

Post-Communist Welfare Pathways

Theorizing Social Policy Transformations
in Central and Eastern Europe

Edited by Alfio Cerami and Pieter Vanhuysse



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Also by Alfio Cerami

SOCIAL POLICY IN CENTRAL AND EASTERN EUROPE: The Emergence of a New European Welfare Regime

Also by Pieter Vanhuysse

DIVIDE AND PACIFY: Strategic Social Policies and Political Protests in Post-Communist Democracies

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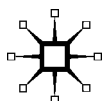
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4

Power, Order and the Politics of Social Policy in Central and Eastern Europe*

Pieter Vanhuysse

There is nothing more difficult to execute, nor more dubious of success, nor more dangerous to administer than to introduce a new order of things; for he who introduces it has all those who profit from the old order as his enemies, and he has only lukewarm allies in all those who might profit from the new.

(Niccolò Machiavelli, *The Prince*, Chapter VI)

‘Empowering’ the analysis of post-communist pathways: the cases of Hungary, Poland, Latvia and Estonia

If there is one topic on which political science ought to be able to stake out a distinct claim to fame against other social sciences, it is power. From Machiavelli in the Renaissance Florence of the Medici to Bismarck and Pope Leo XIII in late nineteenth-century Prussia and Rome, rulers and their counsellors have been studied by political scientists in how they have used their state power to establish and consolidate political order. In the post-war decades, early post-behavioural theories by Peter Bachrach and Morton Baratz (1962) and Steven Lukes (1974) represented seminal breakthroughs. They emphasized the hidden faces of power, suggesting how the asymmetric distribution of political and economic rights can structure relations of dominance in society above and beyond any observable decisions taken by ruling elites. Even in the absence of manifest conflict – what Lukes called the first face of power – powerholders often have the ability to stack the deck of cards of social life in ways such as to avoid the making of decisions (the second face of power), for instance through institutional design and agenda setting. Moreover, powerholders can shape the definitions of subordinate actors’ identities and interests, thereby forcing them to pre-emptively adapt to newly stacked decks of cards (the third face).

Yet despite these ominous early beginnings, not all is well with the study of power in public policy analysis today. In strongly worded clarion calls for a

major theoretical redirection, Moe (2006) has recently pointed out that rational choice-influenced analyses in particular may well *discuss* power frequently, but nevertheless tend to entertain a naive 'one-sided – and overly benign' view of what it entails. Moe therefore proposes a substantive analytical shift away from seeing politics predominantly in win-win and efficiency-enhancing terms and towards explicitly win-lose conceptions of power as distributive conflict.¹ This clarion call has been preceded by disparate earlier studies² and has been echoed more recently by Frances Fox Piven's (2008) ASA Presidential Address, by the reception of the expanded 2005 edition of Lukes' classic 1974 essay (Dowding, 2006; *Political Studies Review*, 2006), and by similar calls within historical institutionalism (Thelen, 2004; Hall and Thelen, 2009). The message is clear: centuries after the publication of one of its founding texts, *The Prince*, political science as a discipline still has a lot more puzzling to do about power.

To students of social policy, these debates may, at first sight, merely appear to be old wine in new bottles. The unequal (re)distribution of material resources is, after all, the bread and butter of many welfare programmes. Both power-resources and power-order interpretations of social policy have had influential proponents, on which more below. Yet, today, such interpretations are no longer paradigmatic. Especially since the seminal contributions of R. Kent Weaver (1986) and Paul Pierson (1994, 1996), the politics of social policy in the rapidly maturing advanced democracies of the post-1970s era is now predominantly analysed from the point of view of blame avoidance theory and retrenchment logics. The rationale is straightforward. Re-election-seeking government parties pursuing welfare cutbacks need to try and shift blame or obfuscate responsibility for these unpopular measures, especially in the face of well-documented psychological mechanisms of loss aversion, myopia and other preference inconsistencies. The electoral risks that accompany painful policy reforms, even when these are known to be generally efficiency-enhancing, are further compounded by a range of formidable political obstacles confronting reforming politicians.³ Reform costs tend to be concentrated and/or to hurt well-organized stakeholders, while reform benefits are often dispersed and/or spread over less well-organized target populations. The perception of costs and benefits is often asymmetric, independently of their distribution. In addition, the political gains from reforms typically take time to become clearly apparent to their intended beneficiaries, or are not easily linked to complex reforms. Lastly, *ex ante* uncertainty about the identity of reform winners and losers may lead voters to reject reforms that they know to be socially efficient, resulting in status quo bias. It is therefore not surprising that current political theories of blame avoidance and economic reforms still follow Niccolò Machiavelli's classic argument. New policies may not win rulers as many supporters as they will cost them opponents. Once again, it appears, we end up at our starting point – *The Prince*.

