and how the variation between the two cases can be explained. On the other hand, do we find that country-specific historical-cultural and structural variables have triggered hybrid transformation policies, meaning that they are proceeding to some extent path and context dependent? Methodologically, the two variables are transferred to the cases through comparative and analytic treatment, summarized by a short analysis at the end of each section.

¹ By these terms I understand the international actors’ cognitive influence i.e. through compliance to EU best practices (soft conditionality) in contrast to the implementation of the *acquis communautaire* or certain privatization reforms in order to become EU member or to receive financial support (hard conditionality).

Chapter 6 Historical institutional and economic framework variables

Until 1989, the CEECs shared the same administrative structures, including a centrally planned social system that had been established after the war by the communist regime. This system did not know mediating actors or negotiating systems between society and the state, thus challenging the new governments in CEE to establish forms of interest representation, social dialogue and tripartism (Götting 1998: 41). However, social policies and regulatory rules of political economy existed in the Czech Republic and Poland well before 1989, which meant that there was neither a tabula rasa nor an institutional vacuum waiting to be filled with the beginning of transformation. Ideas, interest and institutions have not emerged ad hoc with the collapse of the socialist system and when trying to identify mechanisms and reasons accounting for institutional continuity or change, there is an important underlying dimension to all this: history. It will be analyzed in the following sections in how far institutional path dependences as well as economic framework conditions and reform approaches have contributed to setting the scene for creating social transformation paths.

6.1 Welfare state and labour market institutions and procedures in historical perspective

Based on the institutionalist approach, it is claimed that 'history matters' as institutions are 'sticky' and cannot be changed overnight. In a situation of transformation, we thus could not expect that ideas, interests and institutions change at the same pace and to the same degree. One dimension might lag behind the other. Path dependence and institutional continuity in this context implies that actors follow their interests based on what was appropriate in the past. They tend to follow a path which is known and familiar to them. Taking into account the explanatory power of path dependence, we might be able to trace back particular policy ideas and instruments and thus explain possible obstacles or recourse to previous patterns when reforming institutions or the regulatory framework. This is interesting especially for CEECs where social transformation processes have been characterized by dynamics of re-designing, re-configuring and re-combining, showing the recourse to historical tradition and the survival of several legacies.

These variables might be elements of continuity and change – for instance when referring to certain groups (elites) that have been able to dominate their interests over others, or when explaining policy developments by pointing to available resources (material, economic, institutional) and patterns of interest-mediation between the society and the state. I assume that path dependence helps us to identify relevant elements not only from the socialist period but also prior to this period and which have significantly influenced transformation processes. Legacies can affect the social transformation process in 'positive' and 'negative' terms: positive effects may refer to inherited institutions and policy solutions, while negative may refer to reactions and denial of a previous regime. Table 6.1 summarizes the main social policy ideas of the pre-communist, communist and post-communist period.

Table 6.1 Social policy ideas during the pre-communist, communist and post-communist period

| Pre-communist period | Communist period | Post-communism |
|---|--|--|
| Social policy legitimizes the poorly developed democratic institutions and ensures social peace | Social policy legitimises the communist regime and ensures social peace | Social policy legitimizes the transition towards a market economy and ensures social peace |
| The industrial workers and not the citizens are owners of welfare rights | The community and not the individual is the supreme owner of welfare rights | The individual and not the community is the supreme owner of welfare rights |
| Social and economic policies primarily serve political objectives | Social and economic policies primarily serve social and political objectives | Social and economic policies primarily serve market and political objectives |
| Social policy has an extremely residual character. It barely influences market objectives | Social policy cannot be easily distinguished from market policies. All policies are social by definition | Social policy can be distinguished from market policies. Not all policies are social by definition |

Source: Cerami (2006: 8)

6.1.1 The pre-communist period: Bismarckian framework of social security

The Central European social transformation process has clear links with the past. Before communism, social policy ideas were mainly associated with the Bismarckian tradition, linking professional status to access to social benefits. Unemployment was already a phenomenon in CEE in the early 20th century, and Poland in particular experienced high unemployment in the 1930s, especially in industry. The phenomenon of unemployment and the need of labour market institutions were not completely unknown problems. National memory and public authorities had thus been confronted with this phenomenon earlier in history. Numerous pension and health care funds were established in Poland as well as in the Czech Republic (and other CEECs) already between 1906 and 1928, aiming to provide protection for industrial workers and through this, ensuring social peace and stability. Pensions especially were an instrument for achieving political stability (as in Germany).

The Bismarckian system contained shortcomings, such as for instance the lack of protection for certain social groups, in particular those not able to pay contributions to the insurance system. Before World War II, only a minority of workers were insured in CEE (usually not more than 20 percent of the population), while the majority of the population remained excluded. However, this situation has to be interpreted in line with the ideas and discourses of the time, regarding civil rights and social protection not as universal but rather as a privilege for hard-working citizens contributing to the functioning of the state. In addition, some citizens possessed a certain social status by definition, while the ‘rest’ of the population, meaning the majority, was exposed to charity or religious organisations (Cerami 2006: 6). Since life expectancy was very low at that time, pension and sickness funds did not play a major role compared to today, one main problem was however connected with the inadequate financial coverage as well as the disastrous level and quality of social benefits.

Insurance-based social security with limited coverage in Poland: First of all, it is important to note that Polish institutions in particular arose under the overwhelming influence of solutions imposed by other states which have left significant traces on the country's political-cultural belief-systems (Golinowska 2009: 214). With the reincarnation of the Republic of Poland, the first legislation in 1918 applied the Bismarckian insurance principle known from Western Europe, providing however very limited coverage, with only seven percent of the population insured (Cerami 2007). Poland established insurance against unemployment through allowances in 1918, which were regulated by law from 1924 when the first unemployment fund (financed by employers, employees and the state) was introduced. Poland was one of the first countries establishing a public employment service with the president signing a decree on the establishment of public labour offices, managing the flows in an out of employment, on January 1, 1919 (Firlit-Fesnak 2000: 4, Kaluzna 2009: 13).

Until 1929, the system of unemployment compensation had been in a rather good financial condition and the amount of contributions had exceeded the spending on benefit without financial deficit. Poland had already introduced a compulsory unemployment insurance scheme in 1924.¹ Prior to this, local or regional compensation mechanisms prevailed. Social insurance schemes (including pension and sickness funds) were based on the Bismarckian system, established in 1927 for salaried employees and 1933 for wage earners (1920 in the case of sickness and maternity funds). The structure of benefits clearly mirrored Bismarckian orientation which Poland 'inherited' from the considerably well-developed social insurance programmes in Germany. The main Polish social security institution ZUS was created in 1934 and has administered social security ever since. Pension and health care benefits were connected to the employees' insurance record, aiming at reproducing their professional achievements. Pensions were earnings-related, but health care services depended on either cash payments or health insurance premiums. One can say that the system was non-egalitarian (Cerami 2007). Apart from the Prussian orientation, social policy ideas were also heavily pushed by the Roman Catholic Church through numerous associations launching activities for charity, humanitarianism and poverty relief being the underlying moral principles.² The influence of these ideas differed according to the regions in the country – the Catholic influence was stronger in the Austrian part than in the German and Russian parts where the focus was directed towards insurance mechanisms of financing and redistribution. At that time, numerous civic organisations facilitated the introduction of new social ideas and policies, i.e. the Polish Society of Social Policy (created in 1924) or the Institute of Social Affairs (created in 1931) or journals like Review of Work Safety (Cerami 2006: 11).

As has been shown in Part II of this dissertation, the post-socialist Polish labour market regime is undoubtedly based on recourse to Bismarckian principles, corporatist organisation of social security and institutional continuity i.e. with a survival of the ZUS. Path dependence and institutionalist continuity

¹ This was even earlier than in Germany, where a national scheme was only set up in 1927.

² Even if I will not further go into analyzing the role of the church, I want to point out that the cases heavily differ in this respect: while 95 percent of the Polish society belong to the Catholic church, the majority of Czechs does not identify with any of the organised religions and 38 percent claim to be atheist while less than 40 percent officially belong to the Catholic church (www.state.gov/j/drl/rls/irf/2010/148927.htm).

thus represent mechanisms which have shaped the post-1989 social transformation process and thus characterize the emerging Polish labour market regime. However, the introduction of the unemployment benefit flat-rate is an innovative element which cannot be explained by institutional path dependence as it clearly marks a path departure. At the same time, the institutionalist approach does not provide explanations for the drastic shift from initial generosity of the system towards minimalist welfare.

Insurance-based social security in the Czech Republic: The current institutional design of the Czech labour market regime can be traced back to Bismarck as well. Already at the end of the 19th century, the country introduced the first corporatist, compulsory health and social insurance schemes. During the inter-war era, democratic Czechoslovakia had a comparatively advanced social legislation which was inspired by Greece (Potůček 2008: 6). In a historical perspective, the Czech Republic has always had a more market-restricting approach to labour market regulations and institutions, supported by the public attitude based on the principle of achievement remuneration and social justice whereas Poland always had a more market-conforming approach (Potůček 2008: 13, Cerami 2006).³ The tradition of social security had been established already in pre-war Czechoslovakia, covering the majority of employees (manual and non-manual).⁴

Corporatist social insurance was the basis of the system (Cerami 2007). The first health insurance system came into force in 1924, providing coverage for employees and thus including about one third of the population. The social security system was managed in a decentralised way: it was the local communities which were responsible for the care of the elderly and health care, having the task of providing a minimum level of subsistence to the population. At that time, state intervention was reduced to situations of workers' protest when the state tried to resolve social unrest. As in Poland, the financing scheme was based on social insurance contributions with the objective to individually insure the contributors against social risks. The existing social safety net which was provided by the state and/or charity organisations served the purpose of temporarily combating extreme cases of poverty.

Increasing social tensions caused by decreasing living standards of workers and farmers, equally true of the late 19th century and the inter-war era, supported the rejection of potential socialist ideals and the governments were more or less forced to adopt Bismarckian schemes of insurance, reducing the power of state authorities to legislative regulation (Cerami 2007). As *Vecernik* puts it, social protection was always highly valued and never questioned in the country and the population ranked it second only to personal security in importance at that time (Vecernik 2008). It is also remarkable that already after the first transformation years, *Castle-Kanerova* mentions that historically, social democratic thinking would have had a strong tradition in the Czech Republic and "this, many hope, may foster a culturally specific development where policies of marketization are steered in the direction of 'prosperity without

³ The Czech welfare state has much in common with the German and Austrian models, including the institutional and behavioural resistance to change, despite the increase in residual elements (Potůček 2008: 13).

⁴ Before the communist putsch in 1948, two thirds of the population had old-age security and health insurance (Vecernik 2008).

poverty” – something which in comparative perspective has tended to become reality (Castle-Kanerova 1996: 287). This development has become reality with the institutional return to Bismarckian social security and corporatist organisation of welfare and despite increasing market orientation especially since the third reform period under consideration, the Czech society has remained one of the most egalitarian transformation societies in CEE.

Analysis: pre-communist Bismarckian social security. Institutional change and the social transformation outcome in both cases have strong links to the countries' history as the institutional transformation outcome mirrors. In both cases, the welfare systems before and after World War I were similar to what is called Bismarckian, conservative or etatist welfare regime characterized by certain degrees of state regulation and coordination (Szikra/Tomka 2009: 20). These have as important characteristics the early introduction of workers' insurance schemes financed from contributions. Above that, separate schemes were introduced for civil servants, farmers and persons working in the industry (Szikra/Tomka 2009: 20).

Developments after the regime change in 1989 can be explained in the light of continued search for modernization paths. As to the way how this modernization should be achieved, fundamental changes took place as concerns the underlying belief-systems, providing the basis for the actors' attempts to look for new solutions and political strategies to implement them. At the same time, we find that certain ideas have survived over time as for example the fact that the Czech Republic has also historically shown a more market-restricted approach than Poland. This is true for the long-term perspective, dating back to the late 19th century and the inter-war era, as well as for the shorter term when looking at the differences in the 1980s. These differences apparently continue to be reproduced by actors and decision-makers after 1989, holding on to previously developed strategies and ideas that were already familiar and promising. It is these differences that continue to be reproduced in a historical continuum as actors continue to hold on to previously developed ideas and regulatory regimes they knew from past experience, meaning that the ideational setting of today's labour market regime was in large part already set before 1989 and even originated from traditional pre-communist times.

Even if the cases did not share the same political systems before communism, their social policies showed similarities, including “a residual, industry-based social protection scheme for workers (with some exceptions for agrarians), while poverty alleviation measures for the whole population were primarily promoted by charity, religious and/or civic organizations” (Cerami 2006: 13).⁵ The ideas in CEE did not differ so much from those in some Western European countries, pursuing (i) the status maintenance of industrial workers, in parts because the professions might have joined together to more easily pursue social democratic objectives and thus presented a powerful social group and constituency which had to be pacified, (ii) loyalty to the state apparatus in exchange for social benefits for the industrial workers, paid in the framework of mutual dependence since the workers contributed with their own insurance contributions, and (iii) a high level of individual productivity, since access to the benefit structure mirrored work-performance (Cerami 2006: 6). On the other hand, as *Keune* states,

⁵ For further reading on the pre-socialist period see *Polakowski* (2010).

country-specific features have already been in place during the pre-communist time and the establishment of a democratic capitalist (labour market) structure in the 1990s “did not take place upon a tabula rasa, and the different histories of the two cases is one of the explanations for diverging post-1989 developments” (Keune 2006: 273f.). Apart from this cross-country variation, *Cerami* stresses the emergence of a recombinant welfare state: policy makers in the region saw the re-introduction of Bismarckian principles as the most adequate and appropriate policy option, linking benefits to work performance based on the idea of achievement-remuneration through the payment of social contributions which were managed at the local level. But the new social policy paradigm had not been established *ex novo*, it was rather based on pre-communist origins and integrated new ideas and necessities in the framework of recombining, according to *Cerami*, a ‘bricolage’ of old and new features of social policy:

“Status maintenance was, as a result of the *habitus* established during communism, coupled to universal aspirations, while the work- and contribution-related benefits were forced to deal with the homogenizing principles as spread by the communist regime. The result was then a recombinant welfare state, a new Central and Eastern European welfare regime, in which elements of the three periods have been mixed together: pre-communist Bismarck social insurance, communist egalitarianism and post-communist market-orientation” (Cerami 2006: 8).

Apart from the above mentioned institutional path dependence and recourse to historical tradition which partly explain the empirical findings of Part II, the empirical evidence of hybrid labour market regimes cannot be explained by institutional continuity and even if the ‘recombinant welfare state’ provides explanations for the hybridization of the regimes it does only partly account for the variation between the countries. This finding limits the adequacy of the variables path dependence and institutional continuity for explaining the post-communist social transformation process.

6.1.2 The communist period: paternalist welfare and ‘full employment’

Between 1945 and 1989, the CEECs showed specific authoritarian-paternalistic welfare state arrangements, implying comprehensive social provision from the ‘cradle to the grave’. The system aimed at providing every citizen with the feeling of absolute safety, while at the same time offering a source of legitimacy for the ruling socialist party as it set individual life-planning under state control in exchange for material security.⁶ Central planning guaranteed full employment while the regulation of the labour market, based on work performance, ensured universal benefit rates and a flat-rate system in turn.⁷ The management level of social security was installed at firm or state level since it predominantly served state and not local objectives (Cerami 2006: 7).⁸

⁶ In ideological respect, the guarantee of social integration served the realization of the paternalist social philosophy of Marxism-Leninism. At the same time, systemic factors such as the structures of the planned economy with a constant labour demand provided employment security. The decisive element was the legitimizing role of the comprehensive social safety net as a compensation for political, economic and societal restrictions (Tomann/Scholz 1996: 11).

⁷ Statistics were unreliable, which is why it must be mentioned that hidden forms of unemployment existed.

⁸ For example, benefits were earnings-related in theory, but since wage differentials were minimal, they were flat-rate in political reality. Some cases with coverage became universal only because of the situation of full employment.

The organisation of welfare production during socialism was guaranteed on the basis of three pillars:

(i) the starting point of socialist welfare was the comprehensive, long-term integration of the population in the employment system, (ii) the large number of social funds, in-kind transfers and services from the state formed the second pillar, while (iii) the regime tolerated the necessity of an informal economy as the third pillar of welfare production. The shadow economy has remained an important feature of many citizens' working lives to this day, particularly given the development of the labour market situation in Poland, but also in the Czech Republic. This phenomenon is evidently not only present in former socialist societies (Götting 1998: 57, for further reading see Benz 2004).

The term 'entitlement state' by *Inglot* (2003) summarizes the main feature of the socialist welfare state: until the 1970s, the systems basically functioned through the citizens' transfer of their individual and collective rights to the state, which in exchange guaranteed full employment and an average wage with a minimal input and personal initiative. Every citizen was entitled to some kind of benefit, available throughout life and mostly tied to the workplace. The communist period was thus characterized by a demonetisation of employee compensation as a variety of in-kind benefits was developed for workers. The Soviet Union developed a new system of social protection which followed a political discourse that focused on the superiority of the masses over the individual and exhibited five main features:

- (1) State intervention was extensive and subsidized the whole welfare system;
- (2) The pay-as-you-go (PAYG) system became the unique financing mechanism, replacing the individual insurance-based systems;
- (3) Every publically employed citizen had the universal right to basic social insurance benefits;
- (4) Special welfare privileges were offered to strategic occupations, as for example a lower retirement age and higher pensions than average⁹;
- (5) Lack of participation and social capital was a consequence of the socialist system together with the absence of interest representation structures as social dialogue. Besides low degrees of social solidarity, this led to a form of branch corporatism, in which workers from specific strategic branches took over powerful positions within political pressure groups.

The attempt to describe the socialist welfare in terms of *Esping-Andersen's* typology – whilst aware of its simplifications – provides orientation for further proceedings: similar to the social democratic model, the socialist welfare state guaranteed a comprehensive labour market integration of the population, implying a partly universal character of public covering for all risks in life while being highly redistributive. However, the emancipatory component of the social democratic model was lacking in the socialist system, since the tight coupling of social security to labour force participation corresponded rather to the conservative type of welfare state, thus the decommodification effects were low even if the socialist propaganda stressed the independence from any market impetus. On the other hand, the strong political control did not allow employees to gain more prosperity through increased labour input, which

⁹ Such as in the field of mining, railroad work, teachers, the military or the police.

in turn militates against the conservative type.¹⁰ In accordance with the political ideology, liberal elements found no qualitative condensation, however, the allocation of benefits showed some residual features. The following paragraphs discuss if the above mentioned socialist principles still characterize Polish and Czech labour market regimes today and hence test if they are mechanisms of continuity over time shaping the social transformation process.

(1) Extensive state intervention and subsidies: Generally, the prestige of social policy remained low during socialism since industrial development had priority and there was a clear lack of a complex approach to social and labour market policy. The only existing socialist labour market policy referred to an administrative bureaucracy that was responsible for organising the match between work skills needed and available workforce, but however neglected economic or social integration objectives. This is to say that there was a state-managed organisation of labour and if some elements of this phenomenon have persisted in the ČSFR/Czech Republic and Poland during the early years of emerging capitalism when looking at the extreme generosity of the benefit system, in contrast to private insurance, public social security (insurance) is not only based on the insurance principle, but on redistribution. It is relevant to mention this because the command economy was confronted with the same challenge as the capitalist system: an efficient allocation of work was needed while respecting the economic imperative of high (or even full) employment. In the 1980s, there was a new ideological development to reconcile the need of a productivity increase with (full) employment, as state-owned enterprises were – theoretically – no longer obliged to employ unproductive people. Even if this was only a theoretical rule, it shows at least some feature of capitalist market mechanisms. The most obvious characteristic of the employment relationship before 1989 was the missing linkage between work and pay since the monetary aspect presented only a marginal element of compensation, including many non-monetary benefits. Other secondary effects can be found by looking at the compressed wage scale which was set by the state for ideological reasons already in the 1950s. In Poland today we do not only find a low wage policy, but also a low correlation between productivity and wage, while interestingly, wages in the public sector have for a long time been higher than in the private.

As a Czech particularity, more than other transformation countries, the ČSSR avoided to rapidly harden budget constraints. As one of the key characteristics of the former communist system, the persistence of soft budget constraints, induced through state subsidies for inefficient companies as well as a lax allocation of bank and trade credits could be observed in the ČSSR to a higher degree than in Poland. The same strategy can be observed in the post-1989 transformation process, reflecting a path dependent legacy from the socialist period. The continuing call for the state to solve labour market problems after 1989 with reference to government intervention can however be traced back to the habit of state-guaranteed securities.¹¹ However, it is not definitely possible to estimate if these approaches represent

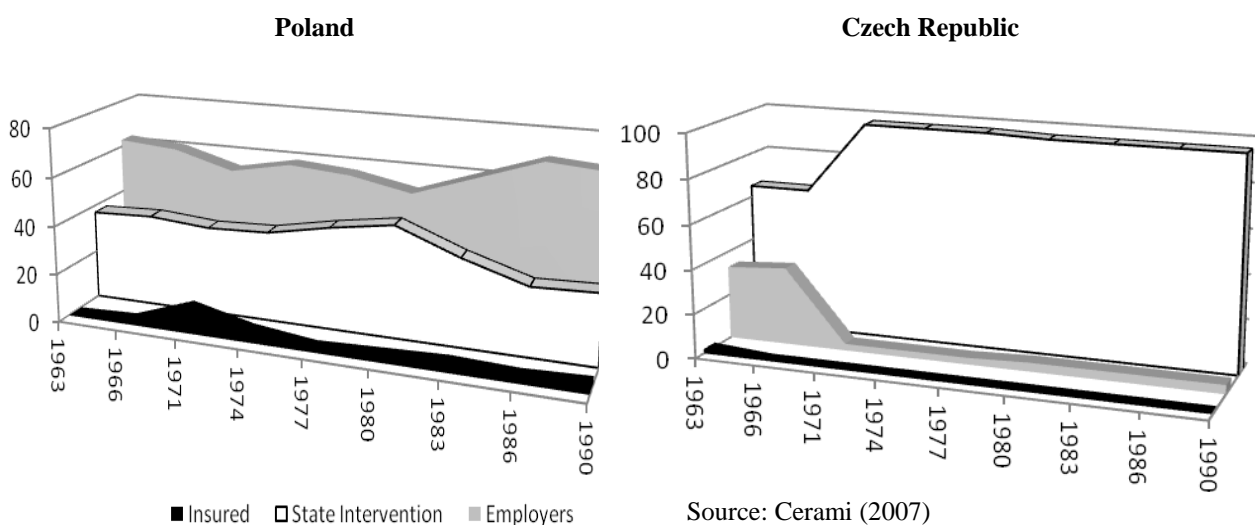
¹⁰ In addition, the state had failed succeeding in its role as welfare guarantor since the family and social networks as well as the shadow economy were always essential for welfare production.

¹¹ Above that, a consequence of the abolishment of the state collectivist social model with its regulated life-style, emphasizing the leading role of the state and the significance of collective consumption, could be the sudden confrontation with individualization, independence and assertiveness (see Beyerl 1998: 44).

socialist legacies based on actors' convictions or if they have been rather ad-hoc economic emergency strategies in times where a clear new paradigm had just started to develop.

(2) *The financing mechanism PAYG*: Even if state intervention in the financing of the socialist welfare state was heavily enlarged, social insurance contributions did not disappear completely and some of the most important features of the pre-communist period persisted: the ČSSR automatically included social insurance premiums in the state budget while Poland regarded these as a separate part of social security receipts (Cerami 2007).¹² Figure 6.1 below shows the different distribution of social contributions paid in Poland and the ČSSR during state socialism.

Figure 6.1 Social contributions by insured persons, employers and state intervention, over time



Already during communism the state had much more responsibility in welfare funding in the ČSSR as compared to Poland. By contrast, the Polish employers used to pay the highest share of contributions, a situation which has obviously reversed after the regime change. However, the data has to be interpreted with caution because even if the system was based on the PAYG principle, social insurance contributions became indistinguishable from other revenues absorbed by the state budget.¹³

The communist welfare state was hindered by numerous institutional and financial flaws, including arbitrary practices, ad hoc economic and social policy solutions together with intransparent accounting practices. Taken together, these aspects weakened the system made it financially impossible to hold. For instance in Poland, when the economy began to stagnate in the 1970s and 1980s, the government

¹² The greatest part of social security contributions was paid through employers' contributions, remaining higher than the contributions paid by the state. The dilemma thus was that this centrally planned economy "equally redistributed the resources collected, while the institutions responsible for monetary policies were fully subjected to the state authority. It comes then as no surprise that rising contributions also coincidence to an increase in an external debt [...]" (Cerami 2007: 10).

¹³ At the same time the static character of the state budget did not allow responding to wage and price fluctuation by offering compensating financial resources. This is why the residual model was another feature of the socialist welfare state: the allocation of financial means was carried out if there was something left to allocate (Tröster 2000: 209). The access to fundamental goods and services was respectively cheap (Piątek 2001: 208).

reacted with a drastic increase in the social security tax and the creation of an autonomous FUS, which in 1987 took responsibility for the financing of social security and contributed to putting the system under tight control. Polish social expenditure had significantly increased from 17.6 percent of the national product in 1979 to 25 percent in 1982, stabilizing at 22.7 percent in 1986 (Spieser 2009: 122). While in-kind benefits were split equally until the 1980s, the share of cash benefits clearly expanded in 1982 when it exceeded 57 percent explained by the developing discontent with the communist regime and the growing protest by the Solidarność movement (ibid.).

(3) Universal right to insurance vs. entitlement through work: An important characteristic of socialist welfare states was the lack of separation between the economic and social sphere which had been emerging in the (Western) industrialized countries since the end of the 19th century. In the socialist bloc, this separation was abolished after World War II. Social services were directly involved in the production process and employment contracts, entailing that the benefits were ‘reserved’ for the working population while disloyal citizens became excluded. Entitlement criteria were thus formally bound to employment, not to the status of the citizen (Götting 1998: 72). This fact implied that the work place guaranteed by the state would not appear as a privilege, but became an unavoidable necessity due to the dependence on social benefits. The insurance systems in CEE are still attached to the employment status, although Poland shows exceptions as the country introduced flat rates in the area of unemployment compensation, a bizarre mix of insurance and residual approaches.

Overall, the objective of a socialist societies’ superiority within the competition of political-economic systems was also aimed to be achieved through ‘social progress’, most notably the aspect of full employment. This objective led to the awkward situation that the number of workers to be employed in certain factories was not counted in relation to the real demand of the sector, but on the basis of the citizens that were in need of a job.¹⁴ The political regime enshrined the objective of job security as the ‘right to work’ (although not enforceable) alongside other social rights in the constitution (Tomandl 2000: 2).¹⁵ Poland and the Czech Republic still hold this tradition today with an extensive constitutional catalogue of social rights.¹⁶

¹⁴ This obviously led to an artificial increase in the real value of the product.

¹⁵ For Poland: Art. 68 of the Constitution of the People’s Republic of Poland from 1952 in the version of 16 February 1976. For the ČSSR: Art. 21 of the constitution of the Czechoslovak Socialist Republic of 11 July 1960 finally modified and supplemented by the constitutional law No. 68/1978, saying in Art. 21, paragraph 2: the right to work and its remuneration is secured through the whole socialist economic system, knowing neither unemployment nor economic crises while guaranteeing a constant increase in real wages (Götting 1998: 59). Comparable features were the *social rights* such as for example the right for recovery, for education, for health security and material security for the elderly, unemployed and sick. Seen from a critical view according to Götting, these promises could hardly be defined as ‘rights’ as they were linked to system loyalty and the obligation to work. Above that, there was a lack of integration into the political-institutional constitution with no guarantee of basic liberal rights and participation in the democratic process. Both categories of rights have been institutionalized in the Western industrialized countries *before* the social security systems have been institutionalized. Since in the Soviet bloc those liberal civil and political participation rights did not exist, the social measures by the state had a strong authoritarian and paternalistic character (Götting 1998: 60).

¹⁶ Cf. i.e. for the Czech Republic Act No. 435/2004 Coll. on Employment: “[...] the right of a natural person, who is willing and able to work and is searching for work, to employment, mediation of employment, and to the provision of other services according to the conditions stipulated by this act”.

Social policy ideas during communism were mediated within the pre-existing institutional structures and the existing interests, corresponding to a top-down form of corporatism mixed with new forms of bottom-up solidarity as promoted by religious, charitable and civic associations. Different than the ČSSR, the Polish system began to open up before 1989 and one of the most significant features of mobilisation against the communist system since the 1970s was the re-emergence of the notion of rights within the framework of a legalisation of certain institutions as rules of behaviour (for example *Solidarność*). Even if these institutions remained largely symbolic until 1989, a network of social institutions provided a certain manoeuvring room and different organisations provided social services, which were however kept under state supervision (Golinowska 2009: 222).

Polish labour legislation became remodelled with the adoption of the Labour Code 1974 under the communist regime; however, the Code remained an inactive piece of labour regulation, only amended rarely between 1945 and 1989. Part II of this dissertation showed that until today, labour market policies in Poland are “fragmented, including separate schemes for workers, farmers and a number of the so-called privileges for groups such as miners” (Polakowski 2010: 19). These separate schemes already existed during socialism, which is why the system was not as universal as it is often assumed and thus different from the ČSSR model. As *Cerami* puts it, the communist welfare state could be described as universal corporatism, coupling professional orientation of the system with universal and solidarity aspirations (Cerami 2006: 14). At the same time, there were relatively wide income differentials in contrast to the ČSSR. As the above mentioned features have partly remained integral characteristics of the two countries and continue to shape the policy outcomes in the two cases, it is possible to speak of path dependence for these features of the post-communist labour market regimes.

(4) Privileges for strategic sectors: The comprehensive standardization of benefits, treatments and income was a result of the political ideas and interests at that time, officially focusing on the dismantling of privileges caused by the former corrupt and capitalist system while establishing a system which through massive redistribution however privileging certain social groups of importance for the system’s stability. This strategy has equally been applied in the post-1989 transformation with the early retirement programmes and the prevailing privileges for selected professional groups in Poland (for example miners, soldiers, police or farmers, see Cerami 2009: 49). As *Inglot* rightly states, these privileges for the already most favoured groups of employees (for instance due to their own insurance schemes) continued to expand as part of a large effort to maintain social stability and peace and provide a substitute for the lack of generous and universal benefits as it used to be in the socialist period (Inglot 2009: 85). Hence, the excessive early retirement programmes in Poland refer to a system of benefit allocation before 1989 and thus survived to some extent, while bringing along elements of institutional continuity and resilience as workers and pensioners were fighting for the system from which they used to have benefited. As social compensation measures do not provide the same degree of protection and material gain for everybody, certain groups are more likely to receive compensation under certain circumstances than others. This is due to the fact that not all social groups are equally important in the government’s perspective as they differ in their power for coalition-building and relevance as potential voters. Even if the pension system does not stand central in this dissertation, I want to stress that

pensions are most directly affected by institutional legacy, because provisions for retirement had existed for a long time and were inspired by the Bismarckian model and became universal during the communist period. As a result, we find a constituency of future beneficiaries such as for instance farmers with their own pension insurance, KRUS, who have acquired rights according to the rules that existed before 1989. This group is likely to oppose reforms that would reduce the scope of benefits and eligibility of retirement rights.

(5) Lack of interest representation and political participation: *Tröster* stresses the problem of the citizens' passivity resulting from the lack of interest in social policy, given the state as a guarantor of any social security while limiting individual participation chances. It can be argued that the historical experience of state socialism thus mattered not for what it created, but rather for what it did not create. According to *Tröster*, the complexity of financing through the state budget would have had negative economic effects, while it entailed a lack of citizens' interest in the proper functioning of this system (*Tröster* 2000: 208). Sociological research shows that the Polish and Czech societies adapted to the capitalist market society also by changing their political values.

What has emerged is an image of a society which is not only extremely differentiated as in Poland, but characterized by low levels of social capital and civic organisation (*Golinowska* 2009: 247). It is particularly remarkable that the mobilisation of citizens remained rather low throughout the social transformation process. Even in times when objectives of social and economic policies were crucially redefined while the state's responsibility became questioned, participation remained rather absent. Only the dramatic rise of unemployment generated some kind of protest in Poland, considering the labour market problems as being a failure of government. *Greskovits* distinguishes three main responses by society in times of economic transformation stress: (i) demonstrations and strikes, (ii) 'going informal' through tax avoidance, illegal and shadow employment and criminality, and (iii) protest voting (voting for extremist or populist parties, and abstention) (*Greskovits* 1998). The first reaction appears to be a form of collective action, based on a group interest and the capacity to mobilise, while the last two demonstrate individual strategies. Taken together, the main reaction to economic changes and problems during the transformation period remained *individual* rather than *collective*, even if we find many a high density of labour disputes and short-term strikes in Poland as an expression of discontent. This trend entailed two 'popular' options: on the one hand, immigration became easier and increasingly popular after the EU-accession (however keeping a temporary character), on the other hand, protest voting as well as voting abstention was a predominant form of individual reaction (see Figure 8.2 on voter turnouts and cf. Appendix C for the frequently changing government coalitions).

How come that a society in which solidarity (and *Solidarność*) overthrew communism has lost its social capital? There are several reasons to this, it might for example be difficult to measure degrees of solidarity and values by statistical means, on the other hand, the interest in participation can for example be illustrated by participation in elections. Second, life and participation today is very different from what it used to be in socialist times where participation was not possible and interest representation remained absent, thus this fact might be an explanation for the low interest in solidarity

solutions. Finally, liberal reforms might have triggered individual attitudes rejecting all sorts of interventions and disturbances of the market.

With respect to the importance of social dialogue and industrial relations for social transformation, the role of trade unions during socialism is crucial. Trade unions during socialism enjoyed a monopoly, even if they were neither autonomous nor playing the role of real interest representation. Their actual function was that of a transmission belt between decision-makers at the central level and workers at company level, thus reducing them to merely a channel of political control. The ZUS, supervised by the MPiPS, allowed for only minimal participation by trade unions in the management of social security during socialism (Spieser 2009: 122). One of the difficulties that the successors of these unions faced after 1989 was a corresponding legacy connected to their former role as a transmission belt, linking the communist party to the masses. The official ideology saw workers as being primarily represented by the party-state and communist trade unions had only weak autonomy and bargaining power since nobody (neither plant managers nor unions) had influence on the level of wages, working conditions or the negotiation of collective agreements. Enterprise bargaining was used only to demonstrate an alliance between management and unions in order to receive more resources from the state. The system was corporatist in the sense that the allocation of resources reflected the political power of branch corporations (Spieser 2009: 128). In socialist systems, unions were not involved in the policy-making process or in industrial relations, it was therefore not necessary for them to develop political positions and reform proposals. The only important function that they served related to welfare distribution was connected to their role in distributing benefits tied to the workplace at enterprise level, where they also administered the social insurance funds. As they were decisive in distributing leisure facilities or holidays, union membership was very attractive since non-unionised workers had only limited access to these facilities.¹⁷

Analysis: legacies of the communist regime and paternalist welfare. On the whole, the social environment of socialist countries before 1989 was very similar. However, the rigidity of the Czechoslovak system influenced the emerging social attitude of opposition towards the old system more strongly than in Poland, where a more open system offered some opportunities for self-determination. This observation is important when it comes to the reconfiguration of domestic actors on the process of social transformation after 1989 because many ČSSR system opponents had left the country as emigrants and returned only after 1989, contrary to Poland, where many more former functionaries remained in power after the regime change.

The most important common features of the socialist welfare state with respect to labour regulation the fact that it was characterized by the universal right to a job, public sector employment for all and centralised determination of wages. By contrast, labour market policy was quasi inexistent (because officially not needed due to full employment) except some form of labour administration dealing with placement and ‘deviance’ existed. In the post-communist countries, labour market policies constitute a new branch of the welfare state and have developed in line with the transformation toward market

¹⁷ However, during the 1980s in Poland, union membership of the umbrella trade union All-Poland Alliance of Trade Unions (OPZZ) dropped dramatically with the rise of the independent worker movement Solidarność.

economy. It thus stands in sharp contrast to the policy of labour market regulation in Poland, which can partly be traced back to the old socialist system since the major instrument, the Labour Code, dates back to 1974 while the Czechs introduced a new Labour Code in 2006.

As concerns labour market policies, the only element that survived might be the structure of local labour offices, relying on the system of old institutions that had been allocating jobs to people already in the communist period. The sluggish adjustment to new policies as activation measures is rather to be interpreted in light of the lacking resources and personnel in the offices than a clear path dependency hindering old structures to be overcome.

The failure of existing policies often functions as a precondition for the radical change of underlying policy objectives and principles with the potential to entail a historical turning point in any given country (such as the shift from Keynesianism to monetarist and neoclassical views). Thus, the adoption of a new welfare paradigm is unusually motivated by the failure of previous approaches to social and economic problems, which is the case with the socialist organisation of the labour market. On the other hand, existing ideologies shape not only particular social policy instruments, but also the outlining of problems and their remedies in a particular way. Institutional continuities thus also influence the way in which reforms were designed and implemented. Regardless of paradigm changes that have taken place in CEE, the continuity of formal and informal institutions restricted the outcome and the reach of reforms. While institutions often sustain policies, they do not always translate these into operational new institutions, but may treat them in the framework of prevailing formal and informal institutional settings. It is clear that the element of continuity remained strong especially in those areas where existing state institutions prevailed. Apart from institutional settings it is important to mention that also the personnel in many cases remained in their positions.

Without doubt, the socialist order demonstrates a collective experience and as it had been in place for decades and shaped the legacies of socio-political dimensions, it influences whether society is open or closed vis-à-vis a paradigm change (Benz 2004: 252). If the basis of legitimacy for modern democratic systems consists of a certain degree of social peace, it is social policy in particular which constitutes an important benchmark in post-socialist societies because of the extensive social security experience from the socialist system.

Table 6.2 summarizes the socialist legacies with respect to the above presented five areas and their continuity in certain areas of policy-making over time. On the whole, the socialist welfare regime has been characterised by extensive state intervention, a PAYG financing mechanism, universal rights to insurance, however in reality based on the duty to work and the payment of contributions, privileges for certain social groups and lacking interest representation. As shown in the columns below, we find that several legacies have survived and the countries have partly returned to former institutional structures, hence supporting the explanatory power of institutional variables.

Table 6.2 Potential legacies of the communist labour market regime

| Indicator | Post-1989 Poland | Post-1989 Czech Republic |
|--|---|--|
| (1) Extensive state intervention/subsidies | Increased state intervention through subsidising large companies during the 1990s, massive early retirement programmes | Increased state intervention and postponement of privatization of large companies in the 1990s |
| (2) PAYG financing mechanism | PAYG, paid as flat-rate, increasingly residual | PAYG, increasingly residual |
| (3) Universal rights to insurance | Low level universalist approaches for the workforce, separate insurance schemes, based on the principle of residualism ('universal corporatism') | - (Insurance-system tied to employment) |
| (4) Privileges for strategic groups | Survival of occupational privileges for strategic professions, continuation of former elite | - (Abolition of privileges, exchange of former elite) |
| (5) Lack of interest representation and political participation | Low participation culture, membership and social solidarity, lack of ability of the masses to politically organize and promote interest representation structures | Medium degree of participation, medium degree of social solidarity |

Source: own illustration

Despite several similarities as concern path dependent developments, there are however important differences between the two cases. Why have the privileges for strategic groups survived in Poland and not in the Czech Republic and how come that the Polish Labour Code still stems from 1974 while the Czechs have introduced a new Code in 2006?

The concept of the path dependence variable is not entirely useful in this respect as the socialist legacies do not explain the divergent social transformation outcome in the cases. These variables share important similarities in both cases not only due to the experience of socialism, but also to partly comparable historical welfare state structures, which is why their explanatory power remains somewhat restricted when it comes to explaining the differences between the two countries' labour market regimes. Above that, the socialist paradigm did not provide something on which policy-makers after 1989 could build upon in the field of creating new labour market policy approaches. Unemployment had remained officially illegal and non-existent during socialism while employment was universal. In contrast to the institutional framework inherited from a socialist past, transformation suddenly brought about risks which are typical for market economies and thus expanded the scope of required social policy (solutions). The post-1989 transformation was characterized by a change in the structure and the logic of social policy, redefining mechanisms which used to be characterised by over-regulation and at least theoretically a universalistic redistribution. We do find evidence of several cases of path dependence, however, the sole approach of path dependence shows too deterministic and too contingent (Thelen 1999). It is one of the elements in the interplay of the mechanisms accounting for institutional change and continuity, influencing the logic of change. The approach provides some explanation to my first research question as it sheds light on the hybrid transformation outcome between

decommodification and market orientation, of which institutional continuity is one important element. Poland and the ČSFR/Czech Republic equally reflect historical legacies which have been clearly visible in the 1990s as *Mencinger* sums up:

“Formally, the institutions and know-how of a market economy can be re-established by decrees, and most Central and Eastern European countries have been more than willing to copy them from the West. However, the gap in social behavior created by 40 years of socialism cannot be simply wiped away. It is unlikely that market institutions borrowed from the West would actually operate in the East as they do in the West, where their creation was a gradual process over centuries of interactions between economic development, politics and institutions of civil society” (*Mencinger* 1999: 12).

However, the fact that some elements of the paternalist welfare model have survived indicates that ideas and interests have apparently been different and while some actors have managed to push their interests, others have not. In sum, the approach does not explain why the two cases, sharing the same historical and socialist legacy, diverge.

6.2 Economic conditions and reform strategies

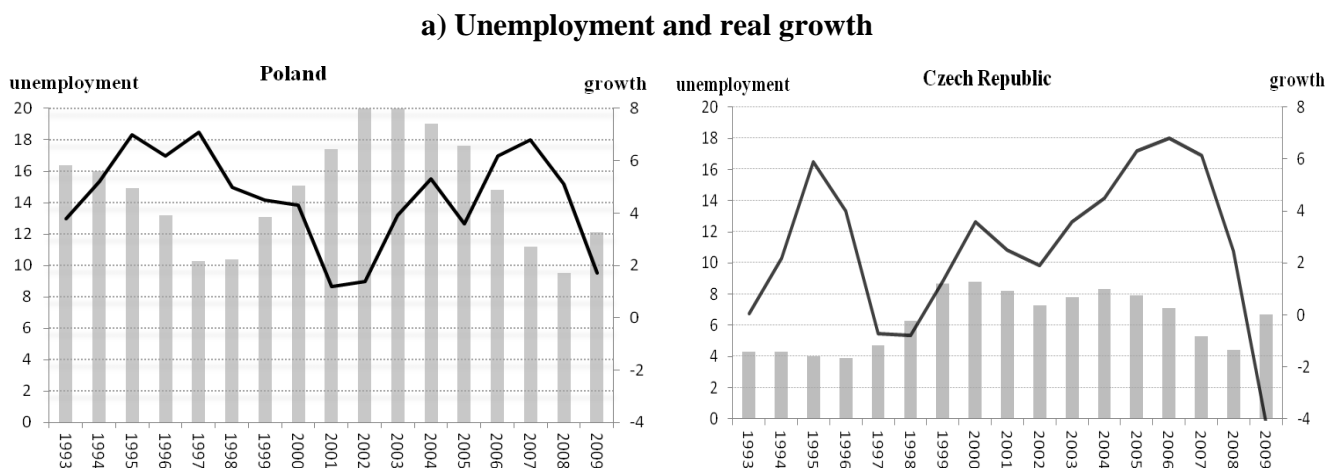
Right after the first governments took office, Poland and the Czech Republic quickly embraced the path of economic transformation initializing a large-scale process of economic adjustment. Although following different economic transformation pathways, they shared a common starting point, meaning that both faced the pressure to achieve what had been gradually developing in the West: a functioning and efficient market economy (*Merkel* 1999: 385). In this respect, according to the categorization of the European Bank for Reconstruction and Development (EBRD), both cases belong to the first group of transformation countries with the highest degree of economic consolidation (EBRD 2000).

Both countries implemented economic reforms characterized by what is called ‘shock therapy’, but the approaches were characterized by national variations as to its rigidity. The economic policy in both cases basically followed the same pattern: the enforced economic policies in Poland in the year 1990 and exactly one year later in the ČSSR consisted of the liberalization of most prices, a radical devaluation of currencies, the introduction of partial convertibility for residents along with restrictive monetary and fiscal policies, accompanied mainly in the ČSFR by a reduction in real wages (*Kosta* 1998: 116). This was immediately followed by an opening up of the internal and external markets for domestic and foreign consumers, the facilitation of private entrepreneurship and privatization measures, the unbundling of large state enterprises and the development of market-based institutions (such as commercial banks, tax authorities, employment offices). After initial controversies in the ČSFR, the Prague reformers accepted a mix of methods of privatisation concepts which were applied rather smoothly. In sharp contrast to this, long controversies delayed the privatisation process in Poland significantly (*Kosta* 1998: 116f.). What is important to note is that while in the ČSFR, the

“[r]adical strategy aimed at a quick opening to the world economy, this was supposed to happen only after the acceleration of the reform process, giving the Czechoslovak economy time to adjust, in contrast to Poland, which opened its markets drastically and immediately. Czechoslovak reformers initially placed a 20 percent surcharge on imports to protect domestic producers” (*Orenstein* 2001: 78).

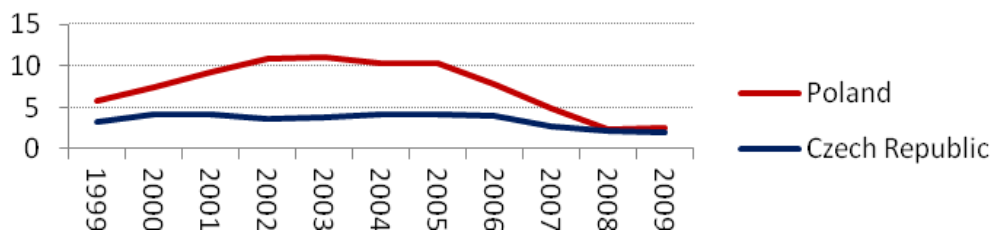
Apart from the structural convergence in economic terms since 1989, the economic policy approach of Poland and the ČSFR diverged, partly due to the different micro- and macro-economic situations and partly due to differences in the economic reform strategies that were regarded as most appropriate.¹⁸ The dissimilar development of the economic framework partially dates back to the Habsburg Empire and the different countries' geopolitical and geographical positions, leading to a situation which provided the ČSFR/Czech Republic with a higher purchasing power, GDP per capita and better preconditions for the economic transformation compared to Poland. Without doubt, Poland started off in the social transformation as a poorer country with a history of greater problems, higher poverty and greater macro-economic challenges when compared to its neighbour. The shift from a centrally planned economy to a market economy immediately entailed the phenomenon of unemployment which had to be managed by policy makers who started regulating the flow in and out of employment. As compared to the ČSFR/Czech Republic, Figure 6.2 reveals that unemployment remained a much more dramatic problem in Poland during the whole period under examination, including jobless growth and high long term unemployment. By contrast, the ČSFR/Czech Republic shows a path of more gradual economic stability, a moderate recovery (except the crisis in 1997) and a modest employment decline. The picture looks different in Poland: a path of less stability, but stronger GDP recovery.

Figure 6.2 Unemployment and growth



¹⁸ *Belke/Hebler* see the heterogeneity of development paths foremost as a result of a different transformation strategy (*Belke/Hebler 2002: 43*). *Bayer* adds that in contrast to the normative transformation logic, the de facto transformation logic cannot be designed independently from the details of the case. The scope of action for economic transformation is limited by spontaneous events, as they result from interdependencies between economic and social development. If there is no discontinuation of transition, the reform measures make certain actions or decisions more probable than others. Transformation processes thus always entail corresponding future paths of development (*Bayer 1999: 24*).

b) Long term unemployment, % of total labour force



Source: Polish Statistical Office (Unemployment and Growth in Poland), Czech Statistical Office (Unemployment and Growth in the Czech Republic), Eurostat 2012 (Long-term Unemployment)

The success of transitional social and labour market policies had significant consequences on the further direction of the slowly consolidating new labour market regimes. Economic restraints are theoretically assumed to result in more severe social policy retrenchment in the country with the economy performing comparatively worse (Polakowski 2010). However, interestingly, Poland chose the opposite strategy at the beginning of the 1990s with highly selective social spending in order to compensate certain groups for social transformation costs. The sections below analyse the major economic strategies in both cases in order to test their explanatory power for subsequent social transformation dynamics.

Economic conditions and reform strategies in Poland: Finance Minister *Balcerowicz* introduced a plan for rapid economic liberalisation and a fixed exchange rate-based programme, later known as shock therapy, a programme with different elements radically paving the way from command towards market economy. The IMF approved and backed the programme with significant financial support, as Poland was highly indebted.¹⁹ *Balcerowicz* succeeded in receiving full support from the political and economic elites backing his shock therapy, certainly pushing the system towards neo-liberalism. The Polish reform steps can be described in three idealized categories: (i) liberalization, (ii) macroeconomic stabilization, and (iii) institutional reform. These three categories appear to be most useful when applied simultaneously, but facing a regime change in such a short time, it remains unrealistic to take these steps in parallel. While liberalization and macroeconomic stabilization may be promoted immediately, institutional reform takes a much longer time to be designed, implemented and especially to work efficiently.

At the time, *Balcerowicz* called the situation a brief window of opportunity for exceptional politics in which radical reforms could be pushed through. He thought of a comprehensive framework with a free market economy and minimal state intervention. The argument was that the reform result would lead to short-term costs which had the potential for eliminating societal support. Although Prime Minister *Mazowiecki* referred more to a social market economy model comparable to the German one, this idea remained only theoretical since in practice, social policy programmes at that time were regarded as a

¹⁹ There are remarks that, despite Poland's financial dependence on the IMF, "the choice of policy options was fully in the hands of the domestic elites, and the IMF tended to support the local consensus as long as it seemed reasonable" (Spieser 2009: 131).

burden on reform programmes by the decision-makers disposed of the power to push for their ideas and interests. Instead, the clear Polish priority was a macroeconomic framework that aimed at keeping inflation under control. The first result of this approach was a sharp drop in output. As a consequence of price liberalization, the price-inflation and anti-inflation policies it led to an erosion of real wages while the economic liberalization affected the employment situation of many people. The Polish regime change and the shock therapy triggered a steep recession with a fall of 18 percent in GDP by 1990, which was especially serious in Poland despite being a trend in all CEECs witnessing the shift from sellers' markets to buyers' markets, a disruption of coordinating mechanisms and adjustment of the sectoral structure, together with an underdeveloped financial sector.

While Polish unemployment jumped the highest in the region, most economists interpreted this as a phenomenon of a temporary nature – but the situation took much longer to change than expected. The combination of rapid growth and rising unemployment can be explained by the structural transformation that the Polish economy was facing. Enterprise restructuring in particular was complex and took a long time because before the regime change, the economy was state-owned by industrial groups with a strong emphasis on heavy industry in contrast to services or consumer goods. While prices during socialism used to be fixed and production and transactions were governed by the central administration, financial budget constraints were soft. To change all this, the transformation plans aimed at splitting large enterprises into smaller entities. During this process, in addition to the IMF, the World Bank supported Poland to quickly promote a general privatization of all state-owned enterprises as a reform priority. However, privatization proceeded slower than initially expected. The programme of mass privatization was only adopted in 1995, later than in other CEECs, and its implementation was delayed by political bargaining over the conditions of privatization and the list of concerned enterprises amounted only to 512 when implemented in 1999 (Spieser 2009: 134). The most common way of privatising state entities was the direct sale to foreign-owned firms aiming at investing in Poland.²⁰ In 2003, 1.166 state-owned enterprises still existed in Poland, of which 24 had commenced direct privatization procedures, 132 were in liquidation and 502 had declared bankruptcy (Spieser 2009: 134). Privatisation of large-scale enterprises however motivated a quick development of the private sector, despite the generally relatively slow Polish privatization process. The sectoral reorientation finally led to the closing of heavy industry and brought along numerous mass dismissals.

There is no doubt that the Polish liberalization and stabilization programme was the most radical post-communist economic reform process in CEE, carried out as a neo-liberal economic programme between 1989 and 1993.²¹ Out of an economic slump by 20 percent in 1992, Poland was the first transition

²⁰ It must be pointed out that full land property was inaccessible to foreigners, making the option of 'brownfield' investment, meaning that a company or government entity purchases or leases existing production facilities, more interesting for foreign investors – the comparably large Polish economy explains that foreign investment in Poland amounted to a modest percentage of GDP.

²¹ The clear decision for a shock-like transformation was possible because the reform aspirations were supported both by the communist regime and the *Solidarność* movement after the negotiations at the round table (Boxberger 1997: 57). Additionally, the *Mazowiecki* government was supported by a majority of *Solidarność* in parliament and senate. Besides,

country which in 1992 again showed an increasing gross national product, consistently high growth rates, and considerable flows of foreign direct investment (Ziemer/Matthes 2004: 191). The macroeconomic success, however, had its societal price in addition to the rapid rise in unemployment and the problematic restructuring of the extensive agricultural sector, representing more than one third of the market share at that time. In response to the social side-effects of economic restructuring, the elections in autumn 1993 brought a new government coalition which called for a stronger role of the state in social and economic issues while slowing down the pace of economic reform (Merkel 1999: 391). Socially problematic reforms such as the privatization of large companies were slowed down or stopped immediately (Boxberger 1997: 57). Due to the rapid sequence of government coalitions with diverging preferences as to the extent of the state and the market sphere, economic reforms strongly differed in their continuity and objectives, distinguishing the Polish from the Czech transformation process.

Economic conditions and reform approaches in the ČSFR/Czech Republic: After the initial liberalization shock in 1991, the ČSFR macro-economically developed to a role model of the transition countries in CEE. Several factors were of advantage: the ‘inherited’ macroeconomic balance as to domestic and foreign trade, a retained inflation which would allow for a balanced trade, and low foreign debt. Besides that, as in Poland, the country benefitted from its highly-developed industry, with a multitude of structures in the Bohemia and Moravia regions, where a high level of qualification of skilled workers and technicians prevailed (Kosta 1998: 116). Finally, different to Poland, the former socialist labour market had already used quite many foreign workers from Poland, Vietnam – and Slovakia; those workers could be sent home. These factors had a positive impact on the development of the ČSFR/Czech labour market so that the potentially painful reallocation of resources (including labour) turned out to be less so in the Czech Republic than in other CEECs, even when considering different approaches to measuring economic success (Belke/Hebler 2002: 37).²²

broad foreign credits were offered in exchange for the consequently implemented shock therapy (for instance by the IMF, see section 8.1).

