

Divide and pacify

The political economy of the welfare state in Hungary and Poland, 1989-1996

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PhD thesis

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ABSTRACT

The thesis proposes a theoretical explanation for the comparative political quiescence of the post-communist transitions in Hungary and Poland between 1989 and 1996. Contrary to prior expectations and to earlier reform experiences in Latin America, the early 1990s in Central and Eastern Europe have been non-violent and comparatively non-disruptive. Emphasizing the role of welfare states in influencing collective action, I specify a political strategy that could reduce the capacity of working-age individuals to organize disruptive protests. The crux of this strategy was to split up well-networked and formally organized groups of workers in precarious jobs, by sending some of them onto unemployment benefits and many others onto 'abnormal' pensions (early retirement and disability retirement). The latter groups were likely to have a decreasing capacity to mobilize for collective action due to less advantageous social networks combined with increasing distributional conflicts over scarce state resources. Moreover, at a time of strongly declining living standards the unemployed and the abnormal pensioners had stronger economic incentives to earn informal private sector incomes, instead of pursuing public goods through collective protests. A number of social policies consistent with such a 'divide and pacify' hypothesis have been adopted in post-communist Hungary and Poland, though not in the Czech Republic. In particular, both Hungary and Poland experienced large and unprecedented increases in the numbers of 'non-elderly' pensioners between 1989 and 1996.

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Introduction

Transitions to democracy, especially when accompanied by deep economic reforms, have often led to major waves of strikes and protests. In his influential study of democracy and disorder, Tarrow (1989) argued that periods of expanding political opportunities have historically been especially conducive to large-scale protest cycles and to the emergence of more disruptive and violent protest repertoires (see also Tilly, 2003). More generally, democracies can be expected to be on aggregate more prone to strikes and demonstrations than authoritarian systems because they tend to bestow greater freedoms of expression to their citizens. In a large-scale quantitative analysis spanning 40 years and regimes around the globe, Przeworski et al. (2001) found that in regimes that can be characterized as democratic rather than dictatorial, strikes have historically been almost three times as frequent and demonstrations and riots almost twice as frequent. In Central and Eastern Europe after the fall of the Berlin Wall, the 'systemic' paradigm shift from communist one-party states and planned economies towards competitive democracies and market economies has been accompanied by heavy social costs. But despite the length and the intensity of

these costs for large groups of transitional 'losers' and despite the expanding political opportunities for post-communist citizens to organize for collective action, there have been comparatively few violent and disruptive protests in this region. This thesis offers an in-depth discussion of the Hungarian, Polish and Czech transitions and develops a theoretical explanation that may help to account for the relative quiescence of two of these cases: Hungary and Poland between 1989 and 1996.

The theoretical approach adopted in this work brings together two fields that have traditionally been kept separate in political science explanations: the politics of contention and the political economy of welfare states. Two research traditions in particular have influenced the arguments advanced in this thesis. In a number of contributions that have reshaped the political economy of Western welfare states, Gøsta Esping-Andersen (1990, 1994, 1996a, 1999) has advocated the study of welfare states as embedded within society's larger model of democratic capitalism. The unit of interest should be welfare *regimes* - 'inter-causal triads' composed of the labor market, the household level, and the welfare *state* (for a review, see Vanhuysse, 2001). Rather than inquiring how political and social cleavages shape welfare states, Esping-Andersen (1990, p. 141) made the case for analyzing welfare states 'in their role of independent, causal variables: how do different types of welfare states systematically influence social and economic behavior in advanced capitalism?' He famously argued that such a framework nevertheless allows for parsimonious insights beyond country-specific description. For instance, national welfare states were shown to have

crystallized during the course of the twentieth century into three distinct clusters or 'worlds' that differ qualitatively in the way in which, and the extent to which, they provide social rights to their citizens: the neo-liberal regime (the Anglo-Saxon world), the conservative-corporatist regime (Continental Europe) and the social democratic regime (the Nordic countries). These regimes will on various occasions serve as a benchmark for comparison with Central and East European cases, while my discussion of the collective action capabilities of transitional losers will be centered on the causal influence of post-communist labor market and welfare program constellations.

A second line of influence is formed by the theories of collective action and of preference shaping in political science. A long tradition of pluralist and formal approaches to politics has been built around the assumption that politicians essentially accommodate their platforms and policies to the preferences of the electorate, which themselves are seen to be exogenously given and stable (e.g. Downs, 1957, pp. 46-47; Becker, 1966, p. 5; Enelow and Hinich, 1984, p. 3; Wittman, 1995, pp. 2-3). In contrast to this, collective action theories have pointed out that on the demand side of politics, citizens face unequal opportunities to organize and articulate their interests to governments (Olson, 1965, 2000; Coleman, 1990; Marwell and Oliver, 1993). Others have argued that on the supply side, governments in liberal democracies are not always limited to merely accommodating citizens' fixed preferences (Dunleavy and Ward, 1981; Stokes, 1998; Przeworski, 1998; for a critical review, see Vanhuysse, 2002a; for an empirical test, see Stubager, 2003). As Dunleavy (1991, p. 117) has argued, 'the objective [of competitive

elections] is not some gold challenge cup to be handed back next time and competed for once again from an unchallenged footing.' Rather, incumbents usually have some leeway to shape the electorate's preferences or otherwise to pursue policies designed to favor their own political objectives.¹

While it is not easy to assess with certainty the impact of pro-active strategies, they may plausibly help to explain the ability of leaders such as Margaret Thatcher and Felipe Gonzalez in remaining in power for longer-than-average periods (winning, respectively, three and four consecutive national elections). Both leaders pursued a number of bold but seemingly successful policies to reshape preferences in the polity at large, before going out to face their electorates in highly personalized elections.² To give but one example, Gonzalez, faced with the massively unpopular issue of Spanish NATO membership, unexpectedly called a referendum on the issue in March 1986, rather than packaging it together with other issues in the national elections due in June of that year. Gonzalez threw his whole weight behind a yes vote even though initially only 19 percent of voters supported membership. When one month before the referendum support still stood at 26 percent, he put his head on the line by announcing his resignation in case of defeat. Gonzalez eventually won the March referendum by 53 percent and went on to win an absolute majority of seats in the June elections (Maravall, 1999, pp. 181-183, see also Maravall, 1993).³ Pro-active leadership may also account for certain aggregate econometric findings which, at first sight, seem to weaken the preference shaping thesis. In co-variational studies, Page and Shapiro (1983, 1992) have found a high degree of apparent congruence

between public opinion and public policy in 357 cases of significant policy change in the US between 1935 and 1979.⁴ Moreover, they claim that changes in politicians' behavior have more often followed changes in public opinion than they have preceded them (Page and Shapiro, 1983, p. 189). Not surprisingly, these studies are often cited as strongly supporting the preference accommodation thesis. Yet Page and Shapiro (1983, p. 187) also estimated that in up to half of the cases of congruence between policy and opinion, there was a likely causal effect from the former to the latter. And in Page and Shapiro (1992), the most significant variable in multivariate regressions on political opinion was, precisely, strong political personalities – a phenomenon the authors labelled 'the leadership effect.'⁵

The present thesis moves beyond much of the literature on democratic transitions in arguing that welfare state policies can do more than accommodate exogenously given groups of reform winners and losers. In line with the literature, it views incumbents as assessing welfare spending primarily in terms of its short-term political efficacy, that is, in term of how well it serves their self-interested objectives. Concerns of long-term economic optimality (such as prescribing the best pension system, given demographic or financial pressures) or humanitarian and equity objectives (such as helping the most needy first) are given, at best, secondary weight. It has often been proposed that while in the long run economic reform programs improve aggregate welfare, many citizens may not be willing, or able, to make the necessary inter-temporal trade-offs to pursue such reforms (e.g. Przeworski, 1991; Nelson, 1992; Graham, 1995; Haggard and Kaufman, 1995; Greskovits,

1998; Vanhuysse, 2000). As Haggard and Webb (1993, p. 158) put it:

From a long-term perspective, the social benefits of reform outweigh the costs. The political issue is whether adequate mechanisms exist to marshal support among winners and to neutralize or compensate losers within a time frame that is relevant to a politician.

More specifically, politicians are likely to face strong resistance to reforms whose benefits are dispersed and whose costs are concentrated, whereas they are more likely to be able to pursue reforms with concentrated benefits and dispersed costs.⁶ Especially if dispersed-benefit/concentrated-cost type reforms are intense or protracted, aggrieved reform losers will want to stall or reverse the reforms before their positive effects have started to manifest themselves. However, I argue that in such circumstances the welfare state may be used in an effort to prevent the articulation of political opposition into collective protests. Instead of merely providing temporary compensation or basic safety nets for those who are worst hit or who protest most, incumbents can devise social policies to pro-actively preempt the capacities of key groups of reform losers to organize large-scale disruptive protests.

By its very nature, the early stages of the post-communist transition differed from politics-as-usual contexts characteristic of well-established democracies in a number of specific ways that made them more conducive to pro-active government behavior. Under communism, special interest groups were either formally incorporated within the state apparatus or repressed and marginalized, adding up to societies consisting of '*nothing else but* "policy-takers"' (Ost, 1993, p. 459, original emphasis).⁷ Yet one may agree with this

characterization of communist state-society relations without therefore drawing deterministic implications about post-communist politics. While civil society in transition started from a weak position because of past legacies, citizens also enjoyed greater legal opportunities to express and pursue their interests than at any time since the Second World War. Pointing to weak agency (e.g. Elster et al., 1998, p. 13) or imputing interest groups' organizational weaknesses to unawareness (e.g. Ost, 1993, p. 457) are therefore insufficient ways of explaining the low levels of post-communist collective action. Nor did the disintegration of one-party states and the restoration of democratic liberties result in 'weak and unstable coalition governments unable to carry out the [necessary] radical reform' (Ekiert, 1991, p. 312). Party systems and voter loyalties were still in a very early stage of formation. Such high electoral volatility made pro-active strategies by governments both more urgent (a matter of short-term survival) and more rewarding (promising potentially large pay-offs).⁸ Policymakers faced the task of directing simultaneous transformations of multiple policy domains. The unprecedented scope and sequence of these transformations have been likened by Elster et al. (1998) to 'rebuilding the ship at sea'.⁹ While this undoubtedly produced policy overload, it also provided politicians with critical opportunities to shape policies to their own benefit.¹⁰ Agencies, institutions, and constitutions - the very rules of the social game - were shaped and reshaped continuously during the early 1990s, the latter not infrequently after the first democratic governments had taken office.¹¹

Early post-communist politics thus allowed a substantial operational space for governments to use their state power to try and preempt disruptive protest movements.¹² The potential ways to shape electoral preferences which Dunleavy (1991, p. 120-121) discusses in the British context are 'partisan social engineering' (changing the social structure of political alignments) and 'adjusting social relativities' (making marginal voters in ambivalent social groups feel advantaged compared to a reference group). As I argue in Chapters 3 and 4, similar mechanisms may have been at play also in the social policies adopted by the Hungarian and Polish governments, which reduced the levels of disruptive collective action by aggrieved workers by allowing several hundreds of thousands of them to go on early and disability pensions.

The present analysis of post-communist protests focuses on those actions that could be characterized as primarily instrumental in nature. That is, I look at 'economic' protests, organized with the aim of pursuing policies that would directly benefit the protesters, such as, for example, farmers demonstrating for higher subsidies or food price increases, or workers striking for higher wages or industrial protection. Though in particular cases the distinction may be blurred, this focus on economic protests excludes actions that are primarily solidaristic or symbolic, such as flag burnings, memorials of historical events and personalities, or campaigns to express group identity or international solidarity. In contemporary Western democracies, where 'new social movements' have become increasingly prevalent on the protest politics scene (Kriesi, 1999, p. 398), such a focus might risk missing out on the brunt of organized actions. In post-communist societies, however, this represents

less of a danger. The large majority of protest events in this region during the early 1990s were 'materialist' and 'economic' in the sense of being organized by pre-existing and traditional (rather than emerging) social groups, and with the object of correcting economic and distributional issues rather than post-industrial, symbolic or identity-based issues (Ekiert and Kubik, 1998b, pp. 101, 106-108; 1999, pp. 124-126, 184-185). Throughout the thesis, I adopt the simplifying assumption that government coalitions, while made up of different parties, act as unitary actors with respect to collective protests and welfare policies. Government objectives in these fields are taken to be similar for all coalition partners, or alternatively, to be the end-result of a black box process of intra-coalition bargaining (on this, see Tsebelis, 1990). Furthermore, while extensively drawing upon existing literatures, the thesis does not itself propose a detailed study of the technical merits and drawbacks of economic issues such as privatization design (Stark and Bruszt, 1997; Orenstein, 2001), labor market and social policy reforms (Barr, 1994b; 1998; Boeri et al., 1998) and pension reforms (Müller, 1999; Müller et al., 1999; Barr, 2001).

The thesis is structured as follows. Chapter 1 presents a brief overview of the experience of economic reforms and austerity protests in developing countries during the 1970s and 1980s and of the political salience of unemployment and other social costs during the post-communist transitions. Both factors led a number of seasoned observers to expect social conflicts and political instability during the early 1990s in Central Europe. However, I indicate that the transitions in Hungary, Poland, the Czech Republic and three

other post-communist countries have actually been relatively quiescent in terms of strikes when compared to selected Latin American countries and even when compared to advanced Western democracies. Chapter 2 critically discusses alternative theoretical explanations of this striking pattern in the case of post-communist Hungary, Poland and the Czech Republic. I argue that existing explanations based on macro-level variables such as corporatist institutions or levels of education, poverty and income inequality are not entirely persuasive in explaining these countries' protest levels. By many 'structural' yardsticks, including high levels of unionization and of employment in non-competitive industries and farms, the threat of large-scale protests was very real indeed around 1989. In order to better understand the subsequent quiescence of post-communist polities, more attention therefore needs to be paid to the ways in which strategic policies by governments could countervail this threat. To start such an analysis, I present an alternative framework based on the variation in the effectiveness and in the fragility of protest participation for alternative social groups.

Chapter 3 goes on to show how incumbents might have an effective political mechanism to pacify the polity. Splitting up local clusters of threatened workers by letting some of them go onto unemployment benefits and transferring many others onto early and disability pensions can be expected to channel the expression of grievances away from disruptive and towards more peaceful repertoires. Unemployed people and 'abnormal' (non-elderly) pensioners are likely to have a lower capacity to mobilize for collective action because they have short-reach social ties and are locked in

distributional conflicts over scarce state resources, which prevent them from forming political coalitions.¹³ Moreover, at a time of declining living standards both groups of welfare recipients have stronger economic incentives to earn informal private sector incomes, instead of pursuing public goods through collective protests. Chapter 4 indicates that social policy packages consistent with such a 'divide and pacify' hypothesis have been absent in the Czech Republic but have been implemented on a large scale in Hungary and Poland between 1989 and 1996, resulting in massive abnormal pensioner booms. Chapter 5 discusses alternative theoretical explanations for the Central European social policy choices in the early 1990s and analyzes how these choices have given rise to distinct welfare regime pathways as the transition progressed. I argue that while divide and pacify policies have been costly in public-financial terms, they cannot be coherently interpreted as merely the unintended result of incremental or irrational decision-making. Instead, I suggest that these policies helped to pacify the Hungarian and Polish polities at a time when the short-term danger of large-scale disruptive conflicts was highest, thereby freeing up government resources for other goals and contributing to the widely acknowledged success stories of the post-communist transitions in Hungary and Poland.

Chapter 1

Political violence, industrial disruption, and the social costs of transition

How have post-communist citizens reacted to the often substantial human costs that accompanied the transition to democracy and the market? During the 1970s and 1980s, a large number of countries in Latin America and elsewhere in the developing world experienced waves of protests, riots, strikes and casualties in reaction to socially costly economic austerity policies (Walton and Ragin, 1990). On a number of dimensions, Central and Eastern European countries during the transition found themselves in similar conditions as the former countries. Expanding protest opportunities combined with higher-than-expected social costs in the form of generally increasing poverty rates and falling real wages, real incomes, and output levels (section 1.1). Post-communist unemployment, in particular, had a high psychological and political salience (section 1.2). Not surprisingly therefore, a number of observers feared that the early 1990s in this region were likely to involve similar scenarios of disruption in the polity because of large-scale protests. This Chapter studies the scale of post-communist protests

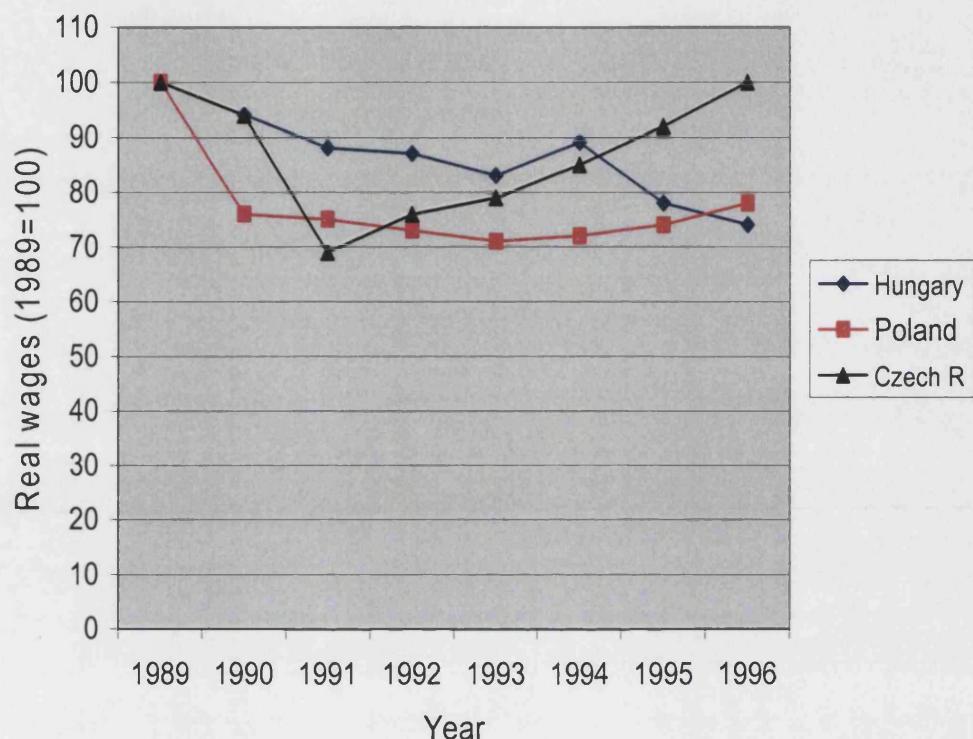
by analyzing a set of indicators of industrial action in Hungary, Poland and four other Central and East European countries in the period 1990-1995 (section 1.3). To enable a more explicitly comparative perspective, I compare these figures with two countries representing each of Esping-Andersen's (1990) paradigmatic three worlds of advanced Western welfare capitalism in the same period and with four Latin American democracies during the 1980s. I conclude that the post-communist transitions have by many yardsticks turned out to be comparatively quiescent.

1.1. Transitional costs and the early expectations of social protests

Early post-communist transition, by its nature, implied a reduced scope for government intervention, harder-than-ever budget constraints and heavy social costs. It is by now clear that in most Central and East European countries, the latter have been higher and longer-lasting than originally expected, although the Czech Republic is an exception in some ways (e.g. Milanovic, 1994, p. 1).¹ Compared to 1989 levels, in 1993 average real income per capita was down by 12 percent in Poland, by 13 percent in Hungary, and by 18 percent in the Czech Republic (UNICEF, 1995, p. 138). As Figure 1.1 shows, real wages also declined strongly in all three countries. Compared to their 1989 levels, they were down by 12 percent in Hungary by 1991, by a quarter in Poland, and by over thirty percent in the Czech Republic. But in subsequent years, real wages recovered in the

Czech Republic, while remaining stable in Poland and further eroding in Hungary.

Figure 1.1. Real wages in Hungary, Poland and the Czech Republic, 1989-1996 (1989=100)



Notes: for Hungary and Poland, real net wages calculated by central statistical offices, for the Czech Republic, real gross wages. Source: UNICEF (1999, p. 141, Table 10.8).

Given the evident need to liberalize the economy and to adapt many obsolescent firms and practices to competitive market environments, many East European citizens had expected, and a handful of politicians had predicted, that economic reforms would initially ‘make things worse before making them better’ (Przeworski, 1993). Yet transitional losers could still be forgiven for becoming increasingly disaffected with reforms, given that even the *ex ante* expectations of professional economists turned out to have been too optimistic. As World Bank economist Branko Milanovic (1993, p. 8) wrote: ‘nobody expected such massive drops in outputs and incomes’ (also Milanovic, 1995, p. 27; Barr, 1994a, p. 87). Prior projections of annual GDP growth for 1990 made by governments, most often in common agreement with the IMF and the World Bank, stood at –5 percent in Poland and –2 percent for Hungary. Yet actual annual GDP growth rates that year turned out to be –12 and –4 percent respectively. Similarly, government-projected GDP growth rates for 1991 stood at respectively +3, -3 and –5 percent for Poland, Hungary and Czechoslovakia, whereas actual growth rates turned out to be respectively –8, –8 and –16 percent (Milanovic, 1995, p. 11).² In addition to cuts in social expenditures and in government subsidies for basic goods, real income drops and similar transitional costs thus hit groups who were accustomed to extensive social protection. In terms of social peace and democratic consolidation, this made for a potentially explosive cocktail.

In the decades preceding the transition in Central and Eastern Europe, socially costly economic reforms in Latin America and the developing world

were frequently characterized by large-scale disruption in the form of prolonged strikes, riots, looting, violence, and casualties. Between 1976 and 1989, altogether 85 mass waves of austerity protests occurred in 26 countries across Latin America, Asia and Africa (Walton and Ragin, 1990, p. 877).³ According to Walton, in this period 'half the countries of Latin America had experienced a singular and unprecedented wave of social unrest in response to domestic policies of their governments for dealing with a redoubling of foreign debt' (quoted from Greskovits, 1998, p. 195). To name just a few countries, in the period 1976-1992 there were large-scale protests against IMF-induced austerity programs in the Dominican Republic in 1984, 1985 and 1987 (3 cases), in Ecuador in 1982, 1983, 1985 and 1987 (5 cases), in Venezuela in 1989 (7 cases), in Brazil in 1983, 1985, 1986 and 1987 (11 cases), in Argentina for each year between 1982 and 1985, and again in 1989 (11 cases), in Bolivia in every year between 1983 and 1987 (13 cases), and in Peru in almost every year between 1976 and 1985 (14 cases). Similar protest waves occurred in African countries (Greskovits, 1998, p. 193; Walton and Seddon, 1994, pp. 39-40).⁴ Among the countries that experienced austerity riots were some where democratic reforms and market reforms were undertaken simultaneously, such as in Argentina, Brazil, Ecuador, Mexico and Nicaragua, but also in Turkey, the Philippines, and sub-Saharan Africa (Nelson, 1993, pp. 434, 442). In most instances, the protesters, of which low-income groups typically formed a dominant fraction, demanded specific measures to restore parts of the hardship inflicted by austerity policies, typically in the form

of lower prices, the restoration of subsidies, compensatory wage increases, and more or better-protected jobs (Walton and Seddon, 1994, p .43).

On many occasions, austerity protests even led to casualties. Investigating protests reacting to price hikes in basic commodities between 1976 and 1984, Bienen and Gersovitz (1986, pp. 29-36, 44) identified at least seven cases resulting in more than thirty casualties, and at least forty cases resulting in up to ten casualties. The latter cases included both relatively stable democracies (such as Costa Rica and Venezuela) and countries which experienced violence under authoritarian and democratic rule alike (such as Peru and Ecuador) or which were in the process of democratizing reforms (such as Mexico).⁵ In later years as well, some of the bloodiest riots have occurred in democracies; sometimes with the effect of weakening or destabilizing the regime. This was the case, for instance, in the Dominican Republic, Venezuela, and Argentina. In the first country, a wave of strikes and riots in 1987 resulted in hundreds of wounded people, an estimated 5,000 arrests in 17 cities, and nearly 100 deaths. In Venezuela, five days of rioting in 1989 resulted in over 2,000 wounded and as many jailed, and an official death toll, widely criticized as being a gross underestimation, of 300. In Argentina, the days preceding the succession of Raúl Alfonsín by Carlos Menem were marred by a week of rioting and looting and firing by riot police, resulting in at least 80 wounded, thousands arrested, and 16 dead (Walton and Seddon, 1994, p. 110).

Since 2001, some of these countries have seen a new flare-up of violent protest politics. In April 2002, President Hugo Chavez of Venezuela was forced to resign by the army after his supporters had shot randomly at crowds of hundreds of thousands of people demonstrating in the streets of Caracas against his rule, killing 11 people. This resignation interrupted four decades of continuous democratic government. And although Chavez was reinstalled by different army factions less than two days later (*International Herald Tribune*, 14 April 2002, p. 1), his power was weakened by a number of large-scale strikes and demonstrations in subsequent months. In Argentina, a new round of debt-induced austerity policies in December 2001 against a backdrop of rising unemployment, led to attacks on politicians' homes, the successive resignation of four presidents, widespread rioting nationwide, several dozens of injuries and at least 27 casualties in a few weeks only (*International Herald Tribune*, 20 January 2002, p. 1).⁶

Given the reform experiences in prior decades, it is perhaps not surprising that around 1990 a number of leading social theorists worried that in Central and Eastern Europe, the short-term future was likely to hold similar scenarios in stock (Greskovits, 1998, Ch. 1).⁷ All post-communist governments faced the challenge of simultaneously consolidating democracy and implementing socially costly neo-liberal economic reforms. This challenge was magnified, for many, by the incompatible time-scales and otherwise conflicting requirements of such a 'necessary but impossible' dual task (e.g. Elster, 1990, p. 4; Dahrendorf, 1990, p.

85). For instance, Offe (1991, p. 881) viewed the transition as 'a Pandora's Box full of paradoxes, in the face of which every "theory" - or, for that matter, rational strategy - of the transition must fail.' Warning that 'the consolidation of a functioning democratic order is only one possible outcome of the political transition under way,' Ekiert (1991, pp. 287-288) went on to specify three alternative scenarios: (a) the return to a one-party state, (b) political anarchy and prolonged instability, and (c) a new non-democratic regime.

Alternatively, a number of analysts worried less about the outright reversal of these nascent democracies than about the likely endangerment of their liberal characteristics and of their social peace. Bresser Pereira et al. (1993, p. 199) noted that 'whenever democratic governments followed neo-liberal tenets, the outcome has been stagnation, increased poverty, political discontent and the debilitation of democracy.'⁸ Turning from a detailed analysis of earlier austerity riots in Africa and Latin America to look at post-communist Eastern Europe, Walton and Seddon (1994, p. 327) suggested that it became increasingly apparent that there too 'popular discontent at the dramatic deterioration in living conditions [was] feeding a great upsurge across Central and Eastern Europe of nationalism and ethnic violence, racism and xenophobia, which [was] itself contributing to the political transformation of the entire region.' Ost (1995, p. 178) and Offe (1993, p. 660) similarly feared an upsurge of populist and/or authoritarian forces in the nascent post-communist democracies. Others worried about the likely 'escalation and intensification of collective protest,' and about

‘outbursts of anomic movements, strikes and mass manifestations’ that ‘can sweep away the whole politics.’⁹ Gray even deemed the transitional costs to be ‘so great that it is foolish to suppose that the transition can be conducted under liberal democratic institutions.’¹⁰ And Przeworski (1991, p. 191) concluded his influential book on democratic transitions with a fateful last sentence: ‘The East has become the South.’ Beyond this pessimism informed by past experiences of reforms, there were still further reasons for expecting that, among the social costs of transition, unemployment in particular would spark intense political protests.

1.2. The political salience of post-communist unemployment

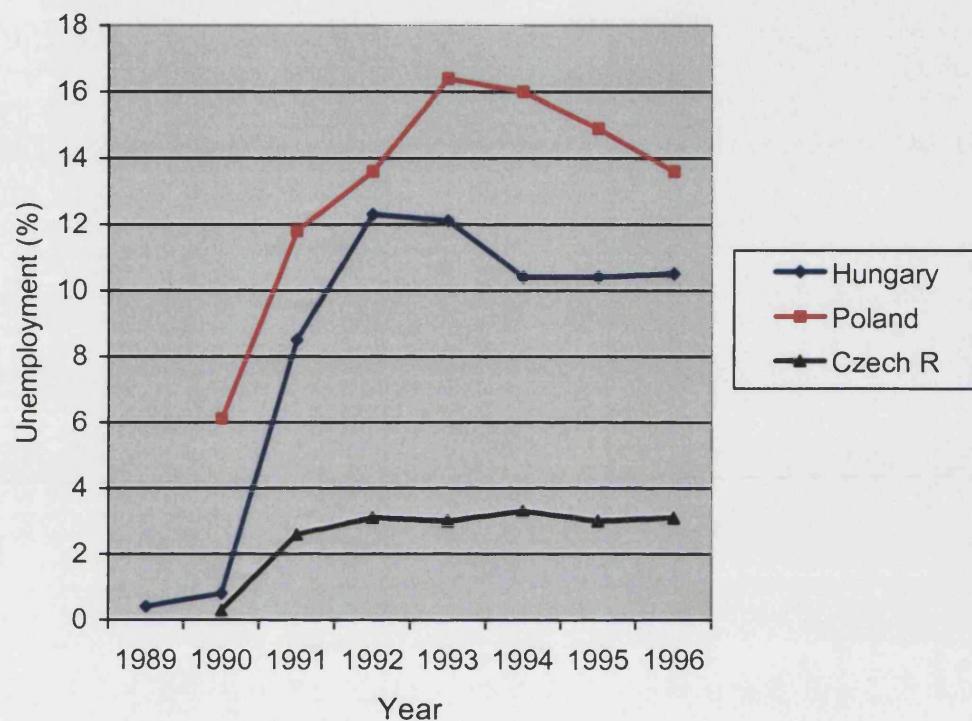
It has long been known that unemployment adversely affects the quality of life in many ways. A wide and methodologically diverse body of evidence, spanning sociology and social psychology¹¹, political science¹², and economics¹³, has indicated that unemployment produces singularly strong reductions along multiple dimensions of well-being. Reviewing the literature in social psychology, Argyle (1993, p. 264) concludes that among unemployed people, ‘depression increases and becomes worse with time; (...) attempted suicide is 8 times more common, especially during the first months. In several studies, it was possible to demonstrate that unemployment caused mental illness rather than vice versa.’ Economic and sociological studies show that across many countries, the unemployed report psychological distress scores that are consistently higher, and

life satisfaction scores that are consistently lower, than those of the employed.¹⁴

For instance, in the yearly panel data between 1984 and 1989, West German working-age men who were employed recorded an average life satisfaction score that was 9 percent higher than that of persons not in the labor force (e.g. pensioners and housewives), and 31 percent higher than that of the unemployed (own calculations based on Winkelmann and Winkelmann, 1998, p. 5, Table 1).¹⁵

In every country in a sample of eleven West European countries covering over 58,000 individuals, the life satisfaction scores by unemployed persons are lower, by between 19 and 37 percent, than those of employed respondents. Non-weighted cross-country average scores, on a scale of 1 (not satisfied at all) to 6 (fully satisfied), were respectively 3.7 and 4.2 for unemployed and employed people (own calculations based on Whelan and McGinnity, 2000, p. 292, Table 14.1).¹⁶ During communist rule, unemployment was officially non-existent (Kornai, 1992). But as Figure 1.2 shows, despite the downward flexibility in real wages in the early years of transition, unemployment levels quickly shot up to high levels in Poland and Hungary after 1989, but not in the Czech Republic (on the reasons behind transitional unemployment, see Boeri, 1994, 1997a, 1997b; Boeri et al., 1998).

Figure 1.2. Annual registered unemployment rate in Hungary, Poland and the Czech Republic, 1989-1996 (in percent).



Source: UNICEF (1998, p. 123, Table 10.12).

Given the sudden and widespread nature of unemployment in Hungary and Poland, the fear and distress produced by it could be expected to be high - even disproportionately so. At least three potential explanations converge as to why the salience of unemployment may have been exceptionally strong in these early-transition democracies. The latter countries differed from advanced industrial democracies in that they were newly confronted both with the shocking *emergence* of (official) unemployment after four decades and with its rapid *rise* thereafter.¹⁷ First, a large body of evidence indicates that psychological wellbeing is greatly affected not just by existing levels of welfare, but especially by changes with respect to a stable past reference point, with losses being more highly valued than gains (Tversky and Kahneman, 1981, 1987; Quattrone and Tversky, 1988; Frank, 1989). Applied to the post-communist context, this means that the rapidly rising levels of unemployment in the early 1990s were likely to have a higher salience than in countries with similar but stable levels of unemployment.

State-guaranteed jobs during communism may also have fostered a baseline expectation that the state should guarantee employment. For instance, in 1989, 74 percent of Polish respondents thought that it was the government's duty to secure new jobs to all those discharged (Kolarska-Bobinska, 1991, p. 181).¹⁸ At the end of 1993, 84 percent of Hungarian survey respondents still believed that the state should be 'mainly responsible for employment, while 47 percent agreed that unemployment was 'unacceptable' and only 8 percent

agreed that it was 'necessary' (Miller et al., 1998, pp. 114-117). Using cross-nationally similar questionnaires, Blanchflower and Freeman (1997, p. 456) found that in 1992 the proportion of respondents who strongly favored government intervention 'to provide jobs for all' in Hungary (52 percent), Poland (50 percent) and Czechoslovakia (36 percent) was higher than or comparable to that in Norway (37 percent), and much higher than in countries like Sweden (26 percent), West Germany (22 percent), Great Britain (21 percent) and the US (17 percent).¹⁹

Second, the high individual uncertainty of many workers about their future labor market status was likely to be a powerful inhibitor of political support for post-communist governments – even despite widespread acceptance that reforms were welfare-enhancing. Fernandez and Rodrik (1991) develop a simple model demonstrating that efficient reforms (defined as policy changes with more winners than losers and with aggregate gains that outweigh aggregate losses) may nevertheless face powerful obstacles when the identity of the winners is uncertain *ex ante*.²⁰ Table 1.1 presents data on income mobility and income stability in Hungary between 1992 and 1996, which can be taken as a useful proxy for income uncertainty. In order to gauge to what extent these figures indicate 'extraordinary' income change in a transitional country as opposed to 'normal' income dynamics typical of advanced market economies, similar data are also shown for West Germany between 1990 and 1994. Since the West German economy underwent significant unification-related changes in this period, these

data provide a rather conservative yardstick, in that income mobility in West Germany is likely to have been higher than the West European average in this period.

Table 1.1. Dynamics of income mobility and income stability for selected income categories in Hungary (1992-1996) and West Germany (1990-1994)

| | <i>Income mobility</i> | | | | <i>Income stability</i> | | |
|--------------------|--|--|--|---|---|---|---|
| | Those earning 0.75-1.25 times mean income (% of those earning >1.5 times mean income four years earlier) | Those earning <0.75 times mean income (% of those earning >1.5 times mean income four years earlier) | Those earning <0.75 times mean income (% of those earning 1-1.25 times mean income four years earlier) | Those earning >1.5 times mean income (% of those earning 1-1.25 times mean income four years earlier) | Those earning 0.75-1 times mean income (% of those earning 0.75-1 times mean income four years earlier) | Those earning 1-1.25 times mean income (% of those earning 1-1.25 times mean income four years earlier) | Those earning 1.25-1.5 times mean income (% of those earning 1.25-1.5 times mean income four years earlier) |
| Hungary, 1996 | 27 | 13 | 22 | 15 | 40 | 24 | 21 |
| West Germany, 1994 | 21 | 5 | 14 | 8 | 44 | 34 | 33 |

Note: Data for Hungary were based on the yearly Hungarian Household Panel (N = 4,314), those for West Germany on the German Socio-Economic Panel (N = 8,856). Source: own calculations based on Habich and Spéder (1998, p. 13, Table 2).

Income mobility was higher, and income stability lower, in Hungary than in West Germany during the early 1990s. For instance, a higher percentage of those who earned incomes above one-and-a-half times the mean in 1992 (in Hungary) or

1990 (in West Germany) had slipped down to earnings between 25 percentage points below and 25 percentage points above mean income in Hungary than in West Germany four years later (Column 1). Similarly, in Hungary a higher percentage of this high-income category had also slipped down to earnings below three-quarters of mean income four years later (Column 2). Post-communist income mobility was higher in both directions. A higher percentage of those who earned incomes between one and one-and-a-quarter times the mean income in 1992 (in Hungary) or 1990 (in West Germany) had slipped down to below three-quarters of mean income four years later in Hungary (Column 3), while a higher percentage of Hungarians had also moved upward to earnings above one-and-a-half times the mean income (Column 4). Conversely, income stability was lower in Hungary than in West Germany. This applied not just to low-income groups. As Columns 5 to 7 indicate, even three middle-income and upper-middle income categories in Hungary had to cope with comparatively low levels of income stability between 1992 and 1996.²¹

A last important reason for the high salience of unemployment in transition can be found in the organization of communist welfare provision. Under communism, incomes were relatively secure, and 'welfare services' relatively developed. Workers enjoyed an extraordinary degree of job security by Western standards, including strong legal protection against dismissal (Estrin, 1994, p. 70). However, there was no welfare state in the strict sense of the word. The communist goal of full employment acted as a direct income guarantee for

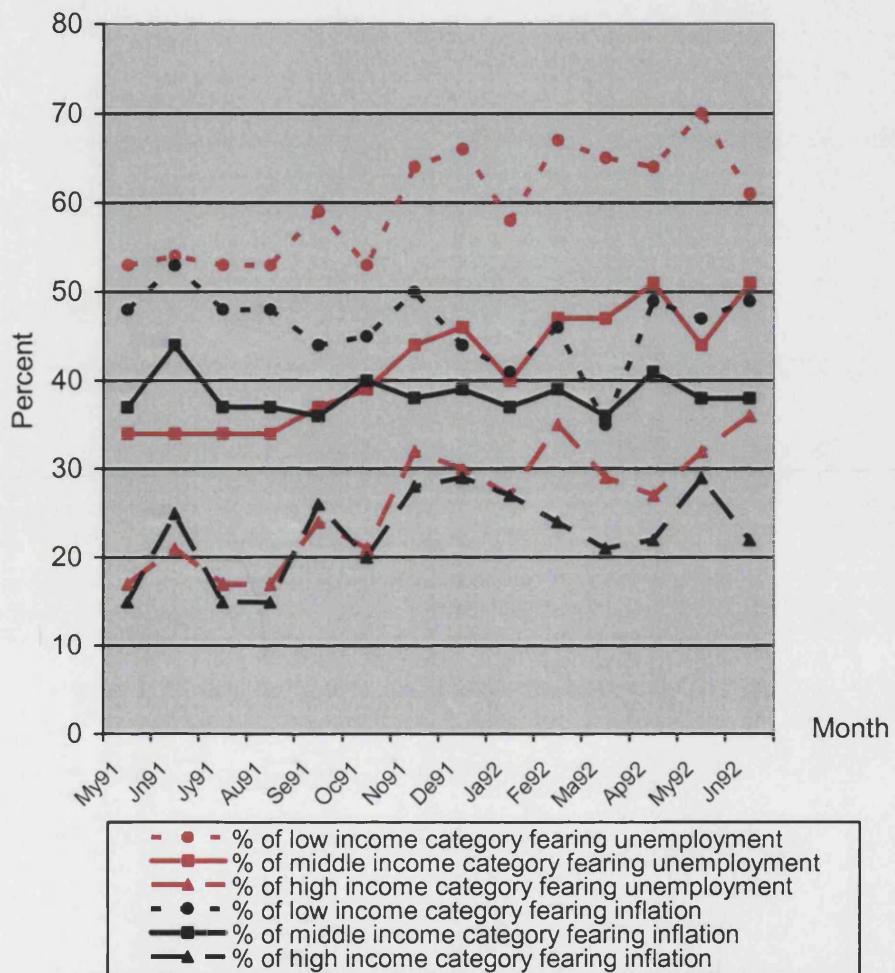
workers. As a result, classic capitalist welfare programs such as (contribution-based) unemployment insurance and (needs-based) poverty assistance simply did not exist under socialism. Moreover, many other social services and social benefits were provided directly at the workplace, free of charge or at low cost, albeit often on a discretionary basis. Indeed, communist states aimed 'to narrow down individual consumption of products and services bought directly by households for money, and concurrently to increase the share of collective consumption distributed in kind by the bureaucracy' (Kornai, 1992, p. 225). These non-wage benefits included kindergarten facilities, child subsidies, maternity leave, housing, vacation homes, health services, and sometimes rationed foodstuffs and other scarce goods. With few exceptions (such as education) these benefits, pensions included, were provided explicitly conditional on formal employment in a state job (e.g. Jackman and Rutkowski, 1994, pp. 123, 133-135; Róna-Tas, 1997, pp. 79, 84; Przeworski, 2001, p. 119).

In other words, 'welfare-state-like' benefits were not allocated on the basis of either universal citizenship rights or private insurance payments, as is the case in all advanced capitalist welfare regimes. In the absence of an immediate expansion of welfare provision in transition, those citizens who felt threatened by redundancy, unlike citizens in established market societies, were therefore confronted with unknown phenomena immediately endangering not just their job security but also other important sources of material security.²² This was reflected in the very definition of what a good job meant for post-communist citizens.

When asked whether 'a good job is one that is secure even if it does not pay very much' or, alternatively, whether 'a good job pays good money, even if it risks unemployment,' 48 percent of Czech respondents, 67 percent of Poles and 76 percent of Hungarians chose the former statement as being closest to their own view (Rose and Makkai, 1993, pp. 10-11).

The effects produced by post-communist unemployment turned out to be strong. In an East-West comparative study, Gallie et al. (2001, p. 50) found a mean psychological distress score of 1.22 for unemployed respondents compared to 0.87 for employed respondents in Britain (in 1992), and distress scores of respectively 1.21 versus 1.03 in the Czech Republic, 1.28 versus 1.02 in Slovakia, and 1.42 versus 0.91 in Bulgaria (in 1994 and 1995).²³ The unemployed in these post-communist countries thus recorded distress levels that were higher than those who remained in employment, and similar to or higher than those of the unemployed in Britain. Distress levels in the Czech Republic were lower than in Slovakia and Bulgaria, where unemployment was higher at respectively 10 and 13 percent on average during the early 1990s (UNICEF, 1999, p. 143, Table 10.10). In addition, employed respondents in post-communist countries also recorded higher distress levels than the British employed, possibly reflecting the higher levels of labor market insecurity in these emerging market economies. Figure 1.3 presents evidence on the scope and intensity of the *fear* of unemployment based on Gallop Survey data collected monthly between May 1991 and June 1992 in Hungary.

Figure 1.3. Fear of unemployment and inflation among low, middle and high income categories in Hungary, 1991-1992



Notes: Fear of unemployment: proportion of respondents concerned about becoming unemployed in the near future (in percent). Fear of inflation: proportion of respondents who think that price increases are intolerable (in percent). The sample size was 1,500 until December 1991 and 1,000 thereafter. Low income here indicates less than 5,600 HUF per month, high income indicates more than 15,000 HUF per month, and middle income indicates the category in between the latter two. In this period, 75 HUF were worth 1 US\$. Source: Choguill and Manchin (1994, p. 79-80, Table 1).

Between May 1991 and June 1991, more than half of all low income earners, more than a third of all middle income earners, and 17 percent of high income earners reported to be concerned about becoming unemployed in the near future. As transition went into its third year, the fear for unemployment increased uniformly, more than doubling among high income earners. By June 1992, the proportions of scared respondents in each income category had gone up to reach over 60 percent of low income earners, half of middle income earners, and over a third of high income earners.²⁴ Yet in reality, aggregate unemployment in Hungary stood at 8.5 percent in 1991 and at 12 percent in 1992 (Figure 1.2).²⁵ Figure 1.3 also indicates that the fear of unemployment in Hungary was generally greater than the fear of inflation, especially among the low-income category. This gap between the fear of unemployment and the fear of inflation actually widened as time went by for all three income categories. Again, this effect was most pronounced in the case of the poor. In May 1991, the proportion of respondents in the lowest income category fearing unemployment was five percentage points higher than that of those who feared inflation; one year later, this fear gap had increased to 23 percentage points.

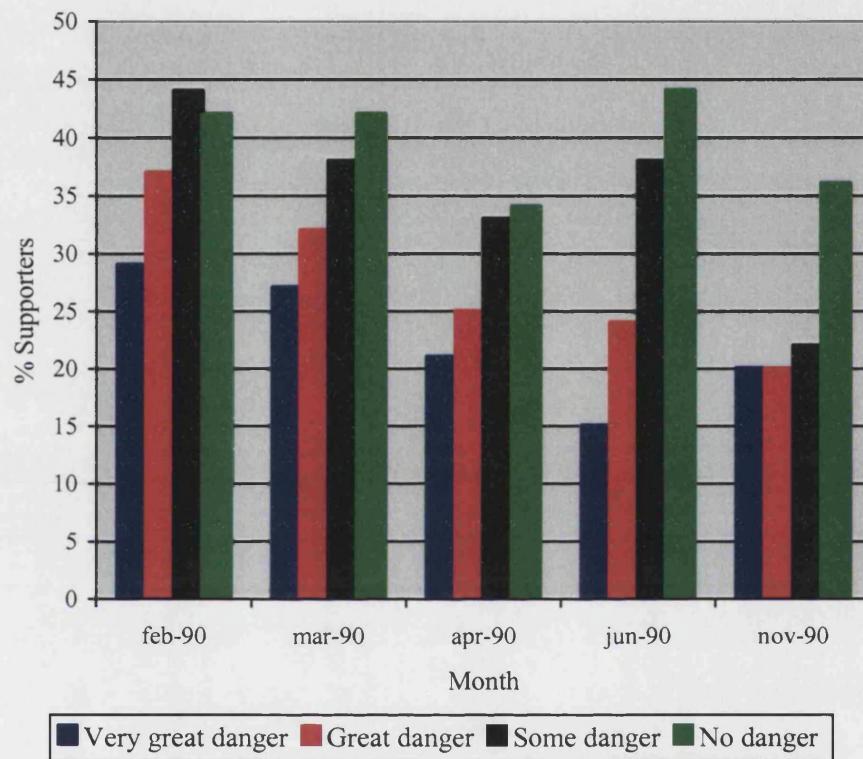
In addition to making citizens fearful about their economic situation, unemployment also tends to lead them to adopt political attitudes directly geared against parties or leaders in government. Analyzing a sample spanning 99 democratic regimes and 123 dictatorships in 135 countries between 1950 and 1990, Cheibub and Przeworski (1999, p. 227) find that, with one partial

exception, the survival of heads of government is statistically independent of a number of economic variables such as inflation, the rate of change in inflation, growth of per capita income, growth of per capita consumption, and government consumption. The only economic variable that seems to matter for incumbents' survival is a proxy for employment, and this only for parliamentary and mixed democracies.²⁶ The singular political salience of unemployment is evident also in recent case studies of far-reaching economic reform episodes during the early 1990s in Peru (Stokes, 2001a), Mexico (Buendia Laredo, 2001), Argentina (Echegaray and Elordi, 2001), East Germany (Anderson and Tverdova, 2001) and Poland (Przeworski, 2001). Real wage decline and soaring inflation led voters in four of these countries (Mexico excepted) to adopt sophisticated attitudes involving the willingness to make inter-temporal trade-offs and uphold or increase support for reforming governments. But rising unemployment levels led voters in all five cases to adopt straightforward anti-incumbency attitudes.²⁷

During the radical 'shock therapy' economic reform program introduced by finance minister Leszek Balcerowicz in January 1990 in Poland, citizens were capable of forming realistic perceptions of objective economic conditions such as real wage changes, unemployment changes and inflation rates (Przeworski, 1993, pp. 159-163). But whereas many Poles were 'willing to accept that continued reforms [were] necessary to prevent a further fall in real wages and to control inflation, and whereas they [were] willing to believe that unemployment indicates that reforms [were] working, losing jobs [was] a price they [were] not willing to

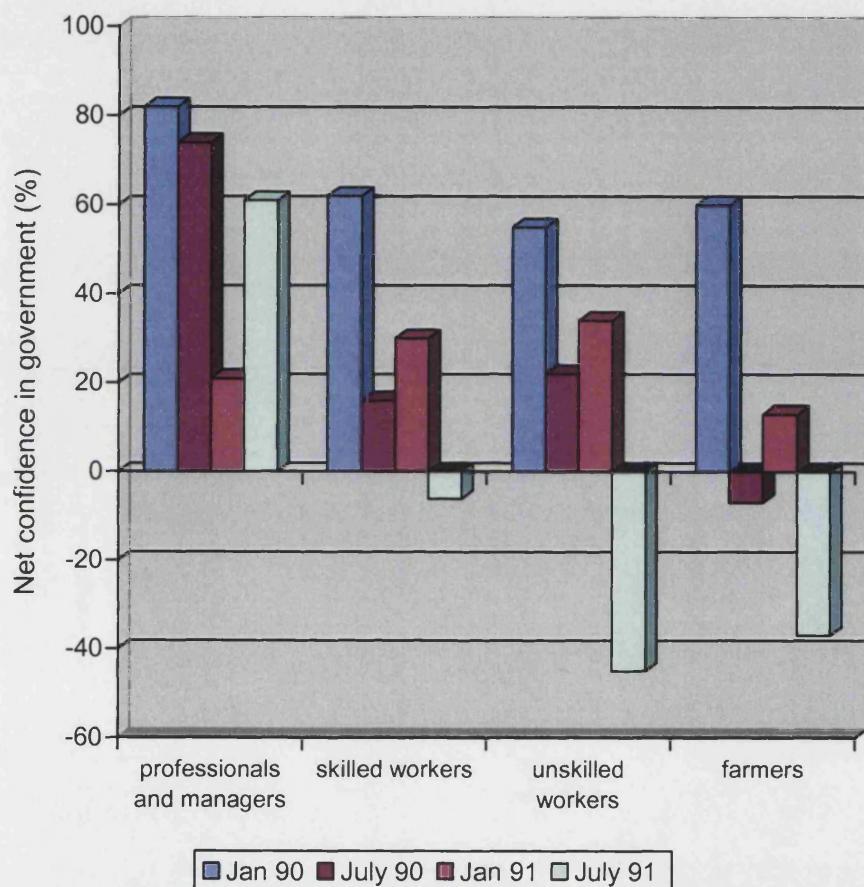
pay' (Przeworski, 1993, p. 166; Przeworski, 2001, p. 124-125). Indeed, 'Fear of unemployment overwhelms the effects of all other economic variables combined, and it makes people turn against the reform program' (Przeworski, 1993, p. 165). Figure 1.4 indicates how personal fears of becoming unemployed changed in the early years of the Balcerowicz program, and how this in turn affected support for the program. The most important story emerging is that there has been a relatively straightforward relationship between support for the Balcerowicz Plan and subjective fear of unemployment. Those who feared unemployment more tended to record lower support for the Plan. For instance, in February 1990, still only 0.8 percent of the Polish labor force was registered as unemployed. But two-thirds of respondents thought they were in great or very great danger of losing their job. A strong relationship between aggregate unemployment dynamics and political support was evident along occupational lines as well (Figure 1.5 below).

Figure 1.4. Percentage of respondents supporting the Balcerowicz Plan in Poland, according to how much they feared becoming unemployed, 1990



Notes: The respondents were a sample of employees in the public sector, and they were categorized according to their answer to the following question: 'Are you facing the danger of losing your job?' Source: Przeworski (1993, p. 166).

Figure 1.5. Net confidence in government among professionals and managers, skilled workers, unskilled workers and farmers in Poland during the Balcerowicz plan, Feb 1990 and June 1991 (in percent)



Source: Przeworski (1993, p. 165).

As Figure 1.5 shows, in January 1990, when the Balcerowicz plan was started, net confidence in government was still very high among professionals and managers, skilled and unskilled workers and farmers alike. But half a year later it was down among all four categories, and very significantly so among skilled and unskilled workers and farmers. But by July 1991, when unemployment was around 9 percent, confidence was still high among professionals and managers, whereas the latter three categories recorded negative confidence levels. Eighteen months' time thus sufficed to exhaust the patience of the most vulnerable groups with their government. Rising unemployment, lastly, shaped political attitudes also in other ways. In Poland, the proportion of respondents who found the very notion of unemployment 'despicable' rose from 73 to 85 percent between March and April 1990, while the proportion deeming unemployment 'necessary' declined from 50 to 26 percent between April and July. And among those threatened with unemployment, 65 percent responded that they were willing to strike in defense of their jobs both in April and November 1990 (Przeworski, 1993, p. 181). How was the high political salience of unemployment and other social costs expressed on the streets during early transition?

1.3. Political violence and industrial disruption in Central and Eastern Europe

The most detailed evidence available to date on political protest movements in the post-communist region has been offered by Grzegorz Ekiert and Jan Kubik, who instructed teams of local researchers in Hungary, Poland, East Germany and Slovakia to code protest events as reported in a number of daily and weekly national newspapers according to uniform definitions and methodology (Ekiert and Kubik, 1998a, 1998b, 1999, 2002; Kubik, 1998).²⁸ These data allow an assessment of the relative importance of the most extreme expression of political discontent, viz. violence, defined to include attacks on property, the use of force against officials, assassinations, and accidental death resulting from protest activities, street confrontations and riots. Table 1.2 presents the percentage shares of violent actions, of interventions by the authorities and of those interventions that involved the use of force, within all protest events in Hungary and Poland.²⁹

Table 1.2. Violent protest actions, interventions by the authorities against protesters that involved the use of force, and interventions by the authorities against protesters that did not involve the use of force, in Poland and Hungary, 1989-1993 (as % of all protest actions in a given year)

| <i>Country</i> | <i>Protest Repertoire</i> | 1989 | 1990 | 1991 | 1992 | 1993 | <i>Mean</i> |
|----------------|--|------|------|------|------|------|-------------|
| Poland | Violent protest actions | 7 | 9 | 7 | 8 | 9 | 8 |
| | Interventions by the authorities using force | 5 | 6 | 6 | 6 | 7 | 6 |
| | Interventions by the authorities without force | 1 | 4 | 6 | 4 | 7 | 4 |
| Hungary | Violent protest actions | 1 | 9 | 2 | 2 | 0 | 3 |
| | Interventions by the authorities using force | 0 | 2 | 1 | 5 | 2 | 2 |
| | Interventions by the authorities without force | 2 | 5 | 2 | 2 | 2 | 2 |

Note: The notion of protest event here is defined, broadly, to cover all types of institutionalized and unconventional collective public action. To be included, an action had to be (a) reported in at least one newspaper, (b) undertaken by at least three people or be extreme (e.g. self-immolation, terror, hunger strike), and (c) articulate specific demands in a non-routine way. Between 1989 and 1993, a total number of 1,476 protest events were recorded in Poland and 699 in Hungary. For more details, see Ekiert and Kubik (1999, pp. 13-18). Sources: Kubik (1998, p. 140, p. 143, Table 6.4, p. 145, Table 6.6).

Violent protest actions have been a marginal phenomenon in both countries.

Between 1989 and 1993, they represented on average 8 percent of all protest events in Poland, and 3 percent in Hungary. In the latter country, the share of violent actions was even in the range of zero to scarcely above two percent of all protest events in all years except 1990. By contrast, the share of open letters and statements, the most peaceful of repertoires, was on average respectively 14 and 40 percent in this period (Ekiert and Kubik, 1998b, p. 558). The same picture emerges when one looks at the reactions of the authorities. Overall, interventions generally did not exceed the 10 percent level (Hungary), nor did so only

marginally and occasionally (Poland in 1991 and 1993). Those interventions where the authorities actually used force constitute an even smaller share, on average respectively 2 and 6 percent of all protest events. Violent protest actions and forceful interventions thus nowhere approached the large scale of earlier Third World austerity riots. In the entire period considered, there was just one casualty in Poland (Ekiert and Kubik 1999, p. 127). No casualties were reported in Hungary.

Detailed yearly summary reports about protests events based on the data archives of the Hungarian Police Force further corroborate the general impression of comparative quiescence.³⁰ For instance, not a single strike in 1989 lasted for longer than a day. Of all protest actions in 1990, the three most frequent repertoires were peaceful and legal: 40 percent were demonstrations, 21 percent were open letters and public statements, and 10 percent were strikes (N = 126). However, 1990 also experienced the single most disruptive action of the entire transition period (the taxi drivers' blockade, on which more in Chapter 2). In 1991, the majority of events were distinctly non-disruptive (N = 188). The three most frequent repertoires were open letters (46 percent), followed by demonstrations (34 percent), and signature collections (17 percent). Only a small number of actions (11 percent) were illegal, and still fewer actions involved the use of force or violence by protesters, such as force against firm management (1 case), assaults (1 case), damage (1 case), land seizure (4 cases), blockades (3 cases), and occupations of public domains, of public buildings, and of companies

(4 cases). Moreover, in the 72 cases where protest participation could be measured, the number of participants was below 20 in 28 percent of cases, and between 20 and 200 in a further 24 percent of cases. Of all protest events in 1992, over 60 percent did not even involve collective action in the sense of a number of people getting together physically (N = 110). In 1993, over 80 percent of all protest actions were legal, and the two most frequent repertoires of expression were again open letters and statements, and the collection of signatures (N = 150). And in 1994, the year of the second post-communist general election in Hungary, there was not a single unlawful protest event.

Yet disgruntled transitional losers might still cause a lot of turmoil by disruptive actions short of outright violence. Below I therefore analyze another frequent form of disruption in democratic polities: industrial actions by means of strikes and lockouts. I present aggregate-level indicators calculated from ILO data, which, albeit necessitating a measure of caution due to cross-country differences in definitions and standards, allow useful insights into the incidence and duration and participation features of industrial disruption.³¹ I discuss evidence from six Central and Eastern European countries in the period 1990-1995 (Hungary and Poland, as well as the Czech and Slovak Republics, Romania, and Belarus) and for six advanced Western welfare states belonging to the social democratic regime (Sweden and Denmark), the conservative regime (Germany and France) and the liberal regime (the UK and the US). Lastly, I present

evidence for four Latin American democracies in the 1980s: Peru, Brazil, Colombia and Venezuela.

Each of the latter four countries approximates a different combination of two variables: the extent of democratic consolidation on the one hand, and the austerity of economic policies on the other.³² Peru and Brazil were still going through democratic consolidation in the 1980s, having experienced their transition respectively in 1980 and in 1985. Peru's first two democratic governments, led by Bellaúnde (from 1981 to 1985) and García (from 1986 to 1990), implemented populist policies including urban real wage increases and rapid monetary and fiscal expansion. Brazil's first two democratic governments included a populist one led by Sarney (from 1986 to 1989) and one based on austerity policies led by Collor (from 1990 to 1992).³³ By contrast, Colombia and Venezuela had already enjoyed longer periods of democratic rule by the 1980s. Venezuela underwent a debt crisis in February 1983, which led to an austerity program without fiscal reforms. After taking office in 1984, president Lusinchi undertook stabilization plans that included subsidy cuts and investment reductions. In 1989, with GDP growth and inflation rates running at respectively –7.8 and 81 percent, the new president Pérez started office with a full neo-liberal package. Colombia generally experienced good macro-economic indicators in the 1980s, and it underwent no austere structural reforms.³⁴

In order to allow meaningful cross-country comparison, most indicators of industrial action have been adjusted for the size of each country's population

aged between 15 and 64. This measure differs from one commonly used in the studies and statistics of industrial action in Western countries³⁵ and which has been adopted in the emerging literature on post-communist countries³⁶, namely indicators of industrial action (e.g. the number of workers involved) as adjusted by the size of the (non-agricultural) *labor force or wage earners*. For many purposes relevant for our analysis, the latter indicator is potentially problematic. While perhaps adequate for the relatively stable economies for which it has typically been used, this indicator is less helpful in contexts of rapid industrial transformation such as the post-communist transition, where the labor force has undergone significant changes in size as part of ongoing industrial reforms. An important related reason is that the above indicator might mask or distort critical changes in labor force size due to government policies – that is, due to political rather than labor market causes.