Yet sometimes change just has to happen. When the status quo is simply untenable, the urgency of costly reforms hurting major sub-strands of the

electorate is often such that governments are *neither* able to avoid reforms, *nor* able to entirely avoid blame for them. One example, arguably the single most salient instance of large-scale social change after the Second World War, are the transitions from communist one-party states and planned economies to liberal market democracies in East Central Europe. In this chapter I argue that post-communist rulers in this context have used their state power to design policies aimed at the consolidation of a particular vision of the new regime and at the preservation of social order via *protest* avoidance as a necessary political alternative to *blame* avoidance (Béland and Marier, 2006). As a result, ethnically less 'desired' or economically less 'market-conform' categories of citizens have been sidelined in terms of collective action capacity and policy influence at a time when the political arena of these nascent democracies was being reshaped. In the process, I make the case for infusing both path-dependence and path-departure theories of social policy with more explicitly power-sensitive accounts. Social policies, after all, are rarely purely technocratic or win-win processes of risk-protection or needs-alleviation; least of all at critical junctures such as the 1990s in post-communist Europe.

My four country cases comprise two core members of each of the two main sub-clusters that have emerged within a distinct European *post-communist* public policy model (Castles and Obinger, 2008; Bohle and Greskovits, 2007): Hungary and Poland for the Visegrad sub-cluster; and Estonia and Latvia for the Baltic sub-cluster. My treatment is influenced by historically informed studies of welfare state formation suggesting how, decades if not centuries ago, changing social and religious cleavages have been key in shaping the core political coalitions – or critical realignments – that have determined social policy at historically critical junctures (Esping-Andersen, 1990; van Kersbergen and Manow, 2009; Korpi, 2001, 2006). It also revisits path-dependency and 'generous' or 'emergency' welfare state interpretations of post-communist social policy put forward in this volume. In particular, I concur with Inglot (this volume) in viewing post-communist welfare states as having been designed as emergencies and temporary creations, yet having become *de facto* permanent structures highly resistant to reforms. But I side with Haggard and Kaufman (2008, this volume) in viewing the temporal point of post-communist transition as a theoretically and empirically critical juncture. The force of communist institutional and policy legacies was particularly strong up to that point, and the degree of intra-regional convergence in social spending levels, structures and growth rates more striking than that of intra-regional divergence.

This chapter seeks to add a more strategic dimension to these analyses by highlighting how, especially at such junctures, elites can to a significant degree *choose* which social risks or status groups to accommodate (and how), and which social cleavages to play down (or accentuate). Thus, I argue that Hungarian and Polish policymakers have not merely provided generous

'emergency' safety nets for exogenously given groups of at-risk citizens. They have proactively *reshaped* the distributions of economic winners and losers in transition, and of contributors and dependants in the welfare state. In so doing, they have modified the subsequent patterns of distributive conflict in the polity, for instance by reducing the political salience of class cleavages and increasing the policy clout of the pensioner constituency. My two Baltic cases in turn represent a study of the use of power along yet another dimension – ethnicity. Recent advances in political economy (Alesina and La Ferrara, 2005; Bridgman, 2008) and social capital theory (Hooghe, 2007; Putnam, 2007) have documented the manifold negative effects of ethno-linguistic heterogeneity in groups, cities and states, both on public policies and on socioeconomic variables such as productivity, growth, public goods provision and other forms of social solidarity. My interpretation of the two Baltic cases reverses the causal analysis somewhat. I point out that here too the power strategies of the new elites mattered crucially, in that they proactively remodelled the distribution of transition winners and losers along ethnic lines. In so doing, Estonian and Latvian power-holders have designed public policies and shaped social solidarity in ways that made existing levels of ethno-linguistic heterogeneity politically more salient, at the expense of class and other existing social cleavages.

Splitting up at-risk workers: Bismarckian social policies in two Visegrad democracies

Numerous observers have pointed to the near-inevitable yet often unexpectedly protracted social costs that accompanied transition reforms. Those post-communist governments who were strongly committed to fast transition progress were generally not able to prevent protracted reforms costs. As the present volume makes abundantly clear, the socialist inheritance of relatively secure jobs and social rights for all workers led voters to expect that the government would intervene extensively in the provision of job security and social safety nets also during transition. After 1989, the pro-welfare-state electoral constituency was certainly considerably stronger in Eastern than in Western European democracies (Alesina and Fuchs-Schündeln, 2007; Haggard and Kaufman, 2008; Corneo and Gruner, 2002). Post-communist governments consequently faced strong hurdles in retrenching welfare programmes and hardening social policy budget constraints.

Beyond anti-reform voting, active resistance against reforms among subsets of the workforce provided another likely political scenario. Workers in communist societies had become accustomed to very high levels of employment security by international standards. In transition, they enjoyed, by definition, higher levels of freedom and political resources to organize reform protests. And many had good reason to do so, given the fast-rising levels and longer duration spells of unemployment, and the ever more visible gaps

between reform winners and losers. Widely across post-communist Europe, with the initial exception of the Czech lands, unemployment shot up very rapidly in the 1990s after many decades of near-zero official levels. This scenario appeared to spell trouble. As Piven and Cloward's (1977, 1993) classic studies indicate, in periods of rapid and large-scale social change, unemployment has been a particularly significant trigger for disruptions of social order.