²² While Poland quickly registered an increase in unemployment in binary data (as in 1993: 14.9 percent), the Czech Republic compared with Scandinavian countries and the USA (1993: 4.3 percent). However, we have to consider that countries generally use considerably different statistical methods for the measurement and definition of unemployment, obviously generating different results (Giermanowska/Hrynkiewicz 1998: 164). Furthermore, government policies (such as early retirement programmes and longer training periods) as well as the growing shadow economy may partly hide the real unemployment rates. It is therefore adequate to look at the employment rate of a country instead (Golinowska 2009). Nevertheless, the controversial discussion on the causes of the prevailing low rate of unemployment in the Czech Republic until 1996/1997, called the ‘Czech employment miracle’ continues. Czech reform strategists mention the advantageous employment situation and the absorption capacity of privatizing companies as well as ALMP programmes and high mobility and qualification of the workforce as having been beneficial (Vodicka 2004: 248).

In contrast, critics speak of hidden unemployment, resulting from an inadequate restructuring and slow increase in productivity. An important remark might come from the European Commission in its statement about accession ability. Here, the Commission criticizes delayed privatization of the large monopolized industrial sector, being reflected in a moderate development of unemployment (Boeckh 2000: 158, see also Hölscher 2002: 227). Schramm additionally points to the fact that the vast extent of temporary work has erased unemployed from the statistics (Schramm 1999: 99). In addition there is a sectoral shift: in contrast to Poland and Hungary, where parts of the economy were already privatized before the system change, no private sector existed in the ČSFR before 1990. This fact established an enormous backlog demand in the service sector, absorbing redundant workforce. In the ČSFR, 20 percent of employment in the industrial sector was cut back, while in other countries it was around 30 percent (Belke/Hebler 2002:

The neo-liberal economic policy-style of avowed ‘Thatcherite’ *Klaus* did not lead to changes in the government which, *inter alia*, can be traced back to the favourable economic development. However it also shows that *Klaus*’ rhetoric of a ‘market economy without attribute’ was proclaimed to be more radical than its actual implementation turned out to be. Prime Minister *Klaus* was said to speak like a *Friedmanist* while acting, if appropriate, as a social democrat (Orenstein 2001: 92). The liberal economic programme was thus “more apparent than real as much of the social stability under the *Klaus* government was based on the relatively solid foundation of social security benefits worked out in the first year of the old Czechoslovak Republic” and actually included extensive social compensation and cushioning (Deacon 2000: 151, cf. also Merkel 1999: 392).²³ The combination of concealing and combating unemployment together with the voucher privatization²⁴ may be interpreted as a government strategy to establish a favourable social climate in order to secure and legitimise further reforms as well as to equally distribute transition costs (Castle-Kanerova 1996: 291). *Vanhuysse* calls it a “populist character of privatisation schemes”, supporting the political legitimacy of the government by including the citizens in the transformation process (Vanhuysse 2006). Soft budget constraints for large enterprises continued through different types of state support and close linkage with banks and a weak enforcement of bankruptcy legislation. At the same time, high importance given to attracting FDIs and reducing labour costs through low (public sector) wages.

Vanhuysse rightly claims that the Czech Republic managed to become an “inclusive democracy in which institutionalised accountability led to fast reform progress” (Vanhuysse 2006: 1129f.). It is without doubt primarily due to the low level of unemployment throughout the transformation that the Czech Republic maintained high degrees of social peace. This was partly possible through only gradual privatisation during the first transformation years and the state keeping shares in strategic industries, among them telecommunications, banking, transportation, energy, gas and oil industry, mining. However, meanwhile, privatisation got ahead: whereas in 1999 the state owned 38 strategic enterprises, 20 in 2002, it was only 4 in 2005 (Eriksson/Pytlikova/Warzynski 2007). In line with the postponement of large enterprises, a feature of Czech ‘emergency’ economic strategy has been what *Vanhuysse* calls ‘bank socialism’ (Vanhuysse 2006), meaning the deliberate anti-bankruptcy policy which contributed to keeping unemployment low. Only in 2001 was the privatisation of the largest Czech banks completed, one reason for the late privatisation being that fact that state banks were providing generous and cheap loans to state enterprises, helping the companies to survive in old structures (Eriksson/Pytlikova/Warzynski 2007).

The entire loss of the former communist regime’s legitimacy was one of the reasons that after the systemic change, the support of the new socio-economic and political system always predominated – despite the unavoidable temporary social hardship triggered by radical economic reform. The Czech citizens primarily emphasized the newly acquired political and economic freedoms as a positive change

38). However, today the Czech Republic has also experienced rising unemployment, and the time of the ‘Czech employment miracle’ has passed.

²³ In practice, according to *Kosta*, the Czech government focused well on the cushioning of social hardship for instance in the area of tax policy, child allowance or general welfare (Kosta 1998: 17).

²⁴ Besides the ‘small’ privatization through auctions in 1992/1993, the ČSFR designed a concept of mass privatization through selling *coupons* to the population (Voucher-Privatization).

(Vodicka 2004: 273). However, the economic crisis of 1997 (together with several cases of corruption) led to the disintegration of the liberal-conservative coalition and *Klaus*' resignation. A social democratic government succeeded in 1998 which had run the campaign with a gradualist and more socially cushioned economic reconstruction (Merkel 1999: 392).²⁵ Despite high transition costs, Czech citizens seemed to have fond memories of their former acting prime minister and current president: according to an opinion poll by the *Institute Median* in 2007, *Klaus* at that time was the most trustworthy politician in the country: 73 percent of Czechs trusted him, underlining the power of the reform actor *Klaus*.²⁶ Speaking with *Max Weber*, he appeared as a 'legitimate prophet' (Weber 1982: 580) with the power to create something completely new and as has already been discussed above, Czech reform actors succeeded over many years in implementing reforms supported by political legitimacy.

Analysis: country-specific economic reform strategies. In economic terms, the ČSSR until 1989 remained strongly attached to the Soviet command economy,²⁷ while in Poland under the previous regime, state regulation was already facilitated and privatization had been approved (Ziemer/Matthes 2004: 190). The need for economic restructuring in Poland thus initially appeared far smaller than in the ČSFR. Interestingly, it showed that the more reformed the command economy already was, the higher the degree of difficulty that accompanied the direction, procedure and coherence of transformation actions (Bayer 1999: 50).²⁸

According to economic transformation strategies, the more difficult the economic situation, the fewer are the government's policy options. Governments in countries with economic difficulties can be expected to launch neoliberal policies without prior institutionalised exchange with organised interests (Avdagic 2003: 13). It is certainly true that Poland inherited a much higher inflation rate and external debt than the Czech Republic as illustrated below and it is tempting to explain the *Balcerowicz* shock therapy and the Czech socially embedded reforms in line with the above indicators.²⁹

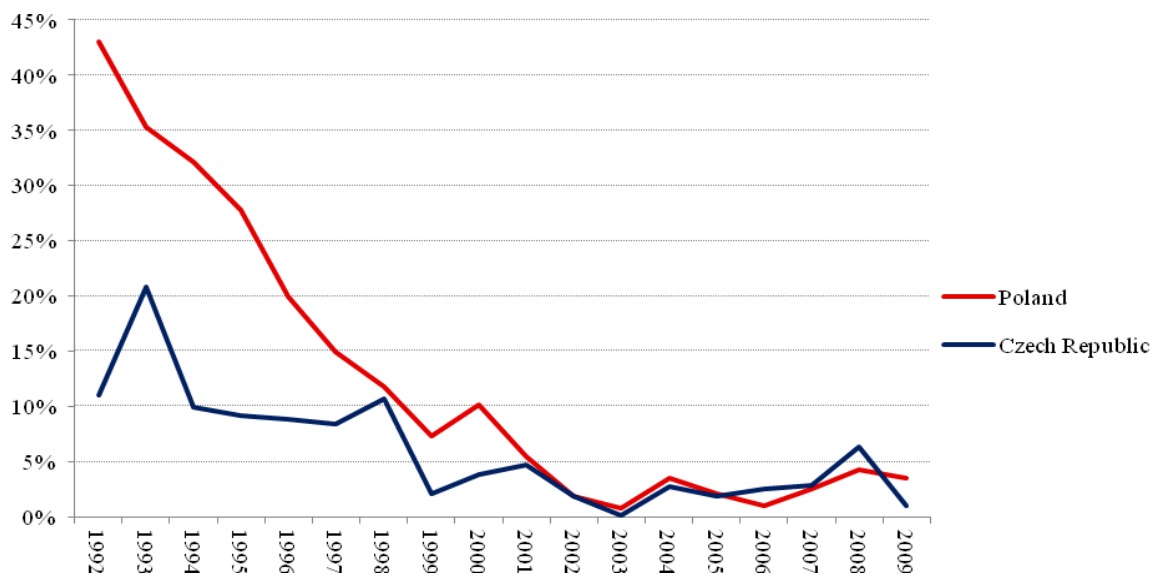
²⁵ The Polish and Czech social democrats' election successes in 1993 and 1997 reflect the population's discontent with the harsh change of policy and show a certain traditional return after the initial radical avoidance of socialist policy.

²⁶ *Věra Řiháčková/Christian von Seydlitz* (2007) *Václav Klaus and the Constitutional Treaty – Czech Eurosepsis or Eurorealism?* (see www.proyectos.cchs.csic.es/euroconstitution/Treaties/Library%20%28Since%20June%202007/Rihackova%202007.pdf)

²⁷ Activities of private economy were forbidden and company decisions were centrally determined by obligations while the economic structure was dominated by commitments for the Council for Mutual Economic Assistance (COMECON).

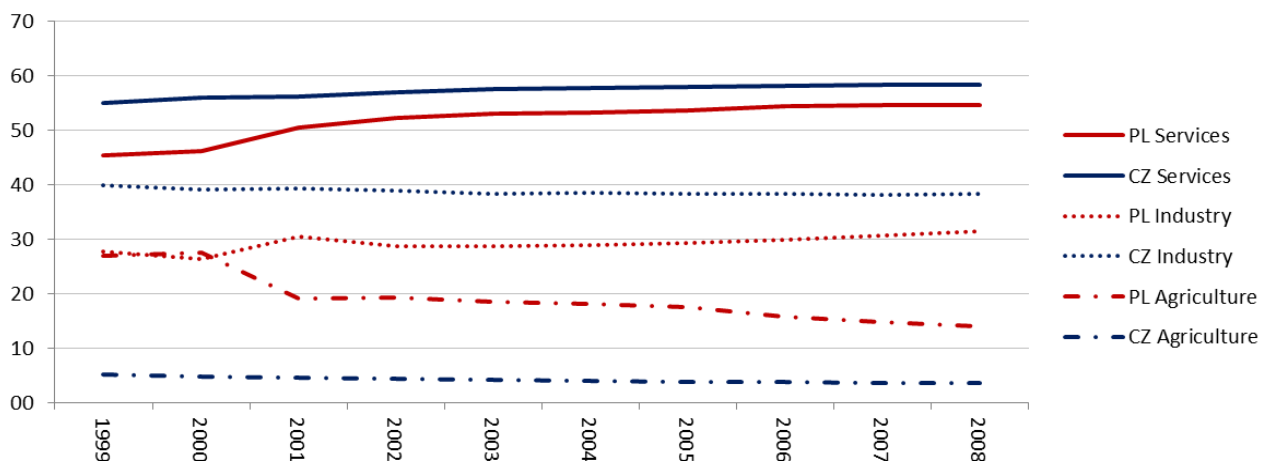
²⁸ The reason therefore is partly based on the fact that reformers assumed the economy to be over-centralized and thus conferred decision-making power on economic agents, even if these authorities had already been with the companies before. As a consequence, all new central bodies were paralyzed and steering mechanisms were destroyed, possibly leading to economic crisis with supply shortages, budget deficits, high foreign debt and inflation (Bayer 1999: 50).

²⁹ Labour market developments are always connected to the economic framework, in particular growth and inflation. This is because these two variables have a determining effect on wages and employment, while at the same time growth and low inflation are major objectives of labour market policy.

Figure 6.3 Inflation in Poland and the ČSFR/Czech Republic

Source: Abbas et al. (2009)

However, the ČSFR showed one of the highest domestic debts and government deficits in the region, together with a particularly weak banking system (Avdagic 2003: 13). Parallel, it was directly after the system change in times of exploding inflation that Poland's social expenditure, the scope of compensation measures and state intervention was highest as has been shown in Part II of this dissertation – it is thus not convincing to explain the partly different economic reform approaches through these rational choice indicators. Above that, a mere emphasis of the economic restrictions does not explain policy processes which have been decided upon much later during the 1990s. By contrast, structural factors concerning the unequal economic structural conditions (resources, industry, and skill of the workforce) certainly supported a more successful economic transformation in the Czech Republic as compared to Poland, exemplified by the employment in sectors, which shows especially high shares in agriculture for Poland while the Czech Republic is mostly characterized by services and industry.

Figure 6.4 Employment in sectors, in % of total employment

Source: Eurostat (2012)

Overall, the economic framework significantly shaped the reform options. These options were however decided upon by *real actors* (Scharpf) whose ideas, behaviour, their persuasive power and stability were decisive factors for the successful continuity of economic reforms. It is thus interesting to take a closer look at the reasons why shock therapy in Poland contrary to the Czech Republic lost acceptance so quickly. Reasons have an economic and a political dimension: (i) in Poland, the economic slump and social transformation costs turned out to be more severe than expected. Exploding unemployment withdrew the approval of reform policy, since the credibility of the reform agenda and the key players vanished in a situation where the availability of paid work was decreasing and fewer and fewer equal opportunities could be guaranteed by the state and its intermediary organisations (Boeckh 2000: 173); (ii) the political reasons can be found in the face of isolated decision-making and ‘quiet politics’ (Potuček) including the lack of public information distribution by the reformers, altogether leading to social mistrust.³⁰ At the same time, low inflation in the ČSFR/Czech Republic went along with real wage growth and a high employment rate, while the strong position of trade unions and the more intensive coverage of collective agreements also contributed to the growth of wages, in sum limiting the transformation costs for the population to an acceptable scope. Finally, the predominant transition costs had to be dealt with by former supporters of Solidarność who felt betrayed by a trade union which no longer represented workers’ interests as it had become a political player as will be elaborated later.³¹ Savitt argues that despite of major restructuring activities, most firms in the Czech Republic were moving at a relatively slow pace in changing their previous structures and behaviors toward the practice of marketing in firms in developed market economies. By contrast, the author mentions the Gdańsk shipyard in Poland as an interesting case which, not yet privatized though fully restructured, carried out a sophisticated market-oriented programme (World Bank 1999).

6.3 Chapter summary

As concerns the historical institutional and economic framework, several important features are shared by the two cases. As *Cerami* emphasizes, the post-socialist paradigm combines the *old* and the *new* and triggers a special behaviour of actors in the face of surviving institutions while reform in the

³⁰ A survey by the Central European Opinion Research Group (CEORG) in 2004 showed that in international comparison, Poles in that year exhibited one of the highest rates in mistrust of members of parliament (mistrust: 81.5 percent) and political parties (mistrust: 80.7 percent). In contrast, only 56 percent trusted the president, 32.4 percent trusted the prime minister, 31.4 percent trusted the trade unions and only 10.3 percent trusted political parties (CEORG 2004a). At the same time, this survey showed that in the Czech Republic, 75.6 percent of respondents trusted the president, on the other hand, however, as in Poland, the distrust of political parties had increased (70.9 percent) and there was also major distrust in members of parliament (70.6 percent). The trade unions, however, were given higher confidence by the Czechs with 35.5 percent compared to their Polish neighbours, and also the political parties were given slightly higher confidence (23.9 percent) (CEORG 2004a).

³¹ In 1992, Solidarność had finally lost support, among other reasons through the alienation of the workers in large state enterprises, while failed distribution policies on privatization and employment played a significant role. After 1989, workers had indeed accepted drastic sacrifice, but their hopes for visible compensation were disappointed. Solidarność failed in its primary task when unemployment was booming under its influence while state intervention in order to create jobs was rejected (see i. e. Feldmann 2004).

“[m]ode of access, benefit structure, management and financing of the new welfare state [...] were deeply rooted in the communist and pre-communist past. The first principle was driven by the experience of the excessive standardization of economic and social life caused by the regulatory mechanisms of the central planned economy, which produced the undesired effect of limiting work performance in the absence of incentives, stagnation or even regression of modernization” (Cerami 2007: 14).

As a consequence, the author claims that policy-makers aimed to reintroduce benchmarks of individualist achievement and thus established provisions based on occupational diversity, which had a long tradition in these countries. At the same time, he claims that forty years of communism had shaped a system of formal and informal norms that made a differentiated access to welfare benefits not a viable political option right at the beginning of transformation due to the former emphasis on egalitarian structures (Cerami 2007: 14).

The cases' institutional similarities dominated during the pre-communist and communist period. Despite the empirical evidence indeed again suggesting convergence in terms of a recourse to Bismarckian tradition after 1989 in both cases, institutionalist assumptions of path dependence do not entirely explain why some features show continuity (i.e. insurance-based social security) whereas others do not (i.e. the flat rate in Poland, but not in the Czech Republic). Other variables apart from the pre-communist and communist experience have apparently influenced the political and economic framework for actors' behaviour in a path dependent way while they have at the same time created new paths of policy-making.

As concerns the economic framework of transformation strategies, economic conditions have certainly framed the available social transformation options in terms of availability and restrictions. However, this variable does not explain why particularly the first two transformation periods appear to be characterized by hybrid welfare approaches in the two cases. Further, and even more important, it does not explain why labour market expenses have been crucially higher in the Polish case which actually suffered much more from economic decline, inflation, indebtedness and unemployment during the first reform period as did the Czech Republic. While economic factors significantly accounted for general objectives of capitalist welfare based on international competition and economic success, the different economic potency of the two countries does not provide explanations why the less competitive country during the first transformation years (Poland) launched more excessive and costly compensation measures when compared to its neighbour which pursued a strategy of labour market inclusion and job-loss prevention.

Chapter 7 The impact of international actors

The regime change in CEE marks not only the rebirth of economic and political competition, but also the beginning of an era of international integration. The demand for rapid integration into Western economic communities after the collapse of socialism manifested a clear return to the Western community of values and thus underlines the importance of international variables for explaining social transformation processes.

Despite the influence of historical legacies and country-specific economic determinants, the social transformation in CEECs took place in an internationalising context and with social and political actors moving and interacting in an increasingly transnational policy arena. Domestic actors' interests and behaviour have been embedded in a context of cognitive international influence and national obligations, forcing and encouraging the decision-making process to take external factors into account. This chapter focuses on those international actors that appear most relevant in shaping Polish and Czech social transformation by providing policy ideas and advice, but also by setting rules and obligations in the framework of conditionality and coercive policy transfer: the IFIs and the EU.

Their implementation reaches from influencing domestic policy-making while perfectly fitting the national agenda, being credible and fitting the cost of their adaption, to the point of policy transfer by coercion based on conditionality. Without doubt, there exists a variety of other external policy advisers, but I want to focus on those two because their influence appears to be the most relevant as concerns my research interest.¹ The chapter is about examining the IFIs and the EU influence as potential mechanisms of change stimulating institutional change and transnational policy learning processes in favour of decommodification and market orientation.²

The CEECs started to develop practices of cross-country social policy review and evaluation at a time when also Western European countries started to develop strategies of benchmarking and the exchange of best practices on the labour market (like the OMC or the concept of *flexicurity*), even when the CEECs did so less systematically than Western European countries.³ Poland and the Czech Republic were increasingly integrated in the newly arising policy style of multi-level decision-making and governance – particularly based on their track towards EU membership.

Apart from the influence triggered by the preparation for EU accession, CEECs received advice by Western advisers from the Anglo-Saxon context. These are often regarded as being in favour of a minimal welfare state, deeply believing in Western capitalism in a liberal sense that values individual

¹ As an example for another policy advisor, the OECD aimed at designing and monitoring annual work programmes for policy advice, technical training and assistance (Spieser 2009: 163). The programme was split into four key topics, one of them focused on the social problems related to the transformation process and restructuring. Its basic principle was to make the member states' expertise available to the future members and the design for domestic political and economic reform. As an intergovernmental organisation, the OECD operated in a demand-led manner and it was left to each national government to apply for assistance in particular policy fields by the correspondent ministry.

² The influence of external actors on the social transformation and policy-making in CEE could deserve extensive empirical research and enquiry, but as the topic is so broad I chose to focus only on selected factors.

³ This is especially true for the pension-systems.

freedom of decision-making and individual responsibility over collective responsibility (Spieser 2009: 104). It is especially the IFIs which are interested in liberal economic arrangements and they aimed to promote rapid privatisation and the establishment of market capitalist structures in both countries under consideration. By contrast, the EU officially promotes (state) regulation, even if the political reality shows a considerable asymmetry between the social and the economic dimension at the expense of common social standards (Scharpf 2002). Political integration lags behind economic integration, a fact which is linked to the difficulty of defining common social competences. Based on this situation, it is rather mutual learning processes *à la* ‘naming and shaming’ combined with the exchange of best practices which are triggered as influential long-term mechanisms of compliance or harmonization.

Linking these assumptions to my theoretical setting and research interest, I aim to analyse by what means and to what extent the IFIs pushed Poland and the Czech Republic in a market oriented direction and by what means and to what extent the EU rather influenced the emerging labour market regimes in favour of decommodification. Both international actors’ approaches clearly differ in terms of the preferred regulatory arrangements promoted:

“To avoid high unemployment in the future, the IMF would like the countries seeking accession to retain their flexible labor markets rather than adopt the rigidities characteristics of many EU countries (low wage differentials between skilled and unskilled workers, generous unemployment benefits)” (World Bank 2000: 4).

The fact that both international actors had to offer important targets for Poland and the Czech Republic, consisting of financial support by the IFIs and the membership by the EU, made these actors powerful enough to use conditionality in order to encourage policy transfer. Accordingly, the use of conditionality is a mechanism of institutional change which was applied by the EU as well as the IFIs as a form of external governance based on a rationalist view of interest-based compliance with international norms, often without a renegotiation, in a domestic area. *Schimmelfennig/Sedelmeier* state that

“a policy of conditionality is one which international organizations promise rewards (such as financial assistance or membership) to target states on the condition that the states fulfil one or more conditions (such as policy adjustment or institutional change) set by the international organization” (*Schimmelfennig/Sedelmeier* 2007: 88 f.)

Methodologically, both cases will be compared as concerns the IFIs’ influence during the first reform period which was characterized by the most urgent need of the IFIs’ financial support (1989-1996), followed by a comparative analysis of the EU’s influence focusing on the second reform period (pre-accession period 1997-2003) and the third reform period (EU membership 2004-2009). I want to point out that I focus on the IFIs’ influence mainly in the first reform period of my analysis, assuming that at the time that the EU gained importance, the IFI’s influence diminished. While during the first reform period the EU did not yet dispose of a comparable conditionality, its influence dominates since the beginning of the negotiations for accession.

7.1 The IFIs' impact on the transformation process

During the early days of transformation, the first major international players intervening in the reform process were the IFIs. They mobilized a significant amount of intellectual and financial resources, taking an active part in terms of macroeconomic stabilization, social security and labour market regulation until the mid-1990s, particularly in Poland. This policy transfer was built upon a mix of coercion, conditionality and diffusion. As a result, the institutional changes in terms of integration with the international economic institutions can be explained by the policy responses to the implications that the inflows brought for macroeconomic and financial stability (Ötger-Robe et al. 2007).

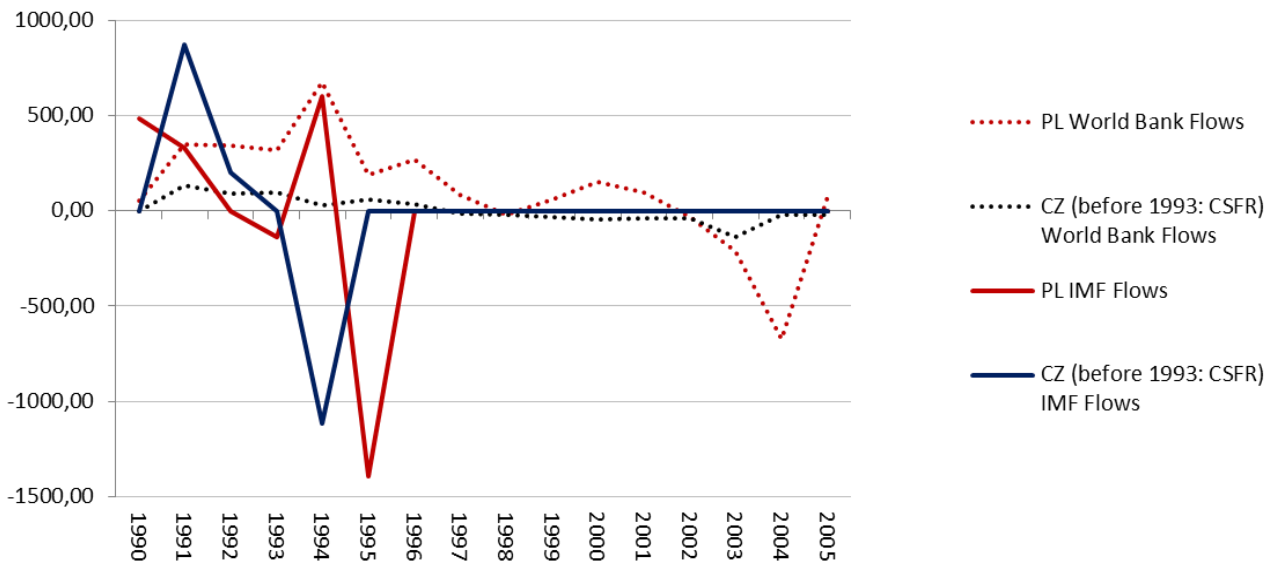
In the first years of transformation, the IFIs however paid little attention to the field of social policy in CEE, since privatisation and macroeconomics were regarded as the clear priorities. Initially, the IFIs intended to offer a margin of freedom for domestic policy actors in order to take into account domestic settings and historical conditions of a particular country (Orenstein/Haas 2005). Later in the 1990s, however, a turning point was reached when “a more coherent and forceful international social policy agenda began to appear for the post-communist states, crafted by a World Bank that was increasingly cognizant of east-central European countries' EU aspirations” (Orenstein/Haas 2005: 137f.). The IFIs moved beyond the Washington Consensus – their initial basis for policy recommendations promoting privatization, price and trade liberalization and macroeconomic stabilization – and shifted their stance on the importance of market-mechanisms, institution-building and state consolidation. They began promoting the role of regulation, institutions and rule of law – in particular in the area of privatisation and banking. As a result, in the course of the 1990s, the IFIs increasingly focused on institutional reform, particularly focusing on pension reforms.⁴

They strongly encouraged post-communist governments to maintain strict fiscal limits to their social expenditures and as a part of the stabilization policies, they formulated policy requirements as a *quid pro quo* for distributing credits and loans to help the development of market economies. Through financial, technical and advisory support measures, the IFIs significantly supported the social transformation process, touching areas such as advancing the privatization of enterprises and banks, pension reforms, social expenditures and civil service reform. Thus, these reforms were not only made possible by excessive financial support by the IFIs, they were also conditional for its receipt. Figure 7.1 below reveals that Poland not only received more funding by the World Bank in particular during the first reform period, it also shows that IMF flows to the ČSFR have peaked only once (1991) whereas

⁴ The World Bank for example clearly dominated the pension policy field in Poland, providing the three-pillar pension system. Even if pensions are not the focus of my analysis, I want to mention that in 1994, the World Bank's active involvement in the process of pension reform started with a seminar held in Poland by Bank officials introducing their ideas for a radical Chilean-style pension reform, being however evaluated sceptical by Polish policy-makers who attended the seminar (Golinowska 2000). Later, the Bank had discarded the model for Poland in one of its reports, and suggested the three-pillar-model, presenting this approach during another conference with scientists, the trade unions and policy-makers in Poland. After two years of political struggle over the reform and its procedure, in 1996, the Bank presented elaborated reform suggestions at the Institute for Labour and Social Affairs and afterwards became directly involved in the reform process, leading to a “draft bill, which cumulated in the ‘Security through Diversity’ reform framework published in July 1997” (Grimmeisen 2004: 25). Much research on this topic has been done, for further details see for instance Polakowski (2010).

they have peaked twice in Poland (1990 and 1994, when the Czech Republic already paid its debts back).

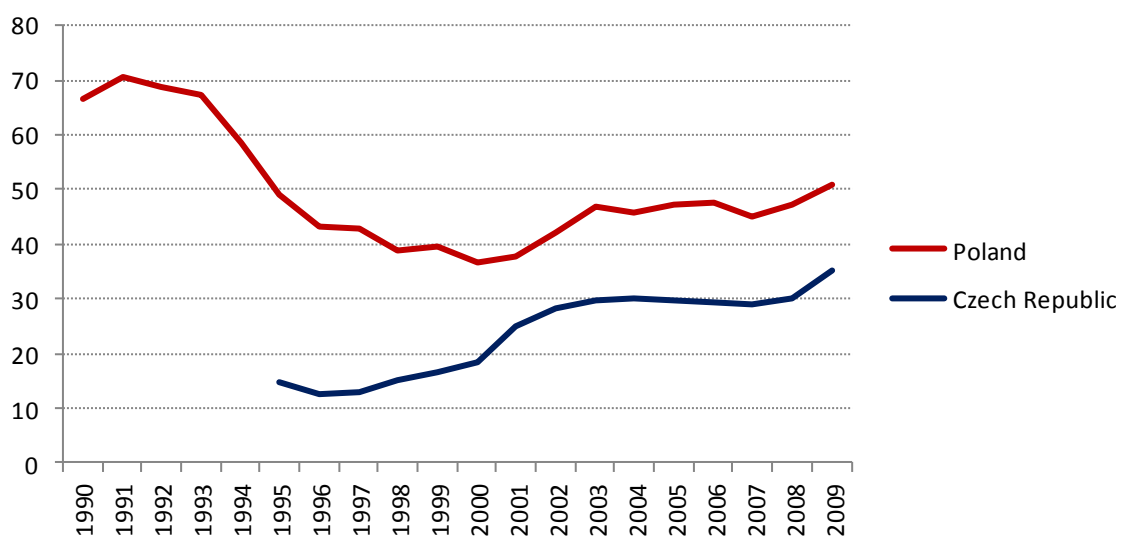
Figure 7.1 IMF and World Bank Flows in million USD, 1990-2005



Source: Abbas et al. (2010)

Given the IFI's higher financial involvement in Poland, it is generally assumed that the activities by the IMF and World Bank in Polish domestic affairs have been more pronounced and influential than in the Czech Republic. This assumption can be confirmed by the fact that Poland's public debt has indeed been excessively higher and made the country more dependent on external funding than the Czech Republic which never relied in the same way on external financial support and advice, demonstrated by Figure 7.2 below. Poland had a severe debt crisis in 1994 and defaulted in October 1994 as it was no longer able to pay back its debt in full.

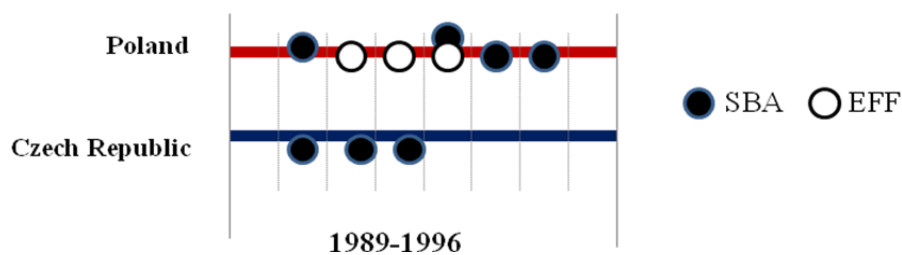
Figure 7.2 Public debt as % of GDP



Source: Abbas et al. (2010)

There are different IMF programmes which have been launched in the two cases. In the first important transformation years 1991-1993, Poland benefitted from the Extended Fund Facility programme (EFF), which includes specific conditionality and commitment with an intensive focus on structural reforms in addition to policies that maintain macro-economic stability, being frequently reviewed by IMF officials in terms of their success. The EFF meant to help countries implement medium-term structural reforms (IMF 2011). As concerns the Stand-by Arrangement Programme (SBA), a more flexible stand-by loan mechanism, this programme was launched in Poland in 1990 and continued between 1993 and 1995. For the Czech Republic, it was only the flexible SBA programme that had been launched between 1991 and 1993, a programme which was rather “designed to help countries address short-term balance of payments problems” and without strong conditionality implications (IMF 2011). Figure 7.3 illustrates the IMF’s activities in the two cases during the first reform period under consideration when referring to the two programmes SBA and EFF.

Figure 7.3 IMF Programmes in Poland and the Czech Republic



Source: Abbas et al. (2010)

Overall, between 1990 and 1998, Poland used fund resources by the IMF to a percentage of 128.6, while for the Czech Republic the percentage was at 11.9, according to the IMF’s MONA database (Mercer-Blackmann/Unigovskaya 2004).⁵ Mercer-Blackmann/Unigovskaya show despite a “high correlation between IFI and an index of reform that these variables are related to a third, unobservable variable such as the authorities’ willingness to push ahead on reform” (2004: 76). On the other hand, they argue that “[o]ne possibility is that policymakers who have the will to reform may find it institutionally convenient to have a Fund program in place as a way of reinforcing their intention and signalling to the outside world that they are serious” (Mercer-Blackmann/Unigovskaya 2004: 77). This is also underlined by *Gomulka* who claims:

“Moreover, to ease the deficit problem, the organization offered to support the Polish case for an import surcharge. However, a package of strong fiscal measures was amounting to 5% of GDP of new tax revenues and expenditure cuts was proposed by the Polish authorities, not the IMF” (Gomulka 1994: 338).

⁵ The Monitoring of Fund Arrangements (MONA database) is an IMF-maintained database used to track comparable data on the economic objectives and outcomes of Fund-supported arrangements. Formerly an internal IMF database, MONA is available on www.imf.org since 2009 (www.imf.org/external/np/pdr/mona/Country.aspx#c964).

Considering the above said, I assume that the potential IFIs' influence was (i) more extensive in Poland in terms of quantity as the IFI programmes and funding covered a longer period of time (5 years) whereas for the ČSFR it was only for three years, and (ii) more intensive in Poland in scope through the programme EFF linked to strong conditionality, whereas this programme was not launched in the Czech Republic. Additionally, the IMF arranged 36 reports and publications on Poland with policy recommendations between 1990 and 1999, compared to only 20 reports on the Czech Republic.⁶

Officially, the IMF's mission is a politically neutral one, concerned with the regulation of the international monetary system and economic policy. Unlike bilateral aid, the IMF's lending is not explicitly linked to fulfilling particular political conditions. However, the negotiations are far from political neutrality as their economic implications influence the domestic political debate and have important spill-over effects on other policy fields, among them the labour market.

At the same time, the IMF agreements are open to involvement from the national governments as the voting among the IMF's board of managing directors is weighted according to a country's financial contribution to the Fund (Bjork 1995).⁷ The IMF engaged especially with loans that were provided with an arrangement stipulating specific policies and instruments in order to launch reform programmes with the aim to solve payment difficulties. In this context, the IMF and the World Bank have been developing policy recommendations not only referring to macroeconomic and financial affairs, but to various policy fields, among them structural reform aspects concerning social and labour market policies.⁸

Based on ideological motivation, the IMF has sometimes explicitly, sometimes implicitly influenced the social transformation process in the context of a universal neoliberal paradigm. Even if the IMF never included social policy related clauses in its loan agreements, it triggered reductions in social spending through budget balancing measures. Accordingly, loans were partly linked to the implementation of mandatory residual and privatization strategies as well as to liberal cost-effective and residual social policies. But how extensive has the actual external influence and coercion by the IMF been compared to the domestic freedom of choice? *Spieser* argues "that the constraint that the IMF support imposed on government reform programmes may not have been overbearing, especially when the domestic elites already had a clear vision of necessary reforms" (*Spieser* 2009: 158). However, even if one could claim that the content and long-term goals of the social policy programmes naturally were in the hands of Polish and Czech elites, the IMF tended to impose its own macroeconomic indicators of performance to monitor reform. Apart from that, in times of a critical juncture and rapid transformation dynamics, it is questionable in how far decision-makers were able to develop "a clear vision of necessary reforms", as

⁶ See www.imf.org/external/country/index.htm.

⁷ As a consequence, the IMF's relationship to a country is twofold: on the one hand, the decisions and negotiations with the IMF are affected by the domestic political context, on the other, the domestic political context is obviously influenced by the IMF activities, "particularly in those cases where the economic merits of a nation's policies are debatable or uncertain" (*Bjork* 1995: 1).

⁸ This is not a specialty of the transformation in CEE, but a phenomenon which has also been observed and described for Latin America (*Spieser* 2009: 158).

argued by *Spieser*. As a result, I argue that the target countries' receptivity in terms of not only financial support, but also concerning the transfer of ideas and new policy paradigms could have strengthened the IFIs' power position vis-à-vis Poland and the Czech Republic.

The IMF and the World Bank in Poland: According to *Bjork*, many Poles throughout the 1990s claimed that the country's government had a relationship with the IMF characterised by domination and an attitude by the IMF "being that of a superior towards a subordinate" (Bjork 1995: 1). The author argues however that most of the macroeconomic programme and reform activities can be more accurately traced back to domestic Polish economic imperatives and political factors. To the author, the relationship between Poland and the IMF was rather that of a transnational alliance which had successfully lobbied other actors such as Polish constituencies and Western creditor governments to achieve common goals. In cases of disagreement between the IMF and Poland, the country would have had been far from forced to implement the IMF's recommendations, but instead used economic and political arguments to influence the Fund (Bjork 1995). In the following, I will discuss if this perception can be confirmed and in how far there have been asymmetries in the political power structure between Poland and the IFIs.

With the system collapse, it became a political imperative in the West that bilateral financial aid had to be provided immediately. US President *Bush* at that time proposed debt rescheduling and a lifting of trade restrictions. *Bush* approved the idea of using the IMF as a 'gatekeeper' for the Western economic aid in a speech before a World Bank and IMF meeting in 1989. This cross-conditionality⁹ implied the benefits of maximising control over domestic policies while guaranteeing monitoring of the foreign aid's implementation. His proposals were received with great enthusiasm and as a consequence a package of 1.2 billion USD in assistance to CEE was approved by the Senate, of which Poland should receive the highest share (Bjork 1995). At the beginning of transformation and with the first aid package, a broader economic conditionality was absent. However, excessive wage increases and irresponsible monetary policy in Poland were increasing inflation and the budget deficit amounted to high figures – both developments brought up a dilemma as the Polish reform process and economic programmes did not fulfil IMF standards. The options in such a case were either to do nothing until the standards were finally met, to water down the IMF standards, or to lose the bilateral aid from the IMF requirements. How did domestic actors try to combine requirements politics and the logic of economics? First of all, Prime Minister *Mazowiecki* accepted the challenge of cross-conditionality and immediately launched the *Balcerowicz* programme as was described above in this dissertation. Interestingly, it was in particular the Solidarność leaders, *Lech Wałęsa* and *Jacek Kuroń*, who pushed for liberalisation: "While these leaders' trade union background made austerity measures unpalatable,

⁹ Cross-conditionality in this context refers to the practice of combining World Bank-related programme conditions and IMF programmes and vice-versa.

their decade-long championship of ‘the market’ and integration with the West steeled their commitment to IMF-style reforms” (Bjork 1995: 3).¹⁰

The *Balcerowicz* programme matched the IMF’s expectations, while the only critical remarks by the IMF concerned the scheduling of the measures. The Polish case was the first industrial command economy transforming to a capitalist market economy and apparently, even IMF experts were insecure about the ideal method and process for economic transformation. The IMF’s great support of the shock therapy provided the Polish government with high credibility and the window of opportunity to launch certain exceptional reforms which would probably not have been legitimate without this international backing.

One can expect that a country which is bargaining with the IMF only implements the degree of reform necessary to be able to receive continued funding. It is a difficult question to answer whether Polish decision-makers would have launched the *Balcerowicz* programme without conditionality by the IMF. Without doubt, Poland was interested in a continuation of foreign financial aid and Polish actors aimed at convincing international actors that their aid was not only leading to success, but was also a precondition for a successful transformation.

The fourth Polish/IMF SBA (1994/1995) was linked to a debt-reduction agreement, this time with private banks represented by the London Club.¹¹ To implement the agreement, Poland received 1.9 billion USD, of which 0.9 billion were provided by the IMF and 0.4 by the World Bank. In terms of conditionality, the long-delayed mass privatization programme for 444 large enterprises and a politically sensitive change of the pension indexation rule were required by the IMF.¹² Even if the reforms were given the status of important benchmarks, the pension reform was held up and led to noncompliance with these conditions, a failure that was interestingly overlooked by the IMF (Gomulka 1994: 339f.). This situation can be interpreted as a combination of a powerful legacy (universal pension system) and the dominating power of the Polish actors’ interests over those of the IMF.

The World Bank provided 360 Million USD with the precondition of a signed contract with the IMF, which provided 700 Million USD per year (Bjork 1995). At the same time, long negotiations started with the objective of reducing Polish external debt and good relations between Poland and the IMF served as a key argument for the reduction combined with the demonstration of compliance with IMF goals.¹³ These negotiations and the claim for debt relief were even publicly supported by the *Pope John Paul II*, and finally led to a halving of the Polish external debt.

¹⁰ In the turbulent times during and after the system collapse, *Solidarność*’s surprising passion for capitalism was a rather naive one, but as it had quickly become a political actor it was too close to leadership to abandon it later on.

¹¹ The London Club is an informal group of commercial banks.

¹² This rule implied linking periodic adjustment not to wage developments, but to a consumer price index.

¹³ Polish external debt amounted to 39 Billion USD by 1989 (Bjork 1995). In 1991, an international compromise was agreed upon that implied 50 percent reduction, during a visit of *Lech Wałęsa* in Washington DC, the US promised another 20 percent in addition. It is obvious that Poland was thus highly interested to maintain good relations with the US and also to with the IFIs as they have known already during communist times that financial support was highly depended on the US vote.

Even if public discontent with the *Balcerowicz* programme was increasing, Polish policy-makers did not abandon the economic programme highly promoted by the IMF.¹⁴ As *Bjork* emphasises the “crucial difference in Poland’s case was the willingness of both the IMF and the Polish government to make sacrifices in the interest of keeping Poland on the path of liberal reform” (Bjork 1995: 10). Parallel, the IFIs through countless studies, various seminars, public relations activities and the public debate engaged as policy entrepreneurs in the maintenance of the liberal reform path (Grimmeisen 2004: 27). Throughout the 1990s, Polish governments bargained with their citizens, the IFIs and foreign governments and banks, often resulting in a chaotic and inconsistent social policy reform path due to the complicated actor constellations and distribution of power. The IFIs’ influence came upon the conflict between the incriminated elites and followers of the old regime with the new democratic forces, leading to conflicts of interest which explain to some extent the political instability and the zigzag course of social reform (Bertelsmann 2003).

The IMF’s function as a gatekeeper and approval of the liberal path certainly helped Polish reform actors to push through their preferred economic programme even against social resistance. As a consequence, the relationship between the IMF and Poland supported a social transformation characterised by a fairly market oriented path. Despite clear conditionality and coercive policy transfer as mechanisms of institutional change, the relationship between the IFIs and Poland was not as asymmetrical as has been often assumed and it is thus not adequate to speak only of one-sided policy coercion through conditionality. Instead, *Bjork* describes the relations between the IFIs and Poland as a win-win-situation (1995: 14): Polish decision-makers and reformers were not inevitably dependent to implement the external recommendations, a fact of which they made use several times and showing that in the end, the external influence by the IFIs did not out-perform domestic policies and politics. This is for instance confirmed by the fact that as has been elaborated in Part II of this dissertation, especially at the beginning of the 1990s, Poland had an extremely high social expenditure due to the compensatory strategies and thus not showed compliance with IMF recommendations, as for instance the massive early retirement was contrary to what was claimed as sustainable policy measures.

The IMF and the World Bank in the ČSFR/Czech Republic: Any straight influence of the IFIs on social and labour market policy making in the Czech Republic remained marginal under the *Klaus* governments: one reason is the fact that the country depended only moderately on the IMF’s financial support, another being the fact that the country followed a rather stable political transformation path and thus not receptive towards a transfer of external policy paradigms. Finally, the IMF’s orientation was quite in line with that of *Klaus*. The successful ČSFR/Czech economic reform programme found early recognition, which is why the IMF’s influence was even less visible: already at the end of 1991, the IMF praised the economic stabilization process of the ČSFR as a ‘unique performance’ (Mauritz 2002: 219). In 1994, Prague had paid 430 million USD to the IMF ahead of schedule and was the only state in CEE with no more debts at the IMF. At the same time, after the ‘velvet divorce’ of the ČSFR in 1992 and

¹⁴ While 56 percent of the population had supported the programme in 1990, it was only 17 percent in summer 1991 due to exploding unemployment and about 9 Million people who found themselves below the poverty line.

until 1996, the Czech political landscape was neither politically divided nor did it face a strong opposition, and decision-makers thus managed to continuously implement the reform programme. However, when the crisis started in late 1996, the IMF began to criticise *Klaus*' government policy and started forcing him to launch two austerity packages in 1997. The direct economic influence of the IMF was only applied in the period of this crisis and the following temporary government. The Czech Republic's negative economic development strengthened the IMF's position and it was indeed involved in the 1997 crisis programme (Keune 2006: 222). However, on the whole, both the IMF and World Bank's influence remained marginal if not absent in the Czech Republic, also because "there was no domestic actor calling the World Bank expertise" (Grimmeisen 2004: 26). In addition to that, *Klaus* was not supporting the idea of considering international expertise by the IFIs, arguing that "reform processes taking place in Eastern Europe are unique, and that it is up to domestic experts who have a better understanding of the country's situation to design and to implement policy reforms" (quoted after Grimmeisen 2004: 26). Later on, Prime *Zeman* was much more critical towards the IFIs' policy paradigm than *Klaus* – and as a consequence of the *Zeman* government at the end of the 1990s, the IFIs had lost the rest of their (minor) authority which had already been overtaken by the EU.

Analysis: coercive market oriented policy transfer via the IFIs? Given the dependence on foreign capital, I want to pinpoint the partially weak situation of the transition countries' governments, opening up a decisive negotiating position for external experts due to the combined need of a transfer of knowledge and funding: accordingly, the IFIs had a pressure potential to influence the design of economic and social policy in the reform countries. However, contrary to *Götting* who claims that external pressures on policy coercion, resulting from the above mentioned dependency ratio, made it difficult for the CEE governments to implement labour market reform measures that did not meet the external requirements (1998: 33), I underline the domestic actors' choice to comply with external conditionality.

The international actors IMF and World Bank certainly depended on cooperation with national governments to implement market oriented reform programmes. Policy transfer was thus profoundly determined by the domestic situation of the concerned country and its willingness and political receptivity for external advice and policy transfer. The IFIs' liberal influence has been without doubt higher in Poland than in the ČSFR, remaining subordinate in the latter case as the country did not show any outstanding need for external advice nor did it provide a window of opportunity for policy-engineering by the IFIs. Greater windows of opportunity for external policy transfer open up in a situation where coherent national reform strategies are lacking. In a similar way, *Leibfried/Pierson* argue that supranational solutions are aspired in a situation when national solutions fail and societal dissatisfaction threatens the governments' popularity (Leibfried/Pierson 1997: 89).

On the whole, a market oriented influence by the IFIs can be confirmed for Poland especially influential during the first reform period (1989-1996) and based on a combination of coercive policy transfer via the IFIs based on conditionality with loan-connected policies and a domestic setting which also showed

to be receptive vis-à-vis the transfer of external paradigms as for example the introduction of a flat-rate as income replacement in case of unemployment.

Even if we find that Poland and the ČSFR/Czech Republic continue to direct most resources towards social insurance schemes, Poland increasingly introduced targeted social benefits towards needy population groups which the IFIs had clearly pushed “in a residualist and privatizing direction” (Deacon 2000: 147, cf. also Brusis 1999: 83). At the same time, we find an increase in privatisation, flat-rate schemes and decentralisation more in Poland than in the Czech Republic. Workfare, means-testing and in-kind benefits have found access in both countries while the benefit level has been different throughout the 1990s: the ČSFR/Czech Republic used to pay higher benefits and had more generous eligibility rules when compared to Poland; this picture has however changed by now.

The World Bank changed its strategy of merely emphasizing economic growth (as it had done in the 1980s in Latin America) towards a support which took into account the combat of poverty during economic shocks.¹⁵ However, means-testing and targeting were the main principles of social protection as promoted by the World Bank. The Bank’s activities had an emphasis on (i) means-testing and social assistance in order to combine equity and efficiency, (ii) the local level and decentralisation schemes of social assistance with the objective to increase efficiency linked to increased responsibility of the involved personnel and clients.¹⁶ Finally (iii), it showed to be in favour of in-kind over cash solutions with the aim to minimise misuse. It is however difficult to evaluate the Bank’s impact in the context of a direction that social transformation should take: on the one hand, it emphasized labour intensive growth and was worried about the low level of minimum wages potentially conflicting with social assistance benefits and a lack of motivation to take up employment. On the other, the Bank promoted an adequate level of benefits and the need to fight hyperinflation. It is however quite clear that the Bank suggested reforms mainly directed towards a residual model, scaling back traditional insurance schemes and universal benefits to replace them with means-tested and targeted measures, supplemented by private initiatives. *Deacon* underlines: “The bank remains firmly opposed to linking benefits to work, seeing the break from this tradition as the key to unlocking the country from the old order” (Deacon 2000: 146).

To conclude, it can be confirmed that the IFIs left ‘traces’ in terms of market oriented elements during the first reform period (1989-1996) based on their consulting services and lending policies.¹⁷ The IFIs’ influence is visible to a higher degree in Poland than in the Czech Republic due to the stronger receptivity and need for foreign money and advice given the political predisposition framework, marked by political instability and indebtedness. Even if both countries introduced means-testing and social

¹⁵ The Bank continuously attempted to define an appropriate poverty line among CEECs, but advice given by the particular experts varied across the countries due to the actors’ views on the particular situation in the country.

¹⁶ In this context, the Bank promoted solutions like certain grants conditioned on local payments.

¹⁷ Examples are the introduction of co-contributions in health insurance, the crucial expansion of private education, the introduction of means-testing and residual strategies of former universal family benefits, the flat-rate of unemployment benefits, the three-pillar pension model introduced in 1999, or the decreased spending on social assistance despite rising unemployment, due to the IMF’s supervision activities since 1991 as well as World Bank recommendations (Golinowska 2000: 227ff.).

assistance approaches, Poland more than the Czech Republic decentralised and introduced in-kind solutions. The socio-political *leitmotif* of social transformation included means-testing, the residualization of services, a targeted allocation of benefits, privatization, the liberalization of employment protection, individual provision, and not least the establishment of a low-wage sector and the abolition of minimum wages (World Bank 2001).

At the same time, external advice and pressure by the IFIs has not always led to a coercive transportation of external paradigms to the domestic context, but depending on the country-specific conditions, some of the external ideas were framed and domesticated according to the actors' preferences. While the next section will show that the EU lacked determination due to its structure of multi-level governance, the activities of the IFIs were however more systematically implemented. Thus, by contrast to the IFIs which have ensured the implementation of certain fiscal policies combined with concrete social policy measures in order to promote the introduction of residual protection against unemployment, the introduction of flat-rates or privatisation measures, the EU's influence on the emerging labour market regimes has maybe been less concrete – but no less existent.

7.2 The EU: the Janus-faced Europeanization of welfare regimes

In the context of the EU's Eastern enlargement, an unprecedented influence on the restructuring of domestic institutions and public policies in CEE was exercised due to the combination of these countries desire to join the EU with the high number of rules and procedures connected to the goal of membership (Schimmelfennig/Sedelmeier 2007). The rules and procedures set by the EU became more binding and stringent with the candidate countries approaching it.¹⁸

When looking at processes of Europeanization from a rationalist perspective, authors claim that domestic actors lose their influence in favour of EU impact with the beginning of the accession negotiations (Schimmelfennig/Sedelmeier 2007). The logic of consequence would be the basis for EU conditionality with its core mechanism of a bargaining strategy of reinforcement by reward, and with the EU providing external incentives for complying with EU standards. This model assumes actors to be strategic utility-maximizers interested in maximizing their power with the reward of membership if the candidate complies with the conditions and without any sanctions in case it does not.

As *Schimmelfennig/Sedelmeier* argue, the focus of conditionality has shifted from general democratic norms towards more specific EU rules as soon as the accession negotiations had started. The CEECs' wish to 'join the club' would have implied the consequence of an asymmetrical interdependence between the EU and the candidate countries. Accordingly, the authors claim that

“CEEC governments often adapted EU rules in line with domestic requirements, some broad perception of a European model or mixed EU rules with other models. However, once a given issue area became subject to the EU's conditionality, rule adoption increased dramatically and became a consistent feature across countries and issue areas” (Schimmelfennig/Sedelmeier 2007: 92).

¹⁸ After the year 1996, when Poland (1994) and the Czech Republic (1996) had both applied for EU membership, the European Commission regularly monitored and evaluated the political development and progress in the candidate countries.

Without doubt, EU conditionality has been the most obvious form of pre-accession influence on the CEECs.¹⁹ The task of adopting about 80.000 pages of EU law into domestic law has certainly deeply affected the policies in CEE in forms of Europeanization.

Börzel/Risse, following assumptions of rational choice institutionalism, support the argument that Europeanization is mainly about the ‘goodness of fit’, saying that policy and institutional change at the national level occurs if discrepancies between EU requests and the local situation exist (*Börzel/Risse* 2003). According to the authors, Europeanization causes a ‘misfit’ due to an incompatibility between European and national policies. This ‘misfit’ would trigger a need for adjustment and thus set off processes of compliance. In this situation, some domestic actors are provided with “additional resources to exert influence, while severely constraining the ability of others to pursue their goals” (*Börzel/Risse* 2003: 64). It is certainly true for the accession process and the social transformation in the CEECs that there has been a discrepancy between the EU guidelines and national policies in a dynamic setting where some actors gained importance while others lost influence.

However, I argue that neither the mere reference to conditionality nor the ‘misfit’ argument are adequately capturing the EU’s impact on the social transformation in CEE due to the limited binding obligations in this field and the EU’s lacking competence to require a ‘fit’ of domestic policies with EU standards. As an example, the Copenhagen Criteria have been prerequisites of membership and required to incorporate the *acquis* into national legislation, but were, according to *Spieser*, limited in a way when it comes to the welfare state:

“Whether and how conditionality is likely to operate in the area of social and labour market policies is less straightforward to identify, because, with the exception of rules related to the free movement of workers across the EU, European legislation on these issues is meagre and not all existing provisions are binding as such” (*Spieser* 2009: 107).