Suppose that a new government, upon taking office, decides that it has a strong interest in manipulating the size of the labor force. It can then devise a number of policies to bring about such a change in the short run. For instance, ostensibly in order to create a better skilled labor force, governments might increase higher education scholarships, reduce university tuition fees or raise the obligatory number of years of schooling. Ostensibly in order to reward workers who approach retirement age for their career efforts, governments might grant them generous financial and eligibility conditions for retiring early. In both cases, the end result will be that specific categories of working-age individuals have

been taken or kept out of the labor force. Standard indicators that show a particular dimension of industrial action (such as strikes, or days, or participants) as divided by the size of the labor force would then be in danger of conveying a misleading picture of disruption in the polity. For one thing, such indicators would be high, not necessarily because protest by workers was high (the numerator), but because the labor force was purposefully reduced by governments (the denominator). For another, they would also skip over potential theoretical explanations for such policies. For instance, although not admitted officially, at least part of the governments' underlying motivation for targeting the two categories of workers in question might be that if they were to remain within the labor force under adverse labor market conditions, they would be particularly likely to organize for protest. Given low labor demand, keeping younger people out of the labor force by retaining them in education might preempt their voicing their discontent because of unemployment or precarious employment. Similarly, given high unionization rates, pushing elderly workers out of the labor force by means of a golden handshake might preempt their organizing for industrial action.

If this is the case, a given statistic of, say, strikes per 1000 workers would not just be artificially inflated. It would also mask the fact that the actual levels of industrial action observed in the polity have probably been lower than they would have been in the counterfactual *absence* of policies that were specifically aimed at moving contentious workers out of the labor force. Analyzing the number and

the participation and duration features of industrial actions as divided by the number of persons aged 15-64 avoids the first danger, since the size of the working-age population, unlike that of the labor force, is considerably less amenable to government manipulation in the short run. Moreover, if accompanied by an analysis of changes in labor force size and in unemployment levels and of the specific categories of working-age individuals behind those changes, it might pinpoint rather than obscure important causal factors explaining the various dimensions of industrial action.³⁷ As Table 1.3 indicates for the 1990s, these are not mere hypothetical caveats. The table shows the percentage point change in labor force participation rates for men and women in the 1990s in selected East European and Western welfare regimes.

Table 1.3. Changes in labor force participation rates for men and women in selected post-communist, conservative, social democratic and liberal countries, 1990-1997 (in percentage points)

| Regime Type | Country | Age Category | Change 1990-1997 | |
|-------------------|------------|--------------|------------------|--------|
| | | | Male | Female |
| Post-communist | Hungary | 15-24 | - 35 | - 29 |
| | | 15-64 | - 12 | - 10 |
| | | 55-64 | - 5 | + 8 |
| | Poland | 15-24 | - 12 | - 8 |
| | | 15-64 | - 7 | - 5 |
| | | 55-64 | - 17 | - 14 |
| | Slovakia | 15-24 | - 11 | - 17 |
| | | 15-64 | - 8 | - 13 |
| | | 55-64 | - 17 | - 15 |
| | Czech R. | 15-24 | - 2 | - 17 |
| | | 15-64 | - 2 | - 10 |
| | | 55-64 | 0 | - 0.4 |
| | Romania | 15-24 | - 9 | - 11 |
| | | 15-64 | + 1 | + 3 |
| | | 55-64 | + 24 | + 21 |
| Conservative | W. Germany | 15-24 | - 7 | - 9 |
| | | 15-64 | - 4 | + 7 |
| | | 55-64 | - 10 | + 4 |
| | France | 15-24 | - 9 | - 8 |
| | | 15-64 | - 1 | + 3 |
| | | 55-64 | - 4 | + 1 |
| Social Democratic | Sweden | 15-24 | - 23 | - 25 |
| | | 15-64 | - 9 | - 1 |
| | | 55-64 | - 8 | + 9 |
| | Denmark | 15-24 | + 1 | 0 |
| | | 15-64 | - 2 | - 4 |
| | | 55-64 | - 5 | - 2 |
| Liberal | UK | 15-24 | - 9 | - 6 |
| | | 15-64 | - 4 | + 1 |
| | | 55-64 | - 4 | + 1 |
| | USA | 15-24 | - 6 | + 1 |
| | | 15-64 | - 2 | + 11 |
| | | 55-64 | - 5 | + 10 |

Sources: own calculations based on ILO (2000, pp. 30-42, Table 1).

In Hungary and Poland, labor force participation rates dropped substantially in this period. In Hungary, this trend was especially marked among young men and women, while in Poland mainly elderly workers were affected. Within post-communist Central and Eastern Europe, a similar scale of labor force decrease occurred also in Slovakia for both sexes and in the Czech Republic for women (especially young women). None of the six Western countries experienced similarly large across-the-board reductions in participation rates for both sexes as in Hungary and Poland, although in some countries large changes occurred for one of the sexes (e.g. men in Sweden, and women in the US and West Germany). A number of countries have also seen drastic reductions in labor force participation of specific groups (such as elderly men in Germany and young people in France and Sweden). Countries in Latin America experienced high increases in participation rates for the female working-age population (Peru and Venezuela) or very high increases (Brazil and Colombia). Between 1980 and 1990, the share of women working increased by 5 percentage points in Peru, 8 points Venezuela, 12 points in Brazil and 25 points in Colombia. But changes in male participation were negligible (at respectively -1, 0, -1 and +1 percentage points) (own calculations based on ILO, 2000, pp. 30-42, Table 1).

Many countries examined here have thus experienced significant changes in labor force participation rates, not least Hungary and Poland. In some of these cases, government policies may have been directly responsible. And in all cases, these changes would be masked or distorted by traditional measures of industrial

action that standardize for the size of the working force. Table 1.4 gives a first rough indicator of industrial disruption differently standardized, showing a variant of the 'strike rate' often used in analyses of industrial action, viz. the number of strikes and lockouts as adjusted for the size of the working-age population.

Table 1.4. Number of strikes and lockouts per ten million persons aged 15-64 in selected post-communist, conservative, social democratic and liberal countries, 1990-1995

| <i>Regime Type</i> | <i>Country</i> | <i>1990</i> | <i>1991</i> | <i>1992</i> | <i>1993</i> | <i>1994</i> | <i>1995</i> | <i>Mean</i> |
|--------------------------|----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <i>Post-communist</i> | Poland | n.a. | n.a. | n.a. | 3,000 | 170 | n.a. | 1,570 |
| | Belarus | 27 | 67 | 4 | 3 | 4 | 0 | 18 |
| | Romania | n.a. | n.a. | 6 | 22 | 22 | 18 | 17 |
| | Hungary | n.a. | 4 | 6 | 7 | 6 | 10 | 7 |
| | Czech R. | n.a. | 1 | 3 | 3 | 4 | 3 | 3 |
| | Slovakia | n.a. | 0 | 1 | 1 | 1 | 1 | 1 |
| <i>Conservative</i> | France | 400 | 350 | 350 | 360 | 440 | n.a. | 380 |
| <i>Social Democratic</i> | Denmark | 580 | 510 | 380 | 550 | 600 | 1,060 | 610 |
| <i>Liberal</i> | Sweden | 210 | 38 | 33 | 55 | n.a. | n.a. | 84 |
| | UK | n.a. | n.a. | n.a. | n.a. | 54 | 62 | 58 |
| | US | 3 | 2 | 2 | 2 | 3 | 2 | 2 |

Notes: For each country, the yearly number of strikes and lockouts was divided by the size of the population aged 15-64 in 1994 (in tens of millions). Data for Germany were not available. Strikes and lockouts are defined as 'temporary work stoppages willfully effected by one or more groups of workers and temporary closures of one or more places of employment by one or more employers with a view to enforcing or resisting a demand or expressing a grievance' (ILO, 1997, p. 273). Data for Hungary cover work stoppages in which at least 800 hours were not worked. French data exclude agriculture and public administration. Danish data exclude stoppages in which fewer than 100 workdays were not worked. Swedish data from 1994 cover stoppages in which at least eight hours were not worked. UK data exclude political strikes and include stoppages involving fewer than ten workers or lasting less than one day if more than 100 workdays not worked. US data need to be treated with particular caution: they exclude work stoppages involving fewer than 1000 workers or lasting less than one day. Source: Own calculations based on ILO (1997, pp. 249-250, Table 4.1) and World Bank (1996, pp. 194-195, Table 4).

The Polish strike rate is an outlier in both East and West, but it should be treated with caution since it is based on just two data points. The mean adjusted strike rates of Hungary, the Czech Republic and the three other Eastern European countries, by contrast, are lower by a large margin than those of France, Sweden, Denmark and the UK, and they are comparable to that of the US, where the data would have been higher but for the exclusion of a potentially large number of strikes and lockouts (see notes to Table 1.4). A comparison with Latin American democracies in the 1980s is equally instructive. The same average adjusted strike, as calculated over as many 'democratic' data points as were available, stood at 120 in Brazil, 160 in Colombia, 240 in Venezuela and 360 during the first ten years of democracy in Peru (own calculations based on ILO, 1997, pp. 249-250, Table 4.1, and World Bank, 1996, pp. 194-195, Table 4).³⁸ Leaving aside the Polish case, these are clearly higher rates than anywhere in post-communist Central and Eastern Europe. Counting the mere incidence of strikes and lockouts, however, may conceal important qualitative information about their nature, for instance their average duration and average participation levels. However, the political significance of industrial collective actions is likely to be a positive function of the amount of disruption caused by all such actions taken together in the polity at large. Table 1.5 presents one way of gauging this, by focusing on the total number of workers involved in strikes and lockouts in any given year in each country, as adjusted for the size of the country's working-age population.

Table 1.5. Workers involved in strikes and lockouts, per thousand persons aged 15-64, in selected post-communist, conservative, social democratic and liberal countries, 1990-1995

| <i>Regime Type</i> | <i>Country</i> | <i>1990</i> | <i>1991</i> | <i>1992</i> | <i>1993</i> | <i>1994</i> | <i>1995</i> | <i>Mean</i> |
|--------------------------|----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <i>Post-communist</i> | Poland | 5 | 9 | 30 | 15 | 8 | 1 | 11 |
| | Hungary | n.a. | 3 | 0 | 4 | 5 | 25 | 7 |
| | Czech R | n.a. | 1 | 3 | 0 | 10 | 0 | 3 |
| | Belarus | 2 | 9 | 0 | 0 | 0 | 0 | 2 |
| | Romania | n.a. | n.a. | 0 | 2 | 5 | 3 | 2 |
| | Slovakia | n.a. | 5 | 0 | 0 | 0 | 0 | 1 |
| <i>Conservative</i> | W. Germany | 6 | 5 | 14 | n.a. | n.a. | n.a. | 8 |
| | France | 1 | 1 | 0 | 1 | n.a. | n.a. | 1 |
| <i>Social Democratic</i> | Denmark | 9 | 10 | 8 | 15 | 9 | 31 | 14 |
| | Sweden | 12 | 1 | 3 | 5 | 4 | 21 | 8 |
| <i>Liberal</i> | UK | 8 | 5 | 4 | 3 | 5 | 11 | 6 |
| | US | 1 | 2 | 2 | 1 | 2 | 1 | 2 |

Notes: For each country, the yearly number of workers involved in strikes and lockouts (in thousands) was divided by the size of the population aged 15-64 in 1994 (in millions). For West Germany, separate strike data were available only until 1992. There, the population aged 15-64 was estimated by subtracting 12 million from the united German population figure. Strikes and lockouts are defined as 'temporary work stoppages willfully effected by one or more groups of workers and temporary closures of one or more places of employment by one or more employers with a view to enforcing or resisting a demand or expressing a grievance.' Data for Hungary cover work stoppages in which at least 800 hours were not worked. Data for Germany exclude public administration stoppages and include stoppages lasting less than one day if more than 100 workdays were not worked. French data exclude agriculture and public administration. Danish data exclude stoppages in which fewer than 100 workdays were not worked. Swedish data from 1994 cover stoppages in which at least eight hours were not worked. UK data exclude political strikes (no definition given) and include stoppages involving fewer than ten workers or lasting less than one day if more than 100 workdays were not worked. US data need to be treated with particular caution: they exclude work stoppages involving fewer than 1000 workers or lasting less than one day. Source: Own calculations based on ILO (1997, pp. 251-52, Table 4.2) and World Bank (1996, pp. 194-195, Table 4).

Per thousand working-age adults, 11 Poles participated in industrial action on average in each year between 1990 and 1995. Hungary experienced very low rates of participation in industrial action until they pushed up in 1995. In that year, an austere economic adjustment program (the Bokros package) was imposed by the Horn government, less than a year after assuming office. This

happened unilaterally and by surprise, without prior consultation with either trade unions or even majority MPs. Limits were imposed on nominal pay rises in public administration, education and health sectors, and in state-owned firms. Expenditure cuts were implemented to turn a primary budget deficit into a surplus, including the introduction of fees for public education and the abolition of free dental care. As a result, real wages in 1995 fell by 12 percent compared to 7 percent growth in 1994, and household consumption fell by 7 percent compared to zero growth in 1994 (Kornai, 1997, pp. 182, 200-203). But even when 1995 is included, the Hungarian average rate of workers involved in strikes and lockouts is still only 7. And in the other countries in the post-communist region, still fewer workers were involved in strikes and lockouts.

Worker participation in the post-communist region has been neither dramatically nor consistently higher than in the advanced democratic and capitalist welfare regimes, even though the latter (including Sweden, which experienced a recession in the early 1990s) suffered much less economic hardship in this period. With the exception of the US and France, the rates of worker participation in strikes and lockouts in the Western countries considered here are within the Eastern range. Both exceptions, moreover, might be only an artifact of data limitations. In 1995, the Juppé government in France was confronted with a number of industrial actions amounting to the largest-scale episode of disruption in years. If the figures for that year had been available, France too might have had an average participation rate comparable to that of Poland and Hungary. This also

applies to the US, where work stoppages involving fewer than 1,000 workers or lasting less than a day have not been included in the present data (see notes to Table 1.5). In 1980s Latin America, the same indicator of worker participation was comparable in the case of Colombia (1) and Venezuela (9) but was much higher than Central and East European rates in the case of Peru (33) and Brazil (93) (own calculations based on ILO, 1997, p. 251-252, Table 4.2, and World Bank, 1996, p. 195, Table 4).³⁹

A second way of gauging the scale of industrial disruption in the polity is by looking at the adjusted number of workdays lost as a result of strikes and lockouts. This indicator is conceptually distinct from the number of workers involved, and can be linked to it in different ways. For instance, the same number of workdays lost in any given year could result from either a few short strikes involving massive numbers of workers, a few strikes of long duration involving a hard core of die-hards, or many strikes of moderate duration and with moderate participation (Table 1.6).

Table 1.6. Workdays not worked as a result of strikes and lockouts, per thousand persons aged 15-64, in selected post-communist, conservative, social democratic and liberal countries, 1990-1995

| <i>Regime Type</i> | <i>Country</i> | <i>1990</i> | <i>1991</i> | <i>1992</i> | <i>1993</i> | <i>1994</i> | <i>1995</i> | <i>Mean</i> |
|--------------------------|----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <i>Post-communist</i> | Poland | 6 | 21 | 94 | 23 | 23 | 2 | 28 |
| | Romania | n.a. | n.a. | 1 | 6 | 24 | 14 | 11 |
| | Belarus | 4 | 40 | 13 | 0 | 1 | 0 | 10 |
| | Slovakia | n.a. | 42 | 4 | 0 | 5 | 0 | 10 |
| | Hungary | n.a. | 1 | 1 | 1 | 4 | 37 | 9 |
| | Czech R | n.a. | 0 | 3 | 0 | 0 | 0 | 1 |
| <i>Conservative</i> | W. Germany | 8 | 4 | 35 | n.a. | n.a. | n.a. | 16 |
| | France | 14 | 13 | 9 | 13 | 14 | n.a. | 13 |
| <i>Social Democratic</i> | Sweden | 128 | 4 | 5 | 32 | 9 | 105 | 47 |
| | Denmark | 25 | 18 | 16 | 29 | 19 | 49 | 26 |
| <i>Liberal</i> | US | 35 | 27 | 23 | 23 | 29 | 34 | 29 |
| | UK | 50 | 20 | 14 | 17 | 7 | 11 | 20 |

Notes: For each country, the yearly number of workdays not worked as a result of strikes and lockouts (in thousands) was divided by the size of the population aged 15-64 in 1994 (in millions). For West Germany, separate strike data were available only until 1992. There, population aged 15-64 was estimated by subtracting 12 million from the united German population figure. Strikes and lockouts are defined as 'temporary work stoppages willfully effected by one or more groups of workers and temporary closures of one or more places of employment by one or more employers with a view to enforcing or resisting a demand or expressing a grievance.' Data for Hungary cover work stoppages in which at least 800 hours were not worked. Data for Germany exclude public administration stoppages and include stoppages lasting less than one day if more than 100 workdays were not worked. French data exclude agriculture and public administration. Danish data exclude stoppages in which fewer than 100 workdays were not worked. Swedish data from 1994 cover stoppages in which at least eight hours were not worked. UK data exclude political strikes (no definition given) and include stoppages involving fewer than ten workers or lasting less than one day if more than 100 workdays were not worked. US data need to be treated with particular caution: they exclude work stoppages involving fewer than 1000 workers or lasting less than one day. Source: Own calculations based on ILO (1997, pp. 253-54, Table 4.3) and World Bank (1996, pp. 194-195, Table 4).

A comparison between Tables 1.6 and 1.5 shows that Poland had a higher mean of workdays lost than of workers involved, although it was more contentious than Hungary on both accounts. Noteworthy in Hungary was the virtual absence, on both indicators, of industrial disruption in the very costly years 1991 to 1993. According to László Bruszt, in terms of seconds of strikes per employee,

Hungary actually recorded the best statistics in the whole of Europe between 1990 and 1993 – except for the Vatican (quoted in Róbert, 1999, p. 101). Different data compiled by the Hungarian Ministry of Labor indicate that of all strikes of which the duration was known, nearly three-quarters lasted 9 hours or less and three-fifths even two hours or less, whereas only one in sixteen lasted 80 hours or more (own calculations based on Fine, 1997, p. 258, Table 1).⁴⁰ The broad picture of Table 1.6, however, is very similar to that of Table 1.5. In five out of the six post-communist countries considered here, the mean rate of workdays in industrial action remains below that in the six Western countries. The Polish rates are comparable to three Western countries (Denmark, the UK and the US), and remain below that in another (Sweden).⁴¹ In post-autocratic Latin America, the same indicator was many times higher than anywhere in Central and Eastern Europe. On average 39 workdays were lost per thousand working-age adults in Venezuela in the 1980s, compared to 144 workdays in Brazil, and 184 workdays in the first ten years of democracy in Peru (own calculations based on ILO, 1997, p. 253-254, Table 4.3; and World Bank, 1996, p. 194-195, Table 4).⁴²

The present analysis throws new light on a number of propositions in the emerging literature on post-communist protests. First, it casts doubt on a core claim made by the most influential case study on the subject to date, Ekiert and Kubik's *Rebellious Civil Society* (1999), which asserts that protests in Poland were 'exceptional' (p. 69) in magnitude and intensity, painting a picture of

'sweeping,' 'widespread' and 'massive' protest campaigns 'throughout the country' (pp. 108, 109, 119, 141, 142). These are unlikely to be accurate characterizations of Polish protest politics in the early 1990s (for similar such characterizations, see Osa, 1998, pp. 30, 33; Seleny, 1999, pp. 489-490, 515; Ekiert and Kubik, 1998a, 2002; Kubik, 1998). One page after arguing that 'Poland's incipient democracy faced massive challenges from below,' Ekiert and Kubik (1999, pp. 112-113) themselves recognize that 'Given the drama of regime transition, disruptive economic transformations, and expanding opportunities for collective action, one could expect a much higher level of popular mobilization.'⁴³ While Ekiert and Kubik consistently stress the first side of the story, I argue that focusing on the second side may better serve our understanding of the nature of protest politics in post-communist Poland.⁴⁴ Contradicting the claim that 'every group of society was involved in the protests that engulfed the whole country' (Ekiert and Kubik, 1999, p. 109), Table 1.5 indicates that in 1990 and 1991 less than one percent of all working-age Poles participated in strikes and lockouts, and still only three percent in 1992.⁴⁵ Such figures do not warrant a portrayal of widespread contention in the polity. In fact, the magnitude of protests during the transition to democracy was even small compared to previous episodes of workers' resistance in Poland under communist one-party rule. Historians have pointed out that the Solidarity protests in 1980-1981 were 'much greater and much more debilitating than anything that occurred in 1989-1993' (Kramer, 2002a, p. 218; see also Barker, 2001).

Widening the focus to a larger variety of countries and contexts than is available in the existing literature has furthermore indicated that protests during the transition have been comparatively non-disruptive, and overwhelmingly non-violent. Far from repeating earlier austerity protest scenarios, the Central and East European polities have been more peaceful than Latin American countries in the 1980s and even than many stable Western democracies in the 1990s on a number of dimensions. While confirming the fact that protest politics were more contentious in Poland than in other post-communist countries, the comparative analysis has indicated that the Polish case was not as dramatic as is often portrayed. During early post-communist transition, the new context of enlarged political freedoms and low levels of institutionalization offered precisely the increasing opportunities identified as having been conducive, elsewhere, to the emergence of more violent and disruptive repertoires of protest (Tarrow, 1989; Tilly, 2003) and to a higher incidence of strikes, demonstrations and riots (Przeworski et al., 2001). The comparatively low levels of large-scale contention in post-communist Europe thus present new questions from a larger historical perspective as well.

Conclusions

By international comparison, the early years of the post-communist transition have altogether been relatively quiescent on a number of dimensions. With the exception of the Polish outlier case, the mean adjusted number of strikes in the six Central and East European countries considered was lower by a very large margin compared to all of four Latin American countries investigated in the 1980s. The post-communist strike rates were also lower than in four out of five advanced Western democracies (the fifth, the US, would probably also have had higher strikes rates, were it not for differences in coding). The mean adjusted numbers of workers involved in industrial action in the six post-communist democracies were within the range of the six Western and of two out of four Latin American democracies. And they were much lower than in the two other Latin American cases. In terms of workdays lost in strikes and lockouts, five Central and East European countries were more quiescent than all six Western countries, while the Polish figures were still lower than two Western cases. And all post-communist lost-workday figures, Poland included, were much below those in the four Latin American countries in the preceding decade. Lastly, in terms of violence and casualties in protests, the Central European cases simply bear no comparison with earlier Latin American cases. These observations are in contrast with many previous reform experiences in the developing world and with the early worries about the likely intensification of protests in Central and Eastern

Europe after 1989. They are also in contrast with evidence showing the high psychological and political salience of unemployment during transition. The comparatively low levels of contention in post-communist Central Europe thus constitute a genuine puzzle in need of theoretical analysis. This will be the task of the next two chapters.

Chapter 2

Post-communist quiescence despite conditions for conflict: alternative theoretical frameworks

Which theoretical framework is best suited to explain the lack of political violence and the less-than-dramatic levels of industrial disruption during early transition? This Chapter critically discusses three alternative sets of explanations for the comparative quiescence of the Central and East European transitions: the economic theory of strikes (e.g. Kennan, 1986), theories based on neo-corporatist and political opportunity structure arguments (e.g. Ekiert and Kubik, 1999), and a theory based on a Hirschman-type exit and voice argument (e.g. Greskovits, 1998). I argue that these explanations are not fully consistent with post-communist protest variation, in part because they underplay the role of state strategies in influencing protests (section 2.1). I then discuss the merits of alternative thin-rational and thick-rational approaches to collective protests (section 2.2). While concurring that many particular instances of protest may be largely out of bounds for such approaches, I suggest that they nevertheless can be used to illuminate the

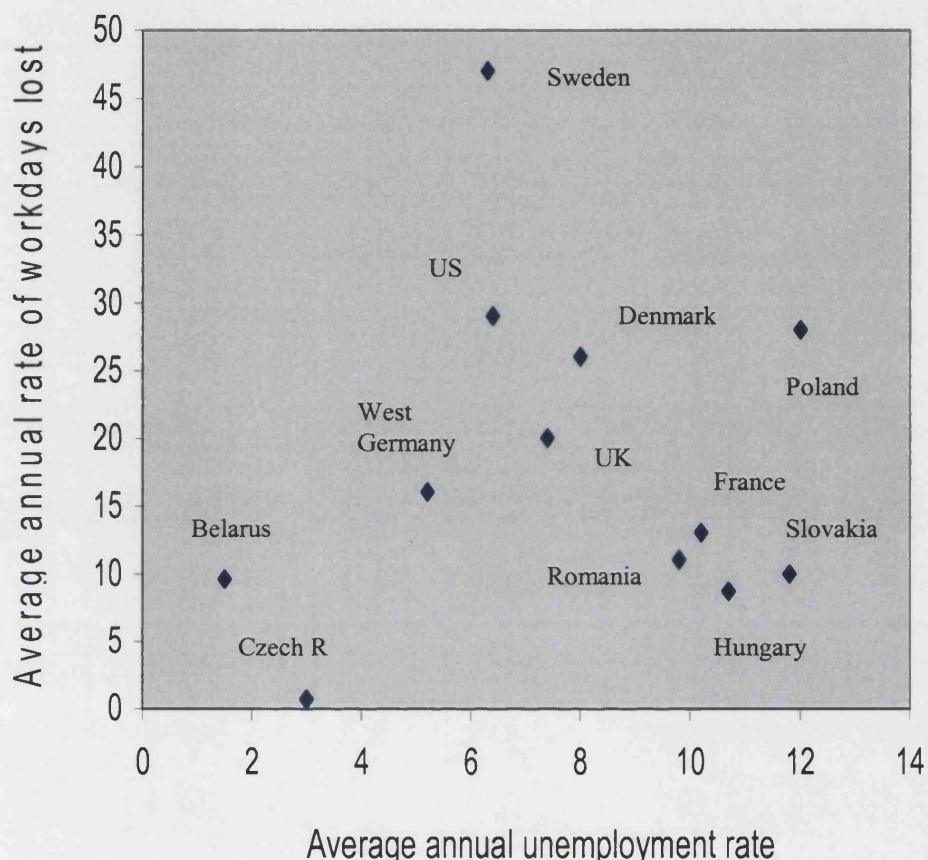
elements of strategy and the sources of variation behind aggregate protest levels across different countries and social groups. Section 2.3 applies a thin-rational framework to show why the threat of large-scale disruption in early transition was particularly high in the case of workers threatened by unemployment. Section 2.4 briefly discusses the actors and methods behind a number of actual protest events in Hungary and Poland in the early 1990s.

2.1. Alternative explanations of post-communist protest levels

An important tradition in labor economics has argued that unemployment is negatively related with worker militancy (e.g. Kennan, 1986). Following this economic theory of strikes, the rising unemployment levels in early transition should thus have damped industrial action, as the bargaining power of job holders was weakened because of the precariousness of their jobs and their easy substitutability by unemployed workers. Yet the Czech Republic, where unemployment levels were much lower than in countries like Hungary and Poland, experienced far lower levels of worker participation and lost workdays in industrial action (Tables 1.5 and 1.6). Similarly, many more workdays were lost in industrial action in the high-unemployment Slovak Republic (10 percent unemployment on average between 1990 and 1995) than in the low-unemployment Czech Republic (3 percent unemployment).¹ But the number of workdays lost in Slovakia was, in turn, much below that in Poland, where unemployment levels were somewhat higher still (12 percent on average). Nor can the economic theory of strikes precisely account for the

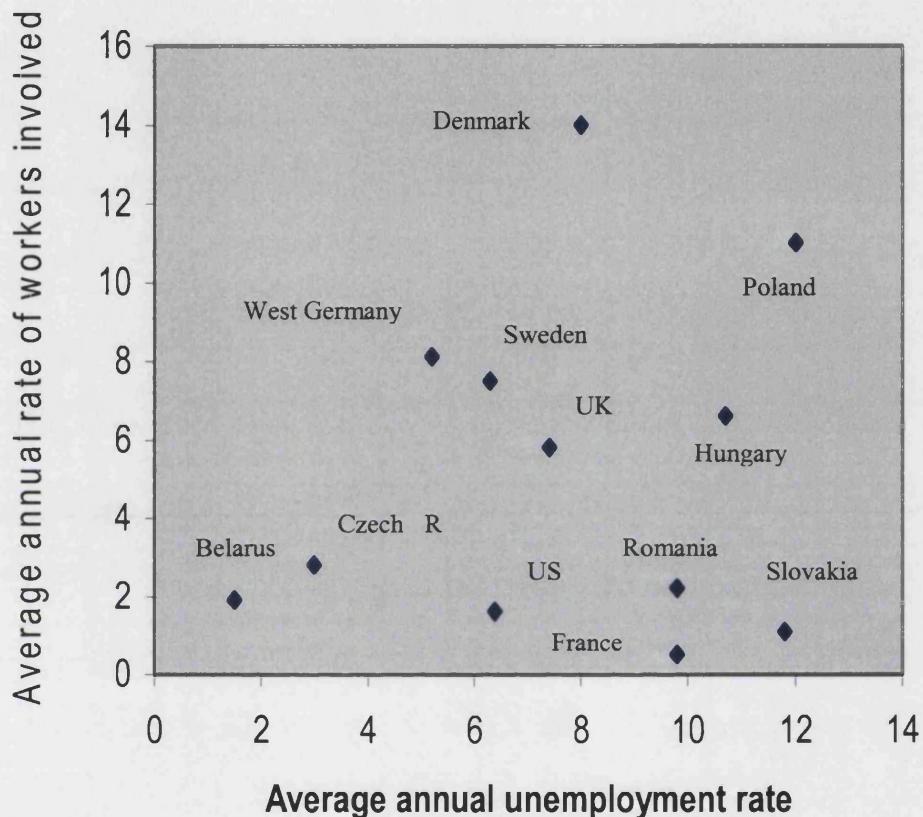
variation in strike levels within a wider sample of twelve Western and East European democracies. As Figures 2.1 and 2.2 indicate, during the early 1990s the relationship between unemployment and industrial action across the same countries studied in Tables 1.5 and 1.6 has been, if anything, very weakly positive rather than negative.

Figure 2.1. Unemployment and the adjusted rate of workdays lost in strikes and lockouts in selected post-communist, conservative, social democratic and liberal countries, 1990-1995



Notes: The data on both workdays lost and unemployment for Hungary, the Czech Republic, Slovakia exclude 1990, those for Romania exclude 1990-1991, those for Germany cover only 1990-1992, those for France exclude 1995. Source: Own calculations based on ILO (1997, pp. 253-54, Table 4.3) and World Bank (1996, pp. 194-195, Table 4) for figures on workdays lost in strikes and lockouts; OECD Employment Outlook (2002, p. 303, Table A) for Western unemployment figures, and UNICEF (1999, p. 142, Table 10.10) for East European unemployment figures.

Figure 2.2. Unemployment and the adjusted rate of workers involved in strikes and lockouts in selected post-communist, conservative, social democratic and liberal countries, 1990-1995



Notes: the data on both workers involved and unemployment for Hungary, the Czech Republic, Slovakia exclude 1990, those for Romania exclude 1990-1991, those for Germany cover only 1990-1992, those for France exclude 1994-1995. Source: own calculations from ILO (1997, pp. 251-52, Table 4.2), World Bank (1996, pp. 194-195, Table 4) for figures on workers involved in strikes and lockouts; OECD Employment Outlook (2002, p. 303, Table A) for Western unemployment figures, and UNICEF (1999, p. 142, Table 10.10) for East European unemployment figures.

A number of writers have similarly argued that transitional unemployment in Hungary and Poland has not been very consequential politically, based mainly on the observation that there have been few protest events in which the unemployed were ostensibly involved or in which unemployment and layoffs were mentioned as a grievance. This has been interpreted as a proof that the political *salience* of unemployment was remarkably low during post-communist transition (e.g. Bartlett, 1997; Ekiert and Kubik, 1999, pp. 150-151; Baxandall, 2000). For example, Bartlett (1997, p. 229) concludes that 'far from intensifying political opposition to economic transition, rising unemployment *diminished* it' (original emphasis).² Baxandall (2000, p. 632-33) similarly puzzles over the fact that 'the sudden onset of mass unemployment in the 1990s has not been directly associated with social turmoil and popular outrage. Nor was the issue of unemployment the political powder keg that we might have expected given the previous importance of full employment as guarantor of social peace.'

However, these accounts are largely at odds with the empirical record. A substantial body of evidence, surveyed in Chapter 1, indicates that unemployment has been a political factor of primordial importance in post-communist Central Europe, leading to anti-incumbent and anti-reform attitudes. A quantitative analysis of 17 second, third and fourth wave elections across seven post-communist countries has also found that the rate of unemployment has been strongly negatively correlated with the share of votes received by incumbent parties (Fidrmuc, 1999, p. 12).³ Across eight parliamentary elections in Hungary, Poland, the Czech Republic and

Slovakia, unemployment was found to have a strong negative effect on the share of votes received by pro-reform parties. Moreover, all groups that will occupy central stage in the present and the next Chapter – the unemployed, retirees, blue-collar workers and agricultural workers – have tended to vote against pro-reform parties (Fidrmuc, 1999, Chs. 3, 4). It is therefore unwarranted to conclude that unemployment was not politically salient merely because it does not appear to have led to widespread participation and/or demands in large-scale protest movements. Instead, the evidence makes it more plausible to assume that *because* of its high salience, unemployment provoked a number of policies that were less apparent but no less real.

Political favors can be bestowed on highly aggrieved groups even though they do not seem to protest, namely as a preemptive strategy. Such strategies are especially important given the fact that unemployment is just a subset of the wider category of labor market insecurity in terms of its social and psychological effects, such as higher levels of distress and anxiety (Burchell, 1994, p. 211; Gallie and Marsh, 1994, p. 19; Gallie, 2002). And importantly, the political threat generated by unemployment both in terms of electoral resistance to reform policies and to reforming governments (Saint-Paul, 1995; 1996) and in the form of disruptive protest movements (Chapter 3) is likely to be particularly strong in the case of workers who are plausibly threatened by unemployment, but *before* they actually become unemployed. Theoretical accounts that take events at face value without recognizing potential elements of strategy are therefore in danger of missing out on crucial parts of the causal story underlying protests (or their absence) in the polity.

The danger of inferring conclusions solely from the ways in which governments *react* directly to *actual* protest events is further apparent in Table 2.1.

Table 2.1. Real family incomes in Poland, various categories, 1989-1994

| | <i>Workers</i> | <i>Peasants</i> | <i>Workers-peasants</i> | <i>Pensioners and retirees</i> |
|------|----------------|-----------------|-------------------------|--------------------------------|
| 1989 | 100 | 100 | 100 | 100 |
| 1990 | 66 | 75 | 71 | 72 |
| 1991 | 66 | 62 | 60 | 90 |
| 1992 | 61 | 57 | 52 | 73 |
| 1993 | 67 | 64 | 59 | 87 |
| 1994 | 77 | 72 | 70 | 101 |

Source: Ekiert and Kubik (1999, p. 188, Table 34).

When discussing this table, Ekiert and Kubik (1999) draw attention to the difference in the comparative fortunes of non-agricultural workers, peasants and workers-peasants; groups which, they claim, recorded relatively high protest participation rates in the early 1990s. The authors indicate (p. 188) that the real family incomes of the non-agricultural workers decreased by less than those of peasants and workers-peasants between 1989 and 1994, and they point out that the former group protested more than did the latter two groups. Altogether, this regards a difference of respectively 5 and 7 percentage points. But Ekiert and Kubik fail to address the most striking puzzle apparent in Table 2.1. The incomes of pensioners, a group which scarcely organized disruptive protests, did not decline as radically as the incomes of any of the other three groups and actually remained status quo over the entire period considered. Yet this regards a difference of respectively 24, 29 and 31 percentage points. This puzzle will be at the core of Chapters 3 and 4 below.

Perhaps not surprisingly given the relative newness of post-communist studies, the political science literature on East European protest movements has in its early stages produced predominantly descriptive country studies.⁴ However, a small number of more general theoretical arguments have been proposed in recent years. According to Ekiert and Kubik (2002, pp. 225-226) and Szabó (2000a, 2000b), the relative quiescence in early transition has been due to the sheer novelty of the post-communist regime. Thus Szabó (2000a, p. 64) suggests that the comparative quiescence of Central and East European polities in this period 'can be explained by the novelty of the political order, that is, by the fact that the polity has just been established; everything has only recently been institutionalized, and the protest culture is still relatively new.' In explaining the low levels of protests in the post-communist region, Ekiert and Kubik elsewhere argue that it is

difficult to analyze changing features of protest as responses to changing opportunities: opportunities, defined as the general characteristics of the political system, *simply do not change much.* (...) In East Central Europe, where such an unchanging and poorly structured [protest] opportunity emerged after 1989, the magnitude of protest is by and large lower than in more established democracies. We suspect that this is the result of the demobilizing effect of the opportunity support structure's 'excessive' openness and the weakness of institutional support structures for protest activities (including the availability of organizational, material, and symbolic resources), in comparison with Western democracies' (Ekiert and Kubik, 1998b, pp. 572-573).⁵

However, to claim that the emerging post-communist polities simply did not change much stretches comprehension. One of the novelties of transition was

precisely the fact that the individual costs of repression that were associated with engagement in any form of public protest were lower at the start of transition than they had been at any point during the preceding four decades. Moreover, this was a time when the opportunity to protest was being expanded formally or even created anew by law. For instance, the right to strike was formally recognized in both Poland and Hungary - in the latter country even within the constitution (Casale, 1997, pp. 4-10). Before the end of socialist rule, on 15 April 1989, the Hungarian Parliament passed a Law on Associations and one on Assembly. The New Labor Code of 1992 recognized further rights of unions to organize and of workers to strike. Every worker there has the right to strike, independently of trade union membership (solidarity strikes excepted). In Poland, laws regulating collective bargaining and striking were signed by the President on 23 May 1991.⁶ Despite this, Ekiert and Kubik do not further specify why this 'excessive' openness could be expected to have a 'demobilizing' effect on aggrieved citizens.

Building on the Western theories of corporatism and 'protest opportunity structures,' Ekiert and Kubik (1998b, 1999) and Kubik (1998) propose an 'instrumental institutional' theory to explain post-communist protest magnitudes. These are posited to be a positive function of (a) restricted access to corporatist (tripartite) coordination structures, and (b) internal fragmentation and division of the labor movement.⁷ Both corporatist bargaining and labor union fragmentation are likely to play a role in determining the propensity of unions to engage in industrial conflicts. However, these variables would need to be specified more precisely in order

to be able to explain actual outcomes. The formal existence of tripartite institutions may or may not have substantive effects on the level and nature of industrial conflicts. One crucial factor is the degree to which the negotiations conducted at this level are really binding for all parties. Ekiert and Kubik (1998b, p. 574) and Seleny (1999, p. 492) suggest that the tripartite institution in Hungary (the Council for the Representation of Interests), set up in 1988, played a role in reducing industrial conflicts, unlike in Poland where such an institution was not established until February 1994. But even traditionally supportive sources such as the International Labor Organization have conceded that beyond an early success (in negotiating the 1990 taxi drivers' strike), the functioning of the Hungarian Council has generally been severely impaired (ILO, 1994, p. 41). For instance, when in 1995 negotiations on macro-economic stabilization stalled, the government simply introduced a radical package without prior consultation with unions and which comprehensively hurt union interests. Yet despite the fact that two-thirds of the larger population were identified in opinion polls as being outraged with the package, the unions failed to capitalize on this wave of discontent by means of protest actions (Fine, 1997, p. 252).

Formal access to tripartite bargaining is not helpful in explaining the Czech case either. The Czech Republic experienced lower mean strike rates and duration and participation features than Hungary and Poland (Tables 1.5 and 1.6), despite a seemingly more favorable corporatist framework. This included the political independence of unions from parties in government, a consolidated and highly unionized movement, and a tripartite Council, set up

in early transition, with extensive powers. Before being submitted to parliament, all social policy proposals had to be discussed in this Council, where employers and trade unions were represented as strongly as the government (Bruszt, 1993; Müller, 1999). Czech unions, however, failed to stake out a combative independent strategy, and gradually had to concede power after Vaclav Klaus took over the premiership from Marian Čalfa in June 1992. For example, the legal practice of extending sector agreements to include non-signatory enterprises, approved by parliament in December 1990, was abandoned after 1995. At the same time, new statutes severely downgraded the role of the Council and pay scales for most public sector jobs were now set unilaterally by government (Myant and Smith, 1999, pp. 270-272).

Tripartite bargaining, furthermore, has historically tended to be conducive to industrial quiescence mainly in countries where the bargaining process took place at higher levels than that of the individual firm, such as the industry, sector, region, or economy. In Central Europe, such high-level agreements have been on the decline. In Hungary, the number of registered sector-level agreements went down from 24 in 1992 to 7 in 1995, whereas that of registered enterprise-level agreements went up from 391 to 816. In Poland, only 10 collective agreements were concluded above enterprise level from the start of transition up to September 1996, compared to over 6,000 at firm level, more than a third of which were registered in the preceding two years. By 1996, 65 percent of local union branches in Hungary stated that

wages were negotiated at firm level, 72 percent in the Czech Republic, and 97 percent in Poland (ILO, 1997, pp. 148-149).

Crude neo-corporatist explanations no longer seem fully consistent with Western data either. In the 1960s and 1970s, countries that followed the tripartite bargaining model experienced high levels of labor quiescence.⁸ However, such a straightforward corporatist quiescence relationship was no longer the case in the early 1990s. West Germany, Sweden and Denmark, for instance, still had comparatively high levels of union membership, and comparatively centralized bargaining structures. On the ILO scale of bargaining centralization, which ranges from zero (low centralization) to 7 (high centralization), Sweden, Denmark and Germany all scored 5, compared to 3 for the UK and 2 for the US (ILO, 1994, p. 34). According to standard corporatist arguments, centralized bargaining should interact with high membership rates to increase union influence but reduce union militancy. Yet Table 1.6 indicates that the first set of corporatist countries had higher, not lower, mean rates of workers involved in strikes and lockouts than the second set of liberal ones.

Moreover, as Table 1.6 shows, in terms of workdays lost in industrial action, only West Germany and France (excluding the strike year 1995) are broadly in line with a corporatist quiescence argument, while Denmark and Sweden disconfirm it. The second part of the argument, on union competition and fragmentation, is less confirmed still. Golden, Wallerstein and Lange (1999, p. 212) show that in 1990, the US and the UK were characterized by a higher number of unions competing (respectively 89 and 76 affiliated national

unions) than West Germany (16 unions), Sweden (23) and Denmark (30). Similarly, the UK had a lower degree of membership concentration (34 percent of union members belonged to the largest three unions) than West Germany (59 percent of members in the largest three), Sweden (58 percent) and Denmark (55 percent). Yet the liberal regime scores strictly lower than both other regimes in terms of striking workers, and intermediate between both regimes in terms of lost workdays.

An original competing thesis on the comparative quiescence of East European transitions has been put forward by Greskovits (1996, 1997, 1998). Inspired by Hirschman (1970), Greskovits argues that post-communist citizens combined 'informal exit' (a retreat into tax evasion, organized crime, illegal employment, and many variants of the informal economy) with 'democratic loyalty' (the absence of 'non-democratic' protest in inter-election periods, and protest voting during elections). These are useful arguments broadly consistent with a wide range of observations (Vanhuyse, 2002c). Yet the causal mechanisms suggested for the post-communist quiescence are equally macro-structural. Specifically, Greskovits (1998, p. 85) identifies altogether four broad sub-strands of causal variables as having an alleged negative effect on post-communist protest levels. (a) The absence of extreme income inequality and poverty. (b) Cultural factors such as high education standards and the lack of a 'living tradition' of political violence. (c) Demographic characteristics such as the high average age of the population and the high proportion of the population living in rural areas. (d) The rise of social expenditures as a percentage of GDP. Indeed, Greskovits contends that

a hypothesis concerning the socio-political risk of riots and related manifestations of political instability may be derived from comparing indicators such as the level of growth of per capita GDP, income distribution, size of social groups below or near the poverty line, the level of urbanization, share of population of large cities, educational standards, and traditions of political instability in the South and in the East (Greskovits, 1998, pp. 76-77).

At a very aggregate level, post-communist Central and East Europe as a region does stand out from the Latin American subcontinent in earlier decades with respect to the variables singled out by Greskovits. However, these variables are much less helpful in explaining cross-national protest variation within Central and Eastern Europe. As Table 2.2. shows, the relative share of the rural population was barely one percentage point lower in Hungary in the first half of the 1990s than in Poland and was substantially lower in the Czech Republic. Yet as we have seen, Poland experienced much more protest than Hungary, which itself was more contentious than the Czech Republic. Social expenditures as a percentage of GDP were two percentage points higher on average in Hungary than in Poland. But they were lower still in the Czech Republic than in the first two countries.

Table 2.2. Rural population (1990-1995), social expenditures (1990-1993), average annual GDP growth (1990-1995), increase in the Gini coefficient of income inequality (1987-1993), share of 20-24 age group enrolled in higher education (1965), population 60+ as a share of population 18-59 (1989-1996), in Hungary, Poland and the Czech Republic

| | <i>Rural population (% of total)</i> | <i>Social expenditures (% of GDP)</i> | <i>Average annual GDP growth (%)</i> | <i>Increase in Gini (points)</i> | <i>% of 20-24 age group in higher education</i> | <i>60+ population as % of population 18-59</i> |
|---------|--|---|--------------------------------------|----------------------------------|---|--|
| Hungary | 37 | 29 | - 2.3 | + 5 | 13 | 34 |
| Poland | 38 | 27 | 0.9 | + 6 | 18 | 27 |
| Czech R | 25 | 24 | 0.4 | + 8 | 14 | 32 |

Sources: Column 1: WIIW (1998, pp. 249-250). Column 2: own calculations based on UNICEF (1997, p. 135, Table D.3). Column 3: UNICEF (1998, p. 118, Table 10.1). Column 4: Milanovic (1994, p. 3). Column 5: Jackman and Rutkowski (1994, p. 134). Data for the Czech Republic refer to Czechoslovakia. Column 6: own calculations based on UNICEF (1999, p. 112, Table 1.5).

Other variables singled out by Greskovits are, at best, only partly consistent with the variation in post-communist protest levels. Average annual GDP growth in the early 1990s was higher in Poland and the Czech Republic than in Hungary. The increases in the Gini coefficient of income inequality in Poland and Hungary between 1987 and 1993 were of a similar intensity as in Britain under Thatcher's rule (Milanovic, 1994, p. 3). But they were higher still in the Czech Republic. Neither do educational legacies appear immediately helpful in explaining protest levels: a higher percentage of young people were enrolled in higher education in Poland than in Hungary and Czechoslovakia in 1965. Only the population age variable seems somewhat more consistent with the Greskovits thesis, as the number of 60-plussers relative to that of working-age persons was lower in Poland than in Hungary and the Czech Republic.

The notion of traditions, lastly, undoubtedly plays some part in explaining the presence or absence of post-communist protests. But without a more precise analytical specification of this notion, it is hard to understand its meaning. Both Greskovits and Ekiert and Kubik refer to legacies in explaining post-socialist peacefulness, but they occasionally make virtually opposite claims about the nature of such legacies. Thus, Ekiert and Kubik (1999) insightfully discuss the distinct history of labor protests in communist Poland, identifying five major waves of contention between 1956 and 1988. But they then go on to consider Hungary's cultural legacy as similarly including 'a well-established tradition of street demonstrations and struggles' (p. 191), although they can cite just one instance (the October 1956 revolution) to back this claim. By contrast, Greskovits (1998, p. 179), apparently omitting the history of labor protests in Poland, claims that post-communist East and Central Europe was characterized by a 'lack of a living tradition of political violence.'⁹

Rather than being interpreted as causal forces, the objective variables that form the basis of current theories of post-communist protests are perhaps better viewed as constraints to what is possible under concrete historical situations, without therefore determining the outcome of such situations. As elsewhere, macro-structural conditions alone can provide at most the context and the opportunity for different forms of collective protests, but they do not necessarily generate such actions (see Przeworski, 1986, p. 48). Structural conditions such as the intensity and inevitability of the threat of job loss have been a poor predictor of trade union industrial actions in four post-war

democracies (Golden, 1997; 1999, p. 117). Analyzing close to 2,000 instances of collective disturbances in France between 1830 and 1960, Snyder and Tilly (1972, p. 524) find that macro-economic conditions such as industrial output and prices of food and manufactured goods have no significant influence on participation in such disturbances.¹⁰ Similarly, econometric studies in many countries since the 1960s have produced no consistent relation between the number of deaths from political violence and economic variables such as the level of development or the degree of income inequality (Coleman, 1990, p. 487).

Material hardship may plausibly be expected to increase political opposition in most cases.¹¹ But this cannot be assumed to translate automatically into a higher macro-level incidence of protests because different groups are confronted with different obstacles towards organizing for collective action. An explanation of protests should therefore propose how groups vary in the ways in which they combine the hardship-induced propensity to protest (political grievances) with the context-induced capacity to do so (protest capacities). The existing explanations of post-communist protests point to a number of contextual variables that may well be relevant, although these are posited at a rather general level. For instance, whereas aggregate social spending per GDP, rural concentration or average population age may be little helpful as such in explaining protests, a specification of how particular welfare programs can affect the protest capacities of particular age groups or regions may prove more powerful. Macro-structural variables ought not to be dismissed from an explanation of post-communist protests.

However, our understanding is likely to be better advanced by an attempt to 'fill in' contexts (such as differences in local social networks between jobholders and jobless people) with more fine-grained theories of strategic action. Specifically, the role of governments in influencing the level of protests deserves closer attention than it has thus far received.

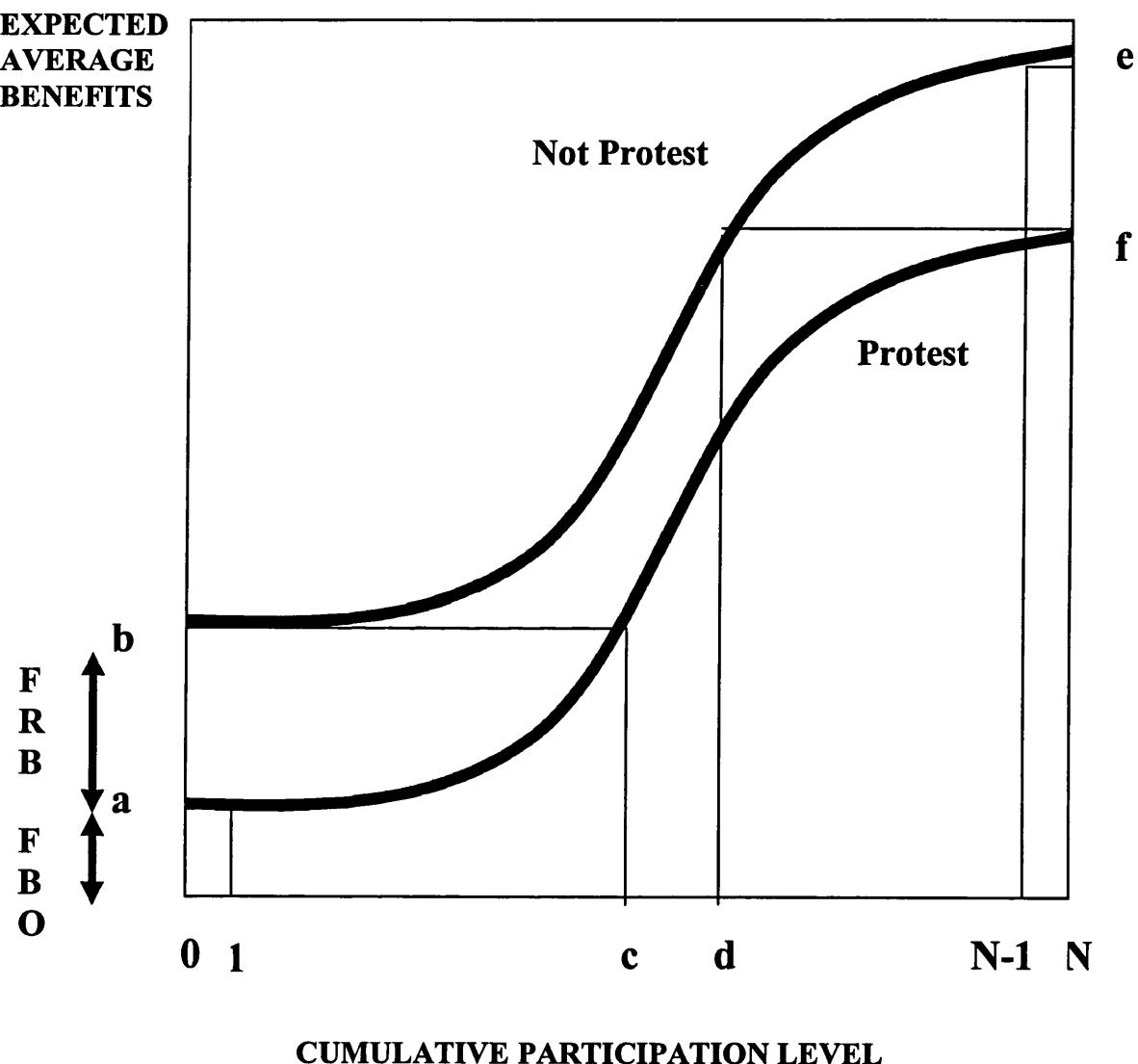
2.2. Thick-rational and thin-rational theories of collective action

The complexity and diversity of many empirical instances of collective protests have sometimes led to doubts about the usefulness of rational actor theories in explaining such events. According to three leading researchers of protest politics, 'the most successful versions of the rationalist approaches to the study of contentious politics ultimately lean on structural and cultural buttresses' (McAdam et al., 1997, p. 144).¹² Even proponents of rational choice explanations have occasionally expressed reservations. For instance, Mueller (1989, p. 175) admits that 'although the rational behavior approach to revolutionary activity gives some insights into why revolutions occur, it does not generate a rich harvest of testable implications.' In his major review of over thirty solutions to the collective action paradox, Lichbach (1994, p. 8) similarly concludes that 'the marriage of [collective action] theories and conflict studies has largely failed.'

Collective action theories start from the observation that in order to obtain their goals, individuals with similar interests typically need to organize collectively and pressurize governments. Such actions, however, have strong

public-good characteristics (Marwell and Oliver, 1993, Chs. 1-2). First, pressurizing governments for favorable policies typically displays a significant degree of jointness of supply: the cost of providing this goal (the benefit derived from it) rarely increase (decrease) proportionally with the number of group members.¹³ Second, collective protests provide non-excludable benefits. If successful, even group members who did not participate cannot be prevented from consuming the benefits that were obtained. If deciding independently from one another, members will then tend to prefer spending their limited resources on an (excludable) private good while hoping to free-ride on the (non-excludable) public good financed by others. If as a worker I choose to use my working day to earn wages while my peers use their day to protest against our firm's imminent closure, I may both earn an extra income and keep my regular job. Yet if everybody reasons likewise, the firm will close down. By way of illustration, the expected average benefits from multi-person protests can be represented in Figure 2.3 by means of prisoner's dilemma diagrams first proposed by Schelling (1978, Ch. 7).¹⁴

Figure 2.3. Schelling curves in prisoner's dilemma format



The vertical axis indicates the average benefits which, taking into account the inherent uncertainty of protest actions, individuals can reasonably expect to receive while joining in protests or abstaining from them at any given level of cooperation. The horizontal axis shows the cumulative share of individuals within a population of N that have chosen Protest. The average benefits accruing to the marginal first cooperator (at point a) can be labelled the initial ‘fallback option’ (FBO), which is lower than the average benefits to all individuals at zero collective action (point b). The lower an individual’s initial welfare level ($b-0$), the more likely he or she will be unhappy. However, such unhappiness is rarely a sufficient condition for successfully initiating collective protests (Coleman, 1990, p. 485). As Olson (1965, p. 165) observed: ‘the unorganized groups, the groups that have no lobbies and exert no pressure, are among the largest groups in the nation, and they have some of the most vital interests.’¹⁵ Success in organizing for the pursuit of public goods crucially depends on two further parameters.

The first parameter regards the effectiveness of protests. The Protest curve’s slope is positive throughout because I assume that as the number of protesters increases, the average benefits that can be expected to result from their actions will never decrease. The hypothetical curves presented in Figure 2.3 assume that the expected payoffs from cooperation generally vary along the range of cooperation following an S-shaped format instead of increasing linearly; increasing slowly initially, then rapidly, then again slowly as full cooperation levels are approached. The second parameter regards the subsequent fragility of protests. The vertical difference between the Protest

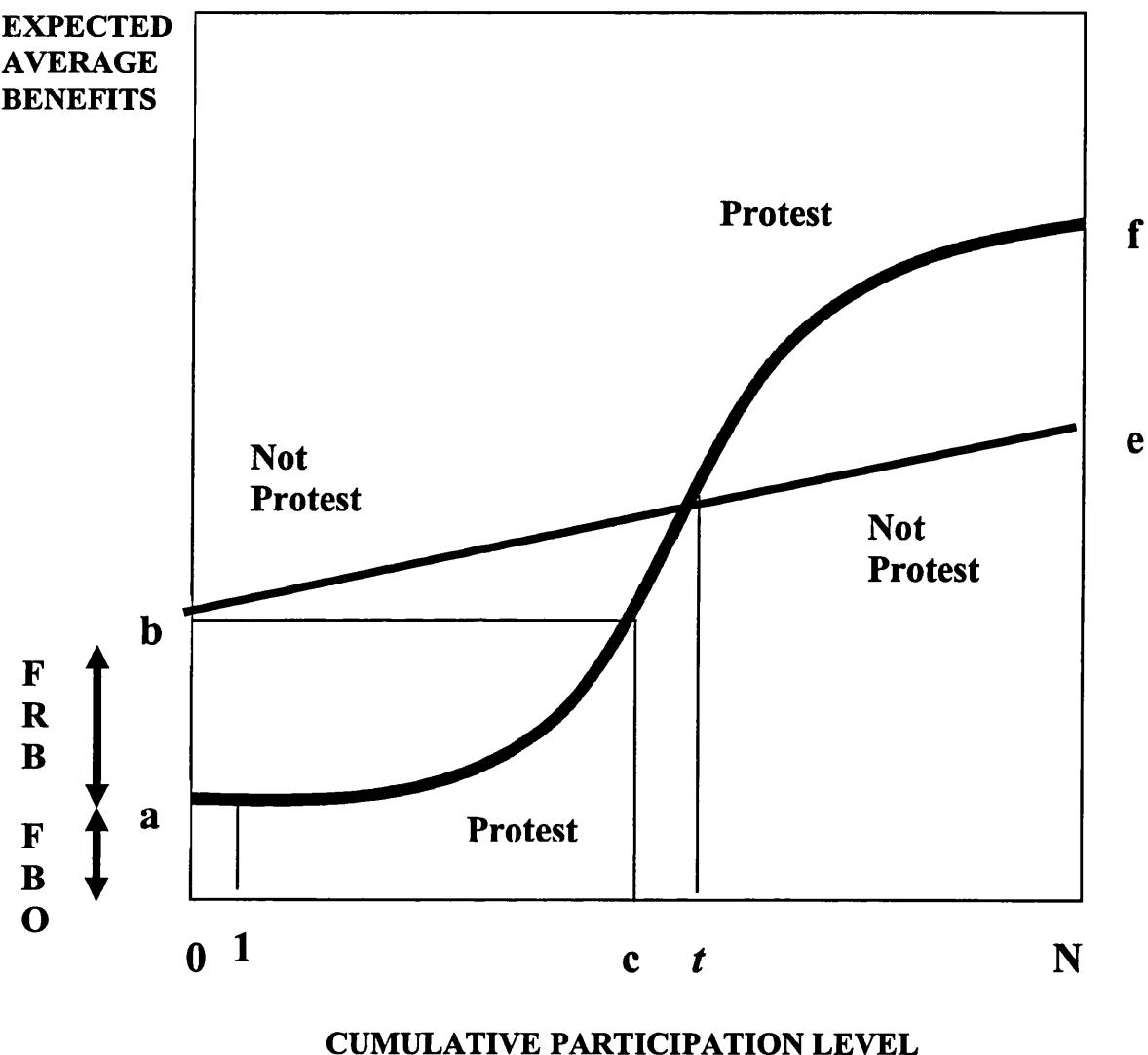
and Not-Protest curves at any given level of cooperation represents the benefit of free-riding (FRB). This free-riding benefit is defined as the sum of the actual costs incurred while protesting and the opportunity costs of earnings forgone while protesting. The prisoner's dilemma structure implies that over the whole range of cooperation, Not-Protest remains the dominant strategy. Hence if workers are individually rational, they will always defect. Under these conditions, there is only a single stable equilibrium: point *b*, where no-one protests. Point *b* is Pareto-inferior to point *f*, where all protest. But *f* is not a stable equilibrium, since at cooperation levels nearby *N*, individuals still have strong incentives (a substantial free-riding benefit) to defect, unravelling collective action all the way back to *b*.