The incidence and distribution of job losses and related social hardship appeared further conducive to 'Latin American' scenarios for large-scale disruption in the polity and ensuing reversals of reforms (Greskovits, 1998; Haggard and Kaufman, 1995; Roberts, 2008). Crucially, the threat of job losses was not equally distributed, but strongly stratified along geographical (urban-rural) as well as educational lines (Scarpetta and Wörgötter, 1995; Rashid et al., 2005).⁴ In all four Visegrad countries, for instance, the variation in regional unemployment levels tended to be significantly larger than in Western economies (Boeri et al., 1998). Exposed workers were closely linked in terms of both socioeconomic and professional status and geographic location. Since active social networks occur naturally at workplaces, these form an ideal environment for grievance sharing, coordinating and mobilizing workers for reform protests. The greater the specificity of the attribution of blame for reform costs, the greater the probability of protest was likely to be (Javeline, 2003). It is in such contexts that powerholders committed to reforms may use public policies in an effort to ensure political order. Strategic social policies can then become a useful tool of pre-emptive protest avoidance. Korpi's (2001) rational-action account of Western welfare state development suggests that rulers have a number of policy tools at their disposal through strategies involving Lukes' (1974) second and third face of power. For instance, rulers can shape subordinate actors' definitions of their interests and identities in ways that increase the latter's mobilization costs in setting up collective action.

As explored extensively in my book *Divide and Pacify* (2006a), Hungarian and Polish governments in the early 1990s attempted to reduce the threat of large-scale reform protests by splitting up groups of well-networked and formally organized at-risk workers into different subgroups with conflicting material interests and fewer common social ties. In the first seven years of democracy alone, literally hundreds of thousands of workers were transferred out of the labour force and onto early pensions and disability pensions. These policies led to Great Abnormal Pensioner Booms. Whereas the number of 60-plussers remained stable in Hungary and grew by 10 per cent in Poland between 1989 and 1996, the number of old-age pensioners increased by respectively one-fifth and 46 per cent. In the same period of just seven years, the number of disability pensioners also increased by one-half in Hungary and by one-fifth in Poland (Vanhuysse, 2006a). Reform losers were hereby separated, de facto and administratively, into four different

social status categories. In addition to regular old-age pensioners, citizens of labour market age were divided into regular jobholders, unemployed workers and 'abnormal' pensioners on early or disability pensions.

The hard power core of these 'emergency power policies' revolved around two essentially Bismarckian mechanisms (see also Fuchs and Offe, 2009). First, material benefits were selectively provided to particular target groups whose opposition to reforms would have been especially effective in disrupting economic reform progress. Second, these policies 'created' distributional conflict between groups that until that moment had shared similar objective interests, by dividing at-risk workers into three different social and administrative status categories. The end result was that a likely scenario of reform protests organized by encompassing interest coalitions was replaced by one of social quiescence, as a joint outcome of outright competition for state resources among these newly competing status groups, decreasing social ties among marginalized labour market outsiders, and individualistic coping strategies such as informal economy activities by working-age pensioners and unemployed people.

The strategic use of welfare state programmes thereby allowed coalition parties to dilute, or defuse, a potentially explosive social mix of soaring reforms costs hitting well-organized clusters of workers in a short (or at the same) moment in time. To be sure, especially in Hungary, early retirement had been a frequently used policy template also under late socialism (e.g. Inglot, this volume). The strategy of offloading workers at risk of job losses onto the public pension systems has long been a strategy for politically convenient labour force reduction in the advanced welfare states of continental Western and Southern Europe (Ebbinghaus, 2006). What was novel about the abnormal pensioner booms in post-communist Hungary and Poland was the sheer speed and scale of early exit post-1990. These policies have had significant further consequences for post-communist political economies, along classic path-dependency lines.

After the pensioner booms: path-dependency in the emergency welfare states

At the formative historical turning point of 1989–1990, the social policies described above helped to reduce the incidence of disruptive conflict, but at the cost of subsequently constraining the fiscal leeway available in social policy. However, if critical junctures are marked by the multiplicity of institutional choices and policy alternatives, they are necessarily followed by a subsequent contraction of this feasible set. In Katznelson's (2003, p. 293) words, junctures are characterized by 'a transition of initially very high uncertainty and possibility to less, from a wide array of policy options to fewer, and by institutional innovation that reduces uncertainty and inscribes content and limits to policy'. In the Hungarian and Polish cases, the Abnormal Pensioner Booms, once enacted, were inherently difficult to

reverse. Consequently they led to soaring pension system dependency rates and necessitated partial pension privatization later, towards the latter part of the 1990s (Orenstein, this volume). However, at-risk workers no longer represented disruptive political dynamite that needed to be defused, *now*.

As *unemployed workers*, at-risk workers now represented a numerically marginalized group that could be squeezed *later*. Thus, immediately after 1989–1990, Hungary and Poland offered the second and third most generous unemployment replacement rates respectively (70 and 65 per cent in the first six months) within a sample of ten post-communist states. But by the late 1990s, Hungary had cut those rates marginally (to 55 per cent), while Poland had enacted the most drastic cuts of the entire sample (by 30 per cent) (Vodopivec et al., 2003, p. 20). Similarly, while these two countries offered by far the most generous maximum duration periods for payment of unemployment benefits in post-communist Europe in the early 1990s (24 months), they had severely cut these payment periods (by 12 and six months respectively) by the end of the decade (Vodopivec et al., 2003, p. 21). Other indicators of eligibility and generosity similarly show that after an initially generous starting point in early transition, unemployment benefits were significantly retrenched subsequently (Boeri and Terrell, 2002).