Apparently, we have to consider arguments which draw not only upon rationalist assumptions, but rather refer to the multi-level structures and dynamics in which domestic networks are embedded, leading us to questions about the ideological basic principles of policy learning and bottom-up processes of domestic change. The literature emphasizes that collective policy learning and borrowing increases in case of perceived policy proximity (see i.e. *Cerami* 2006, *Borchert* 1998: 170f.), as illustrated by the wish to access the EU: the ideas for the architecture of the institutions have been mostly imported by means of institutional borrowing from Western Europe. It is here that the concept of ideas, interests and institutions contributes to explaining learning processes in the EU context as the

¹⁹ *Zaborowski* argues that the EU impact on CEECs cannot clearly be labelled a process of Europeanization since European integration was just one element of the post-1989 call for a ‘return to Europe’ and thus more referring to a dynamics of ‘top-down’ influence of the EU on its future member states (*Zaborowski* 2005: 24). However, I will refer to the term Europeanization as I argue that the social dimension represents a field which is not subject to ‘top-down’ policy transfer since the EU has only limited competences in this area.

genesis and development of new policy ideas has been directly connected to the classification of interests (Cerami 2007).²⁰

It is essentially important to mention that the accession countries did not participate in previous debates about the intended developments regarding EU strategies and policies that they had and today have to implement into national legislation. In contrast to the ‘old’ member states, the ‘new’ members joined a club whose rules had already been set by others. The ‘new’ member states have thus not been among the constituent units which, in the framework of policy learning approaches, limited the input legitimacy of the object of learning. On the other hand, particularly in the field of social transformation, the EU-induced transformation benefitted from a sort of legitimacy premium that made EU rules more attractive than solutions developed on a strictly national basis, irrespective of the question of appropriateness to the local situation (Spieser 2009: 162). As the economy and workforce in the ‘new’ member states however radically differed from the situation in the old member states, also the process of Europeanization differed when compared to Western European states.²¹

Bottom-up dynamics based on soft policy transfer by means of social learning and policy diffusion have shown increasingly influential in the area of the labour market which is a field with limited EU competences. While the EU’s conditionality remains powerful in some policy areas, its impact remains limited as concerns the regular institutionalisation of EU rules and norms. Convergence on the one hand lacks the sanctions of conditionality, but on the other represents a deeper form of external influence as it is possibly more sustainable, stressing also the role of the recipient of external influence and ideas. Despite procedural convergence, Poland and the Czech Republic have not converged with EU procedures at a substantial level, even if a common language and ‘EU profile’ was developed, for example as concerns the implementation of best practices in labour market policies and programmes. However, this has not impeded the EU to continue postulating its social and labour market agenda which I call ‘Janus-faced’ as it is characterized by ambiguity: it emphasizes normative objectives as social protection and inclusion, employment promotion, labour market regulation and an effective social dialogue while the empirical evidence in many member states shows rather contrary developments characterized by trends of social exclusion, increased labour market flexibility and deregulation as well as ineffective social dialogue (Eurostat 2009, 2010 and 2011).

7.2.1 EU objectives and instruments in the field of social and labour market policy

As concerns the field of social and labour market policy, of particular interest for the dissertation is Chapter 13 of the *acquis* which deals with the area of employment and social policy.²² Despite the EU

²⁰ Taking the example of the EES as an example of bottom-up learning, the strategy follows a less neoliberal perspective towards labour market issues than for example the IFIs do – even if it has often been argued that the OMC is following the logic of competitiveness and is emphasizing economic before social matters (Scharpf 2002).

²¹ As an example, the EES and its implementation by making the strategy operational at domestic level was agreed upon by the involved ‘older’ member states, meaning that they knew and agreed to what they are implementing today. For the new member states this strategy corresponded to an external policy model whose implementation is thus a form of institutional policy transfer.

²² The social policy *acquis* may be divided into five main areas: health and safety at the workplace, labour law (including equal treatment of men and women), European social fund, European employment strategy (in the frame of the OMC), and social dialogue (Leiber 2005). The following elements are included: directives on occupational health

regularly stressing the importance of the social dimension and improved labour market performance and particularly engaging in the field employment promotion and social dialogue, it is surprising that only one chapter dealt with employment and social policy (Keune 2006). In the pre-accession process, this area was touched by binding legislation in the field of equal opportunities, the fight against discrimination, social dialogue, safety and health. Other policy provisions were only soft rules and recommendations as the above mentioned EES or the European Strategy on Social Inclusion²³, comprised by the OMC.

Social policy as a community public policy has remained questionable and has for a long time only achieved meagre results on the EU level, lacking a clear definition of a European Social Model.²⁴ What we find instead is evidence of conflict between economically and socially oriented actors. The first group prioritises market integration and market oriented solutions, while the latter group emphasises a strong interdependence between economic and social performance and favours an increased coordination of social policies. However, even socially oriented actors face the fact that “the EU social policy is strictly regulatory; it does not involve any redistributive or distributive dimensions. In other words, the EU does not constitute a welfare state; its social policy does not generate welfare expenditures” (Sissenich 2005: 158).

On the other hand, it is an undeniable fact that European countries are undergoing a process of Europeanization also in the field of social policy. There exist specific instruments and mechanisms which have contributed to a growing EU involvement in the field of social protection (Leibfried/Pierson 1995, Palier 2006), among them the promotion of social dialogue, the financial instrument of European structural funds (e.g. the ESF) as concrete instruments for policy actions. Above that, according to *Spieser*, we find particularly selected policy fields mirroring an increased EU authority

“both on its own initiative via entrepreneurship of either the European Commission or the Council (e.g. in the case of gender equality legislation, immigration, or the promotion of social dialogue), and as an indirect effect (spillover) of further integration of the internal market (in the case of policies of redistribution toward a certain regions or sectors, or equal treatment in national welfare systems, for instance). Three types of force have thus reduced the autonomy of national welfare systems: positive activist social policy initiatives pushed by the European Commission and the Council, the judicial imposition of market compatibility and equal treatment requirements by European Court of Justice (ECJ) case-law and a general process of Europeanization” (Spieser 2009: 160).

These processes of Europeanization are leading to a variety of pressures not necessarily legally binding, but nonetheless strongly encouraging national welfare states to adapt their social and labour market policies in order to avoid negative consequences of economic integration. Within this context, the EU

(Art. 118 TEC), on equal treatment of female and male employees (Art. 119 TEC), on the European workers' councils and social dialogue (Article 118b TEC), on the rights of migrant workers, and on the Social Charter and the Social Protocol of the Maastricht Treaty.

²³ Cf. www.eurofound.europa.eu/ewco/2009/06/EU0906019I.htm

²⁴ The European Commission's 1994 White Paper on social policy (COM (94) 333) described a European Social Model in terms of values that include democracy and individual rights, free collective bargaining, the market economy, equal opportunities for all, and social protection and solidarity. The model is based on the conviction that economic progress and social progress are inseparable (see www.eurofound.europa.eu/areas/industrialrelations/dictionary/definitions/EUROPEANSOCIALMODEL.htm).

has a ‘soft’ and ‘hard’ influence on member states and those applying to become members, not only with laws that have to be implemented in the common policy fields, but at the same time through interactions between actors in the domestic policy-making arena (Schimmelfennig/Sedelmeier 2005).²⁵ When looked at from an international comparative perspective, EU member states appear to be in favour of a basic decommodification and intervention while not exclusively referring to the common market's needs. In fact, the state's active role in welfare policies of most member states supports the argument that social cohesion represents an integrated objective of European welfare policies. Some authors even argue that the ‘European way’ demonstrates outstanding approval of a social contract among European societies (Opielka 2006, Larsen 2005). Accordingly, the communicated EU objectives encourage national reforms in the field of poverty, social inclusion, health, pension, employment and education.

However, the social dimension of European integration turns out to be Janus-faced and it simultaneously compensates economic and social thrusts as it generates them. As mentioned already, advanced economic integration leaves behind a clear strengthening of EU's competencies in social policy, preparing the ground for a perceived widening asymmetry between the EU's social and economic dimension. This asymmetry holds crucial consequences for the constitution of European societies, entailing societal fears and critical attitudes towards further European integration.

On the one hand, *Inglot* emphasises that the EU's legal culture by itself creates a counter-trend to neoliberalism while it would also provide opportunities for pressure groups and usually less influential civil society groups to seek more social protection and rights (Inglot 2009: 94). On the other hand, *Pavel Janicko*, social policy advisor to the ČMKOS, criticizes sharply that the Lisbon Strategy would not pay attention to the social dimension, lacking for instance a passage concerning the role of the social partners, any recommendation on ALMPs or a remark on the required increase of minimum wage levels (Janicko, ČMKOS, interview in 2011).

As the EU's legitimacy is based on the separation of efficiency and redistribution, consequently, the EU will predominantly engage with social policy to the extent that it is efficiency enhancing. Instead of decommodification, *Golinowska et al.* argue that the agenda of a ‘Social Europe’ is more about

“optimizing the adjustment of social protection systems to market forces and fiscal constraints, and about facilitating ‘recommodification’ of the labour potential of persons who are threatened by social exclusion which is understood primarily as exclusion from the labour market” (Golinowska et al. 2009: 299).

On the other hand, it is widely shared that European countries will not be able to compete on the price of products or labour due to low wages, labour market flexibility and low social protection, but on the quality.²⁶

²⁵ The ‘hard’ binding framework legislation mainly concerns the free movement of workers, workers’ rights, non-discrimination and gender equality, as well as occupational health and safety. The ‘soft’ coordination of social legislation generates from European strategies and focuses on harmonizing member state policies.

²⁶ In this respect, European challenges - coping with globalization and its wide range of consequences like technological revolution, shrinking work in industry or migration - require greater elasticity as well as high and constantly upgraded

When it comes to the policy transfer of EU objectives to the accession countries, *Kohl/Platzter* claim that the EU has been particularly influential for social transformation paths in CEECs in terms of its promotion of full employment policies and the strategy of minimum social standards – both can be interpreted as a combination of Beveridge and Bismarck arrangements, melting corporatist with conservative-liberal social policy (Kohl/Platzter 2004). These policies appear undecided upon the issue of de- or recommodification as the objective of full employment can indicate both of them. By means of activation, citizens might become even more dependent on participating in the market to any conditions, at the same time, state subsidies, employment programmes and improved labour market conditions might reintegrate (unemployed) citizens as an effort to reduce the citizen's reliance on the market for inclusion. In addition, corporatism in terms of a co-operation of the social partners and industrial relations as an important structural basis of EU social policy appears to be a relevant indicator for the character of social transformation in the transition countries.²⁷ Finally, the EU emphasizes the importance of social inclusion in European societies as core objective of social and labour market policies. In order to promote the above mentioned objectives, several bottom-up instruments have been developed of which I will present the OMC with the EES below.

The OMC and the EES: One important example of Europeanization as a factor of influence through bottom-up policy learning is the OMC and the EES. It is interesting to mention *Schüttpelz* who describes the OMC as a post-regulatory approach to governance, characterised by favoured standards and procedures whose implementation however provides much space for variation instead of clear and binding rules (Schüttpelz 2004). At the same time, *Orenstein* identifies a positive effect on the Central Eastern EU members when compared to post-socialist countries without an accession perspective (Orenstein 2008, Potůček 2009: 37ff).

The EES is one instrument of the OMC and as a part of the *acquis* it had to be implemented in the candidate countries, based on the annual benchmarking of member states policies through *National Action Plans* (NAPs). What are the main characteristics of the EES? It is (i) a tool for labour market regulation, (ii) it focuses on employability, meaning a supply-side approach, and (iii) it promotes the cooperation of different actors on different levels and has no clear budgetary dimension, but rather focuses on good practice and mutual learning (Schüttpelz 2004). The EES does not directly change the institutional structures of the member states, but promotes certain values that in the long run might trigger beliefs and ideas in the concerned countries focusing on ten labour market policy guidelines, touching especially on the following areas: promoting the adaptability of employees and employers, enhancing flexibility of employment contracts, measures to increase labour market participation of women and elderly workers, creating a new balance between taxes and social benefits as well as emphasizing the need for lifelong learning (Becker 2004: 138). As *Cerami* argues, “of course, official

qualifications of the workforce. Maintaining high levels of employment thus also depends on a country's readiness for change and ability to adapt its production.

²⁷ The Commission emphasized that those countries with the most comprehensive policies of social protection and social partnership had been by far the most successful in economic terms. They would need to reinforce and improve the coverage of their industrial relations systems to become more effective and contribute to the achievement of economic, technological and social objectives (Kohl/Platzter 2004: 30).

statements are not automatically translated into real policies, but the role that ideas developed at the EU level have had on national policy outcomes should not be underestimated” (Cerami 2007: 7). The author emphasizes that it is especially the normative harmonization of social security reforms which has been shaped by Europeanization, entailing a common language, vision and objectives, corresponding to keywords such as ‘activation’, ‘making work pay’ or ‘workfare’ (Cerami 2007).

The EES-promoted paradigm of lifelong learning functions as an instrument to receive funding from the ESF and thus supports compliance with EU objectives. Finally, the EU budget provided for reform projects in the candidate countries was the object of supervision by international actors evaluating how the money was spent. Thus, a direct and indirect monitoring could have been observed which was necessary for compliance with EU objectives (Cerami 2007, Schüttpelz 2004).

As concerns social inclusion, the EU was in favour of wide-ranging and all-embracing policies. It is here that the new member states have been called to express their targets in accordance to national and EU priorities (Cerami 2007).²⁸ I argue in line with *Nedergaard* that the EES has the potential to trigger learning processes due to its institutional design, being based on frequent interactions of committees which meet regularly. Above that, there is a presence of authoritative persuaders with analytical capabilities and experience, demonstrating the need for reform in the EU member countries in the context of a successful labour market policy (Nedergaard 2006).

To conclude, regarding the EU’s OMC and EES as instruments to promote activities in social and labour market policies, they are mostly characterized by multi-level governance because they involve coordination across different levels (supranational, national, local/regional level). Consequently, the different actors involved tend to form coalitions sharing similar interests. These processes turn out to be more a result of peer pressure and actors’ strategic behaviour and can be framed by the concept of policy learning.

By what means has the EU influenced domestic change in the accession countries, more concretely in Poland and the Czech Republic, before their accession? The EU did not push the implementation of the European Social Model as it was clear that the necessity of economic growth dominated at the expense of welfare state expansion, while at the same time that EU methods like the OMC did not provide tools powerful enough to trigger coercive policy transfer and EU compliance in CEECs (Cerami 2007).

7.2.2 Procedural impact of the EU accession process

The OMC is not the only EU instrument for ensuring compliance with EU rules: the *Reports on Progress towards Accession* had the objective of evaluating the countries’ reform process and to point to best practices. These reports were launched from 1998 onwards and as already mentioned, they referred to only one chapter of the acquis, Chapter 13 on *Social Policy and Employment*, which directly focused on the efforts and results in the candidate countries concerning this policy field. The reports provided recommendations which even if they looked soft and non-binding saying that “there are no legal obligations to implement precise policy measures”,²⁹ could however imply negative

²⁸ The reference texts are the *National Plans on Social Inclusion*.

²⁹ See the European Commission “Enlargement archives”: ec.europa.eu/enlargement/archives/enlargement_process/

consequences for the development of the accession negotiations and EU funding. The EU thus had two general but powerful instruments to ensure that the policy targets were fulfilled: the accession negotiations and decision regarding the date of accession, and the financial support provided for the acceleration of the reform process and the preparation of accession (Schüttpelz 2004).

Even if in total the budget available for institutional reform was limited, the EU's role in institution-building in Poland and the Czech Republic has been essential. As an example, *Cerami* summarizes the effects of the Poland and Hungary Assistance for Reconstructing of the Economy (PHARE) activities:³⁰

“In fact, a brief look at the PHARE *Annual Evaluation Reports* available from 1994 to 2004 shows an innumerable number of projects sponsored and co-financed in all countries in the most disparate areas of social protection, including: (a) the implementation and strengthening of administrative capabilities in sectors related to safety at work; (b) gender equality; (c) employment promotion; (d) the management of health, pension and employment funds; (e) the modernization of social assistance and labour offices; (f) the correct development of business and tripartite relations; and (g) the re-enforcement of administrative capacity for the future management of Structural Funds” (Cerami 2007: 10).

As soon as actors on the regional or local level launched projects which were financed through EU funds, European concepts were more likely to be publicly grasped. *Sirovatka/Rakoczyova* call this phenomenon a ‘dualisation of language’ of public administration, recognizing the EU concepts for the implementation of projects while on the other hand not internalizing them. Some professionals and experts have shown high commitment in terms of policy learning while political representatives and actors on lower levels merely administer. These learning processes are however often accompanied by low political commitment revealing a conflict between supranational ideas and interests and those on the national level. Above that, the programmes’ implementation is not always satisfactory and entails a discrepancy between the official legislation and the actual implementation, a so-called ‘performance-gap’ which is due to poor networks and a weakness or even lack of actors and cooperation between them, entailing a policy-making vacuum (Lendvai 2004). Underlying reasons are equally the slow creation of the necessary conditions needed to implement the programmes, the lack of experience in many policy fields and the strong influence of short-term policy priorities (Sirovatka/Rakoczyova 2007: 27). Finally, a legitimacy gap might facilitate rather ad hoc political solutions and an ad hoc political cycle on the local and regional level. Further, when looking at the Central Eastern accession countries, the keywords ‘solidarity’, ‘social justice’ and ‘equality’ do not have the same connotations when compared to Western European countries – it thus has to be noted that the core of the European Social Model partly even delegitimized over the 1990s while the principle of individualism took over as one of the central social values.

The EU regularly monitored and evaluated the accession countries’ progress toward compliance with EU regulations and standards even in domains not falling under ‘hard law’.³¹ Compared to other

³⁰ Institution-building in CEE has been primarily financed through the PHARE programme which was applied in the region from the early 1990s. Taking into account the comparably restricted financial possibilities of the EU when compared to the IFIs, quite impressive financial support was provided in the overall period 1990-2003 with 11.573 Mio. EUR which were directly paid for PHARE projects (Cerami 2007: 9). However, *Lendvai* argues that the PHARE programmes failed to concentrate on the support of social policy reforms or the institutional capacities to promote the consensus needed over possible reform approaches, and was thus misdesigned for the need of the candidate countries (Lendvai 2004: 327).

domains, the number of transposition acts needed in the area of labour regulation was smaller and as expressed in the pre-accession economic programmes, there existed four acts related to labour regulation in 2000, another four in 2001 and three in 2002.³² The accession negotiations for the first Eastern enlargement were closed on 13th December 2002 on the Copenhagen Council; the previous years had been marked by a more technical character of the reforms, paving the way for membership. Membership was made conditional upon good compliance.³³

Regular reports had the objective to assess the progress of compliance with EU standards and represented one of the main vehicles through which the Commission transported their recommendations to national policy makers. The Commission, notably the DG Employment and Social Affairs which coincide with the EES in the field of employment and social policy, played the major role in negotiating with the candidate countries' negotiation teams, ministerial bureaucracies or special ministerial units that had been introduced to coordinate the implementation of the *acquis*. Additionally, a high number of new regulatory agencies were installed in Poland and the Czech Republic, representing another mechanism of institutional change apart from the domestic institutions already in place.³⁴

The transportation logic had a twofold dimension: in some cases, the implementation of the *acquis* into national policies 'only' required to change already existing laws and reform existing institutions while in other cases, where national law had to be transformed in comprehensive ways and the creation of completely new institutions or services was required.³⁵ Particularly in the field of labour market regulation, the first logic has been more common, requiring for instance amendments to existing legislation as concerning the areas of professional diplomas, qualifications, health and safety aspects. Although many of the labour laws and regulations at first hand seemed to be of minor importance for the welfare arrangement as a whole, they were actually very relevant when regarding the requirement of EU compliance with EU law.

Based on these dynamics, the EU accession has strengthened processes of top-down as well as bottom-up policy making in the accession countries, which is why I separate the EU's influence on Poland and

³¹ During the accession process, the *acquis* had to be translated into domestic law and regular reports by the Commission documented the countries' readiness for accession, measured through different variables focusing on the National Action Plans (NAPs) which were monitored and benchmarked in the framework of the system of European multi-level governance. Above that, those countries received financial pre-accession support through different programmes like the PHARE or twinning programmes, later replaced by The Instrument for Pre-accession Assistance (IPA) with the condition of delivering results.

³² The pre-accession economic programmes were EU instruments aiming to prepare the candidate countries for the participation in the multilateral surveillance and economic policy coordination (see http://ec.europa.eu/economy_finance/international/enlargement/pre-accession_prog/index_en.htm).

³³ We have to remember that the incentives for complying with EU regulations have been much greater for the candidate countries than for those countries that were already EU members as those could only be sanctioned after having failed to meet EU standards that are obligatory.

³⁴ In the context of European social policy, key actors are the Council, whose recommendations are a basis for the development of employment guidelines, co-decided with the European Parliament and finally issued to the member states by the Commission. Above that, the different Committees are important: the Economic and Social Committee and the Committee of the Regions, the Employment Committee monitors the national labour market developments and coordinates the Councils' cooperation, the social partners are involved in the formulation of guidelines, and finally an international network of experts and decision-makers like officials from the Commission and member states' representatives are involved (Schüttpelz 2004).

³⁵ To mention an example, this includes the establishment of EURES services at the local level with the objective of supporting workers' mobility in the EU member states.

the Czech Republic into two periods in order to identify its explanatory power as a mechanism of change.³⁶

- (1) The first reform period (1997-2003) and Europeanization through *acquis* conditionality
- (2) The second reform period (2004-2009) and Europeanization through bottom-up policy learning through diffusion

Different from the pre-accession *acquis* conditionality, the post-accession Europeanization is mainly soft, creating opportunities for bottom-up policy formation based on institutional and policy learning, sensitive to contextual conditions and remaining in place also for EU member states which have been members for a long time and are no longer subject to accession conditionality (Sirovatka 2006: 4).

In sum, I argue that the EU has become the most influential external target of orientation with the beginning of the second reform period under consideration with a twofold impact: via voluntary institutional borrowing by ways of policy learning and via coercive influence by means of *acquis* conditionality.

7.2.3 *Between acquis conditionality and national interests*

Poland and the accession negotiations: In 1998, the European Commission recommended opening the negotiations for EU accession with Poland. Altogether, the harmonisation of Polish legislation with EU labour law and labour market policies in the context of the preparation for EU accession set off positive developments in terms of social protection, labour market regulation and social dialogue, indicating rather an influence in favour of decommodification as compared to the market oriented influence by the IFIs. However, it shows that the EU's influence remained limited in situations when EU and domestic interest conflicted: in those areas where the EU could only encourage reforms, but not impose them, compliance with EU standards often lagged behind or even failed.

First of all, during the period of accession negotiations, higher levels of protection were established possibly thanks to the introduction of protection measures for employees which had not been covered at all before.³⁷ Above that, the measures “imposed a backward move on certain aspects of the Labour Code, which had recently been made more flexible (e.g. with respect to the renewal of fixed-term contracts and to consultation and information procedures concerning dismissals)” (Spieser 2009: 213).

Concerning labour market policy, the Commission particularly called for the establishment of stronger incentives for job creation and incentives to take up employment. Additionally, it heavily criticized the performance of the PES in Poland. As a reaction to this, the MPiPS strengthened the role of *voivodeships* and local labour offices through further decentralisation (Fenger 2008). The Commission equally called for efforts to promote the participation of elderly workers in light of the ageing population and the associated pension issue, given the fact that Poland had launched massive early-

³⁶ I am aware that these categories are simplifications, helping to systemise rather than mirroring reality to full extent.

³⁷ This concerned for example equal opportunities, health protection, anti-discrimination acts or temporary work.

retirement measures. According to the Commission, of great importance at that time was also a reform of public administration by shifting from preventive to proactive measures in order to ensure the adequate implementation of policies promoting employment (European Commission 2003a: 47).³⁸ Any programmes of this sort were however only implemented by the Polish government after EU accession in 2004.

As concerns industrial relations and social dialogue, procedures of collective bargaining at company level were not re-institutionalised on the initiative of domestic actors, but more due to the obligation to comply with externally defined norms of EU law, the Directive on Information and Consultation (2002). With the Act on European Works Councils adopted in 2002, the concept of works councils was introduced in Poland, where there were none during the early 1990s because the unions were against the representation of employees in private companies. It is interesting to note that before 1989, *Solidarność* sought to achieve co-management and largely used employees' councils to promote its own ideas under martial law. The union saw co-management in times of democratic capitalism however as an obstacle to economic transition and only 17.6 percent of the unionists voted for the maintenance of the limited number of existing councils (Spieser 2009: 197). Only after the mid-1990s, employees' councils were slowly established as a forum for negotiation and change at a time when the political parties realized that they contributed to a successful transformation. On the other hand, many of these councils were gradually closed as a consequence of the increasing power of privatisation and the management. It was the European Directive which provided the possibility for the member states to choose their own degree of implementation. The struggle about the implementation of the directive continued until 2006, "when the Polish parliament agreed to a 'Polish model' which establishes employee councils also in sites where unions exist, but gives them a strong foothold in the new councils, which are furnished with basic consultation and information rights only" (Bluhm 2008: 71). Even if Poland already possessed the institutional and administrative framework, the Commission claimed the structures of the tripartite consultation to work more properly, with a more effective consultation with the social partners on a wider range of issues in order to achieve concrete results. Autonomous social dialogue was to be further strengthened and promoted, especially at the sectoral, regional and enterprise levels (European Commission 2003a: 46). *Fenger* however rightly states that the EU's call did not lead to an important role for the social partners in the administration or governance of Polish employment policies (Fenger 2008).

Overall, Poland's pre-accession period was marked by conflicts initiated by national-conservative and clerical parties, "which questioned whether and to which extent these conditions [the association agreement] matched Poland's national interests and those of the many small Polish farmers"

³⁸ It was further criticized that the initial target of budget spending rule in 2003, requiring that the expenditure increase in real terms of no more than 1%, was abandoned, after which the Commission expressed serious doubts about the purposefulness of the Polish government to promote the required reforms (European Commission 2003b: 9). Furthermore, the 'anti-crisis' package of July 2002, aiming at promoting corporate restructuring and the creation of jobs brought only disappointing results, even though about 50.000 companies had applied to participate in the programme, which aimed at connecting debt relief to restructuring obligations.

(Bertelsmann 2010a). This controversy is mirrored by Polish parties to this day, for example by the PiS, which does not entirely regard the EU as a project that meets the interests of the Polish state. This situation reflects the inconsistency and the inner conflict within the political landscape. It can be summarized that apart from the *acquis* conditionality which had to be fulfilled as a pre-condition for EU accession, the implementation of EU recommendations in terms of labour market arrangements varied according to the Polish political and economic framework and the actors' conviction over which reforms would be successful.³⁹ The final report on Poland's status quo delivered by the European Commission in 2003 presented two areas where attention and action were identified as necessary: (i), the Commission stressed that the combination of high unemployment and low employment rates represented a key economic problem that the Polish government needed to solve, and (ii), the Commission concluded that the state of the reformed Labour Code was only in parts corresponding to the *acquis* on labour law and legislative changes still remained to be implemented in the area of working time, part-time work, transfer of undertakings and posting of workers (European Commission 2003a). The Commission thus remained critical of the fact that the Polish Labour Code over the years only partially aligned with the *acquis* of the European labour law. Although the Polish government launched comprehensive reforms, the Commission continued to criticise the reform stagnation and slow privatization process in Poland and further reforms were found to be necessary to create an appropriate balance between flexibility and security, to reduce the high tax burden while increasing wage flexibility and further modernizing the systems of education and vocational training (European Commission 2003a: 8).

Accession negotiations in the Czech Republic: In the Czech Republic as in Poland, policy decisions throughout the 1990s were increasingly regarded in the framework of the long-term objective of EU membership.⁴⁰ The Czech parliament reviewed all new economic legislation to check its compatibility with EU regulations. In July 1997, the European Commission recommended opening the negotiations for EU accession. In 1998, the first *Regular Report* was published by the Commission, commenting on the progress of the Czech Republic so far (European Commission 1997, European Commission 1998). It included the Commission's statement that not much progress had happened as concerned the adjustment of labour market regulation and employment to EU regulations (European Commission 1998).

³⁹ As an example, in 2003, the payment of overtime was lowered due to constant pressures from the employers' side and against the backdrop of a prolonged economic recession and growing unemployment. It may be argued that this lowering of the standards was not related to the working time Directive, because the EU rules do not touch upon the issue of overtime payment. Interestingly, however, the opposition of the trade unions could only be moderated by arguing that in EU comparison the Polish overtime payments were extremely high (Leiber 2005). The trade unions – according to a Polish labour law expert – in the end only turned in, because they did not know the EU rules well enough and thus thought such a lowering would be required by EU law (on the negotiation of the reforms in the Polish tripartite commission cf. Czarzasty 2002a; Gardawski 2002b).

⁴⁰ However, *Klaus* always remained sceptical towards the EU: to him, the EU was too protectionist, being reflected by a statist and overregulated structure. At the same time, the road towards EU membership was never questioned and the ODS regarded the Czech Republic as being part of the Western European heritage with an interruption only of socialist years. The Czech Republic presented its application for membership in January 1996, certainly entailing an increasing influence of EU standards on the Czech design of political rules and reforms.

As the beginning of legal adjustment to EU policies did coincide with the change in government in 1998 and a general economic crisis, the EU hence provided a welcomed model for reorientation. The first task to fulfill by Czech actors was basically to write reports which were then monitored and revised by the Commission. The EU guidelines were mainly understood as measures to promote employment creation and the prevention of social exclusion according to the main EU objective of full employment. In addition to the Czech activities in terms of first activation steps and unemployment prevention measures, the country pursued full harmonization of the policies and legislation in the area of employment with the *acquis*. A basic objective of the labour market strategy was to decrease the state's responsibility while increasing the responsibility of the unemployed, the employed, the social partners and NGOs in order to adjust to the new situation. In 1999, a National Employment Plan (NEP) was developed as a medium-term strategy which became an integral part of the overall labour market policy and focused in particular on the strengthening of ALMPs because the Czech Republic witnessed a steady increase in unemployment. Due to the recession and labour market problems, initiatives however also focused on short-term priorities in order to prepare for accession. They focused on reforms of the tax system, benefit and social assistance schemes, strengthening for example the role of the PES. At the same time, since 2001, annual NAPs take into account the latest EU guidelines and aim at adjusting national policies accordingly in order to be able to use funding by the ESF through programmes like the Human Resources Development Operational Programme (Government of the Czech Republic 2004).⁴¹ The NAPs focus on the central ideas of the EES and consequently articulate government activities to promote efficient ALMPs and the development of a more efficient PES.

Due to high economic and political pressures related to rising unemployment and the need for social benefits, public expenditure had increased and a deeper and far-reaching reform of the social benefit system, the pension and health-care schemes, were regarded as crucial by the Commission (European Commission 2003b: 9). In addition to this, the EU called for a strengthening of social dialogue between workers' and employers' representatives in order to progressively increase the number of workers and companies that were participating in collective agreements and social dialogue. Particular attention was to be paid to the development of autonomous social dialogue in the public sector. The administrative capacities of the government and the social partners in this area were to be generally strengthened (European Commission 2003b: 40). With the 2002 EU Directive on Information and Consultation the "Czech model" included the establishment of an employee council in sites with more than 50 employees if no workplace union organisation was present, it has however fewer consultation rights and no collective agreement function, further it has to be dissolved if a union organisation is formed (Bluhm 2008: 71).

As a financial instrument for accession, 15 PHARE twinning programmes had been implemented in the Czech Republic between 1998 and 2002. According to *Schüttpelz*, the country has been by far the most active accession country using twinning experts in the fields of employment and social affairs: "The

⁴¹ As an example, the NAP of 2002 stated that "[a]nother step on the way to implementing the EES in the Czech Republic was the signing of the 'Joint Assessment of Employment Policy' by representatives of the Czech Government and the European Commission on 11 May 2000" (MPSV 2002).

MLSA [Ministry of Labour and Social Affairs, LT] initiated for instance projects to develop the social dialogue, equal opportunities, the preparations for the ESF, the coordination of social security within the EU, occupational safety and health, and social inclusion” (Schüttpelz 2004: 22). However, the knowledge and recommendations provided by the EU twinning experts had always been bound to the domestic context and the national perspective – “and this special perspective in the implementation of certain EU policies is intended and does matter for the policy transfer. So, what is transferred under these circumstances is not a ‘pure’ EU policy, but a certain national interpretation of this policy” (Schüttpelz 2004: 22). As an example, the Czech ESF projects between 1998 and 2002 were realized by British twinning partners, while Swedish partners were involved in the field of equal treatment, and Danish partners were involved in the field of promoting social dialogue. It is precisely here that we find the recombinant character of policy transfer and learning in the pre-accession context, implying that Czech actors were influenced by different national perspectives on labour market policies while reforming their own domestic policies and institutions.

Referring to Chapter 13 of the *acquis*, the European Commission in its final monitoring report (European Commission 2003b) criticized the Czech Republic. It claimed that the government would have to find the right balance between structural reforms of the labour market and the social benefit system on the one hand, and the priorities of employment policy, social integration and education on the other: “Substantial efforts are needed to move towards a more coordinated design and implementation of employment policies, to up-grade the administrative capacity for policy planning and delivery, and to promote the participation of the social partners. There are also concerns about the financial and administrative resources needed to ensure full use of the Structural Funds and of the ESF in particular” (European Commission 2003b: 2). The above critique mirrors that the pace of compliance with EU regulations remained in the hands of the Czech reformers and the country lagged behind in the implementation of EU requirements as reflected by the annual reports by the European Commission (Potůček 2008: 8 and i.e. European Commission 1998). When regarding the results in the light of the declared EU objective of employment promotion, social inclusion and social dialogue, we see some effects on Czech policy-making and positive trends through both coercive mechanisms due to conditionality and voluntary learning through policy diffusion of new ideas. At the same time, apparently, EU influence has been subject to domestication processes with the outcome of only partial compliance with EU standards in case that they could not be enforced by legal obligations.⁴²

⁴² *Michal Boni*, one of the key Polish labour market actors and policy advisor in the 1990s, underlined the influence by international know-how: “We – without experience – could not find own solutions. All ideas concerning the labour market were a revised version of what existed already in the world. [...] In the context of binational contacts we received help from Germany, England, France. Unfortunately, this led to the situation that different regions in Poland followed different patterns. For example, when representatives from a voivodship travelled to Germany they afterwards implemented German solutions to their voivodship. Over the years, we prepared some standards which applied for the whole country. One can say that our system of labour market policy is a mixed system which integrates Western patterns adapting them to Polish reality” (quoted after Firlit-Fesnak 2000: 8).

Analysis of the second reform period 1997-2003: EU compliance vs. national policy solutions. In the run-up to the EU-accession and the negotiated Europe Agreements⁴³, Poland and the Czech Republic implemented measures of adjustment in order to meet the agreements in the field of EU social norms, labour market policy and regulation as well as the modernization of social security. As an example, according to the European Social Charter (Art. 4, par. 1), the lowest acceptable wage should amount for 68 percent of the average wage in a national economy.⁴⁴ According to the Czech ČMKOS, these conditions were interpreted to be fulfilled in cases where the lowest net wage amounted to at least 50 percent of the net national average wage (*Janicko*, ČMKOS, interview in December 2011). However, the empirical evidence presented in Part II of this dissertation shows that neither of the two cases clings to these conditions with the lowest wage amounting to 35.1 percent of the average wage in Poland and 38.4 percent in the Czech Republic.⁴⁵

Overall, chapter 13 of the *acquis* was not politicized at all and did not attract much attention during the negotiation phase, neither in the public nor among the social partners (Leiber 2005). Both countries however launched various labour market initiatives and programmes. Among other things, the Commission accorded so-called Joint Assessment Papers (JAPs) with Poland and the Czech Republic in 2000, under which both countries were to implement first principles of the EES before the accession (Belke/Hebler 2002: 90).⁴⁶ Even if the EES generally had to be implemented only after accession, an Employment Policy Review was based on a first analysis of the challenges ahead and defined the appropriate policies to meet these challenges. The Commission used this report to influence policy-making in the candidate countries at an early stage while leaving much space for the interpretation of the EU's recommendations in this context. Directly after having signed the JAPs, the Commission discussed the main tasks in technical seminars between representatives of the Commission, the different ministries involved, regional authorities, the PES and the social partners from the candidate countries in order to prepare policy action (Schüttpelz 2004). *Schüttpelz* stresses that the report and also the JAPs had the principal objective of fulfilling the *acquis* instead of designing a problem-oriented policy-style (Schüttpelz 2004). The candidate countries were thus confronted with the task of managing the fulfilment of the criteria set by the EU and more importantly to interpret the results and recommendations by the Commission in the correct manner, even if they had not been part of the formulations of these criteria. A relevant obstacle for EU compliance was the sometimes lacking capacity and motivation for consequent and sustainable steps as the 'real' domestic social and labour

⁴³ The Europe Agreements constituted the legal framework of relations between the EU and the CEECs. They were adapted to the specific situation of each country while setting common political, economic and commercial objectives. (ec.europa.eu/enlargement/glossary/terms/europe-agreement_en.htm).

⁴⁴ Relevant labour market aspects of EU social policy are based on the European Social Charter of 1961 and its extended version of 1996 (Poland has signed the former, the Czech Republic signed both) and on the Community Charter of Fundamental Social Rights of Workers of 1989. Both charters rather had a non-binding nature, but were important for the target agreements of EU social policy. The legal basis was the 'social chapter' of the EU Treaty, which transformed the principles of the EU Social Charter into binding legal acts (Belke/Hebler 2002: 84, Tröster 2000: 210).

⁴⁵ EIRO, Eurostat (see http://epp.eurostat.ec.europa.eu/portal/page/portal/labour_market/earnings/database)

⁴⁶ The Polish Act on the Promotion of Employment and Labour Market Institutions (April 2004) also included the principles for putting into effect the EES. In addition to the Joint Action Plans from 2002, so-called Joint Inclusion Memoranda on social inclusion were developed with the candidate countries, meaning to support the objectives of the OMC (GVG 2002: 244).

market problems which needed decisions “stemmed mostly from either urgent problems or strong demands from various pressure groups” and not necessarily corresponded to EU priorities (Potůček 2009: 62).

Based on the final monitoring reports and other sources from the Commission, we can identify policy priorities in the promotion of employment, the reform of social security and increased social protection, and the promotion of an effective social dialogue⁴⁷: in terms of unemployment, the Commission's insistence on labour market policies targeted at reducing the number of unemployed in both countries was significant, as is shown by the emphasis on wage flexibility, ALMPs and the creation of work incentives (European Commission 2000). The same goes for the promotion of social dialogue and corporatism, being part of the recommendations for both countries. However, the necessary improvement of social protection observed for Poland remains vague and without any specific policy recommendation. The promotion of the benefit system's reform in the Czech Republic merely aimed at increased savings in favour of economic development. In view of the repeatedly stressed importance of minimum social standards and the EU target of a high degree of social protection (Art. 2, Treaty of the European Union), Brussels' concrete influence to meet these objectives in terms of a pro-active policy transfer shows to have been rather limited in both cases before accession (Becker 2004: 142).⁴⁸ Critical voices point to the negligence of social aspects during the pre-accession period, despite their obvious relevance for stability and political legitimacy in CEECs, as discussed above.⁴⁹

Taken together, a mixed picture of pre-accession Europeanization prevails: interestingly, rather superficial compliance and rule adaption in the social policy area still have led to a successful closing of the negotiation chapters of the *acquis*. This finding supports the fact that the EU's power in ‘hard politics’ is somehow limited in the area of social policies due to its lacking competence in the area and its incapacity to provide obligatory and coercive social and labour market guidelines.

At the same time, Poland and the Czech Republic in some cases adopted even more expansive rules than necessary, for example relating to secondary legislation in the health area or safety at the workplace, compared to less expansive rules concerning for example social dialogue which have been implemented later (Schüttpelz 2004). In the latter case it can be assumed that the political costs would have probably been higher than the economic costs.⁵⁰ This finding shows that despite the EU *acquis* conditionality, the EU's impact on the social transformation process has been subject to processes of domestication in the accession countries as far as non-binding regulations and policies were concerned. Thus, the activities which have been launched by domestic governments with the aim to promote EU compliance have been equally taking into account national interests and ideas.

⁴⁷ See for example European Commission (2000), (2002) and (2005).

⁴⁸ Above that, the attempt to form a ‘European social security team’, ensuring a more consistent social policy advice in the framework of the PHARE programme, failed due to the resistance of Great Britain (Brusis 1999: 89).

⁴⁹ Boeckh stresses that the catalogue of criteria of the EU requires no minimum social standards for membership because conversely, in case of accession, the community does not have to guarantee them either (Boeckh 2000: 180).

⁵⁰ Other examples are that in the Czech Republic, regionalization only increased after *Klaus*' rejection. As concerns environmental policies in Poland, the opposition from the energy sector prevented control-instruments from being introduced by the EU in order to combat air pollution. EU rules were only applied in the late 1990s at a time when the EU started to apply conditionality (Schimmelfennig/Sedelmeier 2007).

7.2.4 Post-accession Europeanization

After the accession, the transposition of EU directives provided even more margin of manoeuvre for domestic actors compared to the norms that had to be transposed into national law before the accession. The strategy of the OMC was financially supported in the EU member states from 1 May 2004 onwards and Poland and the Czech Republic thus received structural funds to support policy legislation in line with the Lisbon Strategy and its objectives.

Without doubt, the fact that candidate countries received structural funds in order to implement the EES might support strategic action and rational choice. Based on the assumption that the concerned actors meet relatively regularly and communicate with the consequence of triggering learning processes, the existence of certain conditions shapes the way how learning takes place. Among them are conditions that increase or limit the room for learning, the degree of uncertainty of domestic (Czech and Polish) actors about existing domestic solutions and a consequent openness towards new solutions, which also goes for failed policy approaches (for example PLMPs) in the domestic context and a resulting search for new solutions (for example ALMPs). At the same time, structural factors such as the existing norms in a national setting support the subject of learning. Areas which imply deep normative differences between the member states will probably be more resistant to policy learning than areas with only technical-methodological differences, because of ideological path dependencies.

Even if there is no consensus about the success of the EES, there is a fundamental consensus as concerns the common objectives of European social and labour market policies in their essential approaches. This consensus legitimates new policy coordination based for example on the OMC (Nedergaard 2006, Cerami 2007). Processes of bottom-up learning have hence increased communication, interest negotiations and bargaining activities in and between the countries, including the national, regional and local level.

Compliance to EU regulations and procedures in Poland: After Poland's accession to the EU, the Commission continued to criticize the country's slow adaptation to EU, pointing out social and labour market policy deficiencies on a regular basis. These touched particularly those fields that had also been concerned during the pre-accession phase, namely employment promotion, labour market regulation, social protection and inclusion, and social dialogue. A variety of conflicts between domestic and EU interests have led to continued criticism by the Commission during the third transformation reform (2004-2009).

In contrast to the previous instrument of *acquis* conditionality, the EU influence was now even more limited after the accession countries had become member of the EU. Exerted by softer means referring mainly to bottom-up approaches, the EU aimed to encourage compliance with common social and labour market objectives. Due to the fact that the EU's coercive power continued to remain limited in the area social and labour market policies, results were often rather meagre as for example illustrated by the failure of the Lisbon Strategy's objectives.

Interestingly, as a first domestic reform after accession to the EU, Poland re-introduced the EU restrictions on consecutive fixed-term contracts with the accession day on 1 of May 2004. On the one hand, this shows that European labour law indeed exerted an influence in favour of decommodification

(and restriction of market dynamics) on the member countries in case that it had a binding character. At the same time, the fact that Poland implemented the restrictions only with its accession underlines the argument that Poland had been ‘out-liberalising’ the EU before it was brought back to EU standards in areas that were subject to the framework regulation of European law (Orenstein 2008). The restrictions on the repetition of fixed-term contracts had to be reintroduced in Poland two years after they had been abolished.⁵¹ The regulation on fixed-term contracts illustrates that EU minimum standards may however well serve as a ‘safety-net’ against competitive deregulation in the labour law field.

During the first years of membership, the Commission identified a number of structural problems hindering an effective labour market policy and criticized for example the high expenses for social benefits. It has argued in favour of a re-tooling of these expenses in order to promote measures entailing economic growth. On a regular basis, the Commission criticised that Poland did not proceed satisfactorily with its *National Reform Programme* in the period 2005-2007 and it mentioned the lack of efficient programmes to encourage the employment of elderly workers as well as activities in order to promote lifelong learning (European Commission 2007).⁵² As concerns a lower taxation of labour, the efforts concerning ALMPs and the reform of the labour administration, the Commission however noticed some progress, the same going for the reduction of state subsidies (European Commission 2007). As concerns labour market policies, the Commission positively noted that Poland had enacted certain judicial rules in order to improve the management of the local labour administration. At the same time, existing rules had been reformed with the result that every unemployed person has the right to receive a job-consultation within 7-20 days (European Commission 2007: 153f.).

An important example of the above mentioned conflict between domestic and EU interests is the case of the “golden veto”, showing the power of the Polish state: the “golden veto” legislation was passed by the Sejm in 2005 by which the ministry of finance was allowed to maintain a privileged position in strategic state-controlled enterprises and for public interest reasons may have de facto lowered the market value of these companies (OECD 2010a: 9). This law had been declared incompatible with EU law by the Commission. However, it was only in 2008 that Poland introduced amendments to the golden-veto regulations, so that by the time the case came to the European Court of Justice (2009), the complaint would no longer be valid.⁵³

In the area of industrial relations, it shows that collective bargaining was institutionalised at enterprise level due to the necessity to adjust to EU law, together with works councils as newly created institutions, mirroring a discontinuity of former industrial relations. In 2004, Polish governments adopted a legislative basis for the establishment of workers’ councils in companies with more than one hundred employees and one single employee representative in companies with twenty or more employees, with this threshold falling to 50 in March 2008.⁵⁴ Disagreement arose about the

⁵¹ Also measures touching the provision for parental leave, equal pay for women and men and any kind of workplace discrimination were to be implemented by the Polish legislators.

⁵² However, it was criticized that Poland showed the lowest average age for retirement. In order to increase the general employment, a shift from passive to active measures was highly recommended.

⁵³ Leading to a replacement of the ‘golden veto’ with a 2008 EU Directive allowing the government to implement different measures to protect critical energy infrastructure (OECD 2010a).

⁵⁴ The draft bill was submitted to the social partners and then forwarded the labour law committee, in Poland headed by

representation of unionized employees in companies and the question of whether an employee council should be introduced additionally or within the union body. The trade unions feared that additional councils could provoke opposition to the unions and thus called for a rescheduling of the implementation, while employers welcomed the ideas of councils for exactly the same reasons that the unions were sceptical.⁵⁵ As a result of this conflict, the implementation of the EU Directive was very slow: the Act on Employee Councils was passed more than one year after the deadline set by the European Commission in March 2005, thus the Commission initiated infringement proceedings for non-compliance which were however dropped when Poland transposed the Directive in 2006 (for further readings see Bluhm 2008: 70ff.).

The reason for the belated implementation was “mainly a lack of inclination among both employers and trade unions to create a new employee representation institution” (Towalski 2009a: 2). The government’s role was limited in this situation as there was mainly conflict between employers and trade unions and senior state officials thus commented on the finally accorded bill in the Tripartite Commission: “the most important thing is compromise between employers and trade unions. They have created this bill, and the government [...] accepted their solution as compromise, as a solution that implements the act” (quoted after Towalski 2009a: 2). Finally, the power of these works councils is limited to receiving information on economic issues and being consulted on employment and work organisation issues – entirely in line with the directive. The Polish legislation specifically provides that where there is an existing agreement providing a comparable level of information and consultation, there is no need to set up a works council, but in other cases it potentially creates a new representative structure in Poland.⁵⁶

Despite this domestic change which had been triggered by the EU objectives to implement work councils, on the whole, *Towalski* summarizes that the implementation of the Directive with the government limiting “its role to formal oversight” shows that with such an “unenthusiastic engagement of the parties, it was hardly to be expected that the Act would be a valuable tool in strengthening the social dialogue” (Towalski 2009a: 5).

Compliance to the European Social Model’s objective with country-specific features in the Czech Republic: As concerns EU membership, the Czech Republic has been in a long struggle between euro-sceptic President *Klaus* and a government that preferred closer cooperation within the EU.⁵⁷ The

Jacek Mecina from the PKPP at that time.

⁵⁵ In Poland, one year after the bill was formally obtained and introduced to parliament in 2005, it was modified again before it was finally adopted by the Sejm in 2006. The Senate amended the bill and the lower chamber accepted all changes. As a result, the works councils have the right to information for the employees (meaning that the employer must send any necessary information about general company matters to the councils) and the right to consultation, meaning that they share their views with the employer and establish dialogue between employer and employee representative. These councils were introduced to all defined companies no matter whether they were unionised or not, but where unions already existed, it was their board that nominated the council’s members. In the companies that were not unionised, the council was elected by general ballot among employees. It was the employers who had to cover most of the costs that were generated by the councils such as for example external expertise to support members of the council (Towalski 2009a: 1, Spieser 2009: 199).

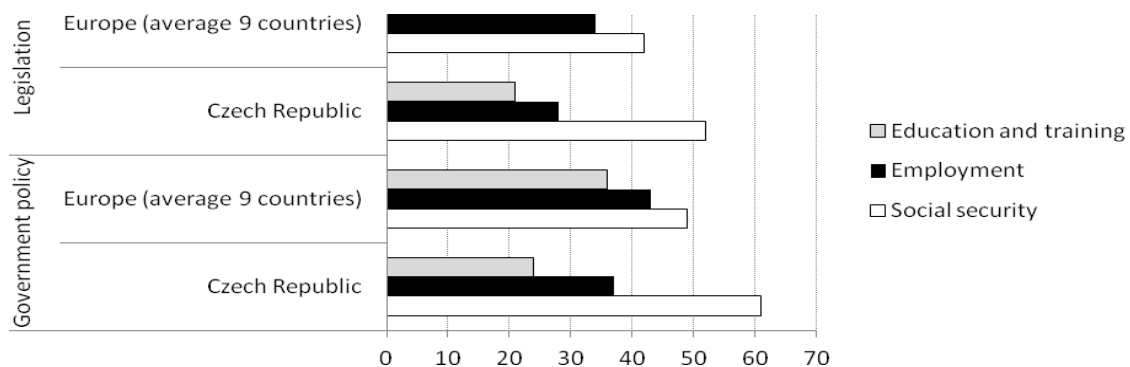
⁵⁶ See www.worker-participation.eu/National-Industrial-Relations/Countries/Poland/Workplace-Representation

⁵⁷ In December 2008, the country finally declared that the Lisbon Treaty was in line with the Czech constitution.

regularly concluded NAPs however reveal the prioritizing of EU social policy objectives, while they also show some Czech social liberal characteristics. The NAP of 2004-2006 for instance explicitly mentions full employment as an objective to be achieved by implementing a comprehensive political approach, including measures on both demand and supply side.⁵⁸ At the same time, it is mentioned that a better quality of employment conditions had to be achieved by joint efforts through social dialogue, mentioning employment as a key instrument for social inclusion (Government of the Czech Republic 2004). The Council recommended in 2004 that the country needed to ensure that wage developments remain in line with productivity, emphasizing that a coherent reform of the tax and benefit system “should further discourage welfare dependency and ensure that regular work pays” (Government of the Czech Republic 2004).

On the whole, *Potůček* claims that the Czech model would be an embodiment of institutional path dependence and the outcome of different ideological battles and specific policy choices, being “compatible with the European Social Model by any interpretation available” (Potůček 2009: 34). At the same time, as concerns the EU’s effect on policy learning and institutional change, we find a difference between different actor levels: *Sirovatka/Rakoczyova* found that the perspectives on the European social agenda were highly determined by the individual professional status. Compared to the national level, processes of institutional learning would have been less influenced by the European social agenda at the regional and local level due to the procedures of everyday-work and the lack of specific termination at work or in the local political discourse when compared to professionals on the central level (Sirovatka/Rakoczyova 2007). It shows that in particular with respect to the incorporation of the European social exclusion agenda in the field of employment, the Czech Republic lags behind the average of 9 EU member states while however even exceeding the EU average in terms of social security as illustrated in Figure 7.4.

Figure 7.4 Incorporation of the poverty and social exclusion agenda into Czech policies*



*Respondents declaring incorporation to a great/very great extent in percent, Source: Sirovatka/Rakoczyova (2007: 26)

⁵⁸ See www.mpsv.cz/files/clanky/1103/NAPSI_eng.pdf

Analysis of the reform period 2004-2009: the domestication of European social policy. The findings above show that even if the EU promotes certain objectives in the framework of its instruments as for example the OMC, the concrete implementation is left to national actors who shape the EU agenda according to their ideas and interests, leading to a “domestication of European social policy” (Sirovatka/Rakoczyova 2009). Apart from the fact that the two countries under consideration did not have the adequate administrative structures and trained and experienced personnel to successfully implement all EU guidelines, even more, political leaders and key actors did not always appreciate the importance of these projects for the realization of their political missions (Potůček 2009: 58).

However, based on historical tradition, the CEECs social systems were re-oriented towards principles known from Western Europe (Esping-Andersen 1990, Benz 2004: 256, Benz/Boeckh/Huster 2000: 194).⁵⁹ Without doubt, the road after 1989 has thus been paved by visions of EU integration, which had become the dominant target and actively influenced the candidate countries from the mid-1990s. This supports the argument that more than being a ‘hard’ power in terms of coercive policy transfer, the EU’s influence on social and labour market paradigms and concrete policies remains a ‘soft’ and in large parts a normative one, based on a common framework of actors’ ideas and interests. In case that conflict emerges between EU objectives and domestic interests, it was likely to be solved in favour of the domestic interest as long as it does not imply concrete legal obligations for the member state.

The fact that the period of membership (2004-2009) has been mainly characterised by an EU influence in terms of soft approaches such as mutual learning and the diffusion of policies, leaving a broader scope of autonomy to the national Polish and Czech governments “should not obfuscate the less visible thrusts of cultural changes associated with the processes of European integration, which influenced domestic discourses on social policy making” (Potůček 2009: 55). As *Lendvai* claims, the impact of the EU on social policies is not direct impacts on the welfare state, but rather indirect changes to the way social issues are handled, discussed, thought of and made (Lendvai 2004: 329).

While EU influence as a mechanism of domestic change advocated parallel patterns of activity in the member states, especially in labour law, these procedures and principles have however been reflected rather in terms of benchmarking and monitoring of ‘soft’ initiatives, established to equally ensure community cohesion and national diversity.⁶⁰ For the development of transnational industrial relations, this coordinating function promoted a strengthening of horizontal communication and cooperation, while the impetus for a vertical integration in terms of a strengthening of the supranational level of interaction and control remained rather weak (Kohl/Platzer 2004: 278).⁶¹

⁵⁹ According to *Reiter*, the transformation objective was evident. The so-called return to Europe was not only an expression of rejection of the Soviet-dominated Eastern bloc. It also had its positive content as an expression of belonging to the Western community of values. Unlike in the 60s and the 70s, a third way was not an issue anymore. Instead, the intention was a return to normality even if the concept of normality however has never been defined. Its content was determined by referring to the countries of Western Europe (Reiter 1998: 464).