However, this point prediction is surely too stringent. Historians, sociologists and political scientists have pointed to the great diversity of empirical cases of large-scale protests, and have suggested a large number of causes, contexts, and triggering conditions to account for them. Influential explanations have mainly stressed such causal variables as domestic changes in political opportunity structures that create a new opening for protesters to express their discontent (Tilly, 1978; Tarrow, 1998) and macro-political configurations of international crisis and domestic pressures coming from dominant classes and peasants (Skocpol, 1979). These accounts tend to overplay the degree of determinism in the social events they study, while underplaying the role and relevance of individual actors.¹⁶ And like the existing macro-level explanations of post-communist protests, they tend to juxtapose a great number of structural variables and strongly advocate a

theoretical emphasis on synthesis and inclusiveness rather than parsimony (e.g. McAdam et al., 1997, p. 166; Tarrow, 1998, p. 3).

Within the rational actor paradigm, the presence of successful collective action has been accounted for by focusing on Olson's (1965, p. 51) original solution, namely selective incentives (excludable goods) provided by political entrepreneurs (Popkin, 1979, 1988) or by communities (Taylor, 1988a; Hardin, 1995). Tullock (1971) suggests that in the absence of private benefits ('profits'), collective action will occur only when there are no material costs associated with participation ('fun'). Such selective incentive arguments need to tackle a second-order paradox. Providing such incentives itself poses a public good problem, albeit one that may be easier to solve (Elster, 1989, p. 41; Coleman, 1990, pp. 270-273). Alternatively, theorists have relaxed the assumption that the prisoner's dilemma best characterizes public goods contexts as varied as tax paying (Levi, 1988), organized protest movements (Chong, 1991; Oberschall, 1994), ethnic violence (Laitin, 1999), rebellion against occupation (Petersen, 1999), or popular support for universal welfare programs (Rothstein, 1998, 2001). These arguments would translate into curves of the form shown in Figure 2.4, which cross each other beyond a certain level of cooperation, such that beyond this 'tipping point' (t), Protest becomes the individually rational strategy.¹⁷ In other words, collective action then transforms into an assurance game.

Figure 2.4. Schelling curves in assurance game format



Assurance games, however, have one full-cooperation equilibrium (*f*), one zero-cooperation equilibrium (*b*), and no dominant strategy. This makes them theoretically more problematic for at least three reasons. First, the curves in Figure 2.4 cannot explain instances of real-life protest that are not characterized by either of the two extreme participation rates. Moreover, compared to the pure prisoner's dilemma framework in Figure 2.3, the one in Figure 2.4 needs to posit an additional transition to assurance game payoffs and thereby gives up important degrees of freedom. Lastly, with few exceptions (Laitin, 1999; Petersen, 1999), the explanatory core of most assurance game theories revolves around pointing to a number of 'soft' non-material motives that may explain the movement away from the tipping points towards either zero or full cooperation.¹⁸ Thus Chong (1991, Chs. 3, 5) and Oberschall (1994) hold that protest participants attach a high value not just to material but crucially also to 'social' incentives, such as friendship ties, personal reputations, and the absence of ostracism and ridicule.¹⁹ Chong's theoretical parsimony is further reduced in two ways. He also includes 'psychological' benefits, moral concerns, and expressive benefits (such as thrills and revenge) in order to explain protest participation (Chong, 1991, Ch. 4). Moreover, second-order paradoxes are assumed away a priori by the thesis that they will be solved by leaders to whom the rational choice paradigm does not apply: 'purists, zealots, moralists, Kantians, what have you (...) will have to provide the leadership required to convince others that large-scale coordination will be a profitable activity' (Chong, 1991, p. 95). This commits

Chong to the prediction that protests will get off the ground only if started by leaders who are 'extremely irrational' (p. 122), 'gamblers, really' (p. 140).²⁰

A third set of theories have moved away still further from the original materialist core of collective action theory. Margolis (1990, p. 240) suggests that an ethical or socially-oriented content should be added from the start to actors' utility functions. Hirschman (1982, pp. 85-86) similarly argues that successful collective action may arise because actors derive 'expressive or procedural benefits' to be added to, rather than material costs to be subtracted from, the expected overall benefits of participation. When this is the case, he says, free rides will be spurned because individual benefits will be 'not the difference between the hoped-for result and the effort furnished by him or her, but the *sum* of these two magnitudes!' (Hirschman, 1982, p. 86, original emphasis).²¹ While these arguments undoubtedly apply in some circumstances, their theoretical status is problematic for at least two reasons (Vanhuyse, 2004). First, if public actions are not efficacious in producing material results, any procedural benefits that might have been produced in the process are likely to be overshadowed by the hard material costs incurred and the opportunity costs foregone. In most cases (student protests perhaps being one exception), organizing collective action around serious issues typically requires instrumental thinking and material sacrifice. Even discarding the fact that in-process benefits may essentially be by-products that cannot be obtained for their own sake (Elster, 1983), such benefits are likely to be significant only if public action proves successful.²² Moreover, like other inclusive theories, the dual utility theory sacrifices rational choice theory's

distinct capability to make testable predictions in favor of an assumption that is inherently difficult to falsify (Dunleavy, 1991, p. 49; Barry, 1978, pp. 33-34). This is why Olson (1965, p. 61 fn., p. 160 fn.) explicitly restricted his behavioral motivations to material incentives alone.²³

Recognizing the diversity of behavioral motivations indicates the need for specifying some scope conditions about the contexts in which the behavioral assumptions of thin-rational approaches are likely to predominate. According to Taylor (1988a, pp. 90-92), thin-rational behavior is more likely and thin-rational theories more powerful, the more the following four conditions of scarcity apply.²⁴ (a) The courses of action available to the actors are limited. (b) The incentives facing the actors are well defined, clearly apparent, and substantial. (c) A lot turns on the actors' choices, that is, there is a course of action open to them that would bring them substantially more than at least one of the alternative courses of action that are available. (d) Prior to the choice situation, there have been many similar or analogous occasions. This indicates that rare and complex events such as the revolutions of autumn 1989 are largely out of bounds for a thin-rational approach. But aggregate levels of frequently recurring 'economic' protests about specific issues such as the industrial strikes analyzed in Chapter 1 can be usefully illuminated by such an approach.²⁵ Moreover, a framework as in Figure 2.3 does not need to resort to a sudden diversion away from the assumption that throughout the range of cooperation, actors remain highly sensitive to material incentives as offered by the prisoner's dilemma. Experimental studies of collective goods provision have repeatedly indicated that while cooperation levels are often

above zero (even in one-stage games where free-riding carries no subsequent penalty), cooperation almost always occurs at suboptimal levels, and in ways that are sensitive to the size of material rewards (Frank, 1988; Dawes and Thaler, 1992; Ostrom, 1998).²⁶ And empirical studies of social movements across the globe²⁷ show that large-scale disruptive protest actions have historically tended to be at the same time infrequent, unstable, and occasionally powerful (Piven and Cloward, 1977, p. 6; Tarrow, 1998, p. 98).²⁸ Unlike the curves presented in Figure 2.4, those in Figure 2.3 can incorporate both a single equilibrium point at zero cooperation, and occasional diversions away from it which (a) do not involve full cooperation levels and which (b) are inherently unstable because of strong incentives to free-ride.

The payoff format for protests in Figure 2.3 implies two notional comparison points or 'focal points' that may enable collective action to succeed despite stringent prisoner's dilemma payoffs. If within a larger interest group of N a smaller coalition of at least $c+1$ individuals could form, it would offer all coalition members benefits that are Pareto-superior to the alternative of no-one protesting. All members of that coalition would be better off than they were at zero cooperation - even if the other, free-riding, group members would still be better off than the coalition members. Under some 'circumstances,' groups may then avoid universal defection by building a coalition of individuals especially likely to cooperate. Hence point c could be labelled a constructive focal point. Similarly, at full-cooperation levels (point f) the marginal first defector (at $N-1$) may achieve even higher payoffs (point e). But if this initiates an unraveling of participation to levels below d , the

outcome will be Pareto-inferior to the alternative of no-one defecting. Under some 'circumstances,' groups may avoid such an unravelling by restraining those individuals most likely to defect: the coalition between d and N . Hence d could be labelled a defensive focal point.²⁹

In any concrete instance, the outcomes of real-life collective action can be understood only by informed judgement of the social and institutional context, that is, the analytical 'circumstances,' in which it takes place. The small literature that has followed Schelling's (1978) lead to analyze large-number collective action has predominantly assumed, like Schelling, that the nature of the public good uniquely determines the shape of production functions and free-riding benefits (e.g. Elster, 1989a; Margolis, 1991; Chong, 1991). Thus, by definitional fiat, high-profile small-number actions such as hunger strikes are assumed to have decelerating (rapidly upward-sloping) functions, mass demonstrations accelerating (slowly upward-sloping) functions, and most protest movements are assumed to have an S-shaped format (e.g. Marwell and Oliver, 1993, p. 63; Oberschall, 1994, pp. 81, 87).³⁰ While useful for some purposes, this assumption is overly mechanical and lacks a social or political theory that can account for variation in collective action capacity between groups.

The analysis of protest movements can be refined by an account of how 'social location' plays a crucial additional role in determining the shape of production functions. Different social groups, even if they are equally numerous and aim to pursue the same public good, may still face very different prospects of political success, for at least two reasons. First, both the

effectiveness of their protest actions (the shape of the Protest curves, relating participation into expected outcomes) and the fragility of their protests (the shape of the free-riding benefits) are likely to vary according to a number of social variables, notably the work-welfare status of group members and the various degrees of organization and social connectedness which this status implies. Second, if social status determines collective action capacities, it is also amenable to strategic manipulation by governments, for instance by social policies that transfer individuals between groups. The next section makes a start of developing such a 'political' model of protest functions by applying a thin-rational framework to the case of working-age individuals soon to be struck, or recently struck, by unemployment during early transition.

2.3. A thin-rational interpretation of disruptive protests in transition: the case of threatened workers

The early post-communist transition period was one of large-scale social change involving a simultaneous transition to democracy and the market under conditions of economic hardship. It is often assumed that for such multi-dimensional market reforms to succeed, interest groups need to display 'peaceful' and inter-temporal attitudes: 'If reform is to proceed under democratic conditions, distributional conflicts must be institutionalized: All groups must channel their demands through the democratic institutions and abjure other tactics. (...) They must adopt the institutional calendar as the temporal horizon of their actions, thinking in terms of forthcoming elections,

contract negotiations, or at least fiscal years' (Przeworski, 1991, p. 180). However, it is important to specify more precisely the conflicts and tactics in question, and the ways in which these can be influenced by incumbent strategies. For instance, it is necessary to distinguish broadly between 'disruptive' and 'non-disruptive' repertoires for expressing political opposition. In addition to voting, non-disruptive repertoires include negotiations, public statements, letters, petitions, peaceful demonstrations and meetings in public arenas. And just like voting, such actions, far from endangering democratic consolidation, form a distinctive defining element of democratic market societies compared to other forms of government – possibly even democracy's lifeblood.³¹

Disruptive protests, on the other hand, include actions where explicit forms of violence are used (such as riots, violent demonstrations, property damage, physical assaults and casualties), actions that otherwise disturb particular roads, industries or buildings (such as strikes and blockades), and actions that disturb the normal course of democracy (such as obstructions of policy implementation and civil disobedience to police authorities). Conceptually and in terms of their typical duration and participation features, these forms of disruption are distinct in important ways.³² But from the viewpoint of politicians implementing costly market reform programs, both forms of disruption represent similar short-term dangers (Walton and Seddon, 1994; Haggard and Kaufman, 1995). The goals pursued by disruptive protests typically include demands to stop, slow down or reverse reforms, whereas the means employed in such actions disrupt the normal functioning of particular

sectors or the wider economy. Such actions therefore decrease firm profits and domestic output, potentially endangering foreign investment and bypassing the nascent democratic institutions set up for handling distributive conflicts.

For actors with few economic resources such as workers in declining sectors or with few transferable personal skills ('weak insiders') and disenfranchised or economically disadvantaged voters ('marginal outsiders'), disruptive and outright violent protest tactics have often proved a crucial if not a sufficient condition for success in obtaining collective demands. For instance, in Ontario between 1958 and 1967, 23 percent of all strikes (N = 443) involved blocking plant entrances, 12 percent involved threats of damage or injury, 14 percent actually involved damaged property, and 5 percent involved injured persons (Sherman Grant II and Wallace, 1991, p. 1133). In over 4,000 strikes in France between 1890 and 1935, workers managed to obtain compromises in 28 percent of all strikes until 1914 and in 38 percent of strikes thereafter – and in 60 percent of those strikes where violence was used (Shorter and Tilly, 1971, p. 112). Analyzing over 6,000 work stoppages in late eighteenth and early nineteenth century Italy (11 percent of which were violent), Snyder and Kelly (1976, pp. 139, 151) coded over 64 percent as ending with successful results for the strikers. And in their comprehensive study of poor people's movements in twentieth-century America, Piven and Cloward (1977, pp. 36-37) argue unequivocally that 'whatever influence lower-class groups occasionally exert in American politics does not result

from organization, but from mass protest and the disruptive consequences of protest.'

The reasons why disruptive tactics have proved effective is that by upsetting the normal functioning of economy and polity, they have forcibly extracted the attention not just of employers, but also of the general public (first-hand and through the media) and of policy-makers, especially when these were periodically accountable in democratic elections.³³ The power of the poor may therefore in a very direct sense lie in their power to disrupt, since when they resort to disruptive actions as opposed to conventional political strategies, such actors often force political leaders to restore stability by either repression or concessions: 'they provoke conflict, they arouse an array of third parties, including important economic interests, and they may even contribute to electoral dealignment and realignment' (Piven and Cloward, 1997, pp. 331, 365; also Tarrow, 1989, pp. 8-9).

The literature on protest movements indicates that popular discontent has translated into disruptive mass actions especially during periods of rapid social change in which at least two further conditions were present (Tarrow, 1989, 1998; Piven and Cloward, 1977, 1993, 1997). First, the regulatory controls inherent in the institutional framework of everyday life were destabilized, as when, for instance, mass unemployment broke up people's routine ways of living based on the patterns and rewards of daily work.³⁴ Second, people perceived the causes of rapid social changes as mutable, and as unjust rather than due to personal lack of merit, for instance because any one group's particular dislocations were part of a wider picture of similar

dislocations elsewhere in the polity. Moreover, only when such revolts occurred in a wider context of electoral instability have they also been likely to produce concrete results.³⁵ What is striking about these findings is that, at first sight, all the above structural preconditions seemed to have been present during early transition in Central and Eastern Europe.

Moreover, the post-war record of union strikes in advanced industrialized economies indicates that unionized workers have been especially likely to give up their usually quiescent attitudes and dig in for militant strikes when they perceived their longer-term prospects to be very bleak (Lange, 1984, p. 115). In Britain, periods of economic recession have generally led to increases in the average duration of strikes, partly as a result of governments' greater involvement in industrial relations during such periods, through wage policies and the financing of nationalized industries and public services (Crouch, 1982, pp. 88-89, 100-101).³⁶ In Canada, industrial strikes have been most likely to turn violent when organized by lower-skilled workers (Sherman Grant II and Wallace, 1991, p. 1147). In Italy, Britain, the US and Japan, many of the most protracted and the largest-scale cases of ostensibly redundancy-inspired industrial action in the post-war decades were called by unions in contexts where the severity of the problems in the enterprises actually rendered such strikes virtually impossible to win from the start. The best predictor explaining strike levels in these cases proved to be the presence or absence of a seniority rule as a criterion for deciding which workers should be laid off when firms are in trouble (Golden, 1999, pp. 125, 128, 130).³⁷

In so far as similar causal mechanisms could be assumed to determine post-communist industrial actions, this enhanced the probability of large-scale industrial protests during the transition for at least four reasons. First, a seniority rule was not formally in place as a leading criterion to guide dismissal procedures in Hungary, Poland and the Czech Republic. Second, given the fact that large-scale redundancies were in many cases an all-but-inevitable consequence of industrial restructuring in the new market environment, the actors most threatened by redundancy (those with outdated and low-level skills in non-competitive industries) were likely to face bleak future prospects. Third, elderly workers at the start of transition were in fact particularly vulnerable to the threat of job loss, because more than others they were likely to possess outdated and little-marketable skills. Vocational schools conveying narrowly specialized and little-transferable skills had been very dominant during communism. In 1965, such schools were attended by 64 percent of all persons of secondary school age in Hungary, by 71 percent in Poland and by 74 percent in Czechoslovakia, compared to 58 percent in West Germany and 39 percent in Sweden (Jackman and Rutkowski, 1994, pp. 128-129, p. 134).³⁸ Lastly, post-communist governments were widely seen to be actively involved in industrial relations by virtue of the sheer nature of a number of transitional policies, such as privatization, industrial restructuring, and bankruptcy implementation. And even the most liberalizing governments (such as the Polish) continued to intervene in wage setting, in an effort to control inflation and promote competitiveness (Jackman and Rutkowski, 1994, pp. 142-144). Indeed, of all protest events that occurred in Poland

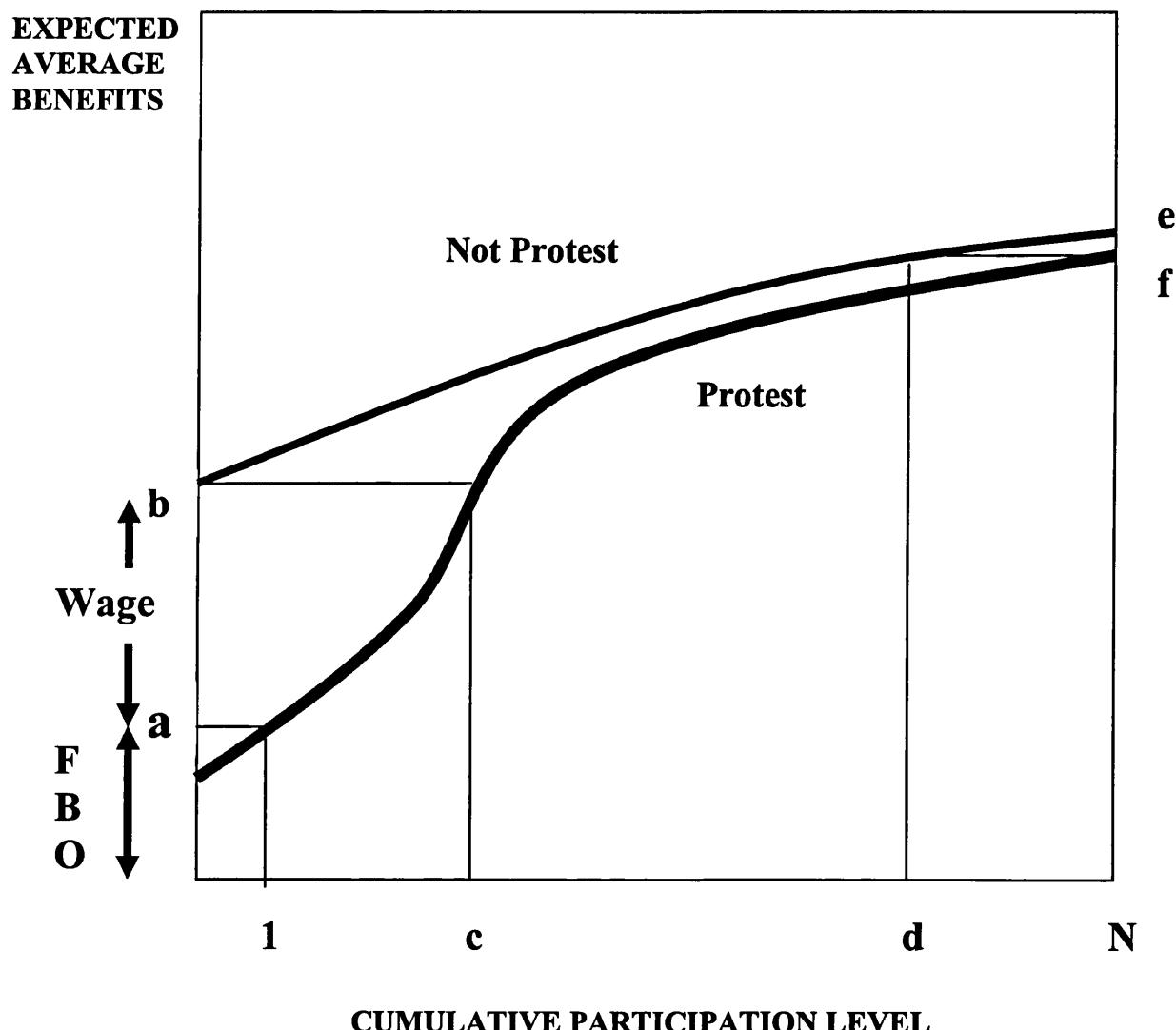
between 1989 and 1993, the state was the prime target of protesters' demands in 78 percent of cases, and managers/owners in only 17 percent of cases (Ekiert and Kubik, 1999, p. 134; see also Ost, 1993, p. 460-461).

Consider the decision to strike at the micro-level of a firm likely to lay off many of its employees. The relevant population, N , then consisted of those workers in the firm who were threatened by redundancy. The choice they faced was over how to employ the hours of their working day: either working on and continuing to earn a formal wage until the expected moment of redundancy, or organizing a strike to try and prevent redundancies in their firm. Once organized, the stability of any such strike at any level of participation was still threatened by workers opting to save costs and earn extra benefits by not joining the strike. Especially at low participation levels, this free-riding benefit was likely to be substantial. Assuming, as is usual, that enterprise owners were able to exclude striking workers from being paid, it included not just transport expenses and other direct costs but also wages foregone while striking.³⁹ Nevertheless, in addition to being hard hit by market reforms, these local pockets of threatened workers had a higher-than-average effectiveness in mobilizing for disruptive protest actions. These workers were likely to be tightly connected in active social networks, if only by virtue of meeting each other daily on the job. While disagreeing on the precise nature of the causal mechanisms involved, a large number of empirical studies⁴⁰ and theoretical arguments about collective protests⁴¹ and micro-simulation models of collective goods provision⁴² converge in arguing that a higher number of social ties in personal networks much enhances the

likelihood of success in mobilizing for collective action.⁴³ Put succinctly, the more a certain category of social actors is laced with social ties, the more it can, all else equal, mobilize.

Dense networks such as those formed by actors who have for years worked together in stable jobs at the same workplace are therefore likely to be characterized by protest curves of the form shown in Figure 2.5 below, featuring a high initial protest effectiveness. At the same time, such contexts make it easier to combat the fragility of protests by monitoring defection as cooperation levels within that group rise. At near-zero cooperation levels, those who do cooperate will not be able to single out defectors easily, let alone to punish them. The free-riding benefit will then simply equal the working wage. But at cooperation levels near N , defectors will form a minority that is likely to be more visible. Hence they can be more effectively subjected to material penalties or may be straightforwardly prevented from entering the workplace. As cooperation levels rise, free-riding benefits can then be expected to become smaller. In combination with steeply sloping protest curves, this will translate in Figure 2.5 into smaller constructive and defensive barriers for workers to organize (the distances $0-c$ and $d-N$) than in the benchmark case of Figure 2.3.

**Figure 2.5. Hypothetical curves for disruptive protests:
the case of threatened workers**



The prior existence of centralized organizations generally adds to a group's protest effectiveness. In the case of threatened workers, such organizations may imply the existence of strike funds that can be used to replace part of the lost income of protesting workers, thereby further reducing the opportunity cost of protesting, at least for some time.⁴⁴ Prior organization may also affect the immediate payoffs of protest. Rather than setting up a self-sustaining coalition from scratch, the problem now reduces to using an existing organization (e.g. a trade union) for organizing the protest. The latter problem is easier than the former. First, it may require significant set-up costs and substantial positive selective incentives to get a formal organization going. However, once those organizational costs have already been incurred, even if for a different goal, the net benefits of protest will start increasing earlier, translating into steeper slopes and smaller focal points. Second, formal organizations often face smaller monitoring and inducement costs, or even negative costs (the imposition of sanctions and penalties to defectors, rather than the payment of benefits to them), to prevent the unravelling of a protest coalition. This is another reason for expecting the size of free-riding benefits to decrease as cooperation levels rise.

A number of particular features of the early-transition economies combined to create seemingly advantageous 'structural' conditions for workers to organize collectively. Across twenty-six countries in Latin America, Asia and Africa between 1975 and 1987, trade union membership as a percentage of the labor force has been positively correlated with the severity of labor protests (Nelson, 1992, p. 246). But in Central Europe at the start of the

transition, union density rates were much higher even than in the most unionized of these countries (such as Venezuela, with around 33 percent). As Table 2.3 shows, early post-communist union density was also higher when compared with two of the three worlds of Western welfare capitalism. Union membership levels as a percentage of the non-agricultural labor force in Czechoslovakia, Hungary and Poland in the late 1980s were comparable to countries in the social democratic regime, and significantly higher than countries in the conservative corporatist and liberal regimes.

Table 2.3. Trade union membership, industrial employment, employment in firms with more than 500 employees, and agricultural employment, in selected post-communist, conservative, social democratic and liberal countries, late 1980s (year between brackets)

| <i>Regime Type</i> | <i>Country</i> | <i>Trade union membership (% of non-agricultural labor force)</i> | <i>Employment in industry (% of total)</i> | <i>Employment in firms with 500+ employees (% of total)</i> | <i>Agricultural employment (% of total)</i> |
|--------------------------|----------------|---|--|---|---|
| <i>Post-communist</i> | Czechoslovakia | 77 (1990) | 48 (1987) | 97 (1989) | 12 (1987) |
| | Hungary | 74 (1985) | 38 (1987) | 79 (1989) | 21 (1987) |
| | Poland | 47 (1989) | 37 (1987) | 80 (1989) | 29 (1987) |
| | | | | | |
| <i>Conservative</i> | W. Germany | 30 (1985) | 41 (1987) | 62 (1987) | 5 (1987) |
| | France | 12 (1985) | 30 (1987) | 53 (1987) | 7 (1987) |
| | | | | | |
| | | | | | |
| <i>Social Democratic</i> | Sweden | 79 (1985) | n.a. | n.a. | n.a. |
| | Denmark | 67 (1985) | 28 (1986) | n.a. | 6 (1986) |
| <i>Liberal</i> | UK | 36 (1985) | 30 (1987) | n.a. | 2 (1987) |
| | US | 15 (1985) | 27 (1987) | n.a. | 3 (1987) |
| | | | | | |

Sources: Column 1: ILO (1997, pp. 237-238). Columns 2 and 4: ILO (1989, pp. 17, 156-157). Column 3: Roland (2000, pp. 6-7).

To be sure, membership in unions that mostly functioned as 'transmitter belts' for the Communist Party was likely to reflect less conviction or engagement than the fact that membership gave preferential access to social benefits (Jackman and Rutkowski, 1994, p. 123). Yet this does not imply that the legacy of strong unions could not be turned into a disruptive threat after communism collapsed. Indeed, a number of observers expected the political leverage of unions in industrial conflicts to grow further still in transition. For example, Poznanski (1995, p. 221) argued that 'any substantial reductions of the workforce invariably lead to tensions – that is, lower discipline, disputes, and strikes. It could be that confronting 'new' owners – whose resources are limited and whose 'legitimacy' has yet to be established – may be an easier task for workers threatened with unemployment than dealing with the 'strong' [communist] state' (see also Crawford, 1995, p. 27).

The change of systems implied a greater access to elite positions for entrepreneurial individuals with skills adapted to the new democratic and market environment. Formerly non-official political opposition groups formed parties and obtained majorities in the first parliaments and in the first governments in Hungary, Poland and Czechoslovakia. Most leadership positions in ex-communist parties were also re-manned by individuals less tarred by the past. The same phenomenon of re-branding and opportunity-taking could also be observed in other spheres of life. For instance, by 1995, a plurality (45 percent) of elite positions in the Hungarian private sector was occupied by individuals who before the transition occupied senior but politically low-profile executive posts in state-owned firms and state

institutions (Kolosi and Sági, 1999a, p. 45).⁴⁵ High union density levels provided a similar opportunity for ambitious political entrepreneurs to rebrand themselves in the new competitive environment, by fighting combatively to protect the jobs and wages of their rank and file.⁴⁶

A second distinctive feature of the socialist economy was its overemphasis on industry. Workers in industries such as transportation, mining, manufacturing and construction have traditionally formed the core of the union movement, and these sectors typically have a greater potential to disrupt the economy by means of industrial actions. Across the industrialized world, employment in large-scale manufacturing tends to be positively correlated, and service sector employment negatively correlated, with union membership rates (ILO, 1994, p. 38). Moreover, strikes have historically tended to be most violent in industries with tightly-knit work organizations (Shorter and Tilly, 1971; Snyder and Kelly, 1976). Across eleven European nations the share of industry within overall employment has also been strongly positively correlated with the political salience of unemployment (Baxandall, 2001, p. 86).⁴⁷ Table 2.3 indicates that in the last years of communism, the share of industrial employment within overall employment in Hungary, Poland and Czechoslovakia was comparable to that in West Germany, and higher than in countries like France, Denmark, the UK and the US.

Industry in the socialist system did not just employ proportionately more people than in advanced market economies; industrial plants also tended to be of much larger size (Table 2.3). This too had its origin in the nature of

the system, since in a command economy it is easier to plan output for a few big firms than for many small firms (Estrin, 1994, p. 61; Roland, 2000, p. 6). For instance, in 1970, in the food processing sector on average 39 percent of all employees worked in firms of 500 workers or more in socialist economies (Hungary, Poland, Czechoslovakia, and East Germany), compared to 16 percent in capitalist economies (Austria, Belgium, France, Italy, Japan and Sweden). In the machinery sector, large firms (thus defined) employed 61 percent of all workers under socialism, and 28 percent under capitalism. In 1980, in the construction sector, large firms represented 70 percent of total employment in Hungary and 76 percent in Poland, compared to 27 percent in the United Kingdom, 7 percent in both Denmark and West Germany, and 5 percent in France (Kornai, 1992, pp. 400-401).⁴⁸ In terms of organization and coordination costs, the large average size of firms provided important economies of scale in mobilizing workers for collective action.

Unlike salaried workers in ailing firms, farmers were generally not as directly threatened by transitional redundancies. But they were heavily affected by a number of core market reform policies, both in absolute terms and when compared to other groups. During four decades in the communist 'shortage economy' (Kornai, 1980, 1992), farmers were virtually certain to be able to sell whatever they produced, of whatever quality. This systemic lack of competition and of incentives for productive risk-taking made them especially vulnerable in early transition. In Poland, the ratio of average farmer incomes to average non-agricultural wages had been increasing in the late 1980s, reaching over 150 percent in 1989. But this ratio slumped to below 50

percent in 1991 and recovered only slightly to reach 69 percent by 1995 (Wilkin, 1999, p. 77).⁴⁹ Real income of Polish farmers was cut by more than half in 1990, and by a further 36 percent in 1991 (Milanovic, 1993, p. 5). Under communism, farmers in Hungary, Poland and Czechoslovakia had been able to obtain explicit government guarantees of income parity between rural and urban incomes. Farm output prices, too, were subsidized in all three countries (Milanovic, 1996, p. 135). Domestic liberalization policies during transition abolished many of these protective measures. For instance, in the Czech Republic, state subsidies to agriculture went from 4.2 percent of GDP in 1989 to 0.8 percent in 1993 (Milanovic, 1995, p. 22). In addition, import liberalization brought in cheap competition from world markets, thus further lowering domestic prices for agricultural goods. Lastly, farmers still constituted a sizeable numerical constituency for the mobilization of anti-reform protests. As Table 2.3 shows, agricultural employment rates in Hungary, Poland, and to a lesser extent Czechoslovakia, were higher by a large margin than in all three Western welfare regimes.⁵⁰

Variations in legacies of competitive behavior and of ownership *within* the post-communist region may in turn provide the contextual background for cross-country differences in the incidence of farmer protests. For instance, economic liberalization policies in Hungary induced a greater degree of market competition in agriculture, while private farm ownership was less widespread than in Poland (see Chapter 3). Already between 1949 and 1953, the proportion of cultivated land that was privately owned had fallen from 97 to 56 percent. By 1961, 94 percent of agricultural workers were in the

socialist sector. In Poland, by contrast, the collectivization of farming was abandoned as early as 1947, when land reform policies effectively created a huge network of small-scale subsistence farms (Baxandall, 2000, p. 619). Hence by 1989 no less than 77 percent of the arable land in Poland was still privately owned, and private farms produced 78 percent of total output (Johnson and Kowalska, 1994, p. 214). By the late 1980s, farmers in Poland were therefore at the same time more dependent on their own production than farmers in Hungary, and more vulnerable (since less adjusted) to the introduction to competitive market production. For both reasons, farmers' distress was likely to be particularly intense in Poland. One decade after the start of transition, 95 percent of Polish farmers and 90 percent of village dwellers surveyed still described the situation of Polish agriculture as bad or very bad *and* blamed this state of affairs mainly on the government. At the same time, 85 percent of rural respondents and 90 percent of farmers responded that the state's influence on agriculture was insufficient. Support for incumbent parties stood only at 20 percent among the rural population, and at 13 percent among farmers (Wilkin, 1999, pp. 78-79). Like workers in key industries, farmers were thus another group that was both highly aggrieved and comparatively capable to organize for disruptive protests. The following section briefly discusses the actors and methods behind a number of disruptive protests in the early 1990s.

2.4. Disruptive protests in transition: selected cases

In Hungary, the single most dramatic instance of protest disruption – the taxi drivers' blockade - occurred very early in the first electoral cycle. The action started on Thursday 25 October 1990, in direct response to the government's announcement earlier that day of a 76 percent increase in gasoline prices. Sik and Wellman (2000, p. 246) give the following account of subsequent events:

By late afternoon, thousands of angry taxi drivers were protesting in front of the Parliament building. Within hours, they had blocked all Danube bridges and controlled the main streets in and out of Budapest. On Friday, the Austrian border was closed, and the international airport, offices, factories, and schools were paralyzed. (...) The tension grew hourly as truck and bus drivers, peasants with tractors, and private cars joined the blockade. On Sunday, the government met with representatives of employees and employers in a televised all-day roundtable discussion that was watched by the whole country.

These events follow the logic behind the steep-sloping prisoner's dilemma protest curves of the form presented in Figure 2.5. A well-connected but numerically small group initiated the protest because they were especially hard hit by the policy in question. And despite their not being formally organized, they could coordinate their actions effectively through their taxi radio network. As a result they were able to make early and substantial inroads by bringing traffic in the entire center of the capital to a virtual standstill. Participation in the protest then spread rapidly as other professions hit by the gasoline price hike decided to join the action, further making substantial contributions to the action's effectiveness in blocking the normal

functioning of some of the country's main bottlenecks with relatively small numbers. At the same time, the near-total blockade of the major roads sharply reduced the earnings forgone by potential free-riders within the population of drivers and truckers, hence making in-group participation in the action relatively stable. Because of these high levels of mobility and effectiveness, the participants in the blockade had strong reasons to believe their action would produce rapid political payoffs. What Sik and Wellman (2000, p. 247) describe as an eventual 'compromise' looks rather like a near-complete success for the protesters: 'The drivers demolished their blockade, while the government reduced the price increase and pardoned the blockaders. An ordinary Monday followed the long weekend of rebellion.' Yet only a small proportion of the Hungarian population had become actively involved before the action was over.⁵¹ The speed and effectiveness of the blockade, exacerbated by the fact that it was covered in real time on television, became a powerful alert message in a country where the systemic changes around 1989-1990 had been entirely peaceful and elite-based. As Kornai (1996, p. 951) argued, 'the Antall and Boross governments of 1990-94 never again took action that would elicit mass opposition, and the Horn government that took power in 1994 [despite having a 72 percent majority] behaved the same way for several months.'⁵²

The literature on Poland, where protests were comparatively more widespread during the early 1990s, offers a large stock of anecdotal evidence.⁵³ The main organizers of Polish protests have been the farmers and the unions in the non-industrial public sector and in the state-owned industrial

enterprises. 'Bottleneck' sectors such as energy and transport have been especially active, and successful, in obtaining concessions by disrupting the day-to-day functioning of the economy. For instance, in December 1992, 300,000 workers from 62 mines, joined by railroad workers, were able to bring to a halt the deliveries of coal to electricity and heat generating plants and to commercial users. After holding out for three weeks, they secured a government concession to set up a renovation program for their industry.⁵⁴ Groups with less disruptive protest repertoires were not as successful in gaining immediate concessions. For instance, in February 1991, 2,000 state-owned enterprises protested against the unpopular 'popiwek' tax on excessive wage growth mainly by displaying flags and banners, but without result. A drawn-out nation-wide campaign followed, lasting until April. It also consisted mainly of marches and street demonstrations, and it was equally unsuccessful in removing the tax.

However, it was the farmers who most explicitly resorted to disruptive tactics in Poland. The Union of Individual Farmers' Solidarity and the militant farmer union Samoobrona took a central role in mobilizing and coordinating these actions. At one stage, farmers dumped tons of butter in the Ministry of Agriculture and other public buildings. Even physical assaults on government and bank officials were not excluded. In May 1990, the farmers were the first to protest disruptively against the Balcerowicz shock therapy program, by blocking important roads and demanding higher milk prices. In June 1990, police intervened to remove farmers who were occupying the ministry of agriculture. This action led to the resignation of the agriculture minister.

Repeated demonstrations followed shortly afterwards, and again the government responded by giving in to farmers' demands. In July 1990, farmers blocked important roads throughout Poland, using altogether 29,000 vehicles to erect 979 road blockades. Another surge of protests occurred in October 1990 when sugar processing enterprises were not able to buy up the entire harvest of sugar beets. In March 1991, farmers constructed five hundred road blockades. In April 1992, they occupied the Ministry of Agriculture for three weeks in a row. And in April 1992, farmers demonstrating in Warsaw ended up inside the parliamentary courtyard in a skirmish with the police. One month later, 4,000 farmers dumped hay stacks in front of government buildings, demanding price controls, protective tariffs and credit guarantees. As Johnson and Kowalska (1994, p. 214) conclude, 'farmers are the only group that, when hurt by the economic reform program, was able to mobilize almost immediate effective opposition and obtain a long series of concessions from the government.'

This detailed discussion of selected protest events should not, however, obscure the larger picture of post-communist protests (Chapter 1). A number of high-profile individual cases notwithstanding, the puzzle about the politics of protests in the early post-communist years is really how little contentious these have been despite a plethora of seemingly adverse structural conditions (see Figure 1.1, Tables 1.1 and 2.3). For instance, the mean rate of workdays lost in strikes and lockouts in Poland was comparable to or lower than that in countries such as Denmark, Sweden and the US, although Polish unemployment rates were higher. Similarly, fewer workdays were lost in

post-communist Hungary than in countries such as France, the UK and West Germany, although Hungarian unemployment levels were higher (Figure 2.1).

Conclusions

Judging by a number of contextual variables which have historically been correlated with protests, the danger of large-scale disruption in the polity was very real in Central and Eastern Europe shortly after 1990. Communist legacies included high union density levels, sizeable farmer populations and many non-competitive firms and farms. Transitional losers who were accustomed to significant social protection such as threatened workers and farmers were both highly aggrieved and highly able to translate their grievances into disruptive collective action. This made for a potentially explosive social cocktail. But comparatively few large-scale protests have occurred during the early 1990s, even though groups such as taxi drivers, threatened industrial workers and farmers have mounted a number of successful high-profile actions. I have argued that existing economic, corporatist and structural explanations cannot fully account for the variation in post-communist protest levels. Instead, the key to the puzzle of post-communist quiescence may lie in something that has been largely overlooked in existing theories: the strategic role of social policies in enforcing a degree of quiescence on the polity despite conditions for conflict.

Chapter 3

Preventing disruptive protests: political strategy issues

If governments were aware of the apparent danger of large-scale protests in early transition, how could they be expected to react? A wide range of strategies could potentially be adopted in this context, but this Chapter focuses at length on one particular such strategy. The guiding assumption throughout is that in the initial stages of the post-communist transition, governments attached a high priority to low levels of disruption in the polity, *whatever else* they wanted in addition.¹ I argue that liberal democratic governments aiming to introduce costly reforms cannot hope to reduce all forms of political opposition. However, they can use their state power to limit the short-term damage to reforms by channelling the *expression* of protests away from disruptive and towards more peaceful repertoires. In his wide-ranging review of collective action theories, Lichbach (1994, pp. 27-28) stressed that political dissent is 'highly contingent upon solution and environment.' Following up on Lichbach's (1994, p. 21) central admonition that politics are key to understanding the particulars of social protests, I develop a model whereby strategic social policies provide the solution, and

local social networks the environment. Central to this is the discussion of how the work-welfare status of individuals, a parameter that can to some degree be manipulated by governments, influences two crucial parameters: (a) the effectiveness of protests in producing results and (b) the fragility of protests, or their susceptibility to defection at various levels of participation.

Section 3.1 spells out the economic incentives that governments had to offer in order to split up homogenous groups of threatened workers by sending one part of them onto unemployment benefits and another part to early and disability retirement ('abnormal' pensioners). Section 3.2 shows why this was likely to reduce the overall protest effectiveness of the groups targeted by such a 'divide and pacify' strategy. Sections 3.3 and 3.4 in turn discuss the fragility of protests during late communism and in early transition. I indicate why the legal and illegal work routines inherited from late communism and the economic hardships during the transition have made the free-riding benefits of collective action very salient. Section 3.5 discusses the channels of political influence of elderly people ('normal' pensioners) and shows how these were affected by divide and pacify policies. Section 3.6 summarizes the core theoretical arguments set out in this Chapter.

3.1. Divide and pacify in theory: splitting up the abnormal pensioners and the unemployed

While liberalizing governments may have less scope in preventing job losses, they are not necessarily helpless with respect to the political effects of these

losses. The hallmark of effective political leaders has often been precisely that they could turn adverse circumstances into political success. For instance, during his fourteen years as prime minister of Spain (from 1982 to 1996); Felipe Gonzalez presided over an average unemployment rate which, at 20 percent, was more than double the West European average. While the vote of the unemployed for Gonzalez's Socialist party steadily declined over time, the share of unemployed people voting for his party remained higher than for any other party, in part due to Gonzalez's continued emphasis on social policies and health care services as a top priority (Maravall and Fraile, 1998, pp. 2, 25).² In the first years of the post-communist transition, unemployment shot up even more rapidly than it ever had in Spain. For instance, in March 1990 the number of registered job vacancies in Hungary still slightly exceeded the number of registered unemployed people (at around 34,000). But by February 1993 the number of vacancies had gone down to 32,000 while that of unemployed people had swollen to well over 700,000 (Kornai, 1993, p. 322).

Suppose that at the start of transition, a fixed fraction r of the labor force became threatened or struck by redundancy. Given the nature of transitional restructuring, this threat was unlikely to be evenly spread over the labor force. Instead, it was likely to be concentrated in regions with a high share of employment in less competitive industries and firms. At the level of specific workplaces or industries, the fraction of threatened workers was therefore much larger still than r . In 1991, the sub-national variation in unemployment levels between regions in Hungary, Poland and Czechoslovakia was larger than in many Western economies (Fretwell and

Jackman, 1994, pp. 167-168, Table 8.2; see also Milanovic, 1995, p. 21). By the end of 1992, when national-level unemployment stood at 12 percent in Hungary, local unemployment rates among the 176 territorial sub-units within the country ranged from less than 4 percent to over 42 percent. Heavy industries were most dramatically affected. Between January 1988 and January 1992, the numbers of workers in the Hungarian machine industry and in the construction materials industry went down by more than 20 percent, and those in metallurgy and in mining by more than 40 percent (Nesporova and Simonyi, 1994, pp. 19, 4, Table 4, see also regional maps No. 1-3).³

Given the high political salience of unemployment in post-communist countries and the earlier experience of austerity protests in other reforming countries, it is unlikely that Central and East European governments were complacent about the danger of industrial disruption by local clusters of aggrieved workers in the early 1990s. The threat of large-scale protests was real, and likely to be perceived as such by policymakers. Writing as early as the second week of the Balcerowicz program in Poland, its most influential foreign architect, the Harvard economist Jeffrey Sachs, warned that 'populist politicians will try to hook up with coalitions of workers, managers, and bureaucrats in hard-hit sectors to slow or reverse the [economic] adjustment – just as they have, successfully, in Argentina for more than a generation.'⁴ In early 1992, the Polish Interior Ministry compiled a security document for internal government use (presumably not destined for publication) that warned of the dangers of social unrest. The report noted that younger people might be particularly susceptible to extremist politics fed by the recession and

the threat of unemployment, and it argued that 'there is a substantial threat to the fundamental interest of the Polish state' (quoted in Walton and Seddon, 1994, p. 329). Writing after his first term in office, Balcerowicz (1995, p. 163) himself acknowledged that 'absence of open unemployment during the transition is a great help (...). The intensity of labor unrest seems to depend on the presence of militant workers (...) as well as on the existence of influential trade unions that played a role in toppling communism only to turn increasingly populist.'

Yet post-communist governments also had some strategic leeway to reduce the expected political consequences of the spiraling rise in redundancies. Consider a simple model of a stylized welfare state in a population of size n which is divided into two broad age groups: workers (the young) and pensioners (the elderly). The elderly make up one-third of the population (group size $n/3$) and the 'potential' labor force, under full employment, has a size $2n/3$. Assume that the demographic structure of the population (that is, the population size, as well as the relative share of each age group) remains constant. Thus the old age dependency rate (σ), defined as the elderly population divided by the working-age population, does not change over time. Welfare benefits equal the average wage in the economy (w_t) times the specific replacement rate for unemployment (u_t) or pensions (p_t). Define the replacement rate for each program as the average value of the benefit received divided by the average wage in the economy. Welfare spending by government is funded fully (and only) by obligatory contributions by workers on a pay-as-you-go basis. Period 0 represents the

steady state before transition. Communism is characterized by full employment and a welfare state consisting of one program, pensions, which are received by all elderly people. There is no (official) unemployment, hence no such welfare program. Other 'welfare-like' expenditures (such as family allowances, health care and housing) are conditional on having a job and can be assumed to be included in the worker wage w_0 . Period 1 represents the transition to democratic capitalism. Employment and wage levels under capitalism are determined largely by supply and demand on markets. Transitional restructuring implies the immediate closure of a number of obsolete state enterprises, and the privatization and downsizing of others, involving additional redundancies. Assume that the government is now faced with an exogenously fixed, and persistent, fraction $r > 0$ of the labor force that has become redundant. Employment now equals $(1-r)2n/3$.

Now suppose that the government succeeds in implementing a 'divide and pacify' strategy to split up r into first, a part $r-\alpha$ of workers who are effectively to become redundant, and second, a part α of workers who are to go on '*abnormal*' retirement, that is, early and disability pensions. To make sure that those who are targeted to retire abnormally will actually do so, incumbents need to provide the following incentive:

$$\sum_{t=1,x} \delta^t u_t < \sum_{t=1,y} \delta^t p_t \quad (3.1)$$

where x and y are the expected number of years of entitlement for each benefit, u and p are the replacement rates (benefits/average wages) offered for unemployment and pensions respectively, and δ is the relevant discount factor in each period. Condition (3.1) is certain to be met in the following case:

$$u_t = \pi p_t \quad \text{for } 0 < \pi < 1 \quad (3.2)$$

And

$$x < y \quad (3.3)$$

Table 3.1 indicates how this divide and pacify policy perturbs the work-welfare set-up of society.

Table 3.1. Work-welfare composition of society and voting power of various groups before and after divide and pacify

| Period 0 (communism) | Period 1 (transition) |
|-------------------------|--|
| Workers = $2n/3$ | Working workers = $(1-r)2n/3$ Unemployed workers = $(r-\alpha)2n/3$ |
| Pensioners = $n/3$ | Normal pensioners = $n/3$ Abnormal pensioners = $2\alpha n/3$ |

Divide and pacify policies split up a fairly homogenous population of threatened workers into three different groups with a distinct work-welfare status. On top of the two prior work-welfare categories, two new ones are created: unemployed (as opposed to working) workers, and abnormal (as opposed to normal) pensioners. A simple parametric analysis demonstrates that assuming constant tax rates (τ), this perturbation of the work-welfare structure of society by itself could be predicted to make all pensioners worse off in *absolute* terms (see also Palacios and Rocha, 1998; Barr, 2001, Ch. 7). At any point in time, the level of total pension expenditures (P_t) can be decomposed into the pension system dependency rate times the average pension replacement rate (p_t) times the average wage (w_t) times the number of employed people. Pension expenditures under communism thus equal:

$$\begin{aligned}
 P_0 &= s_0 \cdot p_0 \cdot w_0 \cdot (2n/3) \\
 &= p_0 \cdot w_0 \cdot n/3
 \end{aligned} \tag{3.4}$$

A balanced budget requires spending to equal revenues, hence:

$$p_0 \cdot w_0 \cdot n/3 = \tau_0 \cdot w_0 \cdot 2n/3$$

Or

$$p_0 = 2\tau_0 \tag{3.5}$$

Under capitalism, the welfare state consists of two programs: pensions and unemployment benefits. The level of total unemployment expenditures (U) then equals the number of unemployed people times the unemployment replacement rate (u_t) times the average wage (w_t):

$$U_1 = (r - \alpha) \cdot (2n/3) \cdot u_t \cdot w_t \tag{3.6}$$

The level of total pension expenditures in period 1 equals:

$$P_1 = (1 + 2\alpha) \cdot p_1 \cdot w_1 \cdot n/3 \tag{3.7}$$

The balanced-budget constraint in period 1 is thus:

$$[(1 + 2\alpha) \cdot p_1 \cdot w_1 \cdot n/3] + [(r - \alpha) \cdot (2n/3) \cdot u_1 \cdot w_1] = \tau_1 \cdot w_1 \cdot (1 - r) \cdot 2n/3$$

Or,

$$(1 + 2\alpha) p_1 + 2(r - \alpha) u_1 = 2\tau_1 (1 - r) \tag{3.8}$$

From (3.2) and (3.8), it follows that the trade-off between pensions and unemployment benefits in transition becomes:

$$p_1 = 2\tau_1 (1 - r) / (1 + 2\alpha + 2\pi(r - \alpha)) \tag{3.9}$$

compared to $p_0 = 2\tau_0$ under communism. Assuming for simplicity that $\tau_1 = \tau_0$, it follows from (3.5) and (3.9) that

$$p_1 = p_0 (1 - r) / (1 + 2\alpha + 2\pi(r - \alpha)) \tag{3.10}$$

In other words, given the status quo in τ and the value ranges of r ($0 < r < 1$), α ($\alpha < r$), and π ($0 < \pi < 1$), the pension replacement rate in transition is lower than it was under communism.⁵ This is due to two factors. First, the appearance of transitional unemployment puts additional burdens on the welfare budget (captured in the factor r). Second, the government allows a fraction of those affected to go on abnormal retirement, granting them higher replacement rates than the unemployed (captured in the factor π). The budgetary scope for welfare spending has thus decreased, partly due to exogenous factors and partly due to the government's endogenous policy. Whereas (3.2) implies that pensioners will be better off, relatively speaking (compared to the unemployed), (3.10) implies that they too might be worse off, absolutely speaking (compared to the previous period). This summarizes the resulting fate of pensioners in early transition: *worse off, but still better than the rest*. Now if absolute levels of welfare compared to past levels (not just current welfare levels relative to other groups in society) could be assumed to play a part in determining voting behavior, then sending working-age individuals straight onto pensions still does not offer absolute electoral guarantees to politicians. But while the electoral payoffs of these policies are hard to predict, their effects both on the protest effectiveness and on the protest fragility of unemployed and abnormally retired people are more likely to be favorable to incumbents.

3.2. The protest effectiveness of unemployed and abnormally retired people

In the very short run, the unemployed and abnormally retired people may still face the same protest curves as in Figure 2.5. But thereafter their protest effectiveness is likely to be altered as a result of their new social status. First, the three different work-welfare groups that result from divide and pacify policies are now divided by new distributional conflicts. Especially in a context of macro-fiscal pressures (enhanced by the very implementation of this policy), public spending on pensions is likely to come at the expense of other welfare programs such as unemployment benefits, and thus to reduce the likelihood of political coalitions between both groups. Similarly, in a context of increased job scarcity, the potential for political coalitions between jobholders and unemployed people is likely to be much reduced because of distributional conflicts. In many respects – including the question of whether to protect insiders' jobs (through firing costs, minimum wages and the like) or to create new jobs for outsiders – the interests of the unemployed actually clash directly with those of union members (for overviews of such insider-outsider conflicts, see Saint-Paul, 1995, 1996). Moreover, while unions have sometimes pushed strongly to protect the generosity of pensions as an indirect way of promoting current working members' interests through 'deferred wages' (Myles, 1984), this is no longer a viable strategy in maturing pay-as-you-go systems under increasing financial strain. Straightforward cost concerns are another reason why workers who lose their jobs for longer periods generally have few motives to retain their membership of trade

unions.⁶ As the 1993 World Labor Report observes: 'the unemployed tend to leave their unions. Some lose their membership automatically when not employed, but others feel that they cannot afford even the reduced fees or just see no advantage in remaining members' (ILO, 1994, p. 35).

A number of additional reasons combine to explain why, over time, obstacles in mobilizing for disruptive protests may prove particularly difficult to surmount for abnormal pensioners and unemployed people. One recurrent finding in the literatures in social psychology and political science is that having a job, especially to the extent that it involves a certain degree of self-direction, generally enhances people's sense of agency along a wide variety of dimensions. By sheer virtue of their having been without formal work, those who have been out of employment for an extended period have decreasing access to a number of beneficial effects produced by employment. Having a job structures life, creates a sense of individual and collective purpose, and enhances and widens social ties (Jahoda, 1982; Gershuny; 1994). Moreover, it instills a sense of being able to influence one's own fate (Lane, 1991, 1998) and of doing something socially valuable (Elster, 1986a, 1988).⁷ Beyond these psychological effects, the collective action capacity of jobless people is also reduced by a number of social effects associated with being out of formal employment. While these effects typically set in relatively soon after the loss of work, they generally tend to become stronger as unemployment spells grow longer.

Specifically, the social networks of unemployed people, while generally not less extensive than those of the employed, tend to be sharply,

and increasingly, segregated from the latter group. For instance, among wage earners in Britain, 85 percent of men and 78 percent of women reported that their friends and mates were all or almost all in employment. But among those unemployed for less than six months, 55 percent of men and 45 percent of women said so. And among those unemployed for more than a year, only 19 percent of men and 44 percent of women said so (Gallie, 1994, p. 131). Another study reproduced the same results for the employed and indicated that people outside the labor force (including housewives and pensioners) had social networks more similar to those of the unemployed than to those of the employed. Only 32 percent of male and 37 percent of female unemployed respondents reported that their friends were all or almost all employed, compared to 42 percent of male and 46 percent of female non-active respondents (Gallie et al., 1994, p. 254). Similar patterns of sociability were evident in a recent East-West comparative study that questioned respondents on whether all or almost all of their friends were *unemployed*. In Britain, 49 percent of unemployed respondents in Britain reported that half or more of their friends were unemployed, compared to only 14 percent of employed respondents (1992 figures). These results were reproduced in post-communist countries (1994-1995 figures). In the Czech Republic, Slovakia and Bulgaria, respectively 21, 38, and 42 percent of unemployed respondents reported that half or more of their friends were unemployed, compared to respectively 6, 20 and 29 percent of employed respondents (Gallie et al., 2000, p. 48).

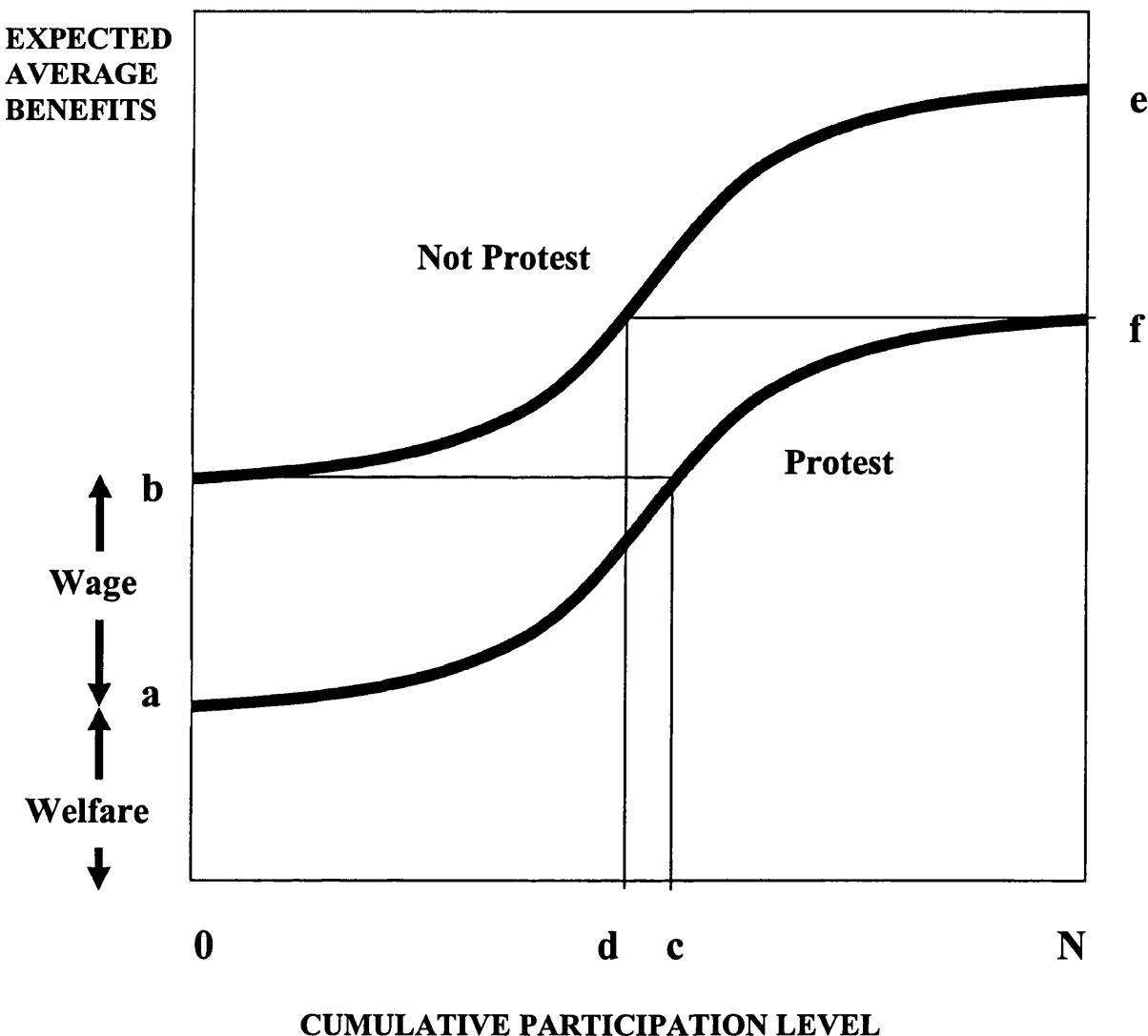
While the experience of unemployment does not generally reduce the quantity or frequency of social contacts, it does change their nature. The

unemployed tend to do more activities in household contexts and with other unemployed people. Moreover, they tend to spend much more time doing activities that are passive and self-oriented (especially personal care, sleeping and eating) and free or relatively low-cost (Gallie, 1994, p. 130; Gallie et al., 1994, pp. 249-257).⁸ When sociability is defined to tap the heterogeneity and frequency of *extra-household* contacts, the unemployed record markedly lower scores than the employed, with non-active persons (including pensioners, students and housewives) scoring in between (Gallie et al., 1994, pp. 251-252). And tellingly, the most sociable (thus defined) among the unemployed tend to record lower scores on measures tapping a feeling of purpose and agency than do even the least sociable among the employed (Gershuny, 1994, pp. 217, 219).⁹

Again, sociability tends to decline virtually uniformly as unemployment spells increase. The proportion of people reporting that they 'meet friends and relatives who are not living in the household on most days' among those who were unemployed for longer than a year was lower than among those who were unemployed for less than a year in ten European countries out of a sample of eleven. In the same sample, the proportion of people 'participating in any club or organization' was lower among those who were unemployed for less than a year than among those with stable jobs in all eleven countries, and the figure was still lower among those who were unemployed for longer than a year in eight countries (Paugam and Russell, 2000, pp. 252, 259). These effects were likely to be especially pronounced in post-communist economies. For instance, in Hungary the number of people

unemployed for more than twelve months as a percentage of the total number of unemployed people quickly jumped from 24 percent in 1991 to over 40 percent in the subsequent four years (Kabaj, 1996, p. 15). In sum, the social networks of the individuals targeted by divide and pacify policies (being less heterogeneous than those of workers) and the type of activities they engaged in (being more passive) were likely to translate into protest curves of the form shown in Figure 3.1, featuring slopes that were much less steep than those of threatened workers (compare with Figure 2.5).