Conversely, as *early and disability pensioners*, at-risk workers now represented a medium-term time bomb undermining the welfare system's finances, *later*. Moreover, pensioners at once became significantly more numerous. Their increased electoral clout could now pre-emptively influence the policy platforms of politicians and it made it harder than before to retrench pensions. Towards the end of the 1990s and into the present decade, public expenditures for elderly generations were made increasingly at the expense of younger generations. For instance, in Hungary the systemic pension reforms from 1997 onwards shifted most reform costs onto younger workers and future taxpayers, while continuing to favour current pensioners (Müller, 1999). But public pension spending in Hungary and Poland, at 11.4 and 8.3 per cent of GDP respectively between 1999 and 2003, was well above the OECD average (7.5 per cent), even though these countries boasted demographically younger populations than most other OECD countries (own computations from OECD, 2007). Not surprisingly therefore, Verhoeven et al.'s (2009, pp. 113–14) analysis of three socioeconomic groups with few economic resources (those with no education living in rural areas) indicates that in Hungary and Poland the relative incomes of pensioners were higher in 2002 than they had been in 1991. More importantly, in both countries the relative incomes of pensioners were markedly higher than those of both unemployed people and workers with few economic resources in every single year between 1991 and 2002. In the case of Poland, the same observation – better relative incomes for pensioners than for workers and the unemployed – held true for most of the transition period also when analysing three other population samples: all persons living in

urban areas, all persons with five years of education, and all persons with ten years of education (Verhoeven et al., 2009).

Only as late as December 2008 was a measure fiscal prudence restored in the case of Polish pension finances. Various early retirement schemes covering more than one million Poles were abolished by the Polish Sejm in spite of President Kaczynski's veto. Starting on 1 January 2009, nobody covered within the universal (basic/mandatory) system based on individual accounts (the vast majority of Poles born after 1948) will be able to start claiming pensions before they reach 60 (for women) or 65 (for men). However, many longstanding exceptional pension privileges such those for the uniformed services and for farmers will remain excluded.⁵ In Hungary, by contrast, pensioner-favouring policies have continued unabated, at great public financial cost. Left of centre government parties have started paying pensioners a thirteenth month of pensions, thereby accelerating the already worrying rise in public deficits. Towards the start of the twenty-first century, a string of political and economic crises in Hungary have been accompanied by upsurges in protests and violence. These culminated in the events of autumn 2006. Ostensibly reacting to Prime Minister Gyurcsany's leaked admission of lying during the election campaign, groups of right-wing radicals occupied central parts of Budapest in violent protests during the commemorations of the 1956 Revolution. Long overdue reforms in health care and pensions, in the context of an economy particularly hard hit by economic crisis after October 2008, may instigate further unrests. The peaceful pathways of post-1989 welfare may thus have come to an end in today's new post-EU-accession era.

In sum, the logic of reform protests may have been replaced in part by one of intergenerational public policy conflict in these Visegrad states (on generational policy conflict, see Tepe and Vanhuysse, 2009). This process appears also to have been accompanied by a steady radicalization of these polities, as silenced reform losers have increasingly resorted to politically illiberal parties and protest forms (Vanhuysse, 2008b). Below I turn to a less frequently recognized instance of power politics and its hidden faces in post-communism, and one that appears to have been yet more blatantly illiberal – ethnic discrimination in the Baltic region.

Silencing linguistic minorities: ethnic stratification in two Baltic democracies

In the Baltic area, the scope for power politics in social policy might appear to have been much more limited – at first sight. After all, governments in this region have far outdone all other post-communist first-round EU accession members in 'shrinking the state'. This was accomplished by means of fast and far-reaching macro-economic and industrial liberalization programmes after 1991 (Bohle and Greskovits, 2006, 2007; Feldmann,

2007). This liberalization drive also extended to pensions and social policy more generally.⁶ It is now generally agreed that on most of the commonly used indicators of programme coverage, eligibility conditions and benefit generosity, Baltic welfare regimes are significantly less generous and less encompassing than the other new EU member states. While it has become commonplace to refer to most post-communist welfare states as hybrid forms recombining various aspects of different regime types (Cerami, 2006; Inglot, Szikra and Tomka, this volume), Baltic welfare models can be more unreservedly qualified as 'neo-liberal' or, at the very least, 'basic'. Latvia's welfare state is particularly lean and mean. For instance, between 1999 and 2004, Minimum Income Guarantee Programmes Spending ranged from 0.02 to 0.05 per cent of GDP in Latvia and between 0.17 and 0.41 per cent in Estonia, compared to 0.19–0.44 per cent in Poland and 0.38–0.48 per cent in the Czech Republic. Similarly, average monthly social assistance benefits and family benefits amounted to 1.5 and 6 per cent of the minimum wage in 2004 respectively, as compared to 10 and 10 per cent in Hungary, and 14 and 6 per cent in Poland respectively (Ringold and Kasek, 2007, pp. 53, 33).