⁶⁰ Overall, the EU is committed to the principle of subsidiarity as it is pronounced in conservative-corporate welfare regimes, and it not only strengthens national regulatory powers, but also implies the principle of unanimity in the formulation of social standards (Benz/Boeckh/Huster 2000: 203).

⁶¹ Nevertheless, some authors argue that there is a “loss of sovereignty of the national welfare state and the emergence of interwoven systems in social policy” in the course of EU integration (Schmid 2002: 64). This view is shared by the

As concerns the character of Europeanization indicating rather decommodification or market orientation, the EU combines deregulation with re-regulation efforts in order to achieve a better harmonization of the social and economic performance with the result of Janus-faced Europeanization. Apart from enhancing flexibility and individualization, the EU promotes the change from a reactive to a pro-active approach to risks and social problems (Abrahamson 2007: 20). Facing pluralist European welfare capitalisms, a subordination of social policy criteria by the EU prevails and binding social requirements are prevented. There has not been far-reaching systemic convergence as a result of EU enlargement, even if integration mechanisms were increasingly operating.⁶² The most homogenizing effect has been connected to the transfer of the *acquis* in the accessing CEECs through conditionality, although European Community Law is quite flexible towards national peculiarities, such as labour relations. In this regard, the member states remain for example relatively independent in terms of tariff policy: twenty of the 27 EU member states have a government-fixed minimum wage - compared to this minimum wage, the minimum wages in Poland and the Czech Republic remain very low as they move below the relative poverty threshold at 40 percent and 57 percent of the average EU workers income (Kohl/Platzer 2004: 239, European Commission 2011: 140).⁶³

Processes of Europeanization in CEECs have been quicker in pace and more substantial in scope when compared to the old member states. It is however important to underline again that there have been multiple mechanisms of institutional domestic change co-influencing Europeanization processes, among them endogenous factors such as national governments, historical and political traditions and legacies as well as other external influences (i.e. the IFIs). It is difficult to extract the EU influence from these factors, as they together frame the transformation context. However, as *Schimmelfennig/Sedelmeier* argue

“there is considerable evidence that Europeanization has become the most relevant source of domestic change in the CEECs in the second half of the 1990s. Whereas in the early 1990s, the adoption of EU rules in the CEECs has been patchy and selective and domestic change has been inspired more strongly by other regional and global international organizations (including the International Financial Institutions, the World Bank and the International Monetary Fund), the US, and domestic and sub-regional influences, the establishment of a credible accession conditionality and the beginning of accession negotiations clearly changed the picture. In the second half of the 1990s, the EU not only crowded out other sources of institutions and policies, but it also achieved rule adoption where other organizations had failed. In other words, in many areas of EU competency, Europeanization superseded the transition, Westernization, or globalization of the CEECs as the dominant motor of institutional change” (*Schimmelfennig/Sedelmeier* 2007: 99).

government of Prime Minister *Klaus*, and it continues to be argued by the Czech right-liberal coalition party, ODS. According to *Pehe*, the ODS sees the emergence of a European community as a bureaucratic, socialist 'super state', oppressing Czech national interests (*Pehe* in: *Der Spiegel* 24/2003). On the social democratic side, the support of EU's objectives is, however, clear: the former Premiers *Vladimír Špidla* and *Stanislav Gross* (both ČSSD) were in favor of the EU economic and social policy. Even Poland's governments supported the European course.

⁶² In this context, *Leibfried/Pierson* argue that the EU is not a federal welfare state as conventional nation states are, and it will doubtless not develop in this direction (*Leibfried/Pierson* 1997: 78).

⁶³ This low level is partly due to the facts that (i) the minimum wage serves as an index for the calculation of many other benefits and thus has the potential to entail increased additional costs, (ii) influential employers continued to complain about labour costs, (iii) the government aimed at cutting the social expenditure rate and thus reduced the budget deficit in order to qualify for the Euro and EU membership (*Spieser* 2009: 180).

In response to my research questions, the following can be concluded: when it comes to creating a typology of the EU influence in the context of pushing more liberal market orientation or rather state coordinating principles, I conclude that this influence remained mostly ambivalent: On the one hand, the EU has encouraged employment promotion, social inclusion, special types of protection for employees, decent wages and working conditions, and it has strongly promoted social dialogue. At the same time, it is interesting to note that the EU which continues to emphasize the importance of social cohesion, adequate social security schemes and labour market performance, does not clearly promote labour market regulation and policy in favour of decommodification. Instead, increasingly liberal arguments like ‘make work pay’, ‘activation strategies’ or ‘increasing the conditionality for benefit receipt’ are found (MISSOC 2008). On the other hand, it is claimed “that activation policies which are over-reliant on conditional rules can press benefits recipients to accept inappropriate or low quality jobs” (MISSOC 2008: 27). Parallel to this vagueness, the process of European integration itself has set off dynamics of labour market flexibilization and the competition of social security systems due to the pressure on labour markets to remain competitive.

As a result, even if the findings confirm that EU objectives indicate elements of decommodification rather than (only) of market orientation, the political reality in Poland and the Czech Republic somewhat undermined this finding as (i) EU initiatives were often domesticated according to the national interest which was more in favour of market oriented solutions, (ii) ‘shallow’ learning has occurred in cases where the receipt of EU funding dominated the appropriateness of labour market reforms, and (iii) domestic social and labour market policy solutions have been increasingly subject to Europe-wide and global market oriented dynamics of liberalization, flexibilization and competitiveness.

To conclude, the Europeanization of the social transformation in Poland and the Czech Republic has been characterized by a Janus-faced influence which supported to the development of hybrid labour market regimes in both cases under examination. According to *Bohle/Greskovits*, the EU promoted a form of neoliberalism in CEE which mixed the contradictory regime features of older member states (Bohle/Greskovits 2007: 456). The international actor EU is an important variable explaining domestic change, even if it has been found that its impact has been domesticated according to the country-specific setting. Nonetheless, the Europeanization variable does not provide evidence explaining the variation in social transformation dynamics in Poland and the Czech Republic, as the EU’s influence in the pre-accession period and its impact in times of membership remain comparable in both cases.

Current in-depth research on Europeanization processes faces the challenge of dealing with questions concerning developments after accession when the instruments of Europeanization through conditionality no longer exist. While *Schimmelfennig/Sedelmeier* have expressed the fear that EU compliance could appear to be a ‘Potemkin harmonization’ (Schimmelfennig/Sedelmeier 2007) it is interesting to analyse if rule adoption through external pressures is more likely to be contested than if it has resulted from social learning or diffusion and if rule transposition through conditionality thus leads to an ineffective implementation – answers to these questions are even more interesting in the light of the social dimension which mostly relies on soft and bottom-up forms of policy transfer.

7.3 Chapter summary

Behavioural adoption of externally set rules proceeds corresponding to the relevance and number of domestic actors who have been persuaded either by external incentives (conditionality) or external persuasion (learning). As has been found in Chapter 7, both processes had been initialized by international actors in the two cases under consideration. As a matter of incentives and persuasion triggering policy learning, the IFIs and the EU provided opportunities of potential gains such as for instance the access to financial resources or membership made conditional upon compliance with certain requirements. Learning in this regard has taken place either through direct persuasion of national governments, or by persuading certain (interest) groups which then started lobbying for rule adoption. Even if there is no doubt that rational variables have played a role as concerned compliance with certain rules in order to achieve domestic policy objectives, it was argued that on the basis of constructivist assumptions and the logic of appropriateness (March/Olsen 1989), actors' behaviour has also been motivated by ideas, norms and internalised identities. In line with this, it was found that it significantly depended on the domestic framework whether external rules of conditionality succeeded in a sustainable way. International actors have thus been facilitators of domestic change, but they were rarely able to induce it against the will of domestic decision-makers.

In the first reform period (1989-1996), it was the concept of conditionality through lending policies mainly used by the IFIs which exerted pressure in CEECs. These institutions awarded financial aid in exchange for market oriented policy reforms, having pursued a well-documented policy-based lending orientation in Latin America since the 1980s (Spieser 2009: 107). The IFIs have acted as policy entrepreneurs by using the window of opportunity for becoming involved in the policy formulation process already in the early 1990s (Grimmeisen 2004: 28, Bjork 1995, Sengoku 2004). The influence of their philosophies however took effect in conjunction with the national context and it is not surprising that the motivation to reduce social programmes has been generally higher in a country like Poland, facing severe economic hardship, than in a more prosperous country like the Czech Republic, which is why evidence for coercive policy transfer is not easily identified.

Thus, even if a clear link was found between the policy objectives of the World Bank and the IMF and the direction of labour market reforms particularly in Poland (for example with the introduction of flat rates in the area of unemployment compensation in 1992), it is difficult to prove that this influence came about without any other co-influence in the framework of policy transfer. This makes it difficult to distinguish 'forced' policy transfer from domestic policy preferences meeting the ideas of external advisers and suggests that the mechanism of conditionality is not necessarily leading to the adoption of rules at behavioural levels. It is rather complemented by other processes which follow the constructivist logic of learning, illustrated by the example that the required compliance with market oriented rules set up by the IFIs in exchange for money actually legitimized key transformation actors in Poland to push their own interests (Spieser 2009: 107). Based on the same arguments, it has been shown that the IFIs' influence on the Czech social transformation process has remained marginal due to three facts: (i) the ČSFR/Czech Republic did not depend as much on foreign money as Poland did, hence refusing the instrument of financial conditionality; (ii) the Czech social and economic transformation proceeded

comparatively smoothly and showed no openness towards foreign policy advice; (iii) *Václav Klaus*, leader of a stable government until the mid-1990s and proclaiming to be in line with the IFIs' policy paradigms, implemented a consistent and 'homemade' social liberal reform course.

At the same time, there have been not only direct attempts of external coercive policy transfer where actors actively try to impose regulations and rules. As discussed above, international actors have played an important role in shaping the international ideational context and in this way they have exercised an important impact on the direction of domestic reform by shaping ideas and not least interests. As *Bruszt/Stark* put it, the Washington Consensus was about getting the prices right whereas the EU was about getting the rules right (*Bruszt/Stark* 2003). As the EU membership was the main objective in both cases already from the early 1990s and became a concrete target with the beginning of the accession negotiations in 1997, the countries undertook reforms to assure that domestic policies would not contradict the EU procedures. Based on the assumption that the EU is a formal organisation defined by a specific collective identity and a specific set of common values and norms, it is convincing that

“[w]hether a non-member state adopts EU rules depends on the degree to which it regards EU rules and its demands for rule adoption as appropriate in terms of collective identity, values, and norms” (*Schimmelfennig/Sedelmeier* 2005: 18).

The EU in this context has a persuasive character in its function of legitimacy, identity and resonance. Bottom-up processes are driven by the actual recipient of the policy - the Polish and Czech actors which review institutions, rules and procedures elsewhere to evaluate a potential adoption of new approaches. It is obvious that the EU has influenced the candidate countries with regard to the *acquis* as a form of conditionality combined with a softer form of learning and diffusion in areas in which the EU does not have full competence, but functions as a role model through 'naming and shaming' and best practices. As soon as the accession negotiations started, the rule adoption in the candidate countries and policy areas increased dramatically (*Schimmelfennig/Sedelmeier* 2007). It was at the latest at this point that the IFI's influence subsided with the EU gaining influence.

The instrument of the OMC influenced Poland and the Czech Republic by the promotion of learning processes, providing a forum for the exchange of ideas and best practices in particular during the third reform period of transformation (2004-2009). The fact that this period is characterised by the highest degree of convergence, in times where conditionality has not been in place anymore, confirms the assumption that learning processes are indeed soft mechanisms triggering institutional change with significant impact on the process of social transformation. If we can state that the EU has been influential in formal institution-building, it has been even more important in the area of informal institution-building which is directly connected to the above described aspects of ideas and interests in the context of informal norms which provide the foundation for and governed the behaviour of decision-makers and other key actors.

In conclusion, formally, the EU has had coercive influence on the social transformation process in Poland and the Czech Republic in the pre-accession period due to *acquis* conditionality and required

labour law and institutional changes, while it had only a marginal coercive influence on Polish and Czech social transformation paths after 2004. Interestingly, it was found that even during the pre-accession period, the country-specific environments however framed the EU impact according to domestic interests. This trend of domestication of EU influence on the social transformation process consolidated in the period of membership, when any potential ‘hard’ policy transfer based on conditionality had been replaced by ‘softer’ forms of bottom-up policy diffusion.⁶⁴ The EU has been much more influential as an ideological role model since.

The overall findings confirm that the concept of external policy transfer has had a voluntary dimension (learning) and a coercive dimension (conditionality), as there have been indirect effects (learning processes) as well as direct effects (rule adoption and legislative changes through conditionality). However, the introduction of ideas, interests and institutions by means of Europeanization has occurred via different and country-specific procedures: partly through binding recommendations in the context of the accession process, partly through cognitive learning processes and partly through ‘shallow’ learning in order to show formal compliance with EU standards.

As concerns the initial assumption that the EU might have influenced Poland and the Czech Republic towards decommodification, unlike the IFIs, the EU represents values which correspond to the historical legacies of social arrangements before and partly also during communism. These values support decommodification with a certain extent of redistribution such as the emphasis on social justice, a relatively consistent level of wages, and low social inequality. However, an explicit influence in terms of social policy pioneering by the EU has remained peripheral: as concerns the regulation of the labour market, to date, neither the Commission nor other EU institutions have specified their preferred institutional arrangement or regulatory paradigm. Compared to the consistent policy advisory activities of the IFIs, the EU has failed to define a European welfare model and to promote its implementation during the period of pre-accession. As a result, the Europeanization of the social transformation in Poland and the Czech Republic was reduced to the cases’ compliance with the *acquis* combined with an ideological institutional borrowing rather than an actively advocated institutional engineering by the EU.⁶⁵ In line with this, *Potůček* argues that no comprehensive national models have been inspired by the new EU Social Agenda (Potůček 2009: 60). Even if the EU has tried to harmonize social policies by using soft methods of coordination, aimed at facilitating the diffusion of best practices and mutual learning, I agree with *Fenger* who claims that “[c]ountry-specific characteristics, including political decisions and path dependencies, have a significant impact on the development of welfare governance. This adds to the conclusion that there is no common response to the common challenges modern welfare states are confronted with” (Fenger 2008: 23).

⁶⁴ *Keune* calls this ‘indirect imperialism’, not only involving direct imposing of rules in exchange for financial support or membership, but aiming at influencing the normative and cognitive frames of the domestic actors (Keune 2006: 276). Future in-depth research faces the challenge of analysing how “the dominant mode of pre-accession Europeanization affect[s] post-accession compliance once the candidates have obtained membership” (Schimmelfennig/Sedelmeier 2007: 100).

⁶⁵ *Deacon* claims that “[...] it has to be said that the countervailing political power of the EU vis-à-vis the Bank is not as strong as it could be [...] This shortcoming was in part due to the subcontracting consultancy process and in part due to the EU’s lack of clarity over what social policy it was selling” (Deacon 2000: 159).

In conclusion, the assumption of an EU influence in favour of decommodification cannot be validated at this point, as it has rather been Janus-faced between state and market impetus. This is due to a combination of parallel dynamics: (i) the labour market and social dimension largely remain within the domestic sphere and is left to national government decisions which in case of conflict with EU objectives have been in line with domestic interests, (ii) the adoption of EU regulations has in some cases been rather symbolic, for example by fulfilling certain EU rules only to become eligible for EU funding (Keune 2006), (iii) the Polish and Czech social transformation processes have been subject to Europe-wide and global market oriented dynamics of liberalization, flexibilization and competitive pressure.

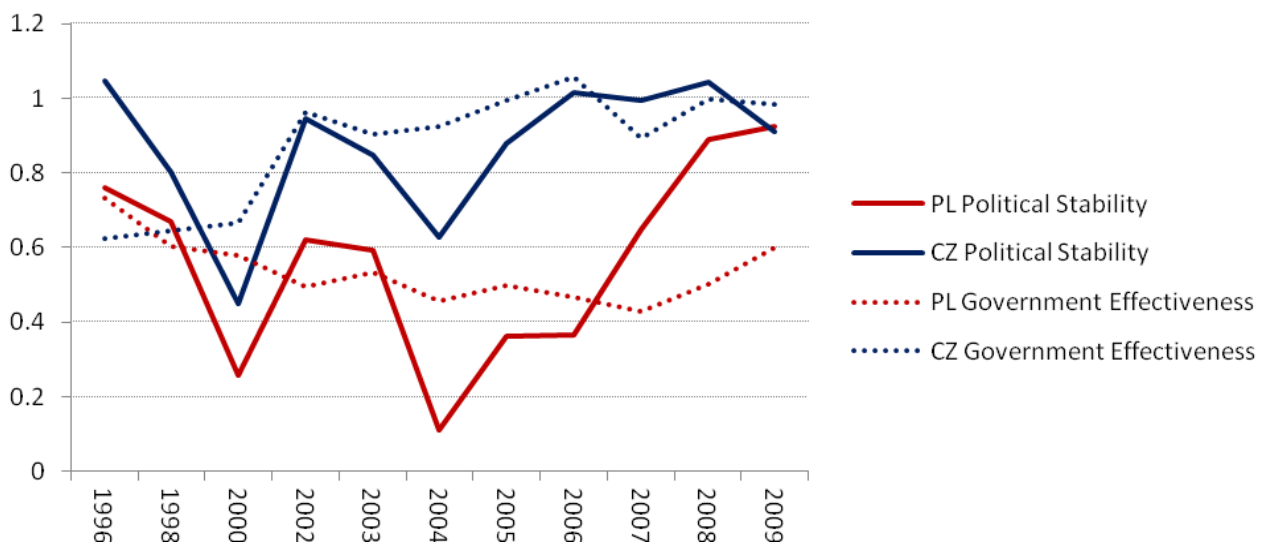
In the end, Polish and Czech actors had a variety of external ideas to draw upon and where this process resulted in diverging views, the outcome depended upon the power constellations and the power of the concerned player to push through his or her ideas and determine which positions and compromises would prevail. Apparently, the mere existence of external conditionality has not triggered domestic change and a coercive implementation of external paradigms against the will of domestic actors. The impact of the international actors has rather depended on aspects touching the appropriateness of the external paradigms and their legitimacy in the target country. Moreover, it seems that the exercise of influence by international actors has been subject to domestication according to country-specific preferences.

Chapter 8 The impact of domestic actor constellations

This chapter focuses on the endogenous mechanisms on the actor level which seem to provide explanations for post-1989 social transformation processes. At the centre of the analysis will be the dynamics of domestic actor constellations and their effect on the emerging labour market regimes by referring to the political regime change (Section 8.1), the emerging party system (Section 8.2) the configuration of government coalitions (Section 8.3), and the reconfiguration of the social partners (Section 8.4).

Provided by the World Bank, the Worldwide Governance Indicators show that between 1996 and 2009, the Czech Republic has been the more politically stable case with a higher degree of governance effectiveness as compared to the Polish case, illustrated in Figure 8.1 below.

Figure 8.1 Worldwide Governance Indicators^{1*}



Source: World Bank 2011 (www.govindicators.org)

*Explanation: Estimate of governance (ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance)

Political Stability: perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means.

Government Effectiveness: perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

¹ The governance indicators reflect the statistical compilation of responses on the quality of governance given by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries, as reported by a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The aggregate indicators do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent (World Bank 2011, www.govindicators.org).

8.1 The actor dynamics of political regime change and democratic consolidation

The evolution of the institutionalization of capitalist democracy in CEE did not proceed over a long time span as it did in Western European democracies, but in a rapid parallel systemic change on different levels.² The crucial event signalling the fall of CEE communist regimes in 1989/1990 were the round tables. It was through these negotiations that regime leadership and opposition members agreed on the end of state socialism and the recognition of freedom of association, information and publication. As will be discussed below, the predominant power constellations in both countries before, during and after 1989 have been decisive mechanisms accounting for the country-specific path departures from the socialist system. These power constellations have paved the ground for the development of an instable reform path marked by conflicts in Poland in contrast to a consensual and stable reform policy on the ČSFR side (Stark/Bruszt 1998: 4).

The negotiated regime change and ‘transplacement’ in Poland: The Polish transformation period had already started with the founding of Solidarność in 1980, soon after which the trade union began to act as a powerful civil society stakeholder and social movement that, together with the intellectual elite, gradually restricted the hegemony of the communist regime.³ Shortly after, in 1981, the implementation of martial law further stimulated the beginning transition: political dissent became even more coherent and the ruling Polish United Workers Party (PZPR) finally agreed to hold round tables. These were moderated by the Catholic Church and negotiated, together with an agreement on economic reforms, the legalization of Solidarność and revisions to the constitution, the first semi-free elections in Poland in 1989. At these elections, the PZPR lost and the victory of Solidarność resulted in the appointment of the Solidarność advisor *Tadeusz Mazowiecki* as Prime Minister, leading to the dissolution of the PZPR and thus to the end of the old regime.

The negotiated regime change in Poland has been labelled ‘transplacement’ as a hybrid of replacement and transformation (Grotz 2005) or ‘refolution’ as a hybrid of reform and revolution (Potůček 2008). It resulted from the impasse that, in view of the opponent’s power, regime elite and regime opposition had no alternative options than to define unilateral modalities of future forms of governance. That is why these actors had to assemble at the round table to negotiate the upcoming transformation process. A classical game theory transformation situation thus developed in which the willingness to compromise was finally promoted by mutual miscalculation (Merkel 1999: 411, see also Karolewski 2000: 293):⁴ the regime overestimated and the opposition underestimated its own power – both players faced a ‘veil of ignorance’ (Rawls) regarding the potential power of their conflicting counterpart. Speaking in terms

² Theoretically, a certain transformation risk prevailed that the decision-makers would virtually write the new rules themselves, potentially drafting new constitutions corresponding to their interests and not necessarily according to the criteria of ‘rationality’ or ‘bonum commune’, but rather devoted to their passions and interests (Merkel 1999: 384).

³ There are opinions claiming that Poland has never been a totalitarian regime, particularly not after 1956 when the church succeeded in reintroducing religious education in schools and universities and attained certain autonomy from state control.

⁴ Through the controlled integration of Solidarność into the domestic leadership, the PZPR *softliners* aimed at attaining a new basis of legitimacy. But Solidarność did not agree since it wanted to promote a Western oriented pluralist democratic system.

of game theory, reciprocal cooperation consequently brought the best result for both players (Voigt/Salzberger 2002: 14ff.). The consequently adopted 'transformation pacts' characterize Poland as a special example of a negotiated regime change.

However, the former socialist regime actors continued their work based on a party-fusion under new political signs, establishing the political party Social Democracy of the Republic of Poland (SdRP) in 1990 as the main successor party of the PZPR. At the same time, after the disappearance of the regime enemy, the former regime opposition *Solidarność* split into two groups, the conservative Gdańsk group (around *Lech Wałęsa*) and the liberal Warsaw group (around *Mazowiecki*, *Geremek* and *Michnik*), contributing to the emergence of a party system characterized by fragmentation, ideological conflicts and personal rivalries (Götting 1998: 50, see Section 8.2).

In the context of unstable reconfiguration of actor constellations and with regard to the essential role of the constitution for democratic consolidation, a lack of consensus about its design dominated Polish politics for a long time.⁵ Finally adopted on 2 of April 1997 by the National Assembly, the New Constitution (replacing the provisional Small Constitution from 1992) continued to provide a parliamentary-presidential mixed system and firmly established political pluralism in Poland.⁶ While the liberal economic reform path was not questioned in the first years of transformation, the decision over the direction of political reforms was characterized by a fundamental lack of consent and struggles among the political elite. This controversy marks the beginning of conflicts that were to dominate Polish politics and impede rapid institutionalization and consolidation of the social transformation process.

The system collapse and 'replacement' in the ČSSR/ČSFR: In contrast to the negotiated regime change in Poland, the communist regime in Czechoslovakia collapsed within just three weeks (17 November – 10 December 1989); according to *Grotz* the only case of political regime change in CEE characterized by 'replacement' (Grotz 2005). The climax was certainly on 17 of November 1989 in Prague with the peaceful student demonstration which was brutally brought to an end by the police. The Czechoslovak regime change can be explained by the fact that organized actors played hardly any role in negotiating the breakdown of the regime. Instead, the loss of the old regime's instruments for repression and action allowed the transformation player 'regime' to disappear without any great effort by the opposition (Merkel 1999: 414). After the student demonstration a general strike followed in which more than 500.000 people protested against the communist regime which had lost the working

⁵ According to *Karolewski*, the task to design a new constitution was used by the new political elite as a strategy to implement its short term interests (Karolewski 2000: 299).

⁶ The Polish system corresponds to so-called semi-presidentialism, including the direct election of the president, far reaching presidential authorities as well as the existence of a prime minister with his cabinet: both are determined in office by the parliament and fulfil executive tasks (Karolewski 2000: 304). According to *Merkel*, Poland's politics were exemplary for the existing disadvantageous institutional arrangements as a typical feature of semi-presidentialism: given the institutional competition within the executive between the president and the head of government due to inadequately defined competencies during *cohabitations*, decision-making abilities used to be and still are blocked to this day (Merkel 1996: 45). Poland's constitution reflects a borrowing from the constitutional system of the V. French Republic (Ziemer/Matthes 2004: 192).

class's remaining tolerance. Starting in November 1989, the negotiations of the Civic Forum (OF) with the government resulted in the parliament's election of dissident *Václav Havel* as President and *Alexander Dubček*, a symbolic figure of the Prague Spring, as the speaker of the Federal Assembly. In the first free elections in the summer of 1990, the OF and the Slovak Public against violence (VPN) gained victory and formed a government of liberal conservative, social liberal and Christian democratic forces. The regime collapse was completed (see in detail Precan 1998). Despite this 'big bang' of regime change, *Orenstein* describes the first phase of Czechoslovak transition as "smooth and negotiated in important aspects", in fact a 'velvet revolution' (Orenstein 2001: 66).

Václav Klaus, finance minister and economic reformer since 1990, emerged as the winner from the 1992 elections and formed a conservative government coalition under which the new constitution came into effect on 1 of January 1993 with the 'velvet divorce' of the Slovak and the Czech Republic. The Czech Republic defines itself as a parliamentary democracy with a bicameral legislative (House of Representatives and Senate).⁷ It was designed according to the constitutional document of the First Republic, however, it showed clear influences of Western European constitutions, especially of the German 'Grundgesetz' (Mauritz 2002: 222).⁸ There were without doubt multiple reasons for the 'divorce' of the Czechs and the Slovaks, one of the reasons being the communist repression of any effort to articulate social grievances and the undermining of the bi-national state. As to the economy, the Czechs were not interested in subsidizing Slovakia long-term and the economic reform programme between 1990 and 1992 was certainly designed for the Czech economy.⁹ As in Poland, the Czech Republic enshrines social rights in the constitution, defining the state's responsibility of social security for all citizens that were not able to pursue economic activities without any individual fault. Furthermore, employees have the right to fair remuneration and satisfactory working conditions (Art. 28), social security and to a pension if incapable of working (Mauritz 2002: 225).¹⁰

Interestingly, we find that the Czech regime change, characterized by 'replacement', was followed by rather coherent actor constellations and reform approaches in the following transformation years.

Analysis: country-specific political regime changes and their effects on the transformation process.

Why have the procedure and the mechanism of departure from the old regime been so different in both countries and what were the consequences for the beginning social transformation process? The actor-centred approach provides a convincing explanation: while in the ČSSR (respectively the ČSFR) there were no actors willing to negotiate, in Poland by contrast, the *Solidarność*, the Catholic Church and the Workers' Defense Committee (KOR) represented influential social forces with an interest in negotiations, complemented by the power to carry them out. They were thus involved in the process of

⁷ *Bankowicz/Tkaczynski* emphasize the choice of classical parliamentarism: it meant that the state did not intend to strengthen the executive branch but rather focused on the tradition of the Czechoslovak Republic before the war, which had been considered as a model of a parliamentary Republic (Bankowicz/Tkaczynski 2001: 57).

⁸ The Czech Republic explicitly defines itself as a unified and democratic state (under rule of law) that builds upon the respect of rights and freedoms of its citizens (Art. 1 constitution) (Vodicka 2004: 248).

⁹ For further reading on the breakup of Czechoslovakia see i.e. *R. H. Cox* and *E. G. Frankland* (1995) *The Federal State and the Breakup of Czechoslovakia: An Institutional Analysis*, *Oxford Journals*, vol. 25, Issue 1, pp. 71-88.

¹⁰ It has to be added that in constitutional practice, however, social rights in the Czech Republic and Poland hardly play a role (Vodicka 2004: 250, Ziemer/Matthes 2004).

policy formulation right after the regime change. However, the regime collapse in the ČSSR cannot solely be explained by the absence of actor constellations in 1989; it was already installed in the character of its strongly autocratic system and can be illustrated with the help of the institutionalist approach: given the ČSSR's extremely closed system and the existence of a late-communist 'social contract' according to which the socialist regime provided material security in exchange for political apathy and social peace, neither *softliners* ready for reform within the regime, nor elements of civil society capable of acting, emerged from the situation (Merkel 1999: 418, Bayer 1999: 122 f.). As a result, the socialist regime collapsed in form of a 'big bang', contrasting to the compromise and negotiated regime change in Poland.

It is usually assumed that the inclusion of union representatives in negotiations on regime changes promotes the inclusion of labour and thus the social dimension in the transformation process. Paradoxically, in Poland, where the *Solidarność* undermined the communist party and directly negotiated the regime change, "the corporatist exchange is the weakest and the unions seem to be the most impotent. Indeed, in no post-communist country did an independent union movement participate so actively in the transition to democracy" (Avdagic 2003: 15).

In contrast to this, ČSSR trade unions were not especially relevant during the regime change, as the *Charta 77*¹¹ was not influencing the initial democratization process to a large degree. Surprisingly, it was however exactly the ex-communist and reformed trade unions that have succeeded to develop an effective tripartism in the country and influenced various aspects of economic reform.

It can thus be concluded that it is not possible to explain initial policy approaches with the sole presence and inclusion of trade unions in the negotiations about the regime change. It appears that there is more to it than only the presence of actors with more pro-social vs. pro-market interests, namely the actor constellations and their coherence which again are embedded in a particular institutional framework. *Inglot* convincingly argues that the Czech Republic, where the welfare state matured early and learned how to manage previous crises under tight centralized control during the socialist period, turned out to be much more resilient and generous than Poland, where higher economic and political liberalization preceded the final regime collapse (Inglot 2009: 93).

Transferred to the empirical evidence of country-specific hybrid labour market regimes, the character of the detachment process from the old regime already provides an actor-centred explanatory factor: reconfigurations of actor constellations influenced conflicting or consensual negotiating. In Poland, the regime change was negotiated by different stakeholders who already existed in the old system. This situation entailed permanent confrontation between the more socialist ideas and a more liberal agenda, completely rejecting the old system. As concerns the aspect of policy learning, *Hall* (1993) argues that third order policy paradigm change is promoted and shaped by politicians rather than by experts. In his perspective, decisions about paradigm shifts are intrinsically political. According to *Hall*, this is why they reflect a legitimisation and power game between different governmental and elite groups. This was

¹¹ The *Charta 77* was an informal civic initiative against the regime in the ČSSR between 1976 and 1992. Some of its members became relevant actors after the regime change, i.e. *Václav Havel*.

obviously the case in Poland at the time of the political regime change, re-establishing the crucial role of politics in shaping (welfare) policies (Hall 1993).

By contrast, the ČSSR ‘big bang’ completed the abandonment of existing structures and a system which had de-legitimized itself.¹² Compared to the Polish development, the conditions for social reform in the ČSSR were quite advantageous and it was paradoxically exactly the failure of reforms during socialism that positively affected the course of the post-communist social transformation process (Bayer 1999: 293).

From the actor-centred perspective, it is essential to mention another important aspect explaining the different reform paths after 1989 in Poland, namely that social stratification, the articulation of social groups and class consciousness took place even before 1989 while in the ČSSR it did not.¹³ In the latter, these processes were set off only with the beginning of transformation. Former Prime Minister *Vladimir Špidla* underlined in an interview that the social democrats had emigrated during communism and returned to the country only after the regime change, starting to develop a new social democracy based on credibility and without former positions that they had to defend in terms of power-games as they took place in Poland (Špidla, ČSSD, interview in 2011). In line with this, *Potůček* argues that the tradition of the social democratic movement, founded in 1878 and which survived due to the above mentioned exile, was the basis for the favourable inclination of public opinion both towards the principle of achievement-remuneration and the principle of social justice in the Czech Republic (Potůček 2009: 35).

The country-specific procedures of political regime change have entailed a profound path creating dynamics with respect to social policy paradigms in both cases: in the ČSFR, the regime change had immediately entailed a paradigm shift, says Ex-Prime Minister and Ex-Commissioner *Špidla*, with the establishment of an entirely new system following the continental European welfare regime. He claims that no more socialist traditions would remain anchored in this system.¹⁴ For Poland, in view of the negotiated regime change, it has to be referred rather to a paradigm alteration, where liberal and socialist elements clashed at the beginning of transformation and slowed down social policy consolidation. Apparently, these procedures of regime change were path creating and have paved future policy-making. In conclusion, differences concerning the regime change and reconfiguration of actor constellations represent important mechanisms accounting for change and continuity in the two cases under consideration (Voigt/Salzberger 2002: 9).

8.2 The structure of the emerging party systems

The political party systems in CEE were significantly shaped by the round table negotiations in 1989, leading to free elections. When looking at the emergence and development of welfare regimes, political parties represent important players as they exhibit contrasting ideologies. From a historical perspective,

¹² For details about the Polish ‘compromise’ and the Czechoslovak ‘capitulation’ see *Stark/Bruszt* (1998: 8ff.).

¹³ Additionally, as a unique development in CEE, already in 1982 a Constitutional Court was established with the competence to check laws as concerns their alignment with the constitution.

¹⁴ Interview, 12 March 2005, Prague.

they have either been leading actors of the expansion of Western European welfare states or they have showed resistance to the rise of welfare policies. According to power resource approaches, it is labour movements that are claimed to play a central role when shaping models of interest representation systems and social democratic parties which are said to have played a major role in determining modern capitalist welfare. With regard to labour market policies in particular, left and right-wing parties historically pursue different objectives and strategies and the actual outcome of labour market policies is closely connected to the power resources, i.e. the power of labour parties. The success of political forces opposing redistributive welfare policies is hence connected to their ability to punish or reward other (individual or collective) actors (Korpi 2003). The main political parties' economic and political interests are linked to their core constituencies: right-wing parties prioritise inflation over unemployment since they pursue rather the employers' and stakeholders' interests, while left-wing parties, often supported by organized labour, tend to be in favour of low unemployment and a higher social expenditure, even at the cost of higher inflation (Spieser 2009: 93).

When analyzing post-socialist transformation in CEE, two opposing positions seem to stand central: the social democratic and labour party side relies on the market economy's tolerance for progressive redistribution as the main regulatory politics objective only followed by the objective of economic growth. In contrast, conservative-liberal parties regard inequality rather as a natural situation and precondition for economic growth, whereas redistribution is a marginal objective of regulatory politics which is dominated by a residual approach.

Welfare capitalism research places the position of social democratic parties in a central place for welfare regime development. In view of the social partners, their strength and structural organisation to enforce workers' interests is regarded to be relevant opposed to actor dynamics in favour of market orientation as the employers' associations naturally are. As an example, *Pavel Janicko*, advisor at ČMKOS, claims that the liberal reform policies applied from 1989 saw moderations especially in times of social democratic governments (Janicko, ČMKOS, interview in 2011). However, the empirical evidence provided in Part II of this dissertation does not fully support the assumption that a shift towards market oriented policies has been higher in times of liberal and conservative governments while social democratic governments generate higher degrees of decommodification.

Apart from power resource arguments based on political orientation, *Götting* rightly argues that among the most decisive factors for the implementation of institutional reforms were the strength and political stability of governments (Götting 1998). Whereas stable governments possess the power to implement coherent reforms, fragmented political party systems, power-constellations and government changes have the potential to block attempts to implement comprehensive institutional reforms (Brusis 1999: 80). It shows that these factors explain why the social transformation in the Czech Republic has proceeded far more quickly when compared to Poland where it took much longer time for institutional change to consolidate (Brusis 1999: 79).

However, we have to be careful with the power resources approach, as power resources differ with respect to the domain (the number of people concerned), the degree of scarcity and centrality. They are not distributed equally among actors and it is obvious that those actors with the most power appear to

push their ideas and interests through against weaker actors. We have to assume the existence of risk- or advocacy-coalitions that do not always correspond to the common understanding of partisanship and party cleavages, because in all CEECs redistributive cleavages were blurred by anti-communist versus communist positions.

When evaluating how the emerging political parties have shaped the social transformation process, we have to be careful with two further aspects of the power resource approach: firstly, the approach takes for granted the re-emergence of the left-right cleavage in post-communist countries, meaning the division between a conservative or liberal market oriented 'right' – and the social democratic and pro-welfare 'left'. This cleavage is rather problematic in CEE since the leftist parties often consist of former communist elites, differing quite crucially from what it usually called a social democratic attitude. While some communist parties that survived the regime change argued for a social policy with a clear feature of the guarantees of state socialism, the newly emerging social democratic successor parties predominantly promoted market transformation.¹⁵ Even stable party systems might imply strong divisions over policy preferences that often cut across party lines.

Secondly, the approach assumes that political parties tend to articulate coherent and stable policy agendas. But the truth is far from this since coherent party programmes and profiles (especially in Poland) took much longer than initially expected.¹⁶ It is generally assumed that there are links between parties' ideological positions and the social policy outcome – at least in Poland these links appear to be weak and make social policy styles less predictable, as is exemplified by the significantly market oriented policy style by the coalition of post-communist and agrarian parties (Karolewski 2000, Polakowski 2010: 39f.).

That being said, Poland and the Czech Republic developed party systems which in their structures reflect individual voter preferences and different economic and socio-political orientations. These systems are three-pole, consisting of a conservative to national-populist, a liberal-democratic and a neo-social democratic camp. On the other hand, the development of the two party systems remarkably differed. The fragmented Polish party landscape indirectly entailed unstable governments, triggering a (socio-) political zigzag course. In the Czech Republic, by contrast, the party system rather quickly consolidated, however characterized by a late rise in importance of 'leftist' parties when compared to Poland.

Delayed consolidation and fragmentation of the Polish party system: The number of parties represented in the Polish parliament was at its peak in 1991 with 29 political parties; however, the fragmented party landscape has remained predominant to this day with 25 existing relevant parties (see appendix for a list of relevant political parties). The largest party at the beginning of the transformation

¹⁵ While they stood for a reform of the welfare institutions in order to serve social policy goals, they never questioned the importance of market-led growth. In Poland, opposing views of the SLD and the PSL became less relevant with respect to certain reforms when the differences between liberal parties and the social democratic party were bridged into pro-reform coalitions (Spieser 2009: 94).

¹⁶ To some extent this is also true for national trade union federations which, especially in CEE, suffer from internal fragmentation (Spieser 2009: 94).

process, founded in 1991, was the social democratic Democratic Left Alliance (SLD), opposing the conservative-right Electoral Action Solidarity (AWS)¹⁷ in a bipolar system, supplemented by a small liberal Freedom Union (UW).¹⁸ The left spectrum is covered by the Labour Union (UP) and the more central Polish People's Party (PSL) which is the result of a strong agricultural sector, consisting of a strong socio-structural base of farmers (Ziemer/Matthes 2004: 222).

The fragmented Polish party system seems to be dominated by two kinds: the first one is based along a 'value axis', entailing also a specific post-communist versus anti-communist dimension based on a rejected use of the notion of left-right divide. The second division refers to an economic 'interest axis' with the party position being determined by interest linked to the desired economic system (Spieser 2009). These divisions are distorted by the legacy of the communist party and the important role of *Solidarność*, interestingly not systematically representing pro-worker trade union preferences, but more right-wing parties. This is one reason why we cannot speak of a typical left-right and employee vs. employer cleavage in Poland, because the dimension of political conflict positions the liberal parties and the AWS on the right side, while the SLD stands on the opposite side and includes what can be called the post-communist left.

In contrast to the Czech Republic, the Polish party system includes several 'reformed' communist parties (SLD, PSL, SD), which are not speaking with one voice and contribute to intensified fragmentation of the party system. The SLD always emphasized its political objective of a socially embedded state, including the support of the poorest and weakest with the establishment of social services as a commitment for social justice and equal opportunities. However, when looking at the party programmes, this priority does not always become clear. The lack of traditional cleavages, weak stabilisation of the party system and the absence of a class based electorate might explain the SLD's political programmes and also its component of the SdRP over the years. The SLD is a pragmatic party focused more on voters' preferences than on intense policy debates and discourses. It is therefore closer to being a party that constitutes itself according to the needs and voters' preferences for the next elections than having a consistent political conception of social democratic objectives.¹⁹ The social democratic forces that succeeded the former communist party form a coalition in which the SdRP constitutes the cornerstone. Along this axis of economic interest, there is the party PSL on the one side, while the UW stands on the opposite side and is mainly supported by the urban population, with a core electorate in the former intelligentsia. Additionally, due to weak and late industrialisation, the discontinuity in partisan activities represented by the hegemony of the party-state in the communist period and the difficulty in dealing with this ideological legacy, these cleavages do not have comparable historical roots to many Western European countries (Spieser 2009: 143).

¹⁷ The post-*Solidarność* camp extended from central-left to central-right to even national clericals. This particularism was only shortly interrupted by the development of the election alliance *Solidarność AWS*, because *Lech Wałęsa* initialized a new fragmentism with the creation of the Central Alliance (PC).

¹⁸ The SLD is putting programmatic weight on a socially cushioned economic transformation, while the UW focuses primarily on the aim of market economy.

¹⁹ The first party programme in 1990 was written by a very small group of experts and in 1999 as well, the party programme was written without any political debate.

The Civic Platform (PO) was founded in 2001 and combines liberal conservative attitudes on the economy with conservative ones on social issues. In 2001 as well, the conservative-national Party Law and Justice (PiS) was founded by *Lech* and *Jarosław Kaczyński*, from 2005 governing the country together with the populist Samoobrona party (Self-Defense), founded in 1993 by *Andrzej Lepper* with the idea of representing farmers' interests. Both parties claim an excessive role of the state in the entire political and economic sphere as a new impetus after the dominance of market orientation before 2005. The populist parties' success is without doubt linked to vast dissatisfaction with the economic reform path and generally increasing (economic) insecurity, entailing a certain degree of nostalgia referring to the paternalistic welfare regime while paradoxically at the same time reflecting features of anti-communism. This observation is exemplary for the paradoxical situation of Polish parties in general: if necessary, they stand for socially excluding ideas promoting market orientation. On the other hand, if appropriate, they fight for social inclusion and strong state interference, completely independent from their political profile. This situation makes it difficult to locate the parties in a spectrum of a consolidated party system. At the same time, this situation triggered social discontent with the newly established democratic institutions and partly delegitimized government coalitions as these came into office based on a voter turnout of 50 percent or even less (see Figure 8.2).

The heterogeneous multi-party alliances based on the historical disposition of cleavages entailed uncertain parliamentary bases, excessive fragmentation of political parties and inconsistent party programmes which partly explain the unstable history of the Polish transformation due to the conflictual politics and rapidly changing governments. Not surprising, most governments throughout the period under consideration were minority governments with difficulties of securing stable agreements, given constantly changing parliamentary majorities and public support patterns.²⁰ The fragmented party system provides one convincing explanation not only for the hybridization of Polish reform approaches, but also for the delay in the consolidation of the transformation subjects linked to the instable decision-makers' party basis and power constellations

Rapid consolidation of the ČSFR/Czech party system: Directly after 1989, a profound differentiation and polarization process of the party system took place in Czechoslovakia. At the elections in 1990, there was still a total of 29 parties approved, and except for the Communist Party of the ČSSR (KPC), none of the other 28 parties disposed of functioning party structures (Mauritz 2002: 216). Given the significant cleavages in the struggle for orientation, speed and depth of market-based reforms, a party system with three rival major parties emerged in the subsequent years. *Vecernik* calls this structure to correspond to the threefold type of welfare states as defined by *Esping-Andersen* (1990): the liberal Civic Democratic Forum and Civic Democratic Alliance (ODS and ODA, the latter existing between 1989 and 2007), the opposite Czech Social Democratic Party (ČSSD) and the conservative Christian Democratic Union/Czech People's Party (KDU-ČSL) (*Vecernik* 2008). Among the smaller parties

²⁰ As a consequence, government coalitions acted inconsistently and implemented ad-hoc solutions, but were barely considering long-term reform programmes (Karolewski 2000: 317, Ekiert 2001).

developed two anti-system parties, the right-wing Czech Republic Party Assembly of the Republic (SPR-RSC) and the Communist Party of Czechoslovakia and Moravia (KSČM).²¹

A few years after the system collapse, the Czech Republic disposed of a consolidated party system with a tendency to reduce the number of parliamentary parties and the total number of parties: the effective number at the end of the year 1990 was 6.2, in 2006 it was 3.9, and in 2009, 8 parties were relevant, revealing a trend of fragmentation (Bertelsmann 2010b).²² According to *Mauritz*, the Czech Republic had followed the Western European party diversification (Mauritz 2002: 217). However, the left opposition was barely influential for a long time since the KSČM had been excluded because of its anti-democratic line and also the ČSSD initially had little success because of its anticipated proximity to the old system. The ČSSD has a long history dating back to 1878 and finds its origin in the trade unions, from where it tended to draw its advisors, ministers and government officers. After its forced merging with the Communist party in 1948, an exodus of social democrats during communism into other countries started (*Špidla*, Prague, interview in December 2011). The party was however able to survive in exile during the period of communism. This fact showed to have considerable influence on the social transformation process, since at the beginning, the neo-liberal government *Klaus* did not have to fear a social democratic takeover – on the other hand the social democrats were strongly represented in parliament and their scope for design was considerable, while the actors were not post-communist with potential constituencies to defend, as in the Polish case, but rather ‘newcomers’. As *Špidla* said in an interview, the social democrats succeeded to re-establish the Czech social democracy as a successful and credible political party (*Špidla*, ČSSD, interview in 2011). By 2009, the Czech political party scene was however increasingly characterized by increasing inner-party struggle and divisions. This led to growing disenchantment of the population with political parties and the government (Bertelsmann 2010b).

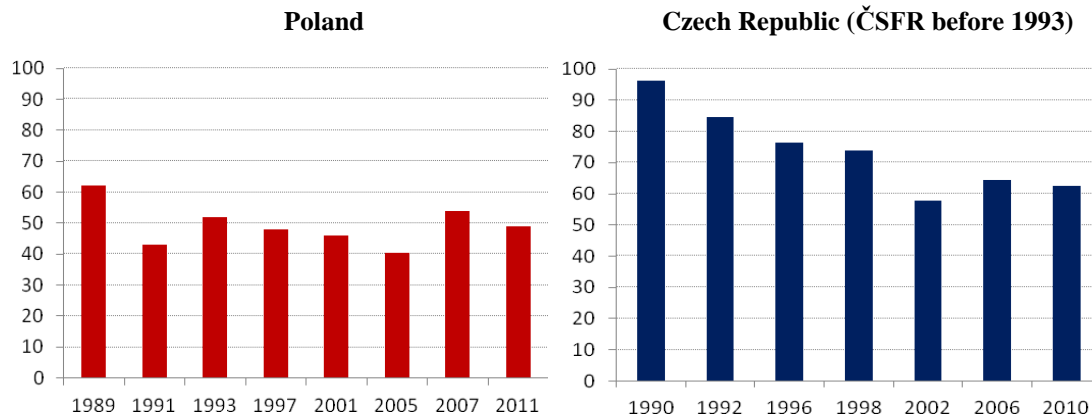
Analysis: varieties of party systems and their influence on the social transformation dynamics. In comparative perspective, the Polish party system is more fragmented than the Czech one, with a major role played by small parties, with even many new parties emerging after 2000 as for example the strong new government forces PiS or Samoobrona. The system shows a rather short life span of governments, since between 1989 and 2006, governments stayed in power for less than one and a half years on average. No government or parliamentary majority was ever re-elected by the electorate during the period of my research. While collective strikes contributed to political instability and high pressure for accountability of the reforms, participation in the Polish elections is exceptionally low at approximately 50 percent and it appears that the population’s protest was particularly articulated by the choice of

²¹ Since the economic crisis in 1997, the KSCM has gained support (election results at the parliamentary elections in 2002 were 19 percent, *Vodicka* 2004: 264). One reason could be the lack of a historical development of social democratic attitudes: at the moment of the implosion of the communist regime, the KPC had neither reformers nor a legitimacy to transform it into a social democratic party (*Vodicka* 2004: 264). The KSCM was thus playing the role of a protest party for transformation losers, joining young protest voters and former communists.

²² Not least due to the quickly introduced barring clause of 5 percent for parties and party alliances which does not exist in Poland.

voting abstention, as illustrated in Figure 8.2 (Ekiert 2001: 10, for further readings see i.e. Ziemer/Matthes 2004).

Figure 8.2 Voter turnout in parliamentary elections



Source: International Institute for Democracy and Electoral Assistance, www.idea.int/uid/

In Poland, political conflict does not exhibit the characteristics of stable and persistent class and party cleavages as it does in its neighbouring Czech society with the claim for social and political rights developed in the 1980s and during the transformation, Polish society witnessed a number of relatively organised groups that defended their rights and privileges which existed in the framework of the previous paternalist welfare regime whereas the Czechoslovak system provided only very limited possibilities for organising due to the very closed nature of the system. What does this tell us about their influence on the social transformation? Mainly that this Polish legacy prevented political parties from developing stable class bases and as a consequence, stable conditions to pursue a coherent social transformation do not really exist. As has been shown above with regard to the politics of political regime change, it was paradoxically rather the extent to which the Polish communist system tolerated (opposing) political actors' activities that hindered their stable reconfiguration after 1989, whereas in the Czech Republic, the window of opportunity for a new configuration of (returned) actors was apparently wider. The distinct developments of the social democratic parties in both cases are of particular importance in the context of social transformation processes: we find that the pro-worker movement during the 1980s in Poland did not succeed to sustainably revitalize the social democracy thought throughout the 1990s whereas in the formerly closed system of the ČSSR, the social democratic party managed to survive in exile to be re-established in 1990.²³

The relevance of the party system for the social transformation process can be confirmed with respect to the reconfiguration of parties and actors in the context of fragmentation and consolidation as an indicator of the power position and the capacity to organize: in the Czech Republic, decisive cleavages

²³ I want to point out that the post-socialist welfare state and social democracy in Poland and the Czech Republic emerged at a time when both entered into a severe crisis across almost all Western European countries. Social democracy in CEE entered this crisis in an even more drastic way for historical reasons and the experience of an over-determined and paternalist state. At the same time, the crisis of the welfare state in the West eliminated any clear model for the organization of employment policies in the CEECs (Fenger 2008).

between (economic) liberal and more intervention-oriented socialist preferences emerged and the party system quickly consolidated. Due to the unity of the social democrats in parliament it was possible to implement comprehensive social cushioning of the shock therapy. More importantly, the 'left' initially had no significant power to decide on crucial changes. In Poland, by contrast, the existing pre-1989 political movement by *Solidarność* entailed a continued fragmentation of the party spectrum and kept it in constant flux, paradoxically supporting the unquestioned dominance of the radical *Balcerowicz* programme due to a lack of the opposition's unity and incapacity to organize.

To what extent are these cleavages of the party system and party preferences of relevance for the emerging labour market regimes? As concerns the role played by class cleavages, partisanship and social democratic parties, both variables tend to be unclear and atypical in Poland compared to the Czech Republic. The delay in the consolidation of the Polish party system due to its fragmentation and changing political power constellations has significantly affected the social transformation process. Without doubt, all political forces took a position against the previous socialist discourse and all CEECs showed some fragmentation of parties, however, in contrast to the Czech Republic, the Polish party landscape is an exceptional case of ideological division and disturbed identity until today.

8.3 The configuration of government coalitions

Linking the empirical evidence of hybrid welfare to the explanatory variable in line with the actor-centred perspective, the key actors in the labour market arena are the government coalitions with the executive power. It is important to identify where these actors come from (their interests), what their ideological positions are (their ideas) and how their organisation and modes of actions (existing institutions) have developed over time, themselves being confronted with constant adjustment pressures throughout the transformation process. It is by this means that the relationship between institutional change and behaviour can be highlighted. Even if there were many expert opinions concerning social reform, few actors were actually involved in the reform process except the governments – this absence of a variety of actors was due to the fact that after the regime change, the formation of actors lagged behind the development of interests and ideas (Vecernik 2008).

In order to identify its explanatory power for the transformation outcome, this section examines the logic behind social policy-making and analyses the actors' power positions and organisational capacities in terms of political mobilisation. It focuses on the social transformation process with regard to its stability vs. discontinuity and consensus vs. conflict on the actor-level.

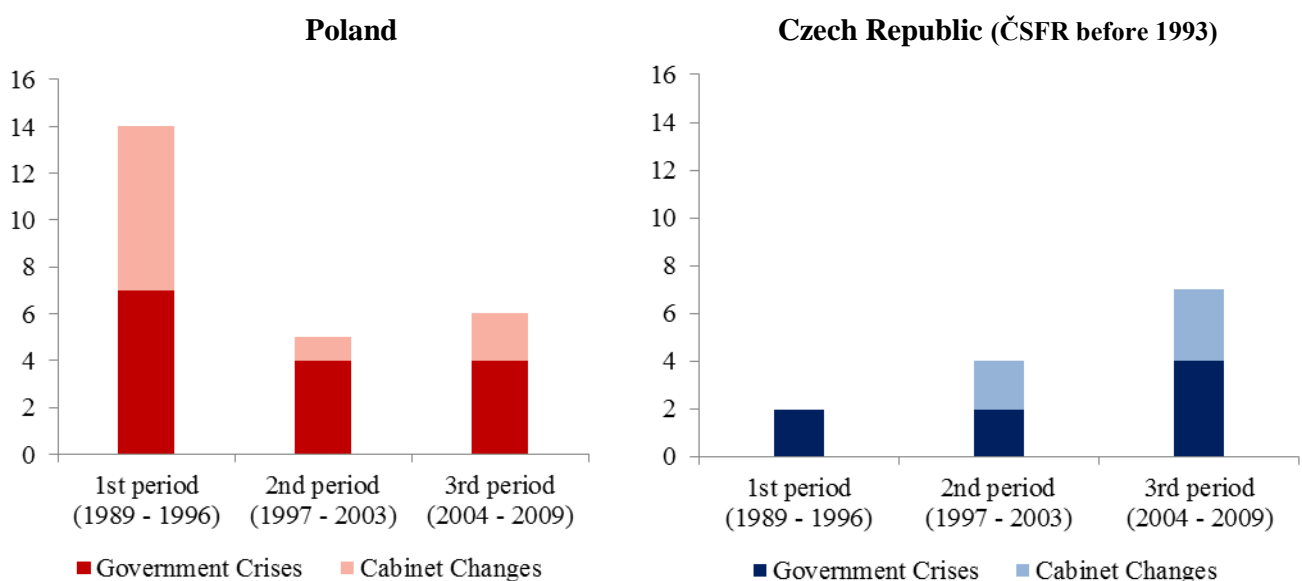
As already discussed, after 1989, there was domestic consensus that comprehensive reforms were to be implemented in the labour market arena concerning the change in the functional authority of the state with a more restrictive demarcation from the market sphere (Müller 2001: 211). The political discourse referred to new ideas integrating the logic of the market. These ideas were based on three principles: (i) not the community, but the individual is the owner of welfare rights, including an individualization of the management of social risks, (ii) not the state but the market is the main provider of welfare benefits, (iii) not all policies have to be 'social' in the new market oriented environment (Cerami 2006: 8).