**Figure 3.1. Hypothetical curves for disruptive protests:
the case of abnormal pensioners
and the long-term unemployed**



In early post-communist Central Europe, the unemployed and abnormal pensioners have by and large been unable to set up effective independent organizations to pursue their interests. Hence in terms of protest mobilization, the collective action problem confronting both groups was the larger one of organizing from scratch rather than using an existing organization. Crucially however, the more slowly rising protest curves of these groups in early transition were likely to interact with another variable often overlooked in explanations of protest: the subsequent fragility of cooperation, or alternatively the change of the free-riding benefits over the range of cooperation. These free-riding benefits are graphically represented in Figure 3.1 by the large vertical distance between the Protest and Not Protest curves. Below I indicate the specific reasons why the nature of the social networks and of the private and informal earning opportunities prevalent during late communism have made the opportunity cost component of these free-riding benefits more salient during the post-communist transition.

3.3. Private earnings and protest opportunity costs of workers in late communism

The free-riding benefits in non-protest are formally defined as the sum total of all extra benefits realized by individuals who do not participate in collective protests. That is, they represent all benefits that come in addition to whatever beneficial outcomes are produced by participants and which non-participants can expect to consume anyway. Free-riding benefits thus include both direct

costs and opportunity costs. The former are the sum of the physical efforts, financial expenses, transaction costs (such as loss of a job from imprisonment) and repression costs (such as arrest, injury, fines and jailing) that can be avoided by not participating in collective action. The latter represent the earnings that can be realized by not participating. More precisely, opportunity costs can be defined as the highest attainable alternative earnings that would be forgone while protesting at any given level of participation.

Although they are a central component of the free-riding benefits that determine non-participation in collective action, opportunity costs have generally been less central than direct costs in political science or rational choice theories of social movements (e.g. Tilly, 1978; Mueller, 1989; Chong, 1991; Lichbach, 1994; Petersen, 2001).¹⁰ For instance, Marwell and Oliver's (1993) theory of critical mass effects simply omits the problem of differential opportunity costs from the start and discusses only the role of direct input costs in determining the production of collective action outcomes (p. 26). Marwell and Oliver then proceed to assume away the problem of differential direct costs as well, by treating them as constant across individuals (p. 27). While this allows them to focus their attention exclusively on simulating the effects of different shapes of production functions, it also leads them to put forward the strategically awkward conclusion that free-riding, by definitional fiat, is *never* a problem for the provision of public goods when production functions slope up slowly (pp. 92, 182).¹¹ Oberschall (1994) similarly makes no room for opportunity costs, considering that only the costs of the

authorities' threat of repression play a role in the decisions of prospective participants in collective protests. Hence he posits a straightforward linear relationship that incorporates the 'safety in numbers idea,' with the expected individual costs of protest decreasing proportionally with the number of protest participants. Yet there is no plausible reason for always assuming a priori that 'other costs, such as opportunity cost, do not depend on other participants and the authorities' (Oberschall, 1994, p. 83).

Here I argue that the concept of opportunity costs does play a critical role in accounting for the small scale of collective protests in late communist and early post-communist Central Europe. Indeed, a number of particular features of the communist economic system - as described in great detail in important books such as Kornai's (1992) *The Socialist System* and Róna-Tas's (1997) *The Great Surprise of the Small Transformation* - can be reanalyzed precisely from this perspective. Students of communism have often pointed to the widespread (informal) private markets under communism, even though these were diametrically opposed to state ideology. In the case of Hungary, this has been interpreted as part of a tacit no-opposition/pro-consumption 'social compact' that was struck between state and society after the brutal repression of the 1956 revolution.¹² But what is less clearly emphasized are the channels through which these informal markets affected citizens' capacity to organize protests.

In his notorious 'whoever is not against us is for us' speech of 1962, First Party Secretary Béla Kádár proclaimed that 'all people who earn their living by work – and do not spend their days and nights plotting and making

bombs – go to their jobs in the morning and work; they are actually with us even if this is not a conscious attitude on their part.' On another occasion, a Hungarian Party official went public saying that 'eight hours of work a day is one's duty as a citizen. Design machines, build bridges, drive the tram, heal the sick (...) and then weed your strawberry seedlings, go to the cinema, paint your friend's flat if that's what you want to do' (quoted in Baxandall, 2000, pp. 628, 630). The Czechoslovak First Party Secretary Gustav Husak later followed his Hungarian counterpart's footsteps by stating that 'whoever is not against us we can do business with'.¹³

Starting from the early 1980s, the Hungarian Communist Party further recognized what it termed the 'secondary' economy, which by that time was already quite developed.¹⁴ Kornai (1986) argues that in the early post-war decades, private household farms of cooperative members had been considered a core 'bourgeois remnant' to be replaced ultimately by collective production. But in the early 1980s the Party declared them to be 'a permanent component of agriculture under socialism' and state cooperatives were positively encouraged to assist these private households by providing seeds and machinery and by helping with transport, advice and marketing. The production of food on household plots and the sale of food on free markets were legalized and restrictions on keeping animals and owning machinery were lifted (Kornai, 1986, p. 1702). As a result, private household farms of cooperative members already produced 18 percent of total Hungarian agricultural output in Hungary by 1984. Private auxiliary production by people with nonagricultural professions, produced a further 15 percent, and it

included a number of specialized, capital-intensive farms producing almost exclusively for the market instead of for own consumption (Kornai, 1986, pp. 1701-1703; for figures on the 1970s, see Szalai, 1991, p. 335).

In the same vein, far-reaching new laws were implemented in January 1982 to relax some existing limitations imposed on old forms of private work by artisans, tradesmen, taxis, trucks, shops, pubs, and restaurants. And for the first time ever, these laws allowed the setting up of four types of private business. Two types were completely independent from any organization in the state sector. Economic work partnerships could perform a wide range of services, and civic legal associations covered small retail traders. Two other types, specialized work partnerships (for cooperative agricultural work) and company work partnerships (for industrial manual work), were private but still operated under the auspices of state firms. Private associates in the latter two types of partnerships were now legally allowed to make after-hours contracts, typically with their own firm, at wages up to three times higher than those they received during working hours (Róna-Tas, 1997, pp. 146-149).

The legalization of private work partnerships was equally successful. By 1987, there were 17,000 full-time and over 51,000 part-time people officially registered as participating in economic work partnerships, 20,000 full-time and 65,000 part-time participants in specialized work partnerships, and 4,000 full-time and close to 240,000 part-time participants in company work partnerships. This would have been the equivalent of 9 percent of the labor force if everyone had registered only once (Róna-Tas, 1997, p. 146). The 1982 reform had a similar effect on participation in the old forms of

private work by artisans, tradesmen and the like. By 1986, about 4 percent of the labor force participated full-time in this sector, but 25 percent did so part-time (Róna-Tas, 1997, pp. 145-146). As a result, the Hungarian private sector reached astonishing proportions by the mid-1980s - for a communist state. In 1984 this sector accounted for a third of total active time (excluding time spent on household work and transport), and for more than half of new residential constructions. And the state virtually abandoned the provision of repair and maintenance services. Non-state production accounted for close to nine-tenths of these services in 1983, with informal do-it-yourself household activities (one half) and informal private sector activities (one fifth) accounting for the largest part, in addition to a further 14 percent provided by the formal private sector (Kornai, 1992, p. 441).¹⁵

However, these stronger incentives for workers to exit into the atomized sphere of households and small-scale partnerships simultaneously reduced their incentives to participate in collective protests in a number of ways. The extra resources that workers in formal state jobs could now legally earn by private activity can be conceptualized as in Figure 3.1 by means of a higher opportunity cost of protests over the entire range of participation – a cost which, given low wages and goods shortages, was likely to be more compelling than the direct costs attached to protests in terms of personal effort and police repression.¹⁶ The allocation of 'welfare-like' benefits conditional on formal employment (Chapter 1) further contributed crucially to these opportunity costs. These benefits remained exclusively within the state's domain, taking the form of archetypal positive selective incentives –

excludable, private goods – that could countervail individuals' incentives to seek public goods by means of collective action. In fact, citizens were deprived of the means to obtain these benefits otherwise, since there were no alternative markets for them. Moreover, communist governments deliberately set the take-home pay received by households 'at a level where they would be incapable of paying for the products and services they receive in kind. In the terminology of the official ideology, the state "grants" housing, vacations and medical care' (Kornai, 1992, p. 225).

In state firms, the Hungarian Party's representatives - workplace supervisors and personnel department heads - enjoyed strong powers in allocating these welfare benefits to workers on a discretionary basis.¹⁷ Simultaneously, all four new types of private business partnerships in Hungary were explicitly excluded from benefits such as health care, child care and educational services (Róna-Tas, 1997, pp. 84, 144). With state jobs as the sole source of welfare benefits, it is easy to see why most private businessmen preferred part-time to full-time partnerships. This way they could simultaneously top up their earnings after hours and retain the security of state wages and welfare. At the same time, they could now engage to various degrees in shirking, redirecting their genuine efforts towards private enterprise. If the notorious quip that 'the state pretends to pay us and we pretend to work' always captured a grain of truth about communist work ethics, it did so never more than after the 1981 laws had all but officially cemented these ethics.

Importantly, a parallel list of specific regulations accompanied the liberalization of private enterprise in Hungary. For instance, restrictions in agriculture on the quantities of food sold on markets were lifted. But existing restrictions on the size of the small household plots where this food could be produced remained in place (Kornai, 1986, p. 1702). In civil legal associations, the maximal size of membership was limited to just four persons. Membership in economic work partnerships was limited to thirty, and the number of salaried workers to ten. Simultaneous membership in more than one partnership was entirely forbidden, but membership of close relatives was subject to no limitations whatsoever (Róna-Tas, 1997, p. 147).¹⁸

Economic sociologists traditionally distinguish 'weak' social ties formed by colleagues, classmates and acquaintances from 'strong' ties that occur in homogenous and frequently convening circles of families and trusted friends. Though strong-tie networks tend to be internally cohesive and higher in social trust than weak ties, they are more closed to the outside world and less conducive to centralized leadership and mobilization for collective action (Granovetter, 1973, pp. 1362-1363, 1373-1376; Coleman, 1990, Ch. 12; Powell and Smith-Doer, 1994, pp. 372, 374). Viewed in this light, the ban on overlapping membership in private businesses cemented the strict size restrictions of private workplaces and limited the number of cross-cutting weak ties between entrepreneurs and acquaintances at the different workplaces. The liberal rules on the participation of family members in turn stimulated strong ties among relatives, which had a shorter social reach and a higher degree of overlapping contacts and therefore posed a smaller collective

action threat. An internal Hungarian Party document evaluating the effects of the new private work laws reported that 'the extra time people spent working after hours prevented them from participating in political activities' and that it was becoming harder to 'maintain organization among Party members who were scattered across many small units,' or to 'get people to enroll in Party schools and other political training courses' (Rona-Tas, 1997, p. 160).

Citizens under communism had strong reasons to invest predominantly in strong ties also for purposes of informal earning opportunities and political safety. The absence of third-party sanctions and the high risk of economic transactions make the informal economy highly dependent on relations of strong in-group trust (Portes, 1994, p. 431; Gambetta, 2000, p. 169). Moreover, detailed accounts¹⁹ of everyday monitoring by the secret services and of informing by fellow citizens testify that there were high costs attached during life under communism to trusting anybody whose precise personal background was only imperfectly known. So whereas in Western market economies weak ties are often highly instrumental in helping citizens to get access to jobs and other valued goods, in communist societies such ties were actually to be avoided as a source of considerable political risk. The economic opportunities in small-scale or family-based private workplaces and the political risks of trusting all but one's closest ties are likely to have influenced the nature of social networks. For instance, in East Germany in 1989, personal networks had a mean size of 11 persons, compared to 19 and 22 for similar networks in California and the Netherlands (Völker and Flap, 2001, p. 412).²⁰ Indeed, during communism retreat within

dense face-to-face circles of strong ties actually 'became a substitute for civil society rather than an integral part of it' (Rose, 1994, p. 22; see also Barker, 2001, p. 179).

While black markets in Poland and Czechoslovakia were also widespread, workers in these countries had fewer *legal* opportunities to earn extra income in the private sector or satisfy their demand for goods in short supply. For instance, Poland still tightly rationed the supply of a long list of basic goods, including coffee, butter, milk, flour, rice, sugar, chocolate, gasoline and soap (Kornai, 1992, p. 242). This comparative lack of informal exit options may provide a partial explanation for why in Poland it was precisely workers in large industrial plants who initiated the recurrent waves pushing for political democratization in the 1980s.²¹ It may also help to account for why in the 1970s and 1980s the Polish and Czechoslovak communist regimes were generally considered to be more repressive than the Hungarian regime in their everyday outlook and in the way they clamped down on opposition movements (Garton Ash, 1989; Barker, 2001). And whereas in Hungary trade unions were virtually absent in the negotiations towards post-communist transition during 1988 and 1989, in Czechoslovakia unions did play a role, and in Poland they were crucial (Garton Ash, 1990).

3.4. Economic fortunes and social integration of the unemployed and abnormal pensioners during the transition

In his recent work on path dependence in economic history, Douglass North has increasingly emphasized that 'although wholesale change in the formal rules may take place, at the same time there will be many informal constraints that have great survival tenacity because they still resolve basic exchange problems among participants' (North, 1990, p. 91; see also North, 1998, p. 506). This argument applies with equal strength to the shift from communism to the market economy. In the short run at least, most people were likely to cope with the increasing material hardship during the transition by a continued reliance on the specific work routines and informal network ties that they had developed during late communism. Membership levels in civil society organizations, which have elsewhere been an alternative channel for the mobilization of democratic protests (Almond and Verba, 1963, Ch. 11), remained low in post-communist societies. Paid and voluntary employment in the nonprofit sector accounted for 1.2 percent of GDP in Hungary in 1990. Five years later the same measure still stood at 1.6 percent in Hungary, 2.7 percent in the Czech Republic and at 1.2 percent in Poland (1997 figure), compared to 10 percent on average in Western Europe (Rose-Ackerman, 2001, Table 8). Hungarian respondents in household panel surveys reported to have on average three times as many kinship contacts as non-kinship contacts in 1997, whereas American respondents reported a fifty-fifty distribution. In the same year, membership in unions and voluntary organizations averaged

0.4 in Hungary, compared to 1.5 in the US (Angelusz and Tardos, 1999, pp. 259, 260).

Moreover, with the rise of transitional unemployment, the gradual differentiation in social networks between labor market insiders and outsiders observed in Western market economies was likely to start playing in Central European countries as well. Table 3.2 shows that Hungarian low-skilled white-collar and low-skilled blue-collar workers had fewer network contacts and memberships in voluntary associations and maintained fewer postcard contacts than either managers or self-employed persons and entrepreneurs. But on all three counts, both groups of low-skilled workers were still more sociable than the unemployed and the pensioners.

Table 3.2. Average number of personal network contacts, memberships in voluntary associations, and Christmas and New Year cards sent in Hungary, 1997

| | Personal Network Contacts | Membership in Voluntary Associations | Christmas and New Year Cards Sent |
|-----------------------------------|---------------------------|--------------------------------------|-----------------------------------|
| Manager | 4.5 | 1.1 | 1.1 |
| Self-employed or entrepreneur | 4.6 | 0.8 | 0.8 |
| Low-skilled, white-collar workers | 4.2 | 0.7 | 0.7 |
| Low-skilled, blue-collar workers | 3.8 | 0.4 | 0.4 |
| The unemployed | 3.5 | 0.3 | 0.3 |
| Pensioners | 2.8 | 0.3 | 0.3 |

Source: Angelusz and Tardos (1999, p. 266, Table 5).

The 'informal exit' option also retained a crucial role in reducing the collective protest participation of unemployed and abnormally retired people. In a context of high and rising pools of jobless workers, informal employment became under many circumstances a win-win game for employers and informal employees alike. The unusually high payroll taxes on formal labor only served to increase the attractiveness of informal work to both parties. Between 1990 and 1993, payroll tax rates stood on average at 27 percent of gross wages in the Czech Republic, 32 percent in Hungary, and 42 percent in Poland (Andrews and Rashid, 1996, p. 35).²² Employers could hire informal labor at wages net of these taxes. Informal workers out of formal jobs such as abnormal pensioners and the unemployed could thereby increase their income, whereas those with formal jobs could top up their earnings net of taxes after hours.

Around 1989-1990, the governments in Central Europe inherited a hidden economy that was already well developed (for a review, see Bernabè, 2002). Average gross monthly income from 'invisible' sources (such as tips and illegal jobs), small agricultural plots, and second jobs amounted to respectively 23, 27, and 43 percent of average gross monthly earnings from official first jobs in Hungary in 1989 (own calculations based on Micklewright, 1992, p. 17).²³ According to an estimate based on macro-level household electricity consumption, the size of hidden economy in 1990 amounted to 23 percent of official GDP in Poland, 24 percent in the Czech and Slovak lands, and 25 percent in Hungary. These were substantially higher shares than in the three Western worlds of welfare capitalism. In the same

year, the hidden economy's share was estimated to be 11 and 17 percent in Sweden and Denmark, 12 and 15 percent in France and Germany, and 10 and 13 percent in the US and Great Britain. And whereas the share of the informal economy went down by two percentage points in the Czech Republic between 1990 and 1995, it went up by one percentage point in Poland and by five percentage points in Hungary (Lacko, 2000, pp. 121, 135).²⁴ The proportion of Poles who believed that at least half of the unemployed were actually working despite receiving unemployment benefits went up from one-half in 1992 to two-thirds by 1998. And when asked how they evaluated such work normatively, over half of Poles in 1998 responded that it 'should be excused because it is difficult to live on unemployment benefits,' compared to one-third who thought such practices 'should be condemned as cheating the government' (Zagorski, 1999, p. 9).²⁵ Even ten years after the start of the transition, various types of illegal activity were still considered to be legitimate by large proportions of the population in Hungary, Poland and the Czech Republic. Table 3.3 indicates that especially providing false data to avoid income taxes and hiring someone illegally to avoid taxes and social security contributions were widely condoned everywhere, with Hungary topping the bill in both cases.

Table 3.3. Percentage of respondents judging various categories of tax evasion and informal work to be 'excusable' or 'praiseworthy', in Hungary, Poland and the Czech Republic, 1999

| | <i>Providing false income data in order to avoid taxes</i> | <i>Employing someone else illegally in order to avoid taxes and social security contributions</i> | <i>Providing false income data in order to get more social transfers than one can get legally</i> |
|----------|--|---|---|
| Hungary | 45 | 42 | 14 |
| Poland | 35 | 29 | 16 |
| Czech R. | 23 | 23 | 19 |

Note: The other possible answer category was that it 'should be disapproved'. Source: own calculations based on Janki and Tóth (2001, p. 5, Table 2).

Unlike transitional winners such as those with highly valued or easily convertible labor market skills (e.g. the new entrepreneurial elites and the younger cohorts of workers), the groups targeted by divide and pacify policies had few opportunities to rapidly transform their participation rates in the informal economy or the nature of the social ties they activated for doing so. To the contrary, the material hardships of transition almost certainly increased the economic *necessity* for them to moonlight. Most of the real accomplishments of the communist states (albeit always accompanied by heavy state paternalism) were being reformed or abolished in ways that especially increased the material insecurity of transitional losers. For ideological reasons, communist states heavily subsidized a number of basic goods (although, perversely, this often increased the shortage for these goods). In 1988, the number of hours of work required in order to purchase a unit of white bread in Hungary, Poland and Czechoslovakia was half that required in West Germany. Citizens in the former countries had to work

respectively 0.7, 0.7 and 3.2 times as many hours than those in West Germany for one unit of tea, and 0.7, 0.6 and 1 times as many hours for one unit of cigarettes. By contrast, citizens in these three communist countries faced much higher relative prices in purchasing goods considered to be luxuries. For instance, they needed to work respectively 3.5, 2.8 and 4.7 times longer than West Germans to buy chicken, 4, 13.4 and 6.6 times longer for color TVs; 2.3, 9.2 and 2.5 times longer for cars; and 5.7, 5 and 7 times longer for gasoline (Kornai, 1992, pp. 309-310, Table 13.5).²⁶

As the market was introduced, low-income citizens were hit by a double shock. The abolition of most subsidies on basic necessities did not just increase absolute prices; the market correction of prior price distortions also made staple goods more expensive relative to luxury goods. During preceding decades in Third World countries, this type of adverse price developments and subsidy cuts had been the single most common trigger of violent and disruptive austerity riots (Bienen and Gersovits, 1986, pp. 30-31). In early post-communist Central Europe, moreover, all this occurred within a general context of rapidly rising unemployment and poverty rates, sharply decreasing real wages and per capita incomes and increasing income inequalities (Chapter 1). Public housing shortages, another endemic feature of the communist economy, became more acute still in the transition. In the late 1980s, the average length of time spent on a waiting list for public housing was four to six years in Hungary, fifteen to thirty years in Poland, and six to eight years in Czechoslovakia (Kornai, 1992, p. 234). Households reacted by altogether avoiding to rely on this bureaucratic allocation process and by

relying instead on informal construction through own labor and that of local social ties. For instance, three-quarters of all new flats that were built in Hungary between 1971 and 1985 were built exclusively by family efforts. In the latter year, 81 percent of all financial resources spent on housing were covered by private households, mainly through their informal economy earnings (Szalai, 1991, p. 334). The estimated proportion within total Hungarian house building which used informal work increased from 25 percent in 1977 to 43 percent in 1987 and further shot up to 56 percent in 1991 (Sik and Wellman, 1999, p. 231-232).²⁷

After 1989, this informal coping approach extended in scope and intensity. For instance, in 1991, 75 percent of households in Poland, 81 percent of households in Hungary and 91 percent of households in Czechoslovakia reported to get by by engaging in at least one of the following forms of intra-household production: growing food, building or repairing the house, or queuing for more than an hour per day. The proportion of households reporting to engage in various forms of reciprocal transactions, defined as exchanging help with friends in growing food, building or repairing houses, shopping, baby-sitting or transportation, amounted to 49 percent in Poland, 53 percent in Czechoslovakia and 60 percent in Hungary that year (Rose and Haerpfer, 1992, p. 87). Polish household combined on average three or four different sorts of economic activities with different degrees of legality (Rose, 1992, p. 18). And by 1994, 69 percent of Hungarian household survey respondents, 71 percent of Poles and 78 percent of Czechs reported that they were coping only by participating in multiple economies,

including growing their own food and holding a second moonlighting job (*Transition Newsletter*, 1994, p. 12).

For abnormal pensioners and the unemployed, the economic incentives to moonlight were particularly strong during the transition. Being without structured daytime occupation yet still able-bodied, both groups had ample time on their hands for doing all sorts of informal work, as well as urgent economic reasons to do so. While not earning working wages, unemployed people tend to be materially insecure also in different ways. Being more household-oriented and less heterogeneous, their social network ties are generally less able to provide them with material security. The number and heterogeneity of social ties are strongly positively correlated with the capacity of networks to provide various sources of material and social support – even when only strong ties are considered (Wellman and Gulia, 2000, pp. 97-101; see also Gallie and Paugam, 2000; Whelan and McGinnity, 2000).²⁸ In Eastern and Western Europe alike, consistently fewer unemployed than employed respondents reported being able to rely upon someone from outside their household when (a) they needed money for an urgent bill, (b) they were depressed, and (c) they were looking for a job (Gallie et al., 2001, p. 48; see also Gallie et al., 1994, pp. 255-57). The unemployed also reported more frequently than the employed that they worried almost all the time about money. And unlike in Western countries, in post-communist societies these responses went up as unemployment spells grew longer. In the Czech Republic, Slovakia and Bulgaria, respectively 21, 27 and 33 percent of those unemployed for less than half a year reported worrying almost all the time

about money, compared to respectively 29, 42 and 57 percent of those unemployed for longer than three years (Gallie et al., 2001, p. 44).

Taken together, these constituted the conditions of scarcity in which the material incentives to free-ride stressed by thin-rational collective action theories (Olson, 1965, pp. 61 fn., 160 fn.; Taylor, 1988a, pp. 90-91) were most likely to dominate 'norm-based' (ideological, altruistic, expressive or solidarity) motivations to join in collective activities. Unlike norm-based explanations, the former accounts allow for changes in behavior when the set of material opportunities open to actors expands or contracts (Elster, 1986b, p. 23).²⁹ For instance, Coleman (1990, pp. 287, 495) argued that people with low social positions show comparatively less compliance with social norms that urge participation in collective action and that sanction non-participation. And in a study that demonstrated the pervasiveness of opportunistic behavior by peasants in disregard for moral or community considerations, Popkin (1979, p. 251) argued that the hard struggle for material survival has led Vietnamese subsistence farmers to an all-pervading individualism, whereby they viewed hardships as a personal matter to be solved not through their local community, but in isolation and by whatever means possible.

In Figure 3.1 above, these conditions of economic scarcity are translated in a greater fragility of disruptive protests at any level of cooperation. The opportunity costs of disruptive protests for unemployed and abnormally retired people were likely to be higher than those for workers in employment. Being in more dire financial straits, the former groups derived a higher marginal utility from informal earnings at any given level of

cooperation, and thus required concomitantly higher positive selective incentives in order to be convinced to participate in collective action (contra Tullock, 1971).³⁰ This set these groups apart from groups such as university students in wealthier democracies, who are more likely to forego free-riding benefits in protests precisely because they do not find themselves in conditions of economic scarcity and have little to lose from protesting (as predicted by Tullock, 1971). In other words, the material incentives to free-ride were particularly compelling, and the non-material motives to cooperate comparatively 'expensive,' for unemployed and abnormally retired people in the post-communist transition. In combination with the slowly rising protest curves, these high and constant free-riding benefits led to constructive and defensive focal points for collective action that were considerably more difficult to overcome for the unemployed and abnormal pensioners (Figure 3.1) than they were for threatened workers (Figure 2.5). This was the case despite the equivalence of both groups in many other respects, such as physical ability, prior work history, or, potentially, ideology or education levels. But what of the protest capacities of normal pensioners?

3.5. Cheap voice : the channels of political influence of normal pensioners

Normal pensioners faced a similar initial fallback option as abnormal pensioners: their pensions will not be taken away if they protest. Like abnormal pensioners, the elderly could be roughly characterized as relatively homogenous in terms of their financial resources. Standard measures of

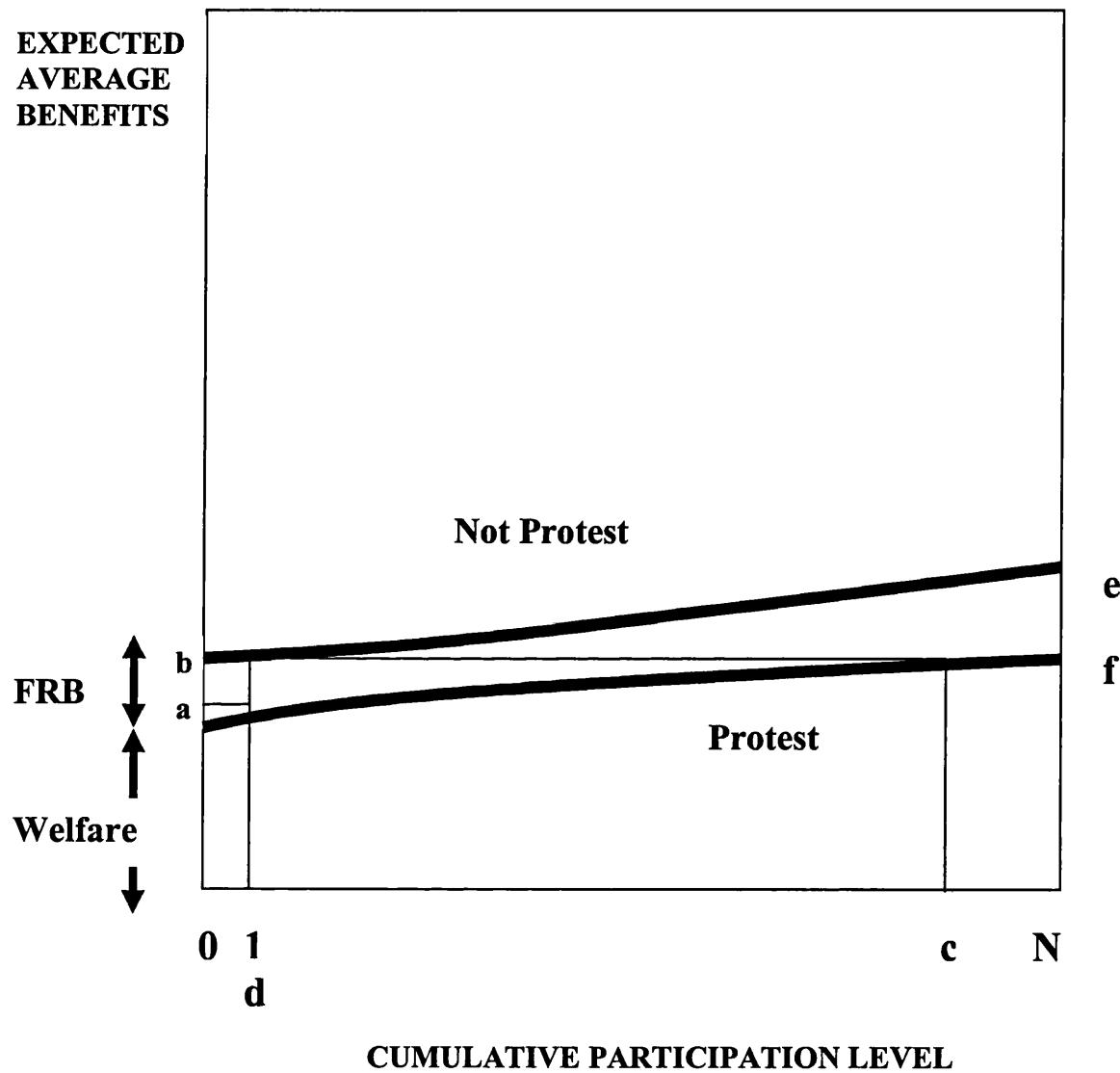
income inequality show that the distribution of both groups' incomes were already more egalitarian than that of the population at large at the start of the transition. Moreover in subsequent years pensioners' incomes were subject to stable or decreasing inequality at a time of increasing income inequality in the population at large. In Hungary between 1987 and 1996, the Gini coefficient of income inequality shot up from 23 to 29 percent for the population as a whole, and the 75/25 percentile ratio (average incomes of the top quarter of the distribution divided by those for the bottom quarter) increased from 1.6 to 1.8. But for pensioners, the Gini remained stable at around 22 percent, while the 75/25 ratio went down from 1.6 to 1.5. In Poland, the Gini went up from 28 to 31 percent for the population but went down from 26 to 25 percent for pensioners, whereas the 75/25 ratio remained stable at 1.9 for the population while going down from 1.8 to 1.7 for pensioners (Stanovnik et al., 2000, p. 46; Szulc, 2000; Spéder, 2000).

However, unlike abnormal pensioners, normal pensioners obviously had weaker physical abilities. Importantly, the population of normal pensioners did not just display lower average levels of physical resources, but it was also likely to be more heterogeneous with respect to these resources. As they get older, the elderly generally can no longer expect to top up their pensions by earnings from informal economy activities. For instance, while 35 percent of persons in the 60-64 age category earned additional income from employment in Hungary and 75 percent took part in informal agricultural work in the second economy in 1983, the equivalent rates continued declining steadily with age, reaching respectively 8 and 65 percent

in the 80+ category (Szalai, 1991, p. 351). Similarly, average monthly earnings from employment among three different categories of elderly persons (former white-collar workers, former blue-collar workers and former agricultural workers) decreased consistently with age. While the 60-64 age category earned more than the 65-69 category in all three groups, the latter category in turn earned more than the 70-74 category, and so forth (Szalai, 1991, pp. 353).

The same physical obstacles that reduced the working opportunities of the elderly were also likely to make them generally less effective in producing results from street protests. Three-hundred workers may suffice to disrupt part of the economy; three-hundred elderly people, hardly. Moreover, given the distribution of physical resources within this group, participation in disruptive protests among this group was likely to exhibit a sequencing pattern according to age, whereby the fittest among the elderly – which are overwhelmingly the youngest - participated first. As a result, normal pensioners' protest curves were likely to slope up much more slowly than any other group considered thus far. Beyond some initial level of initiators, those who were needed to fill the ranks to create a critical mass for street action were increasingly ineffective. And while this group's opportunity cost component of free-riding declined over the range of participation, the direct cost component was likely to display a concomitant increase as members of this group faced progressively higher fitness and mobility costs, thus keeping overall free-riding benefits relatively small (Figure 3.2).

**Figure 3.2. Hypothetical curves for disruptive protests:
the case of normal pensioners**



However, the low effectiveness of normal pensioners in disruptive protests in no way precluded their participation in more peaceful forms of political protest. With physical 'exit' from the polity (emigration) excluded for all but a limited number of people, divide and pacify policies effectively sentenced working-age people to economically compelling forms of 'silent non-exit' (Barry, 1974) such as informal work. Second, by diminishing the capabilities of transitional losers to disrupt the polity, these policies channeled the expression of 'voice' (Hirschman, 1970) towards repertoires that were more peaceful and cheaper to express, such as opinion poll surveys, letters and statements, signature collection campaigns, and anti-incumbency voting. As a direct result of divide and pacify policies, normal and abnormal pensioners now formed one single welfare constituency. State pensions were the only source of income in 23 percent of Hungarian households and in 16 percent of Polish households in 1994 (Ferge et al., 1995, Table 6.1). In 1993, 91 percent of total expenditures by Polish pensioner households were accounted for by the social transfers they received, compared to 17 percent for worker households and 27 percent both for farmer households and for worker-farmer households (World Bank, 1995, p. 40).

Pensioners were therefore a classic example of a single-issue voting constituency, for whom the real value of their public pensions formed a common interest that was both easily identifiable and of high importance. With elderly pensioners (voting weight = $n/3$) now joined by the early and disability pensioners (voting weight = $2\alpha n/3$), this group's electoral clout was higher than ever before (Table 3.1). Even if not all pensioners adhered to a

single ideology or voted as a single bloc, their sheer size after the perturbation of the work-welfare system could now preemptively influence the policy platforms of politicians in elections and their social policies before elections. Greskovits (1998) hypothesized that sentencing losers to silence during inter-election periods might make them bundle their grief systematically against incumbents at polling time. And in fact the senior incumbent parties lost office in every general election in Hungary and Poland in the 1990s (Fidrmuc, 1999).

3.6. The combined effects of work-welfare status on disruptive protest capacities

In keeping with Taylor's (1988a, p. 94) emphasis that we need both individualist explanations of structures and other macro-phenomena *and* structuralist explanations of individual attitudes and beliefs, I have specified a way for governments to reduce disruptive protests by changing the work-welfare status of selected groups of threatened workers. Intermediated by the effects of work-welfare status on these workers' social and material circumstances, these policies reduced their collective action potential.³¹ Table 3.4 summarizes the core characteristics of the three different work-welfare groups affected by these policies and indicates how, all else equal, they could be expected to affect their prospects for success in organizing disruptive protests. The unemployed and abnormal pensioners, normal pensioners and threatened workers all had a high interest at stake since they were materially disadvantaged actors for whom the outcome of public action (higher benefits

or job protection) had a high marginal utility. All three groups had relatively homogenous distributions and low average values of financial input resources.³² On its own, this provided dim prospects for successful collective action. Given the assumption that protest curves were non-linear, a small dispersion of individuals around any given mean level of input resources reduced the likelihood that there would be a sufficient number of individuals at the extreme of the distribution who could get together and overcome critical thresholds to provide joint-supply goods (Marwell and Oliver, 1993, Chs. 3-4). Moreover, these groups combined a high interest in obtaining the public good with few financial resources for contributing to its provision. This negative correlation of interests and resources was obviously bad news. If those who are most interested in the good have the smallest resources to provide them and vice versa, little success can generally be expected. For such social contexts, collective action theory offers a crisp and clear prediction: ‘...what we expect to see in most relatively homogenous groups of not very resourceful individuals facing [slowly] accelerating production functions is a lot of nothing going on’ (Marwell and Oliver, 1993, p. 75).

Table 3.4. Material and social characteristics of selected social groups, and how they are expected to improve (↑) or worsen (↓) the prospects for organizing disruptive protests

| | <i>Workers threatened by redundancy</i> | <i>The long-term unemployed and abnormal pensioners</i> | <i>Normal pensioners</i> |
|--|---|---|-------------------------------------|
| <i>Average interest in outcome</i> | High (wage vs. welfare) | High (more vs. less welfare) | High (more vs. less welfare) |
| <i>Average financial input resources</i> | Low (savings, strike funds) | Low (welfare and informal earnings) | Low (welfare and informal earnings) |
| <i>Distribution of financial input resources</i> | Homogenous | Homogenous | Homogenous |
| <i>Average physical input resources</i> | High | High | Low |
| <i>Distribution of physical input resources</i> | Homogenous | Homogenous | Heterogeneous |
| <i>Prior organization</i> | High | Low | Low |
| <i>Extra-household sociability</i> | Strong | Weak | Weak |
| <i>Free-riding benefits as cooperation levels rise</i> | Initially large, then decreasing | Initially large, and constant | Initially small, and constant |

The core differences in protest capacity between these three groups resided in their physical resources, prior organization, extra-household sociability and the expected free-riding benefits in non-protest. Those targeted to go on early and disability retirement were pensioners only by ascriptive artefact. In terms of physical resources, they were the same persons they were before

redundancy, and they were similar to their less lucky peers who did become redundant. In this they differed from normal pensioners, who, by nature, were characterized by a low mean and heterogeneous distribution of physical input resources. But as with their unemployed peers, the new social and material circumstances of abnormal pensioners implied higher obstacles for disrupting the polity. Compared to workers, the unemployed and abnormal pensioners generally had a lower extra-household sociability. Like normal pensioners, they faced comparatively harsher organizational and opportunity costs for collective action. They could therefore be expected to have less success in organizing disruptive movements - even compared to those workers who belonged to similar age cohorts or who had similar socio-economic backgrounds. The reason is that the targeted groups now had to pay a higher material price for expressing their grievances by disruptive means. In fact, workers were the only group whose particular combination of protest effectiveness and protest fragility resulted in favorable mobilization prospects despite their homogeneity distribution and adverse correlation of interests and material resources.

In other words, by sending some threatened workers into unemployment and others into abnormal retirement, divide and pacify policies essentially closed down one remaining mechanism by which these workers might otherwise have overcome mobilization problems. The unemployed and pensioners were individual members of large anonymous categories that did not convene in any regular or structured way. By contrast, threatened workers were not randomly distributed over the whole workforce. Rather they were

more likely to be closely linked socially and spatially, in the double sense of interacting in the same firm or industry, and, within these entities, of belonging to the same occupational category in terms of job skills and job chances. As we have seen, workers were further distinguished from the unemployed and pensioners by their higher levels of formal organization as well as the higher heterogeneity and structure of their social interactions. By transferring individuals from the former to the latter work-welfare status, welfare policies could thus reduce the likelihood that some local cluster of workers could exploit their high connectedness and their prior organization to get things going *despite* low levels and high homogeneity of financial resources and *because of* their high levels of interest.³³

Just as during communism scarce job-related 'welfare-like' benefits increased the opportunity costs of collective action, standard welfare benefits also served to countervail potential protests during the transition. Of course, to make employment incentive-compatible (that is, to avoid unemployment traps), any welfare benefits offered by governments had to be strictly lower than the average working wages (w_t) net of taxes (τ_t):

$$u_t w_t < (1 - \tau_t) w_t \quad (3.11)$$

And, given (3.2) and (3.11),

$$p_t w_t < (1 - \tau_t) w_t \quad (3.12)$$

So moving from labor market status to welfare recipient status inevitably involved immediate material losses. But the relevant calculus for workers to make was to see which decision would allow the highest stream of income as discounted over the foreseeable future. This points to an important further

reason why the abnormal retirement option, though costly, contained an element of political rationality. For obvious rule-of-law reasons, government policies in liberal democratic contexts cannot be explicitly discriminating or obviously earmarked towards closely specified groups or individuals (Dunleavy, 1991, p. 36). The abnormal retirement option therefore had to be framed in a universal way as a macro-policy that regarded anyone who qualified according to the prevailing technical criteria of eligibility. But given the non-random nature of transitional unemployment and the political threat it represented, this policy nevertheless allowed a convenient degree of 'self-targeting' at the micro-level. The most threatened and the more risk-averse workers could choose the immediate safety of abnormal retirement at replacement rates lower than net working wages (equation 3.12) but higher than unemployment benefits ($\pi < 1$).³⁴ At the same time, both the less threatened and the less risk-averse workers could choose to make a calculated gamble: (a) keeping their job at wages w_t , or (b) going on unemployment benefits with a temporary lower replacement rate now ($u_t = \pi p_t$) but with the possibility to become reemployed and earn a higher working wage later.

To see why leaving the labor force was such an attractive option for many workers, consider the options open to those who were still in jobs but who had low objective chances of sustained employment in the early 1990s. The communist-period link between jobs and in-kind welfare benefits was increasingly severed during the transition. For those within the state sector, many of the former job-related welfare benefits were cut, while for those obtaining jobs in the private sector these benefits were never institutionalized.

Asked in 1994 whether their jobs 'gave them good fringe (welfare and social) benefits,' 23 percent of state sector workers in Poland replied that this was the case 'always or often' and 23 percent that is was the case 'seldom or never,' compared to respectively 4 percent and 76 percent of private sector workers (Zagorski, 1999, p. 6). Thus while jobs were increasingly at risk for many, they simultaneously lost their status as sources of security beyond wages. Precisely to those workers who were most at risk of unemployment and who potentially constituted the greatest collective action threat, abnormal retirement on comparatively generous conditions of replacement (condition (3.2)) and duration (condition (3.3)) was an offer hard to refuse. At a time of great material uncertainty, it represented a much better alternative compared to fighting near-certain redundancy by collective action. Deciding to retire guaranteed a secure pension, at little direct cost (there were no expenses or repression involved), and with better opportunities to earn extra money through informal work.

Conclusions

This Chapter has set out a potential social policy strategy that could preempt disruptive protest movements and enhance political quiescence during the socially costly early 1990s. The particular mechanism spelled out here was evidently not the one and only way in which post-communist governments could achieve this goal. As with other policy goals, governments in liberal democracies generally have a range of different tools at their disposal to

reduce the threat of disruption in the polity. But I have indicated a number of reasons why 'divide and pacify' policies were an attractive road to take. The crux of these policies was to split up well-networked and formally organized groups of threatened workers by sending many of them onto unemployment benefits and many others onto early and disability pensions. The unemployed and abnormally retired were now likely to have a lower overall effectiveness in organizing disruptive protests because of decreasing levels of extra-household sociability. In addition, both groups were now likely to be locked in increasing distributional conflicts with each other over scarce state resources, and with jobholders over the cost of sustaining the bloated pay-as-you-go pension systems. At the same time, the economic need to earn extra income during a period of declining living standards raised the opportunity costs of collective protests for these impoverished groups. Abnormally retired and unemployed people were now more likely to engage in private and informal coping approaches (silent non-exit) and to express their grievances with more peaceful repertoires (cheap voice), rather than pursuing uncertain public goods by means of collective protests.³⁵ As a result, the threat of disruption in the polity was substantially reduced. The next chapter will investigate these theoretical propositions by means of an empirical discussion of social policies in Hungary, Poland and the Czech Republic between 1989 and 1996.

Chapter 4

Social Policies and Age Group Fortunes

How did post-communist governments allocate their scarce welfare state resources towards different age groups in society? This Chapter presents empirical evidence on social policies in Hungary, Poland, and the Czech Republic between 1989 and 1996. The analysis does not aim at descriptive completeness, a task that has been undertaken by many detailed case studies (for a broad overview of social and labor market issues, see Barr, 1994b). Certain variables that were not extensively discussed in the theoretical argument above (such as taxation levels, inflation, and budget deficits) will not be analyzed, although they are certain to have influenced the outcome indicators of interest. Instead, the aim of this Chapter is to draw together a number of stylized indicators that concisely capture the (mainly exogenous) transitional costs for various work-welfare groups and the (mainly endogenous) governmental welfare policies in relation to those groups. These indicators can serve as a proxy of the theoretical variables outlined above, and can thus be used to check whether behind the messy empirics of transition one might detect more systematic political mechanisms.

Section 4.1 discusses policies towards the unemployed. The next three sections discuss welfare outcomes (poverty) and policy inputs (aggregate spending figures and replacement rates) for pensioners and compares them with other age groups. Section 4.5 then discusses the results of these policies, indicating how preferential treatment by governments has led to dramatic increases in the number of non-elderly pensioners in Hungary and Poland, amounting to a great abnormal pensioner boom.

4.1. The unemployed: squeezed by governments

At close inspection, governments in post-communist Central Europe have not shown themselves to be particularly generous to the unemployed. Policymakers have moved to progressively tighten the generosity of unemployment benefit transfers. As Table 4.1 shows, unemployment benefit replacement rates (u) have been reduced for all types of unemployment spells. For the first three months they were reduced by 5 percentage points in the Czech Republic, by 17 percentages points in Hungary and by 25 points in Poland, and for the first year by respectively 28, 8 and 8 points. Moreover, the maximum duration of benefit entitlements was fixed at one year, down from two years in Hungary and open-ended in Poland, and it was more strongly reduced still in the Czech Republic (see also Cornia et al., 1996, p. 151). Neither early pensions nor disability pensions were subject to similarly severe duration limits. Early retirement legally took the form of old age retirement, so when early pensioners reached the age of legal retirement (thereby

transferring, strictly speaking, to the status of normal old age pensioners), this involved no change in their formal status. The same was true for disability retirement: once it was granted, pensioners could expect to enjoy it without any restrictions in duration. Thus, condition (3.3), that entitlement periods for abnormal pensions (y) exceed those for unemployment benefits (x), applies.

Table 4.1. Selected unemployment policy parameters in Hungary, Poland and the Czech Republic, 1991 and 1995

| | | Max. duration (months) | Benefit minima (% of min. wage) | Benefit maxima (% of min. wage) | u first 3 months (%) | u first year (%) | u second year (%) | Coverage Rate |
|---------|----------|------------------------|---------------------------------|---------------------------------|------------------------|--------------------|---------------------|---------------|
| Hungary | Dec 1991 | 24 | 100 | None | 75 | 59 | 34 | 80 |
| | Dec 1995 | 12 | 70 | 150 | 58 | 51 | 0 | 40 |
| Poland | Dec 1991 | Open-ended | 100 | Average wage | 70 | 53 | 40 | 75 |
| | Dec 1995 | 12 | None | None | 45 | 45 | 0 | 55 |
| Czech R | Dec 1991 | 12 | None | None | 65 | 58 | 0 | 72 |
| | Dec 1995 | 6 | None | 150 | 60 | 30 | 0 | 48 |

Notes: u = gross benefit income in unemployment as a percentage of gross wages in previous employment; rates average those of two unemployed, aged 40, who have been working at the average wage continuously since age 18 with no interruptions and who were earning, respectively, the average wage and two-thirds of the average wage. In Hungary, benefit minima and maxima figures refer to relativities between benefit floors and ceilings and the minimum wage in 1995. Unemployed people who were previously earning less than the benefit minima are entitled to 100 percent of the previous earnings. Coverage rate = unemployment benefit recipients as a percentage of registered unemployment. Source: Boeri (1997a, p. 130, Table 2).

As a result of these measures, coverage rates have gone down drastically, by respectively 40, 20 and 24 percentage points. Thus, by the end of 1995, only 40 percent of Hungarians and about half of Poles and Czechs who were registered as unemployed actually received any benefits. In addition,

governments have also made cuts in other policy parameters that indicate the generosity of this welfare program. For instance, new ceilings were imposed on the level of unemployment benefits that could be paid out in Hungary and the Czech Republic: in both countries claimants could now expect to receive at most 150 percent of the national minimum wage. Moreover, the minimum level of unemployment benefits which claimants could expect to receive was also reduced in Hungary, and abolished in Poland.¹ In Hungary, the real value of per capita unemployment eroded in three years' time to less than half of their 1992 levels (Ferge, 2001, p. 118). By April 1993, the average unemployment benefit was 9,500 HUF. For comparison, the minimum subsistence level for a family of two adults and two children in the first quarter of 1993 was 12,500 HUF per head in villages and 13,000 HUF per head in towns (Nesporova and Simonyi, 1994, p. 15). Overall, this amounts to a severe tightening of the unemployment benefit system. Governments 'squeezed' the unemployed hard, not least by international standards (for fuller overviews, see also Barr, 1994c; Fretwell and Jackman, 1994; Boeri, 1994; Boeri et al., 1998).²

Of course, during the last decades of the twentieth century, governments in many advanced democracies have equally attempted to implement unemployment benefit retrenchment in an effort to restructure welfare states that were frequently characterized as facing hard times (Stephens et al., 1999) or being in a state of permanent austerity (Pierson, 2001a). But nowhere have these attempts been as systematic as in Hungary and Poland. On the whole, between 1980 and 1995 average gross first-year

replacement rates for a worker at the average production worker's income have still gone up in both the social democratic regime (from 54 to 65 percent) and the conservative-corporatist regime (from 32 to 36 percent), while remaining at the status quo (30 percent) in the liberal regime (Swank, 2001, p. 237).³ Even those countries within the social democratic and conservative-corporatist regimes that faced the strongest budgetary pressures have only marginally retrenched their unemployment insurance systems. During the 1990s, both the German government (faced with the budgetary effects of unification) and the Swedish government (faced with a recession and unemployment figures reaching ten percent) introduced restrictions and limits, such as waiting days and harsher qualifying conditions. But while they also cut unemployment benefit replacement rates, at around 75 percent (Sweden) and 60-67 percent (Germany), these rates remained very generous by international standards (Stephens et al., 1999, pp. 181, 187).

Only Britain in the 1980s provides an instance of unemployment retrenchment that was as radical as in the three Central European cases considered here. Since 1979, Conservative governments in Britain have successfully eroded benefit levels, broken the link between earnings and benefits (from 1982 onwards, earnings-related supplements were abolished), and shifted the burden of unemployment support towards means-tested schemes, whose generosity was itself reduced. Unemployment replacement rates were cut from around 60 percent in 1975 to around 30 percent in 1985. Despite the enormous rise of unemployment levels in the 1980s (peaking in 1986), Britain stands out as the only EU country where unemployment benefit

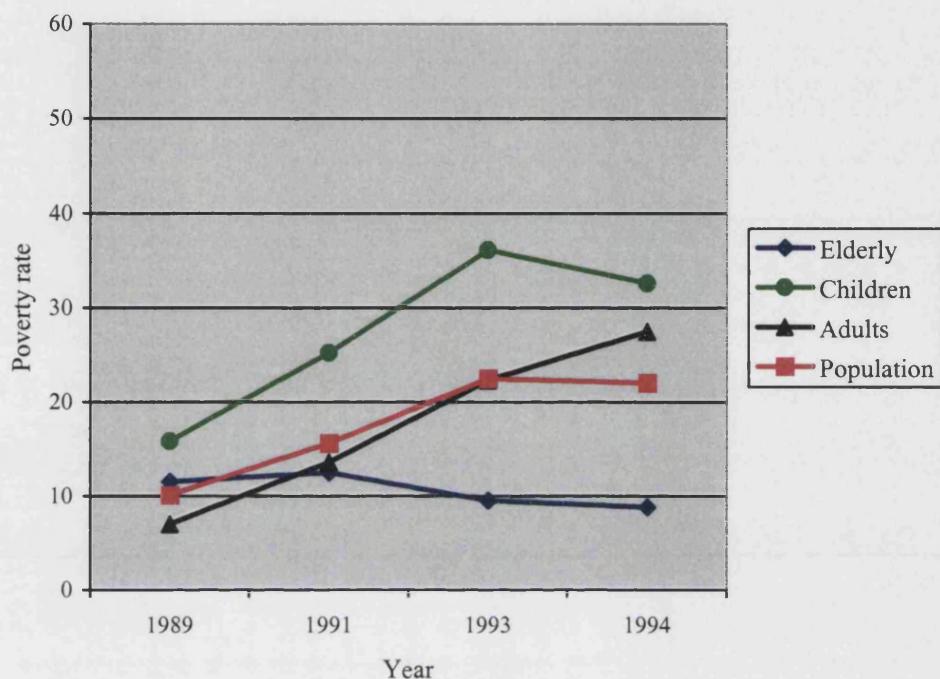
expenditure has fallen since 1980 (Wood, 2001, p. 395; Stephens et al., 1999, p. 184).⁴ In the next section, I turn to another key group addressed by divide and pacify policies.

4.2. Pensioner poverty: the wheel of fortune reversed

In late communism, pensioners, especially the elderly, used to be among the most poverty-struck social groups. In Hungary, the poverty rate among persons in inactive households in 1977 exceeded that of active households by a large margin. While falling afterwards, it became lower than that of active households only in 1987. In Czechoslovakia and Poland, during most of the 1980s, pensioners were consistently more poverty-prone than workers and farmers (Atkinson and Micklewright, 1992, p. 227-237).⁵ For instance, during every single year between 1978 and 1988, Polish pensioners recorded higher absolute poverty rates (with the poverty line defined as the social minimum calculated by the Polish Ministry of Labor and Social Affairs) than did either workers, worker-farmers, or farmers. On average, 30 percent of pensioners counted as poor during this period, compared to 15 percent of workers, 12 percent of worker-farmers, and 20 percent of farmers (own calculations based on Milanovic, 1992, p. 332, Table 2). At first sight, the prospects for the elderly at the start of the transition to a market economy did not look bright either – if anything, to the contrary. Compared to working-age people, they were more vulnerable economically, since they had fewer means to adapt their skills and income-generating activities to rapidly changing market

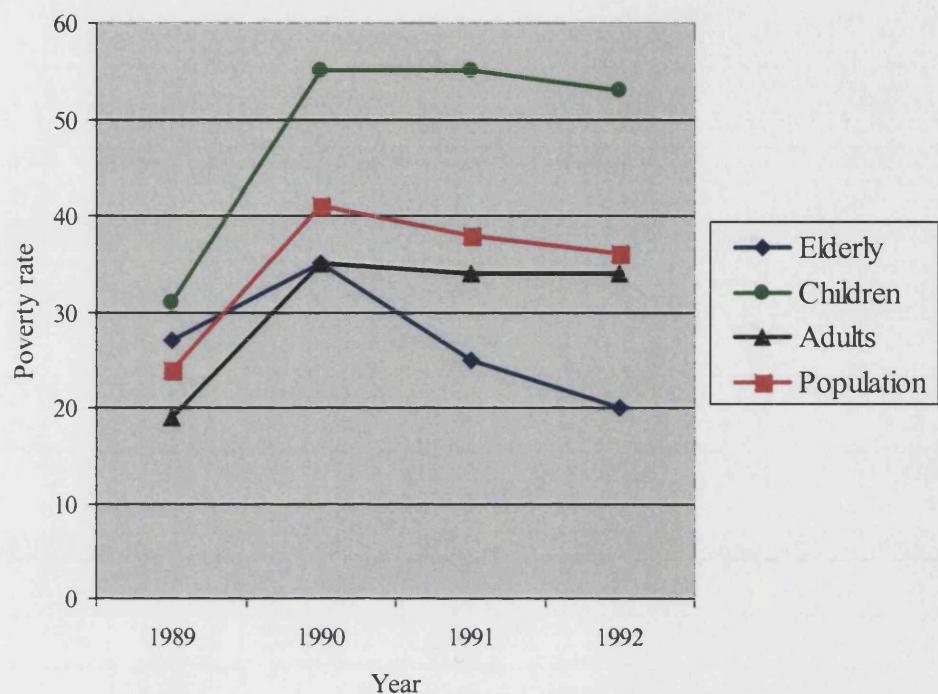
environments. However, Figures 4.1 to 4.3, on relative poverty headcounts, disconfirm any hypothesis that pensioners would become a highly poverty-prone group in the early 1990s.

Figure 4.1. Incidence of relative poverty for various age categories in Hungary, 1989, 1991, 1993, 1994



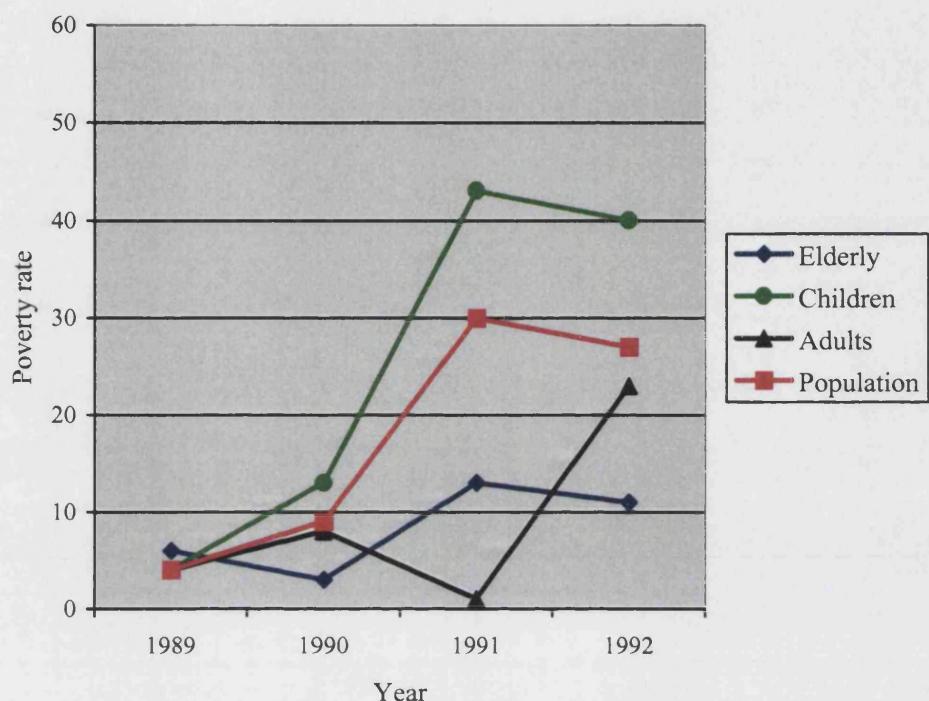
Note: poverty threshold = 40 percent of the average wage. Data for 1990 were not available. The vertical axis is scaled up to 60 % to aid comparability with Figure 4.2 below. Source: UNICEF (1997, p. 24, Table II.1).