Underlying this general shrinking of the state, power strategies have ruled supreme along ethnic lines. My argument does not apply to Lithuania, which was the most ethnically homogenous of the three Baltic states to start with, and where the citizenship law of 1989 allowed all residents to apply for naturalization regardless of ethnicity (Aidukaite, this volume; Pettai and Kreuzer, 1998). It applies to Estonia and Latvia, where newly independent coalition parties have aggressively used their state power through deliberate strategies of *ethnic-linguistic* discrimination against their Russian-speaking minorities. To illustrate the argument, I reinterpret insights from a string of descriptive World Bank documents and work by other institutional and academic observers of this region (for example, Laitin, 2007; Bloom, 2007, 2008), most notably *Identity in Formation*, David Laitin's (1998) path-breaking political ethnography of identity (and linguistic) strategies and status changes among Baltic minorities.

As Laitin (1998) notes, the Russian-speaking minorities in the Baltic area constituted up to a third of the population, and they had already been struck by the 'double cataclysm' of the passage of the republican Language Laws in 1989 and the collapse of the Soviet Union in 1991. But subsequently, successive Estonian and Latvian governments, headed by strongly nationalistic political parties, have deliberately denied their Russian-speaking minorities basic political rights, let alone a key voice, at the most crucial early formative moment of these new nation states. As in the case of Hungarian and Polish pension policies, these Baltic transitions developed remarkably peacefully, despite strong prior expectations of ethnically based protests (Laitin, 2007). Here too, timing was of the essence, and path-dependence mechanisms mainly kicked in *after* initial elite strategies had changed the political game.

Baltic Russian speakers, post-independence: the wheel of fortune reversed

At the critical juncture of early post-1991 nation building, there was a strategic incentive for titular Baltic parties, to move first by delaying Russian speakers' political influence *in the short run*. Substantial fractions of the Russian minorities, most of whom who had arrived decades earlier, were initially denied automatic citizenship on the grounds that Soviet rule had been an illegal occupation (Pettai and Kreuzer, 1998; Bloom, 2008). These early discrimination measures, in this strong form, could be expected to be temporary, valid until international outcry towards the end of the 1990s and subsequent EU conditionality would force titular governments to liberalize their citizenships laws and to better safeguard the status of ethnic minorities.⁷ But crucially, *before* this happened, these measures opened up a policy window that could set the Baltic nation states onto a distinct political and economic pathway, give a first-mover advantage to titular Baltic interest coalitions, quickly push up the economic value of the titular language at the expense of Russian, and disproportionately impose social and economic costs on ethnic Russians.

In Estonia, a citizenship law passed by the first post-Soviet Estonian government under Tiit Vähi required all non-citizens to either pass an examination in Estonian or, failing that, to first establish ten years of 'legal' residence. As a result, the great majority of Russian speakers were simply denied any voting rights in the 1992 elections. These elections brought to power the vehemently nationalist Fatherland (Isamaa) coalition, which moved quickly to stop state subsidies for Russian-language schools. In summer 1993 Isamaa passed a far-reaching 'Law on Aliens' requiring non-citizens to register and be eligible for temporary residence permits only, or else to face deportation (Laitin, 1998, pp. 94–5). In a move widely perceived as being intended to slow down naturalization of Soviet-era immigrants, the Estonian government passed a new citizenship law in January 1995 that added another civics examination to the naturalization procedure, and subsequently waited over three months before it even issued specific information about this exam (Laitin, 1998, p. 6). Russian speakers frequently reported recurrent and unexplained delays and even disappearing documents in their citizenship applications (Laitin, 1998, pp. 6–7, 354–5). As with the tacit encouragement of early retirement in Hungary and Poland, the informal practices of administrators and street-level bureaucrats furthered this process behind the scenes.

Similar strategies were employed in Latvia. An operating pre-independence coalition between Latvian titulars and Russian speakers was declared null and void by October 1991. It was replaced by proposed laws stipulating a 16-year period before Russian speakers (at least the vast majority which did not descend from interwar Latvian passport holders) could even apply for citizenship. While this law was never ratified, Latvian governments managed to delay the passing of a more moderate law, and thereby all naturalization

procedures for Russians, until as late as 1994 (Dreifelds, 1996). In addition, a so-called 'window process' was implemented to limit eligible citizenship applications by age sets (Laitin, 1998, p. 95). Given that a 1991 Latvian Supreme Council ruling had refused non-citizens all rights to travel abroad, own land, hold state office and many other jobs, and vote, the initial refusal and subsequent delay of citizenship to Russian speakers sufficed to deny them of much political and economic power. Right up until 1994, non-citizens were refused the vote even in *local* elections (Laitin, 1998, p. 98). Note that although titular Latvians represented only 54 per cent of the Latvian population (and less than half of the 19–44 age group), they had constituted 79 per cent of all voters in the 1993 elections. Only 39 per cent of the ethnic Russians, who represented *one-third* of the population, had been able to vote in those same elections (Dreifelds, 1996, pp. 143, 150–1, 86). In this light, the Latvian titulars' silencing tactics towards Russian speakers amounted to a stunning power grab. However, it would be a mistake to interpret these policies as exclusively or blindly motivated by irrational ethnic/nationalistic sentiment. Rather, the ruling Baltic titulars strategically played the ethnic card in order to guarantee social order and to make fast progress with economic reforms in ways that disproportionately benefited their own ethnic group.