The continental insurance-based European and the residual liberal welfare state were the main competing reform models²⁴: while ministers of finance and economy called for the liberal model, the conservative-corporatist role model was favoured especially by Christian Democrats, social liberal parties and the church (Götting 1998: 86ff.). While Poland and the Czech Republic re-established Bismarckian social security schemes the design of labour market regulation and policies continuously changed, linked to domestic actor constellations. Besides the significance of policy preferences, including those international actors powerful enough to trigger policy transfer, the degree of cooperation of actor coalitions played an important role in shaping the labour market transformation.

I focus on the analysis of the decision-makers' constellations with reference to the categories 'stability vs. discontinuity' and 'consensus vs. conflict' in order to identify their force to implement reforms which influence the nature of transformation policies. The composition of governments is relevant with respect to the coalition parties and the strength of social democratic, Christian democratic, market oriented conservative and liberal parties: the stronger the opposition to central state government and its majority in the legislature, the lower the autonomy of government policy and the greater the chances to enforce a policy against market dominance (Schmidt 1998: 183).

Figure 8.3 illustrates major indicators of political continuity and change according to *Banks* (2010). As becomes clear when looking at the number of government crises and cabinet changes, the Polish transformation course until 2006 has been frequently hit by crises and political instability, whereas the Czech Republic has been politically stable until the second reform period under consideration. In particular the first reform period provides evidence of divergent political disruptions in the two cases.

Figure 8.3 Political disruptions in Poland and the Czech Republic



Source: Banks (2010), own additions

²⁴ The social democratic model was only marginally discussed because firstly, it was reminiscent of the old discredited system, and secondly because its implementation appeared to be financially unrealistic and not feasible.

8.3.1 Path creating political dynamics (1989-1996)

Undecided preferences, conflicts and quickly changing governments in Poland: With the surprise victory of *Solidarność* in the 1989 semi-free elections, the first question coming to mind is: why did exactly this government implement such a radical, neo-liberal political programme? The following reasons can be mentioned: an unprepared and sudden takeover of power, the dramatic economic crisis in Poland since 1989, and the election of *Leszek Balcerowicz* as Finance Minister, the ‘strong man’ that people were apparently looking for (Orenstein 2001: 28f.).²⁵ The shock therapists believed that only the non-delayed radical economic big bang could help rapid economic revitalization and the implemented programme “depended on a political strategy of insulating reformers from interest group pressures and pushing ahead as quickly as possible before civil society groups could mobilize against reform” (Orenstein 2001: 25). There was no social mandate, but “communist reformers struck an agreement that guaranteed their continued control over critical institutions not exposed to the uncertainties of electoral competition” (Stark/Bruszt 1998: 18).²⁶ The first reform package was prepared in a highly isolated political institutional setting while inherited institutions of labour representation which had emerged during the system change were taken apart. As mentioned before, as a compensation of this, policy makers introduced unemployment benefits, minimum wage regulations and massive early retirement from above in a top-down manner (Orenstein/Haas 2005, Bohle/Greskovits 2007). The case of *Solidarność* is undoubtedly a singularity, however, it is interesting to note that the transformation started off as a pattern of compensation without institutionalized interested representation (Bohle/Greskovits 2007). It is selective and limited inclusion which prevailed in a parallel manner, excluding social actors by taking their chances for collective action and unequally distributing the available resources through generous benefits.

Balcerowicz initially succeeded in implementing his barely socially anchored reform agenda by means of cooperation with foreign consultants while taking his isolation from social interest groups.²⁷ The shock therapy had been implemented with orientation towards the neo-liberal Washington Consensus as in the ČSFR, while the establishment of a social safety net for compensation and cushioning was, however, limited to the creation of a system of financing unemployment, and mostly postponed far into the future (Orenstein 2001: 35). Consequences of banishing the former paternalistic welfare regime were a rapid decline in living standards, entailing a sharp decrease of *Solidarność*’s popularity, dropping from 75 percent (January 1990) to 55 percent until the middle of the year (Orenstein 2001: 37). One crucial reason for this loss of confidence in the government was the devastating increase in unemployment.

²⁵ Premier *Mazowiecki* had said to him: “I am looking for my Ludwig Erhard” (quoted after Orenstein 2001: 29). Finance Minister *Erhard* directed Germany towards social market economy in the postwar period.

²⁶ The prevailing problem was the lack of legitimacy of the Polish parliament at that time. The majority of the deputies in parliament had not been elected in free and fair elections (Karolewski 2000: 300).

²⁷ The strong isolation from social assessment was based on three factors: (1) The decision of the leaders of *Solidarność* to support the reform programme without a social mandate, (2) the strong will of the parliament to enforce a strong unitary programme, given the country’s crisis, and (3) the ability of *Lech Wałęsa* and *Solidarność* to hold a kind of protective umbrella of social support over the initial phase of the programme. At that time, *Solidarność* still received 75 percent support from the population (Orenstein 2001: 32).

After the regime change, Poland was confronted with an obviously different situation to that of the ČSFR because it experienced rapid changes of government, which time and time again overturned the reform agenda, and the period was characterized by instability and disorientation with the consequence that political solutions were only valid during one term in office, generating right-wing governments which pursued efficiency-oriented liberal policies while left governments stressed the need for social cohesion, leading to evident political chaos (Firlit-Fesnak 2000):²⁸

“The transformation of the Polish state can be perceived as a very chaotic process driven by unexpected exigencies and the short term political calculations of elite politicians [that] have tended to support their own, frequently short term visions rather than considering long term implications“ (Ekiert 2001: 12).

Given this conflicting decision-making process, the issue of early and frequent parliamentary dissolution and crippling ideological conflicts blocked sustainable labour market reforms. Quickly after the elections in 1989, the *Solidarność* block began to break up into rival groups with different political views especially with regard to the programmes on macroeconomic stabilisation and liberalisation. The reaction to different government coalitions quickly breaking apart again came from *Solidarność* and not from partisan groups. As already mentioned above, we can draw the following paradoxical conclusion that the *Solidarność*'s power and its political aspirations were a major obstacle hindering the emergence of a stable party system and stable sequence of government coalitions. Polish economists *Mieczysław Kabaj* and *Tadeusz Kowalik* at that time stated that “the frequent elections and negative campaigns, the derailment of the economic policy, and the absence of right-wing parties from the parliament since 1993, all have their immediate origin in the unduly cruel reforms” (Vercernik 2008: 499).

While *Solidarność* had been pushed to the political forefront at the beginning of the regime change, it tried to involve itself directly in political life with the creation of the AWS in 1996 at a meeting of *Solidarność* trade union members and leaders of right-wing parties.

In the meanwhile, at the election in 1991, the UD (12.3 percent) and the SLD (12 percent) were at the top, the Catholic centre-right parties dominated in the combined total, favouring status-oriented and subsidiary social security. One of the problems appearing during the coalition negotiations was that initially none of the parties was ready to enter a coalition with the SLD, having been dismissed for being communist.²⁹ After Prime Minister *Olszewski* (held office five months) and Prime Minister *Pawlak* (held office only one month), both of the PSL, *Hanna Suchocka* had been called into office and with her minority government of seven parties she pushed for neoliberal reforms. However, the budget deficit, originally frozen at zero, was extended to 7 percent because the level of social expenditure turned out not to be flexible, especially given the massive early retirement programmes and high unemployment. Without success, *Suchocka* tried to bring the debt down to 5 percent, as agreed with the IMF. As a long-awaited step, Minister of Labour, *Jacek Kuroń*, negotiated the Pact on State

²⁸ See appendix for changing government coalitions and socio-economic reform strategies.

²⁹ Finally, a government was formed from UD, SLD with three center-right *Solidarność*-oriented parties and *Jan Olszewski* as Prime Minister. But his coalition failed even before he could ever follow a socially cushioned track.

Enterprises³⁰ for the creation of employees' advantages, signed on 22 February of 1993. Neoliberal reformers criticized this social policy decision vehemently, “seeing it as an excessive state intervention that privileged special interests and as a threat to reform” (Orenstein 2001: 50). However, the economic liberals, like in the Czech Republic, had to deal with decreasing popularity because of high transition costs and partly disappointed public expectations.

Already the elections in 1993 marked the comeback of the left with the SLD obtaining 20 percent of the votes and forming a coalition with the PSL, and it was the programme ‘Strategy for Poland’ in May 1994, announced by Finance Minister *Grzegorz Kołodko* (SLD), that opened a new phase for the Polish political left. The ‘Strategy for Poland’ included for example reduced social costs through more effective social pension and welfare benefits as well as improved conditions for farmers. The programme was clearly of *Keynesian* inspiration and opposed *Balcerowicz’s* market ideology. *Kołodko* emphasized that the fight against unemployment must be a priority of economic policy, and regarded unemployment as a structural phenomenon rather than caused by the business cycle. This policy turn from *Balcerowicz* to *Kołodko* showed that the path of socio-economic adjustment was not only determined by a political or experts’ elite, but also politically mediated, for example by partisan organisations and social partners as key actors in this process. According to *Orenstein*, the government coalition with the SLD

“[w]inning public approval by acting as a responsible, reliable, and trust-worthy party fully committed to parliamentary democracy and market reforms, but with more social sensitivity and professionalism than Solidarity leaders. However, the SLD still had problems shaking its image as an alliance of old communists” (Orenstein 2001: 51).³¹

During this government between 1993 and 1995, the political course at last consolidated: system stabilization and privatization were pursued and accelerated as first steps towards EU integration. A more interventionist politics was carried out, including the establishment of collective bargaining between economic veto players and important societal interest groups. During this period, protest actions declined and the positive economic development experienced a boom in foreign direct investment. *Orenstein* argues that the SLD/PSL coalition was the first Polish government

“[which] proposed a new strategy for economic transformation that was intended to continue the transformation to capitalism while lowering the social costs of reform, enhancing stability in government and economic policy, and accelerating growth” (Orenstein 2001: 54).

Stable politics and consensual reform approaches in the ČSFR/Czech Republic: The ČSFR’s reform policy after 1989 focused equally on liberalization and stability. One peculiarity of the ‘government of national understanding’ under Prime Minister *Marian Calfa* was that it waited for the first free elections

³⁰ Among other things, the pact included the creation of a negotiation system based on a Tripartite Council such as had existed in Czechoslovakia since 1990. Shortly afterwards, however, the government *Suchocka* failed on 28 March 1993 at a vote of no confidence with only one majority vote, initiated by the *Solidarność* trade union after a government rejection of wage increases for employees in the health and education sector.

³¹ Maintaining this attitude, the UD refused to form a coalition with the Social Democrats, considerably slowing down the coalition SLD/PSL in its pace of reform.

in 1990 before launching the economic restructuring in order to ensure a democratically legitimate mandate, and thus be able to act on the basis of solid social acceptance.³² This move supported the public acceptance of the political reform agenda.

ČSFR/Czech policies were implemented by the newly-trusted elite representing the key figures of the social transformation process and even if interest representation was barely organised and rather weak, a general public acceptance of government representatives, political parties or parliamentary groups prevailed. Two main elites were steering the transformation process: (i) former technocrats of the communist system who were now decision-makers of the economic policy did however not come from the former power structure as they had enjoyed a certain degree of independence in research institutes during communism, and (ii) former dissidents who remained in distance to the former system while being in exile.

In 1990, the first post-socialist elections brought the victory of Civic Forum (OF) and Public Against Violence (VPN), both umbrella movements uniting diverse political preferences. Elite preferences were basically not relevant since the elections could have been compared to a referendum on continuity or entire regime change. The election results offered complete control over the government between 1990 and 1992. At the same time, the OF did not dispose of any social and economic profile because of its division in two groups: the first group was in favour of a market economy without adjectives and linked to the technocrats led by *Klaus*. Finance Minister since 1989 and Prime Minister from 1992, *Klaus* pushed for rapid economic reform and a withdrawal of the state from economic affairs. Different than in most other CEECs, the Czech Communist Party did not reform itself, but disappeared from the main political stage, continuing as an orthodox communist party. As a result, it lost most of its members and played only a marginal role after the regime change, and none of the other parties was interested in cooperating with it.

The second group of OF included former dissidents and was led by the new Prime Minister *Marian Calfa* who promoted a more gradual transformation towards a market economy with a 'human face'. This inner antagonism of the party presented a counterbalance to the scope and pace of reforms. The reform path proved to be a compromise between the two groups within the OF generating the so-called Czech social liberalism that can be interpreted as one source of hybridization of the labour market developments (Orenstein 2001: 68ff.).

Even if the first group was very much in favour of creating capitalism quickly, in the context of the social reform scenario, their first objective was to maintain and promote employment. The decline in employment in the Czech Republic was one of the lowest in the CEE region, partly thanks to specific labour market policies and programmes even if structural economic factors certainly need to be considered.

However, after a while, the population rejected the high reform speed and the two groups within the OF split up into two separate parties: the Citizens' Movement (OH) and the Civic Democratic Forum

³² The Czechoslovak reform programme was discussed extensively in politics and society, and finally a compromise was introduced, including the acceptance of trade unions expressed in the election by 53.2% of the votes for the Civic Forum (Orenstein 2001: 67, Mauritz 2002: 216).

(ODS). An even smaller group had left the OF before and created the Civic Democratic Alliance (ODA).

In the wake of the election in 1992, *Václav Klaus'* ODS succeeded in the formation of a stable, reform-oriented government coalition and continued the liberal economic path, while in many neighbouring countries in CEE, such as in Poland with the elections in 1993, the left parties' popularity once again had improved. In the first post-communist government, however, neo-liberal politicians had been in the minority and therefore never exercised unchallenged control, such as the *Balcerowicz* team did in Poland (Orenstein 2001: 61). *Orenstein* summarizes “[w]hereas in Poland, neoliberals rose to power and were given free range to apply their technocratic program without limits, Czech politicians took a more cautious approach with greater compensation measures and input from social democrats“ (Orenstein 2001: 80).³³ Consequently, a compromise with *Klaus'* radical approach and the opponents was initially formed, which, according to *Orenstein* led to a hybrid social liberal strategy by combining different political preferences.

Components of the first ČSFR reform programme were *inter alia* the following social priorities:³⁴ (i) training measures for employees as well as (ii) the legalization of the method of collective bargaining as a mechanism for future wage regulation, and (iii) the restructuring of social security and health care and its separation from state funding.

The 1992 elections brought *Klaus* and the ODS almost 50 percent of the seats in the Federal House of the People and House of the Nations, as well as 38 percent of the seats in the Czech National Council. 81 percent of Czechoslovaks agreed in 1992/1993 that the “government needs time” to deal with problems inherited from the communists (World Bank 1995), mirroring the broad legitimacy of the reform actors. A special feature of the ČSFR political system at that time was the absence of a strong social democratic party - the ČSSD did not manage to win more than 8 percent of the parliamentary seats.³⁵

How can we explain this overwhelming victory by *Klaus*? To a large degree, it was due to the party's benefit from the favourable economic situation, somehow managing to dissolve social and political conflict through the struggle for economic prosperity and allocation of resources (Keune 2006: 187). Above that, *Klaus* definitely was an experienced economist and talented media personality.

The coalition of ODS, ODA and the KDU-ČLS with the Prime Minister *Klaus* had a strong position in the Czech part of Czechoslovakia, becoming only stronger after the break-up of the federation in 1992,

³³ Even if *Klaus* was openly in favour of the *Balcerowicz*-programme's style, his hands were initially bound facing the existing majorities and his role as being ‘merely’ finance minister. He had to implement much more socially embedded measures than he actually wanted: “These included corporatist-style labor market institutions, low-unemployment policies, a social minimum income, and continued state commitment to a range of universal social benefits“ (Orenstein 2001: 62). In an international perspective, the Czech transformation was largely seen through the eyes of the leading protagonist, *Klaus*, often ignoring cushioning measures.

³⁴ The documents on social policy by the proponents of ‘radical’ and ‘gradual’ economic transformation were initially identical, and thanks to the party and coalition discipline over 90 percent of government legislative proposals were adopted by parliament (Orenstein 2001: 71).

³⁵ The Communists received 18 percent in the Czech National Council, followed by six smaller parties each receiving 6 to 8 seats. The OH party of many dissident leaders of the Velvet revolution did not win any seats.

carried out by *Klaus* and *Meciar* as a ‘velvet divorce’.³⁶ The opposition was fragmented, the most visible party being the Communist Party which was discredited anyhow. Until 1996, *Klaus* actually faced only one powerful opponent: President *Václav Havel*, whose moral authority was respected as a symbolic leader. *Klaus* was counterbalanced by a social democratic power in the period before 1992, but now was able to follow his liberal approach, pursuing mainly monetarist objectives. The ODS programme proclaimed the belief of a free market as the guiding principle of society:

“We believe that a society in which economic forces compete most freely is most likely to achieve economic growth and improve standard of living. (...) We do not desire to repair the imperfections of the market using state intervention and regulation, which so often cause only problems” (ODS Political Programme 1995).³⁷

As a consequence, a clearly neo-liberal direction was taken without any remarkable state regulation and clearly put individualism over collectivism and redistribution. The role of the state was reduced to internal and external security aspects, protection of rights, anti-inflationary policies, and enforcement of the fulfilment of contracts (Keune 2006: 189). As concerned labour market policy, the position of the ODS was obvious according to its political programme:

“The danger of state expansion to areas which are best left to the private sector is greatest in labour and social security matters. This is because the argumentation of those who seek to extend the role of the state in these areas exploits our sensitivity to human suffering. The end result is the welfare state, in which the state removes from individuals a large proportion of their responsibility” (ODS Political Programme 1995).³⁸

95 percent of the prices had been deregulated at the end of 1991 and the government pursued two main objectives potentially leading to stabilization: inflation and budget control as well as privatization. Inflation was at 56.5 percent in 1991 and only 10 percent in 1994, in the following years it remained even below this record (Abbas et al. 2009).

Privatization had already begun under the OF government: large enterprises were sold, nationalised property was restored and the voucher privatization, the so-called ‘small privatization’ with the sale of 25.000 small shops and enterprises to Czechoslovak citizens was implemented until the end of 1992. In 1994, the voucher privatization was completed, reflecting *Klaus*’ idea of a free distribution of wealth to the population while at the same time promoting market ideas by initiating an accumulation process in which those with knowledge of markets were the most successful. This led to a situation where power and wealth would accumulate at the most rational individuals’ responsibility, reflecting the clear rejection of the socialist experiment and orientation towards a *Hayekian* order, where the ‘best’ are the richest and vice versa (Keune 2006: 190). Practical political reality however showed that the

³⁶ I do not intend to analyze the break-up of the Federation in more depth here, but I want to emphasize that the separation was not an inevitable decision. Even if there were essential historical, cultural and religious differences between the two parts, it was the election campaign in 1992 and its victors *Klaus* and *Meciar*, both taking a confrontational political position with the objective to ensure their territorial influence and finally took advantage of the situation.

³⁷ ODS Political Programme, adopted by the 6th Congress of ODS in October 1995 (quoted after Keune 2006: 189)

³⁸ ODS Political Programme 1995 (quoted after Keune 2006: 189)

relationship between state and market was more complex: many large enterprises were still under state-control and the banks, but also mines, telecommunications, Czech Airlines and transport companies remained within the sphere of the state. The country struggled with its socialist legacy while being confronted with the fundamental task of designing economic fortune. These delays and even legacies showed that despite all the market-oriented rhetoric, political economy reformers left the 'core' of the economy to the state, for instance by defending and providing subsidisation of large engineering companies which had financial problems. By this, reform actors aimed not only at preventing unemployment and income decline, but also wanted to prevent key enterprises being sold to foreign investors.

The voucher privatization had concentrated shares in Investment Privatization Funds (IPF) and those who were now owners of significant parts of the economy found themselves in the bizarre situation that they were supervised by state control, implying the fact that state ownership basically continued. The IPFs did not promote the restructuring of enterprises, but rather the allocation of capital.³⁹ In this situation, together with inadequately reformed regulations, only a limited number of bankruptcies were the result. At the same time, the legal regulation for business activities remained incomplete and a minor objective of the government at that time, showing that despite the liberal reform approach, certain features of the old system combined with social cushioning measures prevailed, revealing higher degrees of state intervention than were publicly articulated.

The *Klaus* government benefited from the 'Czech Miracle' with very low unemployment rates and only modest employment declines combined with a positive economic development, reaching its initial 1989 level again as soon as 1991. As a result, *Klaus* was recognized as a successful reformer in the international sphere, perfectly fitting into the philosophy of the IFIs.

However, soon after the country's separation in 1993, *Klaus* began to reduce social benefits and increased the ceiling for allowances, partly replacing universal allowances by means-tested assistance. The minimum wage had been devalued and *Klaus* publicly argued against the corporatist model which had been established in 1990 with the 'Tripartite Council for Social and Economic Integration' (Orenstein 2001: 86). The once attained social peace began to crumble in the years 1994/1995, manifested by more and more demonstrations and strikes by the working population (ILO laboursta).⁴⁰

Analysis of the reform period 1989-1996: the impact of politics on the early social transformation steps. It shows that during the first period under consideration, Polish government elites and partisan actors were both not able to organise properly and to speak with one strong voice. It is difficult to understand why Solidarność embraced neoliberal ideas as a policy approach, but two possible influences were certainly playing a role: first, at the end of 1989 the economic crisis suddenly became more dramatic with an increasing foreign debt, monthly inflation over 50 percent and the outbreak of major strikes. Second, Solidarność came to power very suddenly and also unexpectedly. The trade

³⁹ Marginal focus was directed towards micro-level reform, it was rather bank credits that continued to stand central.

⁴⁰ See strikes and lockouts in the Czech Republic (<http://laborsta.ilo.org/STP/guest>). From 1995, *Klaus* raised the retirement age and in 1996 introduced means-tested family support. Added to this was an unpopular reform of the healthcare system by introducing private health insurance funds. These actions earned him the collapse of his social support and led to demonstrations, such as that on 8th November 1997, with 120.000 participants (Mauritz 2002: 228).

union never gained experience in governing nor in implementing an economic programme (Spieser 2009: 149). This lack of organisational capacity was of course also due to the underground character that the union once had, and its lack of preparation for coming into power contributed to their sudden trust in someone who appeared to be an expert on economic reform. *Balcerowicz* seemed to be exactly this expert, meeting the profile created by *Mazowiecki*. As a technician he appeared to have clear ideas and thus became deputy prime minister for economic affairs, being free to implement his liberal ideas. Lack of experience, institutional backup and expertise to deal with the problem of sudden unemployment – all these factors made the government increasingly open toward policy solutions promoted in the international policy arena.⁴¹ This situation created an environment which was very favourable for the import of policy ideas from international actors and institutions and constituting a last possible lever of policy change. As expected, the employees in large state-enterprises were clearly against privatization while the government thought it necessary to immediately privatize ineffective state-owned enterprises.⁴² As it has been discussed already, *Solidarność* interestingly promoted the idea of privatization and showed commitment to the rapid system change. As a consequence, a balance of shock-therapy and negotiated labour adjustment appeared to be impossibly avoiding social unrest.

In the ČSFR/Czech Republic, the political and institutional conditions for the implementation of comprehensive economic and welfare reforms developed relatively favourably, partly because Czech policy formulation in the first transformation years was not affected by frequent changes of government and an uncertain balance of power (Götting 1998: 56). Another important feature of early Czechoslovak transformation, as stated by *Orenstein*, “was the atmosphere of ‘social peace’ that prevailed. Wage reductions were seen as part of a low-wage, low-unemployment bargain struck with organized labour through corporatist bargaining in the new tripartite council” (Orenstein 2001: 81). In addition to the initially low unemployment rate, the reformers’ ‘honeymoon period’ was prolonged by the establishment of social dialogue which, in contrast to Poland, quickly institutionalized.

The Czech political transformation included major systemic changes including a redefinition of the nation-state. Two actors were dominating the nation’s development at that time: *Václav Klaus* and *Václav Havel*. As both figures represented strong and opposing streams within Czech politics, their different views had a great impact on Czech society and the way the political system consolidated as a highly polarized system in contrast to the fragmented Polish one (Bertelsmann 2010b).

The Czech system quickly stabilized during the 1990s and the initially inexperienced elites and reformers were soon replaced by professional politicians, following a structure of recruitment that is known from other liberal multiparty democracies. As concerns the task of nation-state building, this process was never threatened by international actors or became an important issue in the Czech Republic, one of the most developed and homogenous parts of the Visegrád states, whereas Poland had difficult legacies as concerns nation-state building and social and ethnic heterogeneity, leaving the

⁴¹ During a parliamentary debate in 1989 on the Employment Act government representatives spoke on the topic of unemployment as a “temporary phenomenon” which would not exceed 3 percent (Firlit-Fesnak 2000: 2).

⁴² According to *Spieser*, in 1993, 59 percent of workers wanted their enterprise to remain state-owned, an additional 29 percent wanted this ownership to be translated into employee ownership and only 11% were in favour of privatization (Spieser 2009: 177, quoted after Gardawski 2004: 122).

political elites with the question which position to take with respect to social and political integration (Bohle/Greskovits 2007).

To escape the situation of low social support, Polish policy makers thus chose generous targeted social protection packages in order to sustain social peace. Reinforced by the fragmented party landscape, an instable dynamic of interests dominated in Poland for a long time, generating conflicting actor constellations delaying the reform policies. This feature was the reason for *and* the effect of a pronounced insecurity as concerns the direction of the social transformation, supporting the development of hybrid policy solutions. Besides that, *Karolewski* argues that *Solidarność*'s abandonment of a political mandate at the beginning of transformation was punished later by a withdrawal of legitimacy with the consequence of a legislative paralysis (*Karolewski* 2000).⁴³

Poland and the Czech Republic differed with view to uncertainties regarding future socio-economic expectations, being less certain in Poland than in the Czech Republic due to the political fragmentation. As can be observed for the two cases, the longer an intermediary status quo of policy-making prevailed, the more rigid the intermediate structures became and consensus about the chosen direction diminished. At the same time, the Polish social reform process has been impaired due to unstable coalitions of actors and emerging political stalemate, leading to a postponement of political programmes while asking for greater focus on policy recommendations and assistance by the international (financial) institutions (*Ekiert* 2001: 16, *Grimmeisen* 2004: 28ff.).⁴⁴

The development of new policy ideas is apparently connected with the development or reconfiguration of actors' interests. In all CEECs, new interest-based relations evolved. Different ministries had to cooperate (such as the Ministry of Finance and the Ministry of Labour and Social Affairs) despite partly converging interests: while the Ministry of Finance generally pursued the objective of ensuring financial stability, the representatives of the Ministry of Labour and Social Affairs engage in the social dimension and the adequacy of political reforms, sometimes even in favour of a welfare state expansion. In both countries, the reform proposals have continuously been back and forth between one ministry and another and were the object of bargaining activities between the various actors involved. Conflict, debate and compromise were on the agenda before reform proposals finally found their way to legislation.

A major difference between the cases is based on the fact that a traditional pro-work actor, the Polish *Solidarność*, became an agent of company restructuring and fostered change at plant level, even if this led to a shutting down of the concerned organisation. *Irena Lipowicz*, Polish Ombudswoman, recently

⁴³ According to *Offe*, reform plans in post-communist countries can be implemented successfully "only if the elites in charge of reform secure a solid democratic mandate for their privatizing initiatives and recognize a fair accountability to the majority of the people" (*Offe* 1996: 39). The institutional paralysis in Poland led to a marked slowdown in the economic reform programme and thus to the perception abroad that Poland is drifting into political instability (*Karolewski* 2000: 310).

⁴⁴ According to *Grimmeisen*, this process develops along a combination of three conditions: (1) domestic problems, (2) externally developed recommendations, and (3) political receptivity in the concerned country (*Grimmeisen* 2004). In addition to LMP and minimum social security, this is reflected in the areas of the pension, health and education system.

claimed that *Solidarność* is the only trade union in the world that promoted market capitalism.⁴⁵ It is possible to trace back this phenomenon to a significant evolution of ideas on market economy and property rights by *Solidarność* in the 1980s, a phenomenon which prevailed throughout the 1990s and certainly influenced first reform approaches.

8.3.2 The fall and rise of social democracy (1997-2003)

Political instability and the fall of social democracy in Poland: In the elections of 1997, the page turned again: the social democrats lost while the revitalized AWS formed a coalition with the *Balcerowicz*-led Freedom Union (UW), having emanated from the UD (vote 13.4 percent). In the framework of this liberal efficiency-oriented government coalition, one focus under Prime Minister *Jerzy Buzek* as the first Premier who would survive the entire legislature was the institutional reform of public administration, education, pension and healthcare. *Buzek* was seen as a relatively independent person trying to attain consensus, but he failed to instil discipline or coherence in the government. *Buzek* positioned the government as an entrepreneurial team and himself as a dynamic reformer, marking a contrast with the relatively cautious approach of its leftist-PSL predecessor. He managed to put major reforms on the agenda, but these reforms turned out to be unpopular and had negative consequences for the support of *Solidarność*.

In 1997 and 1999, the SLD claimed that those groups of citizens who do not enjoy equal opportunities have to be better represented and supported by the state. However, whilst in power from 1993 to 1997 with a surprisingly quick return of social democratic parties as the first country in CEE, the SLD/SdRP had failed to implement any substantial reform in the field of welfare policy and socioeconomic governance. While the shock therapy at the beginning of the 1990s led to a quick economic recovery but entailed very painful social side-effects, the mid 1990s provided a window of opportunity to promote a broader social agenda – but instead of addressing important welfare state reforms, the coalition focused on using the benefits of economic development to serve and secure their electoral base by launching populist measures such as raising the level of pensions and maintaining privileges for strategic professions. As concerns the labour market policy, the SLD supported the idea of general access to work, referring to the objective of full employment. However also here, in practice, this idea did not proceed much further than the attempts to reduce high unemployment and to cautiously prevent mass unemployment.

In 2000, the UW left the government and the upcoming presidential elections were a disaster for *Solidarność* leader *Marian Krzaklewski* (AWS) since the opposing leftist representative was elected in the first round with almost 54 percent of the vote. In 2001, the SLD-UP coalition included a chapter referring to the rights of the weakest in society, but this chapter was more a political result of the critical evaluation of policies by the centre-right government in 1997-2001 as a sign of the UP's leftist influence.

⁴⁵ Speech on the 19th European Social Services Conference in Warsaw, 6-8 July 2011, organized by the European Social Network (ec.europa.eu/social/main.jsp?langId=en&catId=88&eventsId=338&furtherEvents=yes).

When regarding the field of labour market policies as a new sphere after 1989, it becomes clear that Polish policy-makers did not wish to create a universal and insurance character of policy programmes. A clear priority was set with respect to the fight of unemployment while the remedy and compensation of people in unemployment facing income loss and reduced protection was neglected. The combination of the two strategies, fighting against unemployment and compensating the unemployed is often tried to be realized in practice, while they are at the same time representing two opposing understandings of the reasons for unemployment and its remedy. This phenomenon can be interpreted either as a social hardship being provoked by phenomena as economic transformation or it can be regarded as an inefficiency connected to the willingness of the individual to adjust to a changing economic environment. It is obvious that in Poland, unemployment has been regarded as a priority to address while the situation of impoverishment of large parts of the population through unemployment was rather neglected. Unemployed were and still are regarded as somehow abusing the system, not deserving high level support except for the young unemployed.

The 2001 parliamentary elections brought up a government by SLD with the support of the UP and the PSL. The political climate in Poland somewhat changed: the government modified its law-making practice and *Hausner* pursued reforms by accepting all major institutional partners. A first project was the revival of the TK that had been paralyzed after the OPZZ's withdrawal and which *Hausner* regarded as essential for social dialogue and what he called 'interactive governance'. To his mind, a new type of corporatism was needed, involving more actors than those that were trying to defend their old economic privileges. This idea was obviously welcomed by the unions. *Hausner* tried to revitalize the national tripartite institution and since both trade unions had moved away from direct involvement in national politics they returned to their direct political role and more to their initial task of interest representation, the government thus managed to reinforce social dialogue. In 2001, the TK was improved by the revision of statuses. Even if there still was a lack of confidence between the partners, its functioning was improved and since 2002, regular meetings reviewed drafted bills before they went to parliament. The social partners within the TK discussed the whole package of changes concerning labour law in January 2002, and the negotiations seemed to be promising and an agreement between *Solidarność* and OPZZ appeared to be realistic. However, finally, *Solidarność* rejected the amendment proposals to the Labour Code. As a result, the OPZZ together with some employers' associations found a compromise and also agreed on some common reservations against i.e. the dissolution of collective agreements and the conditions of leave to severance and overtime pay. In spring 2002, two agreements were signed, while *Solidarność* was organising a demonstration in Warsaw with several thousand participants against the government's proposal, even if its protest remained limited since *Solidarność* had lost representation in parliament (Spieser 2009: 189). The government decided to introduce the proposal in parliament after having included slight changes to meet the trade unions' demands, despite the lack of unified support by the social partners.

Government crisis in the Czech Republic and the rise of social democracy: In 1996, Prime Minister *Klaus* finally began to fail. Facing a lack of adequate institutional reform of the market, confusing

ownership relations, a macro-economic reform that lagged behind and corruption scandals, finally the situation resulted in growing public discontent with the government. Even if the elections brought the ODS 68 seats, the ČSSD seemed to be revitalising and won 61 seats. *Klaus'* coalition altogether won 99 seats – a situation that offered no majority in parliament and implied a strong opposition. One year later, the economy found itself in an increasingly difficult situation with low investment, a decline in GDP and increasing unemployment. However, the government resigned at the end of 1997. The economically neoliberally oriented, but socially absorbed policy of the first government had ensured eight years of social support for *Klaus*, while Polish Finance Minister *Balcerowicz* lost support within one year. This phenomenon characterized the ČSFR, respectively the Czech Republic, as the only post-communist country that could carry out radical reforms with prevailing social support.⁴⁶

Despite the initially positive social transformation effect of Czech consensual and approved government strategies when compared to the Polish zigzag course, *Orenstein* stresses that later on, at the end of the 1990s, the increasing problems with the Czech reforms “demonstrated the need for policy alternation among strong government with different pro-reform visions and strategies, as occurred in Poland. [...] In the Czech Republic, weak governments since 1996 prevented a change in course that would have corrected some of the most serious mistaken policies of the long-lived *Klaus* regime and dislodged its rent-seeking networks” (*Orenstein* 2001: 95). On the other hand, *Potůček* argues that the overall welfare approaches and expenditures have fluctuated only slightly in accordance with the ideology of political formation in power, confirming “both the robustness and considerable inertia of the Czech welfare state” and supporting the assumption that “due to the proportional electoral system, Czech governments are generally weak and unable to design and push through ‘radical’ reform” (*Potůček* 2009: 64). This finding confirms *Sabatier's* approach claiming that a policy direction will not be changed as long as the advocacy coalition who has set up this policy remains in power in this policy field – except if a superior political entity enforces change. Any change in the policy direction requires crucial external disruptions and strategic use of the window of opportunity of the actors (*Sabatier*: 1992).

From January 1998 until the elections in June, a commissioner government was installed. The social democrats' popularity had increased parallel to the increasing rejection of *Klaus'* reform policy – and had climbed from 6.53 percent support in 1996 to 26.44 percent in 1997. This consent was partly due to rising unemployment in an economic situation that increasingly contradicted the initial success story of Czech transformation. The social democrats won the 1998 election with 32.3 percent, gaining 74 seats for the ČSSD, while surprisingly the ODS still kept still 63 seats in parliament.⁴⁷ It is interesting to note that neither of the parties managed to form a majority government as both parties refused to cooperate with the Communist Party. Finally, it was the ČSSD that formed a minority government with *Miloš Zeman* as Prime Minister, based on an ‘Opposition Agreement’ between ODS and ČSSD. This

⁴⁶ Given the political and economic situation in Poland, a window of opportunity was used even without broad acceptance by the population, whereas in the Czech Republic right from the beginning *Václav Klaus* was conscious of the importance of sustainable political support and high priority of economic reforms (*Skreta* 2001: 66). This is affirmed by *Orenstein*: “[...] the fact that the economic transformation programme went through all these stages and was managed in such a way as to convince the public that the program was fair and acceptable – and something they had voted for – helped maintain public approval of the program even as harsh effects were later felt” (*Orenstein* 2001: 73).

⁴⁷ The Communist Party could upgrade their results to 11 percent; the Freedom Union won 8.6 percent.

agreement permitted the ČSSD to administer the country in exchange for several concessions made to the ODS in several policy areas while guaranteeing a number of political decisions in favour of the ODS.⁴⁸

The government coalition however created a new political atmosphere since *Zeman* presented himself as a *Keynesian*, standing opposed to *Klaus*' governing. This becomes clear in the statement of the government in 1998: "The Government considers its integral goal to be its contribution to the Czech society becoming a society of learning, participation and solidarity and to this effect transforming itself into a modern society of the 21st century".⁴⁹ The ČSSD continuously pushed for a stronger role of the state and criticized the lack of a legal framework of economic transformation while arguing for a 'visible hand' within a social market economy combined with an active role of the state. According to them, the state's role was closely connected to human rights and regulation not reduced solely to market mechanisms. Regarding the structure of the labour market, Czech neoliberals argued that wage development should be in line with structural adjustment aims and thus be put under state control through central wage regulation and control of the minimum wage. As most employers had little interest in collective bargaining they favoured the market to set wages and working conditions. Above that, *Klaus*' interest to support the enterprise sector implied soft budget constraints having an employer preserving component. The elections in 1998 had changed the picture drastically, since *Zeman* advocated privatization and stabilization in order to pave the road to EU accession. At the same time, he favoured a strong state with an active role in the economy, regulating and promoting employment. Solidarity was regarded as a key value by the social democratic government which extended neo-corporatist structures. Parallel, *Zeman* and his team regarded investment in education as an investment in competitiveness while rejecting low wage strategies, even if they should indeed increase slower than productivity in order to ensure competitiveness.

At the same time, *Vladimir Špidla*, ČSSD chairman and Minister of Labour and Social Affairs, emphasized his belief in the welfare state, arguing that social justice and economic prosperity do not exclude one another.⁵⁰ The *Zeman* government was a minority government and faced a strong opposition, formalized in the opposition agreement. It was however able to revitalize neo-corporatism, the social partners' performance, and finally empowered trade union activities. All this led to a new approach of social and labour market policies and differed from the *Klaus* government due to the fact that the EU accession process now increasingly influenced domestic affairs.

At the same time, the density of reforms in the social sphere throughout the 1990s was low: reasons for this are due to the lack of urgent need for them, there was no pro-reform majority in the main political bodies, and public support for reforms was low. As a result, it was more analyses and reform proposals which were ideologically discussed (Vercernik 2008). Under *Zeman*, labour market policy regained

⁴⁸ This agreement assured the Social Democrats the support of the ODS, but only in exchange for decisive leadership positions in parliament by ODS deputies and for an agreement on a constitutional reform to strengthen the major parties. In May 2000, a new electoral law was actually adopted "that would enhance the position of larger parties and spur policy alternation between strong centre-left and centre-right parties" (Orenstein 2001: 94).

⁴⁹ Policy Statement of the Government of the Czech Republic, Prague, August 1998 (see www.mzv.cz).

⁵⁰ See ČSSD election programme 1998, www.cssd.cz (quoted after Keune 2006: 192).

importance, but despite the fact that unemployment increased crucially from 1997, the importance of various types of ALMPs differed over time and except the emphasis on socially purposeful jobs in the Czech Republic under the OF government during the first period, no clear trend can be identified.

Zeman aimed at encouraging foreign investments by initiatives such as tax holidays or zero customs on the import of new technology, competitiveness and productivity. The government's policies proved to be fruitful and in 2002, the Czech Republic recorded the highest foreign direct investment (FDI) per capita stock compared to other CEECs. Above that, *Zeman* pushed enterprise restructuring and privatization by establishing the public 'Revitalization Agency' with the objective of restructuring large enterprises without major lay-offs. Active policies striving at education and training were considered as key value for investment and the government emphasized that "social spending, investment into human capital or into the development of the human potential is considered by the Government to be the most effective form of Government investment".⁵¹

In conclusion, the *Zeman* government (1989-2002) accelerated the completion of the *acquis* and clearly defined itself to be in favour of a deepened European integration process, stressing the social dimension and ALMPs. After the elections in 2002, the coalition of the ČSSD (30.2 percent), KDU-ČSL (24.5 percent) and US-DEU finally formed, uniting different political orientations and leading to problems especially in terms of decisions on state interventions in the economic context. Prime Minister *Špidla* however continuously stressed the need for social cohesion as well as economic efficiency.

Between 1998 and 2006, the Czech Republic saw a mix of minority or coalition governments dominated by the social democratic party which followed the idea of a socially oriented market economy and thus formerly stood in sharp contrast to the former government's ideas of liberalization and residual social policy approaches (Potůček 2009: 36).

Analysis of the reform period 1997-2003: fragmented politics in Poland and coherent interest representation in the Czech Republic. Overall, we find for both cases that social transformation approaches during the 1990s were still characterized by emergency measures as a reaction to the economic and financial crisis after the systemic change. Actors' behaviour was according to the principle that the former paternalist state should be replaced by a selective safety net focusing on the weakest. In political reality though, these social measures have not been regarded as an essential part of the transformation process but as a burden for economic reforms by the political elites in Poland influenced by the ideas of neoliberal economists whereas the Czech Republic managed to integrate economic and social objectives despite a neoliberal government. These attitudes have significantly shaped the path creation for further institutional reform, for example of the unemployment insurance (Firlit-Fesnák 2000: 1).

The rapid marketization, especially in Poland, can be partly explained by the lack of an organized coalition of beneficiaries that were able to actively oppose those political reforms with recommodification consequences. Another reason was the tendency of market orientation promoted by decision-makers. Interestingly, the transformation of labour market policies was not particularly

⁵¹ Policy Statement of the Government of the Czech Republic, Prague, August 1998 (see www.mzv.cz).

politicized as a process. A generally low degree of politicisation of debates and decisions can be observed in the field of labour market policies, when compared to labour market regulation. The explanation of this partly refers to the inexistence of a variety of controversial and constituted interests. There exists no path dependence of interest representation and we can consequently find no survival of equivalent institutions that remain influential – except the local labour offices. At the same time, this observation shows that, compared to employment regulation, this policy is probably less controversial and less likely to generate controversial and polarised positions, maybe because this policy field has a more technical attribute than regulation aspects. What are the reasons for this?

Spieser mentions three aspects: first of all, no institutional legacy of existing rights and entitlements existed which had to be defended, because labour market policies were a new area of governmental action. Linked to this, there was no electorate acting as a unified interest group against reform plans. Finally, the beneficiaries of (passive) labour market policies lacked a group identity as they were part of a heterogeneous group of unemployment benefit, pre-retirement benefits or disability pension recipients, above that, they were regarded as not deserving social support and thus subject to social stigmatisation. These three reasons have contributed to undermine redistributive politics (*Spieser* 2009: 247).

The lack of party identification and high voter abstention proved to be a vicious circle that blocked profound social reforms particularly in the context of Polish transformation, because governments tended to concentrate on short-term voter interests, hoping in vain to remain in power (*Leibfried/Pierson* 1997: 89). As a consequence, population surveys revealed alarming developments at that time in public confidence in the political institutions (*CEORG* 2004).⁵² The lack of consistent signals over party preferences led not only to a relatively weak political debate in Poland, but also opened the door to new actors besides the traditional ones (such as partisan organisations). This fact mirrors the corporatist theory of the Bismarckian welfare system: it had long developed institutionalized forms of participation for selected interest groups, providing traditional actors (employer's organisations and trade unions) with the possibility of intervening in the political process. On the other hand, the social transformation process also produced new forms of interest group mobilization, leading to the formation of welfare beneficiaries such as farmers, health care recipients or pensioners (*Pierson* 1996). These developments generally lead to a situation that generates new cleavages among the different interest groups according to their eligibility for support.

8.3.3 Political ambiguity and populist policies (2004-2009)

Stagnating government effectiveness and populism in Poland: After the resignation of Prime Minister *Miller* in May 2004, *Marek Belka* pursued a 5-point-roadmap with the objectives of combating poverty and unemployment; however he failed in his position after roughly one year. In line with *Balcerowicz* who had constantly emphasized his preference of a limited state while regarding himself as disciple of

⁵² In 2000, *Karolewski* said that the Polish party system is still witnessing such large fluctuations it cannot be considered as consolidated. It was rather still evolving (*Karolewski* 2000: 318).

Hayek and *Friedman*, the idea of liberating markets from the state continued to remain the dominant cognitive principle (Bruszt 2001).⁵³ The status of an entrepreneur is highly evaluated by Polish society. Correspondingly, those who live on social benefits by the state do not enjoy much positive recognition, as they are indeed often regarded as suspicious and not deserving. This shows for example in the widespread belief of false unemployment with regard to the statistical information. It is individualism and individual responsibility as the outcome of the neoliberal paradigm discussed above that appears to be the main orientation of Polish decision-makers.

However, the year 2005 brought another surprise and turning-point: the winning PiS had run an election campaign clearly emphasizing the role of the nation state and the need for nationally oriented public policies. *Golinowska* claims that “the low social sensitivity of politicians focused on modernization (not only liberals of the Thatcherite or Reaganite variety, but also social-democrats), meaningfully contributed to the spectacular victory of PiS” (*Golinowska* 2009: 246). It promoted a static view of economic and social policy, stressing the need of state intervention and social solidarity within a new social order based on ultra-conservative values. Thus, despite emphasizing the role of the state and the social dimension, this political party proved not to be fitting into the left-right-wing category as suggested by the power recourse approach. The atypical government majority was headed by the *Kaczyński* twin brothers (President *Lech Kaczyński* and Prime Minister *Jarosław Kaczyński*) based on a coalition of three parties PiS, Samoobrona and LPR – this government belonging on the whole to what can be called a populist category, established by an extremely low turnout of 40 percent, the lowest since 1989, while these three parties received an unprecedented share of votes (PiS: 27 percent, PO: 24.1 percent, Samoobrona: 11.4 percent, LPR: 8 percent). The initial coalition of PiS and PO had collapsed after one month, followed by the minority government of PiS, Samoobrona and LPR.

The leadership took advantage of the cleavages of the political elite that were still split and fragmented on the socialist past (*Bertelsmann* 2010a), a situation that resulted in maintenance of political inconsistency due to personal quarrels and political power games. It promised to distribute economic growth more equally and stressed national interests in foreign affairs. With its nationally oriented and uncooperative policy style, the government created a very tense climate – in the national and international context of cooperation. Samoobrona’s policy style triggered social discontent with privatisation, which many Polish citizens assumed was the main source of unemployment, despite the fact that they claimed unemployed to be unwilling to work. The PiS continued to stress the importance of a radical break with the past and the removal of actors who had been influential in the communist period. President *Lech Kaczyński* argued heavily against the existing political arrangement in which former communists and people from *Solidarność* participated in politics and the political atmosphere was dominated by political parties questioning the general path of transition between 1989 and 2004. This government showed distinct features of populism as it appealed to social fears and promised adequate protection from actual, real or even artificial fears (*Spieser* 2009: 311). After having dismissed Vice Premier and Agrarian Minister *Andrzej Lepper* (Samoobrona) in 2007 because of corruption, Premier Minister *Kaczyński* dissolved the coalition.

⁵³ Accordingly, the Act on Economic Freedom had been adopted in 2004 with the objective to facilitate entrepreneurship and business activity by simplifying administrative procedures.

The PiS continued to head a minority government, but early elections were soon agreed upon. During the election campaign, “PiS pushed through several ‘electoral presents’, increasing tax exemptions for people with children and raising the minimum wage about 18 percent” (Bertelsmann 2010a). Apart from these ‘presents’ to the electorate, no other important reform was undertaken during the years of government, as PiS was ignoring the reform pressure concerning the health care system and public finances.

In November 2007, things changed with the election of *Donald Tusk* as Prime Minister, forming a coalition of the conservative-liberal Civic Platform (PO) with the PSL, and pursuing a renewed and more liberal approach than his predecessors. This coalition slowly re-established social trust and confidence. At the beginning, reforms were also put aside in order to first consolidate the coalition, but at the end of the first year in office, the government presented 140 bills initiating further reforms (Bertelsmann 2010a). Then the *Tusk* government was partly paralyzed by the remaining President *Kaczyński*, vetoing several bills. After the tragic death of *Kaczyński* in Smoleńsk in April 2010, *Bronisław Komorowski* was elected the first President from PO. There was a growing social liberal group within PO favoring progressive modernization of the country and stressing the importance of social justice and a socially embedded market economy while referring to EU best practice concepts like *flexicurity*. The main objectives of the government included privatization of the remaining public sectors of Polish economy and reforms like the introduction of a 15 percent flat tax.⁵⁴ PO’s dominance can be described equally as a reflection of right-wing divisions as to the main opposition party PiS and the weakness of the second largest opposition, the social democratic SLD, which did not mobilize more than 13 percent of the electorate in 2007. In 2008, however, the country had the lowest employment rate in the EU with 55 percent while 26 percent of children lived in poverty, together with Latvia the highest share in the EU (Tarkowska 2008).

To conclude, for the first time since 1989, a public discourse on the role of the state took had taken place in the first 2000 decade, finally leading to the victory of the *Kaczyński* brothers. The PiS had published a manifesto promoting a statist policy agenda with a return to traditional values – solidarity in opposition to liberalism. The government coalition of PiS and Samoobrona seemed to confirm the assumption that social protest against the social transformation path was rather channelled through protest voting instead of collective action. On the other hand, the relatively new parties demonstrate that the Polish party system is still characterized by weak organisational anchoring and the population's low identification with the parties. A survey by the CBOS in April 2010 revealed that only 29 percent of respondents evaluated the work of members of parliament positively (CBOS 2010a).

In the 2000s decade, a shift could be observed with the World Bank showing an interest in ALMPs and the EU focusing on active measures in order to promote its policy objectives. Today, it is especially ALMPs that constitute the political legitimacy of the EU’s policy guidelines and procedures, triggering as a side-effect new resources for active programmes. Above all, nonetheless, the fact that during the period under examination, none of the government coalition had been re-elected to office in Poland in

⁵⁴ After several years of rule by PO, privatisation was crawling with only a few enterprises privatised every year.

the period under consideration, provides further indication that citizens favour their individual electoral vote or absence from voting to punish decision-makers instead of collective activities. This phenomenon is linked to the failure of the intermediary institutions which has been partly translated into nationalist and generally illiberal orientations, contributing to an instable politics dimension and frequent changes of a hybrid social transformation agenda caught between state and market impetus.

Mediocre political stability and market oriented elites in the Czech Republic: Interestingly, the typical tension between the ministries of social affairs and finance present as an institutionalised conflict in advanced economies, based on the controversy over increased versus restricted social spending, was not present in the Czech Republic until 2006. The administration of both social affairs and finance was in the hands of the one party exclusively or predominantly ruling at that time (first Civic Forum, then ODS and finally ČSSD), and all labour and finance ministers have exhibited strict personal loyalty to their party leaders (Vecernik 2008). Actually, *Vecernik* even claims that the customary roles of the ministries had been ‘confused’: after 1992, the ODS programme for an efficient social system had been weakened under pressure of the KDU-ČSL coalition without any resistance by the ministry of finance. And after 1998 with social democratic government, the ministry of finance made no effort to implement any economic measure in the social sphere. Instead of radical reform, tax reform reduced the income tax for low- and middle-income taxpayers. Finally, in 2005, the MPSV had introduced some workfare measures, but without any pressure by the ministry of finance (Vecernik 2008).

After the resignation of Prime *Gross* in April 2005 and a short intermission with Prime *Jiří Paroubek*, the country witnessed a shift towards a more socially oriented government with Prime *Mirek Topolánek* due to elections in 2006 which brought a balanced distribution of the parliamentary seats between the left and center-right (see Appendix C Figure C.1 for government coalitions) first creating difficulties in establishing a government. In late 2006, the ODS, KDU-ČSL and Green Party government received confidence in parliament by two ČSSD deputies. Interestingly, the government did not push for more socially embedded policy-making, but the first reforms in 2007 were of liberal nature with the introduction of a flat income tax, a reduction of social benefits, market oriented incentives for employment and support for private old-age insurance (Vecernik 2008). The government remained in power more than three years until May 2009. In 2007 and 2008, the EU recommended to limit the budgetary deterioration and improve the long-term sustainability of public finances, and despite only moderate reforms following these recommendations, the ČMKOS argued that the budgetary deficit would be only used as a pretext for liberal reform, as the Czech deficit would have remained below the Polish, the Hungarian and the Slovakian one. Not surprisingly, in 2007, a survey showed that only 35 percent of respondents were in favour of a continuation of the reform (Vecernik 2008). In line with this, voter support for the government decreased to the advantage of ČSSD and KSČM and in November 2007, voter preferences for ČSSD surpassed the ODS again.

On the whole, the social policy programme during the third reform period had been initially based on a Beveridge-style with state-guaranteed minima, supplemented by social insurance programmes emphasizing individual responsibility. The Czech social liberalism however implied a reshaping rather

than a recommodification while distributive policies still played a decisive role within the Czech social transformation process. Untypically, President *Klaus* emphasized in 2009 the importance of social cohesion, not only calling for reasonable employees and trade unions, “but also for more active entrepreneurs and managers capable of finding new opportunities and markets” (Veverkova 2010). By contrast, as *Vecernik* emphasises, political parties and state administration actors are increasingly mistrusted by “ordinary people’, who doubt that they care about the social situation of the public, spending too little in all social areas. The alternative approach should therefore best start by reforming the state itself – which is certainly not feasible at all” (Vecernik 2008: 515).