Figure 4.2. Incidence of relative poverty for various age categories in Poland, 1989-1992



Note: poverty threshold = 40 percent of the average wage. Source: UNICEF (1997, p. 24, Table II.1).

Figure 4.3. Incidence of relative poverty for various age categories in the Czech Republic, 1989-1992



Note: poverty threshold: 35 percent of the average wage. The vertical axis is scaled up to 60 % to aid comparability with Figure 4.2 above. Source: UNICEF (1997, p. 24, Table II.1).

While these data do not allow cross-country comparison, they do reveal a remarkable trend within each country over time. Changes in poverty incidence have been strikingly beneficial for the elderly when compared to children, adults, and the total population average. A few years into transition, pensioners recorded significantly lower poverty rates than all three other groups in all three countries. This is all the more noteworthy since in 1989 the incidence of relative poverty among the elderly was still higher than the total population average, and higher than among the adult population, in every case. Strikingly, in Hungary and Poland the trends for the elderly (decreasing incidence) go in exactly the opposite direction as for all three other categories (increasing incidence).

Other studies reach similar conclusions. Using a poverty line of 70 percent of median household equivalent income, Stanovnik et al. (2000, p. 43) find that between 1987 and 1996, relative poverty (defined as less than 70 percent of media household income) went up from 16 to 22 percent in the population at large in Hungary, while decreasing slightly from 24 to 22 percent in Poland. But for pensioners, poverty went down by almost fifty percent, going from 24 to 14 percent in the first country and from 22 to 11 percent in the second.⁶ In Poland between 1989 and 1991, real income decreased by one-third for workers, by over 40 percent for mixed farmer-worker households and by more than half for farmer households, but by only 12 percent for pensioners. In the same period, the share of children below six living in poor households jumped up from 18 percent to over one-half. Using the national social minimum as poverty line, the absolute poverty headcount

between 1989 and 1991 increased from 16 to 38 percent among worker households, from 8 to 21 percent among mixed farmer-worker households, and from 17 to almost 40 percent among farmer households (Milanovic, 1993, pp. 13, 6, 7). Pensioner poverty outcomes compare favorably also with those of the unemployed. In 1993, absolute poverty rates of households where at least one member was unemployed were between two-and-a-half and four times higher than the country average in Hungary and Poland (Milanovic, 1994, p. 2). Using the national social minimum as the poverty line, 56 percent of the unemployed in Hungary counted as poor in 1994, compared to 16 percent of old age pensioners. By the same yardstick, in Poland in 1996, 80 percent of the unemployed were poor, compared to 37 percent of the old age and disability pensioners (Adam, 1999, p. 166). All in all, this amounts to a remarkable reversal of the fortunes of pensioners in the early post-communist years. But what explains this outcome?

In the realm of welfare state politics, policy outcomes may be assumed, *prima facie* at least, to reveal policy inputs. The latter, in turn, may be assumed to reveal relative political preferences within given budgetary constraints. Social spending priorities were especially consequential in the early transition years because rising social needs in terms of poverty, unemployment and falling incomes combined with declining tax revenues due to output collapse and lower tax collection (Barr, Gomulka, and Tomeš, 1994, pp. 91-93; Barr, 1994a, p. 81). Compared to middle-aged households or to young families, pensioner households in pay-as-you-go systems depend to a greater extent on state pensions as their main source of income. For instance,

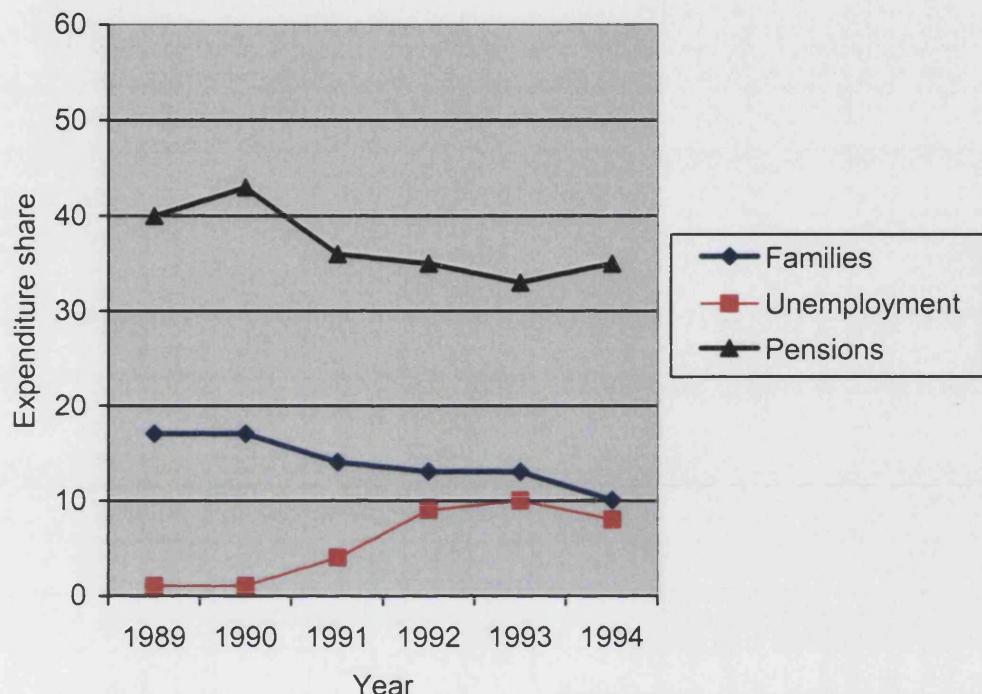
in 1996 pensions represented 81 percent of total household income for pensioner households in Hungary, and 82 percent for pensioner households in Poland, whereas own earnings represented respectively 7 and zero percent. By comparison, in the UK, where private pension funds play a much bigger role, pensions accounted for 60 percent of income in pensioner households, and own earnings for 3 percent. Moreover, compared to the late communist period, the relative importance within pensioner incomes of pension benefits had increased by 11 percent in Hungary, while remaining stable Poland. The relative shares of own earnings in pensioner household incomes, however, had decreased by respectively 2 and 9 percentage points over the 1987-1996 period (Stanovnik et al., 2000, pp. 25-26). More than ever, therefore, governments in transition held the key to shaping pensioners' welfare. How did they use it?

4.3. Pensioners in transition: worse off, but still better than the rest

In investigating exactly how policy inputs may have led to changes in the positional fortunes of various social groups, aggregate indicators of social spending can provide useful insights. Political scientists typically analyze macro-social spending in terms of its share of GDP (e.g. Cain and Surdey, 1999, p. 150; Stephens et al., 1999, pp. 169, 175; Pierson, 2001b, p. 89). While useful in indicating the relative proportions of gross domestic income devoted to different welfare services, such rates do not allow one to distinguish between the influence of changes in state efforts to provide social

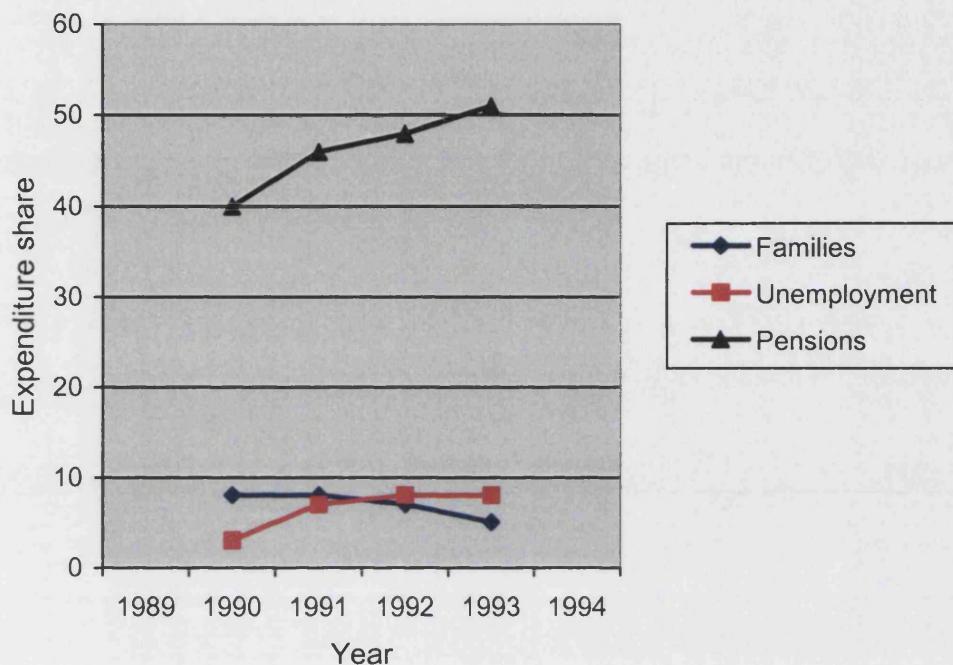
protection (social policy) and the influence of GDP changes. This means that valuable information is lost, especially in the early years of economic transition, when Hungary, Poland and the Czech Republic experienced very different paths of negative GDP growth. Leaving out the influence of GDP growth allows a better assessment of the social policy choices made within a given welfare state budget. Hence, to analyze macro-social spending priorities, I have calculated the relative share within the total welfare state budget of three different programs that are destined, roughly, for three distinct age groups in the population (see Figures 4.4 to 4.6).

Figure 4.4. Aggregate spending on family and maternity allowances (Families), unemployment benefits and poverty assistance (Unemployment) and pensions (Pensions) as a percentage of the total welfare state budget in Hungary, 1989-1994



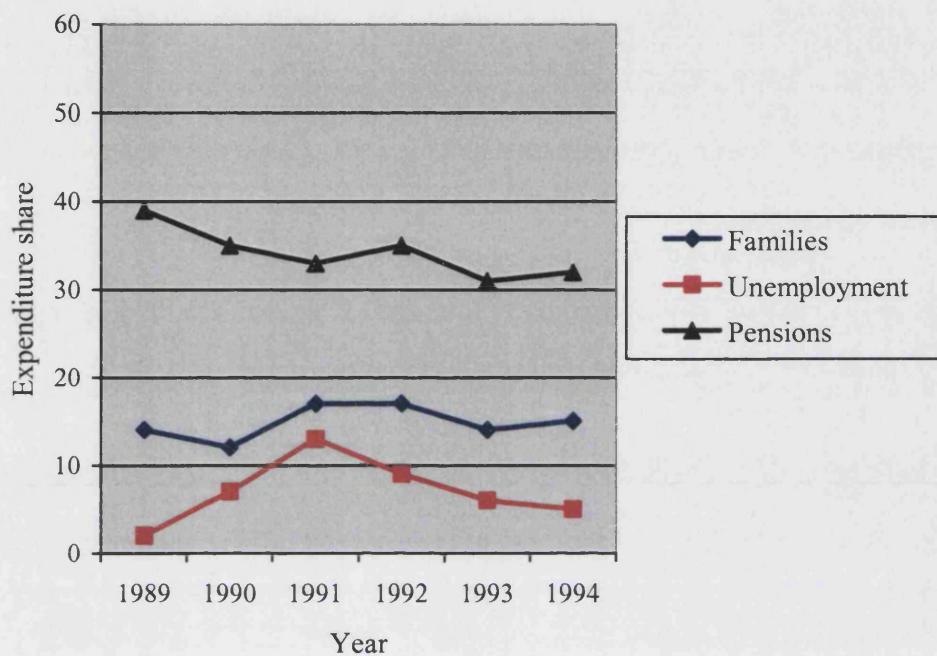
Source: own calculations based on UNICEF (1997, pp. 135-137, Tables 3, 6, 7, 8).

Figure 4.5. Aggregate spending on family and maternity allowances (Families), unemployment benefits and poverty assistance (Unemployment) and pensions (Pensions) as a percentage of the total welfare state budget in Poland, 1989-1994



Source: own calculations based on UNICEF (1997, pp. 135-137, Tables 3, 6, 7, 8).

Figure 4.6. Aggregate spending on family and maternity allowances (Families), unemployment benefits and poverty assistance (Unemployment) and pensions (Pensions) as a percentage of the total welfare state budget in the Czech Republic, 1989-1994



Source: own calculations based on UNICEF (1997, pp. 135-137, Tables 3, 6, 7, 8).

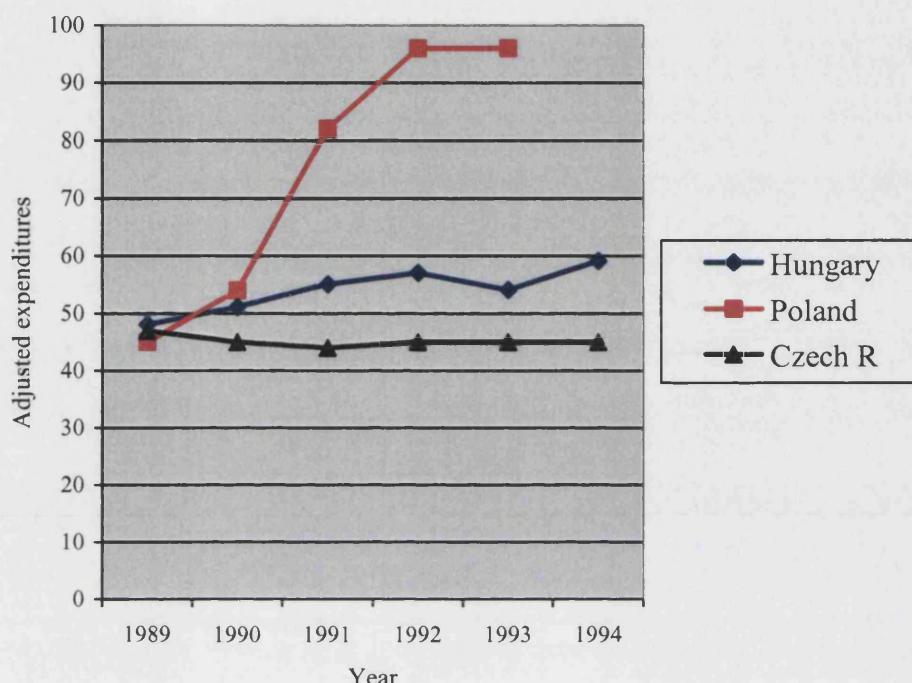
Family and maternity allowances and pensions were already mature welfare programs under communism. But with the exception of Hungary, poverty assistance and unemployment programs had to be started up from scratch – often taking off seriously only after 1992. In the Czech Republic, the share of family and maternity allowances within the total social budget remained stable at a comparatively high level (16 percent on average), while that of pensions decreased slightly, to reach a comparatively low level by 1994 (32 percent). Hungary and Poland follow a different path. In Hungary, the 'pensioners share' decreased only slightly, to stabilize around 35 percent, but the 'families share' decreased by 7 percentage points since 1989. In Poland, the same priorities seem to have prevailed in a still more pronounced way. The families share, already lower than elsewhere, decreased further, whereas the pensioners share actually shot up by more than a quarter, to absorb more than half of the total welfare budget in 1993.⁷

An important qualification must be added, however. Higher aggregate spending levels on any given welfare program, even as a percentage of the overall social spending, may simply indicate responsiveness to higher expenditure needs rather than deliberate policy preferences. In order to separate social and demographic from political (or other) determinants driving expenditure allocations to different programs, it is thus necessary to check for those changes in expenditures that were due to rising needs. For instance, the low shares of spending on young families may in part have reflected the fact that there were fewer families to cater for. Indeed, continuing a trend that had started in earlier decades, the number of babies and young children further

declined in Central and East European countries in the 1990s. By 1989 the number of children aged between zero and four had already decreased to 97 percent of its 1980 level in Poland, to 81 percent in the Czech Republic, and to 77 percent in Hungary. But in the following nine years, the numbers of young children had further gone down drastically, reaching respectively 68, 62 and 68 percent of their 1980 levels (own calculations based on UNICEF, 1999, p. 116). The same trend was visible universally in post-communist Central and Eastern Europe.⁸

In the same vein, when analyzing pension expenditures it is necessary to separate changes due to social and demographic needs from those that may have political motives. This can be done by calculating expenditures as a percentage of GDP, as standardized for the size of the aged population (Pampel and Williamson, 1985, p. 786). Figure 4.7 therefore presents yearly pension expenditures *per person aged 60 and over* divided by GDP per capita, giving a first rough indication of changes in expenditures when controlled for potential changes in the number of elderly people.

Figure 4.7. Yearly pension expenditures as standardized for the size of the population aged over 60, in Hungary, Poland and the Czech Republic, 1989-1994



Note: these rates were calculated with the following formula: $100 * [(\text{pension expenditures}/\text{population aged over 60})/(\text{GDP}/\text{total population})]$, or, equivalently, $100 * [(\text{pension expenditures}/\text{GDP})/(\text{population aged over 60}/\text{total population})]$. Source: own calculations based on UNICEF (1997, p. 125, Table A.7, p. 137, Table D.8).

In the Czech Republic, pensions expenditures thus standardized have remained virtually constant between 1989 and 1994. But they have increased by over twenty percent in Hungary, while more than doubling in Poland. Figure 4.7 thus gives a first rough indication that pension spending in the latter two countries has significantly increased over and above the amount required to compensate for the rise in the number of *elderly* people. Two further remarks must qualify this picture, however. First, the rates presented in Figure 4.7 might be distorted by the rapidly changing GDP levels in the first years of transition. Second, if the number of non-elderly pensioners (in this case, those below 60) has increased as well as that of those above 60, these rates will be distorted because they incorporate spending on these 'abnormal' pensioners in the numerator, but not in the denominator. Lastly, the significance of any changes in budgetary priorities towards pensions is best assessed by comparing them with expenditures destined to other social groups. Analyzing similar needs-adjusted spending patterns for welfare programs catering for different age groups, for instance, would throw more conclusive light upon whether or not pensioners have been better protected, relatively speaking. To test this hypothesis, Table 4.2 therefore presents for Hungary the trends in total yearly nominal spending for the same programs discussed above, *per recipient of those benefits* (that is, per head of the population of those depending on the welfare program in question).

Table 4.2. Total yearly nominal spending per unit of recipient, various welfare state programs, in Hungary (in thousands of HUF, current prices), 1990-1996

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1996/1990 |
|------------------|------|------|------|------|------|------|------|-----------|
| Families (1) | 106 | n.a. | n.a. | n.a. | 183 | 201 | 229 | 2.17 |
| Assistance (2) | 39 | 45 | 49 | 60 | 65 | 70 | 77 | 2.00 |
| Unemployment (3) | n.a. | n.a. | n.a. | 49 | 68 | 80 | 89 | 1.81 |
| Pensions (4) | 79 | n.a. | n.a. | 137 | 170 | 195 | 221 | 2.79 |

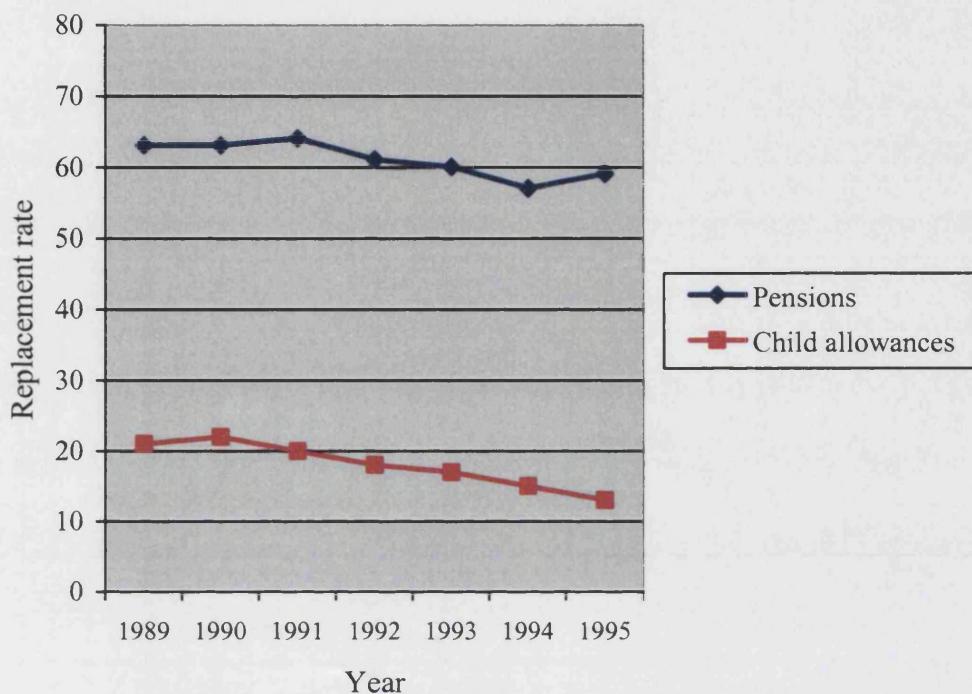
Note: index for unemployment = 1996/1993. (1) = total spending on child care allowances and fees and on family allowances per unit of recipient (Families); (2) = total spending on social support per person receiving regular social support (Assistance); (3) = total spending on unemployment benefits per unemployed receiving benefit to support the income (Unemployment); (4) = total spending on pensions, rents, and other provisions paid per head of the population of pensioners, renters, and other provisioners (Pensions). Sources: own calculations based on Hungarian Central Statistical Office (1993, 1994, 1995, 1996, 1997, various Tables).

The same positional story emerges: pensioners have fared relatively better than other groups that depended on the welfare state. Child allowances and fees and family allowances increased by 117 percent nominally between 1990 and 1996. Since the Consumer Price Index in 1996 stood at 383 percent of its 1990 level, this implies that they decreased by 43 percent in real terms. Social assistance benefits doubled nominally, and decreased by 48 percent in real terms. And needs-adjusted unemployment benefits increased nominally by only 83 percent between 1993 and 1996. Lastly, pension spending per program recipient has increased most in nominal terms between 1996 and 1990 (by 179 percent), and has decreased least of all programs in real terms (by 27 percent).⁹ In sum, the macro-story indicates that pensioners were worse off, but still better than the rest. The next section analyzes micro-level input indicators.

4.4. Pensions benefits: keeping up with wages, jumping ahead of other welfare benefits

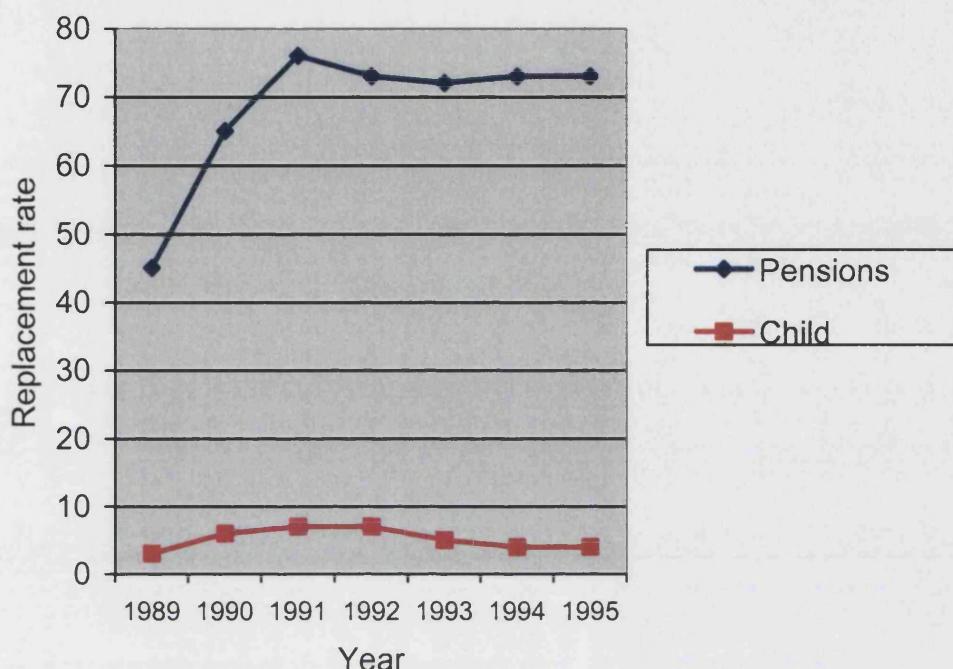
Further insights in the ways in which government policies affected the relative welfare of different social groups can be gained by looking at changes in the average replacement rates, which indicate how average welfare benefits for various programs evolved as a share of average wages in the economy. Figures 4.8 to 4.10 therefore present replacement rates for old age pensions and child allowances in Hungary, Poland and the Czech Republic.

Figure 4.8. Replacement rates for old age pensions and child allowances in Hungary, 1989-1995



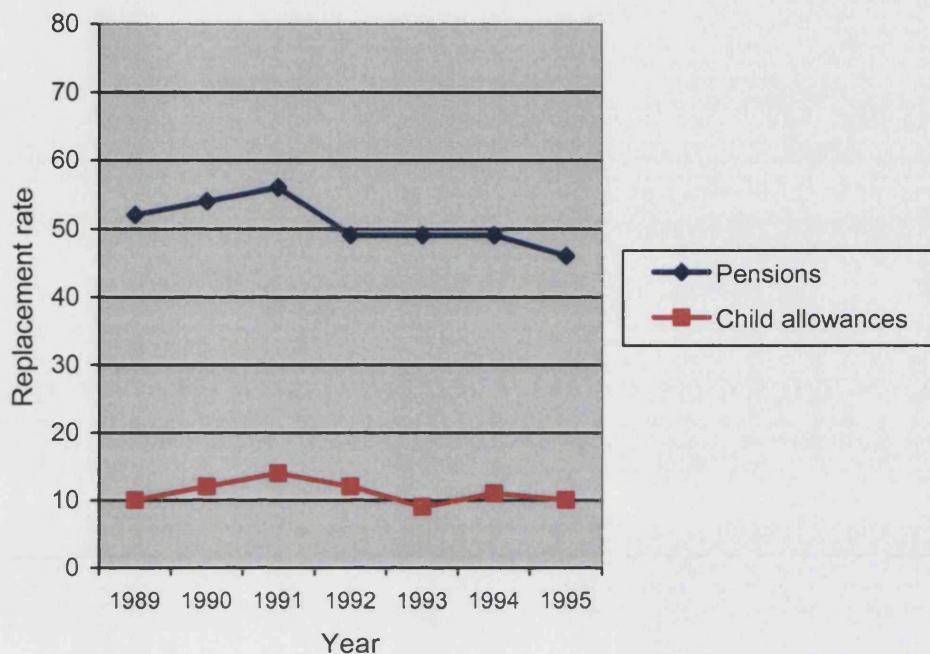
Notes: Pension replacement rate = average monthly own-right old age pension as a percentage of average net wage. Child replacement rate = yearly average per child allowance of a two-child couple (or the most typical group of recipients) as a percentage of average net wage. Source: UNICEF (1997, p. 142, Table E.5, p. 143, Table E.7).

Figure 4.9. Replacement rates for old age pensions and child allowances in Poland, 1989-1995



Notes: Pension replacement rate = average monthly own-right old age pension as a percentage of average net wage. Child replacement rate = yearly average per child allowance of a two-child couple (or the most typical group of recipients) as a percentage of average net wage. Source: UNICEF (1997, p. 142, Table E.5, p. 143, Table E.7).

Figure 4.10. Replacement rates for old age pensions and child allowances in the Czech Republic, 1989-1995



Notes: Pension replacement rate = average monthly own-right old age pension as a percentage of average gross wage. Child replacement rate = yearly average per child allowance of a two-child couple (or the most typical group of recipients) as a percentage of average gross wage. Separate child compensations have been included. Source: UNICEF (1997, p. 142, Table E.5, p. 143, Table E.7).

Figures 4.8 to 4.10 roughly confirm the picture revealed by the macro-expenditure data. In the Czech Republic, replacement rates for both programs remained stable throughout. Replacement rates for pensions decreased slightly in Hungary, whereas they increased by almost three quarters in Poland. The big leap in Poland in 1990 was due to an early new policy that almost single-handedly reversed the relative welfare of pensioners in society: the basis for the calculation of pensions as well as the benefits themselves became indexed (Golinowska, 1999, p. 175). The constant levels of pension replacement rates in Hungary and Poland subsequently was also due in great part to the governments' choice to index pensions, unlike other welfare benefits, on the basis of the growth in average net wages (Stanovnik et al., 2000, p. 33).¹⁰ In terms of relative economic well-being, pensioners could thus keep up with workers almost by default, while at the same time jumping ahead of other groups of welfare dependents. Indeed, replacement rates for child allowances went down by 40 percent in Hungary, while in Poland they stabilized at a niggardly low level. This indicates that behind the decreases in aggregate program spending reported in Figures 4.4 and 4.5 there has been a genuine measure of welfare retrenchment, beyond any spending cuts that could be attributed to decreasing social needs due to fertility decline.¹¹

Table 4.3. Replacement rates for unemployment benefits (u) and old age pensions (p) and π values in Hungary, Poland and the Czech Republic in 1991 and 1995

| | 1991 | | | 1995 | | |
|---------|------|------|-------|------|------|-------|
| | u | p | π | u | p | π |
| Poland | 53 % | 76 % | 0.70 | 45 % | 73 % | 0.62 |
| Hungary | 59 % | 64 % | 0.92 | 51 % | 60 % | 0.85 |
| Czech R | 58 % | 56 % | 1.03 | 30 % | 46 % | 0.65 |

Specifically, the theoretical argument developed in Chapter 3 implied that replacement rates for unemployment benefits should be only a fraction $\pi < 1$ of those for pensions. Table 4.3 above presents an estimation of these π values based the replacement rates for first-year unemployment presented in Table 4.1 and the replacement rates for pensions presented in Figures 4.8 to 4.10.¹² Condition (3.2) applies – most strikingly in the Polish case. The replacement rates for unemployment benefits were lower than those for pensions in all three countries, with the partial exception of the Czech Republic in 1991.

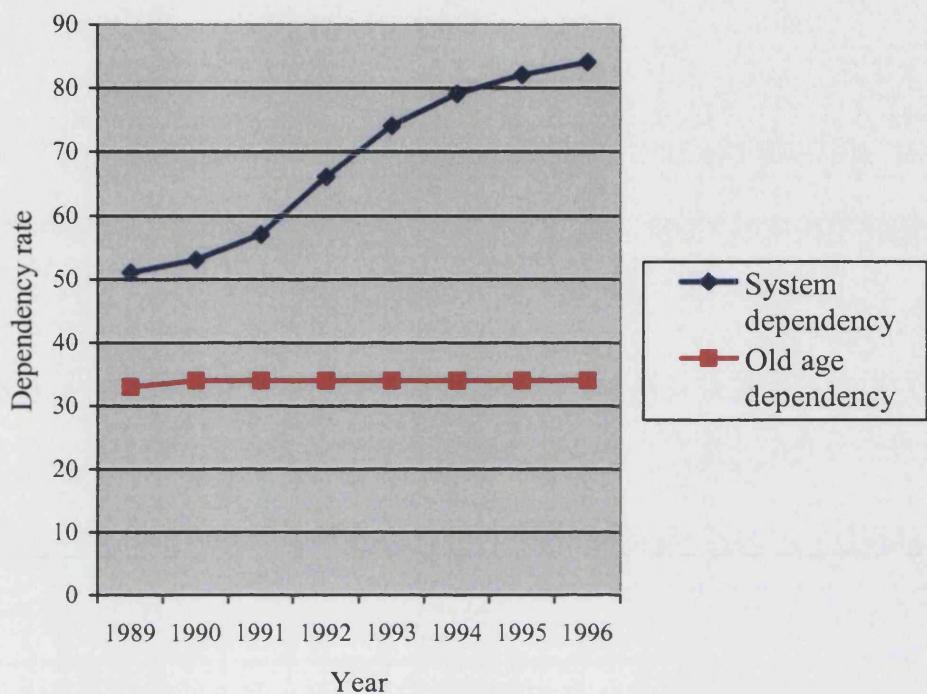
What of the theory's other proposals?

4.5. Divide and pacify in action: the abnormal pensioner booms

By the start of the 1990s, most advanced industrialized democracies in the Western world were coping with rapidly worsening problems of aging populations, and their consequences for the budgetary balance of national welfare systems. For instance, between 1960 and 1990, the mean ratio of the

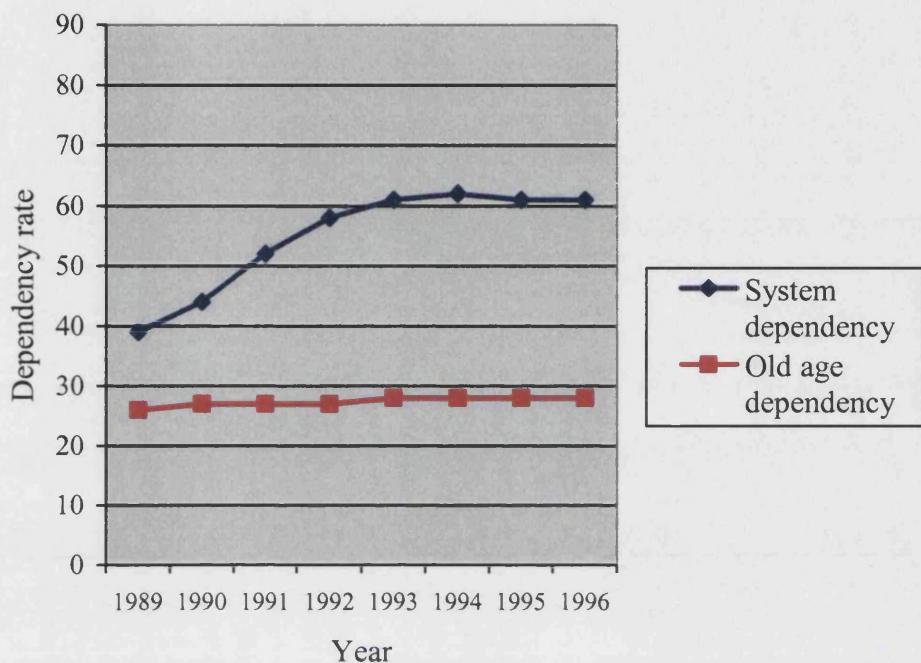
number of persons over 64 divided by the number of persons aged between 15 and 64 worsened in all three Western welfare regimes, going from 16 to 24 percent in the social democratic regime, from 17 to 21 percent in the conservative-corporatist regime and from 16 to 19 percent in the liberal regime (own calculations based on Huber and Stephens, 2001, p. 137, Table 4.6).¹³ Countries in Central Europe, by contrast, remained largely exempt of similar aging problems throughout the early 1990s, although these were expected to aggravate after the year 2000. Between 1989 and 1996 a similar (but not identical) old age dependency rate, the proportion of 60-plussers to that of persons aged between 18 and 59 years of age, remained stable in Hungary and the Czech Republic, and increased slightly in Poland. Absent a demographically-induced need for major expenditure increases, one might logically have expected the pension system dependency rates to remain more or less stable as well. Figures 4.11 to 4.13, however, paint a dramatically different picture.

Figure 4.11. Pension system dependency and old age dependency rates in Hungary, 1989-1996



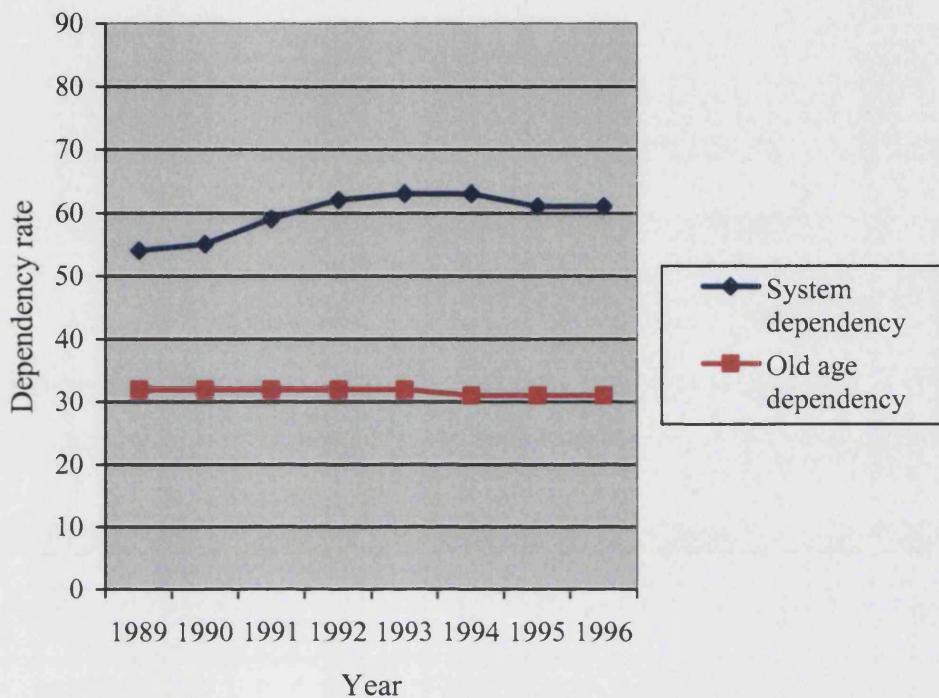
Notes: System dependency = pensioners as a percentage of contributors-employees. Old age dependency = population aged over 60 divided by population aged between 18 and 59.
Sources: Schrooten et al. (1999, p. 281, Table 1) for system dependency rates and UNICEF (1999, p. 112, Table 1.6) for old age dependency rates.

Figure 4.12. Pension system dependency and old age dependency rates in Poland, 1989-1996



Notes: System dependency = pensioners as a percentage of contributors-employees. Old age dependency = population aged over 60 divided by population aged between 18 and 59.
Sources: Schrooten et al. (1999, p. 281, Table 1) for system dependency rates and UNICEF (1999, p. 112, Table 1.6) for old age dependency rates.

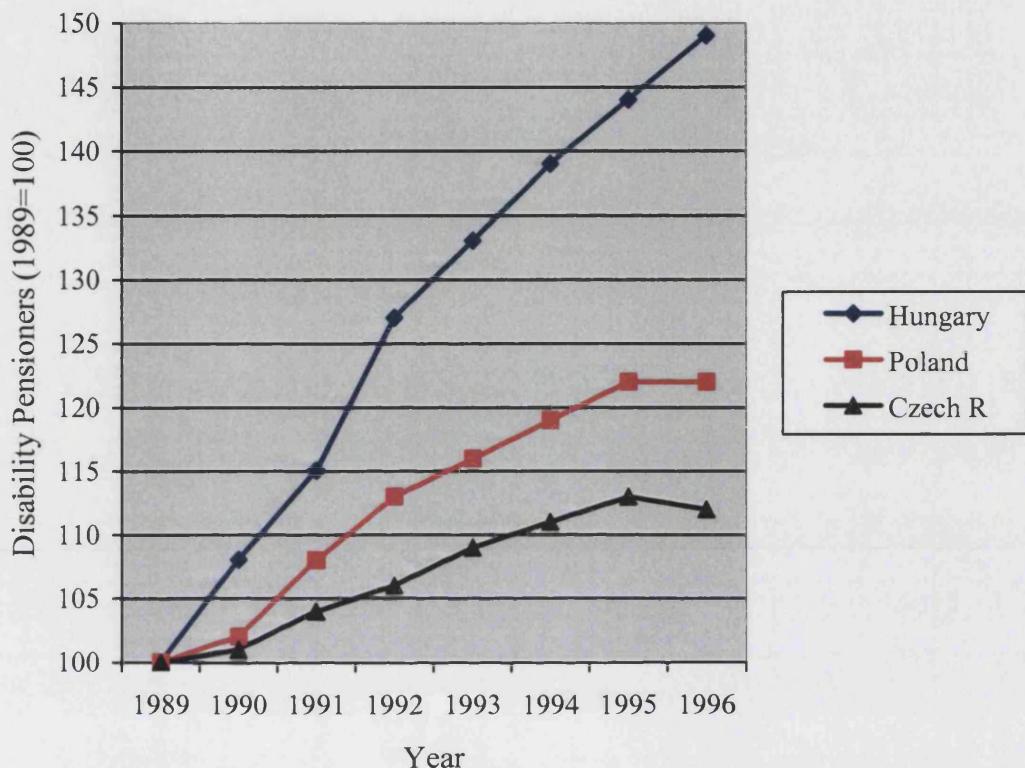
Figure 4.13. Pension system dependency and old age dependency rates in the Czech Republic, 1989-1996



Notes: System dependency = pensioners as a percentage of contributors-employees. Old age dependency = population aged over 60 divided by population aged between 18 and 59.
Sources: Schrooten et al. (1999, p. 281, Table 1), for system dependency rates and UNICEF (1999, p. 112, Table 1.6) for old age dependency rates.

In the Czech Republic, the pension system dependency rate went up by 6 percentage points to 60 percent. In the other two countries, this effect was again more pronounced. In Poland, it increased by 22 percentage points to 61 percent and in Hungary by no less than 33 percentage points to 84 percent - one of the highest rates in the entire world. For comparison, the average system dependency rate in 1994 in the OECD world was around 38 percent (Boeri et al., 1998, p. 16). Four main causal factors stand out for this remarkable jump.¹⁴ First, there was substantial evasion of payroll taxes. Second, the number of contributors decreased due to the surge in unemployment and a significant decrease in labor market participation. Third, easy eligibility conditions for disability benefits, a legacy of communism, were greatly extended in the early years of the transition. Fourth, there was a massive increase in the number of people going into early retirement. The latter two categories, disability pensions and early retirement, are jointly captured by what I termed abnormal retirement in Chapter 3. Figure 4.14 indicates the evolution in the first component of this abnormal pensioner boom: the growth of disability pensioners in Hungary, Poland and the Czech Republic between 1989 and 1996.¹⁵

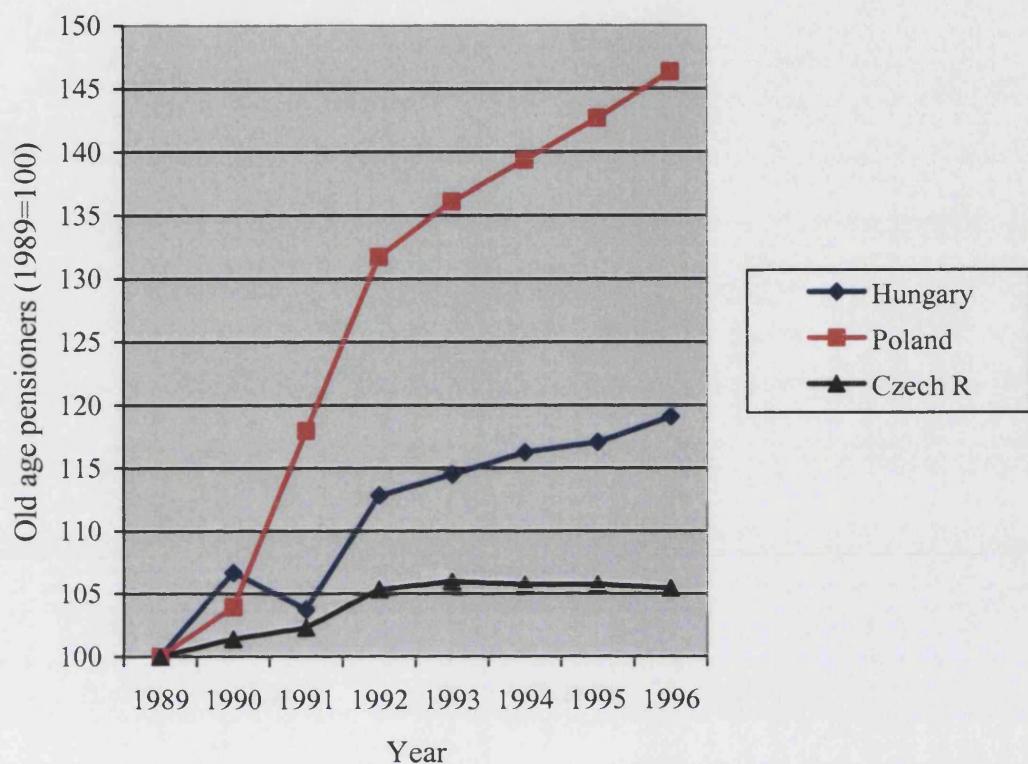
Figure 4.14. The growth in the numbers of disability pensioners in Hungary, Poland and the Czech Republic, 1989-1996



Source: Own calculations based on Schrooten et al. (1999, p. 281, Table 1).

The number of disability pensioners increased by 11 percent in the Czech Republic, but by 22 percent in Poland and by a staggering 49 percent in Hungary. Underlying these figures are radical shifts in the lives of literally hundreds of thousands of people in the latter two countries. In barely seven years 55,000 Czechs, 278,000 Hungarians and 475,000 Poles newly retired on disability pensions (own calculations based on Schrooten et al., 1999, p. 281, Table 1). Only by stretching the imagination could one believe that more than a fraction of this boom corresponds to an increase in the number of genuine cases of disability. Figure 4.15 indicates the evolution of the second component of the abnormal pensioner boom in these countries: the growth in the number of old age pensioners.

Figure 4.15. The growth in the numbers of old age pensioners in Hungary, Poland and the Czech Republic, 1989-1996



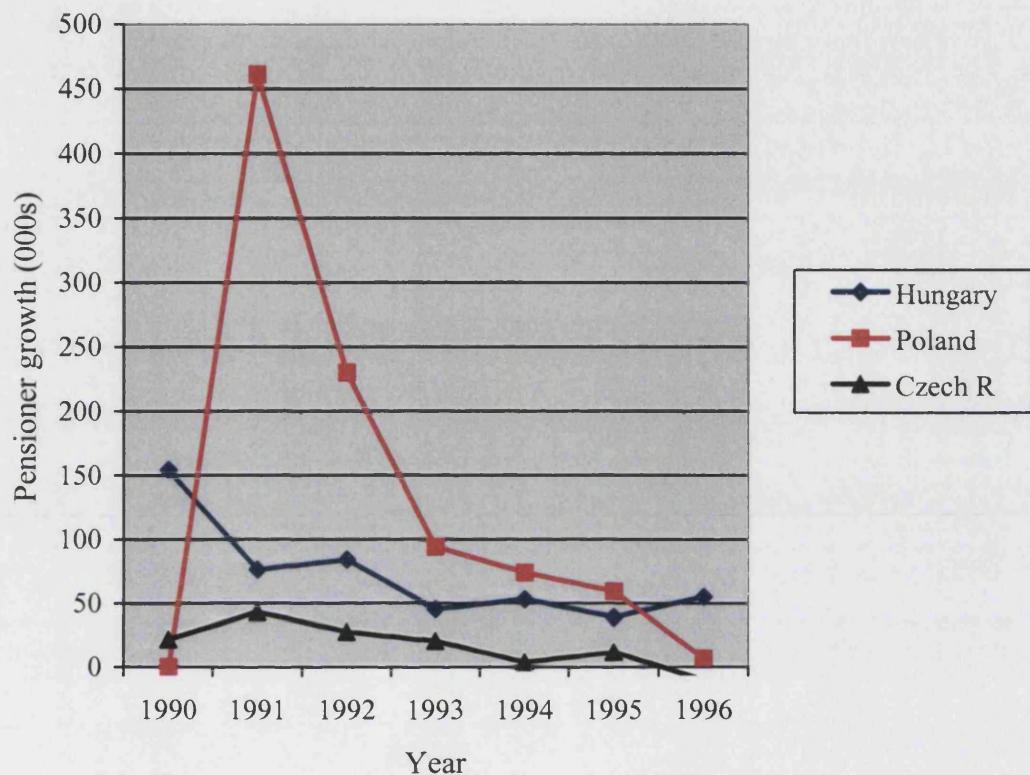
Source: Own calculations based on Schrooten et al. (1999, p. 281, Table 1).

Figures 4.14 and 4.15 indicate that the two latter countries have employed different strategies to withdraw workers from the labor market. The preferred mechanism in Hungary was disability retirement, whereas in Poland it was early retirement. Between 1989 and 1996 the number of old age pensioners increased by 5 percent in the Czech Republic, by 20 percent in Hungary and by 46 percent in Poland.¹⁶ In absolute numbers, 93,000 persons went on old age retirement in the Czech Republic in this period, compared to 261,000 in Hungary, and no less than 1,049,000 in Poland (own calculations based on Schrooten et al., 1999, p. 281, Table 1).¹⁷ The Polish figures, moreover, cover only the main pension scheme (ZUS). In addition, entire professional categories were covered by separate pensions systems. For instance, the uniformed services (policemen, soldiers and prison guards) received pensions – typically more generous ones than those paid out by ZUS - directly from their respective ministries, without paying contributions at all (Müller, 1999, p. 99).

Figure 4.16 presents estimates of the yearly growth in the number of abnormal pensioners for the entire period from 1989 to 1996. These were calculated by adding the yearly change in the number of old age pensioners to the yearly change in the number of disability pensioners, and subtracting from it the yearly change in the number of people over 60. These estimates provide only a rough indication of the yearly growth in abnormal pensioners, and they are not fully comparable. Specifically, in Hungary the legal retirement age was 55 for women and 60 for men, whereas in the Czech Republic it was

between 57 and 61 for women (depending on the number of children raised) and 60 for men. So the estimates of abnormal retirement growth given in Figure 4.16 are too large to the extent that they do not adjust for those Hungarian women between 55 and 60 and those Czech women between 57 and 60 who legally retired. In Poland, the legal retirement age was 60 for women and 65 for men. So the Polish estimate is too small to the extent that it does not adjust for those men between 60 and 65 who retired early.¹⁸ All estimates err on the conservative side to the extent that they exclude special categories of pensions, such as survivors' pensions, special occupations and, significantly in the Polish case, farmers.

Figure 4.16. Estimate of the total yearly growth in abnormal pensioners in Hungary, Poland and the Czech Republic (in thousands), 1990-1996



Source: Own calculations based on Schrooten et al. (1999, p. 281, Table 1).

Over a seven-year time span, an estimated 506,000 persons retired abnormally in Hungary, and 934,000 persons in Poland (half of which were in 1991 alone). Throughout the entire period, abnormal pensioner growth rates in the Czech Republic remained below those in both these countries. Keeping in mind the virtual demographic standstill in these same years, it is hard to overestimate the significance of this perturbation of the work-welfare structure of society in Poland and Hungary. Indeed, this can be aptly labeled as a great (if not a grey) abnormal pensioner boom. In the early 1990s, when the official retirement age in Poland remained unchanged, the average actual retirement age stood at 59 for men and at 55 for women, respectively six and five years below the official retirement age (Szulc, 2000, p. 106). By 1997, the average actual retirement age had gone down by a further year for men and women alike. In fact, 10 percent of all men and 37 percent of all women who were granted an old age pension that year were younger than 55 (Czepulis-Rutkowska, 1999, p. 151).¹⁹ In Hungary, in 1994 the average actual retirement age stood at 54 for men and 52.7 for women, respectively six and two years below the official retirement age (Ferge, 1999, p. 234).

Of course, the abnormal retirement template of sending redundant or soon-to-be-redundant workers on pensions was neither novel in nor specific to the post-communist context. In Hungary, for instance, the number of people opting for an early exit from the labor market had been growing throughout the 1980s. Thus by 1985 over 400,000 people retired on disability pensions: an increase by 131 percent compared to 1977 (Szalai, 1991, pp. 347-348). However, in contrast with former communist which allowed or even

encouraged private work (Chapter 3), communist governments, faced with chronic labor shortages, provided fewer explicit incentives for such early exit until the late 1980s. From 1975, a minimum of 10 years of full employment was required to obtain a pension in Hungary, after which workers were entitled to 33 percent of previous earnings (the base for which was the average of earnings in the three best years out of the last five). Beyond these ten years, pension benefits were progressive according to the duration of employment. In other words, the state rewarded employment and penalized early retirement. The maximum pension could be achieved only after 42 years of employment. Moreover, special incentives were introduced to stimulate labor force participation even beyond the official retirement age. For each additional year of employment for men over 60, the amount of pension was raised by 7 percent in the case of blue-collar workers, and by 3 percent in the case of white-collar workers (Szalai, 1991, pp. 343-348). From 1973, workers in certain occupations that qualified as extra-hard labor, and who had worked at least 10 years continuously, were entitled to a reduction of retirement age by two years, and by a further year for each extra period of five year employment. Whereas pathways for early retirement were relatively easy but restricted to specific occupations, those for disability exit were still narrower.

The option to go on disability pensions was established in the 1975 Social Security Act in Hungary, which defined as eligible only those who had lost at least 67 percent of their former working capacity because of a permanent deterioration of their physical or mental health, and who met the precondition of 10 years prior employment. Moreover, application procedures

were discouraging: waiting times were long (frequently between 6 to 12 months), and the procedure was otherwise bureaucratic and stigmatizing. As a result, in 1985 less than ten percent of applicants were regarded as fully eligible, while all other applicants were listed for review one or two years later (Szalai, 1991, pp. 343-348). Thus, while many workers during late communism did succeed in exiting early from the labor market, and many more attempted to do so, they were much less encouraged to do so by official government policies than was the case in early post-communist transition.

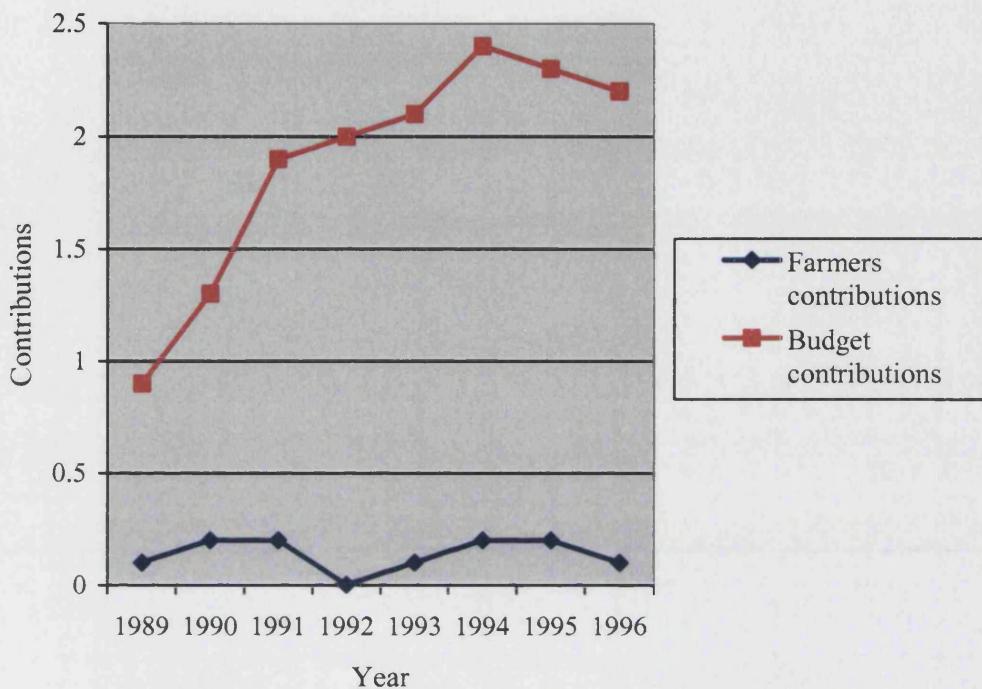
Neither was the early exit template specific to this region. In the decades following the Second World War, a number of advanced industrial democracies, especially those belonging to the conservative-corporatist regime in Continental Europe, have similarly opted for early retirement as a strategy for labor force reduction. For instance, in the decades between the end of the Second World War and the mid-1980s, labor force participation rates in the 60-64 age category have slumped dramatically for both sexes, going from 76 to 31 percent for men and from 40 to 19 percent for women in France and from 73 to 34 (men) and 21 to 10 (women) percent in Germany. But in Sweden, male participation rates have decreased by only 5 percentage points (to reach 65 percent), while female participation rates have more than doubled (to reach 47 percent). The UK and the US, lastly, present a picture in between these two regimes, with participation rates going down significantly for men (88 to 55 percent and 79 to 55 percent) and staying virtually status quo for women (at around 20 and 30 percent) (Jacobs et al., 1991, pp. 38-41).²⁰ The early exit template was thus a familiar element of government

policy in a number of advanced industrial welfare states, although this took the shape of a gradual process evolving over many decades – and not in just a few years, as in Hungary and Poland (Esping-Andersen, 1996a, pp. 73-74; 1999; Kohli et al., 1991).²¹ What made the abnormal pensioner boom in post-communist Hungary and Poland so remarkable was less the template which was used (early labor market exit) than the template's accelerated speed, and the unprecedented scale on which it was used after 1989.

Farmers are another group identified in Chapter 2 as a likely threat to peace in the polity. Confronted with a group that was at the same time sizable, hard hit by reforms, and potentially effective in organizing protests, governments had strong reasons to try and reduce the population of farmers inherited from the communist period by the creation of abnormal pensioners. This helps to explain the decision of the Polish government to set up an entirely separate pay-as-you-go pensions system for farmers only, KRUS. As early as 1990, the Mazowiecki government adopted new laws that relaxed pension eligibility criteria for farmers and exempted them from general pension contribution rules (Cain and Surdey, 1999, p. 162). And in line with the boom in numbers in the main Polish pension system (ZUS) reported in Figures 4.14 to 4.16, the number of KRUS pensioners also increased dramatically in the early 1990s. While in 1990, around one and a half million Poles drew a farmers' pension, by 1995 their number stood at just over two million – an increase by more than a third in just five years (own calculations based on Polish Ministry of Labor and Social Affairs, 1996, p. 64, Table IV.I).²² Consider furthermore the evolution of the contributions paid by

farmers and governments into KRUS in the early years of transition (Figure 4.17).

Figure 4.17. Contributions to KRUS by farmers and by governments in Poland, 1989-1996 (as percent of GDP)



Source: Schrooten et al. (1999, p. 283, Table 4).

Between 1989 and 1996, the payments which current farmers-contributors (workers) were required to make to KRUS remained relatively stable, at between 0.1 and 0.2 percent of GDP. As a result of the financial logic governing pay-as-you-go systems, the money available to pay out current KRUS pensions would either have had to be divided over the rapidly increasing number of farmer-pensioners (resulting in lower individual pensions), or would have had to be topped up from other sources (to avoid large decreases in the value of pensions). Successive Polish governments opted decisively for the second path.²³ General government budget contributions to KRUS, which stood at 0.9 percent of GDP before transition, reached 2.2 percent in 1996, a 145 percent increase. This peculiar state of affairs made KRUS a pay-as-you-go pension system only in appearance. From the start, workers were required to finance only one-third of total contributions to their own pension fund, while the state covered two-thirds. Yet despite the boom in KRUS pensioners in subsequent years, workers' contributions actually went down to 10 percent, with state subsidies covering 90 percent of all contributions (Czepulis-Rutkowska, 1999, p. 146).²⁴ The diminishing group of farmer-workers was thus exempted from paying higher contributions, while the growing constituency of farmer-pensioners was exempted from the corollary cuts in their pensions. The government budget, that is, ultimately, other groups in society, picked up the bill. And when from 1997 onwards thorough reforms were implemented to turn the main pension fund (ZUS) from a pay-as-you-go system into a three-pillar system, the farmer fund, despite receiving such heavy state subsidies, remained exempt

from any reforms (Müller, 1999, p. 163).