Order and power: silent non-exit through broken voice

Baltic titular groups may well have wanted to force Russian speakers into actual '*physical exit*' – and, conversely, to prevent additional entry from Russia into their own territory.⁸ But this was likely to be an altogether limited strategy. Hirschman's (1970) exit mechanism is more likely to have operated mainly in the case of a different group at the other end of the opportunities market, by directing workers with marketable skills *westward*. The streams of Baltic (as well as Polish, Moldavian and Bulgarian) workers that have moved to work in the old EU-15 member states have generally tended to be rich either in general human capital (e.g. doctors and engineers) or, more frequently, in scarce and high-quality industrial skills (Culic, 2008; Woolfson, 2007). At this high end of the opportunities market, exit set in motion a classic cream-skimming mechanism. Hirschman (1970, p. 47) famously remarked that precisely those actors who care most about the quality of any organizational product are normally the most effective agents of voice. Therefore they may also be – for that very reason – most likely to exit first in case of organizational decline (for a formalization, see Gehlbach, 2006). In the Baltic case, those with the best opportunities exited first, thereby diluting the human capital base of Baltic political economies, driving them further along their distinctly low-skill, low-quality, low-value-added export production pathway (Bohle and Greskovits, 2006).

At the low end of the opportunities market, I suggest that Baltic titular governments were well aware of the limited scope and the high international blame

attached to an enforced *eastward* exit strategy regarding their Russian-speaking minority populations. The scope for enforcing exit among the economic losers of transition was admittedly higher in these cases than it was in the case of Hungarian or Polish transition losers. Nevertheless, the longstanding residence and homeownership of Russian speakers on Baltic territory, their (mutually) tenuous links with the new Russia as opposed to the old USSR, and the Baltic states' (until recently) better current levels and future prospects of economic prosperity all combined to strongly reduce the incentives for the vast majority of Russian speakers to exit eastwards.⁹ Despite their rhetoric (which served other ends), Baltic governments therefore rationally reverted to an alternative main strategy – one of imposing what Brian Barry (1974) called '*silent non-exit*'. Playing the ethnic card and employing harsh nationalist rhetoric increased silent non-exit in two distinct ways.

First, ethnically motivated citizenship restrictions directly muted the Russians' option of '*peaceful voice*' by simply foreclosing the power of the polling booth for many. This in turn allowed the titular governments to safely target economic policies along ethnic lines. By reorienting trade away from Russia and towards the West, titular powerholders could build on their first-mover advantage and reap economic benefits. In contrast, the Russian-speaking minority, which was predominantly employed in those industries that had been built up during the Soviet empire, such as electronics and heavy industries, suffered heavy employment losses in the 1990s (Aasland, 1998; Bite and Zagorskis, 2003; Bohle and Greskovits, 2007). In addition, Russians' re-employment chances were hampered by a double obstacle – lack of language ability and the unlearning of outdated skills in favour of new, marketable ones.

The geographical and ethno-linguistic incidence of unemployment is a case in point – one that reveals striking similarities not just with Hungary and Poland in the 1990s, but also with Britain in the 1980s.¹⁰ Estonian governments deliberately neglected the industrial base in the Russian-dominated east of the country after 1991. This led to an unemployment rate of up to 40 per cent in that part of Estonia as compared to near-zero in Tallin, the capital (Laitin, 1998, p. 358). In 2001, unemployment varied from a low of 7.7 per cent in Hiiumaa county (West Estonia) to much higher rates in the south-east and north-east of the country, with a maximum of 20.6 per cent in Jõgeva county (East Estonia). At 18 per cent, the unemployment rate among non-Estonians was 7 per cent higher that year than that of ethnic Estonians (Leppik and Kruuda, 2003, p. 82).

In Latvia, the share of jobseekers aged 15–64 was 13 per cent for people with Latvian language skills in the late 1990s, and 20.8 per cent for people without those skills (Bite and Zagorskis, 2003, pp. 93–5, 66). Yet this ethnic divide was no major electoral threat, as scores of Russian speakers had been, essentially, disenfranchised. As Bloom (2008, p. 1584) indicates, Russian speakers were disproportionately concentrated among Latvia's seven largest (and richest) cities,

where they accounted on average for 62 per cent of the population (ranging from 48 per cent in Jelgava to 86 per cent in Daugavpils). Yet on average, an amazing 40 per cent of these cities' populations were non-citizens without basic voting rights. Even in regions with strong Russian minorities that did hold citizenship, such as Latgale, Russians were politically sidelined: not one single party representing minority voters has ever taken part in any of Latvia's 13 post-Soviet coalition governments (Bloom, 2008, p. 1577). Not surprisingly the significant lack of peaceful political voice (voting and government inclusion) translated into redistributive biases of public policies. For instance, Latvia's seven big 'Russian-speaking' cities received on average a mere 4 per cent of their local government revenue in the form of transfers from the national government in 1996, as compared to 44 per cent in the case of more 'indigenous' rural provinces such as Zemgale and Kurzeme (Bloom, 2008, p. 1580). Bloom's (2008, Table 1A) insightful study of Latvian fiscal appeasement furthermore shows that, even after controlling for socioeconomic needs such as unemployment levels, the share of non-citizens (for example, non-voters) at the district level was systematically negatively correlated with a wide range of fiscal transfers throughout the 1990s.