Analysis of the reform period 2004-2009: the explanatory power of political dynamics. According to the power resource approach, left wing governments tend to focus on Keynesian approaches promoting state intervention and coordination, while right wing governments focus rather on a balanced budget – based on market orientation. In line with this argumentation, it would have been true for the social democratic governments in Poland and the Czech Republic to generate i.e. corporatist tripartite structures and redistribution and decommodification policies. This correlation cannot be confirmed. At the beginning of the 1990s, it was conservative parties forming the government in both countries that established tripartism. However, as already in 1993 the Polish social democracy returned as ‘left force’ to power and entailed the opposite by introducing market oriented reforms. At the same time, we find no evidence that the expenditure changes with respect to the shifts from liberal-conservative governments (i.e. in the Czech Republic from 1992-1997) towards social democratic coalitions (i.e. in the Czech Republic from 1998-2006) (Potůček 2009: 39).

It is not possible to explain the social transformation outcomes merely with the political orientation of governments and political partisanship as this perspective seems to be too simplistic for the variation between the two cases. It is wrong to assume pre-determined strategies of political actors because we have to consider a dynamic relationship framed by a multi-level environment of governance by various existing endogenous and exogenous influences (institutional, political and economic dynamics).

Numerous examples show that the direction of reforms has not necessary been linked to partisanship, among them the fact that in the Czech Republic, according to *Avdagic*, “contrary to its political predisposition, the center-right government opted for the inclusion of unions” and thus followed a direction which strengthened the labour movement contrary to Poland where the *Solidarność* promoted market oriented solutions without further emphasis on the necessity of social dialogue, being accompanied by an early fragmentation and pluralisation process of actor constellations involved in the structures of interest representation (Avdagic 2003: 24). In the Czech Republic, Prime Minister *Klaus* was not able to launch hostile activities against unions, “mainly because the previously negotiated wage-unemployment compromise had given the unions strong legitimacy and secured broader public support for tripartism” (Avdagic 2003: 26).

In summary, the comparison of the two cases reveals major differences as concerns the structure and agenda of government coalitions (see Appendix C Figure C.2 for transformation strategies). There has been continuous search for an adequate reform programme in Poland with a zigzag between neoliberal

and more social approaches of social transformation.⁵⁵ The Polish reform policy proceeded following the model start-stop-start (Orenstein 2001) and once initiated, reforms would repeatedly be blocked by negative reactions of influential actors and domestic elites. This fact can partly be explained by the history of the Polish opposition: Poland was the only country of the former Eastern Bloc where a relatively long existence of the opposition had deeply shaped society (Karolewski 2000: 291).

By contrast, the first Czech government was able to draw on favourable conditions: the government *Calfa* found itself with a clear mandate and, facing an opening window of opportunity to push institutional reform in the field of social protection and labour, backed by social support (Götting 1998: 270). In this situation, external ‘help’ by international actors was only marginally needed because the successful ‘homemade’ Czech programme initially enjoyed legitimacy by all key actors as Vladimir Špidla emphasized during an interview in Prague (Špidla, ČSSD, interview in 2011).⁵⁶

In Poland, political actors entailed a stronger market orientation during the first reform period than they did in the Czech Republic. We can partly explain this by the historical experience of both countries and the continuation of historical differences. In line with previous experiences, Czech political actors (particularly the social democrats) considered the state to play an important active role in labour market regulation, employment preservation and creation. On the other hand, it was found that actor-related dynamics have been a mechanism shaping the emerging labour market regimes as the social transformation process in both cases was significantly determined by the degree of the decision-makers’ political credibility, power and ability to cooperate.⁵⁷ Parallel to this, an impressive amount of policy decisions has been decided without participation of the public and thus fell away from public view, remaining under the control of experts and interest groups who shared a specific interest in the concerned topic. This ‘quiet politics’ means that political topics are treated hidden from the public and thus remain in the arena of those who have an interest in keeping decisions among insiders without any visible interest representation to the outside. As a result, decision-makers pursued a strategy of blame-avoidance for ‘false’ or ‘unjust’ decisions that they would take in the context of reform approaches through quiet politics based on the wish to remain in office.

8.4 The reconfiguration of the social partners

When trying to understand the dynamic ideas and interests behind the social transformation outcome, national governments have been the most visible players in shaping the labour market regime in the first transformation years, however their behavior has been influenced by various surrounding actors, among

⁵⁵ “Both strategies met with the expected difficulties: the neoliberal reform caused a substantial political backlash and encouraged ‘authoritarian temptations’, while the social pacts proved ineffective and difficult to negotiate” (Orenstein 2001: 57).

⁵⁶ As *Skreta* put it, unlike as in other transition countries, reforms in the Czech Republic respectively in Czechoslovakia did not proceed under the IMF’s influence but rather with his own concept, *Klaus* quasi usurped the Washington Consensus (Skreta 2001: 65).

⁵⁷ This finding is underlined by the fact that the first post-communist liberal-conservative ČSFR government integrated compromise positions (including both the monetarist neo-liberal and the social democratic view) rather than a homogenous position whereas the Polish government launched the liberal *Balcerowicz* programme.

the most relevant are the social partners: the trade unions and employers' associations. Voluntarily or not, the social partners' scope of influence depended on their inclination to empower other actors, also through neo-corporatist arrangements, and the power on other actors in confrontation with the government (Keune 2006: 221). Again here, empirical evidence shows variation between the two cases as the Czech industrial relations indicate more elements of corporatism while the Polish industrial relations show more features of pluralism (cf. Section 4.3). Despite of comparable formal requirements as concerns the development of social dialogue and tripartite negotiations, the achievements in both cases have been rather different. *Potůček* mentions one key aspect claiming that "unlike Poland, in the Czech Republic a considerable level of mutual trust and collaboration was preserved between various trade union organizations, as they were not split along ideological or political lines" (Potůček 2009: 36). Even without reaching political decisions, trade unions are closely associated with the decision-making process when it comes to the definition of social and labour market reforms.⁵⁸ Governments are not interested in exposing themselves to electoral backlash or counteraction by social partners that would lead to institutional problems. Therefore even if social partners do not have a strong position in actually articulating policies, merely their existence and their voice being heard provides an opportunity for reflection, thereby legitimating political decisions by the government. As *Spieser* argues, "[c]onsultation through more encompassing tripartite social pacts can allow for the circumvention of obstacles for reforms, resulting from the veto power of social partners, and increases the social legitimacy of reforms" (Spieser 2009: 101). All CEECs established some kind of tripartite dialogue throughout the 1990s; however, the actual outcome of the formally established institutions varies heavily. The reason is simple and directly related to my argumentation: similar institutions work differently in dissimilar political environments. Thus, the reference to institutionalism does not explain why intermediary institutions are not successful even if they are formally designed as a deliberative body of the industrial relations.

8.4.1 Trade unions

Unions are collective associations embedded in the social structure whilst at the same time being corporate actors rooted in the dynamics of industrial relations (Ebbinghaus 1993). They act as collective associations as they organize and represent the interests of wage earners within their organisation. At the same time they are corporate actors since they also represent these interests to the public. It can be argued that trade unions both participate in policy-making and in policy-implementation, usually acting as defenders of the welfare state.⁵⁹ Table 8.2 provides an overview of the major trade union indicators in Poland and the Czech Republic.

⁵⁸ Trade unions are the most visible interest group and collective actor in welfare policies. In social democratic and Bismarckian welfare systems they have a long tradition of contributing to decision-making on social policies. In Bismarckian systems they are even a key actor due to the importance of the corporatist arena being more decisive than the electoral arena with respect to reform initiatives (Spieser 2009: 95).

⁵⁹ There is often lack of consensus when it comes to the matter of public and private institutions of social insurance, structures of social benefits or the financial reallocation across different occupations.

Table 8.1 Major trade union indicators

| | Largest Confederation | Market share, % | Second confederation | Market share, % | Effective number of unions | Union density, % |
|-----------------------|-----------------------|-----------------|----------------------|-----------------|----------------------------|------------------|
| Czech Republic | ČMKOS | 55.5 | ASO | 22.4 | 8 | 20 |
| Poland | NSZZ Solidarność | 48.0 | OPZZ | 43.0 | 47 | 16 |

Source: European Commission (2011: 21), based on J. Visser, ICTWSS database 3.0 (2010)

Bipolar and competitive trade unionism in Poland: Trade union density in Poland is relatively low. As showed in a survey by CBOS in 2009, only 6 percent of the adult Polish population is a trade union member, corresponding to 16 percent of all employees (Towalski 2009).

According to their own declarations, NSZZ Solidarność is the largest trade union with 48 percent of all union members.⁶⁰ The second largest trade union is OPZZ⁶¹, representing 43 percent of all union members. 8 percent of trade union members are organised in FZZ.⁶² Trade union membership is most often chosen by skilled workers and white-collar workers who are not university graduates. However, there is a relatively stable membership among blue-collar workers. Membership is also stable among employees in the public sector such as teachers or doctors. Polish trade union organisations are mostly active in administration, education and healthcare institutions. Transport, telecommunications, manufacturing and coal mining also have several trade union organisations. The lowest representation is found in the construction and services sectors which are significantly determined only by the type of employment contract.

Trade unions in Poland carry a unique legacy from the previous regime. The main Polish trade unions that appeared before 1989 were OPZZ and NSZZ Solidarność, playing essentially different roles at that time.⁶³ Their political legacy has not only had an influence on the political impact of these trade unions, but also concerning the perceptions by their members, their relationship with other actors and the way industrial relations have developed in the country. As described in Part II of this dissertation, Solidarność took an essential role in the fall of the socialist regime. It was actually Polish opponents that took up a leading position as key agents of the regime change across CEE. Solidarność was initially tolerated by the regime. It defended society at large, not only workers' interests, and attempted to change the social institutions in Poland rather than only fighting for workers' rights. It used an anti-

⁶⁰ Independent and Self-Governing Trade Union Solidarity (Niezależny Samorządny Związek Zawodowy 'Solidarność' (NSZZ Solidarność). See www.solidarnosc.org.pl

⁶¹ All-Poland Alliance of Trade Unions (Ogólnopolskie Porozumienie Związków Zawodowych, OPZZ).

⁶² Forum of Trade Unions (Forum Związków Zawodowych, FZZ).

⁶³ Solidarność developed as the first independent trade union in CEE following several strikes which began in the Gdańsk shipyard in 1980 and encouraged a movement throughout the country. The Gdańsk agreement included the legalisation of the union and the establishment of a democratically elected works council, empowered with the veto right concerning hiring decisions made by the ministries and the right to dismiss managers (Spieser 2009: 129). But after a short period of governmental tolerance, Solidarność was banned and martial law imposed in 1981, even though the union had already reached about 10 million members. This period of one year was characterized by aggravating economic and social conditions, economic shortage and political repression.

politics banner, combining class, political and national aspirations, but also accepted the communist party.

As a consequence of the ban of *Solidarność* in 1981, the OPZZ was created in 1984 as a reorganisation of official trade unions, and OPZZ – maybe because it never enjoyed universal membership – did not function as a transmission belt as in communist times, and it even protested against the government from time to time. In the mid-1980s, the OPZZ had around five million members, but by 1989 it was no longer well established and willing to become a powerful defender of workers' rights.

Solidarność was legalized again in 1989 and took part in the round table negotiations while the leadership of the PZPR and the OPZZ, both increasingly illegitimate, were placed on the other side of the table. In the course of these negotiations, *Solidarność* again appeared as a multiform movement, including features of a social movement, political force and trade union while it faced the challenge of negotiating regime change and taking an important role in electoral democracy and government. In the same year, *Solidarność* and the Citizens' Committee set up by *Lech Wałęsa* enjoyed a spectacular victory while the PZPR was defeated. It was in this situation that the communist leadership renounced power, bringing the leader of the *Solidarność*, *Tadeusz Mazowiecki*, to power as the head of the new democratic government.

Solidarność and its metamorphosis exemplify the trade unions' dilemma: it promoted a model of trade unionism that moved away from the notion of servicing workers' interests. Communist trade unions had entirely been servicing machines, the developing opposition within the communist system made this servicing model very important – but after the regime change, *Solidarność* was empowered by symbolic resources that could potentially be turned on top of assets attained by virtue of its historical association recognition (Spieser 2009: 146).

Union weakness in Poland is rooted more in the problem of declining membership and organisational capacity than in a lack of financial resources. The unions inherited different assets such as offices, holiday homes and leisure centres and were thus able to benefit from previous communist legislation, even if martial law long remained a source of conflict between OPZZ and *Solidarność*. Both unions inherited a vast membership basis, but although membership of the OPZZ in 1990 was at six million and *Solidarność* at about 2.2 million (keeping in mind that it used to have 10 million members) (ILO⁶⁴); general union membership has dramatically declined since then as illustrated in Table 8.3.

Table 8.2 Loss in union membership (OPZZ and *Solidarność*) in Poland

| | 1993 | 1998 | 2003 | Change 1993-2003 |
|---------------------------|-----------|-----------|-----------|------------------|
| OPZZ | 4.500,000 | 2.000,000 | 800.000 | -82.2% |
| <i>Solidarność</i> | 2.000,000 | 1.200,000 | 780.000 | -61.0% |
| Total | 6.500,000 | 3.200,000 | 1.900,000 | -70.8% |

Source: Spieser (2009: 147)

⁶⁴ See http://laborsta.ilo.org/xls_data_E.html.

Decreasing union membership reflects at the same time adverse developments in traditional sectors such as the growing importance of low-unionized sectors. Especially in Poland, unemployment restricted the membership basis and unions were extremely weak in sectors with growing unemployment like foreign-owned, light industry, services, SMEs and the private sector in general. We find a correlation between the type of ownership in a workplace and the level of trade unions' membership and it can be noticed that trade unions thrive better in state workplaces than in privately-owned ones (CBOS 2010b: 1).⁶⁵ By contrast, it was stable in municipal enterprises, public services and administration, education and the state sector in general. As a result, trade unions are more present in the public than in the private sector. Some thus had the impression that unions were solely the representative of the strongly unionised sectors. The former President of *Solidarność*, *Marian Krzaklewski*, was recognized as a representative of heavy industry and coal mining (Spieser 2009: 147). Besides these obstacles, unions also faced organisational difficulties since they lacked expertise and did not manage to react to governmental decisions and to make propositions on social policy issues.⁶⁶ On the one hand, we find that Polish unions organise workers' mobilisation, however sporadic region- or sector-based coalitions form that cut across classes when defending industrial employment (Spieser 2009: 300). Only as soon as unemployment was regarded as a problem that could threaten not only particular groups, but everyone, the policy debate slowly turned towards questions on employment creation and reformed conditions for employment and labour regulation. To sum it up, social groups were too weak and fragmented to push for comprehensive social policies.

Polish trade unions face one of the greatest problems regarding fragmentation that is in fact twofold: "An ideological one opposing the two major federations and a vertical one separating the national offices from their base" (Spieser 2009: 148). While *Solidarność* was born as an anti-communist social movement from the underground in the 1980s it remains a deeply anti-communist Christian union. The view that an independent union should have played a more important role in price-setting during socialism was more and more opposed by liberal orientations against the primacy of collective egalitarianism. The union programme of 1987 was based on the establishment of a market economy and property rights and this change of focus left a crucial mark on the ideational stance of *Solidarność*'s activists in the post-communist period since it had strongly promoted neo-liberal reforms, which makes it a unique case among trade unions in Europe.

It was only the government under *Bielecki* in 1991 that cautiously attempted putting the question of distribution on the political agenda, but shortly after the election, *Bielecki* was replaced by a new government when the outcome of the election included parliamentary seats for 29 parties. At the same time there were also conflicts within the *Solidarność* as to the direction of reforms, but by 1992 the priority still appeared to be the need to save economic reform by avoiding political backlash. However,

⁶⁵ According to CBOS, the smallest number of trade unionists is in privately owned workplaces with only 1 percent whereas in public institutions it is more than one third (35 percent) of the employees who are unionists (CBOS 2010b).

⁶⁶ To provide an example, the OPZZ in 2005 had only five experts on social policy in its national office, while *Solidarność* had ten, most of them located in the central office in Gdańsk (Spieser 2009: 148). *Solidarność* had lost most of its experts to the government when they came into power from 1990 until 1992 and some of them when the AWS came into power in 1997.

the government realized that the only possibility for doing so was to increase the number of people enjoying some kind of job and income security.

The other large Polish union, OPZZ (successor of the official communist trade union), had remained much closer to an egalitarian and solidarity approach. The OPZZ tended to have a more radical left-wing discourse while its natural partner was the social democratic (former communist) party. One can even say that one difference between the large unions is that the OPZZ always depended on its partners, lacking a programme of its own. As *Solidarność* proclaimed its position in favour of the market, the cooperation between OPZZ and *Solidarność* ended in the 1990s.

Intellectuals and the press, who were traditionally associated with *Solidarność*, quickly regarded the union as an anachronism that proved to be inappropriate for capitalism and useful only to blue collar workers. This led to the belief that employee institutions such as works councils were not needed in private companies, but only in state-owned enterprises. *Lech Wałęsa* and other leaders tried to motivate their members and promised that the shock-therapy would provoke a three months downturn followed by significant improvement, calling for suspending strikes even in the face of eroding wages. This is one example demonstrating how the role of *Solidarność* as an umbrella organisation became more important than its actual function as a trade union. However “ironically, this was effectively similar to the traditional role of transmission belt played by official trade unions under communism” (Spieser 2009: 149).

Overall, one of the greatest problems concerning trade union activities in Poland apart from the competition between OPZZ and *Solidarność* is connected with the excessive plurality of trade unions within companies. They are organised from the bottom up: company-level unions are the most important. Just 10 workers can establish a trade union at company level. In extreme cases, companies may have 10 or more trade unions, all legally authorised to engage in collective bargaining (Towalski 2009). The large number of Polish trade union organisations makes it hard to find a consensus in negotiation. For this reason, a meeting was held in May 2008 among social partners at the TK with the aim of finding a common position on the issue of enhancing social dialogue through more precise principles of trade union representation (Towalski 2009). Even if trade unions and employers both favoured more precise principles, their different opinions concerning the thresholds let the negotiations fail.⁶⁷ *Eryk Lach* convincingly summarizes how similar institutions work differently in dissimilar political environments:

“[E]mployee participation in Poland has a false front. The employer-employee relationship reminds of the Anglo-American model, not of the European model. Employers think in a paternalistic way...’I’m the boss’. Social market economy has been copied from Germany, also the institutionalization of social dialogue, but if the theory is nice, the reality looks different.”⁶⁸

⁶⁷ The employers argued that trade unions should unite at least 33 percent of personnel. Trade unions argue that a high threshold would prevent the possibility of organising strikes and suggested doubling the existing thresholds.

⁶⁸ Conference „Arbeitnehmerfreizügigkeit für deutsche und polnische Arbeitnehmer“ organised by the Friedrich Ebert Foundation in Görlitz, 25-27 March 2011, speech by Dr. Daniel Eryk Lach, Adam-Mickiewicz-University in Poznań.

Unipolar and centralized trade unionism in the Czech Republic: Compared to Poland, the Czech trade unions do not carry a heavy legacy from the past. On the contrary, Czechoslovak unions implemented a large-scale personnel revolution that included 80 percent of the former personnel being replaced by 1990 (Myant/Smith 1999, Vanhuyse 2006: 1125). The new trade union leadership was thus not allied with any of the governing parties in power while it inherited the strongest union confederation in the whole region. It has thus been able to credibly threaten to mount protests against rejected reforms (Vanhuyse 2006: 1125). In addition to the unions' role on the level of interest representation and involvement in social dialogue, they were given a major importance as concerns social support of the reform agenda: the rapid transformation of the Czech trade unions into democratically legitimate organisations, the maintenance of their uniform structures as well as their economic realism have all significantly contributed to a situation in which – despite dramatic changes such as economic reforms, real wage losses of more than 25 percent in the early nineties, privatization, erosion of many enterprises and economic recession – we can observe that social peace in the Czech Republic has remained largely intact (Kohl/Platzer 2004: 211).⁶⁹

The largest trade union confederation ČMKOS (520.000 members in 2008)⁷⁰ is followed by the Association of Independent Unions with 210.000 members in 2008⁷¹; both confederations are members of the RHSD. The third largest trade union organisation in terms of members and importance is the Art and Culture Confederation, recording 42.000 members in 2008⁷² (Hala 2009). As the largest trade union federations in the Czech Republic are members of ČMKOS, the country is more a case of centralized union organisation than the Polish one. In contrast to Poland, the declining Czech trade union density is leading to the small unions' attempts to merge with larger and more influential units. This tendency towards integration is apparent, for example, in the membership base of ČMKOS. The most significant example of a merger of federations is the establishment of OS ECHO. The Energy Workers Trade Union (Odborový svaz energetiku, OSE) and the Czech Chemicals Trade Union (Odborový svaz chemie, OS Chemie), both affiliated to ČMKOS, merged in May 2004 to form the new federation which has over 34.000 members (Hala 2009). Despite the fact that only 3 workers can establish a trade union at company level, this fact has apparently not triggered a fragmentation of trade unionism.

Analysis: the trade unionism's influence on the social transformation process. Apart from government actors, trade unions in both countries have played an important role as transformation actor, partially through neo-corporatist agreements, collective bargaining, but also as counterbalance to liberalisation and decreasing social protection for workers. After 1989, governments in CEE tried above all to win trade unions as supporters of government reforms, which is why in many transformation countries, also in the ČSFR/Czech Republic and Poland, corporate bodies were often created pre-emptively, to prevent anticipated problematic actor constellations and to secure social peace, whereas in

⁶⁹ Trade unions accepted a reduction in wages of 25 percent at the Škoda Auto plant in the crisis year 2009 due to a reduced working week with four days only, based on the objective to avoid dismissals while they postponed collective bargaining on wages until the middle of 2009 (Veverkova 2010).

⁷⁰ *Českomoravská konfederace odborových svazů* (ČMKOS): Czech-Moravian Confederation of Trade Unions.

⁷¹ *Asociace samostatných odborů* (ASO).

⁷² *Konfederace umění a kultury* (KUK).

Western Europe the function of such bodies tended to be reactive and in response to existing distribution or governance conflicts (Götting 1998: 54).

A dominating feature in Poland and the Czech Republic closely connected to the trade unions' activities has been the still slow progress of social dialogue which can be explained by the lack of differentiation between employees' and employers' interests in the former socialist system, a fact repeatedly criticized by the EU (Offe 1996: 36f., Crowley 2004, Feldmann 2004, European Commission 2005).⁷³ The political culture of collective bargaining was extremely low due to the centralization in the field of economic and social interest representation of the employers: for a long time there had been little interest in the federation of associations, resulting from the lethargic behaviour learned in socialism, giving priority to individual strategies of advocacy (Ziemer/Matthes 2004: 229f., Potůček 2008). This finding confirms the survival of socialist legacies as concerns the low participation culture.

Due to the coherent structure of the Czech unions with the umbrella organisation ČMKOS and thus centralised bargaining power, unions exercised greater influence on government policy and contributed to the more employee and employment-friendly character of the Czech labour market reforms and institutions. Czech unions were seen as an important vehicle to the formation of critical policy assessment, for instance during the liberal government of *Klaus*. By contrast, interestingly, Polish unemployed have never managed to organize in order to defend their rights, despite their supposed strength based on the phenomenon of *Solidarność*.

The above said provides evidence that is not simply the power of actors in terms of their existence and quantitative indicators as membership which is decisive for their actual ability to influence social policies, but their configuration and coherence.⁷⁴ This is why trade union density does not necessarily tell us about the fighting strength of trade unions (Feldmann 2004: 8, Klös 1997: 37). The degree of consensus or conflict does much better, because it indicates the power to organise and push certain ideas and interests. Especially problematic has been the fact that in Poland collective bargaining was weakened as a result of the decentralisation of industrial relations and the individualization of the employment relationship.

How can we explain these phenomena? One important answer can be found in the historical conditioning of the Polish social dialogue, "which was born in the period when arising independent unions movement (70s and 80s) geared for fight with a total employer, i.e. a state in this case. Such an ethics shaped an archetype of an oppositionist – unionist not an activist of unions seeking compromises in a given economic reality" (MPiPS⁷⁵). Another explanation is the fact that in the situation of high unemployment a lack of agreement persisted among the 'insiders', those influential workers that feared losing their jobs. Several powerful sectors as the mining and coal sector were strongly organized in

⁷³ As discussed above, under socialism, the official trade unions were not representatives of workers, but instruments of the political leadership to implement the policy objectives. For workers, membership was obligatory (Feldmann 2004).

⁷⁴ Meanwhile, the participation of trade unions is increasingly challenged in both cases while other (private) interest groups are emerging as important players in welfare policies, often linked to particular welfare issues (Pierson 1996). This is visible for instance in the area of pensions, but also when looking at the kind of support for unemployed such as concern the access, the rights and obligations that politically mobilize interest groups and lead to the formation of ad-hoc social movements in certain situations (Spieser 2009: 97).

⁷⁵ See www.mpips.gov.pl/en/social-dialogue/

unions, but as they benefited from various privileges and comparatively high wages, they had not much reason to protest.

By contrast, Czech trade unionism is characterized by stronger centralization with the ČMKOS as the major and unanimous trade union confederation which has never been involved into policy-making as a political actor and thus remained focused on the representation of workers' interests. The Czech unions were able to execute potential pressures, because the Czech system of associations was relatively concentrated and soon succeeded in effective involvement of trade unions into corporate arrangements.⁷⁶ In Poland, by contrast, this involvement was limited due to the traditionally strong, competitive pluralism of the trade union movement (Götting 1998: 56, Karolewski 2000: 291, Kohl/Platzer 2004: 241, Bertelsmann 2003).

8.4.2 *Employer organisations*

Compared to the trade unions' history, employer associations in Poland and the Czech Republic did not exist before 1989 because the state was the principal employer and the management thus centralized. The emergence of a stable network of employers' associations appears to be at least as difficult as the development of functioning trade unionism due to high fragmentation and difficulties with organisational structures, making the functioning of the social dialogue and consequence of labour market regulation difficult. The performance of employers' associations is however an important pillar of social dialogue and thus industrial relations as an essential mechanism shaping the social transformation. Table 8.4 illustrates the main indicators of employers' associations, demonstrating that the organisation rate is higher in the Czech Republic while the other indicators are comparable.

Table 8.3 Major employer organisations' indicators

| | Number of employers' confederations | Major employers' confederation | Membership, % | Organisation rate, % |
|-----------------------|-------------------------------------|--------------------------------|---------------|----------------------|
| Czech Republic | 4 | SPZ CR | 29 | 37 |
| Poland | 5 | PKPP Lewiatan | 28 | 20 |

Source: European Commission 2011: 30, based on J. Visser, ICTWSS database 3.0, 2010

It is at the national level that the representation of employers' interests has a strong presence, but on the regional and sectoral level it is much weaker since except the public sector, collective bargaining has not been promoted by state authorities.

Weak and fragmented employer organisations in Poland: Despite high institutionalisation of social dialogue in Poland during the transformation years, Polish employers' organisations acted rather as

⁷⁶ In the perception of workers, industrial relations in Czechoslovakia after 1989 were extremely stable. The satisfaction rate in the Czech Republic was recorded high, namely at 70 percent in 2004 (Kohl/Platzer 2004: 105).

entrepreneurs' associations, favouring "the second, informal channel of influence that gave them direct access to government at the expense of institutionalised social dialogue" (Spieser 2009: 156). They were mainly interested in good relations with government members while apparently neglecting industrial relations, a situation reflected in their limited engagement in collective bargaining and agreements. It was political lobbying as a pressure group that seemed to be the first priority, rather than industrial relations.

The Act on Employers' Associations in 1991 aimed at structuring the various associations that had mushroomed after 1989. It included specific rules of independence from local and national authorities while installing an obligation to participate in collective negotiations and agreements. In the same way as trade unions, only formally registered associations, fulfilling specific representativeness criteria, benefit from special rights within the framework of social dialogue. The Act initially granted a provisional representative status only to employers' associations and recommended the establishment of a new confederation to better represent the variety of developing Polish employers' associations, the Confederation of Polish Employers (KPP). The KPP was founded in 1989 as a civil association to represent employers' interests vis-à-vis the transformation towards market economy and according structural reforms. It was the first formal employer organisation after communism with the aim of representing a range of employers, however, it did not succeed in the newly formed private sector and thus declared itself as a successor to pre-communist Polish peak associations.⁷⁷

Interestingly, the organisation benefiting from the monopoly of institutionalized representation of employers makes use of this power position much more than smoothing the emergence of more pluralistic patterns of employers' interests' representation (Spieser 2009: 154).

A total of four representative employer organisations are members of the TK.⁷⁸ At the same time, some employers' associations represent entrepreneurs while they are registered as normal civil society organisations acting rather as political lobby organisations for transformation issues, particularly promoting liberalisation, as they do not have the right to conclude collective agreements. These kinds of organisations are by far the most numerous among employers' associations in Poland (Towalski 2009).⁷⁹

In 1991, the Polish Business Roundtable and the Business Centre Club were established, being based on the US model of the American Business Roundtable from 1972. Its Polish founders were different economic and political leaders from the *nomenklatura*, private business under communism and foreign businesspeople. It included a significant number of members returning from abroad, making it an association gathering a small amount of enterprises, but those being very large in size. The Business

⁷⁷ During the 1990s, the KPP however had a monopoly with respect to institutionalised social dialogue and the representation of employers' interests. It's role became fixed in 1994 with the Act instituting the first Tripartite Commission: KPP representatives sat on the board for specific social funds on behalf of the employers' side, the supervisory board of the ZUS and the national council for employment (Spieser 2009: 154)

⁷⁸ These are the (1) Confederation of Polish Employers (Konfederacja Pracodawców Polskich, KPP); (2) Polish Confederation of Private Employers 'Lewiatan' (Polska Konfederacja Pracodawców Prywatnych Lewiatan, PKPP Lewiatan); (3) Polish Crafts Association (Związek Rzemiosła Polskiego, ZRP); (4) Business Centre Club (BCC).

⁷⁹ These associations represent companies and regional or sectoral organizations, set up based on a resolution taken in the course of a founders' meeting of at least 10 employers. They operate by virtue of the Act of 1991 and have the right to take part in collective disputes and can sign collective agreements.

Roundtable primarily provided lobbying and social possibilities, whose influence depended on the personal connections of political players rather than collective action for political objectives. However at the same time, its first leader, *Henryka Bochniarz*, was also interested in collective representation through a regular employer association, trying to gain influence within the KPP and obtaining the replacement of its discredited president, but failed. The Club resembled a gentlemen's club with a clear political lobbying role. It was granted the rights of an employer association in 2001, thus changing its status, and has been part of the TK since 2002 (Spieser 2009). In 1999, an association representing private employers, the Polish Confederation of Private Employers (PKPP), was created in competition to the KPP and exclusively representing the interests of private employers believing that the KPP did not satisfactorily represent them. However, the PKPP followed the economic development in which private companies and new sectors began to run with an increasing number of workers and output as a result of restructuring. It became increasingly relevant for the reconfiguration of social dialogue and the negotiation of collective agreements. By 2002, the PKPP recorded 200 enterprises in seventeen industries employing almost 320.000 employees (Spieser 2009: 156). It was renamed in 2008: PKPP-Lewiatan today represents 3.000 companies with around 600.000 employees, including 55 sectoral and regional branches.

Polish employer organisations do not engage in collective negotiations at company level. Even if they are relatively well organized at national level, they have hardly any form of organisation at regional and sectoral levels and are thus unwilling to engage in multi-employer collective bargaining (Towalski 2009). At the same time, many employers do not belong to any employer organisation, which is why many people believe that these organisations do not represent employers, but lobbyists. Further, there is a specificity of Polish companies, being quite isolated as concerns employee numbers, mainly consisting of SMEs which are not interested in a common voice and stronger coordination, thus contributing to the limited reach. As described in Part II of this dissertation, industrial relations in Poland have a pluralist structure and the landscape of the employers' side of the system is also heterogeneous (Czorzasty 2010: 7).

What is the explanation for the development of employer associations in Poland over the years of transformation? To start with, Polish employer associations can act on two levels: First, they officially represent employers in social dialogue with the state authorities and trade unions, on the basis of institutionalised rights allowing for a variety of possibilities for intervening at the political level. Second, employers' associations can act as an interest group seeking also to influence public opinion and society besides the political decision-making. Their influence thus goes beyond industrial relations and economic and social policy issues. They can act as pressure groups and influence public authorities or policy makers according to their interests, which is possible due to the fact that the associations' limitation by legal rules is less organized and official than it is for trade unions.

Overall, it has been identified that Polish employer associations are (still) weakly institutionalised and have a low internal integration while showing to have had low membership during the transformation period with a negative effect on the effectiveness of social dialogue and industrial relations in general.

Pluralistic employer organisations in the Czech Republic: In 1990, as in Poland, the first typical employer association was established with the Confederation of Employers' and Entrepreneurs' Associations of the Czech Republic (KZPS) affiliating about 24.000 companies, followed by the second peak organisation, the Confederation of Industry of the Czech Republic (SP ČR) with a total of approximately 1.700 companies.⁸⁰ SP ČR was part of KZPS until 1995 which represented all enterprises in the Czech Republic, both large sectoral entrepreneurial associations and smaller private entrepreneurs and professional communities. In contrast to union organisation, the Czech employer associations remain however characterized by heterogeneity and organisational pluralism as in Poland even if the employer organisation density is significantly higher as compared to Poland (see Figure 4.10). The transformation brought a fragmentation of interests and today, in addition to large companies, the confederation also represents SMEs. The interests of the latter are represented by the Union of Medium-sized Businesses (Unie středního stavu ČR) (Hala 2009).⁸¹

On average one third of all entrepreneurs are members of an association of enterprises, whose human and financial resources, in comparison to the unions, seem to be rather inadequate. Employer organisation density is however relatively stable and no major changes are observable since the new entrepreneurs founded a range of associations to represent their newly developed interests after the end of communism (Hala 2009).

Between 2004 and 2007, a re-organisation of employer organisations proceeded within the framework of existing associations. As some members of employer associations avoided the binding of HLCAs by refusing to authorise the employer association to sign, a change was introduced in 2007 with the stricter binding of collective agreements. However, the objective of improving relations among national peak organisations of employers and employees was envisaged by the signatures of the "Agreement on some changes of the 'technical amendment' of the Labour Code" which was concluded by ČMKOS and SP ČR in 2007, binding on employers united in employer associations which had concluded such an agreement and even binding if these employers leave the confederation during the time that the collective agreement is valid (Hala 2009 and 2010, see also Bluhm 2008). As a consequence, the binding force of the HLCA cannot be avoided by failing to provide the organisation with their consent to conclude it. An unintended consequence of this legislation could be an increased unwillingness among employers to associate and to bargain collectively (Hala 2009).

It is important to note that none of the employer associations is involved in collective bargaining. However, they coordinate their members' role during the collective bargaining process. As concerns sectoral employer associations, at least one sectoral organisation operates in most economic sectors. *Hala* positively mentions that a considerable part of the organisations are large-scale sectoral groups

⁸⁰ Smaller private entrepreneurs are organised in the Association of Entrepreneurs of the Czech Republic (SPŽ). KZPS consists of the following members: Association of the Textiles, Clothing and Leather Industry (ATOK); Association of Building Entrepreneurs of the Czech Republic (SPS); Cooperative Association of the Czech Republic (DAČR); Union of Employers' Associations of the Czech Republic (UZS); Employers' Association of Mining and Oil Industries (ZSDNP); Agricultural Association of the Czech Republic (ZSČR) (Hala 2009).

⁸¹ Among other members, both represented in RHSD bodies, are the: Association of Industrial Enterprises of Moravia and Silesia (SPPMS); Czech-Moravian Electrotechnical Association (ELA); Association of Automotive Industries (AP); Transport Union (SD); Association of the Chemical Industry of the Czech Republic (SCHP); Czech Association of Energy Sector Employers (ČSZE) (Hala 2009).

with a nation-wide scope of activities, uniting most of the large companies with a high number of employees (Hala 2010).

Due to the employers' heterogeneous structure and diversity of interests, it took a longer time for them to organize and their voice remained dominated by the power of the government and trade unions. Regarded from the theoretical power resource perspective, this approach helps to explain why a socially acceptable reform course was possible especially during the 1990s due to an environment where Czech pro-employer actors were not as strong as it is generally assumed.

Analysis: the employer organisations' influence on the social transformation process. Employer organisations showed and still show to be rather weak in both countries; they have more or less failed to exercise pronounced influence on the transformation process. Their impact remained a rather passive one: as they have not been able to conclude sectoral collective agreements as a consequence of many of their members unwilling to provide them with a mandate, they played an important role in the declining coverage of collective agreements in both cases, followed by the decentralization of industrial relations especially in Poland. Employer organisations benefit from traditional forms of corporatism, tending to depend on the extent to which they participate in the financing of welfare policies through contributions and the management of the institutions implementing them. This is one of the reasons why employers are normally more concerned about employment protection regulation than for example pension reform. Employer associations have the right to legally conclude collective agreements for their member enterprises and to express their specific interests to state institutions. They are not limited to the field of social policy and industrial relations: they are interested in national development, issues of economic policy, competitiveness strategies and thus regularly express their opinion about developments in these areas.

As concerns the emergence of employer associations in Poland and the Czech Republic, apart from the higher Czech organisation density as compared to Poland, one important difference becomes clear: explained in line with the 'Varieties of Capitalism' approach, we find evidence that in the Czech Republic, employers have settled more for an actively supported cooperation while they have sought changes in the link between plant-level negotiations and industry-level bargaining that allowed for greater flexibility (Thelen 2001: 81). Despite limited resources, the social partners succeeded in building up organisationally integrated, representative organisations, holding cooperative strategies in the social dialogue rational in the long-term, mostly evaluated by stakeholders as correct (Hala 2010). In Poland, by contrast, during the transformation, we do not find evidence that employer associations have actively engaged in social dialogue.

Both cases indeed show similarities with respect to even greater pluralism of employer associations when compared to unionism, but what is interesting is the fact that only in Poland, many of the founders of employer associations in the private sector, especially the influential Business Roundtable, came from the former *nomenklatura* and thus remained politically active in the new system also after the

regime change.⁸² An actor-centred approach focusing on the actors' reconfiguration best explains the obstacles which both cases experienced with the development of employer organisations, a social partner organisation which did not exist during socialism, and which emerged in times of labour market renewal.

Overall, it shows that social dialogue and non-market coordination has to be regarded as a political process, "a dynamic equilibrium that is premised on a particular set of power relations – both within employer associations and between unions and employers" (Thelen 2001: 100). The key for understanding sources of stability and trajectories in social dialogue shaping the dynamics of social transformation lies in the interaction processes between institutional arrangements and actors' reconfiguration on the central national level and plant-level bargaining: while the latter level of bargaining is more common in Poland and increases union pluralism and fragmentation, the former has been common in the Czech Republic with comparatively higher coherence.

8.5 Chapter summary

In accordance with the actor-centred institutionalist approach with the aim to identify mechanisms of change, this chapter tested the explanatory power of domestic actor variables, focusing on several important actor-related dynamics including the political regime change, the emerging political party systems, the configuration of government coalitions and the profile of the social partners.

Coming to the forces of social transformation, the first mechanism of policy designing was certainly the executive power. It was found that the emergence of the executive power is closely linked to the divergent dynamics of detachment from the socialist regime in the two cases: while the ČSSR regime changed with a 'big bang' followed by a replacement of the 'old' elite, the Polish negotiated regime change rather resembled a 'transplacement' or 'refolution' (Grotz 2005, Potůček 2008) with a continuation of the powerful 'old' elites and their persisting influence on questions of distribution and regulation.⁸³ *Ziemer/Matthes* rightly argue that already the ambiguous political regime change in Poland caused acceptance problems because the political parties and government coalitions lacked consistency (*Ziemer/Matthes* 2004).

Following an actor-centred perspective, the ČSSR system collapse can be explained by a lack of actors willing to negotiate, while in Poland, former regime actors aiming to defend their interests were involved in the process of policy formulation right after the regime change. This situation entailed permanent confrontation between the more socialist ideas and a more liberal agenda, completely rejecting the old system. At the same time, the regime change can be interpreted with the help of the institutionalist approach: given the ČSSR's particularly closed system, no stakeholders emerged from

⁸² The heavily symbolic notation 'Lewiatan' has actually been defeated by political reality. While the state's self-conception remains vague between withdrawal and intervention, the employers' associations have not stood out with any coherent interest representation.

⁸³ Equally for both cases, the new political elites "stemmed from the citizens' movements, in most cases under partial integration of reform-communist elite factions, farmers' parties and newly established national-conservative groups, which could rest upon a functioning statist and economic bureaucracy" (Kollmorgen 2010: 7).

the situation with former positions that they had to defend (Merkel 1999: 418, Bayer 1999: 122 f.). By contrast, these power games have taken place in Poland where the socialist regime de facto tolerated opposition with the foundation of Solidarność in 1980.

The character of the detachment process from the old regime partly explains the variation of the emerging labour market regimes since this reconfiguration of actor constellations continued to influence conflicting or consensual negotiating. *Hall* (1993) claims that third order paradigm change is promoted by politicians rather than by experts and decisions about paradigm shifts are intrinsically political. This is why they would reflect a legitimisation and power game between different governmental and elite groups. This was obviously the case in Poland at the time of the political regime change, re-establishing the crucial role of politics in shaping (welfare) policies (Hall 1993). Surprisingly, it was thus rather the extent to which the Polish socialist regime tolerated opposing actors' activities that hindered their stable reconfiguration after 1989, whereas in the Czech Republic, the window of opportunity for a new configuration of (returned dissident) actors was apparently wider.

It shows that this Polish legacy also prevented political parties from developing stable class bases with the consequence that there hardly existed stable conditions to pursue a coherent social transformation. Formally, both Poland and the Czech Republic developed three-pole party systems, consisting of a conservative to national-populist, a liberal-democratic and a neo-social democratic camp, their configuration however remarkably differs: the fragmented Polish party system has been to a lesser degree influenced by partisanship but rather by the existence of advocacy-coalitions in forms of new and old elites which do not correspond to the common understanding of partisanship and party cleavages. By contrast, the Czech party system quickly consolidated and fairly clear partisanship has evolved during the 1990s.

Reinforced by the fragmented Polish party landscape, an instable dynamic of interests generated conflicting government coalitions and political stalemate, leading to a postponement of political programmes, a political zigzag course, and finally greater focus on assistance by the international (financial) institutions (Ekiert 2001: 16, Grimmeisen 2004: 28ff.). This feature was the reason for *and* the effect of a pronounced insecurity as concerns the direction of the social transformation, supporting the delay of reforms policies and their strong hybridization.⁸⁴ The rapid marketization in Poland can be partly explained by the lack of an organized coalition of beneficiaries that were able to actively oppose those political reforms with recommodification consequences as promoted by the elite's market orientation - an attitude that can be found in most of the transformation countries (Bluhm 2008). Despite high unemployment, the unemployed 'outsiders' lacked a group identity and were too fragmented and weak to organize. Above that, they were regarded as not deserving social support and thus subject to social stigmatisation. In contrast, several powerful sectors as the mining and coal sector were strongly organized in unions, but as they benefited from various privileges and comparatively high wages, they had not much reason to protest, hence contributing to undermine redistributive politics (Spieser 2009: 247).

⁸⁴ We find a significant longitude of these policies which can partly be identified as path dependent legacies while they have been at the same time creating new paths.

By contrast, in the ČSFR/Czech Republic, the initial conditions for the implementation of sustainable reforms developed relatively favourably, partly due to comparatively positive economic conditions and low unemployment, and partly because policy formulation was not affected by frequent government changes and policy-makers (i.e. *Václav Klaus*) took benefit from the margin to manoeuvre within a more flexible political context (Götting 1998: 56). The stable balance of power, the quick institutionalisation of an effective social dialogue and redistributive policies contributed to an atmosphere of ‘social peace’ that prolonged the reformers’ ‘honeymoon period’ (Orenstein 1995).

In a direct country comparison, trade unions remained stronger and more influential in terms of their ability to promote decommodification in the Czech Republic than they did in Poland due to the following reasons: (i) they showed to be more united and better managed to compensate membership losses, (ii) they showed to be able to triumph over more meaningful institutional positions and concluded more employee-friendly reforms than in Poland, (iii) the Czech trade unions were especially influential during the first and second reform period in which governments deliberately provided space for the unions. In contrast to this, the Polish trade union scene remained fragmented due to the dominance of two large, deeply opposing trade unions which triggered pluralist and fragmented national labour movements even when the social partners were able to take part in political negotiations on policy strategies, and partly account for the variation between the two cases (Avdagic 2003: 18).⁸⁵ Compared to the relatively consensual interest representation in the Czech Republic, the Polish unions lacked capacity to handle the situation and to develop innovative strategies, thus supporting the slow consolidation of labour market regulation while not being able to oppose market oriented policies. At the same time, one major difference between the cases can be found in the fact that a traditional pro-work actor, the Polish *Solidarność*, became a pro-market agent of company restructuring. Finally, employer organisations remain rather weak in both cases and have thus not actively interfered in the policy formulation process and indeed rather hindered social dialogue than contributed to effective tripartite negotiations. In the first reform period, this fact has contributed to the pluralisation of interests in Polish industrial relations, while in the Czech Republic it has indirectly strengthened the trade unions due to the employers’ incapacity to push their interests, the comparatively higher organisation density as compared to Poland has however enabled effective social dialogue.

The above findings suggest not only that partisanship alone cannot explain the hybridization of the emerging labour market regimes as this approach seems to be too simplistic for the variation between the two cases. Instead of assuming pre-determined strategies of political actors we have to consider a dynamic relationship framed by a multi-level environment of governance by various existing endogenous and exogenous influences. Apparently, the development of new policy ideas is linked to the reconfiguration of actors’ interests based on new interest-based relations after the regime change. Initial government choices reduced the variation for future government decisions and triggered some form of path creating which over time became resistant to change. The example of tripartite institutions shows

⁸⁵ Actually, the hostility between the two main confederations *Solidarność* and *OPZZ* impeded any form of collaboration and eroded the general capacity of organised labour also in the tripartite institutions.

that it is not their mere existence which contributes to the quality of labour market policy and regulation, but the way in which these partly new institutions are reconfiguring in view of the interests and ideas they serve. Asymmetries of power and influence have not been ‘frozen’ from the time of institutional consolidation, hence institutions alone do not account for the variation of my the cases: if distribution of power would only be determined by institutions, then formal requirements would have triggered comparable results in both cases, meaning that the social agenda and paths towards decommodification or market orientation would have developed in line with the once formalised procedures and power constellations. This finding underlines that apart from the significance of actors’ policy preferences,⁸⁶ the intensity of cooperation and coherence of actor coalitions vs. fragmentation or conflict among actors was significant in shaping the trajectory of social transformation. It has not only determined the degree of hybridization but also the speed of the transformation subjects’ consolidation.

Individually, neither institutionalist approaches based on assumptions of path dependency nor power resource assumptions adequately explain the social transformation process at large. The underlying mechanism of social transformation has neither been a rigid path dependent development nor a complete openness to the dynamic political process. It rather appears that endogenous forces evoke gradual institutional change through the way in which formal institutions are (informally) used based on actor-related dynamics and power games.

8.6 Interim results of Part III

By linking actor-centred institutionalist approaches with the empirical evidence of country-specific hybrid labour market regimes, Part III of this dissertation analysed the independent variables’ explanatory power for the empirical variation in the two cases. Three sets of independent variables have been examined: historical institutional and economic framework variables, international actor variables, and domestic actor variables. Overall, I found a variety of causes and mechanisms driving the social transformation in Poland and the Czech Republic, instead of a single factor accounting for variation in the emerging labour market regimes. None of the elements analysed and discussed above would alone provide valid research results. Thus, we have to imagine a dynamic interaction of historical institutional and economic framework variables, international and domestic actor variables in order to understand the underlying mechanisms of the social transformation process.

In the course of transformation both countries experienced country-specific (economic and political) difficulties, distinct forms of political regime change, different patterns of party formation as well as individual government coalitions launching their social reform agenda in different political shapes and degrees of stability based on distinct reconfigurations of actor constellations. These dynamics have been identified as the key variables explaining the variation in the social transformation outcome.

⁸⁶ In terms of cognitive ideas, with the regime change, a detachment from market performance and unjustified equalisation of (social) benefits were regarded as obstacles to the re-organisation of the welfare state (Cerami 2009: 45).

Chapter 6 elaborated the historical institutional and economic framework as a mechanism shaping the transformation process. Based on the historical legacies of the pre-communist (Bismarckian features) and communist (socialist-paternalistic features) period, capitalist welfare and labour market organisation was basically a newly available policy option after 1989. Even if the emerging system of managing socio-economic risk had no real precedent in the CEECs' younger history, needless to say there were institutions in Poland and Czechoslovakia in place before 1989 which continued shaping the countries' social transformation path after the regime change.

The historical institutional and economic background of the countries implied (labour market) actors with their own belief-systems, ideas and interests which were not developed on a tabula rasa, but with their ideas developed before 1989. The structural historical institutional and economic framework variables analysed in Chapter 6 revealed that both cases institutionally returned to the pre-war labour market regimes while there is evidence of several socialist legacies especially in Poland. Thus, path dependence and historical continuity are important variables explaining the social transformation outcome in both cases.

As concerns the economic framework, both countries implemented what is called a 'shock therapy', implying fast privatisation and liberalisation. The ČSFR/Czech reform programme however proved to be coherent and included comprehensive social cushioning and thus followed an approach of social liberalism aiming at equally distributing the transformation costs. At the same time, Czech policy-makers acted based on political legitimacy as they awaited the first elections before they launched reform measures. In contrast, the Polish *Balcerowicz Plan* tended to neglect the social dimension while policy-makers permanently modified their reform strategies and direction, triggering public distrust (Firlit-Fesnak 2000).⁸⁷ There is no doubt that the reason for the increased strictness of the Polish system is partially found in the tight labour market situation, which due to the low contributions resulted in attempts to positively influence the cost and work incentive. Apart from that, social policies are always associated with interests and ideas as exemplified by the fact that Polish governments launched excessive early-retirement programmes and continued to provide privileges for certain social groups: these policies not only undermined the financial restraints but also delayed a paradigm change.

On the other hand, *Potůček* argues that the overall social expenditures have fluctuated only slightly with the ideology of political actors in power, confirming *Sabatier's* approach claiming that a policy direction will not be changed as long as the advocacy coalition who has set it up remains in power in this policy field. Any change in the policy direction would require crucial external disruptions and the actors' strategic use of the opening window of opportunity (Sabatier 1992).

If post-1989 institutional change did not take place upon a tabula rasa, Polish and Czech actors did neither develop their ideas and interests in an ideational domestic vacuum, solely based on their individual experience or policy learning consequences due to systemic change. Chapter 7 showed that in both cases, actors have adopted and adapted to externally-developed ideas before and also after 1989.

⁸⁷ Apart from concrete government reform measures, the success of a transformation equally depends on civil society and the power of public opinion with regard to decision-making on the basis of political legitimisation (Eidel 2000: 110, Bayer 1999: 74 f.).

The international context provides different ideational references and ideas concerning institutional change and the creation and functioning of labour market institutions, regulation and policies. Policy ideas and interests have been strongly shaped by international actors, providing an external ideational context as point of reference and thus triggering policy transfer especially by initiating learning processes.

The IFIs appeared as an influential external authority due to their lending policies in CEECs, exercising especially in the first reform period of transformation (1989-1996). There have been assumptions that the market oriented IFIs would have a large impact on the CEECs exercised by rule-transfer and coercive policy transfer, in particular on those countries which were highly indebted.

The IFIs' liberal influence has certainly been doubt higher in Poland than in the ČSFR/Czech Republic, remaining subordinate in the latter case as the country did not show any remarkable need for external advice nor did it provide a window of opportunity for policy-engineering by the IFIs. Even if not formally linked to the mandate of policy reform, they exercised substantial pressure over the Polish government and pushed the highly indebted country closer to market orientation by the IMF whose credits were directly linked to liberalising reform steps, mirrored for example by social expenditure cuts and the introduction of flat rates in the area of unemployment compensation. The turbulent Polish transformation throughout the 1990s was dominated to a higher degree than the Czech Republic by the lack of capital, political instability and the need and receptivity for foreign know-how, hence opening a window of opportunity for policy engineering by the international actor IFIs as a mechanism of domestic change. As discussed, greater windows of opportunity for external policy transfer open up when coherent domestic reform strategies are lacking, in line with *Leibfried/Pierson* who claim that supranational solutions are aspired in situations when national solutions fail and societal dissatisfaction threatens the governments' popularity (*Leibfried/Pierson* 1997: 89). The Czech Republic never provided a comparable power base for the IFIs based on the fact that "the opinions of international institutions were not considered imperative, and foreign advisors were not welcome" (*Vercernik* 2008). At the same time, the Czech Republic's economic transformation showed to be more politically consistent and stable and did not rely the same way on external support, neither in fiscal nor in ideational terms.

On the whole, even if it was found that the IFIs' influence is visible in the labour market field in some respects, it could not be entirely confirmed that coercive policy transfer came about even in situations where the international actor's paradigm conflicted with the domestic preferences. Thus, I underline the domestic actors' choice to comply with external conditionality as the IFIs certainly depended on cooperation with national governments to implement market oriented reform programmes. It was found that external advice and pressure by the IFIs has not always led to a coercive transportation of external paradigms to the domestic context, but the IFIs' liberal mantra was framed according to the actors' preferences and sometimes even used to publicly legitimize the domestic actor's interests in a market oriented reform style. This is why I argued that external influence by the IFIs took mostly place based on a win-win-situation.

By the mid-1990s the influence by the IFIs became smaller since the EU took over as the predominant target. The EU became the most influential authority with the beginning of the accession negotiations from 1997 onward with the accession negotiations. Even if the EU had become the overall target already with the regime change and the idea of a 'return to Europe' and actually was expected to influence the transformation processes more in a socially embedded direction, this actor had not engaged with a clear welfare regime approach and rather "opened a considerable space for other, more active and influential international actors, namely the World Bank and International Monetary Fund governed by the Washington Consensus' neo-liberal ideology of the 1990s" (Potůček 2009: 38, Szikra/Tomka 2009: 28).

With the second reform period (1997-2003), the EU's influence on the social transformation became crucial due to a combination of 'hard' *acquis* pre-accession conditionality, followed by rather 'soft' conditionality in ideological terms in the period of EU-membership (2004-2009). However, instead of activities of policy and institutional engineering, the EU appeared to be influential rather through soft policies due to its limited competences in the field of labour market policy and regulation. While the accession process entailed formal convergence with EU regulations and procedures by implementing the *acquis* and certain EU rules in the area of labour law, processes of Europeanization have mainly triggered policy transfer by the introduction of ideas, interests and institutions (Schimmelfennig/Sedelmeier 2007, Börzel/Risse 2003, Cerami 2007). Poland and the Czech Republic oriented towards continental Europe in a way of 'institutional borrowing' through a policy diffusion of ideas. Today's design of the new institutional framework corresponds mainly to a 'return to Europe' with its well-known insurance-based structures before socialism. The 'soft' instrument of the OMC has restructured the labour market policy area by strengthening coordination together with dynamics of mutual learning. *Potůček* even argues that the OMC had become the main instrument of Europeanization of national policies (Potůček 2009: 56).⁸⁸

When it comes to identifying an EU impact in terms of decommodification and market orientation, EU policies and programmes mirror Janus-faced ideas in the context of labour market reforms in the field of employment promotion, social protection and activation by recommodifying mechanisms (Schüttpelz 2004: 11). The EU influence on sensitive issues like regulation and distribution policies remains multi-faceted and ambivalent as it strengthens the role of the state, extends worker protection and the influence of the social partners on the one hand – but on the other, the *acquis* also increased market orientation while encouraging competition and labour market flexibility. Above that, the process of European integration itself has set off a competition of social security systems due to the pressure on labour markets to remain competitive.