Conclusions

Chapter 3 has suggested that it was in the interest of post-communist governments to create favorable incentives for working-age groups to go on pensions. This Chapter has shown that the early years of transition have seen a number of remarkable reversals in the welfare outcomes of, and policy inputs towards, different age groups depending on the welfare state. In Hungary, Poland and the Czech Republic, pensioners had been among the more poverty-prone groups during late communism. At the start of transition, they recorded higher relative poverty rates than the national average. But soon thereafter, poverty rates for the elderly declined markedly, while those of most other groups increased. In terms of spending efforts, governments in Hungary and Poland but not in the Czech Republic turned the screw on welfare programs for young families and the unemployed, but not on pensions. Replacement rates were lowered and aggregate spending levels were cut for the former groups but not for the latter in ways that suggested political priorities over and above changing demographic and social needs. The result has been an unprecedented increase in the number of non-elderly Hungarians and Poles who went on retirement. In just seven years, the number of Polish old age pensioners went up by almost half and that of disability pensioners by over one-fifth. The abnormal pensioner boom was equally dramatic in Hungary, though the relative strength of its two

components was reversed. There, the number of old age pensioners went up by almost one-fifth and that of disability pensioners by close to one-half. Keeping in mind that in these same years the demographic composition of both populations did not change dramatically, these are puzzling developments. The next chapter further specifies the likely dynamics of divide and pacify policies for the politics of post-communist welfare regimes as the transition progressed.

Chapter 5

Peaceful welfare regime pathways

How did the early abnormal pensioner booms (or their absence) affect the Hungarian and Polish welfare states in later years? And what, if anything, justified the huge cost of these booms in public-financial terms? This chapter focuses more closely on the expected temporal dynamics of the social policy choices made by governments in Hungary and Poland on the one hand and in the Czech Republic on the other. A framework centered on path dependence mechanisms as applied to welfare regimes (rather than programs) can help to explain the *persistent* differences in the larger welfare pathways taken by these societies. Once-contingent early policy choices by governments are likely to have shaped future welfare outcomes in these countries, dramatically and irreversibly. Section 5.1 draws attention to the puzzle of why, far from reforming or retrenching pensions systems, resource-constrained governments in Hungary and Poland actually passed early laws that positively worsened pension finances, thereby necessitating radical reforms in later years while limiting the ways in which such reforms could be implemented. Sections 5.2 and 5.3 develop a path dependence framework to analyze the temporal dynamics by which the larger

welfare regime pathways taken by the divide and pacify cases diverged from those taken by the Czechs, despite similar legacies. Section 5.4 critically reviews alternative explanations of post-communist pension politics and indicates why divide and pacify policies, despite their cost, may have served important political purposes.

5.1. The politics of post-communist pensions: early policy choices

In pay-as-you-go pension systems, current workers pay contributions to finance the benefits of current pensioners. Pay-as-you-go systems are thus financially very sensitive to changes in the rate of contributors to pensioners. In aging societies, therefore, governments face strong pressures to reform pay-as-you-go systems by partially privatizing them. In the early 1990s, such reforms were advocated by a number of powerful financial institutions. The World Bank, the IMF and the OECD all favored far-reaching reforms and partial privatization of existing pension systems. The aim was to move towards an ideal-typical system as had been implemented in Chile in the early 1980s, consisting of three tiers: a mandatory publicly managed pillar, a mandatory privately managed pillar, and a voluntary privately managed pillar. The international financial institutions devoted extensive efforts to promote this blueprint in transition countries. Already in 1990-1991, both the World Bank and the IMF sent missions to Hungary to analyze the social security system (Nelson, 2001, p. 241). The World

Bank's pension reform campaign further included the publication and wide distribution of the guideline document *Averting the Old Age Crisis* (World Bank, 1994), the organization of conferences, seminars and workshops intended to set the agenda of local policymakers (see Müller, 1999), and the dissemination of its own experts' views in academic publications (for examples, see Fox, 1997; James, 2000 [1996]; for critical appraisals, see Beattie and McGillivray, 2000 [1995]; Barr, 2001, Ch. 7). Beyond advice, the international institutions enjoyed powerful financial leverage to influence the policies of East European governments in need of foreign loans and investments to pay off debts and restructure their economy. For instance, the IMF could exercise direct pressure through conditionalities attached to its own lending and it could exert indirect pressure through the signaling function it performed towards potential private-sector investors. Private financial institutions expecting to set up pension funds had an additional interest in privatization of part of the pension system (Müller, 1999).

In this light, it appears all the more remarkable that, far from implementing pension reforms along these lines, the first post-communist governments in Hungary and Poland presided over large-scale abnormal retirement booms. From a public-financial viewpoint, these appeared to be distinctly sub-optimal policies. Higher welfare expenditures were incurred: it follows from (3.2) and (3.3) that $(r-\alpha)\sum_{t=1,x}\delta^t u_t w_t + \alpha\sum_{t=1,y}\delta^t p_t w_t > r\sum_{t=1,x}\delta^t u_t w_t$. Abnormal retirement was doubly hazardous for public finances, since it

increased the numerator of the pension system dependency rate at a time when the denominator decreased. Yet despite all this, governments in Hungary and Poland presided over massive increases in the numbers of pensioners. Between 1989 and 1996, system dependency rates skyrocketed in Hungary and in Poland, but not in the Czech Republic (Figures 4.11 to 4.13). In the first two countries, both numerator and denominator were adversely affected: the number of pensioners increased by respectively 22 and 35 percent, while the number of contributors dropped by 25 and 14 percent (Schrooten et al., 1999, p. 281, Table 1).

Theories developed to explain welfare state developments in advanced market democracies are only partially helpful in accounting for the fortuitous reversal of relative pensioner welfare combined with the boom in abnormal pensioners in Hungary and Poland. Of course, a number of theoretical frameworks in public choice and political economy converge in explaining why welfare programs in general, and mature pay-as-you-go pension systems in particular, might prove difficult to reform or retrench, even if such reform would enhance aggregate welfare.¹ For instance, the influential 'new politics of welfare' school has proposed that the logic of welfare politics in contemporary contexts of cutbacks and retrenchment is not the mirror image of that of the welfare state expansion that has characterized the early post-World-War II decades. Retrenchment makes for an entirely different ball game: rather than taking credit for benefits being provided to voters, politicians now need to try to avoid blame

for benefit cuts by obfuscating the nature of and the responsibility for policies that reduce benefit entitlements and welfare generosity (Pierson, 1994, 1996, 2001a, 2001b; Stephens et al., 1999; Huber and Stephens, 2001).

However, it is one thing to predict that politicians may find it hard to retrench or reform pension systems in financial troubles. It is quite another to posit that they will actually *add* to the already existing troubles by expanding rather than retrenching the systems - in a period, moreover, of tighter-than-ever budget constraints. Yet that is precisely what happened in Hungary and Poland during the first seven years of transition. In many ways, this period is best seen, not as an instance of the 'new' politics of welfare, but as a peculiar and novel instance of 'old' welfare expansion *despite conditions for retrenchment* (Vanhuyse, 2001). The Hungarian and Polish governments did not just delay socially costly pension reforms: they positively created the elements of a pension crisis. Where, strictly speaking, no immediate old age crisis existed in 1990, the first post-communist governments had nevertheless managed to create an impending financial disaster by 1996.

A large descriptive literature has noted this boom in pensioners, frequently adding technical reform prescriptions, given the unsustainable finances that inevitably followed the pensioner boom.² However, these accounts invariably underplay the fact that the costly abnormal retirement policies chosen in Hungary and Poland were not a purely exogenous characteristic of the transition, but, instead, involved policy parameters that were still largely at the discretion of

governments. The political motives ascribed to these hugely costly policies by the existing studies of post-communist pensions, if any at all, are vague and off-hand. Nor does this literature attempt to explain why policies that flew in the face of national financial prudence and international financial advice were nevertheless enacted by local politicians. It is typically assumed that social policy had a crucial instrumental role to play in creating 'tools to compensate for the social impact created by the economic transition, and to ensure the necessary political support for that transition' (e.g. Mácha, 1999, p. 246). But this is rarely followed by an attempt at explicating incumbents' reasons for creating these tools or at specifying the precise mechanisms by which such political support were obtained.

Moreover, despite very similar legacies and starting points, policy pathways in Hungary and Poland on the one hand and in the Czech Republic on the other hand rapidly diverged in the early years of transition. Müller (1999, p. 56) argues that because of the precarious state of affairs which external debts and pension finances had reached by 1996 in Hungary and Poland but not in the Czech Republic, systemic pension reforms were necessitated in the former two countries but not in the latter. But why did matters get so much out of control between 1989 and 1996, and why not in the Czech Republic?³ Received wisdom agrees that pension reforms until the mid-1990s 'were slow, piecemeal, and not sweeping enough,' thus leading to a financial crisis that 'did not stem from population ageing but was transformation-induced' (Müller, 1999, pp. 71, 150;

see also Schrooten et al., 1999, p. 282). Other accounts interpret the large rise in the number of pensioners in Hungary and Poland as being an unforeseen or unintended consequence of early policy choices. Having noted that right until the end of the 1980s the Polish pension system essentially operated under financial equilibrium, Hausner (2001, p. 212) goes on to interpret the rapidly accelerating disequilibrium during the next few years as being 'the unintended consequence of many isolated ad hoc decisions.' Similarly, Spéder (2000, pp. 53-54) argues that in Hungary the pensioner boom was 'unplanned ... [its] significance was not only underestimated but also recognized rather late by policymakers,' whereas Golinowska (1999, p. 176) refers to high inflation producing the need for rapid decision-making and to 'a lack of competence amongst the newly appointed ministerial staff.'

However, such explanations hollow out almost entirely the notion of policymakers making competent and conscious decisions. These views of incumbent behavior are especially unsatisfactory if one considers the fact that the skyrocketing social expenditures that followed from their policies were subject to yearly budgetary revision by governments. At the same time, many of the laws that made these policies possible still had to be written from scratch and approved by parliamentary majorities. The economic incentives and legal opportunities to retire in Hungary and Poland, as well as the internationally unprecedented scale of the resulting abnormal pensioner boom all call for deeper theoretical analysis. If the consequences of these laws and policies were truly unintended and did not

otherwise serve important purposes, we should expect resource-constrained governments to have responded relatively quickly to reign in any unintended effects before they spiraled out of control. After all, precisely the ability to avoid large-scale irreversibility by means of corrective moves in subsequent stages has long been put forward as one of the main advantages of incremental policymaking (see Lindblom, 1959, p. 86, for the seminal statement on policy incrementalism, and Goodin, 1982, Ch. 2, for a comprehensive review and critique).⁴

Once the 'true' size and cost of the early boom in pensioners numbers had become clear, we should therefore observe early legislative measures to halt or slow down this process, for instance by retrenching the eligibility and generosity parameters of pensions systems. Instead, legislators took active steps to make abnormal retirement possible and, in some ways, much easier than before. New unemployment and labor market laws were written to take into account the new social consequences of market transition. In Hungary, a new Act on Employment and Provision for the Unemployed was approved by parliament in March 1991 to deal with transitional unemployment. This Act effectively created two additional legal opportunities for early retirement. First, workers less than five years before the official retirement age who were threatened by unemployment could now retire early, if until that age their employer financed the pension. Second, workers less than three years below the official retirement age and with at least 20 years of service could now go on early pensions, to be financed by the unemployment

fund, if they had been unemployed for six months or longer (Spéder, 2000, pp. 58-59; Boeri and Pulay, 1998, p. 321).⁵

In 1991, the minimum period of employment for eligibility was raised to 20 years in Hungary, but this was immediately qualified to include non-contributory years such as periods of military service, university studies and maternity and sickness allowance. Moreover, a partial pension was introduced for those with minimum 10 qualifying years (15 after 1993). Benefit calculations became more opaque and subject to ad hoc political decisions, for instance regarding indexation (Müller, 1999, pp. 67-68). And far from increasing incentives to stay in employment after retirement age, the new pensions benefits calculation formula now made sure that beyond 32 years of employment there was 'almost nothing to be gained from continuing to work' (Müller, 1999, p. 68). The Hungarian parliament also adopted a bill in 1991 which, far from retrenching the pension system, gave it all but a blank cheque by awarding the Pension Fund the equivalent of 10 percent of GDP of still to be realized privatization revenues (Müller, 1999, p. 66). Yet in that year and the next, pension system dependency rates would continue to worsen to 57 and then 66 percent compared to 51 percent in 1989 (Figure 4.11).

In Poland, a number of legislative actions were taken to increase the generosity and the real value of pension benefits, to make eligibility for early retirement more flexible, and to extend it specifically to those affected by large-scale lay-offs. For instance, just before the presidential elections of autumn 1990,

the levels of new pensions were hastily increased and new legislation for farmers was adopted to relax their pension eligibility rules (Inglot, 1995, p. 365-366). The Polish Sejm also twice passed new laws in 1990 to ensure that pensioners were better protected from hyperinflation. A quarterly indexation mechanism was introduced, and by May 1990 minimum pensions were increased (to 35 percent of the average wage) while indexation was based on average wage growth (Cain and Surdey, 1999, p. 158). Just before the 1991 parliamentary elections, President Walesa pushed through a last-minute amendment increasing the guaranteed minimum pension to the equivalent of 60 percent of that year's average wage. And the Council of Ministers retained its power to allow early retirement in selected regions with high unemployment (Inglot, 1995, p. 368).

Regulations were similarly introduced in 1991 to allow early retirement specifically for workers who were made redundant – without the loss of benefits. This applied for men if they had 40 years of prior employment, and for women if they had 35 years (Czepulis-Rutkowska, 1999, p. 152).⁶ Polish women with thirty years of employment could retire at 50. Entire categories of workers (e.g. miners, teachers and railway men) could also retire early. As a result, the Polish pension system dependency rate continued to grow to 52 percent in 1991 and 58 percent in 1992, up from 39 percent in 1989 (Figure 4.12). The short-lived government led by Hanna Suchocka between 1992 and 1993 did make an attempt, largely in vain, to rationalize the spiraling pension expenditures.⁷ But its successor government led by Waldemar Pawlak resumed the earlier pensioner-favorable

policies. Beyond this, Pawlak's government also moved to enact new laws that further increased the value of minimum pensions and improved pension benefit indexation soon after winning the autumn 1993 elections (Cain and Surdey, 1999, pp. 163-165).⁸

The case of the Czech Republic further indicates the degree to which pension legislation was still largely a matter of discretion for governments and parliamentary majorities, rather than some 'necessity' uniformly dictated by external circumstances. Far from expanding pensions systems, Czech legislators moved to retrench them or at least to limit their generosity. For example, in early 1993 all special privileges that existed for selected sectors under communism were abolished. Of course, retiring early (in this case, before the legal requirement of 25 insurance years was fulfilled) was possible in the Czech Republic as well. But it could be done only under two sets of circumstances and it entailed a significant reduction of the earnings-related component of individual benefits (Müller, 1999, pp. 132, 146 fn. 17). First, applicants wishing to retire two years early, needed to have been on the unemployment register for at least 180 days. Moreover, pension benefits were then reduced by 1 percent for every 90 days of pension taken prior to official retirement age, although this reduction was lifted upon reaching that age. Second, those wishing to retire three years early saw their pension benefits reduced by 0.6 percent for every 90 days, and permanently so.

The benchmark assumption of systematically non-intentional

policymaking is therefore hard to square both with the early legislative efforts and the subsequent numerical and financial growth of pensions in Hungary and Poland, and with the absence of such developments in the Czech Republic. While not advocating a hard-nosed portrayal of post-communist policymakers as Machiavellian master-minds, I hope to correct an imbalance in existing accounts by suggesting that non-conscious, non-intentional or primarily context-induced behavior by policymakers cannot provide a complete and coherent explanation of the politics of protests and pensions in the early 1990s. Nor would such a viewpoint be theoretically appealing. Alesina (1994, pp. 38-39) rightly points out that 'It is often too easy to explain apparent departures from efficient collective behavior as the result of naiveté behavior, lack of understanding of basic economic relationships, shortsightedness, forgetfulness, or incoherence. Interpretive schemes and models in which behavior and expectations that are not rational play a crucial role should be used only as a last resort, after first considering other explanations.'⁹ Allowing scores of able-bodied workers to retire abnormally was one among many policy paths that could have been taken in Hungary and Poland. But the fact *that* it was taken is likely to have narrowed subsequent political developments in these countries in specific, path dependent ways.

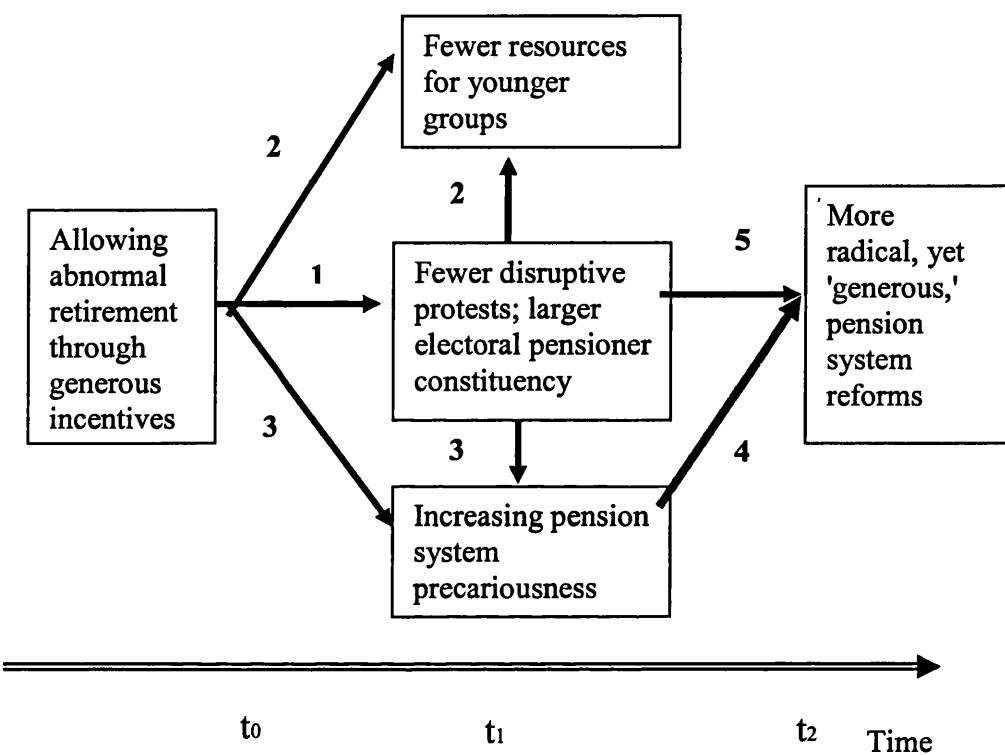
5.2. The evolution of distinct welfare pathways over time

For path dependence to be useful as an explanatory framework beyond the vacuous claim that history matters, it needs to specify first, the initial point at which one path rather than another was taken and second, the mechanisms that subsequently lock-in that particular path. In the case of Central and Eastern Europe around 1989-1990, the first point is unusually clear. The transition to democracy and the market was an exceptional instance of large-scale and exogenous social change; a formative historical turning point, in the sense of reversing the course taken by these societies over the previous four decades.¹⁰ But it is important, furthermore, to specify the subsequent mechanisms by which this policy, once in place, could be locked-in further. As North (1990, pp. 98-99) has noted: 'At every step along the way there [are] choices – political and economic – that provide (...) real alternatives. Path dependence is a way to narrow conceptually the choice set and link decision making through time. It is not a story of inevitability in which the past neatly predicts the future.' What is crucial here is not so much to try and demonstrate in some deterministic way the one future route – an endeavor that anyhow seems difficult given the complex causal interactions which shape the political economy of welfare states. Instead, the task is to try and distinguish *self-reinforcing* mechanisms locking-in those initial policy choices (Levi, 1997; Pierson, 2000; Wood, 2001).¹¹ That is, one should explain how the probability of one set of outcomes (abnormal pensioner

boom; social quiescence), rather than another (public-financial prudence; social protests), increases with each step further down the path after the starting event.

Figure 5.1 stylizes a number of causal mechanisms that narrowed the choice sets of Central European welfare state decision makers, and the temporal sequence in which politics was affected by policies.

Figure 5.1. Temporal dynamics of early retirement policies and their subsequent effects for welfare politics



Cause 1: Generous incentives for retirement reduce the scale of disruptive protests but increase the size of the electoral pensioner constituency

Cause 2: Heavy spending on pensions reduces the resources available for other groups that depend on the welfare state

Cause 3: Heavy spending on pensions creates growing pension system financial problems

Cause 4: Growing pension system problems necessitate systemic reforms

Cause 5: The large pensioner constituency narrows down the ways in which systemic reforms can be implemented and obliges governments to be generous to current pensioners

Once a fraction α of the labor force was allowed to retire abnormally (at t_0), it was impossible for governments to reverse this exit later, as pensioners could not be forced back into formal employment. Thus, the pension system was now more likely than ever to need reforms in later years (at t_2). But the wider work-welfare set-up of society and the options open to the Hungarian and Polish welfare regimes were forever changed. This fraction α now had a new main source of income (state benefits rather than working wages), and it had a lower collective action potential. Thus the nature of politics was changed: politically more powerful pension demands by an over-sized pensioner constituency at the end of the electoral cycle, but fewer disruptive protests early on in the transition (cause 1). In Poland, the total number of protest days, defined to include the entire range of protest repertoires from open letters and signature collections to outright violent actions, increased yearly between 1990 (1,684 days) and 1993 (4,382 days). In Hungary, the total number of protest days reached peak levels in 1989 (893 days) and in 1993 (854 days), while hovering at much lower levels in between these years (Kubik, 1998, p. 140). This seems to convey a picture of escalating conflict in Poland and of instability in Hungary.

However, for governments trying to obtain the political breathing space to make fast progress in market reforms, the total levels of protest are less consequential than the particular repertoires used for expressing these protests. In Hungary, the ratio of disruptive protest strategies to non-disruptive protest strategies actually went down from 0.74 to 0.31 between 1990 and 1993. In

Poland, this period saw an even stronger decrease in the ratio of disruptive to non-disruptive protest strategies, from 2.06 to 0.83 (Kubik, 1998, p. 145).¹² As a result, the year 1993 was characterized simultaneously by the highest number of protest days and by the lowest rate of disruptive to non-disruptive protest strategies in Poland. Underlying the apparent rise in the number of protest days, there seems to have been a potential 'consolidating' trend: the progressive replacement of disruptive by non-disruptive means of protest. Hungary and Poland went down a peaceful pathway of sorts. Other indicators corroborate this impression. For instance, in 1993, officially authorized protests in Hungary represented 86 percent all protest actions, compared to 14 percent for unofficial (spontaneous) protests (Róbert, 1999, p. 101). While experiencing more disruption than Hungary throughout the early 1990s, Poland similarly saw an upward trend in the share of non-disruptive protest strategies within overall protest strategies. Thus the share of strike alerts and strike threats within overall protest strategies went up between 1989 and 1993 (from 12 to 22 percent), whereas that of actual strikes went down (from 40 to 14 percent). In the same period, the share of open letters and statements within overall protest strategies increased from 10 percent to 18 percent (Ekiert and Kubik, 1999, p. 129).

Since welfare state resources were strongly constrained in the transition, favoring pensioners in the present implied that fewer resources would be available to other groups of the welfare state now (cause 2 at 10). At the same time, the transfer of hundreds of thousands of working-age individuals out of the

labor market and onto pensions directly endangered the financial balance of the pension systems. Whereas there was no looming financial crisis at the start of transition, barely seven years later there was a crisis (cause 3 at t_0). Once initiated by the creation of the abnormal pensioner boom at t_0 , the particular pathway taken by these societies was subsequently reinforced by important feedback effects. For instance, once the redundant workers had been marginalized numerically, they could be further squeezed later on (cause 2 at t_1). As we have seen, π , always below 1 in Hungary and Poland (though not initially in the Czech Republic), further decreased over time, and the generosity of unemployment programs was otherwise reduced (Tables 4.1 and 4.3). Once the pensioner constituency had been 'abnormally' enlarged, it was harder than before to squeeze this group subsequently (cause 3 at t_1). Polish governments stabilized pension replacement rates only after first letting them go up fast in the two most costly years, when replacement rates increased by almost 50 percent. Hungarian governments could only stabilize pension replacement rates, and did not otherwise retrench the program during the early 1990s (Figures 4.8 and 4.9). For instance the Bokros stabilization package passed by the Hungarian parliament on 30 May 1995 included such measures as the introduction of tuition fees at universities and colleges, a 10 percent real wage cut for employees in government bureaucracies and state-owned companies, the abolition of automatic and universal family allowances, a sharp reduction of child care assistance, the cutting of 19,000 out of 105,000 civil service jobs and a further 15 percent cut in

public employment, mainly of doctors and teachers. But the package did not target the pensioners (*Transition Newsletter*, 1995a, pp. 13-14; 1995b, p. 13). As a result of these developments, systemic pension reform was now needed more urgently than ever before (cause 4). But the way in which this could happen was now more strongly constrained by the pensioners' electoral constituency (cause 5).

The basic logic behind mature pay-as-you-go pension systems in liberal democracies has often been considered to be a case in point of institutional path dependence (Myles, 1984, 2002; Myles and Pierson, 2001). When in such systems large and growing pools of workers pay social security contributions that benefits small pools of pensioners, politicians can afford to offer generous eligibility conditions and benefit levels to pensioners. By contrast, when the financial conditions are worsening and the system is mature, entirely different political conditions arise. Workers approaching retirement will then typically have paid contributions for many years, and will expect generous pensions when they themselves retire. Moreover, when shrinking pools of contributors need to finance large and growing pools of pensioners under conditions of slow wage growth, the financial balance of the pay-as-you-go system is at risk. But attempts to switch to fully-funded arrangements, whereby current workers contribute to their own future pensions, will run into an additional obstacle. Such shifts require workers to finance both current pensioners and their own future pensions at the same time. In Myles and Pierson's (2001, p. 313) view, this notorious 'double-

payment problem' is 'likely to present an insurmountable barrier to privatization or the capitalization of existing public schemes.' In a wide-ranging review of all major pension reform efforts that have been adopted across the OECD since the 1980s, they indeed find that 'none of the nations where extensive, mature pay-as-you-go systems were in place by the late 1970s are moving towards full funding' (Myles and Pierson, 2001, p. 318). Instead, reform in these mature systems took the form of modest measures to reduce pensions generosity, often phased-in very gradually and affecting future rather than current generations. This confirms Myles and Pierson's (2001, pp. 331, 306) in their thesis that 'pension policy is a *locus classicus* for the study of "path-dependent" change' and leads them to conclude that 'the embeddedness of current pension commitments (or lack thereof) tells us more ... than any other analytic frame' (see also Myles, 2002, p. 139).

However, a narrow translation of this path dependence frame to pensions in the post-communist context has difficulties in accounting for a number of crucial aspects of pensions developments in Hungary, Poland and the Czech Republic. Set up shortly after World War II, all three pension systems reached maturity by the 1980s. Between 1960 and 1980, replacement rates had converged to high levels in Hungary (from 32 to 55 percent), Poland (from 40 to 46 percent) and the Czech Republic (from 60 to 54 percent). System dependency rates had also increased significantly in this period, going from 24 to 43 percent in Hungary and from 20 to 35 percent in the Czech Republic (Müller, 1999, pp. 62,

95, 128).¹³ Yet despite this joint legacy, the new Hungarian and Polish governments implemented different post-communist pension policies than the Czech ones. Moreover, the Hungarian and Polish pension systems in the early 1990s were in most respects in a very similar situation as the mature OECD countries reviewed by Myles and Pierson (2001). But whereas these OECD countries implemented modest and incremental retrenchment, the Hungarian and Polish governments first allowed large numbers of workers to retire despite already being confronted with mature pay-as-you-go systems inherited from the communist period – thus creating, as it were, an 'enhanced double payment problem.' And despite this, the reforms that were initiated in these two countries from the mid-1990s onwards were more radical than in any of the mature OECD systems in terms of the relative importance of the private pillar within the new pension system.

Corroborating Esping-Andersen's (1990) plea for the analysis of regimes rather than programs, this indicates that the retrenchment and path dependence perspectives are more usefully employed to explain the political dynamics of the larger work-welfare regimes than those of narrow pension programs in transition.¹⁴ While the early retirement booms in Hungary and Poland actually necessitated (rather than obstructed) comparatively radical pension reforms in later years, they changed the way in which these reforms were implemented and reinforced these societies' early steps into new welfare regime pathways. Consistent with the retrenchment perspective, the multi-pillar pension reforms led

politicians in Hungary and Poland to obfuscate and phase out the costs of these reforms. Strongly constrained by the now much enlarged pensioner constituencies and the increased double payment problem, governments attempted to shift the burdens of the reform onto younger age groups and future workers, while trying to alleviate the costs on current pensioners and current workers (especially those with long contribution records) through a number of fiscally expansionary measures. Thus the move to the privatized pillar in the new system was made attractive by substantial positive incentives covered by the general budget (that is, by future taxpayers), often going to those who already benefited.¹⁵

For instance, in Hungary contributions to the new private pillar benefited from huge tax breaks for contributions by both employers and employees. Employees, for instance, could receive a 50 percent reduction on their contributions up to the value of the annual minimum wage (Simonivits, 1999, p. 220). Moreover, the state actually gave a *de facto* guarantee to current workers that any losses to those moving to the private pillar (compared to their *status quo*) would be compensated from the general budget, thus effectively offering entrants a one-way lottery (Ferge, 1999, p. 242). The Hungarian minister of finance declared that: 'The shortfall of incomes from contributions will be covered by the budget. Moreover there is no critical threshold in this instance. If there will be more entrants, the budget will cover the whole deficit without any fuss' (quoted from Ferge, 1999, p. 243). Pensioners were also promised an increase by 6

percent in the real value of their pensions to take effect in early 1998 - with elections being scheduled the following May (Nelson, 2001, p. 247). Eager to reduce the political costs of its showcase of post-communist pension reforms, the World Bank offered a 150 million dollar loan specifically aimed at covering the deficit created by the Hungarian pension reforms (Ferge, 1999, p. 243).

Yet there was nothing inherently inevitable or self-evident in the fact that this particular pathway was taken. As Chapter 4 indicated, the first post-communist governments in the Czech Republic took a very distinct pathway from those Hungary in Poland. By avoiding an abnormal pensioner boom early on (cause 1), the Czechs could subsequently steer away from the consequences this policy has entailed in Hungary and Poland. In the first two years of transition, replacement rates increased only very marginally, instead of starting out at much higher levels as in Hungary, or shooting up drastically as in Poland (cause 3 at t_0). And in the next five years, Czech governments even reduced pension replacement rates by 10 percentage points (cause 3 at t_1), keeping them at respectively 10 and 21 percentage points below those in Hungary and Poland (Figure 4.10). In 1995, a new set of laws actually set in a gradual retrenchment of the Czech pay-as-you-go system. For example, the official retirement age was to be incrementally raised from 53-57 to 57-61 for women and from 60 to 62 for men. Benefits as a percentage of average gross wages were set to drop gradually, to 42 percent in 2005 and further to 38 percent in 2010 (Potucek, 2001, pp. 94-95).

As a result, the increases in the Czech system dependency rates (5 percentage points) and in the numbers of old age pensioners (5 percent) and disability pensioners (12 percent) were significantly lower than in Hungary and Poland. No radical pension reforms were implemented subsequently (cause 4). Lower system dependency and replacement rates, in turn, immediately freed up budgetary resources for other welfare programs (cause 2 at t_0), and Czech governments could keep this up as time went by (cause 2 at t_1). For instance, replacement rates for child allowances stabilized at moderate levels throughout the early 1990s (11 percent on average), in contrast with the steady erosion in Hungary (albeit still 17 percent on average) and the 5 percent offered by Polish governments (Figures 4.8 to 4.10). Below I indicate how different pension policies combined with no less different labor market strategies to set off the Czech welfare regime on a radically distinct pathway from the one taken in Hungary and Poland.

5.3. Post-communist labor market strategies

As we have seen, welfare policies in the Czech Republic did not reveal the same clear divide and pacify pattern as in Hungary and Poland. Yet as Tables 1.5 and 1.6 have shown, the Czech Republic has experienced even less industrial action than the latter two countries. Does this indicate that large-scale political violence and industrial disruption were somehow a lesser cause of worry for Czech incumbents from the start? I suggest this is not the case. The regime change in

Czechoslovakia during the autumn and winter of 1989 was spurred to a larger degree than in Hungary and Poland by massive popular protests rather than purely by negotiations between communist party officials and opposition elites (Garton Ash, 1990, Chs. 2, 3, 5). Czechoslovak unions set up 6,000 strike committees in November 1989 and were central in a nation-wide two-hour strike on November 27, in which around 60 percent of the workforce participated. Soon afterwards, the Communist Party finally started to relinquish its powers (Garton Ash, 1990, pp. 80-84; Orenstein, 2001, p. 65). Czechoslovak unions subsequently implemented a large-scale personnel revolution, with 80 percent of the old functionaries having been replaced by 1990 (Myant and Smith, 1999, p. 268). Since their new leadership was not allied with any of the political parties in government and inherited the strongest union confederation in the entire region, Czechoslovak unions appeared to have a substantial capacity to mount protests against contested reforms.

In order to alleviate some of the reform costs, Czechoslovak and Czech governments continued to rely more heavily than other countries on consumer subsidies, notably of rents, heat, electricity and transport (Müller, 1999, pp. 138-139). And initially, they tried to preempt industrial disruption by implementing very restrictive strike regulation. But the unions reacted immediately by calling a strike alert throughout November 1990. Together with subsequent threats of a general strike, these sufficed to make the government back down entirely: trade union rights were extended, a liberal strike regulation was legislated, and the

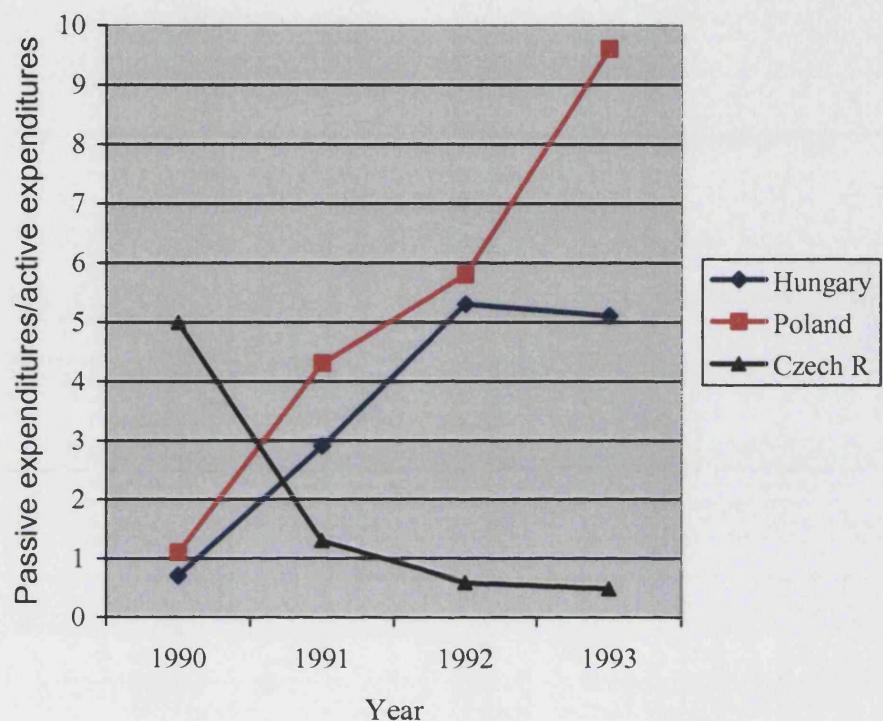
unions were invited to participate in the tripartite Council of Social Accord (Bruszt, 1993, pp. 66-68). While the unions' power in this Council would subsequently be eroded with few repercussions for their militancy, their early inclusion served the government's new strategy of altogether avoiding large-scale unemployment. Thus the unions were made to accept a maximum drop in real wages of 12 percent for 1991 (Bruszt, 1993, p. 68).

However, it is Figure 1.2 which provides the key to understanding Czech social policies in early transition. Czech unemployment rates remained at around three percent throughout the early 1990s. These levels were not just conspicuously below those in Hungary or Poland; they were lower than anywhere in Europe in this period and second-lowest in the entire OECD world.¹⁶ Czech strategies to preempt protest movements differed from those in Hungary and Poland not in their comprehensiveness but in their main targets: to avoid massive job losses and labor market exits, rather than transfer large groups of middle-aged workers out of the labor market and onto welfare. The Czech equivalent of the Balcerowicz program, the *Radical Strategy* blueprint paper, was drafted by an expert team led by Finance Minister Klaus and Central Planning Office head Vladimir Dlouhý, and was adopted by government in April-May 1990. Unlike the Balcerowicz plan (which had no social policy section), the social policy section of the Klaus-Dlouhý document explicitly spelled out a strategy to avoid the immediate bankruptcy of large enterprises: 'There must be sufficient time given for adaptation. Otherwise even viable economic potential will be destroyed,

creating mass unemployment. Active structural policy must therefore provide temporary protection to viable enterprises, especially through credit, possibly subsidy, and partly also through customs policy' (quoted from Orenstein, 2001, p. 74).¹⁷

While Czech unemployment rates in subsequent years remained much below those in neighboring countries, the relative share within the total welfare budget spent on unemployment insurance and assistance programs was as high in the Czech Republic as it was in Hungary, and much higher than it was in Poland (Figures 4.4 to 4.6). The difference is that Czech governments have aimed to a greater extent at actively creating employment rather than passively compensating for its loss. Within the overall labor market expenditures budget, much larger amounts were spent on job creation and job subsidy programs in the Czech Republic than in Hungary and Poland. This has ensured a higher outflow from unemployment to jobs, by 'churning up' stagnant pools of individuals in danger of rapidly becoming unemployable (Boeri et al., 1998). Figure 5.2 displays the ratio of all 'passive' to all 'active' labor market expenditures.

Figure 5.2. Ratio of passive to active labor market expenditures in Hungary, Poland and the Czech Republic, 1990-1993



Source: UNICEF (1995, p. 60, Table III.2).

In the first four years of transition, passive expenditures (transfers) rapidly assumed greater prominence over active labor market policies (such as training programs and public works) in Hungary and Poland. Whereas both types of labor market expenditures were of equal size in these countries at the start of transition, by 1993 passive expenditures were respectively five and nine times larger than active expenditures. Between 1990 and 1995, passive transfers accounted on average for 79 percent of all Labor Fund expenditures in Poland (own calculations based on Polish Ministry of Labor and Social Affairs, 1996, p. 48, Table III.9). In Hungary, 'passive' expenditures for unemployment compensation went down from 2.2 percent of GDP in 1992 to a mere 0.5 percent in 1997. But these cuts were not compensated by a corollary increase in active labor market programs: in the same period the expenditures going to labor-market training and subsidized employment decreased from 0.5 to 0.3 percent of GDP (Boeri and Pulay, 1998, p. 324).

The opposite happened in the Czech Republic, where the rate of passive to active expenditures took a deep dive from 5 in 1990 to 0.5 in 1993. For comparison, in 1991, the same ratio stood at 0.9 in Sweden, and 2.2 in France. Czech authorities set up a network of 77 regional labor offices as early as 1990, in an effort to provide easy access to a wide range of job services, including labor market information and consultation, professional training and re-qualification, and the creation of work opportunities. In 1992, these offices created more than 82,000 new jobs, over 1,000 places in protected workshops for disabled people

and 25,000 places for community work, and they completed the re-qualification of 14,600 jobseekers. Altogether, these active employment policies reached 92 percent of all unemployed persons (Potucek, 2001, p. 90). Whereas the share of active labor market expenditures within total labor market expenditures in Poland (16 percent) and Hungary (23 percent) was lower than the OECD average (33 percent) in 1993, in the Czech Republic (55 percent) it was higher still than in Sweden (45 percent), the top-ranking Western country (Kabaj, 1996, p. 33, Table 16).¹⁸

The heavier Czech emphasis on active labor market programs destined to keep the employed in work and to keep the unemployed employable translated into better results on both counts. For instance, between 1992 and 1996, the inflow rate into unemployment (the average annual rates of the number of people flowing into unemployment in a month divided by the number of people employed in a month, multiplied by 100) averaged 1.1 both in Hungary and in Poland, but only 0.7 in the Czech Republic. The gap was many times more striking still as regards the outflow rates (the average annual rates of the number of people flowing out of unemployment in a month divided by the number of people unemployed in a month, multiplied by 100). In the same period, this rate averaged 8.1 and 6.3 in the first two countries, but 22 in the third (own calculations based on Ham et al., 1998, p. 1119, Table 1). Moreover, of those who did flow out of transitional unemployment, many actually left the labor force altogether, rather than finding a job. Again, this phenomenon was least

problematic in the Czech Republic, where monthly outflows to jobs as a percentage of total outflows stood at 71 percent in 1992-1993, compared to 48 percent in Hungary and 53 percent in Poland (Boeri, 1994, p. 135).

The pool of unemployed people in Hungary and Poland was thus characterized by a particularly low degree of turnover. As a result, the share of job seekers having experienced unemployment spells of longer than 12 months rapidly increased. By the mid-1990s, the share of long-term unemployment (thus defined) within total unemployment was over 50 percent (and rising) in Hungary, and close to 50 percent (and rising) in Poland, compared to below 40 percent in Western Europe (Boeri, 1997b, p. 908). In fact this share was higher than 40 percent in all East European countries except for the Czech Republic (Allison and Ringold, 1996, pp. 27-28). To make things worse, this process displayed many characteristics of a self-fulfilling prophecy. The larger the share of long-term unemployment, the lower the outflow rates per given level of unemployment and vacancies (Boeri, 1997a, p. 136; 1997b, p. 907). In view of the negative effects of unemployment duration on extra-household sociability (Chapter 3) and of the fact that the increase in macro-level unemployment rates was in large part due to low outflow rates (Commander, 1993, p. 3), the risk that unemployment would spark social protests might actually have decreased over time in Hungary and Poland, despite increasing aggregate unemployment levels.

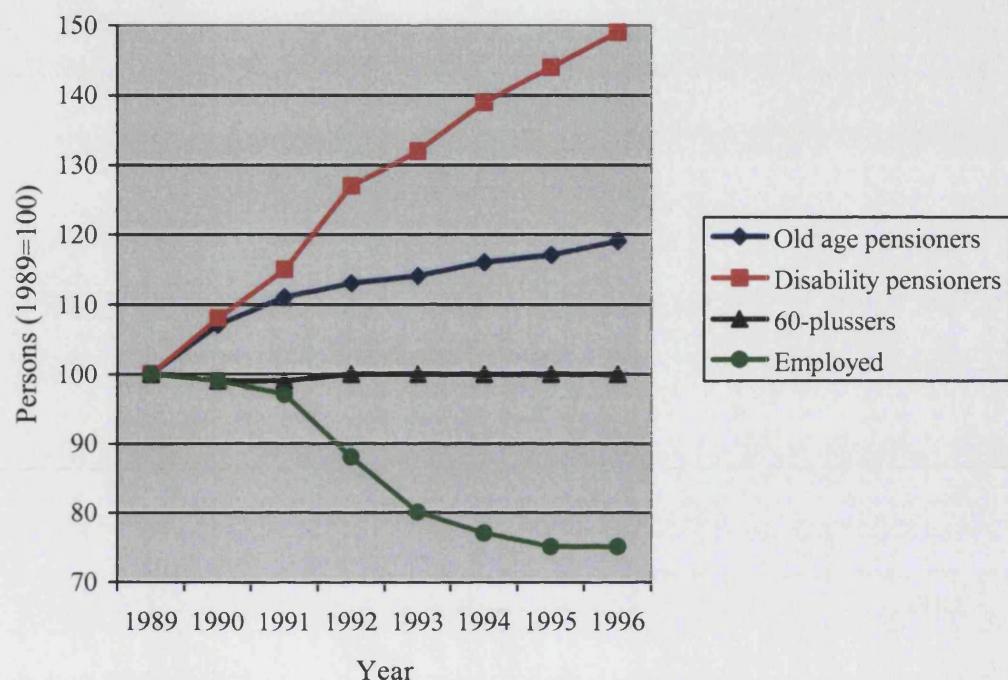
The incentives offered by various welfare programs are likely to have played a role in determining households' labor market decisions and thereby the

particular work-welfare path taken by society at large. For instance, the difference in terms of the employment rates of the age groups 50-54 (for women) and 50-59 (for men) between the Czech Republic on the one hand and Poland and Hungary on the other was very marked. Employment rates in 1996 equaled respectively 84, 53 and 44 percent for men, and 80, 46 and 17 percent for women (Boeri et al., 1998, p. 13). Similarly, the increasing costs of child-care facilities after the closure of state-subsidized facilities and the economic incentives for women to leave the labor market are likely to have reduced the labor market participation of young women. Thus while the Czech Republic managed to safeguard employment levels of elderly women, its *Radical Strategy* plan envisaged a reduction of employment levels for women with small children and an increase of secondary schooling by one year (Orenstein, 2001, p. 71). In Hungary, the government introduced a child-raising support allowance in 1993, to be paid only to women working less than four hours per day (Boeri et al., 1998, p. 29, fn. 5). Labor market participation levels of young women subsequently went down by 17 percentage points in the Czech Republic and by 29 points in Hungary (Table 1.3).

Active labor market policies and higher levels of employment are likely to have had wider knock-on effects on other spheres of the work-welfare regime. All other things being equal, where active labor market policies are implemented effectively, employment rates will remain higher, and full-time exit into retirement or the informal economy will be less widespread. Either way, the

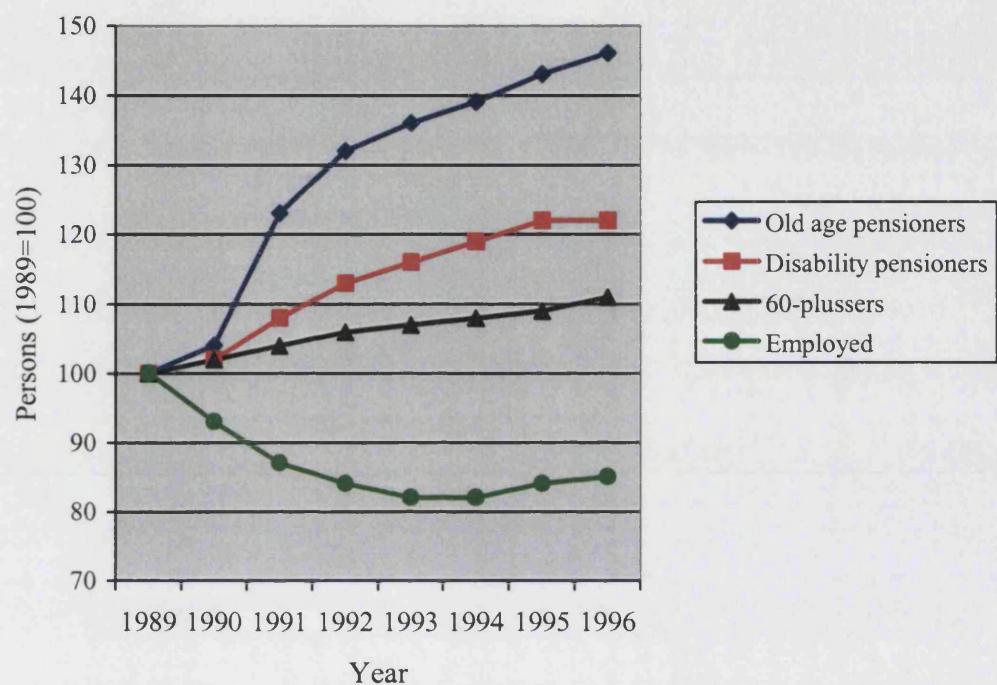
treasury benefits: more tax contributions are paid in, and fewer social benefits are paid out. Figures 5.3 to 5.5 illustrate more clearly the ways in which different social policy dimensions combined to form distinct welfare regime pathways. As before, they present the yearly changes in the numbers of old age pensioners and disability pensioners, this time for each country separately. In addition, to allow a fuller picture of the wider work-welfare regime, they present the changes in the number of elderly persons and of persons in employment in each country.

Figure 5.3. The change in the numbers of old age pensioners, disability pensioners, 60-plusers, and employed persons in Hungary, 1989-1996



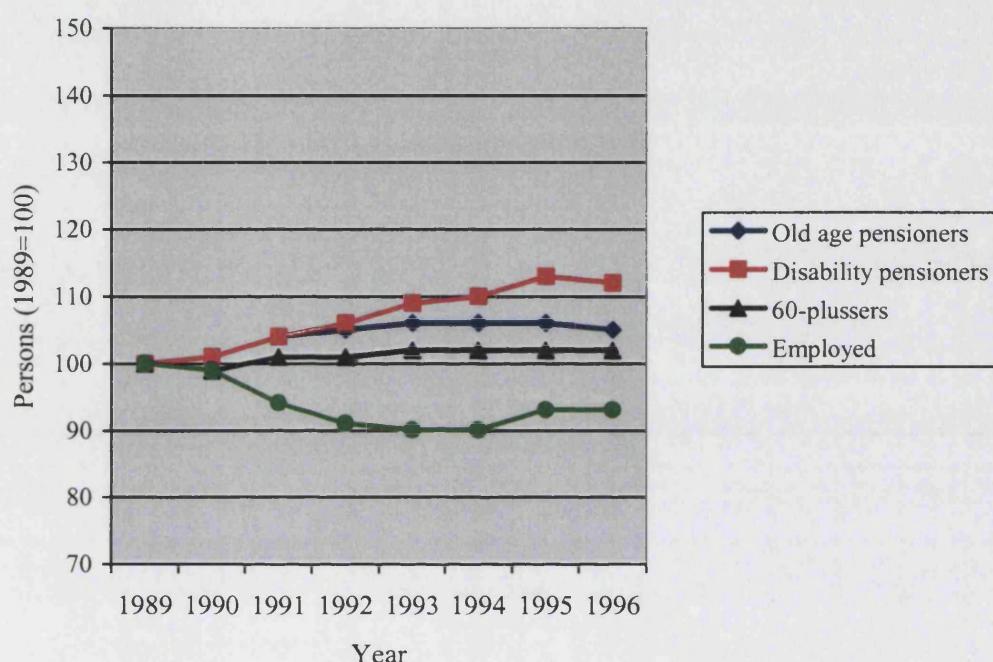
Source: Own calculations based on Schrooten et al. (1999, p. 281, Table 1).

Figure 5.4. The change in the numbers of old age pensioners, disability pensioners, 60-plusers, and employed persons in Poland, 1989-1996



Source: Own calculations based on Schrooten et al. (1999, p. 281, Table 1).

Figure 5.5. The change in the numbers of old age pensioners, disability pensioners, 60-plussers, and employed persons in the Czech Republic, 1989-1996



Source: Own calculations based on Schrooten et al. (1999, p. 281, Table 1).

Figures 5.3 to 5.5 vividly convey the extent to which different social policies crystallized into distinct regime pathways over time: booms and busts in Hungary and Poland; neither booms nor busts in the Czech Republic. Again, it is clear that a rapidly aging population was *not* among the gravest problems confronted by post-communist governments. The number of persons above 60 remained stable in Hungary and the Czech Republic, and grew by ten percentage points in Poland. Despite these demographic similarities, post-communist pathways diverged increasingly as the 1990s progressed. In the Czech Republic, no medium-term time bomb was set ticking under the pension system since abnormal retirement was not used to defuse the potential dynamite of losers' protests and the drop in employment levels remained limited.

Perhaps the most significant way in which the Czechs diverted from market reform orthodoxy was in the way in which they tried to preempt massive redundancies by avoiding the rapid hardening of budget constraints. Following Kornai's (1980, 1992, 1993) seminal contributions, there is a broad consensus among economists that one of the most defining features of the communist system was the pervasive soft budget constraints for corporate actors and government agencies. Soft budget constraints were induced, for instance, by means of state subsidies to inefficient firms, the lax allocation of bank and trade credits, and wage arrears (Kornai, 1992). Consequently, the hardening of budget constraints was among the foremost tasks for any government in the microeconomic management of the transition. Hungary and Poland on the one

hand, and the Czech Republic on the other, have taken very distinct policy paths with respect to a number of dimensions relevant to this task. Between 1995 and 1997, the proportion of bad loans within total loans given out by the banking sector averaged 7 percent in Hungary, 17 percent in Poland, and 29 percent in the Czech Republic (own calculations based on EBRD, 2000, pp. 156, 172, 196).¹⁹ Between 1993 and 1997, government budget subsidies to Czech firms amounted to 8 percent of GDP, compared to 5 percent in Hungary and just 1 percent in Poland (own calculations based on EBRD, 2000, pp. 156, 172, 196).²⁰

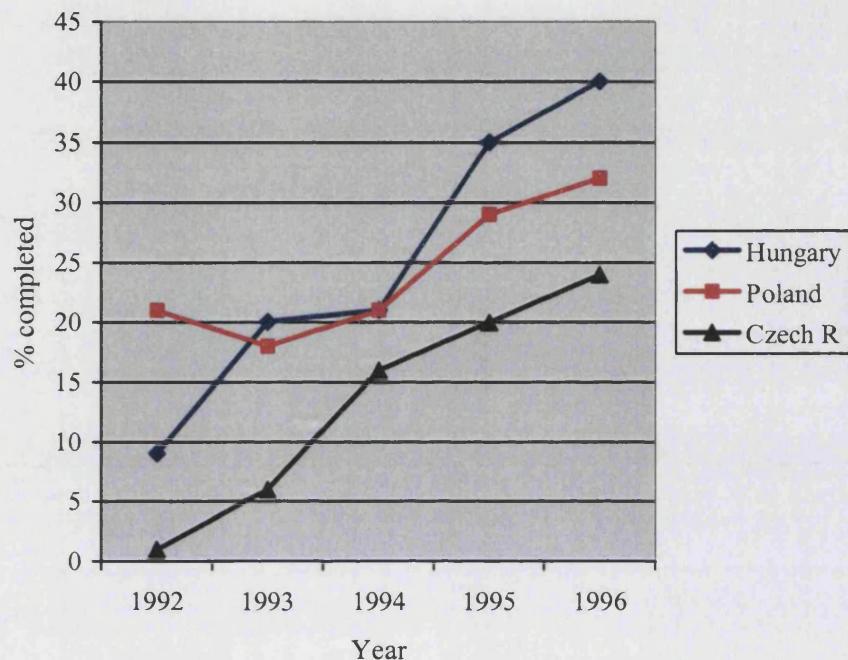
One of the most crucial aspects of hardening budget constraints was the extent to which loss-making or otherwise non-performing firms were made to face real prospects of bankruptcy in the new market environment (Kornai, 1999, p. 5). Between 1992 and 1996, the yearly number of completed bankruptcies averaged 1,895 in Hungary and 1,000 in Poland, but only 312 in the Czech Republic. This difference was especially marked in the first years of transition. By the end of 1993, close to 3,000 Hungarian firms and close to 2,000 Polish firms had been declared bankrupt, compared to 66 Czech firms (EBRD, 1997, p. 87).²¹ Government policies have clearly contributed to these differences. The Hungarian government enacted a new Accounting Law already in 1991 requiring all enterprises to switch to Western style accounting principles. At the same time, a new Hungarian Bankruptcy Act instituted severe penalties for company managers directors who failed to file for bankruptcy after accountants, following these new rules, had sounded alarm. These included a 'harakiri clause' that made

managers personally liable in civil courts for any losses caused by such neglect (Kornai, 1993, p. 325; Stark and Bruszt, 1997, p. 150).

Throughout the early 1990s, Czech governments have adopted a comparatively much softer approach. Finance minister Klaus passed a tough new bankruptcy law through parliament in October 1991, but the law was never put into practice. By spring 1992, it was suspended for one year, after which it was postponed again. Instead, the Czech government pursued a deliberate anti-bankruptcy policy. This included the creation of the Konsolidacni Bank to buy much of the old enterprise debt with privatization receipts, and repeated interventions by the Ministry of Trade and Industry to prevent dozens of large enterprise bankruptcies. Between November 1992 and October 1993, not a single large state-owned enterprise was liquidated. And when bankruptcy legislation was finally removed from a two year deep freeze, it was only selectively implemented (Stark and Bruszt, 1997, pp. 155, 244 fn.; Orenstein, 2001, Ch. 3). Legislators furthermore avoided large-scale layoffs by maintaining soft and ambiguous standards. Until as late as December 1997, Czech bankruptcy laws only deemed a debtor insolvent if he could not meet his obligations within 'a long period of time' (EBRD, 1998, p. 41; Kornai, 1999). Figure 5.6 shows the proportion of successfully completed bankruptcies within the total number of cases filed for bankruptcy, which taps the effectiveness of the legal system in dealing with bankruptcy over time. Consistent with the 'soft transition' picture, a smaller share of all bankruptcy cases that were filed were actually completed in

the Czech Republic than in Poland and Hungary in any given year. At the same time, there was continuous progress in this field: the effectiveness of bankruptcy procedures increased as time went by in all three countries.²²

Figure 5.6. Bankruptcies successfully completed as a percentage of bankruptcies filed in Hungary, Poland and the Czech Republic, 1992-1996



Source: own calculations based on EBRD (1997, p. 87).

The specific methods used to privatize state-owned enterprises also had important implications for the hardness of the budget constraints of firms. Hungarian privatization proceeded by means of sales to individual corporations, which led to clear-cut responsibilities in the subsequent management of privatized firms. In Poland, governments resorted in part to flexible leasing agreements, which allowed companies to pay off the lease with retained earnings. For politicians, this particular method of privatization had a double benefit. It induced management both to keep wages low to make profits, and to keep employment higher than optimal because workers were in part owners of the firm (Osa, 1998, p. 38). The Czech Republic, by contrast, stood out in the entire region through the populist character of its privatization schemes (for a detailed overview, see Orenstein, 2001, Ch. 4). Public property was privatized through property restitution and voucher privatization (that is, free distribution to the population), rather than through sales. The voucher scheme also provided another mechanism through which Czech firms' budget constraints could remain comparatively soft. To the extent that the vouchers were retained by individuals, they led to diffuse small-time ownership – hardly ideal conditions for effective monitoring of management performance. A substantial proportion of voucher assets, however, became concentrated in investment funds run by big banks that were still state-owned. This preserved a linkage between formally privatized enterprises and the state, which opened up a channel for subsidies or other soft protection (Kornai, 1999, p. 22).

In sum, the differential policies discussed here help to explain how governments in the Czech Republic could keep unemployment so much lower than was the case in Hungary and Poland. This indicates an alternative but nevertheless deliberate strategy of muddling through the socially costly early years. Instead of dealing with the expected electoral costs and the immediate protest dangers of unemployment after large-scale redundancies had kicked in, Czech governments opted to altogether avoid these. As a result, trust in government and support for economic reforms was higher and less erratic than in higher-unemployment countries such as Poland and Slovakia (Orenstein, 2001, pp. 80-81, Figure 6), while Klaus became the longest-tenured prime minister in Central Europe, and Czech strike levels were among the lowest in the region (Tables 1.5 and 1.6). But the Czech economy, and its financial sector in particular, were less thoroughly liberalized. This comparative softness would later come to haunt the country. Soon after Klaus won the June 1996 elections, a string of high-profile corruption scandals and costly large-scale bankruptcies in the financial sector as well as finance scandals in Klaus's ODS party exposed the responsibility of his governments for the deep systemic troubles and the lack of regulations of the Czech banking sector. They forced Klaus to resign in November 1997, ending his remarkable eight-year stint at the top of Czech politics, during which his party had been one of the very few incumbent parties in Central and Eastern Europe to have won subsequent general elections. And the Czech Republic, which had been hailed in the early 1990s as the success story of

post-communist transitions and a leading model for the rest of the world, came to be viewed as a victim of economic policy failure (Orenstein, 2001, p. 126, Chs. 3-4). Czech social strategies thus differed in their fine grain from the abnormal retirement approach adopted in Hungary and Poland. What they had in common was the government efforts to reduce political protests, and a degree of economic sub-optimality.