Beyond voting, a second mechanism by which Baltic titular governments imposed silent non-exit on their Russian-speaking minorities was by breaking their '*disruptive voice*' in terms of strikes and protests. Anti-Russian policies and rhetoric deliberately created permanent uncertainty and fear of deportation. However, in classic Bismarckian fashion, they also heightened the political salience of ethnic as opposed to class cleavages within the polity. Specifically, these strategies helped to further break up the Russian speakers' capacity to coalesce with *socioeconomically similar but ethnically different* transition losers (such as, for instance, poor farmers and displaced blue-collar workers of titular origin). As we have seen, once-similar Hungarian and Polish at-risk workers had been divided post-1989 into numerically smaller and politically competing groups of workers with jobs, unemployed workers and early retirees. Similarly, the inability of Baltic Russian-speaking (numerical) minorities to coalesce for economic (that is, *class-based*) protests left them further marginalized politically, *as* a mere ethnic minority. Thus the 1993 Estonian Law on Cultural Autonomy of National Minorities, which granted minority groups with more than 3,000 members special cultural and educational rights, was designed to further subdivide Russians from other ethnic minorities: 'One effect of this law – and one of its drafters told me in confidence that this was intentional – will be to divide the Russian-speaking minorities into separate political forces, thereby diminishing their overall impact in opposition to the Estonian culturalist program' (Laitin, 1998, p. 357). And tellingly, Laitin (1998, pp. 96–7) reports that:

in confidential interviews, officials of the Isamaa government confided to me that the anti-Russian government rhetoric played a crucial economic role.

With it, there was an electoral coalition of urban business (which wanted economic reform) and rural folk (farmers and pensioners) which was willing to accept the harsh realities of economic reform as long as the Russian population was being threatened. Without the chauvinism, I was told, a coalition of Russian and the rural elements would have defeated reform.

Political voice became ethnically stratified also along other dimensions. Beyond voting less, by 1999, Slavic inhabitants in Estonia and Latvia were significantly less likely than the titular ethnic inhabitants to engage in a wide range of political and civil activities, including membership or financial support of organizations or movements, political activities other than elections, the collection of signatures or the signing of petitions, as well as participation in strikes or political rallies (Aasland and Fløtten, 2001). To a significant degree therefore, the political voice of Russian speakers was broken by state policies that narrowed the social foundations for anti-reform collective action and even peaceful voice.

Lastly, the analysis also indicates mechanisms by which, even in these seemingly *universally* lean Baltic welfare states, the power politics of social policy may have crept in via the back door after 1991. Against a backdrop of generally high social hardship levels resulting from economic liberalization programmes that were radical even by post-communist Polish or UK-Thatcherite standards, the policies discussed above are likely to have translated into yet higher social costs for Russian speakers *specifically*. Unemployment was the single most important cause of poverty in the Baltic economies in the 1990s. For instance, in Latvia between 1996 and 2000, poverty ranged from 28 to 30 per cent among households with one unemployed member, and from 44 to 60 per cent among households with two unemployed members. Compared to average households, those in the unemployment-stricken Eastern region of Latgale, where a large Russian minority lived, had a 23 per cent higher likelihood of being poor in 1996, and a 75 per cent higher likelihood in 2000.¹¹ As unemployment disproportionately affected Russian speakers, Russians' poverty rates were likely to be much higher as well. By the turn of the century, the disadvantage of Slavic inhabitants vis-à-vis the titular ethnic group remained statistically significant along a number of indicators of social exclusion in both Estonia and Latvia. This ethnic stratification was evident, for instance, regarding (a) the share of unemployed, discouraged or not actively jobseeking workers, (b) those fearing job loss, (c) those lacking economic resources for participation in social life, (d) a synthetic additive index of social disadvantage (Aasland and Fløtten, 2001). Titma et al. (1998) similarly report a marked reversal of economic fortune for Russian speakers soon after Estonian independence: controlling for situational variables, income differentials quickly shifted from a slight advantage to a substantial disadvantage for Russian speakers vis-à-vis titular groups.

Take-up rates of social assistance services similarly reflected ethnic divisions. Ethnic Latvians were generally better informed about social assistance. They

received social assistance benefits more often than other ethnic groups, even though application rates were similar for Latvians and Russians (Ringold and Kasek, 2007). In a strongly decentralized social assistance system such as the Latvian one, this was in part due to administrative and tax revenue capacities of different local governments. For instance, of those who had applied for social assistance, 73 per cent of Latvians, 59 per cent of Russians and only 50 per cent other ethnics were granted the requested benefits in full, whereas 11 per cent Latvians, 20 per cent of Russians and 30 per cent of others received nothing (Bite and Zagorskis, 2003, pp. 93–5).