In sum, the influence of the international actors IMF, World Bank and EU has contributed to a general, normative and organisational discourse on adequate policies in the field of a regulative and

⁸⁸ To provide an example, Czech and Polish workers are able to move freely from one EU member state to another from 1 May 2011, a fact which implies that their welfare rights, which have been limited for a certain period, will now travel with them. This circumstance has not only been organized on the supranational level, but also on the national, regional and local level and parallel at the public and private level as soon as private insurances are involved.

redistributive framework of emerging welfare capitalism, supplemented by concrete recommendations on policy programmes to be implemented, supporting the development of hybrid solutions as the EU's impact has been Janus-faced between state and market impetus while the IFIs clearly pushed for market orientation.

If the above elaborated multi-faced external impact has certainly contributed to the hybridization of the emerging labour market regimes, the reference to international actors - except for the unequal influence by the IFIs - cannot fully explain the variation in the social transformation pathways of the cases. The examination of the third set of domestic actor variables in Chapter 8 was thus particularly interesting.

The country-specific detachment of the socialist regime has entailed a profound path creating dynamics with respect to the social transformation process: while Poland underwent a negotiated regime change dominated by former elite communist actors, the Czech Republic experienced a regime collapse with dissolution of the former communist actor constellations. The regime change marked a distinct reconfiguration of actors shaping the beginning of the social transformation process as concerns the procedures of decision-making and the emerging structures of interest representation. In Poland, relevant actors of the socialist regime reconfigured in different political parties after 1989, while in the Czech Republic new elites emerged that had almost entirely turned away from the old system due to the closeness of the system which did not allow for any opposition in contrast to Poland, thus key dissident actors (in particular many social democrats) emigrated and returned only after 1989. On the whole, these dynamics contributed to the emergence of a fragmented system of interest representation and decision-making in Poland whereas the Czech system sooner consolidated within rather stable patterns. This finding provides evidence that the negotiated Polish regime change could have been an underlying nucleus of conflictual and ad-hoc actor constellations which supported a hybrid social transformation path, referring to two reform directions at the same time: decommodification and market orientation. This situation mirrors the basic dilemma of actors and decision-makers in the situation of transformation from paternalist to capitalist welfare, being caught between financial constraints and socialist legacy as *Golinowska* describes:

“Due to political reasons, it is not possible to relinquish the social model over a short period of time, and due to economic reasons it is not possible and reasonable to finance it any further. In such a situation, social policy is reformed much later than the economy, and is subject to various tendencies and disproportions throughout the transition process” (*Golinowska* 2000: 251).

The unequal regime change entailed country-specific developments of political party systems which again affected the reconfiguration of government coalitions. These actor-related institutional dynamics show to be basic elements of continuity and change in the two cases and are a basic mechanism of their empirical variation. The direction and process of social transformation, decided upon by reform actors and the domestic elites, taking decisions without much commitment from society generated different path creating patterns of interest representation and decision-making, shaping the coherence of reform policies. I found that in the Czech Republic, based on domestic consensus among labour market actors and backed by political legitimacy until 1997/1998, the socio-political agenda could be implemented

quite smoothly while the conflictual and fragmented actor constellations in Poland presented a picture of discontinuity and *ad hoc* solutions. This situation opened a window of opportunity for policy engineering by the IFIs based on the situation of uncertainty, requiring the redesigning of labour market regimes while national actors were not sure which strategies would be successful.⁸⁹ Interestingly, despite liberal-conservative governments being in power in both countries most of the time during the period under consideration, Czech governments could launch sustainable labour market reforms while this window of opportunity only opened up to a limited extent in Poland. This suggests that even if government actors wish to re-shape the labour market institutions according to their ideas and interests, the extent to which they actually managed to do so heavily depends on the extent to which their ideas and interests conflict and to what degree these actors are able to enforce them by means of cooperation or coercion.

In Poland, the role of *Solidarność* has been particularly central in this context since it is a specific kind of trade union which lived through a metamorphosis and became a political actor with power aspirations which did not correspond to the representation of workers' interests anymore and thus heavily disappointed and lost large parts of the society. The historical conditioning of the social movement *Solidarność* in the 1980s fighting against the state as a 'total employer' has triggered an archetype of an oppositionist and competitive unionist attitude. Interestingly, it appears that organised labour gained more influence on the social policy making process not through links to the political parties and government, but rather through the exact opposite: in the case where they managed to maintain their independence (Avdagic 2003: 19). It was in Poland, where unions have had the much stronger links to the leading political parties and actors, that organised labour remained much more ineffective in influencing socio-economic policies when compared to the Czech Republic. In the latter, as Avdagic stresses, ČMKOS insisted on its formal political non-alignment despite its general social democratic orientation (Avdagic 2003: 20). Neo-corporatism played a more important role in the Czech Republic than it did in Poland because of the stronger position of the unions, allowing them to push for more employee and employment-friendly policies. The choice of a paradigm does not occur on scientific grounds, but is to large extent sociological. Shifts in ideas, interests and power relations therefore influence policy-makers in this respect. It shows that the Czech actors' configuration obviously allowed for a more reliable negotiating of the social partners' ideas and interests based on clear positions while in Poland, higher degrees of fragmentation, decentralisation, and apparently attaching little importance to social dialogue, Polish employer associations did not contribute much to promote successful tripartist activities.

With respect to the previous communist regime, this phenomenon reveals the difficulty that political parties and trade unions had when it came to the task of taking a power position. In a situation like this, trade unions, political groups and government members with easily identifiable interests played a

⁸⁹ With reference to Haas "[i]t is difficult for leaders to identify their potential political allies and to be sure of what strategies are most likely to help them retain power [...] poorly understood conditions may create enough turbulence that established operating procedures may break down, making institutions unworkable. Neither power nor institutional cues to behaviour will be available, and new patterns of action may ensue." (Haas 1992: 14).

significant role in seeking to influence social and labour market policies especially in situations when reform proposals not significantly differed and thus were easy to interpret according to own preferences. At the same time, there was hardly any base in society for opposing what can be described as neoliberal policy orientation. As several authors argue, the most articulate and politically best-organised forces in society, often related to business, usually give preference to the liberal model and oppose initiatives promoting the development of a strong social policy, because it is thought to interfere with labour markets by raising labour costs (Hall/Soskice 2001: 50, Szikra/Tomka 2009: 28). It shows that the majority of transformation losers who belonged to a rather heterogeneous group, not sharing much more than their status as losers, showed organisational weaknesses and thus did not possess any potential to blockade painful labour market strategies (Kollmorgen 2010: 10). At the same time, the social transformation process also produced new forms of interest group mobilization, leading to the formation of beneficiaries defending their status. These developments led to a situation that generated new cleavages among the different interest groups according to their eligibility for support.

The social transformation process in CEE is still characterized by an ongoing recombinant transformation in which a revolution of the former logic occurs. The main ideas which have been introduced by domestic and international actors have followed the prevailing political discourses of the time.⁹⁰ In the end, the emerging Polish and Czech labour market regimes are the result of internationally and domestically driven reforms whose directions have been mainly determined by institutional continuity and actor-related dynamics and can thus best be explained by a combination of institutional path dependency and actor-centred power resource approaches. It shows that the influence by international actors relying on coercion, learning and convergence are only selected forms of policy transfer and one trigger of policy learning processes among others and particular instances of two countries adopting externally formulated rules or paradigms. At the same time, the reference to institutionalism does not explain why intermediary institutions as for example the tripartite institutions are not successful even if they are formally designed as a deliberative governing body of the industrial relations. Issues like legitimacy, authority and organisational capacity appear to be crucial within the process of domestic change since actors have to decide about the views that they regard as convincing and consequently aim to translate into political action.

⁹⁰ Cerami summarizes these discourses as being influenced “by Bismarck for the pre-communist period, by Marx and Lenin for the communist time, and by Reagan and Thatcher for the post-communist era. These three different periods of ideas also coincided with three different types of interests, primarily involving: (1) the industrial working class for the pre-communist period; (2) the communist worker and nomenklatura for the communist phase; and (3) the private business for post-communist era” (Cerami 2006: 17).

Chapter 9 Main findings and conclusion

Against the background of variation in the emerging labour market regimes in CEE, the dissertation aims to capture the nature of this variation and to identify its explanatory variables. The main research interest is based on the following question: why have these countries, sharing not only essential aspects of pre-communist welfare organisation, but also going through the period of state socialism together, have not converged on one labour market regime? Thus, while the first research question refers to the content-related evidence of varieties of hybrid welfare, the second research question focuses on the underlying mechanisms of change and is thus process-related. The key finding of the dissertation leads to the conclusion that while history matters, politics is decisive.

The dissertation provides a comparative analysis of emerging labour market regimes in Poland and the Czech Republic, two countries which have not yet been comparatively examined in depth. While many studies in this field have a broader focus on the transformation countries, clustering the CEECs or the Visegrád countries (i.e. Bohle/Greskovits 2007, Kollmorgen 2010), the dissertation's findings suggest that this perspective remains too general to adequately trace the labour market transformation process when trying to understand how variation comes about.

The years 1989/1990 mark a radical break with socialism in CEE. However, at the same time as there was change, there has also been continuity. Many labour market reforms have however occurred in an incremental fashion upon the previously existing institutions and policies. There was a back and forth between stability and instability that both cases went through for the new procedures following the regime change. As a result, in contrast to the rapid reform of the formal institutions, the transformation of informal institutions has proceeded in a gradual, country-specific manner. As *Streeck/Thelen* note, it was neither a disruptive institutional change nor one of path dependence. It was something in between. In many respects, change thus had a gradual character (*Streeck/Thelen* 2005, *Thelen* 2004).

Overall, there is no doubt that the transformation process in CEECs involved third order paradigm and institutional change (*Hall* 1993). The emergence of capitalist labour market regimes reflects the changed ideological orientations of government actors and their capacity to impose them in terms of a top-down process. At the same time, policy change at a lower operational level has been more limited in scope and incremental change did not immediately overthrow the existing policy paradigm. Finally, policy change in some cases has also been limited to the introduction of new policy instruments with the potential to trigger paradigm shifts as a long-term result.

In sum, the newly emerging labour market regimes have developed around new welfare logic recombining in a path dependent, path breaking and at the same time path creating way components of socialist legacy, of the continental European and of the liberal Anglo-Saxon context. This mixture places the countries somewhere in between *Esping-Andersen's* (1990) liberal and conservative welfare model and *Hall/Soskice's* coordinated and liberal market economies with a flavour of limited universalistic legacies (*Potůček* 2008). While all transformation countries carried out a fundamental rethinking of social and labour market policy, the manifestation of change has however been different: instead of converging on the one labour market regime, the social transformation process generated

country-specific variations of this hybridization.

Varieties of hybrid welfare: In order to understand the manifestation of change, Part II drew a comparative picture of the labour market institutions, regulation approaches and policies as the outcome of the transformation process. They have served as key indicators in order to map the empirical variation between the two cases. With the change from socialism to democratic capitalism, radical paradigm and policy changes have brought along major reforms in institution building and the basic capitalist labour market institutions have rapidly been established together with new regulations governing the labour market, altogether showing formal institutional recourse to the insurance-based continental European structures and the fundamental characteristics of the employment relationship based on labour law regulating dismissal protection. Passive and active labour market policies have been introduced in order to deal with the new experience of unemployment. The deliberate return to social security arrangements from the pre-war period can be observed as a common point of reference in both countries. The emerging labour market regimes have been subject to various parallel influences and an unfolding dynamic of structuring, de-structuring and re-structuring of existing welfare institutions (Cerami 2007). The adjustment process has been driven by policy choices and market forces at the same time, as both dimensions are constrained by institutions, regulations and policies.

These processes generated country-specific hybrids of what I have classified decommodification and market orientation based on diverging developments as concerns lower level changes. As an example, already in 1992, Poland introduced flat rates in the area of compulsory unemployment insurance, with this step combining residual and contributions-related social security. The Czech Republic maintained its insurance-based system with the payment of earnings-related benefits. While the field of labour market regulation is marked by an institutional conversion and negotiated implementation of capitalist labour relations and an increasing degree of flexibility, it was found that the Czech labour market is characterized not only by higher employment levels, but by a lower extent of non-standard (precarious) employment, more centrally coordinated and consensual industrial relations, centralized wage bargaining and a more effective coverage of collective agreements. By contrast, a decentralisation of industrial relations and the individualization of the employment relationship in Poland have weakened employee participation and the effectiveness of social dialogue.

The development of labour market policies is characterized by a gradual tightening and downscaling of the unemployment benefit system in both countries, transforming them from universalistic unemployment welfare regimes into market oriented minimal regimes within the course of some ten years (Keune 2006: 272). Poland has followed a clear residual restrictive approach together with privatization tendencies while the share of private funding for social policies in the Czech Republic remains still on a very low level (Potůček 2008: 6 and 2009: 39). The Polish unemployment benefit scheme quickly began to resemble arrangements in minimalist welfare states as the eligibility criteria became more restrictive, the period of compensation was shortened, the level of coverage significantly decreased, altogether leading to a disappearance of the logic of social insurance. Paradoxically, this trend of marketization has been combined with excessive compensation and redistribution measures for certain social groups to facilitate the implementation of these new policy principles, leading to

conceptions like “paternalistic market-hybrid” (Golinowska 2009) or “bourgeois economics and Marxist politics” (Bjork 1995). By contrast, this shift towards market orientation proceeded only gradually in the Czech Republic where state intervention and coordination has for a long time been part of the socio-liberal strategy, illustrated by *Purkrábek’s* statement that the “Czechs like to be liberals, but with a state wind supporting their back” (Potůček 2008).

Assessing the hypotheses: In response to the hypotheses, three independent variables have been put in relation to each other in Part III, claiming in line with institutionalist assumptions that the historical eras have not succeeded one another without traces of legacies and institutional path dependence while emphasizing in line with the actor-centred approach that international and domestic actor dynamics have significantly shaped the social transformation process.

Institutional change was operated from the political (government) elites and implemented by translating policies into new institutions and instruments based on the actors’ perception of the new paradigm and their assessment of past experience, at the same time exposed to the emerging bargaining activities and interest negotiations by various actors on different levels. Referring to the first independent variable and the significance of historical institutional and economic framework variables as underlined by the approach of institutionalism, the first hypothesis claims:

- Hypothesis 1:** A system change (critical juncture) has two consequences for the nature of a labour market regime:
- i. A recombination of old and new elements result in a hybrid.
 - ii. Initial decisions and dynamics are essential for the transformation outcome and cause path creation.

To what extent do the findings validate or invalidate this hypothesis? The political regime change in 1989/1990 did not coincide with an institutional or ideological vacuum. Institutions have not been built upon the historical ruins of the pre-communist and communist system, but with them (Spieser 2009). Legacies of these eras prevailed. Assuming that policy-makers in the CEECs have been themselves part of a process of regime hybridisation, they have adopted and implemented ideas, instruments and procedures in a selective and not always rational way. These multi-level processes led to a situation in which, as a result, different paradigms co-existed and brought about features of heterogeneity. It is essential to consider that the task of nation-state building was never threatened by international actors in the Czech Republic, whereas Poland had difficult legacies as concerns nation-state building and social and ethnic heterogeneity, leaving the political elites with the question which position to take with respect to social and political integration (Bohle/Greskovits 2007). It shows that the variable of institutional path dependence partly explains the hybridization of welfare in both cases as in line with *Stark/Bruszt*, it was found that initial institutional decisions have crucially influenced the future pathways of social transformation. These pathways could not easily be changed afterwards and the early decisions have entailed long-term impacts on the course of transformation and shape the processes of future decision- and policy-making in both cases to a high degree (Stark/Bruszt 1998). As a result,

basic welfare orientations have triggered social policy approaches that restricted the scope for future solutions and thus generated some form of path dependence (Bohle/Greskovits 2007). It shows that the more ambiguous the early transformation dynamic the more pronounced the hybridization of the transformation objects.

This finding provides evidence for Hypothesis 1 in confirming that the collapse of state socialism has induced an institutional reconfiguration based on path dependence, path creation and paradigm change. Initial decisions have shaped the future solutions and functioning of institutional settings in a path-creating way and the longer an intermediary status quo of policy-making prevailed, the more rigid the intermediate structures became and consensus about the chosen direction diminished. At the same time, variation can partly be explained with the fact that initial political decisions, based on the reform actors' different perceptions of past experience, had a deep impact on the future regime type (Bohle/Greskovits 2007).

Overall, as concerns the historical institutional and economic framework variables, there are many commonalities between the two cases in terms of institutional and behavioural legacies of the pre-communist and communist time. In both cases, it showed to be logical to the decision-making elite to return to pre-communist historical tradition while the liberal paradigm shift together with financial restrictions brought about increasingly tight schemes and residualisation trends. The general economic situation has indeed been more favourable in the Czech Republic, especially due to higher employment rates, but also in terms of macroeconomic stability. The economic framework variable thus certainly contributes to explaining the variation between the two cases in terms of labour market success and it is tempting to interpret Poland's higher market orientation in the light of economic restraints. However, the variable does not provide evidence of the higher Polish social expenditure rates given the excessive compensation strategies (early retirement) and socialist legacies as i.e. the maintenance of occupational privileges which turned out to be much more costly than their abolition would have been. Furthermore, it does not explain phenomena of hybridization. If fiscal balances and levels of unemployment surely appear to be of great relevance, it is not to the extent that they overshadow the influence by actors' interests and ideas (Korpi/Palme 2003).

In sum, the first hypothesis can be partly validated as institutional continuity and path dependence can well explain the emergence of hybrid labour market regimes. However, the variable does not convincingly explain the variation between the cases as the reference to institutionalism does not explain why the establishment of similar formal institutions (for example the tripartite institutions) does not bring about similar effectiveness of these institutions. This finding confirms that it is not their mere existence which contributes to the quality of labour market regulation and policies, but the way in which these institutions are framed by the political environment and configuring in view of the interests and ideas they serve.

According to the second hypothesis, inspired by actor-centred assumptions and the relevance of power resources, the relationship of domestic and international actors is an important mechanism shaping transformation processes. In this context, one particularity in CEE compared to the emergence of Western European welfare states in the late 19th century is the fact that welfare choices have been to a

lesser extent determined only by domestic preferences as they have become more and more a polity and politics question of transnational cooperation, policy transfer and mutual learning. The transformation process in CEE has been framed by international interdependencies and attempts of external policy engineering. Based on these assumptions, the second hypothesis suggested:

Hypothesis 2: Dependence on an external actor leads to policy transfer into the target country.

The hypothesis suggests that the extent of external policy transfer via the market oriented IFIs correlates with the domestic conditions in terms of domestic debt and the degree of political stability. Thus, need of financial support and receptivity for external advice in times of political instability opens a window of opportunity for institutional engineering according to the preferences of the international actor IFIs. Equally, the hypothesis implies that with the EU pre-accession conditionality during the second reform period (1997-2003), the EU had a powerful tool to enforce the candidate countries' compliance with EU standards. This assumption indicates that with the candidates' accession and the loss of the instrument of conditionality, the EU's power for policy transfer diminishes.

Can the hypothesis be validated given the dependence of Poland and the Czech Republic on the IFIs (in terms of loan-connected conditionality) and the EU (in terms of *acquis*-conditionality)? The findings indeed provide evidence of the market oriented influence by the IFIs especially on the Polish reforms during the first reform period (1989-1996) in which the IFIs provided strong and 'conditionalist' advice of how the post-communist countries had to reorganise their welfare systems, even if lending was not officially linked to the fulfilment of certain policy reforms (Inglot 2009: 238). Government budget pressures, combined with the conditions laid down for receipt of loans by the international players IFIs, encouraged the residual welfare policy of a liberal state even more in Poland than in the Czech Republic. Given a stable and continuous reform policy, the Czech reformers considered the IFIs' recommendations to a marginal extent. However, the findings do not provide clear causal evidence supporting this hypothesis as there have also been situations where Polish policy-makers decided against the IFIs' recommendations. This shows particularly as concerns the extensive compensation measures launched by the governments during the early transformation years which were clearly against the IFIs' interest. I thus argue that despite the countries' financial dependence on the IFIs, there has also been reciprocity and win-win-situations.

In contrast to the IMF and the World Bank who had clear ideas of how the labour market transformation process should proceed, the EU has not intervened in the field of labour market and social policy making in the early transformation years (Potůček 2008: 2). While the EU certainly served as a transformation anchor for the emerging social security systems in CEE, it failed to actively promote any social role model.

Scharpf explains this absence of the EU with its lack of enforcement mechanisms in social and labour market policy due to a structural asymmetry between 'market-making' interests emphasizing the economic dimension, and 'market-correcting' interests emphasizing the social inclusion dimension (Scharpf 2002). While the economic sphere of decision-making in the EU is strongly Europeanized based on binding regulations and 'hard law', regulations as concerns the social sphere remain soft.

Moreover, I have argued that the EU social and labour market agenda is ‘Janus-faced’ and characterized by ambiguity between state and market impetus: the EU strongly promotes decent wages, working conditions and effective social dialogue, emphasizing the importance of social cohesion, adequate social security schemes and labour market performance. On the other hand, it increasingly pushes liberal arguments like ‘make work pay’, ‘activation strategies’ or ‘increasing the conditionality for benefit receipt’ (MISSOC 2008). Parallel to this, the process of European integration itself has set off dynamics of increased competition of social security systems and labour market flexibilization. With the beginning of the accession negotiations in 1997, the EU had become the most important target, intervening in Polish and Czech affairs by imposing hard and soft criteria, including the *acquis* which left little space for negotiations about its implementation. Based on ‘*acquis* conditionality’ in the context of the accession process (1997-2003), Europeanization had been partly coercive as the candidate countries were not involved in decision-making, but forced to adapt to rules and take over an ‘EU profile’ that they had not decided upon. They did so not in terms of policy learning and the implementation of arrangements that they believed to be successful in their domestic setting, but also in terms of ‘hollow’ learning based on the prioritization of compliance with EU standards over the appropriateness with domestic settings but with the reward of increased EU funding. According to *Schüttpelz*, if the formal compliance of candidate countries with the EU’s rules can be labelled obligatory, domestic actors were almost all the time able to shape and co-decide on the implementation of these rules, meaning that the selection of policy ideas has thus been heavily determined by national political and economic arrangements and was thus domesticated (*Schüttpelz* 2004, see also Stone 2001). The EU’s influence during the second reform period has been limited due to three facts: (i) the EU has not required the cases to converge their welfare regimes, but to ‘coordinate’ the differences between them, (ii) the EU has no welfare regime ‘template’, (iii) the EU has only few concrete mechanisms to enforce an adoption of European social policy standards (*Sengoku* 2004). This finding shows that the mere existence of conditionality as a strategy is not always effective, but it can still successfully explain external policy transfer in the context of an ‘external incentives’ model, illustrating that policy transfer is not an independent process but linked to a range of interdependent variables.

Interestingly, policy learning and diffusion gained influence in the third reform period (2004-2009) when pre-accession conditionality was no longer a tool of coercive policy transfer but soft procedures have functioned as a bottom-up form of harmonization among the EU member states. These procedures supported the once formerly established institutions and rules with new output legitimacy in terms of an institutional adaptation to Europeanization, as the Europeanization taking place in the candidate countries before the accession differed from the old member states in terms of input legitimacy. Curiously, the soft mechanisms of lesson-drawing and social learning turn out to be even stronger mechanisms of change or compliance in the new member states after the loss of the conditionality instrument but the increase in legitimacy and appropriateness. As neither Poland nor the Czech Republic reveals a systemic convergence with the existing EU welfare capitalism models, processes of Europeanization contribute to explaining the hybridization of labour market regimes, but they do not

provide evidence for the dynamics leading to variation. There is another interesting finding in that the coordination and resource capacities of the external actor *and* the target country affect if external policy ideas are translated into policy formation: it depends not only on the target country if external ideas will be translated into policy formation, but also on the coordination and resource capacities of the external actor. As these decrease, ‘hard’ forms of policy transfer are increasingly domesticated and replaced by ‘softer’ forms.

The international actors EU and the IFIs have imprinted not only concrete policy approaches through ‘hard’ conditionality, but they have influenced newly emerging policy discourses through ‘soft’ mechanisms of diffusion and opportunities of policy borrowing, hereby setting off learning processes influencing the agenda-setting process (Cerami 2006). This finding suggests that structural changes at institutional level are more motivated by endogenous processes, while the adoption of new instruments can represent a result of learning from international experience. This did not occur in the way of an externally imposed and controlled coercive transfer, but through mechanisms of learning as a process controlled by the domestic political elites that were able to make “purposive decisions within the parameters set by external, structural, and legacy constraints rather than being eclipsed by them” (Vanhuyse 2006: 1121). In attempting to assess the impact of international actors, I conclude in line with Cerami that these have been important facilitators for reforms, but not the only causes responsible for specific outcomes as they were “certainly not able to let introduce policies in systems that did not have the necessary structures to metabolize their recommendations” (Cerami 2006: 18). This finding does not entirely permit to validate Hypothesis 2.

Finally, Hypothesis 3 supposes that it is not merely the actors’ power in terms of quantitative indicators which determines their actual influence on the labour market transformation process, but also the configuration and coherence in terms of conflict and consensus:

Hypothesis 3: Conflict and fragmentation of domestic actor constellations delay the consolidation of the transformation subject ‘labour market regime’ and foster its hybridization.

I have analyzed the domestic actor variables referring to the regime change, the party systems, the government coalitions and the social partners according to their influence on the emerging labour market regimes.

The political regime change introduced a new era with questions about the aggregation of interests and collective choices becoming more important for the emerging labour market regimes. With the help of the actor-centred approach, the nucleus of the fragmented actor constellations in Poland vis-à-vis the more coherent Czech actor constellations can be explained: the detachment from the old regime proceeded as a collapse with a ‘replacement’ in the ČSSR contrary to the negotiated regime change and ‘transplacement’ in Poland (Grotz 2005). Thus, while the Polish Solidarność and other key actors remained influential after the regime change, communist actors were expelled from the government in the ČSFR and it was only after the regime change that former dissidents as the social democrats have returned from exodus. Another remarkable finding supporting the hypothesis refers to the political

aspirations and the direct involvement of the powerful *Solidarność* in negotiating the regime change, turning out to be major obstacles hindering the emergence of a stable party system and stable sequence of government coalitions. These dynamics delayed the consolidation of reform policies and promoted the hybridization of solutions while fragmented and weak actor constellations in favour of decommodification were not able to oppose market oriented actors.

Ironically, it was exactly the fact that social stratification, the articulation of social groups and class consciousness did not take place in the ČSSR before 1989 that positively affected the social transformation process (Bayer 1999: 293). Transferred to the empirical evidence of variation in labour market regimes, the character of regime change provides an actor-centred explanatory factor: dynamic reconfigurations of actor constellations influenced the negotiations in terms of conflict or consensus. In Poland, the regime change was negotiated by different stakeholders who already existed in the old system, entailing permanent confrontation between more socialist ideas and a more liberal agenda, rejecting the old system. According to *Hall's* perspective on third order change, decisions about paradigm shifts are intrinsically political and shaped by politicians rather than by experts, reflecting a power game between different governmental and elite groups. Apparently, this was the case at the time of the Polish regime change, re-establishing the crucial role of politics in shaping (welfare) policies (Hall 1993). The country-specific regime changes have entailed path creating dynamics with respect to social policy paradigms: for Poland, liberal and socialist elements clashed at the beginning of transformation and slowed down social policy consolidation, while in the CSFR reform actors rather agreed on a socially embedded liberal reform course. Overall, the dynamics of regime change represent crucial mechanisms of change and continuity (Voigt/Salzberger 2002: 9), as also underlined by *Stark/Bruszt*:

“The different paths (capitulation, compromise, competition, and so on) of extrication from monocratic state socialism in Eastern Europe, moreover, have yielded different transitional institutions in the new policies of the region. That is, the strategic interactions of rulers and opposition (as well as patterns of conflict and alliance among competing opposition forces) have created different political institutions and rules of the game across these cases” (Stark/Bruszt 1998: 18/19).

The significance of the emerging party system can be assessed with respect to its fragmentation and consolidation as an indicator of the power position of parties and the capacity to organize: in the Czech Republic, decisive cleavages between market liberal and more intervention-oriented socialist preferences only evolved after the regime change due to the closed nature of the socialist system, but quickly consolidated after 1989. Due to the unity of the social democrats in parliament it was possible to implement comprehensive social cushioning of the economic reforms. In Poland, by contrast, the pre-1989 political movement *Solidarność* had supported a fragmentation of the party spectrum and kept it in constant flux, while the trade union ironically promoted the idea of privatization and rapid system change, leaving the radical *Balcerowicz* programme unquestioned due to a lack of the opposition's unity and capacity to organize. This promotion of neoliberal reforms makes it a unique case among trade unions in Europe, based on its birth as an opposition to the primacy of collective egalitarianism. After 1989, the lack of clear-cut political preferences and coherence reinforced hybrid forms of political

reality and policy-making. Different to the Czech Republic, political conflict in Poland is not characterized by party cleavages, but by organised groups that have defended their status privileges of the previous paternalist welfare regime.

To what extent do the emerging party systems provide explanations for the variation in the emerging labour market regimes? Mainly in that this Polish legacy prevented political parties from developing class bases and stable conditions to pursue a coherent social transformation. Both variables tend to be an issue of ideological division and disturbed identity in Poland compared to the Czech Republic, and the delay in the consolidation of the Polish party system has significantly affected the social transformation process. By contrast, the consolidated Czech party system enabled policy-makers to pursue a rather stable reform course.

Reinforced by the fragmented party landscape, an instable dynamic of interests dominated Polish government coalitions and generated divided actor constellations further delaying the consolidation of reforms. This feature was the reason for *and* the effect of a pronounced insecurity as concerns the direction of the social transformation, supporting the development of hybrid policy solutions. In contrast to the neoliberal public discourse, Czech decision-makers were from the very start concerned with the reforms' social acceptability and the citizens' protection (Sirovatka/Rakoczyova 2009). It shows that these first socially embedded transformation years have imprinted the further development of state intervention as an important regulative instrument. Different in Poland, where lack of consensus and planning "caused a misallocation of scarce resources and a disintegration of key elements of the social safety net" which led to public disagreement with the governments (Orenstein 1995: 179).

The stable social transformation path in the Czech Republic led to sustainable labour market reforms while Polish politics with left and right parties alternating in power triggered an ad-hoc and vague reform path. These pathways of policy making has been strongly conditioned by the ongoing mutual assessments of strengths and weaknesses of the involved actors in line with the power resource approach, but all the more by their ability to mobilise based on coherence, organisational resources and the ability to cooperate (Avdagic 2003: 30). Additionally, a large part of what characterized the Czech social transformation so remarkable is the high level of government approval registered during and after the political regime change in contrast to Poland where government popularity continued its downward trajectory (Orenstein 2001: 88). The lack of party identification and high voter abstention proved to be a vicious circle that blocked profound social reforms as governments tended to concentrate on short-term voter interests, hoping in vain to remain in power (Leibfried/Pierson 1997: 89).

Interestingly, *Sengoku* argues that the general picture of partisan party politics is turned around in the Czech Republic and Poland: the Polish social democratic party SLD has had a tendency to adopt neoliberal welfare policies, while in the Czech Republic during the *Klaus* era, the liberal rhetoric has not led to uncompromising liberal models and rather postponed or mitigated some aspects of the originally presupposed radical liberal democratic changes (Sengoku: 2004). According to the power resource approach, it is social democratic governments that generate i.e. corporatist tripartite structures, redistribution and de-commodification policies. However, during the first transformation years, it was conservative governments in both cases that established tripartism while in 1993, the Polish social democratic party returned to power and entailed the opposite by introducing market oriented reforms.

This finding questions the axis of party competition relating to social policy reform and makes it difficult to understand the situation if only power resource approaches are applied.

The rapid marketization in Poland can rather be explained by the lack of an organized coalition of 'outsiders' that were able to actively oppose those political reforms with re-commodification consequences. Despite the dramatic unemployment throughout the 1990s, Polish benefit recipients and 'outsiders' have never managed to organize in order to defend their rights due to the lack of group identity. Apart from being too weak and fragmented to articulate, they were regarded as not deserving social support and thus subject to social stigmatisation. At the same time, several powerful sectors as the mining and coal sector were strongly organized in unions, they were one of the few social groups with a legacy of entitlements or preferential status, but as they benefited from various privileges and had not much reason to protest because Polish policy makers chose generous targeted social protection packages in order to sustain social peace. Thus, the fragmentation and confrontational politics of the Polish environment has pandered increasing market orientation and contributed to undermine redistributive politics, promoting trends towards a market society based on political individualism (Spieser 2009: 247). Interest representation becomes more and more a matter of cumulative individual preferences and product of certain social groups instead of collective interests. As a result, particularly in situations where political stability and mobilisation is absent, government policies are likely to resemble distributive clientele policies.

In response to the third hypothesis, an explanation of the transformation outcomes merely with the political orientation of governments and political partisanship would be too simplistic for the variation between the two cases. This finding is illustrated by the Polish compensation approach for strategic constituencies and labour market exit strategies during the first transformation period, standing in contrast to the Czech inclusion approach based on job-loss prevention strategies. By their very emergence, welfare regimes have generated new interest groups among recipients of various benefits, but also among decision-makers and key actors. The emergence of these advocacy coalitions is assumed to make the welfare regime less dependent on classical actors as political parties or labour organisations, explaining why there might be little correlation between declines in left power resources and the magnitude of retrenchment. At the same time, economic individualism in CEE is accompanied by political individualism based on the principle of individualism with the trust in market liberty and entrepreneurship, identifiable i.e. in the discourses of Polish government elites, and illustrated by several laws, measures, and reforms (Spieser 2009: 306).

Finally, Polish trade unionism is characterized by pluralism and competition of interests with a bipolar structure with two large competing trade union confederations, the pro-worker OPZZ and the conservative Solidarność whose involvement in corporate arrangements has been limited due to the competitive union pluralism (Götting 1998: 56, Karolewski 2000: 291, Kohl/Platzer 2004: 241, Bertelsmann 2003). By contrast, Czech unipolar trade unionism is characterized by stronger centralization with the ČMKOS which has never been involved into policy-making as a political actor. The Czech trade unions do not carry a heavy legacy from the past and the replacement of the majority

of the former personnel by 1990 dramatically weakened the communist party organisation in general (Sachs 1995: 2, Myant/Smith 1999, Vanhuysse 2006). In addition to the Czech unions' role on the level of interest representation and involvement in social dialogue, they were given a major importance as concerns the social support of the reform agenda which has contributed to the maintenance of social peace (Kohl/Platzer 2004: 211).

Mechanisms of change and continuity: In conclusion, the most relevant mechanism accounting for variation in labour market regimes appears to be the domestic framework of the reconfiguration of actor and power constellations, transformational stability and political coherence. It is here that the most striking differences between the two cases appear. The Czech strategy of social liberalism, the combination of the radical socialist regime collapse with new actors being exchanged for old ones, a rather stable reconfiguration of actor constellations, rather coherent reform paths, and a democratically acquired social consensus existing for the transformation agenda provide explanations for the case variation. These dynamics relate to the core mechanism of change: the country-specific reconfiguration of domestic actor constellations before, during and after the regime change.

However, the dissertation's findings reveal not only one logic of change, but several parallel dynamics which account for the hybridization of welfare solutions. At the same time, both cases under consideration reflect social trajectories that are characterized by reconfigurations of the old formal and informal institutional structures, revealing continuity and change at the same time. Transformation processes have stemmed from interplay of various interconnected factors. On the Czech side, these were the favourable economic situation, the influence of consensual reform policies with rapid institutionalization of social dialogue and the stable, legitimate political power constellations with a clear reform agenda. On the Polish side, we find a conflictual and instable interest representation within a pluralistic system of interest mediation and finally the lack of credibility of political reformers. The Polish social reform process has been impaired due to emerging political stalemate, leading to a postponement of political programmes while asking for greater focus on policy recommendations and assistance by the international (financial) institutions (Ekiert 2001: 16, Grimmeisen 2004: 28ff.).

One mechanism of change is the change in power constellations and underlying ideas and interests within the domestic political game. The forum in which the introduction of political ideas takes place is no longer party politics based on clear cut political camps, but based on networks as advocacy coalitions and epistemic communities. The adoption of market orientation approaches is more likely with powerful actors being in favour of market orientation and a weakening of the decommodification proponents. However, the findings show that it is not the actors' mere power in quantitative terms and their political preferences that enable them to translate their ideas into political action. Changing actor constellations translate their ideas into according preferences and behaviour while being framed by a particular institutional setting.

An important mechanism of change and continuity refers to historical legacies and political choices in the context of the dynamic actors' reconfiguration over time. The findings show that not only do different countries follow different transformation paths despite of their largely common past, but also

that different labour market regimes are subject to different dynamics according to the quality and intensity of interplay of domestic and international actor variables. It shows that the more widespread consensus we find among key actors inside and outside the government, the more successful the policy learning while in situations of political instability and conflicting actor constellations relying on blame avoidance strategies, 'shallow' policy solutions are more likely to prevail

The actors' ability to translate their ideas and interests into political action was significantly conditioned by the context of the actors' reconfiguration and the framework of power relations, the actors' political credibility and coherence as well as the will to cooperate. At the same time, power asymmetries were not 'frozen' from the time of institutional consolidation, hence institutions alone do not account for the variation of my the cases: if distribution of power is only determined by institutions, then formal requirements would have triggered comparable results in both cases, meaning that the social transformation paths would have developed according to the initially formalised procedures and power constellations. This is however not the case. Thus it is neither entirely institutional approaches, based on assumptions of path dependency, nor actor-centred explanations accounting for labour market transformation dynamics. It rather appears that endogenous forces evoke gradual institutional change through the way in which formal institutions are (informally) used in a domestic context that is increasingly framed by transnational influence.

Reconciliation with ambivalence or triumph of the market? The transformation in CEE has entailed a shift from the expulsion of the individual to the state towards delivering it to the market. For both cases under consideration, it is obvious that priority has been given to pragmatic criteria and economic growth over welfare issues (Golinowska 2000: 250, Firlit-Fesnak 2000). All CEECs were hungry for growth and prosperity and many of them hoped in line with Czech President *Klaus* that "the more successful economic policy, the more social policy becomes dispensable" (Klaus 1996). It is the however welfare state itself which takes a productive function as it is in the context of welfare state arrangements that the decisive conditions for capitalist development are produced. CEECs are increasingly oriented towards re-commodification rather than de-commodification, focusing more on the 'productive' than on 'protective' dimension of welfare. The transformation policies during the 1990s reveal a visible change of economic restructuring on the surface, but included a less visible, but all the more significant transition from market economy to market society. *Crowley's* prediction that contrary to the hope of EU officials "to export the model of 'social Europe' to the East, it is equally plausible that an additional impetus for a more flexible labour regime could enter the EU through the backdoor of Eastern Europe" indeed became reality (Crowley 2004: 428).

The direction of the long-term consolidation of labour market regimes in the cases will be decided in multiple interrelated arenas – an open process that will still take some time and will continue to raise questions of how much inequality and re-commodification the countries are able to sustain. The challenge for public authorities is to strike a balance between the dynamics of the market and the need to fulfil political and societal goals, such as guaranteeing a basis of social peace. Economic growth and stability as key objectives in the CEECs are based on a series of socially accepted norms and

institutions. Based on the results of this dissertation and in view of the tension between economic modernization and possible further social disintegration, the citizens might not accept a further transformation costs without benefit perspective. While authorities increasingly try to let the market work freely to achieve improved efficiency and innovation, they intervene to remedy the unintended outcomes of the market's dynamics, eroding the original market principles of competition and economic autonomy, making the balance between the logic of the market and social objectives inherently difficult. This tension can be finally traced back to the dilemma between regulation and liberalization, which continues to provoke controversies in the European debate.

Against the background of the post-1989 transformation, this dilemma appears however far more painful. The multiple pressures of establishing economic, political liberty and social prosperity have not been as exigent in any other recent situation of modernization. These pressures touch a philosophical dilemma concerning the sensitive role of the state against the background of the socialist experience, leading us back to the dilemma already mentioned in the introduction of this dissertation: there is a paradox in that post-communist societies on the one hand rely on the state as a guarantor of social security while at the same time having accomplished a radical break with the former system. These societies mostly reveal negative connotations with respect to an 'almighty' state and its potential abuse in its function as a distributive agent for collective goods. On the other hand, government intervention is in many cases still regarded as a guarantor of economic success. This dilemma, dealt with by political actors in not always consistent and rational ways, has significantly contributed to the emergence of varieties of hybrid welfare.

As concerns the prospects for future research, this dissertation addressed questions which might be useful for the study of comparable developments in other European countries. They may be relevant to future research on welfare capitalism focusing on questions how and when regimes change. The identification of mechanisms and explanatory factors of change in the complex configuration of institutions and actors may allow transferring the underlying patterns of domestic change to other cases beyond. At the same time, the dissertation considered general trends relevant for the typology of labour market regimes and may generate new arguments for the design of labour market reforms. As initially mentioned, a most similar system design cannot reject alternative explanations. However, the findings are encouraging: the ability to translate transformation challenges into sustainable policy innovation is not only conditioned by institutional factors, economic development and the actors' power resources - it is a question of the actors' political interest and will. The dissertation thus finds that while history matters, politics is decisive.

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Interviews

| NAME | INSTITUTION | VENUE / YEAR |
|--|---|-------------------|
| Dr. Maciej Duszczyk | Institute for Social Policy at the University of Warsaw | Warsaw, 2010/2011 |
| Prof. Dr. Stanisława Golinowska | Institute for Labour and Social Affairs (IPISS) Warsaw, former Director of the Institute for National Economy (1981-1990) and the Institute for Labour Market Policy and Social Affairs (1991-1997) | Warsaw, 2010 |
| Dr. Michał Polakowski | Center for International Research and Analysis | Warsaw, 2011 |
| Prof. Dr. Marek Belka | President of the Polish National Bank, former Polish Prime Minister | Warsaw, 2011 |
| Wiesława Taranowska Bogdan Grzybowski Grażyna Rózanek | OPZZ, Deputy President OPZZ, Social and Labour Market Policy OPZZ, European Projects | Warsaw, 2011 |
| Andrzej Kropiwnicki | NSZZ “Solidarność” Regional Chairman of Mazowsze | Warsaw, 2011 |
| Magdalena Sweklej Jerzy Idzikowski | Polish Ministry of Labour (MPIPS) Deputy Head of the Department of Labour Market Policy Department of Labour Market Policy | Warsaw, 2011 |
| Marcin Rolnik Izabela Laskowska | National Agency Poland for the Programme Lifelong Learning Director of the Programme Lifelong Learning | Warsaw, 2011 |
| Dr. Vladimír Špidla | Former Prime Minister of the Czech Republic, former European Commissioner for Employment and Social Affairs | Prague, 2005/2011 |
| Dr. Tomas Soukup | Institute for Labour and Social Affairs | Prague, 2011 |
| Pavel Janicko | CKMOS, Labour Market Policy Advisor | Prague, 2011 |
| Stephan Schmid | Social Policy Advisor, German Ministry for Labour and Social Affairs/German Embassy in the Czech Republic | Prague, 2011 |
| Anna Kornikova Tamara Reisig | Research Associates in the area of social dialogue and trade union cooperation, Friedrich Ebert Foundation in Prague | Prague, 2011 |
| Prof. Dr. László Bruszt | European University Institute, Head of Department of Political and Social Sciences | Florence, 2010 |
| Dr. Dorothee Bohle | Associate Professor, European University Institute, Department of Political and Social Sciences/Central European University, Budapest | Florence, 2010 |
| Prof. Dr. Philipp Ther | European University Institute, Department of History and Civilization | Florence, 2010 |
| Prof. Dr. Iver Hornemann Møller | Copenhagen Business School | Copenhagen, 2009 |
| Prof. Dr. Peter Abrahamson | Department of Sociology, University of Copenhagen | Copenhagen, 2009 |
| Prof. Dr. Tim Knudsen | Department of Political Science, University of Copenhagen | Copenhagen, 2009 |
| Prof. Dr. J. E. Larsen | Department of Sociology, University of Copenhagen | Copenhagen, 2009 |
| Prof. Dr. Mikkel Mailand Simonsen | Employment Relations Research Centre (FAOS) / University of Copenhagen | Copenhagen, 2009 |

Appendix A Statistical background

A.1 Data of Part II

Table A.1.1
Contributions to the Polish and the Czech social security system (see Figure 4.2)

| Poland | Employer | Employee | State |
|---------------------------|----------|----------|---|
| Sickness insurance | 0 | 2.45 | - |
| Pension insurance | 9.76 | 9.76 | Subsidies, state finances 90% of farmers' pensions |
| Health insurance | 8.25 | 0 | - |
| Labour Fund | 2.45 | 0 | Subsidies, fixed by parliament for one year approx. 65% |

Source: ZUS (2010)

| Czech Republic | Employer | Employee |
|---------------------------|----------|----------|
| Sickness insurance | 3.3 | 1.1 |
| Pension insurance | 19.5 | 6.5 |
| Health insurance | 9 | 4.5 |
| Labour Fund | 3.2 | 0.4 |

Source: MISSOC (2010)

Table A.1.2
Social benefits by group of functions, 2007 (see Figure 4.3)

| | Old age and survivor benefits | | Sickness, health care | | Unemployment | |
|-----------------------|-------------------------------|-------|-------------------------|-------|-------------------------|-------|
| | % total social benefits | % GDP | % total social benefits | % GDP | % total social benefits | % GDP |
| Poland | 60.2 | 10.7 | 22.1 | 3.9 | 2.2 | 0.4 |
| Czech Republic | 43.9 | 7.9 | 33.9 | 6.1 | 3.5 | 0.6 |
| EU 27 | 46.2 | 11.7 | 29.1 | 7.4 | 5.1 | 1.3 |

Source: Eurostat (2009)

Table A.1.3
Perceived causes of poverty in %, 2007 (see Figure 4.4)

| | Because they have been unlucky | Because of laziness and lack of willpower | Total personal causes | Because there is much injustice in society | Inevitable part of the process | Total social causes |
|-----------------------|--------------------------------|---|-----------------------|--|--------------------------------|---------------------|
| Poland | 12 | 29 | 41 | 41 | 10 | 51 |
| Czech Republic | 22 | 42 | 57 | 21 | 18 | 39 |

Source: Eurobarometer (2007) 'Poverty and Social Exclusion' quoted by Sirovatka/Rakoczyova (2009: 204)

Table A.1.4
Contributions by different actors as a percentage of total receipts, 2000 and 2007 (see Figure 4.5)

| | Year | General government contributions | Employers' social contributions | Social contributions by protected persons | Other receipts |
|----------------|------|----------------------------------|---------------------------------|---|----------------|
| Poland | 2000 | 32.5 | 30.5 | 24.8 | 12.2 |
| | 2007 | 32.7 | 27 | 22.1 | 18.2 |
| Czech Republic | 2000 | 25 | 49.8 | 24 | 1.2 |
| | 2007 | 20.7 | 52.3 | 25.9 | 1.1 |
| EU 25 | 2000 | 35.4 | 38.6 | 22.2 | 3.7 |
| | 2007 | 38.1 | 38.5 | 20 | 3.4 |

Source: Eurostat (2009), European System of integrated Social Protection Statistics (ESSPROS)

Table A.1.5
At-risk of poverty rate before and after social transfers in percent, 2007 (see Figure 4.6)

| | Before social transfers | After social transfers | In-work poverty |
|----------------|-------------------------|------------------------|-----------------|
| Poland | 27 | 17 | 12 |
| Czech Republic | 20 | 10 | 3.5 |
| EU 27 | 26 | 17 | 8 |

Source: Eurostat (2009), EU-SILC

Table A.1.6
EPL in Poland and the Czech Republic (see Figure 4.7)

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|----------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Poland | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.86 | 1.86 | 1.86 | 1.86 | 1.65 | 2.07 | 2.19 | 2.19 | 2.19 | 2.19 | 2.19 |
| Czech Republic | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.94 | 1.94 | 1.94 | 1.94 | 1.94 | 1.94 | 1.94 | 2.1 | 2.1 | 1.99 | 1.99 |

Source: OECD (2011a), scale: 0 (low), 6 (high)

Table A.1.7
EPL in Poland and the Czech Republic, different dimensions (see Figure 4.8)

| | Regular employment | | Temporary employment | | Collective dismissals | |
|----------------|--------------------|------|----------------------|------|-----------------------|------|
| | Late 1990s | 2003 | Late 1990s | 2003 | Late 1990s | 2003 |
| Poland | 3.3 | 3.3 | 0.5 | 0.5 | 2.1 | 2.1 |
| Czech Republic | 2.2 | 2.2 | 0.8 | 1.3 | 4.1 | 4.1 |

Source: OECD (2004)

Table A.1.8
Labour market features indicating flexibility, 2008 (see Figure 4.9)

| | Czech Republic | Poland | EU average |
|--|---|--|---|
| Amount of unemployment benefits | 65% of salary (2 months) 50% (2 months) 45% (following months) Maximum: 13,528 CZK | 441.50 (<5 years employment) 551.80 (5-20 years employment) 662.20 (> 20 years employment) | 63 (first month) 37 (60 th month) |
| Average number of working hours per week | 41.4 | 42.9 | 38.6 |
| % of employees with fixed working hours per day | 50.7 | 57.6 | 58.4 |
| % of employees with fixed working days per week | 64.8 | 68.9 | 47 |
| % of employees in shift work | 22.2 | 23.5 | 17.3 |
| % of employees with a lower degree of working time flexibility | 69 | 68.7 | 65.3 |

Source: ZUS (2009), Eurostat (2009), Sruk et al. (2008)

Table A.1.9
Industrial relations, 2009 (see Figure 4.10)

| | Trade union density (%) | Employer organisation density (%) | Collective bargaining coverage (%) | Work days lost through industrial action (2004-2007) |
|-----------------------|--------------------------------|--|---|---|
| Poland | 16 | 20 | 39 | 54.57 |
| Czech Republic | 20 | 37 | 43 | 10 |
| EU27 | 30 | 58 | 60 | 37.47 |

Source: European Commission (2011), EIRO

Table A.1.10
Trade union density* (see Figure 4.11)

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Poland | 30.8 | 30.3 | 29.4 | 28.6 | 26.0 | 24.2 | 22.5 | 24.1 | 23.7 | 19.7 | 19.0 | 16.8 | 15.2 | 15.6 | 15.1 |
| Czech Republic | 43.5 | 39.5 | 36.9 | 32.1 | 30.0 | 27.2 | 23.6 | 22.2 | 22.3 | 21.0 | 19.7 | 18.7 | 17.9 | 17.4 | 17.3 |
| OECD | 23.6 | 22.7 | 21.9 | 21.5 | 21.0 | 20.4 | 20.1 | 19.8 | 19.6 | 19.1 | 18.8 | 18.2 | 18.0 | 17.9 | 18.4 |

Source: ILO (2011), * % of employees who are members of a trade union

Table A.1.11
Wages in Poland and the Czech Republic (see Figure 4.12)

a) Annual average net earnings, in EUR

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|-----------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Poland | 2.309,5 | 2.587,8 | 2.831,4 | 2.904,7 | 3.358,8 | 3.940,2 | 3.830,0 | 3.511,8 |
| Czech Republic | 2.463,5 | 2.639,6 | 2.845,9 | 3.033,4 | 3.115,8 | 3.449,4 | 4.100,5 | 4.157,1 |

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-----------------------|---------|---------|---------|---------|---------|---------|
| Poland | 3.484,0 | 4.049,5 | 4.387,0 | 4.983,3 | 5.508,5 | 4.625,3 |
| Czech Republic | 4.425,3 | 4.964,7 | 5.563,0 | 6.094,8 | 7.377,5 | 7.144,4 |

Source: Eurostat (2012)

b) Wage growth*, % change of previous year

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|------|------|
| Poland | 3.1 | 8.2 | 2.9 | 6.4 | -0.8 | 1.7 | -1.4 | -0.6 | 0.5 | 2.1 | 4 | 0.3 |
| Czech Republic | 0.8 | 6.2 | 4.7 | 4.2 | 5.5 | 9.4 | 2.1 | 4.2 | 4.5 | 3.5 | 2.3 | 1.7 |

Source: OECD 2011a, *USD in PPP

c) Real hourly minimum wages, in USD PPP

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|------|------|
| Poland | 1.73 | 1.75 | 1.81 | 1.88 | 1.97 | 2.05 | 2.04 | 2.37 | 2.54 | 2.49 | 2.6 | 2.59 |
| Czech Republic | 1.56 | 1.42 | 1.3 | 1.35 | 1.25 | 1.23 | 1.54 | 1.85 | 2.24 | 2.48 | 2.7 | 2.82 |

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|-----------------------|------|------|------|------|------|
| Poland | 2.61 | 2.73 | 2.78 | 3.21 | 3.5 |
| Czech Republic | 2.97 | 3.16 | 3.18 | 2.99 | 2.96 |

Source: OECD 2011a, *USD in PPP

Table A.1.12
Minimum wages as % of average gross wages (see Figure 4.13)

| | 1995 | 1998 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|------|
| Poland | 41 | 40 | 37 | 35 | 36 | 35.1 | 33.7 | 36.1 | 32.4 | 35.7 | 41 |
| Czech Republic | 27 | 23 | 34 | 36 | 37 | 38.4 | 39.1 | 39.7 | 38.1 | 35 | 34.1 |

Source: EIRO, Eurostat (epp.eurostat.ec.europa.eu/portal/page/portal/labour_market/earnings/database)

Table A.1.13
Wage dispersion (see Figure 4.14)

| | 2001 | 2005 | 2006 | 2007 |
|-----------------------|------|------|------|------|
| Poland | 4.7 | 6.6 | 5.6 | 5.3 |
| Czech Republic | 3.4 | 3.7 | 3.5 | 3.5 |
| United Kingdom | 5.4 | 5.8 | 5.4 | 5.5 |
| Sweden | 3.4 | 3.3 | 3.5 | 3.4 |
| EU 25 | 4.5 | 4.9 | 4.8 | 4.8 |