5.4. Alternative explanations of post-communist welfare politics

For different reasons, the leading theoretical paradigms developed to explain welfare state developments in advanced democracies are of limited help in the post-communist context. Logic-of-industrialism theories of the welfare state (e.g. Wilensky, 1975) have traditionally viewed increased social spending as determined by the increasing industrial development of societies. Such industrial growth produces higher state revenues but also social dislocation, as traditional support systems rooted in the family or the church are dislocated. Logic-of-industrialism theories, however, give little attention to the political mechanisms by which social needs translate into welfare spending. Like social needs-based theories of the welfare state, they suggest that in democratic societies higher needs translate straightforwardly into higher spending. But in the case of pensions in Hungary and Poland, it was not a higher demographic needs (such as aging populations) or higher social needs (such as poorer pensioners) that

propelled higher pensions expenditures, but the rise in the numbers of disability and early pensioners. Communist economies, moreover, were characterized by encompassing, even 'premature,' welfare states and by over-developed industrial economies (Kornai, 1996). Logic-of-industrialism theories therefore face the additional problem of explaining why, in the case of post-communist Hungary and Poland, a large expansion of pension programs was implemented during a period of economic recession and of rapid de-industrialization.

Working-class-strength theories (e.g. Korpi, 1983), in turn, assign a central role to electoral considerations in welfare state politics. In particular, they view welfare spending as determined by the relative strength of labor unions and of left-wing parties in governments and parliaments. Such theories emphasize conflict between classes (labor and capital) to the exclusion of other groups that are relevant in the politics of the welfare state. But groups like the pensioners may have interests that do not coincide with those of either capital or labor or may even conflict with them, as when the financial burden of pay-as-you-go pensions has to be born by the working segment of the population. The working-class approach is of limited use in the post-communist Central Europe for another reason. Trade union strength and influence eroded quickly during the early 1990s (see below). And socialist and social democratic parties were obviously politically disadvantaged because of their communist past. The first democratic government in Hungary was a coalition of conservative parties headed by the Hungarian Democratic Forum. In Poland, a number of successive governments

implemented the notoriously radical 'jump to the market' until late 1993, despite being linked to the Solidarity trade union. So the years during which most of the boom in pensioners occurred were not presided over by working-class interests but by distinctly anti-socialist governments. Not until mid-1994 (Hungary), late 1993 (Poland), and mid-1998 (the Czech Republic) did left-wing parties manage to gain office.²³ And when they did, ex-communist parties implemented a number of policies that were no less 'pro-capital' than those of their predecessors in office, including the Bokros stabilization program in Hungary in 1995, and partial pension privatization in Hungary (from 1996) and Poland (from 1997).

Lastly, seemingly plausible neo-pluralist or descriptive theories trying to explain the above developments in terms of each group's respective voting weight would equally miss the causal point. Pluralist and neo-pluralist theories traditionally stress the role of electoral competition and interest group pressure in driving welfare state expansion (Dahl and Lindblom, 1976; Wittman, 1995). They argue that parties, whether left-wing or conservative, have strong incentives to present expansionary welfare programs catering for large voting groups.²⁴ Dunleavy (1991, pp. 22-23) argues that a more inclusive version of pluralist explanations of group effectiveness (E) can be captured in the following equation:

$$E = aS + bM + cI + dP \quad (5.1)$$

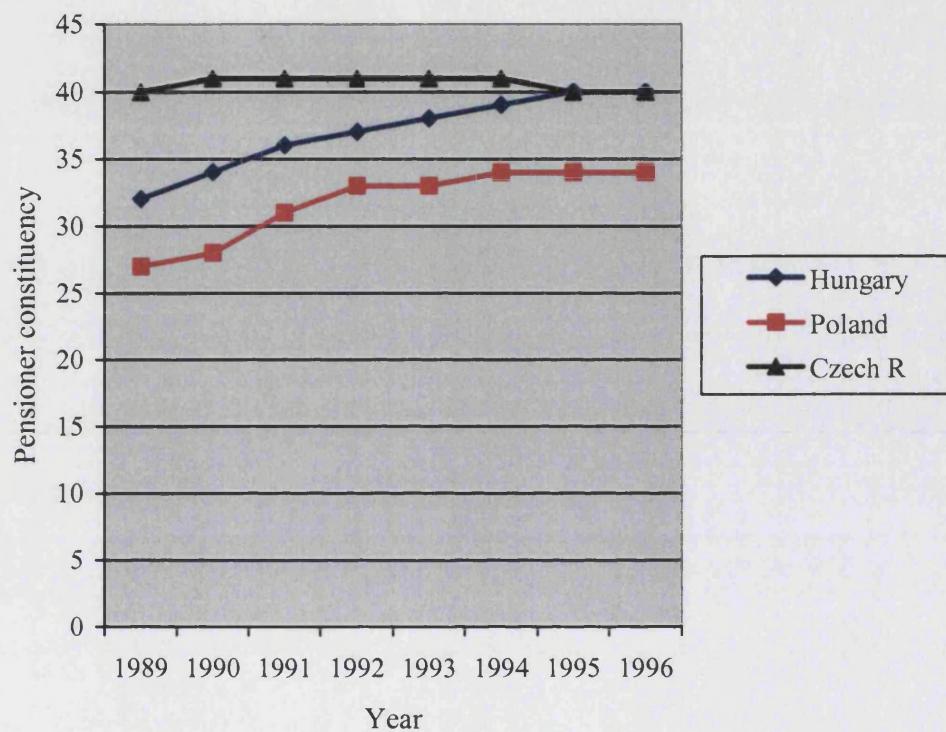
where S stands for the size of the interest group, M for its mobilization rate (defined as the group's actual membership divided by its potential membership), I for the intensity of the group members' preferences, and P for the pivotality of the group (defined as the degree to which the group's position can swing behind two alternative majority coalitions rather than being fixed in place). While all four factors undoubtedly play a role in determining group effectiveness in any given context, a fundamental problem with pluralist explanations is that essentially they lack a theory to ascertain the relative importance of these factors. Indeed, the coefficients a , b , c and d are seen as essentially 'unknown variables which vary across countries and time periods' (Dunleavy, 1991, p. 23). Irrespective of this, the independent variables P , M and I are unlikely to account for group effectiveness in the case of post-communist pensioners. The interest of pensioners in better benefits, far from being pivotal, was both fixed and focused. Moreover, it is doubtful whether preference intensity carries much power in a context of high and society-wide transitional costs. Even though pensioners were likely to be highly discontented because of drops in their absolute welfare levels, their preferences were likely to be less intense than those of the unemployed, farmers, and families with young children, all of whom were many times more poverty-prone than pensioners. Mobilization rates, meaningfully defined, were also low: there were few formal organizations pursuing this group's interests, and those that did were often ineffective.²⁵ For example, political parties were formed to cater specifically for pensioner interests in Hungary (the Pensioners' Party),

Poland (the National Party of Invalidity and Old Age Pensioners) and the Czech Republic (Pensioners for a Secure Life). But none of those parties actually managed to gain independent representation in parliament (Müller, 1999, pp. 115, 142).²⁶ Moreover, lobby groups for the aged were widely perceived to be ineffective in all three countries, even in the run-up to the pension reforms in Hungary and Poland (Golinowska, 1999, p. 186; Ferge, 1999, p. 237).²⁷

Consequently, equation (5.1) is only capable of explaining post-communist pensioner outcomes if the value for α is imputed to be disproportionately large – thus effectively transforming the pluralist theory into a simple voting power argument. An influential neo-pluralist account has indeed argued that large ascriptive groups such as elderly voters use their voting weight to compel parties and governments across the ideological spectrum to drive up spending on pensions in advanced democratic welfare states (Pampel and Williamson, 1985, 1988, 1989). Following this lead, others have suggested that similar factors can explain also why pensioners in transition economies, being a large single-issue group, experienced a reversal in their relative welfare levels during the 1990s (Milanovic, 1995, p. 29; Sachs, 1995, p. 2).²⁸ At a minimum, however, such voting power explanations would have to satisfy a logical temporal criterion to gain plausibility. If it is the sheer size of large electoral constituencies that drives pension program expansion, then the growth of pensioner voting power should logically be expected to precede the growth of pension spending. But in the case of post-communist Central Europe, this

scenario was not played out. Figure 5.7 presents an estimate of the voting power of pensioners in all three countries, that is, the proportion of pensioners within the population aged above 20.

Figure 5.7. Estimate of the electoral pensioner constituencies in Hungary, Poland and the Czech Republic, 1989-1996 (in percent)



Note: the yearly number of pensioners (in thousands) was divided by the yearly number of persons aged over 20, and then multiplied by 100. Source: Own calculations based on Schrooten et al. (1999, Table 1, p. 281).

From the start, Czech incumbents were confronted with a pensioner constituency that was sizably larger than those in Poland and Hungary. While the electoral pensioner constituencies in the latter two countries were non-negligible around 1989, they continued to grow very markedly in the early 1990s and only reached their highest levels after 1994 (in Poland) and 1995 (in Hungary), when they accounted for respectively one-third and two-fifths of the electorate - probably the largest single-issue constituency. But the policies that favored pensioners were very prominent precisely in the first three years of the transition. For instance, between 1989 and 1992 alone, pension expenditures as a percentage of GDP went up from 9 to 11 percent in Hungary and from 7 to 15 percent in Poland (UNICEF, 1997, p. 137). And as we have seen, pension replacement rates (average pensions as a percent of average net wages) remained high and stable above 60 percent in Hungary and soared from 45 to 73 percent in Poland between 1989 and 1992 (Figures 4.8 and 4.9). The decisions of both governments to increase both the eligibility and generosity parameters of pensions in these first years are therefore hard to explain by electoral considerations alone. Pensioner voting power in this period grew as a result of pensioner favoring policies – not the other way around. Especially in view of pensioners' low rates of formal mobilization, pluralist and 'new politics' theories alike would predict the reverse scenario: resource-constrained incumbents who prevent large voting groups from growing any further by reducing the generosity of these programs.²⁹

Instead, the political economy of pensions in early transition is best

interpreted as a striking case of 'policies that produce politics' (Pierson, 1993). At a historically formative moment to, social policy decisions made by incumbents reshaped the voting weights of various welfare state constituencies, which only then, at t_1 and t_2 , could further crystallize into favorable policy outcomes for the larger groups (Figure 5.1). In the early stages, pensioners were spoiled primarily as a result of pro-active supply-side decisions, rather than of vigorous demand-side lobbying.³⁰ Of course, electoral considerations do help to explain the comparative *strength* of divide and pacify policies. Hungary benefited from the most stable electoral climate in the entire region in the early 1990s. After the founding elections of March 1990, the next nation-wide elections were held only in May 1994. On 15 February 1994, parliament duly passed a law raising pensions benefits by 10 percent starting (backward) from 1 January, and it raised pensions further by 8 percent on 4 October (Róbert and Nagy, 1998). In Poland, by contrast, pensioners had more frequent opportunities to rely on sheer voting weight to push their interests. The Polish 'founding elections' were held in June 1989.³¹ After this, nation-wide elections were held again in May 1990 (for local governments), in November-December 1990 (for president), and in October 1991 and May 1993 (for parliament). These shorter electoral horizons certainly help to explain why the relative pampering of pensioners, while similar in both countries, was still more marked in Poland than in Hungary. This is evident, for instance, in the initial jump of pension replacement rates in 1990 and 1991 in Poland but not in Hungary (Figures 4.8 and 4.9), as well as in the steady rise in the share of

aggregate social expenditures from 1990 to 1993 in the first country but not in the second (Figures 4.4, 4.5 and 4.7).

A number of economy-wide 'structural' trends are likely to have further reduced the disruptive protest potential of post-communist workers over time. Over the last few decades, all integrated advanced economies have increasingly become 'post-industrial,' that is, service-based (Esping-Andersen, 1999).³² In Central Europe, this trend towards increasing tertiarization was evident already under late communism. But it further accelerated during transition, as these economies rapidly reverted a legacy of a high reliance on non-competitive heavy industries (such as mining, metallurgy, and military production) to become more market-based, private-owned and internationally integrated.³³ This development was all the more consequential since a decline in industrial employment, where unionization levels were highest, has led to a decline in formal worker organization, thus raising the set-up costs for collective action. The legacy of high levels of union organization provided an initial opportunity for pro-active entrepreneurs to start pursuing workers' interests by vigorous new strategies (Chapter 2). However, this opportunity, unless it was taken, was likely to be short-lived. Post-communist reforms, by their nature, involved at least three structural trends likely to reduce unionization levels, namely the privatization of state-owned enterprises, the liberalization of many economic activities to encourage private entrepreneurship, and the liberalization of foreign investment. New jobs were thus being created in non-unionized firms (predominantly in

service-based, and in small, medium-sized, or foreign-owned enterprises), while employment and membership in unionized firms was on the decline (Jackman and Rutkowski, 1994, p. 141).

Governments were quick to exploit these adverse circumstances to further weaken unions' power bases. Not allied with any of the main unions, the first Hungarian government, led by Antall, passed legislation in 1991 to make the deduction of union dues voluntary rather than mandatory (Fine, 1997, p. 254). At the same time, despite their nominal inclusion in tripartite bargaining structures, the unions were defeated or even ignored on a number of core issues. For instance, radical pension reforms in Hungary from 1997 and in Poland from 1998 were vigorously opposed by the major trade unions, but they achieved no substantial success and won only minor concessions (Ferge, 1999; Müller, 1999).³⁴ Another factor that helped to weaken unions was their ambiguous alliance with political parties in government (Bruszt, 1993; Ost, 1995). The Solidarity Union (from 1989 until 1993) and the OPZZ union (from 1993 until 1996) in Poland and the MSzOSz (from 1994 to 1998) in Hungary were at the same time a dominant national trade union and an influential faction of the senior government coalition party, with union leaders frequently occupying parliamentary seats for their party. These unions all called for moderation when in government, and adopted more aggressive stances when out of power.

As a result of these adverse circumstances and the decreasing union leverage vis-à-vis governments, the legacy of high levels of unionization (Table

2.3) had already been comprehensively eroded by the mid-1990s. In 1995, Hungarian union membership as a percentage of the non-agricultural labor force had gone down by 22 percentage points compared to its 1985 level (to reach 52 percent). Polish union density fell by 20 percentage points in six years' time, to reach 27 percent in 1995. Czech union density fell by 41 percentage points in just five years, to reach 36 percent in 1995 (ILO, 1997, pp. 237-238, 240). Union coverage rates (the proportion of employees actually covered by collectively bargained agreements in the formal sector) are likely to be a still better measure of union influence than union membership rates (Golden et al., 1999, p. 202). By 1995, union coverage was lower in Hungary (45 percent) and the Czech Republic (55 percent) than in countries like France and Germany (both 90 percent), Sweden (85 percent), and Norway (66 percent) (ILO, 1997, p. 248).³⁵

In sum, by avoiding conflicts early on in the transition, post-communist governments may have all but eliminated the danger of large-scale conflicts subsequently, as the social and economic effects of long-term job loss combined with economy-wide industrial trends to reinforce the collective action obstacles of threatened workers, unemployed people and abnormal pensioners. Implicit in this argument is the counterfactual proposition that without resorting to abnormal retirement policies (Hungary and Poland) or job loss avoidance policies (Czech Republic), these governments would not have been able to implement the dual transition as quickly and fully as they have. Roughly speaking, they would have been able to maintain political quiescence only by compromising on one of two

'goods.' First, big advances in democratic consolidation. By way of illustration, the Freedom House index of political freedoms, which ranges from 1 (most free) to 7 (least free), indicates that Hungary, Poland and the Czech Republic all underwent significant progress from the mid-1980s (with values of respectively 5, 5 and 6) to the mid-1990s (with a value of 1.5). But countries like Romania and Bulgaria (2 and 2.5 respectively) had not advanced as much by the mid-1990s, while the citizens of Belarus under Lukashenko still experienced the same levels of political 'freedom' (6) as were familiar to Czechoslovaks ten years earlier (Freedom House, 1997, p. 6). Hungary, Poland and the Czech Republic could also boast comparatively low scores on various corruption indicators in the early 1990s, whereas former Soviet republics such as Belarus and Ukraine had very high scores and countries like Slovakia and Romania scored in between (Rose et al., 1998, p. 221; Lipset and Lenz, 2000, p. 114). Alternatively, governments would have had to compromise on the speed and scale of market reforms. The Czech Republic liberalized the economy while avoiding transitional redundancies by soft bankruptcy laws, while countries like Slovakia, Romania and Belarus still more considerably lagged behind Hungary, Poland and the Czech Republic in terms of privatization and internal and external liberalization (De Melo et al., 1997, pp. 66-67).

Conclusions

Far from being fully constrained by structural and external variables, the social policy choices of the first democratic governments in Central Europe shaped the subsequent operational space of welfare politics. At a formative historical turning point, supply-side policies succeeded in maintaining a high degree of quiescence in the polity despite conditions for conflict. Once enacted, these policies were inherently difficult to reverse, and instead they crystallized into distinct welfare regime pathways over time. Hungarian and Polish governments allowed pension system dependency rates to increase much more than their Czech counterparts. Far from being less worried about the political threat of transitional unemployment, the Czechs opted to try and prevent large-scale drops in employment levels and to maintain lower inflows into unemployment, at the cost of delaying the hardening of budget constraints in firms. The Hungarian and Polish pensioner favoring policies also carried a heavy public-financial price tag, and they necessitated radical reforms in later years. But it is important to be clear about the counterfactual alternatives. I suggest that fast and full-scale progress on simultaneous democratic and market reforms *without* significant protests was not a realistic option. By this reading, divide and pacify policies acquire an element of political rationality. In collective action terms, the new abnormal pensioners no longer represented disruptive dynamite that needed to be defused - now. At most,

they were a medium-term time bomb undermining the welfare system's *finances* - later. Faced with the risk of unemployment-inspired protests, the Hungarian and Polish governments could split up the high-risk categories into groups with different work-welfare status and lower collective action capacities. But importantly, if they managed to do this quickly and effectively, incumbents' prospects of avoiding large-scale protests could be expected not just to be much better, but also to improve progressively as time went by (potentially even despite rising unemployment levels). In combination with predicted economy-wide dynamics such as the decline in unionization levels, the increasing social marginalization of unemployed and abnormally retired people could be expected to pacify the polity irreversibly, thus freeing up resources for other goals in later years.

Conclusions

This thesis has documented the comparatively low levels of disruptive protests during the early 1990s in Central and Eastern European countries and has offered a possible explanation in the case of Hungary and Poland. To many social scientists, the post-communist quiescence was both theoretically unexpected and historically surprising. At the time of the regime changes, a number of observers expressed their concern that the early 1990s in this region would be marred by violence, disruption and political instability, as was the case in previous episodes of deep market reforms in Latin American democracies and elsewhere in the developing world (Chapter 1).¹ Subsequent attempts to explain why these expectations have not materialized in the post-communist region have been pitched at highly aggregate and structural levels. By contrast, the present thesis has attempted to fill in macro-level contexts with strategic policy variables in an attempt to explain protest levels in Hungary and Poland between 1989 and 1996 (Chapter 2). Key to this has been the discussion of the influence of individual work-welfare status on the parameters determining the shape of protest curves (effectiveness) and the size of the free-riding benefits associated with protest participation (fragility).

The starting assumption was that in the course of consolidating the nascent democracies and of implementing complex and socially costly economic reforms, the early post-communist governments attached a high value to political quiescence. I have identified a 'divide and pacify' social policy package that was likely to enhance incumbents' likelihood of peacefully muddling through the early 1990s despite widespread popular grievances (Chapter 3). While unlikely to have influenced society's underlying discontent, these policies could help to reduce the capacity of aggrieved actors to engage in violent and disruptive repertoires for expressing this discontent. In part, a divide and pacify strategy forcibly channeled the expression of political opposition towards more orderly repertoires such as negotiations, non-violent demonstrations, public statements, petitions and letters. In part, this strategy sentenced aggrieved groups to political 'silence' until election time and to (anti-incumbency) voting in the polling booth. In so doing, incumbents pro-actively shaped rather than passively relied upon a degree of peace (non-disruption) and patience (inter-temporal thinking) during the transitional 'valley of tears.' This bought them the operational space needed to make substantial and frequently irreversible progress in consolidating democracy and in reforming the economy. Chapters 4 and 5 have assembled an array of evidence to show that between 1989 and 1996, divide and pacify-type policies have been implemented on a large scale in Hungary and Poland but not in the Czech Republic. Redressing an imbalance in existing explanations, I have argued that, far from being the sole result of external macro-economic conditions or of unintentional decision-making, the

double puzzle of the political quiescence and the abnormal pensioner booms in post-communist Hungary and Poland contains a degree of political rationality.

This account has simultaneously acknowledged and circumscribed the roles of 'structure' and 'history' in explaining post-communist protest levels. Given the strong and pervasive effects of the communist one-party systems on many aspects of social life for over four decades, it would obviously be unwarranted to dismiss these concepts entirely from explanations of protests in the early 1990s. But there is a need to move beyond highly aggregate concepts such as the novelty of the post-communist regime (Szabó, 2000a; Ekiert and Kubik, 2002), the presence or absence of tripartite bargaining structures or union competition (Seleny, 1999; Ekiert and Kubik, 1998b, 1999) or variables such as the average population age, rural density rates, overall welfare spending, and poverty or income inequality (Greskovits, 1997, 1998). Rather, history and structure can be specified at intermediate levels and need to be interpreted as partly subject to manipulation by governments, rather than inherited or invariant beyond strategic action. By this reading, macro-structural variables play a role in determining to what extent the environment could be conducive to the emergence of collective protests.² But the theoretical baseline of explanations of protests must nevertheless reside in an account based on purposive actions within given structural parameters, not just by members of the aggrieved groups (e.g. Laitin, 1999; Petersen, 2001), but also in the form of pro-active policies by governments. For instance, I have argued that the average age of the population was less important in

explaining post-communist protest levels than the particular work-welfare set-up of society and the relative share of workers and pensioners within any given age group. Likewise, aggregate rates of social expenditures to GDP could reduce or increase protest levels, depending on which groups these expenditures were destined for.

By many yardsticks, there seemed to be a high likelihood of social instability in Hungary and Poland after 1989. Structural legacies from the communist period included large farming populations and high levels of unionization, in large and non-competitive industrial firms. These were segments of the workforce which were relatively protected during communism. In previous decades, a certain degree of income security to farmers was guaranteed by the persistence of systemic food shortages and of widespread subsidies on basic foodstuffs. The ideological commitment to full employment and the heavy stress on industry in these workers' states created employment for many industrial workers who would not have kept their jobs in more competitive environments. These groups were hit especially hard by the social costs of the subsequent economic reforms, including soaring poverty rates, drops in real wages, price hikes for basic commodities and rising unemployment rates. Yet this does not imply that large-scale protest movements were therefore inescapable during the transition.

The capacity to organize for disruptive protests is likely to vary significantly even between groups which are similar on many relevant criteria. For instance, transferring threatened workers to the status of being unemployed or retired could be expected to reduce aggregate protest levels

because the social networks and material circumstances of the latter groups were less conducive to collective action. The change of work-welfare status involved in becoming unemployed or abnormally retired also transferred people from being members of specific local workplaces to being impoverished members of large and anonymous ascriptive categories of welfare program dependents. Privately, the affected actors retreated to the household sphere; at a minimum they no longer formed part of daily convening working environments that could easily mobilize participation and penalize non-participation. Being able-bodied at a time of increasing economic insecurity, the unemployed and the abnormal pensioners also had compelling material incentives to earn private (informal) incomes rather than pursue public goods through collective action.

Two specifications are in place here. First, it is important to stress that the present analysis does not preclude the occurrence of large-scale protests even among the unemployed and pensioners. Rather, it posits a *ceteris paribus* argument: in the presence of policies that split up relatively well-connected groups of threatened workers into different work-welfare categories, there were going to be comparatively fewer protests. So whereas these groups could still be mobilized by self-interested entrepreneurs or could still manage to build coalitions with other groups of actors such as trade unions, such mobilization was likely to prove more difficult after the implementation of divide and pacify policies. In explanations of large-number events, it is useful to distinguish between underlying and precipitating causes (Przeworski, 1991, pp. 1-7). In these terms, the new work-welfare situation of

the unemployed and abnormal pensioners in Hungary and Poland translated into more prohibitive underlying conditions for protest mobilization - more slowly accelerating protest curves and higher free-riding benefits. While nothing precluded that these obstacles could be overcome, doing so was going to require concomitantly larger precipitating factors. Thus, entrepreneurs were likely to find it harder to overcome the hurdles of the adverse social and material characteristics of the unemployed and pensioners (Table 3.4). And existing distributional conflicts between pensioners, unemployed people and unionized workers were only likely to be aggravated after divide and pacify policies endangered the financial balance of the pension systems.³

Second, while state policies aimed at transferring threatened workers out of the labor market and into welfare recipient status could be expected to reduce the scale and incidence of disruptive protests in the polity, they were unlikely to reduce the amount of ideological or political discontent. In the presence of divide and pacify strategies, decreasing (or low and stable) levels of disruptive protests were in principle compatible with increasing (or high and stable) levels of general political disgruntlement. This is so because the latter variable could be expected to increase *as a result* of the very success of these strategies in silencing the targeted groups' capacity to disrupt the polity.⁴ Divide and pacify social policies were not an omnipotent Machiavellian divide and rule formula: the senior incumbent parties in Hungary and Poland lost office in every general election between 1990 and 1996.

At the same time, these governments, against the odds, achieved an immediately urgent goal (political quiescence), allowing them the operational space to implement market reforms. To be sure, these policies carried a heavy price tag. Sending labor market participants on pensions doubly endangered the financial viability of the pension systems, by reducing the number of taxpayers *and* raising the number of welfare recipients. But it is important to be clear about the counterfactual alternatives. I suggest that in the absence of strategic social policies, fast and full-scale progress on institutionalizing democracy and implementing costly market reforms *without* higher levels of disruption in the polity was not a realistic option. Rather, divide and pacify policies helped to pacify the Hungarian and Polish polities at a time when the short-term danger of large-scale conflicts was highest, and thereby contributed in their own way to the subsequent success stories of the Hungarian and Polish transitions.

ENDNOTES

Introduction

¹ Related to this, a separate body of experimental evidence has further weakened the assumption of fixed preferences by showing that voters' choices vary systematically according to the way in which these choices are presented – framed – to them (Quattrone and Tversky, 1988; Tversky and Kahneman, 1981, 1987). Moreover, in evaluating incumbents, the weights that voters assign to different policy domains vary according to which domains are made accessible to them, or are suggested – primed – as important (Iyengar and Kinder, 1987; Iyengar, 1990).

² For instance, the percentage of voters who declared that Gonzalez had been the main reason for supporting the government was 22 percent in 1986, 14 percent in 1989 and 23 percent in 1993 (Maravall, 1999, p. 188).

³ Similarly, Thatcher used patriotic media coverage of the 1982 Falklands war in order to turn a post-war low in government support into 50 percent support ratings and a subsequent general election victory (Dunleavy, 1991, p. 122; but see Stubager, 2003). Another successful leader the German Chancellor Helmut Kohl moved quickly and boldly to unify the two Germanies at great public financial cost in 1989-1990. While Kohl's move was opposed by economic experts and the main opposition party alike, it is widely believed to have won him the support of pivotal voters in the former Eastern Länder and thereby, against all expectations, the 1990 federal elections – his fourth consecutive victory.

⁴ For instance, Page and Shapiro (1983, pp. 178, 179) reported a change in policy that was congruent with public opinion in 44 percent of their 357 cases. Moreover, in over half of the no-change cases, it turned out that policy was already maximally congruent with opinion change in the first place, because of floor effects or ceilings effects. For instance, even if public opinion became more strongly opposed to fines for driving without seatbelts, politicians could not respond to opinion changes if fines were already zero. Moreover, of the remaining 46 percent of no-change cases, 16 percent eventually showed a (stable) policy change in a congruent direction. And for 57 percent of all no-change cases without floor or ceiling effects, but where opinion would have needed to pass thresholds to changes policies, significant pre-policy congruent activity was observed. For instance, if public opinion in favor of Chinese UN membership changed from 10 to 20 percent, it would be odd to see a policy change by governments (voting for Chinese membership), but congruent pre-policy could be expected (more China-favorable bills proposed or advanced in Congress, etc).

⁵ Of course, context greatly circumscribes the extent to which strong leadership strategies are possible. Some domains are likely to be more conducive to pro-active policies than others. For instance, Margaret Thatcher successfully reduced the absolute size of the traditionally Labour-oriented electorate of public sector workers and public tenants by aggressively privatizing state enterprises and by selling over 1.5 million public housing units to private occupants (Dunleavy, 1991, p. 120; King and Wood 1999, p. 383). By simultaneously increasing rental prices for public housing (at times by up to 80 percent) and decreasing sales prices (at times by as much as 70 percent below market value), Thatcher improved the relative welfare of private owners vis-à-vis tenants (Dunleavy, 1991, p. 121; but for a critique of the preference shaping argument, see Stubager, 2003). But Thatcher was much less successful in her aim to dismantle the British welfare state (Pierson, 1994, 1996). This may be due to a collective action paradox: welfare retrenchment imposes concentrated costs on some, in exchange for diffuse and uncertain benefits for all.

⁶ In turn, policies with concentrated costs *and* benefits are likely to be pursued only if politicians' own parties are most advantaged (Patrick Dunleavy, personal communication).

⁷ See Ekiert (1991), Bruszt (1993), and Ost (1995). However, it is more doubtful whether Ost (1995, pp. 459, 461) is justified in further implying that as a consequence, 'none of these [interest] groups constitutes a set of independent interests that can form the basis of a party or program in a democratic future' and that this may have resulted, in turn, in the 'successes of non-liberal, non-interest-based parties.'

⁸ For instance, according to one index of electoral volatility (marking 0 if between two elections the same parties compete and get exactly the same result as before, and 100 if all votes go to entirely new parties), Hungary scored 28 percent between 1990 and 1994, and 34 percent between 1994 and 1998, Poland scored 35 percent between 1991 and 1993, and 28 percent between 1993 and 1997, and the Czech Republic scored 29 percent between 1992 and 1996, 18 percent between 1996 and 1998 (Tóka, 1999, p. 390).

⁹ On the simultaneity and complexity of post-communist reforms, see also Offe (1991), Przeworski (1991), Barr (1994a), and Balcerowicz (1995). For instance, economic reform alone consisted of many broad sub-fields, such as macroeconomic stabilization, microeconomic liberalization, and institutional restructuring.

¹⁰ For instance, in Hungary the first free elections were held on 25 March 1990, whereas the Constitution came into place on 31 December 1990. In Poland, there were first partially free elections for the Sejm in June 1989, where Communists were guaranteed 65 percent of the seats, and fully free elections for the Senate, where the Communists failed to win any seats. In December 1989, the commitment to Communism in the constitution was repealed, but the major constitutional revision came only on 23 November 1992. In the Czech Republic, the first elections were held on 8 and 9 June 1990, whereas the constitution came into place only on 16 December 1992. Constitutions in other countries marked similar delays (Rose et al., 1998, p. 59).

¹¹ In Hungary, even the nominal independence of the Central Bank was eroded by governments and usurped for partisan purposes. Prime minister Horn, who headed the second democratic government forced his Central Bank president to resign well before the end of his six-year term in favor of György Surányi, declaring that he would rather 'seek one of our men.' Ironically, Surányi himself had been ousted from the same post a few years earlier by Antall, the first prime minister (Stark and Bruszt, 1997, p. 240 fn.).

¹² In some cases, institutional factors tended to strengthen the role of governments vis-à-vis other actors in the polity. For instance, in Hungary, prime ministers enjoyed strong executive authority due in part to the 'positive vote of no confidence' device, which required alternative governments to be formed when incumbent ones fell in parliament. Hungarian electoral laws also strengthened election winners. Thus the coalition partners in the 1990-1994 Antall government had seen their 45 percent of votes translated into over 60 percent of parliamentary seats, whereas in the 1994-1998 Horn government the prime minister's party alone had seen its 36 percent of votes translated into 54 percent of seats (Stark and Bruszt, 1997, p. 170). However, electoral laws were less favorable to incumbents in the Czech case. For instance, during the first post-communist government, the ODF party of finance minister Vaclav Klaus saw its 30 percent of votes translated into 38 percent of seats in the Czech National Council. Moreover, governments, whilst trying to reform the economy, had to cope simultaneously with the increasing strain and subsequent break-up of the Czechoslovak federation (Stark and Bruszt, 1997, pp. 179-182).

¹³ Throughout the thesis the term 'abnormal retirement' (defined to include disability retirement and retirement before the official retirement age in any given country) is used as a convenient catch-all phrase and should not be taken to carry any pejorative connotations whatsoever.

Chapter 1

¹ As Jan Winiecki, the one-time director of the European Bank for Reconstruction and Development acknowledged, the transformation has come 'at high cost, often with long lags, and not without question' (quoted from Rose et al., 1998, p. 67).

² Comparing a number of ex post outcomes of key macro-economic variables in 1990 with the ex ante targets for these variables as stated by the Polish government in Letters of Intent submitted to the IMF, Rosati (1994, Table 7.3) produces similar but not identical figures. GDP, targeted to fall by 3 percent, actually fell by 12 percent. Inflation, targeted to be at 95 percent, actually stood at 249 percent. Industrial output, targeted to fall by 5 percent, actually fell by 23 percent. On the nature and causes of the transformational recession, see Kornai (1994).

³ Austerity protests are defined as 'large-scale collective actions including political demonstrations, general strikes, and riots, which are animated by grievances over state

policies of economic liberalization, implemented in response to the debt crisis and market reforms urged by international agencies' (Walton and Seddon, 1994, p. 39).

⁴ Among the African countries experiencing waves of austerity protests were Egypt in 1977, Senegal in 1987, 1988 and 1989, Ghana in 1986 and 1987, Zambia in 1986 and 1987, and Nigeria in 1986, 1987 and 1988 (for a complete listing, see Greskovits, 1998, p. 193).

⁵ The cases that counted more than thirty casualties are Egypt (1977), Peru (May 1978), Liberia (April 1979), Morocco (June 1981), Tunisia (December 1983 to January 1984), the Dominican Republic (1984) and Morocco (January 1984). For fuller overviews, see Bienen and Gersovitz (1986, pp. 29-36, 44).

⁶ An extreme if less straightforward example of political violence under democracy was the twelve-year period in Peru spanning the country's transition to democracy in 1980 and Alberto Fujimori's semi-authoritarian coup in November 1992. During this period, Peru experienced recurrent clashes with the impoverished farmers who had mobilized into the Shining Path guerrilla movement (which, to be sure, combined 'ideological' and 'rebellious' with 'reformist' and 'democratic' demands). These clashes took over 22,000 casualties, with death tolls peaking in the years of strongest real wage decline and of hyperinflation (own calculations based on Haggard and Kaufman, 1995, p. 329, Table 9.3).

⁷ In this light, it is difficult to comprehend Walton and Seddon's (1994, p. 327) assertion that in Central and Eastern Europe, 'in only a minority of cases (...) did the mass of the population remain quiescent' and that 'it is evident that the scale and significance of popular protest and the far-reaching political repercussions of economic reform were not foreseen, at least by the international institutions (despite the experience of "the politics of adjustment" in Africa, Asia, and Latin America through the 1980s).' The authors do not provide data to corroborate this claim, but they seem to refer mainly to the years 1989 to 1991.

⁸ Reviewing recent democratic transitions, Haggard and Kaufman (1995, p. 328) similarly observed that 'even though economic deterioration has not yet lead to widespread authoritarian reversals, (...) it has seriously jeopardized prospects for democratic consolidation. It does so in part by causing increased social violence and in part by creating the raw material for polarizing populist and antidemocratic movements.' Reviewing the prospects for ongoing democratic consolidation in Latin America, Asia and Africa, Haggard and Kaufman (1992, p. 350) elsewhere pointed to the danger that economic crisis might cause military interventions and the reversal of democracy, because such crisis may spark 'an increase in crime, strikes, riots and civil violence.'

⁹ Grzegorz Ekiert and Atilla Agh, respectively, quoted in Greskovits (1998, p. 3).

¹⁰ Quoted in Ekiert and Kubik (1998, p. 548).

¹¹ For results in sociology and social psychology, see Jahoda (1982), Kelvin and Jarret (1985), Argyle (1993), Gallie (1994, 2002), Gallie et al. (2001), and the various contributions to Fryer and Ullah (1987), Gallie et al. (1994) and Gallie and Paugam (2000).

¹² For empirical results in political science, see Lane (1991, 1998) and Baxandall (2001). For theoretical reflections, see Elster (1986, 1988).

¹³ For empirical results in economics, see Clark and Oswald (1994), Solow (1995), Oswald (1997), Winkelmann and Winkelmann (1998), and Di Tella et al. (2001).

¹⁴ On the differences in psychological distress scores between unemployed and employed people, see for instance, Clark and Oswald (1994), Gallie (1994) and Oswald (1997) for Britain, and Gallie et al. (2001) for a comparison between Britain and the Slovak Republic, Bulgaria and Romania. On differences in life satisfaction scores, see for instance Winkelmann and Winkelmann (1998) for Germany, and Whelan and McGinnity (2000), for a cross-country comparison spanning Belgium, Denmark, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Spain and the UK.

¹⁵ Specifically, the average life satisfaction scores in this period were 7.4 for the employed on a scale of zero (lowest satisfaction) to ten (highest satisfaction), compared to 6.8 for individuals out of the labor force and 5.6 for the unemployed (own calculations based on Winkelmann and Winkelmann, 1998, p. 5, Table 1). The data refer to the period 1984 to 1989.

¹⁶ The average satisfaction scores per country were simply added up and divided by the number of countries, producing a score that does not control for the size of the countries

within the sample. See also Winkelmann and Winkelmann (1998, p. 5, Table 1) for similar results on life satisfaction panel data in Germany.

¹⁷ One of the stylized differences between late twentieth-century capitalist and communist economies was that the latter were characterized by close-to-full (official) employment (Kornai, 1992), whereas even standard textbooks teach that 'the high natural rate of unemployment, with the accompanying necessity to accept much involuntary unemployment, is a central flaw in modern capitalism' (Samuelson and Nordhaus, 1985, p. 258).

¹⁸ Kolarska-Bobinska (1991, p. 181) further reports that in October 1988 one quarter of Polish respondents considered it likely that they would lose their jobs, and one half of respondents thought so in 1990.

¹⁹ No data available on France.

²⁰ To illustrate the Fernandez and Rodrik (1991) result, consider a population of three equal-sized groups (A, B and C) and a reform where members of A gain 8, members of B gain 20 and members of C lose 10. The reform clearly enhances aggregate welfare: total welfare in society is increased by $8 + 20 - 10 = 18$. If prior to the reform all voters would know perfectly to which group they will belong after the reform, the policy would pass by two-thirds majority. But now suppose that only (ex post) members of B are *ex ante* certain, while (ex post) members of A and C attach a 50 percent *ex ante* probability that they will belong to either group. For them, the expected payoffs will then equal $(0.5 \times 8) - (0.5 \times 10) = -1$. Thus the policy will be defeated by two-thirds majority, even though the policy is efficient and everyone in the population is aware of this.

²¹ Moreover, extrapolations to the future may further have pushed individuals into anti-reform attitudes. Political economists have argued that the support levels of current job holders toward reforms, instead of reflecting current labor market conditions, may be subject to 'exposure effects' whereby job holders link current macro-level developments to their own chances of becoming unemployed (Saint-Paul, 1995, p. 5; 1996, p. 9). Thus, in job-creation periods when employment is expanded, the employed may favor reforms even if current unemployment levels are high. Conversely, in job-destruction contexts such as early transition, the employed may oppose reforms even if current unemployment levels are low.

²² There is an extensive literature discussing welfare provision during communism. See furthermore Szalai (1991, pp. 329-330), Ferge (1992, p. 207), Kornai (1992, p. 222), Barr (1994c, 195-199), Sipós (1994, pp. 227-234), Estrin (1994, pp. 61, 70-71), Krumm et al. (1994, p. 1), Standing (1996, pp. 227-230).

²³ The distress scores referred to are from the General Health Questionnaire (GHQ) which scores answers to twelve questions related to concentration ability, loss of sleep, and general feelings of happiness, strain and depression, and which is widely seen as one of the most reliable indicators of psychological distress (see Clark and Oswald, 1994, pp. 649-650, for a discussion). For similar results on differences in distress levels between the unemployed and the employed, see Gallie (1994, p. 125, Table 6.1), Clark and Oswald (1994, p. 650), and Oswald (1997, pp. 1821-1822).

²⁴ Choguill and Manchin (1994, p. 79) report a margin of error of only between 4 and 5 percent. This fear of unemployment was especially strong outside Budapest. Between May 1991 and June 1992, the proportion of scared respondents rose from 41 to 48 percent in towns, and from 47 to 60 percent in villages (Choguill and Manchin, 1994, pp. 79-80, 84).

²⁵ Different data based on Hungarian household panel surveys similarly indicate a big gap between the rate of respondents who feared to lose their job and the actual unemployment rates. Between 1992 and 1997, the share of scared respondents was on average 18 percentage points higher than the actual unemployment rate, with a peak gap of 24 percentage points early on (in 1992) and another peak of 20 points in the year following Hungary's 1995 macro-stabilization program (own calculations based on Lengyel, 1999, p. 7, Table 4). A similar picture also emerges in Russia. In March 1995, 66 percent of Russian survey respondents answered that 'there are unemployed among my relatives and friends.' Yet (annual registered) unemployment stood at only 2.8 percent at that time (Gimpelson, 2001). Without doubt, this is partly due to the comparatively high degree of informal economic activity, and, more generally, of institutional anarchy in Russia. The EBRD (1997) reports an unemployment rate of 7-8 percent for the same period.

²⁶ Similarly, analyzing data on close to 300,000 citizens in the US and in 12 West European countries, Di Tella et al. (2001, p 340) find that citizens would be willing to trade off an estimated 1-percentage point increase in the unemployment rate for an estimated 1.7 percentage point increase in the inflation rate.

²⁷ Summarizing political attitudes toward market reforms in these five cases, Stokes (2001b, p. 26) therefore concludes that 'Apparently, unemployment is such a catastrophic event that when people think the probability of losing their job is high, they interpret this unambiguously as bad news and hold the government responsible.' See also Przeworski (2001, pp. 123, 125).

²⁸ While the Ekiert and Kubik database is without doubt one of the most detailed and informative sources of knowledge on post-communist protest events to date, it has to be borne in mind that this virtue is in part relative, that is, due to the lack of better data. The authors themselves acknowledge that protest event analysis based on press sources is not without pitfalls. For instance, they point out that the high and variable amount of missing data prevented them from doing rigorous statistical analysis (Ekiert and Kubik, 1999, p. 17). For a thorough discussion of this issue, see Kramer (2002a, 2002b), and the reply by Ekiert and Kubik (2002). Kramer mentions, for instance, that the Ekiert/Kubik data base is based on a relatively small number of newspaper sources, which, at least in the case of Poland, were all published in the capital, Warsaw.

²⁹ Data for 1994 have not been included because they were unavailable for Poland, and covered less than half a year (until May) for Hungary.

³⁰ I thank Máté Szabó for making these summary reports available to me. They were drawn up by, respectively, Virág (1996) for 1989, Kovács (1996) for 1990, Mezei (1996) for 1991, Füzér (1996) for 1992, A. Szabó (1996) for 1993, and Péchy (1996) and M. Szabó (1996) for 1994. My discussion and calculations in this paragraph draw on these reports.

³¹ As with the press-based data discussed above, the relative virtue of these ILO data is also due largely to lack of better-quality data. For instance, since the ILO strike data come from several sources (including strike notices, newspaper reports, and direct inquiries addressed to employers' or workers' organizations), definitions are not perfectly comparable across countries. Data on strikes and lockouts are covered together because most countries do not distinguish between these two actions (ILO, 1997, p. 273). Similarly, ILO figures on trade union membership are based on self-reported figures as sent to the ILO by governments, employers and unions. But importantly for our purposes, the data generally exclude the self-employed, the unemployed and the retired (ILO, 1997, pp. 269, 272).

³² Of course, the particular model of democracy towards which countries consolidate also matters in explaining the extent of social conflicts in the polity. During the 1980s Colombia and Venezuela were two-party systems based on cross-class and nationally organized parties that often colluded in 'quasi-democratic alliances.' This gave executives a high degree of autonomy from particular interest groups and even from national parliaments and may help to explain the fiscally conservative, non-populist policies pursued by these countries in the 1980s. In Colombia, trade unions operated outside this party framework, which might help to explain the occasional eruptions of left-wing urban and rural protests. In Venezuela, by contrast, one of the two leading parties, the Acción Democrática, had direct control over the main trade union, the Venezuelan Workers Confederation, which represented around 80 percent of the workforce (Haggard and Kaufman, 1992, pp. 285-287).

³³ For instance, one indicator of the early stages of democratic consolidation in Peru was that of the 675 laws promulgated between 1980 and 1984, 463 were executive decrees. Peru's first two democratic governments experienced annual average GDP growth rates of respectively -2.8 and -2.3 percent, and annual average inflation rates of 108 and 2,465 percent. Brazil's first two democratic governments experienced annual average GDP growth rates of respectively 2.5 and -0.9 percent, and annual average inflation rates of over 800 and over 1,400 percent. The summary is based on Przeworski (1991, p. 184), Haggard and Kaufman (1992, pp. 285-286), Bresser Pereira (1993, pp. 20, 37-48), and Haggard and Kaufman (1995, p. 175).

³⁴ During 1980-1984, annual average GDP growth in Venezuela stood at -2.4 percent and annual average inflation at 13 percent. During 1985-1988, annual average GDP growth stood at 4 percent, and annual inflation at 22 percent. Colombia experienced only a short

mildly populist episode, under president Belacur from 1982 until his move towards more conservative policies in 1984. This summary is based on Przeworski (1991, p. 184), Haggard and Kaufman (1992, pp. 285-286), Bresser Pereira (1993, pp. 20, 37-48), and Haggard and Kaufman (1995, p. 175).

³⁵ For Western studies relying on this measure, see Pampel and Williamson (1989, p. 58), Sherman Grant II and Wallace (1991, p. 1134), Gobeyn (1993, p. 76), O'Connell (1994, p. 231), Sandoval (1998, pp. 175, 187).

³⁶ For East European studies relying on this measure, see Ekiert and Kubik (1998a, p. 96; 1999, p. 118). By contrast, Kubik (1998) and Seleny (1999) rely on a still more problematic measure for our purposes, namely industrial action as standardized by the size of the *entire* population, which includes subgroups with near-zero levels of industrial action such as children and the elderly.

³⁷ A potential drawback should be noted regarding the present method of standardizing for the size of the working-age population, when compared to a method of standardizing for the number of wage earners (but *not* when compared to a method of standardizing for the size of the labor force). The first way of measuring industrial action might produce an underestimate, because it includes the unemployed in the denominator. As I discuss at length in Chapter 3, this group is likely to be comparatively less able to engage in disruptive collective action. Keeping this in mind, it is therefore advisable to combine a discussion of the working-age adjusted measure of industrial action with a discussion of changes in both the size of the labor force and, within it, in the size of the unemployment pool.

³⁸ By contrast, the strike rate stood at 140 in the early 1990s in Peru, and at 11 in pre-transition Brazil in 1980. The data reported here are averages of all the available 'democratic' data points: 1980, 1985, 1990, 1991, 1992, 1993, 1994 and 1995 in Peru, 1985 in Brazil, 1985, 1990, 1991, 1992 and 1993 in Colombia, and 1980 in Venezuela. For 1980 and 1985, the protest data were adjusted for the size of the population aged 15-64 in 1980, for the years thereafter the data were adjusted for the size of the population aged 15-64 in 1994. Note also that over the period considered, population growth in these Latin American countries was generally faster than in the Eastern European and Western democracies discussed above. This makes the figures for Latin America in between the years 1980 and 1994 comparatively less reliable. Data on strikes and lockouts for Colombia include public services and illegal stoppages. For Peru from 1994 they cover strikes only and the private sector only. For Brazil they cover strikes only.

³⁹ This rate stood at 1 in Brazil before democratic transition (in 1980). And in the next five years (1991 to 1995) of democracy in Peru, however, this same rate went down to 6.1. The data reported here are averages of all the available 'democratic' data points: 1980, 1985, 1990, 1991, 1992, 1993, 1994 and 1995 in Peru, 1985, 1990, 1991, 1992 and 1994 in Brazil, 1985, 1990, 1991, 1992 and 1993 in Colombia, and 1980 in Venezuela. For 1980 and 1985, the protest data (in thousands) were divided by the population (in millions) aged 15-64 in 1980, for the years thereafter the data were divided by the population aged 15-64 in 1994. Note that over the period considered, population growth in these Latin American countries was generally faster than in the Eastern European and Western democracies discussed above. This makes the figures for Latin America in between the years 1980 and 1994 comparatively less reliable. Data on strikes and lockouts for Colombia include public services and illegal stoppages. For Peru from 1994 they cover strikes only and the private sector only. For Brazil they cover strikes only.

⁴⁰ These data also indicate that between 1989 and 1994, there were on average 16 strikes per year in Hungary, compared to 6 strike announcements per year (Fine, 1997, p. 258). The former implies a somewhat higher strike rate than the one presented in Table 1.4.

⁴¹ Similarly, in Ecuador, the manufacturing industry lost on average 1,991 workdays per thousand workers between 1987 and 1989 (own calculations from ILO 1992, p. 102). Note however that these data are adjusted for the size of the labor force, not for the size of the working-age age population. Note also that the one worker who participated in a hypothetical three-day strike would count as one worker involved in Table 1.5 but would translate into three workdays lost in Table 1.6.

⁴² In contrast, in pre-transition Brazil in 1980, the same rate of workdays lost stood at only 1.1. And in Peru, in the next five years (1991 to 1995) after the first decade of democracy

this rate also went down, to 29.2. The data reported here are averages of all the available 'democratic' data points: 1980, 1985, 1990, 1991, 1992, 1993, 1994 and 1995 in Peru, 1985 in Brazil, and 1980 in Venezuela. No data were available for Colombia. For 1980 and 1985, the protest data (in thousands) were divided by the population (in millions) aged 15-64 in 1980, for the years thereafter the data were divided by the population aged 15-64 in 1994. Note that over the period considered, population growth in these Latin American countries was generally faster than in the Eastern European and Western democracies discussed above. This makes the figures for Latin America in between the years 1980 and 1994 comparatively less reliable. Data on strikes and lockouts for Colombia include public services and illegal stoppages. For Peru from 1994 they cover strikes only and the private sector only. For Brazil they cover strikes only.

⁴³ The data presented in Tables 1.6 and 1.7 also cast doubt on a central inference repeatedly drawn by Ekiert and Kubik (1999, pp. 109, 121, Table 23) from their press sources, namely that in terms of protest event magnitude the year 1993 was the peak year of protests in post-communist Poland.

⁴⁴ On this see also Vanhuysse (2002b) and, independently, Kramer (2002a). The latter, reviewing the empirical literature on Western Europe (p. 218), similarly finds that key periods in Western Europe were marked by higher levels of protest than those cited by Ekiert and Kubik for post-communist Poland – indeed 'several times higher in some cases, with a far greater incidence of violence.'

⁴⁵ Kramer (2002a, pp. 218-219) has similarly found that in 1992 only about three percent of the working-age population took part in strikes. Furthermore, since strikes were by far the most common form of protest – a finding confirmed by both Ekiert and Kubik (1999, 2002, p. 225) and Kramer (2002b, 2002a, p. 219) – it seems that contentious politics in Poland, far from being engaged in by large and diverse sections of society, were rather a relatively exclusive vehicle for the expression of dissent by a minority of workers.

Chapter 2

¹ Note, however, that, consistent with the economic theory of strikes, the strike rate in the Czech Republic was higher, albeit marginally, than in Slovakia (Table 1.4).

² In the same vein, Bartlett (1997, p. 330) refers to a 'politically inert population of hard-core unemployed workers who were far more inclined to stay on the public dole than to undertake active opposition to market reforms.' But Bartlett fails to elaborate this description of an 'inclination to inertia' on the part of the unemployed or to provide a coherent explanation for it, while suggesting, implausibly (see Chapter 4), that unemployment benefits in Hungary sufficed to reduce material grievances.

³ The elections covered by Fidrmuc (1999) were in the Czech Republic (in 1992, 1996 and 1998), Slovakia (in 1992, 1994 and 1998), Hungary (in 1994 and 1998), Poland (in 1993 and 1997), Romania (in 1992 and 1996), Bulgaria (in 1991, 1994 and 1997) and Slovenia (in 1992 and 1996).

⁴ On Poland, see for instance Osa (1998) and Kramer (2002a, 2002b). On Hungary, see Virág (1996), Kovács (1996), Mezei (1996), Füzér (1996), E. Szabó (1996), Péchy (1996), M. Szabó (1996, 2000).

⁵ For similar arguments, see also Ekiert and Kubik (1999) and Kubik (1998). The term opportunity structure refers to earlier work by Sidney Tarrow (1989, 1998), which identifies four distinct dimensions of changes in the polity that may constitute an opening of the 'political opportunity structures' (Tarrow, 1998, p. 86). (a) The opening up of access to participation. (b) The availability of influential allies. (c) Shifts in ruling alignments. (d) Cleavages within and among elites. Building on these notions, Ekiert and Kubik (1998b, pp. 572-573) argue that during transitory politics all four dimensions were in flux, creating an 'unstructured opportunity' or 'too much freedom' for people to protest, which in turn 'demobilized' them.

⁶ Kubik (1998, pp. 141-142) himself observes so much. Of course, as elsewhere, limitations on the conditions for calling strikes do exist, but they do not seem overly restrictive, nor are they mentioned by Ekiert and Kubik as reasons for the low incidence of protests. For instance, in Poland only trade unions may call a strike. Other limitations regard, for instance, special groups like the military and the police (Hungary), essential services such as

public transportation, telecommunications and the supply of gas, water and electricity (Hungary) or emergency circumstances (Poland). Prior notice of strikes is required five days in advance in Poland, and one to two days, by custom, in Hungary. In Poland, 51 percent of all non-union workers need to agree before a strike may be called legally. In both countries, it is possible to appeal against strikes in court (Casale, 1997, pp. 4-10).

⁷ Ekiert and Kubik further reduce their theory's parsimony by adding another layer of explanatory variables, namely the 'resources' available to mobilizing groups, meant 'in a broad sense – that is, including traditions, symbols, and discourses alongside material and organizational elements' Ekiert and Kubik (1998b, pp. 576, 581). Seleny (1999) similarly adds cultural, traditional, and discourse attitude variables to a broadly corporatist framework, arguing (pp. 497-498) that Hungarian protest politics differed from those in Poland because the former country had a 'pragmatic-consensual,' and the latter a 'moral-confrontational' culture of party competition, dating back to the pre-transition period.

⁸ For instance, in the period 1967-1976, Sweden, Norway and West Germany lost on average respectively 40, 30 and 40 days per thousand employees per year in industrial disputes, compared to respectively 210, 430 and 590 in France, the UK and the US the latter three countries (Gobeyn, 1993, p. 76). Similarly, O'Connell (1994, p. 231), studying 18 advanced capitalist countries between 1961 and 1983, finds that mean levels of strike days per 100,000 workers were much lower in corporatist than in non-corporatist countries both during the expansionary period 1961-1973 (respectively 120 and 590 days) and during the crisis period 1974-1983 (respectively 100 and 590 days). Note, however, my earlier caveat that these figures may mask endogenous policies by governments to manipulate the size of the labor force. O'Connell (1994, p. 222) provides a useful working definition for corporatism which I adopt here, describing it as 'a system of institutionalized income policies in which governments underwrite labor quiescence and restraint with commitments to maintain low unemployment, and high welfare spending, as well as some assurance that capital will reinvest profits to maintain economic growth.'

⁹ Of course, strictly speaking, the two claims are distinct and do not necessarily contradict each other: a country with a well-established tradition of street demonstrations may still lack a tradition of political violence. But the two theories do present these two factors as part of the same overall crisis-proof tendency of East European democracies, and they do not themselves make any such distinction.

¹⁰ Disturbances were defined as 'continuous interactions involving at least one group of fifty or more persons in the course of which someone seized or damaged persons or objects over resistance' (Snyder and Tilly, 1972, p. 522).

¹¹ Of course, this can be no more than a rough working hypothesis. As has been pointed out by a number of authors, objectively improving conditions may under certain circumstances increase, not decrease, people's frustration or unhappiness. Hirschman (1973) and Elster (1993) suggest psychological mechanisms to explain this apparent paradox. As economic conditions improve, aspirations might improve more rapidly (Elster dubs this the 'Tocqueville' effect), or they might extend to other dimensions of life too (Hirschman dubs this the 'tunnel effect'). Robert Merton (1968, p. 291) similarly hypothesizes that 'a generally high rate of mobility induces excessive hopes and expectations among members of the group so that each is more likely to experience a sense of frustration in his present position and disaffection with the chances for promotion.' Boudon (1986) demonstrates formally that in contexts that provide comparatively high opportunities for personal progress, it would be strictly rational for high numbers of people to invest in their upward mobility. Hence it follows logically that comparatively more people will be frustrated than in less upwardly mobile environments.

¹² By contrast, Taylor (1988a, p. 83) asserts, against structural and cultural theories, that 'revolutionary and rebel collective action has rational foundations and conforms to the thin theory of collective action.' Berejikian (1992), Lichbach (1994) and especially Ostrom (1998) offer critical but constructive ways forward for the rational choice theory of collective action.

¹³ Note that in deciding whether to protest against my firm's closure, I will be concerned only about how much such action will cost me, not about how much the firm's protection will cost to society (Marwell and Oliver, 1993, pp. 42-43). Of course, for governments, matters

are different. Unless budget constraints are very soft, 'pampering' one interest group will typically imply 'squeezing' another group. This is illustrated by the case of Hungarian and Polish pensioners in Chapter 4.

¹⁴ Different treatments of Schelling curves are Elster (1989a, Ch. 1), Margolis (1991), and Chong (1991). Insightful steps forward from this approach are Kuran (1995), who incorporates differences between individuals in their thresholds for publicly expressing their true private preferences, Laitin (1999), who presents a theory of how these curves combine with structural conditions to produce ethnic violence, and Dunleavy (2001), who focuses on marginal participation decisions around thresholds with step functions (edge effects).

¹⁵ Olson (1965, p. 165) went on to cite migrant farm laborers, white collar workers and taxpayers as examples. Thirty-five years later, he reiterated that 'no society can ever have a comprehensive organization of all groups. Accordingly, such groups as the unemployed, the poor, the consumers, and the taxpayers are not organized' (Olson, 2000, p. 88).

¹⁶ For example, Skocpol (1979, p. 96) argues that 'objective conditions allowed for no other outcome,' and she denies that individual actors, even revolutionary leaders, play any fundamental part in explaining revolutions (pp. 14-18). For an insightful macro-level account of the politics of collective violence, see Tilly (2003).

¹⁷ As I do below, Oberschall (1994, p. 85) argues that close-knit social networks such as groups and clubs enhance the efficacy of protest, leading to steeper protest curve slopes. But Oberschall's approach, although unlike mine it posits an assurance game context, cannot graphically represent such a context in terms of crossing curves, because it assumes a linear downward cost curve that incorporates only repression costs and excludes transaction costs and opportunity costs.

¹⁸ Compared to non-linear models of collective action that are more heavily based on inherently elusive motivational and attitudinal variables or on largely hypothetical distributions of individual thresholds levels (e.g. Elster, 1989a; Chong, 1991; Kuran, 1995), a theory of contentious politics which complements structure with strategy has the additional advantage of not *relying* on motives of solidarity or culture, nor on a theory of the distribution of these motives within various populations, to make aggregate-level inferences about collective action outcomes. The reason why Laitin (1999) and Petersen (2001) represent a theoretical advance is that they link such threshold arguments to variables that can be observed within and between local communities.

¹⁹ In the same vein, Levi (1988) and Rothstein (1998, 2001) argue that taxpayers and voters may forego clear material incentives to free-ride as long as state institutions do not manifestly under-perform, and fellow citizens do not ostensibly free-ride (this, they term 'contingently consenting' behavior). But these authors, too, are forced to weaken the thin-rational core of their arguments. For instance, Levi (1988, pp. 58-59) acknowledges that, strictly speaking, mutual cooperation in assurance games implies very stringent requirements of perfect information between players, which 'is possible only if it is supplied from the outside (e.g. by the rulers acting as a coordinator) or if the community is sufficiently small and stable so that everyone can really come to know everyone else.' But the core of her theory then shifts to argument that, essentially, taxpayers might behave cooperatively in other circumstances *as well as* assurance game circumstances: 'this brief excursus of assurance games highlights both the important entrepreneurial role of the rulers and the contingent calculations of taxpayers. These factors, I argue, affect taxpayers' behavior *even when they are not players in an assurance game*' (Levi, 1988, p. 59, emphasis added).