Source: Eurostat (2009 and 2010), EU-SILC, scale: 0 (low) - 9 (high)

Table A.1.14
Non-standard employment in Poland and the Czech Republic, % of total employment (see Figure 4.15)

a) Temporary employment, % of total employment

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|------|
| Poland | 4.6 | 5.8 | 11.7 | 15.4 | 19.4 | 22.7 | 25.7 | 27.3 | 28.2 | 27 | 26.5 |
| Czech Republic | 7.6 | 8.1 | 8 | 8.1 | 9.2 | 9.1 | 8.6 | 8.7 | 8.6 | 8 | 8.5 |
| EU27 | 11.8 | 12.3 | 12.4 | 12.3 | 12.7 | 13.3 | 14 | 14.5 | 14.6 | 14.2 | 13 |

b) Part-time employment, % of total employment

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|------|------|
| Poland | 10.4 | 10.5 | 10.5 | 10.3 | 10.8 | 10.5 | 10.8 | 10.8 | 9.8 | 9.2 | 8.5 | 8.4 |
| Czech Republic | 5.7 | 5.6 | 5.3 | 4.9 | 4.9 | 5 | 4.9 | 4.9 | 5 | 5 | 4.9 | 5.5 |

c) Self-employed workers, % of total employment

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|------|------|
| Poland | 31.2 | 30.9 | 29.7 | 29.5 | 28.3 | 27.2 | 26.9 | 27.4 | 28 | 28.1 | 27.3 | 26.7 |
| Czech Republic | 9.4 | 10.6 | 12 | 12.3 | 12.4 | 13.8 | 14.5 | 15.2 | 15.2 | 16.1 | 17.3 | 16.9 |
| EU27 | - | - | - | - | - | - | - | 18.3 | 18.2 | 17.6 | 17.6 | 17.5 |

| | 2005 | 2006 | 2007 | 2008 |
|-----------------------|------|------|------|------|
| Poland | 25.8 | 24.4 | 23.5 | 22.9 |
| Czech Republic | 16.1 | 16.2 | 16.2 | 16.2 |
| EU27 | 17.3 | 17 | 16.8 | 16.5 |

Source: OECD (2010)

Table A.1.15
Employees with a second job, % of total employees (see Figure 4.16)

| | 2000 | 2005 | 2010 |
|-----------------------|------|------|------|
| Poland | 8.5 | 7.8 | 7.3 |
| Czech Republic | 2.7 | 2.4 | 2.2 |
| EU27 | 3.9 | 3.7 | 3.7 |

Source: Eurostat (2012)

Table A.1.16
Social expenditure, % of GDP (see Figure 5.1)

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|------|
| Poland | 14.9 | 21.2 | 24.9 | 24.4 | 23.2 | 22.6 | 22.8 | 22.2 | 21.4 | 21.6 | 20.5 |
| Czech Republic | 16 | 17.3 | 17.6 | 18.1 | 18.1 | 18.2 | 18 | 18.8 | 19 | 19.5 | 19.8 |

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|-----------------------|------|------|------|------|------|------|------|
| Poland | 21.9 | 22.3 | 22.3 | 21.4 | 21 | 20.8 | 19.8 |
| Czech Republic | 19.8 | 20.6 | 20.7 | 19.7 | 19.5 | 19.1 | 18.8 |

Source: OECD (2011a), OECD Social Expenditure Database (SOCX)

Table A.1.17
Public expenditure on labour market policies, % of GDP (see Figure 5.2)

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|
| Poland | 1.52 | 2.62 | 2.33 | 2.13 | 2.1 | 2.11 | 1.57 | 1 | 1 | 1.07 |
| Czech Republic | 0.38 | 0.43 | 0.29 | 0.29 | 0.25 | 0.24 | 0.31 | 0.35 | 0.46 | 0.48 |

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-----------------------|------|------|------|------|------|------|------|------|------|
| Poland | 1.23 | 1.38 | 1.47 | 1.37 | 1.28 | 1.16 | 1.01 | 0.9 | 1.59 |
| Czech Republic | 0.44 | 0.46 | 0.5 | 0.5 | 0.49 | 0.49 | 0.46 | 0.42 | 0.66 |

Source: OECD (2011a)

Table A.1.18
Public expenditure on PLMPs, % of GDP (see Figure 5.3)

a) PLMPs

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|
| Poland | 1.32 | 2.36 | 1.79 | 1.68 | 1.72 | 1.64 | 1.08 | 0.54 | 0.63 | 0.81 |
| Czech Republic | 0.21 | 0.16 | 0.13 | 0.15 | 0.12 | 0.13 | 0.21 | 0.23 | 0.3 | 0.29 |

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-----------------------|------|------|------|------|------|------|------|------|------|
| Poland | 0.98 | 1.16 | 1.07 | 1.02 | 0.86 | 0.71 | 0.51 | 0.35 | 0.34 |
| Czech Republic | 0.25 | 0.28 | 0.31 | 0.25 | 0.24 | 0.23 | 0.2 | 0.2 | 0.44 |

Source: OECD (2011a)

b) Out-of-work-income maintenance and support

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|
| Czech Republic | 0.21 | 0.16 | 0.13 | 0.15 | 0.12 | 0.13 | 0.19 | 0.21 | 0.27 | 0.27 |
| Poland | 1.32 | 1.65 | 1.65 | 1.59 | 1.67 | 1.6 | 0.99 | 0.42 | 0.45 | 0.51 |
| OECD | - | - | - | - | - | - | - | 1.04 | 0.93 | 0.8 |

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-----------------------|------|------|------|------|------|------|------|------|------|
| Czech Republic | 0.23 | 0.26 | 0.27 | 0.25 | 0.24 | 0.23 | 0.2 | 0.2 | 0.44 |
| Poland | 0.55 | 0.59 | 0.48 | 0.38 | 0.3 | 0.26 | 0.19 | 0.14 | 0.21 |
| OECD | 0.77 | 0.82 | 0.83 | 0.82 | 0.76 | 0.67 | 0.58 | 0.6 | 0.95 |

Source: OECD (2011)

Table A.1.19

Percentage of unemployed receiving unemployment benefits (see Figure 5.4)

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|
| Poland | 79 | 52 | 48 | 50 | 59 | 52 | 30 | 23 | 24 | 20 |
| Czech Republic | 65 | 52.6 | 47.2 | 47.5 | 45.7 | 47 | 50.7 | 48.8 | 43.7 | 37.5 |

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|-----------------------|------|------|------|------|------|
| Poland | 20 | 17 | 15 | 14 | 13 |
| Czech Republic | 34.9 | 36.3 | 35 | 31.5 | 27 |

Source: MLSA (2007), Spieser (2009)

Table A.1.20

Expenditure on early retirement in Poland, % of GDP (see Figure 5.5)

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|-----------------------|------|------|------|------|------|------|------|------|------|
| Poland | 0.71 | 0.14 | 0.09 | 0.04 | 0.04 | 0.08 | 0.11 | 0.17 | 0.30 |
| Czech Republic | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.02 | 0.02 | 0.02 | 0.02 |
| OECD | - | - | - | - | - | - | 0.15 | 0.14 | 0.13 |

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-----------------------|------|------|------|------|------|------|------|------|------|
| Poland | 0.43 | 0.57 | 0.59 | 0.63 | 0.55 | 0.45 | 0.33 | 0.21 | 0.12 |
| Czech Republic | 0.02 | 0.02 | 0.03 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| OECD | 0.13 | 0.13 | 0.13 | 0.1 | 0.11 | 0.1 | 0.09 | 0.09 | 0.09 |

Source: OECD (2011)

Table A.1.21
Passive labour market policy, 2006 (see Figure 5.6)

| | The proportion of those aged 25-59 receiving unemployment benefit by number of months unemployed | | | | The proportion of those aged 25-59 receiving some form of benefit by number of months unemployed | | | | The proportion of those aged 25-59 receiving unemployment benefit by number of months unemployed | | | |
|-----------------------|--|------------|------------|-------------|--|------------|------------|-------------|--|------------|------------|-------------|
| | 1 month | 2-3 months | 4-6 months | 7-12 months | 1 month | 2-3 months | 4-6 months | 7-12 months | 1 month | 2-3 months | 4-6 months | 7-12 months |
| Poland | 22 | 24 | 29 | 10 | 32 | 36 | 46 | 25 | 22.5 | 22.8 | 28.6 | 43.3 |
| Czech Republic | 75 | 75 | 71 | 23 | 88 | 87 | 85 | 63 | 8.1 | 11.3 | 18 | 49.1 |
| EU 25 | 59 | 63 | 64 | 50 | 68 | 71 | 72 | 63 | 18 | 17.8 | 22 | 43 |

Source: Eurostat (2009)

Table A.1.22
Employment rates in Poland and the Czech Republic (see Figure 5.7)

a) Employment rate of 'older workers'

Employed persons aged 55-64 as a percentage of the population of the same age group

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|
| Poland | 32.5 | 29 | 28.6 | 26.6 | 27.1 | 26.1 | 27.2 | 28.1 | 29.7 | 31.6 |
| Czech Republic | 37.6 | 36.1 | 36.9 | 40.3 | 42.3 | 42.5 | 44.5 | 45.2 | 46 | 47.6 |
| EU 27 | 36 | 36.8 | 37.5 | 38.2 | 39.9 | 40.5 | 42.3 | 43.5 | 44.7 | 45.6 |

Source: Eurostat (2009), EU Labour Force Survey

b) Employment rate, as % of workforce

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Poland | 58.9 | 59 | 57.6 | 55 | 53.4 | 51.5 | 51.2 | 51.7 | 52.8 | 54.5 | 57 | 59.2 | 59 |
| Czech Republic | - | 67.3 | 65.6 | 65 | 65 | 65.4 | 64.7 | 64.2 | 64.8 | 65.3 | 66.1 | 66.6 | 65.4 |
| EU 27 | 60.7 | 61.2 | 61.8 | 62.2 | 62.6 | 62.4 | 62.6 | 63 | 63.4 | 64.4 | 65.3 | 65.8 | 64.5 |

Source: Eurostat

Table A.1.23
Public expenditure on ALMPs (see Figure 5.8)

a) Public expenditure on PLMPs, measures and services, % of total labour market policy expenditure, 2009

| | PLMPs | LMP measures | LMP services |
|-----------------------|-------|--------------|--------------|
| Poland | 21 | 72 | 7 |
| Czech Republic | 68 | 12.5 | 19.5 |
| EU-27 | 64 | 26 | 10 |

Source: Eurostat (2011)

b) ALMPs, % of GDP

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|
| Poland | 0.2 | 0.26 | 0.54 | 0.45 | 0.38 | 0.46 | 0.49 | 0.46 | 0.38 | 0.25 |
| Czech Republic | 0.17 | 0.27 | 0.16 | 0.15 | 0.13 | 0.12 | 0.11 | 0.12 | 0.17 | 0.2 |

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-----------------------|------|------|------|------|------|------|------|------|------|
| Poland | 0.25 | 0.22 | 0.4 | 0.35 | 0.42 | 0.45 | 0.5 | 0.56 | 1.26 |
| Czech Republic | 0.2 | 0.18 | 0.19 | 0.25 | 0.25 | 0.26 | 0.25 | 0.23 | 0.22 |

Source: OECD (2011a)

c) PES and administration, expenditure as % of GDP

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|-----------------------|------|------|------|------|------|------|------|------|------|
| Czech Republic | 0.08 | 0.09 | 0.09 | 0.09 | 0.08 | 0.08 | 0.07 | 0.08 | 0.08 |
| Poland | 0.02 | 0.02 | 0.01 | 0.01 | 0.02 | 0.03 | 0.04 | 0.04 | 0.03 |
| OECD | - | - | - | - | - | - | 0.15 | 0.15 | 0.15 |

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-----------------------|------|------|------|------|------|------|------|------|------|
| Czech Republic | 0.07 | 0.07 | 0.08 | 0.12 | 0.13 | 0.13 | 0.13 | 0.12 | 0.13 |
| Poland | 0.03 | 0.03 | 0.06 | 0.05 | 0.07 | 0.09 | 0.1 | 0.09 | 0.1 |
| OECD | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.14 | 0.13 | 0.13 | 0.16 |

Source: OECD (2011)

Table A.1.24

Participants in active labour market policies in the Czech Republic (see Figure 5.9)

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|------------------------|------|------|------|------|------|------|------|------|------|------|
| % of unemployed | 77.6 | 28.7 | 26.3 | 23.8 | 20 | 13.8 | 14.9 | 15.1 | 19.7 | 19.7 |
| % of workforce | 2.5 | 0.9 | 0.9 | 0.7 | 0.6 | 0.6 | 0.9 | 1.3 | 1.8 | 1.7 |

Source: Keune (2006: 235, CZ Ministry of Labour: Labour Force Survey and Joint Assessment Paper Progress Report - The Czech Republic 2002)

Table A.1.25

Enterprises: factors influencing the scope of Continuing Vocational Training (CVT) activities, 2007 (see Figure 5.10)

| | Limited time | Performed as needed | Too expensive | Lack of suitable courses in the market | Focus on apprenticeship instead of CVT | Training effort realized in a previous year | Problems to assess enterprises' need |
|-----------------------|--------------|---------------------|---------------|--|--|---|--------------------------------------|
| Poland | 28 | 51 | 60 | 14 | 20 | 27 | 6 |
| Czech Republic | 57 | 65 | 32 | 10 | 3 | 8 | 9 |
| EU 27 | 53 | 42 | 36 | 22 | 15 | 14 | 13 |

Source: Eurostat (2009)

Table A.1.26

Adult education survey: obstacles to participation in education and training, 2007 (see Figure 5.11)

| | Respondents did not have prerequisites | Training was too expensive, could not afford it | Lack of employer's support | Training conflicted with work schedule | Not confident with the idea of going back to something that is like school |
|-----------------------|--|---|----------------------------|--|--|
| Poland | 9 | 61 | 21 | 33 | 18 |
| Czech Republic | 8 | 19 | 23 | 39 | 2 |
| EU 21 | 15 | 32 | 18 | 39 | 14 |

Source: Eurostat (2009)

A.2 Data of Part III

Table A.2.1

Share of social contributions paid by insured persons, employers and state intervention (see Figure 6.1)

| Poland | 1963 | 1966 | 1971 | 1974 | 1977 | 1980 | 1983 | 1986 | 1990 |
|---------------------------|------|------|------|------|------|------|------|------|------|
| Insured | 0 | 1 | 10 | 4 | 1 | 2 | 3 | 2 | 3 |
| State Intervention | 37 | 38 | 36 | 37 | 42 | 46 | 36 | 28 | 29 |
| Employers | 63 | 61 | 54 | 59 | 57 | 52 | 61 | 70 | 68 |

| Czech Republic | 1963 | 1966 | 1971 | 1974 | 1977 | 1980 | 1983 | 1986 | 1990 |
|---------------------------|------|------|------|------|------|------|------|------|------|
| Insured | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Employers | 33 | 35 | 3 | 3 | 3 | 4 | 4 | 4 | 4 |
| State Intervention | 65 | 65 | 97 | 97 | 97 | 96 | 96 | 96 | 96 |

Source: Cerami (2007)

Table A.2.2

Unemployment and growth (see Figure 6.2)

a) Real growth, in %

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|-----------------------|------|------|------|------|------|------|------|------|------|
| Poland | 2.6 | 3.8 | 5.2 | 7.0 | 6.2 | 7.0 | 4.9 | 4.5 | 4.2 |
| Czech Republic | -0.5 | 0.06 | 2.2 | 5.9 | 4.0 | -0.7 | -0.7 | 1.3 | 3.6 |

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-----------------------|------|------|------|------|------|------|------|------|------|
| Poland | 1.2 | 1.4 | 3.8 | 5.3 | 3.6 | 6.2 | 6.7 | 5.0 | 1.7 |
| Czech Republic | 2.4 | 1.9 | 3.6 | 4.2 | 6.0 | 6.0 | 6.1 | 2.3 | -4.0 |

Source: Banks (2010)

b) Unemployment, in % of the workforce

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|-----------------------|------|------|------|------|------|------|------|------|------|
| Poland | 16.4 | 16.0 | 14.9 | 13.2 | 10.3 | 10.4 | 13.1 | 15.1 | 17.4 |
| Czech Republic | 4.3 | 4.3 | 4 | 3.9 | 4.7 | 6.3 | 8.7 | 8.8 | 8.2 |

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-----------------------|------|------|------|------|------|------|------|------|
| Poland | 20.0 | 20.0 | 19.0 | 17.6 | 14.8 | 11.2 | 9.5 | 12.1 |
| Czech Republic | 7.3 | 7.8 | 8.3 | 7.9 | 7.1 | 5.3 | 4.4 | 6.7 |

Source: Central Statistical Office of Poland (www.stat.gov.pl/gus/index_ENG_HTML.htm), Czech Statistical Office (www.czso.cz)

c) Long term unemployment

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|------|
| Poland | 5.8 | 7.4 | 9.2 | 10.9 | 11.0 | 10.3 | 10.3 | 7.8 | 4.9 | 2.4 | 2.5 |
| Czech Republic | 3.2 | 4.2 | 4.2 | 3.7 | 3.8 | 4.2 | 4.2 | 3.9 | 2.8 | 2.2 | 2.0 |

Source: Central Statistical Office of Poland (www.stat.gov.pl/gus/index_ENG_HTML.htm), Czech Statistical Office (www.czso.cz)

Table A.2.3
Inflation in Poland and the Czech Republic (see Figure 6.3)

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|------|-------|
| Poland | 43.05 | 35.29 | 32.17 | 27.80 | 19.90 | 14.91 | 11.80 | 7.31 | 10.10 |
| Czech Republic | 11.06 | 20.82 | 9.95 | 9.15 | 8.82 | 8.45 | 10.70 | 2.11 | 3.80 |

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-----------------------|------|------|------|------|------|------|------|------|------|
| Poland | 5.50 | 1.90 | 0.80 | 3.50 | 2.10 | 1.00 | 2.50 | 4.22 | 3.46 |
| Czech Republic | 4.67 | 1.88 | 0.12 | 2.77 | 1.84 | 2.54 | 2.86 | 6.34 | 1.03 |

Source: Abbas et al. (2009)

Table A.2.4
Employment in sectors, in % of total employment (see Figure 6.4)

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|------|
| PL Services | 45.4 | 46.2 | 50.4 | 52.1 | 53.0 | 53.2 | 53.5 | 54.4 | 54.6 | 54.6 | - |
| CZ Services | 55.0 | 56.0 | 56.2 | 56.9 | 57.5 | 57.6 | 57.9 | 58.0 | 58.3 | 58.2 | 59.3 |
| PL Industry | 27.7 | 26.3 | 30.5 | 28.6 | 28.6 | 28.8 | 29.2 | 29.9 | 30.6 | 31.4 | - |
| CZ Industry | 39.8 | 39.1 | 39.2 | 38.8 | 38.3 | 38.4 | 38.3 | 38.3 | 38.1 | 38.2 | 37.1 |
| PL Agriculture | 26.9 | 27.5 | 19.1 | 19.3 | 18.4 | 18.0 | 17.4 | 15.8 | 14.7 | 14.0 | - |
| CZ Agriculture | 5.2 | 4.8 | 4.6 | 4.3 | 4.2 | 4.0 | 3.8 | 3.7 | 3.6 | 3.6 | 3.5 |

Source: Eurostat (2012)

Table A.2.5

IMF and World Bank Flows in million USD, 1990-2005 (see Figure 7.1)

IMF flows in million USD, 1990-2000

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|-----------------------|-------|-------|-------|--------|---------|---------|------|------|------|------|------|
| Poland | 485.3 | 327.2 | 0.0 | -138.1 | 602.7 | -1393.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Czech Republic | 0.0 | 874.4 | 199.5 | 0.0 | -1117.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Abbas et al. (2010)

World Bank flows in million USD, 1990-2005

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|-----------------------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Poland | 54.0 | 349.3 | 342.8 | 317.0 | 672.2 | 191.2 | 266.2 | 83.5 | -22.6 | 58.7 | 149.8 |
| Czech Republic | 0.0 | 133.2 | 87.2 | 92.8 | 30.0 | 56.7 | 32.2 | -16.6 | -20.8 | -35.7 | -42.8 |

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|-----------------------|-------|-------|--------|--------|-------|
| Poland | 93.4 | -33.3 | -209.2 | -676.5 | 78.9 |
| Czech Republic | -41.2 | -41.0 | -134.9 | -18.8 | -19.1 |

Source: Abbas et al. (2010)

Table A.2.6

Public debt as % of GDP (see Figure 7.2)

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|
| Poland | 66.4 | 70.5 | 68.7 | 67.3 | 58.6 | 48.9 | 43.3 | 42.9 | 38.8 | 39.5 |
| Czech Republic | - | - | - | - | - | 14.6 | 12.4 | 13.0 | 15.0 | 16.4 |

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|-----------------------|------|------|------|------|------|------|
| Poland | 36.7 | 37.5 | 42.1 | 47.0 | 45.6 | 47.0 |
| Czech Republic | 18.5 | 24.8 | 28.1 | 29.8 | 30.1 | 29.6 |

Source: Abbas et al. (2010)

Table A.2.7

Incorporation of the Czech poverty and social exclusion agenda into government policies (see Figure 7.4)

(respondents declaring incorporation to a great or a very great extent %)

| | Government policy | | Legislation | |
|-------------------------------|-------------------|------------------------------|----------------|------------------------------|
| | Czech Republic | Europe (average 9 countries) | Czech Republic | Europe (average 9 countries) |
| Social security | 61 | 49 | 52 | 42 |
| Employment | 37 | 43 | 28 | 34 |
| Education and training | 24 | 36 | 21 | 27 |

Source: Sirovatka/Rakoczyova (2007: 26)

Table A.2.8

Worldwide Governance Indicators: Poland and the Czech Republic (see Figure 8.1)

Political Stability

| | 1996 | 1998 | 2000 | 2002 | 2003 | 2004 | 2005 |
|-----------------------|--------|--------|--------|--------|--------|--------|--------|
| Poland | 71.634 | 69.711 | 56.25 | 64.903 | 64.423 | 50.961 | 58.173 |
| Czech Republic | 84.615 | 73.557 | 62.980 | 80.288 | 75.480 | 66.826 | 75.961 |
| | 2006 | 2007 | 2008 | 2009 | | | |
| Poland | 57.692 | 68.75 | 77.884 | 80.094 | | | |
| Czech Republic | 82.211 | 82.211 | 83.653 | 79.620 | | | |

Government Effectiveness

| | 1996 | 1998 | 2000 | 2002 | 2003 | 2004 | 2005 |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|
| Poland | 0.732 | 0.602 | 0.578 | 0.494 | 0.533 | 0.457 | 0.498 |
| Czech Republic | 0.623 | 0.643 | 0.666 | 0.964 | 0.902 | 0.922 | 0.995 |
| | 2006 | 2007 | 2008 | 2009 | | | |
| Poland | 0.466 | 0.427 | 0.503 | 0.599 | | | |
| Czech Republic | 1.056 | 0.893 | 0.996 | 0.984 | | | |

Source: The World Bank (2011) (www.govindicators.org)

Table A.2.9

Voter turnout in parliamentary elections in Poland and the Czech Republic (see Figure 8.2)

| | 1989 | 1991 | 1993 | 1997 | 2001 | 2005 | 2007 | 2011 |
|-----------------------|------|------|------|------|------|------|------|------|
| Poland | 62.1 | 43.2 | 52.0 | 47.9 | 46.1 | 40.5 | 53.8 | 48.9 |
| | 1990 | 1992 | 1996 | 1998 | 2002 | 2006 | 2010 | |
| Czech Republic | 96.3 | 84.6 | 76.2 | 74.0 | 57.9 | 64.4 | 62.6 | |

Source: www.idea.int/uid/countryview.cfm?id=60

Table A.2.10

Major indicators of political continuity and change in Poland and the Czech Republic, 1989-2006 (see Figure 8.3)

| Poland | 89 | 90 | 91 | 92 | 93 | 94 | 95 | 96 | 97 | 98 | 99 | 00 | 01 | 02 | 03 | 04 | 05 | 06 |
|---|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| Government Crises | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 |
| Cabinet Changes | 2 | 0 | 2 | 2 | 1 | 0 | 1 | 1 | 1 | 0 | 0 | 1 | 1 | 0 | 1 | 1 | 1 | 1 |
| General Strikes | 2 | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Major Anti Government Demonstrations | 4 | 2 | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 0 |
| Czech Republic | 93 | 94 | 95 | 96 | 97 | 98 | 99 | 00 | 01 | 02 | 03 | 04 | 05 | 06 | | | | |
| Government Crises | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 1 | | | | |
| Cabinet Changes | 1 | 0 | 0 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 1 | | | | |
| General Strikes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | |
| Major Anti Government Demonstrations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | |

Source: Banks (2010)

Appendix B Institutional framework

Table B.1
The institutional framework of the labour market and social security in Poland

| | |
|--|--|
| Poland Country structure | Voivodship: 16 Labour Offices 322 Labour Offices on the level of Poviats (Municipalities) |
| Institutional framework | <p>The Polish social security system is composed of the social insurance and welfare system, health insurance system, system of unemployment benefits as well as the social assistance system. Social security is mainly governed by the institutions below:</p> <ul style="list-style-type: none"> • Ministry of Labour and Social Policy (Ministerstwo Pracy i Polityki Społecznej, MPiPS) • Ministry of Health (Ministerstwo Zdrowia, MZ) • Social Insurance Institution (Zakład Ubezpieczeń Społecznych ZUS) • Agricultural Social Insurance Institution for farmers (Kasa Rolniczego Ubezpieczenia Społecznego, KRUS) • National Health Fund (NFZ) – benefits from health insurance • The State Fund for the Rehabilitation of Disabled Persons (Państwowy Fundusz Rehabilitacji Osób Niepełnosprawnych, PFRON) • Open Pension Funds (Otwarty Fundusz Emerytalny, OFE) – collect and invest funds to finance parts of pension • Occupational Pension Programmes (OPP) – collect and invest funds to finance the supplementary (voluntary) part of the new old-age pension under the second pillar |
| Laws governing the labour market and social security (pension excluded) | <p>The Labour Code 1974 Act 1990 on Social Insurance for Farmers Act 1993 on Retirement Benefits for Professional Soldiers and their Families Act 1998 Social Insurance System Act Act 1998 on Old-Age and Disability Pensions from the Social Insurance Fund Act 1999 on Social Insurance Benefits in Illness and Maternity Act 2002 on Social Insurance Benefits in Employment Injuries and Occupational Diseases Act 2003 Family Benefits Act Act 2003 on Public Benefit and Volunteer Work Act 2003 on the Employment of Temporary Workers Act 2004 on Employment Promotion And Labour Market Institutions Act 2004 on Individual Retirement Accounts Act 2004 on Occupational Pension Schemes Act 2004 on Employment Promotion and Labour Market Institutions Act 2004 on Employment Promotion and Labour Market Institutions Act 2007 on the National Labour Inspectorate</p> |
| International legal framework | <ul style="list-style-type: none"> • Article 87 of the Polish Constitution mentions among the universally binding legislation also ratified international conventions as part of the domestic legal order. • Since 1 May 2004 the EU legal acts, treaties, regulations and directives, are national standards. The <i>acquis communautaire</i> is of higher rank than the Polish legislation. • EU regulations are directly applicable without necessity of their ratification • EU directives are introduced to the national legal order within approx. three years <p>The Polish state's task in promoting employment, economic activity and diminishing unemployment effects is exercised based on the <i>National Action Plan (NAP)</i>, adopted by the Council of Ministers, including the principles of the European Employment Strategy (EES), and based on initiatives submitted by municipality (gmina), poviat and voivodship self-government together with the social partners.</p> |

| | |
|---|---|
| <p>Social security institution (ZUS)</p> | <p>The ZUS was established in 1934 by means of an Ordinance of the President of Poland, comprehensive reforms took place in 1999, providing the ZUS with higher responsibility. ZUS is working on a tripartite basis; the supervisory board is delegated by the social partners acting within the Tripartite Commission for Socio-Economic Issues (representatives of trade unions, employers' associations and government).</p> <p>Expenditure of the Social Insurance Fund¹: The total expenditure in 2008 was PLN 135.649.8 million. As compared to 2007 the expenditure increased by 11.4%.</p> |
| <p>Structure of social security</p> | <p>The social security system is governed within the general framework of the MPiPS and the MZ. The system's legal, administrative and financial organisation is however independent from that of these ministries.</p> <p>Employees and self-employed persons are covered under the basic scheme. The law of 13 October 1998 on the system of social insurance reshaped the social security landscape: the self-employed who perform non-agricultural activities and their co-operating persons are part of the general social insurance scheme.²</p> <p>The following institutions administer the social security schemes:</p> <ul style="list-style-type: none"> • The ZUS is divided into regional services, responsible for sickness and maternity cash benefits and pensions for retirement, invalidity, survivors, employment injuries and occupational diseases. The ZUS collects all social security contributions and transfers them to the appropriate organisations. The general mandatory pension system in Poland comprises also obligatory open pension funds managed by private agencies and supervision of the state. The insured do not pay the contributions directly to pension funds but pay them to ZUS together with other social insurance contributions. ZUS is responsible for the transfer of the part of a pension insurance contribution to the pension fund chosen by the given insured. • Regional health funds are responsible for providing sickness and maternity health care benefits. • Community social policy centres provide family benefits. • Local and regional labour offices provide unemployment benefits. • The PFRON controls disabled person's access to employment and rehabilitation. All rehabilitation and employment programmes, including sheltered work, are financed from levies on employers not meeting the disability quota (funds which are collected by PFRON). <p>Social Pension (payable to those not working due to impairment of body functions)</p> <ul style="list-style-type: none"> • Starting from 1 March 2009 the social pension has been payable at a rate of PLN 567.08 (128 EUR). <p><i>Explanatory note:</i> Every Polish employer is obliged to separately pay contributions on three different accounts for pension and invalidity, accident insurance, Labour Fund, sickness insurance and insurance against inability to work.</p> |

Source: ZUS (2010), Golinowska (2000), www.lexadin.nl/wlg/legis/nofr/eur/lxwepol.htm

¹ Payment of cash benefits from the Social Insurance Fund in 2008, by kinds: old-age pension: 63.6%, sickness fund: 5.6%, work accident fund: 3.6%.

² They are insured in the pension scheme on a mandatory basis (covering old-age, survivorship and invalidity) and in the employment injuries and occupational diseases scheme. The sickness insurance of these persons is voluntary. The scheme on employment and prevention of unemployment is also applicable to self-employed persons (not to farmers). In the social security schemes there are in principle no specific rules for self-employed persons. Self-employed persons have the right to same benefits in the same amount as the employed persons. With regard to the financing, specific rules have been created for self-employed persons in order to establish the income basis upon which contributions are levied.

Table B.2
The institutional framework of the labour market and social security in the Czech Republic

| | |
|---|--|
| Czech Republic <i>Country structure</i> | 13 regions (kraje) with their own labour offices and Regional Assemblies, and the capital Prague. The 77 districts (okresy) lost most of their importance with the administrative reform in 1999; remaining however territorial divisions and occupying seats of many branches of state administration. |
| <i>Institutional framework</i> | The main institutions governing the labour market and social security system are the following: <ul style="list-style-type: none"> • Ministry of Labour and Social Affairs (Ministerstvo práce a sociálních věcí, MPSV) • Ministry of Health (Ministerstvo zdravotnictví, MZ) • Employment Services Administration (Správa Služeb Zaměstnanosti, SSZ) • Czech Administration of Social Security (Česká Správa Sociálního Zabezpečení, ČSSZ) |
| <i>Most important laws governing the labour market and social security (pension excluded)</i> | Act 1965 - 65 Labour Code (replaced) The new Czech Labour Code is effective from 2007 and superseded the Code of 65/1965 ³ Act 1991 - 1 on Employment Act 2000 - 118 on Protection of Employees in the Event of Their Employer's Insolvency Act 2004 - 435 on Employment Act 2006 - 262 Labour Code Act 2006 - 108 Social Services Act |
| <i>International legal framework</i> | <ul style="list-style-type: none"> • The Czech Republic has accepted all of the binding international obligations, including the ILO Conventions. • Sources of labour law in the Czech Republic are constitutional acts, international treaties, in particular ILO Conventions and EC Law, acts and regulations to implement acts (government decrees, ministerial notifications). • International treaties constitute a part of the legal order (article 10 of the Constitution): Among them are the International Covenant on Economic, Social and Cultural Rights and International Covenant on Civil and Political Rights that include rights and freedoms, which represent a basis for the legal status of citizens and trade unions in employment relationships. • The MPSV 's working group that drafted the new Labour Code (2007) works on the international legislation on the minimal entitlements primarily ensuing from EU directives and ratified ILO Conventions and with regard to the protective function of labour law. • Before EU-accession, new provisions were adopted by the amendment on the Labour Code in the year 2000 (Act No.155/2000 Coll.), improving labour legislation, including the introduction of new legal instruments (for example concerning collective redundancies and protection of employees' claims in case of their employer's insolvency, the right to information and consultation, the terms of which are consistent with those contained in the relevant EC directives and in the European Social Charter, as well as certain other provisions concerning in particular working time, health and safety). |
| <i>Structure of social security</i> | <ul style="list-style-type: none"> • The MPSV governs legislation for the whole sphere of social security (except health insurance). The administration is taken over by offices of the ČSSZ. • The main task of the ČSSZ is to collect contributions for the basic pension insurance system, the sickness insurance scheme, and the system of state employment policy. The ČSSZ is also responsible for the calculation and payment of benefits from pensions and sickness schemes as well as the keeping of records on insured individuals (excluding the system of state employment policy). |

Source: MISSOC (2010), MPSV, MPiPS, ILO (2012), www.lexadin.nl/wlg/legis/nofr/eur/lxwepol.htm

³ Labour Code No.262/2006 Sb., MPSV: www.mpsv.cz/files/clanky/3221/labour_code.pdf

Appendix C Governments and policies

Table C.1
Government coalitions in Poland and the Czech Republic, 1989/90 – 2009

Table C.1 provides a brief overview of the government coalitions during the reform period under consideration, revealing different degrees of political stability in both countries, illustrated i.e. by the fact that during the first reform period (1989-1996), Poland had 9 different prime ministers while it was 4 different prime ministers in the ČSFR/Czech Republic.

| Poland | | |
|--------------------------------|---|---|
| <i>Government</i> | <i>Prime Minister</i> | <i>Parliamentary basis</i> |
| 09/89 – 12/90 | Tadeusz Mazowiecki | Broad coalition led by the Solidarność movement. |
| 01/91 – 12/91 | Jan Krzysztof Bielecki | Interim government until the first free parliamentary elections, supported in parliament e.g. by the political parties that had emerged from <i>Solidarność</i> , heterogeneous alliance. |
| 12/91 – 06/92 | Jan Olszewski | Minority government consisting of three Post- Solidarność parties (Centre Alliance, Catholic Electoral Action, Peasant Alliance). |
| 07/92 – 09/93 | Waldemar Pawlak (briefly) Hanna Suchocka | Coalition consisting initially of seven, later of five Post- Solidarność parties, heterogeneous coalition with decreasing parliamentary basis. |
| 10/93 – 02/95 | Waldemar Pawlak | Coalition of Socialists with the Peasant Party PSL which provided the prime minister, relatively solid parliamentary basis. |
| 03/95 – 01/96 | Jozef Oleksy | Continuation of the coalition with socialist prime minister who finally withdraws due to accusation of spying. |
| 02/96 – 09/97 | Włodimierz Cimoszewicz | Continuation of the coalition after transformation of the cabinet. |
| 10/97 – 06/00 06/00 – 10/01 | Jerzy Buzek | Coalition of AWS and UW; during the second legislative period withdrawal of the AWS fraction. |
| 10/01 – 05/04 | Leszek Miller | Coalition of SLD, UP and PSL; during the second legislative period SLD ceases coalition with PSL. |
| 05/04 – 10/05 | Marek Belka | Continuation of the coalition of SLD and UP with SDPL. |
| 10/05 – 07/06 | Kazimierz Marcinkiewicz | Initially minority government of PiS, later coalition with LPR and Samoobrona. The chairmen of both coalition partners became deputy prime ministers, withdrawal of Marcinkiewicz. |
| 07/06 – 11/07 | Jarosław Kaczyński | National-conservative government of PiS, LPR and Samoobrona. Tensions between the coalition partners led to dismissal of several ministers by president Kaczyński. On 7 September 2007 the Sejm decides its self-liquidation. |
| 11/07 – today | Donald Tusk | Coalition of the liberal-conservative PO and moderate Peasant Party PSL. |

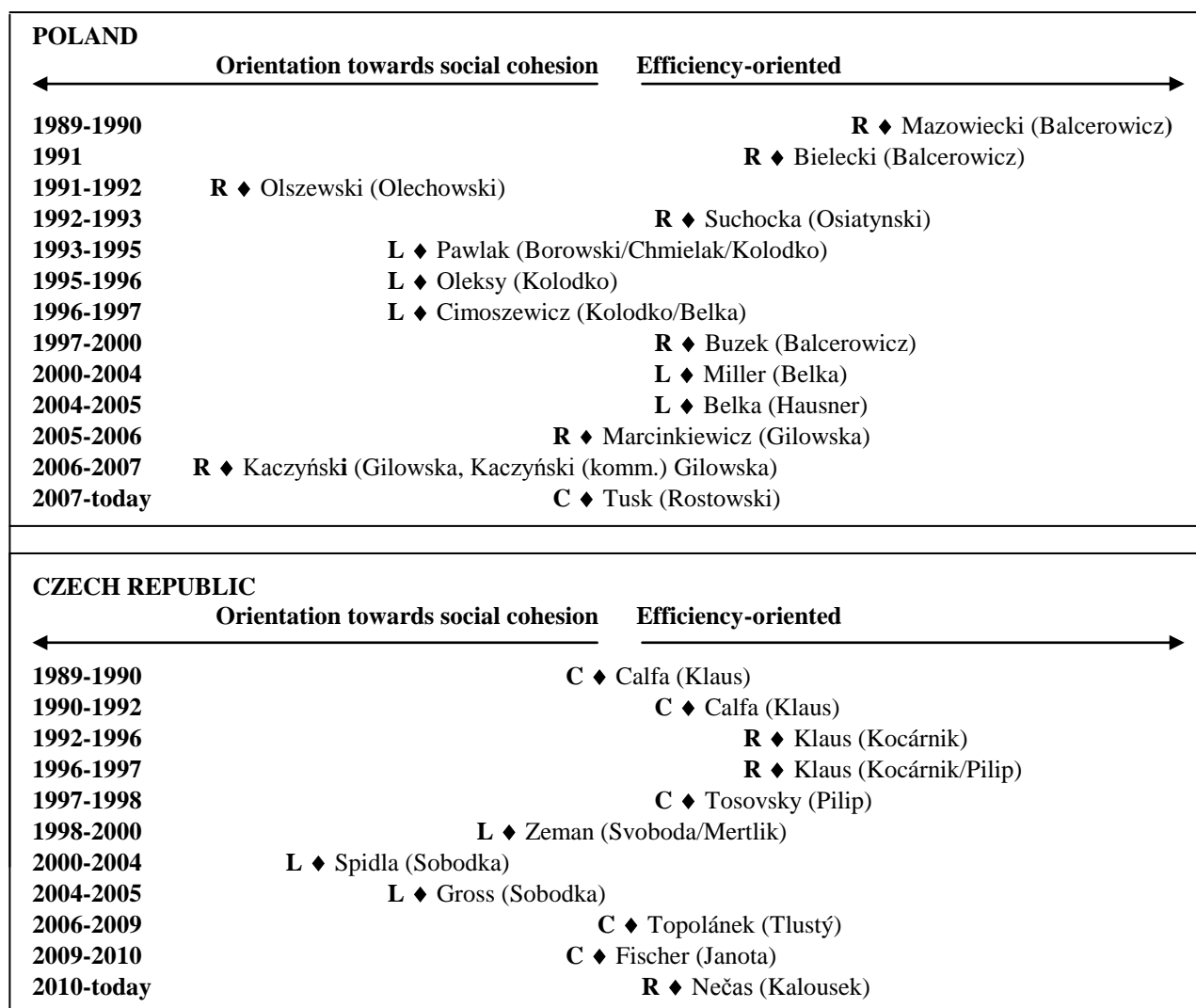
| ČSFR | | |
|-------------------|--|---|
| <i>Government</i> | <i>Prime Minister</i> | <i>Parliamentary basis</i> |
| 12/89 – 06/90 | Frantisek Pitra/ Marian Calfa | ‘Government of national understanding’, mostly non-communist members. |
| 06/90 – 06/92 | Petr Pithart/ Marian Calfa | Broad coalition alliance consisting of both Forum parties which split up in 1991 into a conservative and a social-liberal party, and the Slovakian Christian Democrats. |
| 07/92 – 12/92 | Jan Strasky | Federal interim government until separation of the country. |

| Czech Republic | | |
|--------------------------------|------------------------|--|
| <i>Government</i> | <i>Prime Minister</i> | <i>Parliamentary basis</i> |
| 07/92 – 06/96 07/96 – 11/97 | Václav Klaus | Conservative coalition consisting of the party of the prime minister (Civic Democratic Forum) with three smaller partners (Civic Democratic Alliance and two Christian Democratic parties), second legislative period: continuation of the coalition as minority government which is dependent on the support by the Social Democrats in parliament. |
| 01/98 – 07/98 | Josef Tosovský | Interim government, tolerance by all parties. |
| 07/98 – 07/02 | Milos Zeman | Minority government of the Social Democrats. |
| 07/02 – 06/04 | Vladimir Spidla | Coalition consisting of Social Democrats, Conservatives and Liberals. |
| 07/04 – 04/05 (3/05) | Stanislav Gross | Coalition consisting of Social Democrats, Conservatives and Liberals, the Conservatives leave the coalition in April 2005, withdrawal Gross on 25 th April. |
| 04/05 – 09/06 | Jiri Paroubek | Continuation of the coalition (including the Conservatives) |
| 09/06 – 05/09 | Mirek Topolánek | Coalition consisting of ODS, KDU-CSL and Greens, together reaching exact 50% of mandates, leading to an impasse between political camps. Since the Social Democrats did not tolerate the coalition, Topolánek decided for a government of ODS members and neutral ministers, but was rejected by parliament. He offered his withdrawal; the cabinet remained in office only provisional until 2007 when the second government was sworn. |
| 05/09 – 06/10 | Jan Fischer | After withdrawal of the government Topolánek II functioning as interim government consisting of experts and high-ranking civil servants, proposed by the large parties ODS and ČSSD as there were no coalition chances for the elected Social Democrats. The former government parties (ODS, KDU-ČSL and SZ) should provide eight government members and the former Social Democratic opposition party ČSSD seven. |
| 06/10 - today | Petr Nečas | Conservative coalition of ODS, TOP 09 and Věci veřejné (VV). The government Nečas consists only of men. |

Source: Götting (1998), Vodicka (2004), own additions

Figure C.2
Transformation strategies in Poland and the Czech Republic

Figure C.2 mirrors the changing focus of the transformation strategies based on the political leadership's reform directions. It shows undecided and shifting strategies in Poland where transformation strategies do not necessarily correspond to the expected political preferences of left and right wing governments. By contrast, the Czech transformation strategies can be categorized in terms of political preferences corresponding to the expected left and right wing continuum.



Explanation: Prime ministers and (ministers of finance)
 Source: Orenstein (2001), own additions

L = "left of centre", R = "right of centre", C = "centre"

Appendix D Labour legislation

Table D.1
Employment law in Poland and the Czech Republic, 2011

Table D.1 illustrates the main areas of employment law in both countries.

| | Poland | Czech Republic |
|-----------------------------------|---|---|
| Employment law environment | The Polish labour law system is governed by the Labour Code and executive decrees, which set forth general terms and conditions of employment and specify the rights and obligations of employers and employees. The Labour Code was first introduced in 1974. It is frequently amended. A new Labour Code is currently being prepared. The parties to an employment agreement have some ability to agree to contractual provisions that differ from the Labour Code provided they are not less favourable to the employee | The labour Code regulates employment relationship in the Czech Republic. A new Labour Code was introduced on 1 January 2007. From that time, the new Code has been amended more than 10 times. The parties to an employment agreement have some ability to agree to contractual provisions that differ from the Labour Code. |
| Fixed-term contracts | An employer and employee may enter into a fixed-term contract. From 22 August 2009 to December 2011 the maximum duration of fixed-term employment is 2 years. The previous rules which allowed for only 2 successive fixed-term contracts, irrespective of length, are suspended until 1 January 2012. | Fixed-term contracts are limited to a maximum duration of 2 years. Another fixed-term contract for a maximum of 2 years can be agreed between the parties, 6 months after the initial contract has expired. The 2 year limit does not apply in cases provided for by special legislation or for the temporary replacement of an absent employee. In addition, if there are serious operational grounds or the work to be performed is of a special nature, the employer may come to an agreement with the trade union not to apply the 2 year limit. Where no trade unions are present, the employer can issue an internal regulation in this respect. |
| Minimum wage | The mandatory minimum salary in Poland is PLN 1.276 (EUR 289) per month. | The mandatory minimum wage is CZK 8.000 (EUR 285) per month |
| Individual dismissal | Employment can be terminated by mutual agreement of the parties, upon notice, or without notice. Notice periods are 3 days, 1 week, 2 weeks, 1 month or 3 months, depending on the length of the employment contract. The dismissal of an employee should have grounds. The Labour Code does not specify grounds for dismissal, except for disciplinary dismissal. Employees are entitled to severance pay only if dismissal is for reasons not related to the employee. The amount of severance pay will vary between 1, 2 or 3 months remuneration, depending on the length of employment with the employer. The maximum amount of severance pay is capped at fifteen times the mandatory minimum salary. | Permissible grounds for individual dismissal are specified in the Labour Code. Termination may not take place for other reasons. Employees are entitled to a minimum of 2 months' notice of dismissal. The length of notice does not depend on other factors such as length of employment or employee seniority etc. Employees are also entitled to a minimum severance pay of 3 months average salary where dismissal is for organisational reasons. If dismissal is for health reasons caused by work-related injury or occupational disease, severance increases to at least 12 months average salary. Severance pay may be increased through individual agreement, collective agreement or internal regulation. |
| Collective agreements | Company-level collective agreements are rare, but if they are not in place, an employer employing 20 employees or more should assure "remuneration regulations". Higher level | There are two types of collective agreements: 1. Enterprise-level collective agreements – these are common in the public sector and other industries. 2. Higher-level collective agreements- these are |

| | | |
|---------------------|---|--|
| | collective agreements are also rare and in general are not an issue in practice. | concluded between organisations of employers and trade unions. Under certain conditions, these agreements can extend automatically to all employees in the concerned industry or field, regardless of union membership. Company-level collective agreements may not set employees rights and obligations at lower level than provided for in a higher-level agreement. |
| Trade unions | Unions are easy to establish. In collective employment matters, unions automatically represent all employees, regardless of union membership. In individual matters, unions represent its members and non-members upon their request. Unions maintain a strong position in the labour market, although membership is on the decline. Works Councils may be established if headcount in the company is 50 employees or more. | At present, unions are easy to establish. They automatically represent all employees at the place of work regardless of membership. They maintain a strong position in labour relations, although union membership is on the decline. Currently, very few work councils exist. |

Source: Employment law across Eastern Europe, PRK Partners, Ius Laboris, Global Human resources Lawyers, 2011, Brussels (see www.iuslaboris.com/files/documents/Public%20Files/Publications/2009_Publications/employment-law-across-eastern-europe.pdf)

Table D.2

Most important acts regulating the labour market in Poland, the ČSSR/ČSFR/Czech Republic

| |
|--|
| Poland |
| <p>The Labour Code 1974 Act 1990 on social insurance for farmers Act 1993 on retirement benefits for professional soldiers and their families Act 1998 Social Insurance System Act Act 1998 on Old-Age and Disability Pensions from the Social Insurance Fund Act 1999 on social insurance benefits in illness and maternity Act 2002 on social insurance benefits in employment injuries and occupational diseases Act 2003 Family Benefits Act Act 2003 on Public benefit and volunteer work Act 2003 on the Employment of Temporary Workers Act 2004 on Employment Promotion And Labour Market Institutions Act 2004 on Individual Retirement Accounts Act 2004 on Occupational Pension Schemes Act 2004 on employment promotion and labour market institutions Act 2004 on employment promotion and labour market institutions Act 2007 on the National Labour Inspectorate</p> |
| ČSSR/ČSFR/ Czech Republic |
| <p>Act 1965 - 65 Labour Code Act 1991 - 1 on Employment Act 2000 - 118 on Protection of Employees in the Event of Their Employer's Insolvency Act 2004 - 435 on Employment Act 2006 - 262 Labour Code Act 2006 - 108 Social Services Act</p> |

Source: MPSV, MPiPS, www.lexadin.nl/wlg/legis/nofr/eur/lxwepol.htm

Abstract

Since 1989 Central and Eastern European countries (CEECs) have been characterized by an unprecedented transformation dynamic. The interplay between state and market was fundamentally redesigned within shortest time. Facing high economic and political pressure, these countries also had to rebuild their welfare states. At the core of this stood the renovation of what used to be the key socialist steering mechanism: the labour market.

What is the nature of the emerging capitalist welfare after 20 years of transformation? Starting point of this dissertation is the fact that today, despite their common historical and socialist welfare experience, labour market regimes in the CEECs show considerable variation. Although all CEECs have indeed established similar formal institutions based on historical experience, the political effectiveness of these institutions markedly differs.

The first part of my comparative policy analysis examines the labour market transformation in the cases of Poland and the Czech Republic. Unlike the fairly rapid formal institutional change towards the Bismarck model, many lower level reforms have occurred in marginal and country-specific steps, recombining historical traditions, communist legacies and marketization trends. Elements of the 'old' and 'new' frames of reference coexisted and produced a mix. A central finding of this dissertation is that these new labour market regimes can be called consolidated hybrids. Moreover, country-specific variations have emerged: the Czech labour market regime shows higher decommodification, meaning stronger individual autonomy from the market. By contrast, the Polish labour market is characterized by stronger marketization, combined with paternalist elements.

The second part of the dissertation examines the factors accounting for this variation. Linked to actor-centred institutionalist explanatory variables, the hypotheses focus on the interplay of domestic and external factors. Both countries share comparable institutional legacies and similar external influences based on the policy-engineering of the International Financial Institutions and the countries' pathway towards European Union membership. But the reconfiguration of domestic actor constellations strongly differs: instability and conflict in Poland contrast with the long lasting stable and coherent actor constellations in the Czech Republic.

In consideration of the dissertation's findings, institutional continuity and the impact of international actors provide only limited evidence for the underlying variation in hybrid welfare. Considerably more important has been the unequal reconfiguration of domestic actors: in Poland, the early opposition movement and social stratification are linked to higher fragmentation and political instability in favour of market oriented reforms. Contrary to this, the stronger corporatist structures of Czech actor constellations are associated with significantly higher political continuity and social inclusion. The dissertation's findings thus lead to the conclusion that while history matters, politics is decisive.

Zusammenfassung

Die 1989 in Mittel- und Osteuropa ausgelöste Transformationsdynamik ist historisch einzigartig. Innerhalb kürzester Zeit wurde das Zusammenspiel von Staat und Markt grundlegend erneuert. So stand auch der Umbau der Wohlfahrtsstaaten unter großem ökonomischem und politischem Druck. Insbesondere dem Arbeitsmarkt, zentrales Steuerungselement sozialistischer Staaten, musste ein völlig neues Gesicht verliehen werden.

Welcher Regimetypus kapitalistischer Wohlfahrt hat sich in 20 Jahren Transformation in diesen Ländern herausgebildet? Ausgangspunkt dieser Dissertation ist die Beobachtung, dass die Arbeitsmarktregime in Mittel- und Osteuropa trotz der vergleichbaren vorsozialistischen und sozialistischen Wohlfahrtsstaatserfahrung heute ausgeprägte Varianten aufweisen. Zwar haben fast alle Länder formal ähnliche Arbeitsmarktinstitutionen auf Basis ihrer historischen Erfahrung etabliert. Es bestehen jedoch deutliche Unterschiede in der Funktionsweise dieser Institutionen.

Der erste Teil der komparatistischen Policy-Analyse untersucht die Transformation der Arbeitsmärkte am Beispiel Polens und der Tschechischen Republik. Der Wandel der formalen Institutionen gelang rasch und folgte dem Bismarck-Modell. Dagegen verliefen die Reformen der Arbeitsmarktregulierung und -politik in kleineren Schritten, geprägt durch eine Kombination aus historischer Tradition, sozialistischem Erbe und Trends der Vermarktlichung. Elemente des „alten“ und „neuen“ Bezugsrahmens blieben nebeneinander bestehen und führten zu einer Mischform. Ein erstes Ergebnis meiner Arbeit ist, dass diese neuartigen Arbeitsmarktregime als konsolidierte Hybride bezeichnet werden können. Dabei haben sich länderspezifische Varianten etabliert: Das tschechische Arbeitsmarktregime weist eine höhere Dekommodifizierung auf, also eine größere Unabhängigkeit des Individuums vom Markt. Dagegen ist der polnische Arbeitsmarkt stärker durch eine Vermarktlichung geprägt, die mit paternalistischen Elementen kombiniert wird.

Der zweite Teil der Arbeit untersucht, wie diese Varianz zu erklären ist. Die Hypothesen konzentrieren sich auf institutionelle und akteurszentrierte Erklärungsvariablen sowie auf das Zusammenspiel innerstaatlicher und externer Faktoren. Beide Länder haben ein vergleichbares institutionelles Erbe sowie potentiell ähnliche externe Akteurseinflüsse, insbesondere durch das *policy-engineering* internationaler Finanzinstitutionen und den Beitritt zur Europäischen Union. Doch die Akteursdynamiken nach dem Systemwechsel unterscheiden sich stark: Instabilität und Konflikt in Polen stehen im Kontrast zu den über längere Zeit stabilen und kohärenten Akteurskonstellationen in der Tschechischen Republik.

Die Ergebnisse dieser Dissertation zeigen, dass das institutionelle Erbe und der Einfluss internationaler Akteure nur bedingt die Varianten hybrider Wohlfahrt erklären. Viel wesentlicher

ist die ungleiche Rekonfiguration der inländischen Akteure: Die frühe Oppositionsbewegung und Ausdifferenzierung gesellschaftlicher Kräfte in Polen stehen im Zusammenhang mit größerer politischer Instabilität und Fragmentierung zugunsten marktorientierter Reformen. Demgegenüber erweisen sich die korporatistisch ausgerichteten tschechischen Akteure als signifikant für eine stärkere politische Kontinuität und soziale Inklusion. Die Ergebnisse der Arbeit erlauben die Schlussfolgerung, dass institutionelle Pfadabhängigkeit zwar bedeutend, der politische Prozess und Akteursverhalten aber entscheidend sind.