²⁰ Indeed, Chong argues that it is precisely 'because [these leaders] are a rare breed that public-spirited collective action is uncommon' (Chong, 1991, p. 140). Elsewhere, Hirschman (1986, p. 84) makes a similar argument, suggesting that the instrumental rational choice paradigm does not apply to collective action: 'just because the desired result of collective voice is typically a public good (...) participation in voice provides an alternative to purely self-centered, instrumental action' (emphasis added)

²¹ Interestingly, Hirschman's thick-rational theory is similar to Tullock's (1971) hard-boiled thin-rational theory, which argues that, barring substantial private benefits, collective action will occur only when it is not costly (e.g. in student protests).

²² Or, as Barry (1978, p. 30) put it: 'Whatever the reason why a person may attach himself to a cause, more enthusiasm for its pursuit is likely to be elicited if it looks as if it has a chance of succeeding than if it appears to be a forlorn hope.' See also Coleman (1990, p. 480).

²³ As Levi (1997, p. 35) puts it: 'It is not enough (...) to add ethical ends to the preference function; this produces tautology, not explanation, and certainly not testable hypotheses. Rather, the aim must be to specify the conditions under which more instrumental motivations are triggered, more ethical considerations dominate, and when, as I suspect is true in many cases, individuals are willing to act ethically even if it means bearing some tangible costs.'

²⁴ Taylor (1988a, p. 91) explicitly states that these are neither necessary nor collectively sufficient conditions. Instead, they merely posit the weaker prediction that 'other things being equal, the more any one of them is met, the more purchase is a thin theory likely to get.' The need for scope prediction or domain specification in the face of less-than-universal and less-than-realistic predictions is a crucial imperative for rational choice approaches to comparative politics. However, to date there is far from a consensus on this matter. For different views than those of Taylor, see Elster (1989b, pp. 26-27) and Tsebelis (1990, pp. 36-38). For a helpful review see Munck (2001, pp. 181, 189-191).

²⁵ The 1989 revolutions in Central and Eastern Europe arguably did not satisfy at least three of Taylor's conditions (limited range of action, well-defined incentives, and many prior instances). Note that while the present account concurs with Lichbach (1994, p. 27-28) that particular outbreaks of collective dissent are largely unpredictable, it tries to show, contra Lichbach, that a thin-rational approach can nevertheless illuminate the variance of aggregate protest levels, for instance between different groups that are subject to similar structural environments.

²⁶ For instance, in experiments featuring one-shot public good decisions where the optimal, individually self-interested contribution level would be close to zero percent, actual contribution have been found to vary between 40 and 60 percent of the socially optimal level (Dawes and Thaler, 1992, p. 10). Consequently, theorists have suggested various additional variables that, despite being individually costly in the short run, may motivate human behavior even in settings where the material stakes are not marginal. Such motives have included norms of fairness and solidarity that support cooperation and punish defection (Elster, 1989a, 1989b; Coleman, 1990), emotions such as anger, pride or envy that make actors willing to punish defectors at a cost (Frank, 1988; Elster, 1998, 1999), and communication possibilities that lead to a sense of group identity even among strangers (Dawes et al., 1990; Dawes and Thaler, 1992).

²⁷ For empirical studies on protest movements in the US, see Piven and Cloward (1977, 1993, 1997), on Italy, see Snyder and Kelly (1976), on France, see Shorter and Tilly (1971), on Canada, see Sherman Grant II and Wallace (1991), and on Latin American and African countries, see Walton and Ragin (1990) and Walton and Seddon (1994).

²⁸ Summarizing the history of poor people's movements in America, Piven and Cloward (1977, p. 6) similarly observe that, as a rule, disruptive protest actions have been extremely rare: 'however hard their lot may be, [poor] people usually remain acquiescent, conforming to the accustomed patterns of daily life in their community, and believing these patterns to be both inevitable and just.' Discussing urban politics in 1940s and 1950s Latin America, Hobsbawm notes that 'it is remarkable how few riots – even food riots – there have been in the great Latin American cities during a period in which the masses of their impoverished and economically marginal inhabitants multiplied and inflation as often as not was uncontrolled' (quoted in Walton and Seddon, 1994, p. 38).

²⁹ I thank Patrick Dunleavy for discussing this point with me.

³⁰ For instance, Oberschall (1994, pp. 81, 83, 87) repeatedly suggests that the nature of the public good determines the shape of production functions, while leaving unaddressed any potential variance in shapes between groups and leaving changes in shapes to be explained solely by dramatic across-the-board events such as mutinies and 'Gorbachev factors' (p. 83, 88). Marwell and Oliver (1993) seem aware of this problem when they briefly suggest that calling about a road pothole 'in a middle-class urban area where politicians are sensitive to complaints' (p. 62) may be represented by a decelerating curve, while the same action in 'a poor minority urban area with little political clout' (p. 63) will have an accelerating

function. But they do not flesh out the political mechanism behind this, and their remark just serves to illustrate an essentially technical simulation of the effects of alternative values for resource and interest distribution parameters on the likelihood of having a critical mass of contributors with non-linear functions (for a political treatment of linear functions, see Dunleavy, 2001).

³¹ As Hirschman (1995, p. 246) put it: 'all the support that [a democratic] society needs is that which derives from its cumulative experience of muddling through its numerous conflicts: these conflicts are or become its supporting pillars.' Following Przeworski, I adopt a minimal procedural definition of democratic consolidation, namely as a state of affairs whereby 'most conflicts are processed through democratic institutions, when nobody can control the outcomes *ex post* and the results are not predetermined *ex ante*, they matter within some predictable limits, and they evoke the compliance of the relevant political forces' (Przeworski, 1991, p. 51).

³² For instance, by their very nature, outright violent actions can be expected to be short in time, involving a small hard core of (male) participants, and commanding relatively little widespread support.

³³ Other examples of large-scale strikes that managed to make society grind to a halt are the May 1968 strikes in France, the winter 1973-1974 strikes by British coal miners, and the winter 1978-1979 strikes by British road haulage and public service sector workers (Crouch, 1982, p. 76).

³⁴ Thus Piven and Cloward (1993, pp. 6-7) argue that 'the regulation of civil behavior in all societies is intimately dependent on stable occupational arrangements. So long as people are fixed in their work roles, their activities and outlooks are also fixed; they do what they must and think what they must. Each behaviour and attitude is shaped by the reward of a good harvest or the penalty of a bad one, by the factory pay check or the danger of losing it. But mass unemployment breaks that bond, loosening people from the main institution by which they are regulated and controlled. Moreover, mass unemployment that persists for any length of time diminishes the capacity of other institutions to bind and constrain people. (...) There is no harvest or pay check to enforce work; without work, people cannot conform to familial and communal roles; and if the dislocation is widespread, the legitimacy of the social order may come to be questioned. The result is usually civil disorder – crime, mass protests, riots – a disorder that may even threaten to overturn existing social and economic arrangements.'

³⁵ In Piven and Cloward's (1997, pp. 332-333) view, 'whether movements succeed or fail is usually not determined simply by the effects of disruptive protests on institutions, taken alone. Rather it depends on the responses of state leaders to disruption.' And furthermore: 'the periods in American history characterized by the eruption of poor people's movements were also periods of electoral instability, of shifting allegiances and surges in voter participation... And it was our point that the same economic and social changes that free people to use disruptive resources may also generate the electoral instabilities that weaken a regime's legitimacy, thus making it vulnerable to institutional disruptions and increasing the likelihood of conciliatory rather than repressive responses' (see also Piven and Cloward, 1977, pp. 6-15).

³⁶ One of the reasons that Crouch suggests for why greater government involvement leads to longer strikes is that workers now feel they need to pressurize governments as well as employers. And one means of doing so is by massive or semi-violent means that threaten social order - a matter for which governments are directly responsible and about which they are acutely concerned for electoral as well as economic reasons.

³⁷ For instance, US firms, despite resorting to mass layoffs with considerably greater frequency than Italian firms, have consistently experienced fewer industrial disputes over job loss in post-war decades. But unlike in Italy, in the US those workers with the longest job tenure and the heaviest union involvement were best protected, because a seniority rule provided them with a shelter against targeted lay-offs (Golden, 1997; 1999, pp. 125, 128).

³⁸ The limited wage dispersion across jobs and the weakly performance-related determination of wage levels further discouraged the acquisition and upgrading of skills under communism (Jackman and Rutkowski, 1994).

³⁹ Note, however, that in some cases wages can be automatically blocked for striking and non-striking workers alike, for instance by means of employer lockouts, or when a small number of strikers manage to prevent a large number of non-strikers from entering the workplace by means of picket lines. But even in such cases, free-riding benefits may still be significantly different from zero. This is the case when black markets give free-riders the opportunity to earn informal wages.

⁴⁰ See, for instance, Tilly (1978), Tarrow (1998).

⁴¹ See, for instance, Chong (1991), Coleman (1990, Ch. 11), Oberschall (1994).

⁴² See Marwell and Oliver (1993, Ch. 5).

⁴³ Note, however, that the *ceteris paribus* clause here is likely to be only one important reason why dense social networks, on their own, must remain an incomplete account for successful protest. As Piven and Cloward (1997, pp. 357-357) have pointed out, dense networks are also correlated with social phenomena other than protest movements, such as religion and racketeering. Moreover, the authors point out that 'lateral [social] integration, however fragile, is ubiquitous, and thus making opportunities for protest ubiquitous.' In other words, dense networks, on their own, surely do not suffice to explain what many observers have concurred in noting as the single most striking aspect about social movements: that they typically *fail* to materialize despite the seemingly widespread 'opportunities' for them to materialize (see Taylor, 1988a, p. 87; Marwell and Oliver, 1993, pp. 75-76).

⁴⁴ The level of strike fund payments depends on the level of union member contributions, which vary widely between countries (with France at the lower end, and Germany at the upper end of payments). Still, strike fund payouts rarely replace more than 10 percent of lost earnings, and sometimes (as in the great coal mining strike in England in 1974) no strike pay is paid out at all (Crouch, 1982, p. 91).

⁴⁵ This phenomenon has been labeled the 'revolution of the deputy department heads,' since it concerned especially those who occupied elite positions in the communist establishment but did not have very visible political profiles, and could convert their privileged social and personal resources into favorable market positions during the transition (Kolosi and Sági, 1999a, p. 45).

⁴⁶ There is some evidence that this is indeed what workers expected from unions in the new market environment. Workers' decisions to join union and their assessment of unions were found to be largely devoid of ideological concerns, but rather they were guided by their material self-interest – that is, by how well unions protected their jobs, safety and wages (Osa, 1998, p. 37; Pollert, 1999, p. 17). Similarly, Gardawski observed that 'workers [in Poland] evaluate trade unions very critically as a force strangulating the economic development of the country. *Simultaneously, they are always ready to support strikes* organized by trade unions in their own enterprises *with the goal of defending their interests*' (quoted in Osa, 1998, p. 37, emphasis added).

⁴⁷ Political salience, at least as defined by Baxandall (2001, p. 78), is measured as the percent of 'democratic support' (being satisfied or very satisfied with the way democracy works) by the employed minus democratic support by the unemployed.

⁴⁸ No data were available on other paradigm countries within the respective worlds of welfare capitalism, such as the Czech Republic, Sweden or the US.

⁴⁹ This dramatic development, however, was at least in part an artifact of the last-minute decision by the communist government led by Rakowski, which, in August 1989, just before leaving office, freed the prices of most agricultural and food products and at the same time abolished the rationing of staple foods through coupons. Predictably, this resulted in significant increases in food prices, which caused the ratio of average farmer income to average non-agricultural wages to shoot up in 1989 compared to earlier levels (Wilkin, 1999, p. 77). But it seems plausible to assume that farmers took their 1989 welfare levels rather than their welfare levels in earlier years to be the relevant reference point for comparison during the early post-communist years. If this is the case, the above artifact is actually likely to have increased, not decreased, farmers' disgruntlement with the social costs of economic reforms.

⁵⁰ Roland (2000, p. 6) offers similar figures: in 1989, agriculture represented 18 percent of the labor force in Hungary, 27 percent in Poland, 11.6 percent in Czechoslovakia, and 10 percent in the GDR. By contrast, in 1991, the share of the labor force in agriculture in the

eight poorest, eight middle, and eight richest OECD countries was respectively 18, 6 and 6 percent.

⁵¹ By contrast, the snowballing mass demonstrations of November 1989 in Czechoslovakia were able to topple the regime only after drawing much larger, and gradually increasing, numbers of participants across various professions and regions – a dynamic better captured by assurance game protest curves of the form presented in Figure 2.4. The demonstrations were triggered by the brutal and violent repression of an early rally, which then provoked ever-larger demonstrations. On Friday 17th November 1989, a rally of students which diverged from its officially permitted trajectory and moved towards Wenceslaus Square was met by riot police forces and red beret anti-terrorist squads with truncheons. Although the students chanted 'We have bare hands' and some held roses, these forces indiscriminately beat men, women and children. While reports spread of one casualty and many victims in hospital, students decided to start a strike, followed the next day, by actors. The next day, a general strike (the first ever) was scheduled for 27 November. Still in the same weekend of 18-19 November, tens of thousands of people gathered in Wenceslaus Square. And by the following Tuesday, the first edition of that day's Communist Party newspaper itself acknowledged that 200,000 people had gathered – a number they reduced to 100,000 in the second edition. After the general strike of 27 November the Czechoslovak communist regime finally surrendered (for an insider account, see Garton Ash, 1990, pp. 80-84).

⁵² In the same vein, one of the rare memorable instances of successful industrial militancy in the Czech Republic during early transition was organized by another sector well-positioned to disrupt the larger polity. In June 1995, railway unions threatened a strike, which was averted only when prime minister Klaus himself intervened to offer broad concessions. In contrast to his usual combative stance towards the unions, Klaus made concessions to the railway sector on restructuring plans and he even restored half of the loss of pay which this sector had suffered since 1989 (Myant and Smith, 1999, p. 276).

⁵³ The following account of post-communist protest actions draws mainly on Ekiert and Kubik (1999, pp. 108-111, 118-121), Balcerowicz (1995, pp. 298-300), and Johnson and Kowalska (1994, pp. 214-215, 239).

⁵⁴ As Ekiert and Kubik (1999, p. 138) note, striking workers in Poland 'often won wage concessions and received wages for the period they were on strike, despite the fact that the law explicitly prohibited such payments. Guarantees from the government to restructure debts, purchase products, and finance firm restructuring were secured.'

Chapter 3

¹ On the importance of political stability in transition, see also Przeworski (1988, 1991) and Crawford and Thompson (1994); on regime stability more generally see for instance Przeworski (1986) and Tarrow (1989, 1998).

² Similarly, having won the British 1979 elections and embarked upon a restrictive monetarist program, Margaret Thatcher presided over massive increases in unemployment, which soared from 1.07 million in May 1979 to over 3 million by 1982, and still stood at 2 million by March 1989 (King and Wood 1999, p. 383). Yet she regained power in two further general elections (1983 and 1987) before resigning in 1991.

³ Other examples of regions with dominant industries that were disproportionately affected by transitional unemployment include the north coast of Poland (shipbuilding), the southern parts of Poland (coal mining) and the northern parts of Moravia and Bohemia in the Czech lands (coal mining), and the North-East of Hungary, especially around the town of Ózd (steel production and processing).

⁴ Jeffrey Sachs, writing in *The Economist* on 12 January 1990 (quoted in Greskovits, 1998, p. 94).

⁵ The constant tax rate is, of course, a purely hypothetical assumption, albeit one which a vote-seeking government might be expected to make, given the specific transition context as modelled here. Indeed, by raising τ , the government would hurt the large group of workers with voting weight $(1-r)2n/3$, which constitutes a majority by itself as long as $r < 0.25$. On the other hand, by lowering τ , it would starve the welfare state of revenues at a time when, because of transitional unemployment, expenditure needs are higher than ever. Moreover, because of the work-welfare perturbation, the political constituency of the welfare state, too,

is now higher than ever: $2rn/3$ more voters depend on welfare benefits now than under communism.

⁶ This will not be the case, of course, when union membership gives better access to unemployment benefits, as is the case in a small set of countries where unions are directly involved in administering unemployment benefits – the so-called Ghent system. Indeed, Golden et al. (1999, p. 199) show that among the few OECD economies that have experienced significant increases in union density since the 1950s (Denmark, Sweden, Norway and Finland), three are Ghent systems. Belgium, the original Ghent system, also enjoyed high and stable density rates throughout the 1980s.

⁷ Having less access to these beneficial side-effects of holding a job is by itself an important cause of the higher rates of anomie, depression and suicides recorded among unemployed people (Argyle, 1993). Moreover, unemployment is likely to translate into lesser action tendencies in other spheres of life as well. For instance, compared to most people with formal jobs, the unemployed can be expected to exercise less self-direction in their leisure time preferences by choosing passive activities (Kohn, 1990, p. 59) and in dealing with government bodies, that is, in their civic competence (Almond and Verba, 1963, pp. 180 fn., 364 fn.).

⁸ Both Gallie (1994) and Gallie et al. (1994) use British data. See the contributions to Gallie and Paugam (2000) on other Western European countries.

⁹ On this see Lane (1991) and, for empirical evidence, Gershuny (1994, p. 217, Table 7.1, p. 219, Table 7.2). This effect is especially strong for single people and for men. 'Sociability' was tapped by an index measuring the number of different types of people from outside the household involved in a sporting, cultural and social activity, weighted by the frequency of such activities. The 'latent functions' of purpose and agency were tapped by an index recording subjects' answers to questions about knowing what to do with their time, meeting a wide range of people, feeling respected by people, feeling to be useful to others, and feeling responsible most days of the week. See also Kelvin and Jarrett (1985), Fryer and Ullah (1985).

¹⁰ The same might be said of rational choice accounts of political institutions, see e.g. North (1981, 1990, 1998), Dixit (1996), Williamson (1985, 1994, 2000), Olson (2000), the contributions to Olson and Kähkönen (2000). For a critical review, see Vanhuysse (2002a).

¹¹ Everyday observation suffices to come up with a number of instances of public goods which seem to approximate such slowly accelerating production functions and where few individuals contribute voluntarily to the good's provision despite the fact that it would bring very substantial benefits to each individual. One example, as pointed out by the rational choice theory of the state (e.g. North, 1981; Olson, 2000), is the very existence of the state. Olson (1965, p. 13) defined the problem – and the relative strength of material incentives to free-ride vis-à-vis other conceivable motives - as follows: 'despite the force of patriotism, the appeal of the national ideology, the bond of a common culture, and the indispensability of the system of law and order, no major state in modern history has been able to support itself through voluntary dues or contributions. (...) Taxes, compulsory payments by definition, are needed. Indeed, as the old saying goes, their necessity is as certain as death itself' (original emphasis).

¹² See Sik (1994, pp. 63-67), Ekiert (1991, p. 304), Rose and Haerpfer (1998, p. 167), Sik and Wellman (1999, p. 241), Seleny (1999, p. 507), Böröcz (2000, pp. 362-64). On the social compact in Hungary, see Kornai (1996), Róna-Tas (1997, p. 137). Critical discussions of this notion in the case of Russia are Ashwin (1998, p. 194) and Crowley (1997, p. 195).

¹³ I owe this point to Zvi Gitelman (personal communication).

¹⁴ Thus an official Politburo document drawn up in February 1980, while hastening to stress that the state sector should be protected above all, argued that it would be a mistake not to take advantage of the private sector 'since more than three-quarters of Hungarian families already participated in it.' The document further argued that such a private sector would complement ongoing state sector reforms, for instance by helping to create more small-scale production units and by absorbing frictional unemployment caused by state firm restructuring (Róna-Tas, 1997, pp. 140-141).

¹⁵ Time-budget data similarly show the scale and speed of the redirection of working energies towards private and informal activities during late communism. Between 1977 and 1986 the

total working time spent in workplaces of the first economy decreased by 7 percent. Instead, the total number of hours spent by active earners on small-scale agricultural production increased by 9 percent and that spent on informal house building activities by 40 percent. The data for persons out of the labor force – a majority among them being pensioners – are more astonishing still: their total number of hours spent on small-scale agricultural production went up by 80 percent, while their total house building hours went up by 136 percent in these nine years (Szalai, 1991, pp. 336-337).

¹⁶ Unlike in other economic systems, the phenomenon of goods in short supply during communism was (a) general, not sector-specific, (b) frequent, not exceptional or sporadic, (c) intensive, not marginal, and (d) chronic, not temporary (Kornai, 1992, p. 233). These shortages gave an added impetus to the full-employment/private-retreat approach. For firms, the hoarding of unnecessary labor was a way to make sure centrally imposed output targets could be met even if those targets were higher than predicted or if they came at short notice. For workers, state jobs were crucially important also as a source of goods that they could neither produce nor buy, while private work allowed them to earn extra money to buy shortage goods at higher prices in private markets or to produce these goods directly for own consumption. On the causes and consequences of the communist shortage economy, see Kornai (1980).

¹⁷ Another governmental attempt to raise the opportunity costs of protest occurred in 1980s Britain, where employers seeking to weaken the strike resistance of workers actually cooperated with the Thatcher government to diminish precisely the right of strikers' families to claim social security benefits. Thus, from 1980 onward, the Conservative government instructed social security offices simply to *assume* that wives and children of strikers were receiving pay of a certain specified amount from their union, and to pay any welfare benefit only beyond that amount (Crouch, 1982, pp. 91-92). This made protesting more costly, since in reality there were many instances where workers in fact did not receive such strike pay, for instance because the funds were exhausted or destined for higher priorities, or when their strike was not officially sanctioned by the union. In such cases, social security benefits are also best modeled, not as a fall-back option, but as part of the opportunity costs of collective action.

¹⁸ Moreover, entrepreneurs were required to be physically engaged during working hours. In none of the four new forms of private partnerships was it permitted to participate by *not* working, for instance through capital investment (Róna-Tas, 1997, p. 147).

¹⁹ See, for instance, Garton Ash (1989, 1990) for various contributions on communist bloc countries, especially Hungary, Poland, East Germany and Czechoslovakia. Garton Ash (1998) offers a telling personal account of the working of the DDR information services, and Wästberg et al. (1986) give a listing of 15 repressive actions by the state in politically liberalizing Hungary between November 1985 and April 1986.

²⁰ Völker and Flap (2001) argue on similar grounds that communist citizens had strong incentives to establish a functional division of labor between strong ties (used for talking politics) and weak ties (used for providing them with short-supply goods).

²¹ For a detailed account of the seminal workers' strike movement in 1980 at the Gdansk shipyards, see Barker (2001). Barker mentions that the initial demands of the shipyard strikers and the strikers in the other workplaces that subsequently joined the movement included a substantial pay rise and were 'predominantly local and "economic"' (p. 180).

²² From April 1992, 31 percent of gross wages were taxed away as pensions contributions in Hungary (with employees paying one-fifth and employers four-fifths), but a further 24 percent were taxed as health fund contributions. In Poland, social security contributions were to be paid entirely by employers, and the rate had increased threefold in the preceding twelve years (Nelson, 2001, p. 239 fn. 5; Cain and Surdej, 1999, p. 148).

²³ Micklewright (1992, p. 16) reports that (a) around 60 percent of Hungarian households had a small agricultural plot, (b) in 36 percent of households at least one individual had income from a second job, and (c) 12 percent of households reported 'invisible' income from tips, illegal jobs and the like. According to another estimate, the share of illegal private activity in Hungarian GDP increased from 15 percent in 1980 to around 20 percent in 1987, and almost doubled in the two years thereafter (Róna-Tas, 1997, pp. 146, 153).

²⁴ See also Sik and Tóth (1999). Rose (1992, p. 18) reports that in 1991 the proportion of Polish households who reported that one or more of its members worked in the (legal) official economy was as high (81 percent) as that of households engaging in household production. Moreover, 33 percent of households reported that one or more of their members engaged in illegal activity by working in the second economy. Another study shows that by June 1994, 30 percent of Poles surveyed had 'undeclared' additional employment, topping-up their income by one-seventh on average (Ekert and Kubik, 1999, p. 67).

²⁵ What little evidence there is does point in this direction. For instance, Zakharieva (1999, p. 8) reports that when asked 'whether they would participate in political demonstrations and protests,' a crushing majority (63 percent) of Bulgarian survey respondents answered 'no' and a further 30 percent thought it 'very unlikely,' compared to 5 percent thinking it 'most probable' and 2 percent answering 'for sure.'

²⁶ Similarly, in 1989, relative to a numéraire of one kilogram of wheat flour, consumer prices for one unit of beef, pork, potatoes, bread, milk, electricity, city transport and public kindergarten places were all cheaper in East Germany than they were in West Germany, while relative prices for washing machines, refrigerators and color TV's were many times more expensive (Kornai, 1992, p. 156).

²⁷ Sik and Wellman (1999, p. 225) make arguments that are generally along the same line as mine, to the effect that (a) people under communism relied on network capital to a *greater* extent than people in developed countries in Western Europe and Northern America, and that (b) they relied on such networks to a *still greater* extent under post-communism than they did under communism. However, in explaining the latter phenomenon, Sik and Wellman (1999, pp. 242-243) refer to factors such as a greater loyalty to the household, an alleged increase of household size, and the fact that declining GDP and real wages led to decreasing opportunities to earn money in the second (rather than the formal) economy, although they do not offer empirical evidence for any of these claims.

²⁸ Even in more prosperous Western democracies unemployment is still highly correlated with a higher degree of material deprivation. For instance, across eleven European countries, the unemployed are consistently worse off than the employed according to an index of 21 lifestyle items (ranging from heat, food, clothing and housing to car, videos, microwaves and telephones), being deprived of between 31 percent to 169 percent more items depending on the country (Whelan and McGinnity, 2000, p. 295).

²⁹ In Elster's (1986b, p. 23) characterization of the operational content of both approaches, the theory of social norms posits that 'behavior is unaffected by an expansion of the feasible set,' whereas rational choice theory 'predicts that if new elements are added to the choice set, behavior will change if one of them is seen as better than the formerly top-ranked alternative. The theory of social norms, in its most abstract and general form, denies that this will happen. Thus starkly stated, the theory of social norms cannot be correct.' For historical instances where ostensibly norm-based traditions was discarded as individual opportunities expanded, or where groups of actors with few resources proved particularly prone to free-ride in the provision of valued collective goods, see Popkin (1979), North (1981), Coleman (1990).

³⁰ Like other pragmatic proponents of rational actor approaches to politics (Lichbach, 1994; Munck, 2001), the present thesis suggests that, far from relying on non-material motivations as the main explanatory variable or juxtaposing them with other variables to offer thick and inclusive explanations, an attempt should be made to circumscribe the expected scope of such motivations and their limits in alternative social settings. This is in line with other approaches that have paid explicit attention to ideological or norm-based motivations, while stressing throughout that the variance in strength and the persistence of such motivations over time are determined mainly by material costs and benefits. For instance, while acknowledging that the abstention from free-riding must be explained by ideology, North (1981, pp. 11-12, 47, 54; 1990, pp. 22, 86, 90) has suggested that the strength of ideology can be measured precisely by the opportunity costs which actors thereby chose to forego. Frank (1985, p. 21; 1988, Ch. 9) has argued that seemingly strongly norm-induced or emotion-induced behavior may persist precisely because it serves narrowly defined individual interests.

³¹ Taylor (1988a, p. 94) goes on to argue that 'to deny either side of this supposition is to deny *any* causal force either to structures or to individuals, to attach *all* the explanatory power to one or the other' (original emphasis).

³² In the case of threatened workers and abnormally retired and unemployed people, this is in part by virtue of the way they have been defined, namely as local clusters of actors with similar skills and workplaces that were simultaneously threatened or struck by redundancy. In the case of pensioners, the assumption of a high degree of homogeneity with respect to their interest in the public good derives directly from the fact, noted above, that under pay-as-you-go pensions systems pensioners tend to be heavily dependent on the state as the main source of their income.

³³ In the same vein, Bagguley (1992) explains why the political mobilization of unemployed people in Britain has been much lower in Britain in the 1980s than in the 1930s by arguing that the unemployed have been depoliticized by locally administered welfare relief programs which treated unemployed individuals as clients and reduced their organizational resources for collective action. Somewhat more problematically, rather than focusing on political *action* capacities as in the current thesis, Baxandall (2002) proposes a theory arguing that governments can also affect the political *attitudes* (such as salience and legitimacy) towards social issues (such as unemployment) by manipulating through institutions and policies the meaning and definition of these issues.

³⁴ Moreover, for workers who were close to becoming eligible for *early* retirement age there was the extra option of first going on unemployment benefits and later transferring to pensioner status.

³⁵ In other words, divide and pacify policies transferred large proportions of potentially disruptive transitional losers to the collective category referred to by Olson (1965, p. 165) as "'forgotten groups' – those who suffer in silence.' Note, however, that the set of generic *reasons* to explain why these groups suffer in silence as put forward in the present thesis (namely the adverse opportunity costs, social network ties and protest curves that this group is confronted with) are very different from those posited by Olson (1965). Olson's seminal theory concluded that group size always has a negative effect on collective action, unless selective incentives are provided. But as Marwell and Oliver (1993, Ch. 3) demonstrate, this conclusion is entirely contingent on a number of stringent and unrealistic assumptions. Most problematically, Olson assumed zero jointness of supply: individual benefits (costs) from collective action decrease (increase) proportionally with the number of group members. Most public goods, however, have a positive degree of jointness of supply.

Chapter 4

¹ In accordance with the Act on Dismissals of December 1989, workers made redundant in Poland did receive redundancy payments. These amounted to one month's pay if the employee had been employed for less than ten years in the job, two months' pay if employed up to twenty years, and three months' pay if employed more than twenty years (Kabaj, 1996, p. 26). In Hungary, an amendment to the Labor Code was adopted in 1991 which made severance pay mandatory if dismissals were caused by economic (rather than disciplinary) reasons. The amount of severance pay ranged from one month's salary for those employed between three and five years in the firm to sixteen months' salary for those employed for more than 25 years (Nesporova and Simonyi, 1994, p. 12).

² As Boeri (1997a, p. 131) puts it: 'Needless to say, in OECD countries cuts in the generosity of benefits are rarely made and when so, are much less radical and diluted over a longer period of time.' For a comparison of British and American retrenchment efforts, see Pierson (1994, 1996).

³ The social democratic regime here includes Denmark, Sweden, Norway, Finland and the Netherlands; the conservative-corporatist regime includes Germany France, Austria, Belgium, and Italy; and the liberal regime includes the UK, the US, Japan, Canada and Australia (Swank, 2001, p. 237).

⁴ Despite rising unemployment levels, Thatcher was repeatedly reelected. This was in part because the unemployment boom disproportionately affected those parts of the country that were safe Labour Party seats anyway, namely the north, the northwest and Midlands, which had the highest concentration of manufacturing industry (King and Wood, 1999, p. 382).

With the cost being borne mainly by workers in constituencies that, given the first-past-the-post electoral system, were never going to send Conservative MPs to Westminster, the electoral danger of these policies was much contained.

⁵ The poverty measures used here are absolute poverty head-counts, with a cut-off level at national subsistence minimum (see also Cichon et al., 1997, p. 9).

⁶ In the same vein, these authors find that in the 1987-1996 period the share of pensioners in the bottom three deciles of the income distribution went down by 12 percentage points in Poland, and by no less than 20 percentage points in Hungary (Stanovnik et al., 2000, p. 29). Data for Hungary are based on the Household Income Survey in 1987 and on the Hungarian Household Panel in 1996 ($N = 1,857$); data for Poland are based on Household Budget Surveys in both years ($N = 26,434$ in 1987 and $N = 31,907$ in 1996). For country case studies of the incidence of relative poverty that use these same data, see also Spéder (2000, pp. 69-76) on Hungary, and Szulc (2000, pp. 114-120) on Poland.

⁷ For a brief overview of family policies and social policies more generally in early transition, see Cornia (1996) and Cornia et al. (1996). They point out that while coverage rates for family benefits were generally extended, real value of these benefits declined due to inadequate indexation; which was a problem for most welfare state benefits in transition with the exception of pensions.

⁸ For instance, by 1998 the number of children aged between zero and four stood at 66 percent of 1980 levels in Slovakia, at 58 percent in Romania, at 66 percent in Slovenia, at 52 percent in Bulgaria, at 61 percent in Estonia, at 63 percent in Latvia and at 79 percent in Lithuania (own calculations based on UNICEF, 1999, p. 116).

⁹ Other studies obtain qualitatively similar results. Using 1992 as their base year, Förster et al. (1999, p. 297) find that by 1996 the real value of family allowances in Hungary had decreased by 55 percent, that of unemployment benefits by 58 percent, that of social assistance by 21 percent, and that of pensions by 13 percent – least of all (see also Sipós and Tóth, 1998). Spéder (2000, p. 97) finds that by 1996 the real value of child care allowances amounted to 41 percent of their 1990 levels, that of unemployment benefits to 67 percent and that of old age pensions to 68 percent. On Poland, Kabaj (1996, p. 39, Table 17) reports that by 1994, real wages were down by 45 percent compared to 1989 levels, real smallholders' and agricultural incomes were down by 54 percent, and real pensions, social allowances and unemployment benefits (non-segregated) were up by 14 percent.

¹⁰ Other studies similarly show a slight decrease in average pension replacement rates in Hungary and stability after an initial increase in Poland. Spéder (2000, p. 60) reports a development of the average replacement rate in Hungary from 61 percent in 1985 to 66 percent in 1990 and 59 percent in 1996. The author notes that the various changes in the government's method of indexing pensions were essentially due to political considerations. Szulc (2000, p. 103) indicates that average pensions over average net wages in Poland went from 50 percent in 1989 to 59 percent in 1990 and 65 percent in 1991, thereafter declining slightly to reach 61 percent in 1996.

¹¹ Again, this development marked a strong break with the past. The communist states used to pay comparatively generous monthly allowances to families for children, in part because these were meant to substitute for wages as a source of income. For instance, in 1980, such allowances for a family with two children reached 17 percent of average earnings in Poland, 20 percent in Czechoslovakia and 22 percent in Hungary, compared to 7 percent in both West Germany and France, 8 percent in the UK, and 9 percent in Sweden (Sipós, 1994, pp. 229-230, Table 10.2). Communist family allowances for children used to be generous also in other respects, such as duration (often being paid until children reached 26 years of age) and coverage (often paid even to dependent wives) (Sipós, 1994, p. 244).

¹² Note, however, that while these indicators give a rough indication of the benefits accruing to representative actors receiving unemployment benefits and pensions, they are not perfectly comparable. For instance, p refers to benefits as a percentage of current average wages in the economy while u refers to benefits as a percentage of own previous wages, albeit for a couple having earned around the average wage in the economy. In Poland since 1991, the specific formula linking pensions benefits to own previous earning was $B = 0.24L + (0.013N' + 0.007N'')A$, where B equals the amount of benefit, L a lump sum similar to average monthly earnings, N' the number of years when contributions were paid, N'' the

number of eligible years when contributions were not paid, and A the indexed average own earnings over the previous 10 years (with a limit of 250 percent of national average earnings). Especially for individuals with prior earnings below the average wage (who may have been disproportionately affected by post-communist labor status uncertainty), the resulting pensions benefits as a percentage of previous earnings were actually higher than those reported in Figure 4.9, making the estimate in Table 4.3 err on the conservative side. For a fuller discussion of polish pension benefit calculations, see Czepulis-Rutkowska (1999, pp. 148-149).

¹³ The social democratic regime here includes Sweden, Norway, Denmark and Finland, the conservative-corporatist regime includes Germany, France, Austria, Belgium, the Netherlands, Italy and Switzerland, the liberal regime includes the UK, the US, Ireland and Canada (Huber and Stephens, 2001, p. 137).

¹⁴ See for instance Andrews and Rashid (1996, pp. 16-19), Maret and Schwartz (1994, p. 59), Palacios and Rocha (1998, pp. 181-184), Standing (1996, pp. 240-244), Cichon et al. (1997, pp. 17-19), World Bank (1995, p. 33-35), Boeri et al. (1998, pp. 12-17), Müller (1999, pp. 63, 181-182), Spéder (2000, p. 58), Szulc (2000, p. 107).

¹⁵ My analysis of both forms of abnormal retirement is based on Schrooten et al. (1999), who made an explicit attempt to make data of different countries comparable and have used a common definition for each of the categories across all countries (Schrooten et al. , 1999, p. 277).

¹⁶ For Hungary I have redone these calculations based on the original data as reported in the various issues of the Hungarian Statistical Yearbook. My calculations indicate that, as a result, the total number of Hungarian pensioners was 29 percent higher in March 1997 than in January 1989. The number of old age pensioners in this period had increased by 21 percent, and the number of disability pensioners by no less than 54 percent. Other studies confirm this finding. Spéder (2000, p. 59) reports that in Hungary, between 1989 and 1996, the number of old age pensioners increased by 18 percent, and that of disability pensioners above age limit by 32 percent, and that of disability pensioners below age limit by as much as 72 percent. He reports that altogether the number of Hungarian disability pensioners grew from 500,000 to 850,000 in this period.

¹⁷ Others studies confirm these trends. Milanovic (1996) reports that in Poland, in the brief period between 1989 and 1992 alone, around 500,000 people went on early retirement related to industrial restructuring, and a further one million retired early related to provisions on work in harmful or difficult conditions. Maret and Schwartz (1994, p. 59) report that between December 1989 and December 1993, the total number of pensioners grew by 28 percent in Poland.

¹⁸ In 1997, 28 percent of all men who were granted old age pensions were between 60 and 64 years old (Czepulis-Rutkowska, 1999, p. 151).

¹⁹ Of all men who were granted old age pensions in Poland in 1997, only 13 percent were actually 65 years old or more, whereas 50 percent were between 55 and 59 years old. Of all women who were granted old age pensions that year, 22 percent were actually older than 60, whereas 42 percent were between 55 and 59 years old (Czepulis-Rutkowska, 1999, p. 151).

²⁰ The steepest declines in participation, moreover, can be clearly traced to changes in government policy. For instance, the introduction in 1973 of flexible retirement starting at age 63 in West Germany was followed by dramatic slumps of participation for men aged 63 and 64, and much less so for men aged 59-62. In the US, where Social Security benefits can be received only from age 62, male participation rates are roughly similar for men aged between 56 and 61, only to go down dramatically for men aged 62 and over (Jacobs et al., 1991, pp. 59-61).

²¹ Nor have the projected financial imbalances of pension systems been of a similar scale. To maintain the levels of pension benefits that existed in the mid-1990s, the level of subsidies by the Polish government would have to reach an estimated 22 percent of GDP by the year 2020. In Western countries, where early exit strategies had started many decades earlier, analogous projections for the year 2010 put the likely level of state subsidies at 11 percent of GDP in Germany, 12.6 percent in France, 8.1 percent in Sweden, 4.6 percent in the UK and 4.2 percent in the US (Hausner, 2001, p. 214).

²² These data exclude foreign beneficiaries.

²³ Unlike the pensioners, the farmers in Poland did have the advantage of being represented by political parties that were influential in arranging such pork-barrel politics. After the elections of September 1993, the Polish Peasant Party (PSL) became a prominent coalition partner in government. With Waldemar Pawlak, it even provided the prime minister in what was to become the longest-serving government, and the first government dominated by former communists (1993-1997). But even here, mere preference-accommodating or client-based politics cannot be the whole story: as Figure 4.17 shows, the favoring of farmers accelerated precisely before 1993.

²⁴ Like farmers, Polish miners also managed to secure special pensions favors from government. When retiring, they could look forward to receiving pensions with an average value twice that of the national average. While this preferential treatment was in part a legacy from communism, successive post-communist governments did little to correct it. To the contrary, in February 1993, the last Solidarity government pushed through a special pension law to consolidate the right of miners to retire at 55 or after 25 years of work. And in June 1994, the new social-democratic-peasant coalition further amended pension legislation in favor of miners and their families. Miners' basic pension benefits were increased by 50 percent for each year worked, and the number of contribution years needed in order to retire was shortened. Moreover, throughout the early 1990s the mining industry remained the main debtor to the public pension system (FUS), with some mines regularly failing to pay their contributions despite having collected them (Hausner, 2001, pp. 212-213; Cain and Surdey, 1999, p. 162). Similar contributions arrears were allowed to persist in the case of railroad companies in Hungary (Nelson, 2001, p. 238).

Chapter 5

¹ To mention but a few potential explanations, serious impediments to Pareto-superior reforms can be expected to arise if (a) losses are certain and/or concentrated while benefits are less visible and/or diffuse, (b) the identity of winners and losers is uncertain *ex ante*, (c) voters are more sensitive to losses than to gains, or (d) median voters are elderly or approaching retirement age, such that they will vote for overly generous pensions benefit levels financed by high contribution rates to be paid by workers. See, for instance, Olson (1965), Tversky and Kahneman (1981, 1987), Quattrone and Tversky (1988), Fernandez and Rodrik (1991), Browning (1975), Breyer (1994), Nelson (1997, 2001) and Myles and Pierson (2001).

² See for instance Maret and Schwartz (1994, p. 59), Standing (1996, pp. 240-244), Cichon et al. (1997, pp. 17-19), Boeri et al. (1998, pp. 12-17), Müller (1999, pp. 63, 181-182), Schrooten et al. (1999, p. 282), Adam (1999, p. 131), World Bank (1995, pp. 33-35), Andrews and Rashid (1996, pp. 16-19), Palacios and Rocha (1998, pp. 181-84). The last three studies are written by World Bank experts.

³ Müller (1999) bypasses this puzzle by repeatedly asserting (pp. 63, 96, 130, 150) that only in Hungary and Poland, the pension system '*was used*' (by whom? why? how?) as a substitute for unemployment benefits.

⁴ Of course, the fact that the consequences of actions do not turn out as the actors foresaw or intended does not necessarily imply that intended action has no role in their explanation (Taylor, 1988b, p. 1).

⁵ In the united Germany, the federal government implemented similar abnormal retirement legislation specifically earmarked to redundant workers in the former East German states. For instance, a German federal 'Employment Promotion Law' stipulated that certain redundant workers in the 55-60 age category who did not yet qualify for early retirement were entitled, as it were, to 'abnormal' abnormal retirement in the form of 'Alterübergangsgeld,' a 'transitional pensions allowance' (*Arbeitsförderungsgesetz*, paragraph 249 e). This allowance would replace 65 percent of their former wage – until they could benefit from 'normal' abnormal (early) retirement. Though part of a federal law, and financed from the federal budget, this law was specifically earmarked for the five Eastern Länder only.

⁶ Czepulis-Rutkowska (1999, p. 152) furthermore notes that this regulation was withdrawn in 1996, only to be replaced by a similar solution whereby the elderly long-term unemployed receive pensions benefits from the Labor Fund, as opposed to the Pension Fund.

⁷ Not surprisingly from the retrenchment perspective, the Suchocka government also presided over an episode of increased industrial disruption in Poland, and in fact fell over issues that were sparked by these protests (Ekiert and Kubik, 1999). These events highlight the political threat posed by disruptive tactics – one of the motivating factors for implementing divide and pacify-type social policies. At the same time, they underscore a number of other elements of the present theory. First, most of these protests were organized by workers with jobs in unions rather than by welfare state recipients such as the unemployed and pensioners. Second, when Suchocka took power in June 1992, her new government continued many of Balcerowicz's austerity policies – except for concessions to certain trade unions (in the form of modifications of wage controls and privatizations) and to the farmers (in the form of promises of increased protectionism and one-time subsidies on fuel). Third, the flare-up of protests during the Suchocka government should not obscure the fact that by international comparison the scale and intensity features of protests in Poland were still far from extraordinary.

⁸ Clusters of government technocrats within each country (especially those around politicians responsible for public financial affairs) did start to push more strongly for pension system reforms in Hungary and Poland toward the mid-1990s. For instance, a few months after assuming office following the second general elections of May 1994, the new Hungarian Finance Minister, Lajos Bokros, set out to work on a strategy to redress the imbalances of public finances, part of which was an (initially) radical blueprint for pension reforms. And Grzegorz Kolodko, who became Polish Finance Minister in April 1994, went public describing the country's pension system as 'a veritable time bomb' (Nelson, 2001, p. 240). But it was still only from 1996 onwards that governments as a whole started to make systematic progress, first in internally negotiating, and subsequently in drafting and externally promoting pensions reforms (Müller, 1999). By that time, pension system dependency rates had further gone up to reach 61 and 84 percent in Poland and Hungary, and the electoral pensioner constituencies were concomitantly larger (Figures 4.14 and 4.15).

⁹ For similar methodological positions, see also Elster (1993, p. 19, fn. 43), and Rodrik (1996). The value of rational choice theories of politics, by contrast, is that by sacrificing a degree of descriptive completeness they attempt to tell a stylized and specific causal story which, ideally, lays bare more clearly the basic mechanisms hypothesized to be at work in any given context (see Taylor, 1988a; 1988b; King et al., 1996; Levi, 1997). In the same spirit, the present account of post-communist welfare politics attempts to outline how consequential purposive action could take place *within* the parameters set by external, structural and legacy constraints rather than being entirely eclipsed by these parameters.

¹⁰ Paul Pierson (1993, p. 602) makes a similar argument: 'policy feedback is likely to be most consequential in issue areas (or in countries, e.g. those of postcommunist Eastern Europe) where interest group activity is not yet well established. Recent research on "path dependency" ... suggests the importance of focusing on formative moments for institutions and organizations.'

¹¹ In the same vein, Levi (1997, p. 28) argues that 'path dependence has to mean, if it is to mean anything, that once a country or region has started down a track, the costs of reversal are very high. There will be other choice points, but the entrenchments of certain institutional arrangements obstruct an easy reversal of the initial choice.' On path dependence in economic history, see also David (1985); in political science, see furthermore Myles and Pierson (2001) and Pierson (1993, 1994, 2001a, 2001b).

¹² In fact disruption in the polity is almost certain to have been still lower than is conveyed by these rates. The reason is that Ekiert and Kubik (1999, p. 111) uniformly coded all demonstrations as being disruptive, as have done other descriptive studies of post-communist protests (e.g. Osa, 1998, p. 35). But there is no a priori reason for considering all demonstrations to be non-disruptive. Marches in city streets or rallies in public places do not always disrupt the economy or the polity in any major way. In fact, while minorities of participants in peaceful demonstrations occasionally turn violent or disruptive, they often do so against the direct objectives and interests of both organizers and the majority of protesters (Chong, 1991; Tarrow, 1998). An analysis of Hungarian police reports on protest events further corroborates this thesis (see Virág, 1996; Kovács, 1996; Mezei, 1996; Füzér, 1996;

Szabó, 1996; Péchy, 1996; Szabó, 1996). These indicate that a number of high-profile protest events that are likely to have been picked up by Ekiert and Kubik's press data were essentially peaceful demonstrations of a highly symbolical nature or with an international orientation. For example, in 1989 the most significant protest events were of an eminently symbolical but largely non-disruptive nature, including a mass meeting commemorating Imre Nagy (the leader of the 1956 revolution) and a campaign to obtain signatures for a referendum concerning four electoral and constitutional issues. Protest events in 1990 included peaceful demonstrations against the World War I Treaty of Trianon, in support of the independence of Lithuania from Russia, and in support of the Hungarian minority in Romania. In 1991, there were only 21 illegal protests, much fewer than the number of demonstrations (64), which included demonstrations against the Gulf war, against the Soviet intervention in Vilnius, and in commemoration of the 1956 revolution. Following Ekiert and Kubik's definition, all the above events would have been coded as disruptive, thus inflating the ratio of disruptive to non-disruptive protests twice over, by falsely including these events in the numerator while falsely excluding them from the denominator. See Virág (1996) for 1989, Kovács (1996) for 1990, Mezei (1996) for 1991, Füzér (1996) for 1992, Szabó (1996) for 1993, and Péchy (1996) and Szabó (1996) for 1994.

¹³ No data were available on Poland.

¹⁴ Esping-Andersen (1990, 1994, 1999) famously made the case for an analytical emphasis on welfare regimes precisely because the incentives and constraints prevalent in one welfare program (such as pensions and unemployment benefits) affect those in other realms of the work-welfare system (such as the labor market and the household).

¹⁵ See for instance Zukowski (1999), Golinowska (1999), Simonivits (1999), Ferge (1999), Müller (1999). On the political and economic backgrounds and characteristics of these subsequent pension reforms, see Nelson (2001), Müller et al. (1999), and Müller (1999).

¹⁶ For instance, Czech unemployment rates in 1994 were the second lowest (after Japan) in a sample of 26 OECD countries, with Hungary ranking eleventh, and Poland occupying the third-highest rate (after Spain and Finland) (Kabaj, 1996, p. 52, Annex 1). Some authors have argued that the unemployment rates in Hungary and Poland during the early 1990s are strikingly low when compared to the fall in GDP and industrial output in these same years (Osa, 1998, p. 138). The abnormal retirement boom provides an explanation for this.

¹⁷ The social policy section of the Czech 'Radical Strategy' document furthermore called for a transitional social policy explicitly aimed at standing up to 'the risk of extensive unemployment as well as spiraling inflation and a drop in real wages;' a risk that was to be reduced by means of 'structural macroeconomic policies, labor market interventions, and welfare policies designed to preserve a social minimum' (quoted from Orenstein, 2001, pp. 73-74). By contrast, one year earlier the Balcerowicz shock therapy plan in Poland contained no references whatsoever to building a welfare state or extending social protection. Having analyzed the original formulation of the plan, Przeworski (1993, p. 142) concluded: 'Responsibility for social problems was defined as a separate task from the reform process itself and relegated to the inventiveness of the minister of labor and social security, Jacek Kurón, and the charity of individual citizens. Hence, this was a pure trickle-down model of reforms.'

¹⁸ For comparison, the share of expenditures on active labor market measures was 28 percent in Denmark, 33 and 38 percent in France and Germany, and 30 percent in the UK (Kabaj, 1996, p. 33, Table 16, no US data available).

¹⁹ The corresponding figures for 1993 and 1994 were 26 and 18 percent in Hungary, and 36 and 34 percent in Poland (own calculations based on EBRD, 2000, pp. 156, 172, 196). The figures for the previous years in these countries, and for the years before 1995 in the Czech Republic, were unavailable.

²⁰ The corresponding figures for 1991 and 1992 were 6.6 and 5.4 percent in Hungary, and 3.3 and 1.7 percent in Poland (own calculations based on EBRD, 2000, pp. 156, 172, 196). The figures for 1990 in these countries, and for the years before 1993 in the Czech Republic, were unavailable

²¹ To adequately explain this gap, a number of additional factors would have to be brought into account. For instance, the data do not provide more fine-grained information on the nature and size of the firms that were declared bankrupt in each country. However, neither

macro-economic business cycles nor micro-level worker productivity seem sufficient in explaining the difference. Between 1994 and 1996, average yearly productivity growth in manufacturing was virtually equal in Hungary, Poland and the Czech Republic, at 9, 10, and 9 percent respectively (own calculations based on EBRD, 1997, p. 130, Table 7.7). Real GDP growth, too, had become positive again, with rates averaging respectively 2, 6, and 5 percent (own calculations based on EBRD, 1998, pp. 213, 217, 223). Productivity levels, however, were still lowest in the Czech Republic. The latter country still had not reached its 1989 level by 1996, whereas Hungary did so in 1993, and Poland in 1994 (EBRD, 1997, p. 131). Thus, if anything, the causality may well have been the other way around, with the lack of firm restructuring causing a lower productivity in the Czech Republic, rather than high productivity causing a lower need for restructuring.

²² Of course it is possible that in later years a greater proportion of straightforward cases (more likely to be successfully completed) were filed for bankruptcy.

²³ However, the conservative minority government that ruled the Czech Republic from mid-1996 until the 1998 elections was dependent on the silent support of the Social Democratic Party.

²⁴ Economists (e.g. Wittman, 1995) have corroborated traditional pluralist theories by arguing that the free interplay of many interest groups can generally be expected to produce politically efficient results. For a critique, see Vanhuysse (2002a).

²⁵ Of course, one could argue, tautologically, that in the case of ascriptive groups such as pensioners the relevant definition of actual membership is that of belonging to the ascriptive group. However, the usefulness of such a definition would be limited, as it would lead, by definitional fiat, to mobilization rates of one hundred percent.

²⁶ In Poland, the National Party of Invalidity and Old Age Pensioners, founded in May 1994, did belong to parliament, but only as part of the left-wing opposition fraction (the SLD). Moreover, this pensioner party already split before the 1997 elections, and neither of its remaining splinter parties could gain subsequently representation in those elections (Müller, 1999, p. 115).

²⁷ Despite frequent allusions by Müller (1999) to the political clout of pensioners and the 'grey lobby,' the author nowhere provides empirical illustrations or numerical evidence of such influence. Only in the Czech Republic, where abnormal retirement never reached the scale to increase pension system dependency rates significantly, did collective protests occur which were centered specifically around *pensions* demands (in December 1994 and March 1995). But there, it was organized by the Czech and Moravian Chamber of Trade Unions. In part, they expressed their anger about the fact that the *surpluses* of the pension system were being used to finance *other* programs, and otherwise did not manage to gain substantial concessions from the government (Müller, 1999, p. 137).

²⁸ For example, Jeffrey Sachs, in an article on the 'post-communist politics of welfare state entitlement,' argued that 'ironically, it is the high and escalating social spending, not the alleged cuts, that offer real insight into the political dynamics of the region. Rather than seeing the Eastern European elections as great referenda on the market system, or on capitalism versus communism, or even as protest votes against harsh reforms, one can see that the elections in Eastern Europe have become almost exactly like elections in Western Europe and the United States: dominated by interest group politics' (Sachs, 1995, p. 2).

²⁹ Similarly, Figure 5.7 indicates that simple voting-power arguments do not suffice to explain the radical pension reforms in Hungary and Poland from 1996 onwards. The Czech governments were confronted with a higher electoral pensioner constituency already in 1990, yet they avoided radical reforms all along. Rather, the early policies to favoring pensioners financially and the low weight of active labor market strategies led to increasing financial imbalances in the Hungarian and Polish pension systems in later years, which in turn necessitated radical reforms.

³⁰ Even in the run-up to the subsequent pension reforms of 1996-1997, the executive branch of government remained strongly predominant over other sides of the polity. In both Hungary and Poland the reforms were essentially a matter of intra-governmental negotiation - in Hungary by means of an inter-ministerial committee, in Poland by means of an extra-ministerial Plenipotentiary for Social Security Reform attached directly to the prime minister's office (Nelson, 2001, p. 244). In Hungary, the impact of various lobby groups

such as the Party of Pensioners, the Association of Large Families, the Social Policy Association and even the Prime Minister's Council of the Aged – nominally a forum for negotiation and consultation – was widely perceived to be small. As one Hungarian observer summarized: 'the voice of 'civil society' got little publicity in the media, and remained largely unknown to the general public' (Ferge, 1999, p. 238). Nor did public opinion at large have any noticeable impact in shaping the reforms. In May 1997, the government simultaneously introduced five major drafts of law on pension reform before parliament and imposed a time limit of just 30 hours for parliamentary debate. A minority of MPs attended the discussion sessions, and even the rigid time constraint for discussion proved too much: the parliamentary voting on all five acts took place two weeks earlier than foreseen (see Nelson, 2001, for a detailed account).

³¹ While these were the first democratic elections in the entire region, they were only partly free: all seats in the Senate, but only 35 percent of the seats in the Sejm, were freely contested.

³² For instance, between 1960 and 1994, OECD economies have seen employment in services grow much faster than in manufacturing, let alone agriculture. But crucially: productivity in services has grown much less (1.6 compared to 3.6 percent), see Pierson (2001b, p. 84).

³³ In Hungary between 1960 and 1996-1998, male employment in services as a percentage of total employment increased from 31 to 48 percent, whereas in agriculture it decreased from 24 to 10 percent, and in industry from 45 to 41 percent. In the Czech Republic, male employment in services increased from 30 to 43 percent, whereas in agriculture it decreased from 13 to 7, and in industry from 57 to 50 percent. These trends apply equally strongly for female employment: increases in services, decreases in industry and agriculture (see World Bank data provided at http://www.worldbank.org/data/wdi201/pdfs/tab2_3.pdf). For Poland, no data were available for 1980. See also Jackman and Rutkowski (1994, pp. 136, 138).

³⁴ Britain in the 1980s provides another example of erosion of trade union power. Consecutive Thatcher governments comprehensively attacked unions by means of three Industrial Acts between 1980 and 1984 that cut down union rights and even made unions liable in the event of industrial actions that were not authorized according to a stipulated procedure. Closed shops were weakened by the provision of legal redress for aggrieved parties. Secondary picketing was made illegal. Union leaders now needed to conduct postal ballots with their members before embarking on strikes, and employers could (and did) now sue unions for losses under specified circumstances (King and Wood, 1999, p. 387; Wood, 2001, p. 395; Crouch, 1982, p. 99). As a result, membership in the Trade Union Congress fell from over 12 million in 1979 to under 7 million in 1995 (Wood 2001, p. 395), as the UK underwent the largest percentage point decrease of union density in the OECD during the 1980s (from 49 percent in 1980 to 38 percent in 1988). At 48 percent in 1990, union coverage in the UK (the proportion of employees who are covered by collectively bargained contracts) stood as an outlier in a Europe where 'four out of five workers receive wages that reflect the outcome of a process of collective bargaining' (Golden et al., 1999, pp. 204, 200). Industrial conflicts, which had been on the rise during the preceding decades and which had been instrumental in getting Thatcher elected in the first place (cf. the 1979 winter of discontent), went down at a time when poverty rates and income inequalities increased and employment in manufacturing fell drastically (by 36 percent in the 1980s). For instance, between 1981 and 1988 (and excluding the Miners' Strike in 1984-1985), close to 33 million working days were lost, compared to 41 million working days in 1979 and 1980 alone (King and Wood, 1999, p. 387 fn. 8).

³⁵ Data for Germany refer to 1996. Data for Poland and the US were unavailable; the UK coverage rate (in 1994) stood at 26 percent (ILO, 1997, p. 248).

Conclusions

¹ To some theorists, the observation of post-communist quiescence might come as less of a surprise. Following Olson's (1965) hugely influential argument that non-action should be the baseline expectation in collective action, a long line of research on large-number contexts of public goods provision have tried to explain why collective action does at times occur. Using progressively more sophisticated methodological and analytical tools, an

increasing number of theorists have recently concurred in noting that the single most striking aspect about such instances of collective action is that they typically *fail* to materialize despite the seemingly widespread 'opportunities' for them to materialize (e.g. Taylor, 1988a, p. 87; Marwell and Oliver, 1993, pp. 75-76; Piven and Cloward, 1997, pp. 357-358; Collins, 2001, p. 34).

² For instance, influential recent advances in the understanding of late twentieth-century ethnic violence in Spain and the ex-USSR (Laitin, 1999) and of mid-twentieth century resistance against Soviet occupation in Eastern Europe (Petersen, 2001) have reserved the core of their explanation to Schelling-type tipping models of the form introduced in Figure 2.4. At the same time they have insisted that the dependent variables in question could not have occurred without the existence of prior macro-structural settings (respectively, the density of rural social networks, and the numerical weight within local communities of draft-age male youths and their relatives).

³ For instance, the financial precariousness of the pay-as-you-go system that resulted from the abnormal pensioner booms imposed harder taxation burdens on current workers in order to finance current pensions. At the same time, it rendered the value of current workers' own future pensions progressively more uncertain, thus weakening the argument that watering down their distributive demands now would be paid back by deferred wages later.

⁴ Such an observation would be in keeping with the argument that the often observed increases in popular frustration in periods preceding political revolutions are epiphenomenal to the causal explanation of such revolutions: 'The frustration is without consequence, despite its occurrence preceding the revolt. It does serve as a measure of the potential for action, but the consequences are not due to the frustration' (Coleman, 1990, p. 485).

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