The successful Baltic economic reforms in the 1990s dismantled the power of trade unions but also of the Russian minority, which might have become a strong opponent of reforms (Vanhuyse, 2007). In Bohle and Greskovits' (2007, p. 451) words, the Russians were 'as much silenced in interest group as in democratic politics. Political exclusion was coupled with and buttressed by social exclusion'. It may therefore be true that legally residing Russians in Estonia and Latvia are nominally entitled to all welfare rights such as social services, health care, family benefits and housing. But beyond *de jure* appearances and statements, the *de facto* access to (and exercise of) such rights can nevertheless be significantly restricted. This ethno-linguistic composition and targeting of social policies and social costs (such as poverty, labour market exclusion, pension rights, and mental and physical ill health) is a feature that has thus far been overlooked in country studies of Baltic welfare.¹² Yet it may turn out to have been another significant hidden face of power. In the same vein, whereas between 1990 and 2004 the Estonian state administration grew relatively little, in Latvia the number of state administrators more than quadrupled, putting the country in first place among a sample of nine post-communist cases in terms of the exploitation of state resources for patronage purposes (Hanley, 2008). All evidence reviewed in this chapter leads one to expect that these state employment patterns may have been heavily biased among ethnic lines in favour of Latvian titulars. Like the ethno-linguistic distribution of unemployment, the ethnic composition of new state employment and of social assistance by the state constitutes a promising avenue for future explorations in the power politics of post-communist societies.

Conclusions: order and disorder in post-communist politics

When the degree of asymmetry in power increases, the terms of exchange of the weaker actor are likely to deteriorate, but at the same time her probability of successful resistance tends to decrease, thereby decreasing the probability of manifest conflict between these actors. (Korpi, 2001, p. 248)

As many students of social policy have noted, the strategic use of social policies to enhance political order and to stabilize contingent power regimes

is as old as the welfare state itself – whether in democratic Western Europe (Korpi, 2001, 2006; Offe, 1984; Fuchs and Offe, 2009), or in communist Eastern Europe (Cook, 1993; Kornai, 1992, 1996). The very first social insurance laws in late nineteenth-century Europe were not proactive efforts by socialist movements, but conservative-reactionary attempts by state elites to stifle the threats raised by these emerging movements to the existing order (Korpi, 2006, pp. 175–6). In the 1880s, Bismarck introduced social insurance programmes that were prototypes of state-corporatist segmenting institutions, with separate programmes for various occupational categories. In continental Europe, the Catholic Church, aided by Pope Leo XIII's 1891 *Workers Encyclical*, supported such efforts (see also van Kersbergen and Manow, 2009). Essentially, these early social policy strategies segmented the labour force into internally homogenous occupational communities that differed between them in terms of socioeconomic resources and risks. Beyond preserving social order in the short run, these strategies changed power relations through an elaborate set of principles 'intended to engineer institutions which would foster social peace by molding preferences and identities and to counteract broad-based collective action by the dependent labor force in ways reflecting class cleavages' (Korpi, 2001, p. 251). Similarly, Levy (2005) argues that French governments after 1983 implemented a 'social anaesthesia' strategy by cushioning the social costs of industrial reforms through fiscally expansionary measures such as public employment, subsidized private employment, worker training and early retirement.

I have argued that post-communist governments in Hungary, Poland, Latvia and Estonia have successfully resorted to similar social anaesthesia strategies. Other instances of such strategies remain to be explored in further research. For example, the substantial Roma minority populations in countries like Slovakia, Hungary, Romania and Bulgaria appear not to have been subject to such blatantly orchestrated forms of ethnic discrimination. Yet their socioeconomic and civic fate and bureaucratic treatment in these countries, both in communism and after transition, have been similar in more than one respect to that of the Russian-speaking minorities in Estonia and Latvia post-1991 (Ringold et al., 2005; Ringold and Kasek, 2007). As these Roma populations constituted a hard *ethnic* core within the larger pool of economic transition losers, their continued marginalization in terms of democratic voice, collective mobilization and, possibly, social benefit take-up rates may have similarly served to defuse some social dynamite by reducing the likelihood of *class-based* anti-reform collective action.

Albert Hirschman (1970) emphasized long ago that the option of exit can atrophy the art of voice. But even in the absence of that option, powerholders have plenty of further ammunition at their disposal to try and silence the powerless. The two sets of post-communist policy packages discussed here have differed in their main target groups. But they had a power core

in common. Russian-speaking minorities in Estonia and Latvia, just like at-risk workers in Hungary and Poland, have been sentenced to silent non-exit by state policies aimed at creating and/or exacerbating distributive conflict among 'objectively' similar economic reform losers. As had happened historically with welfare states in West Europe (Esping-Andersen, 1990; van Kersbergen and Manow, 2009) and in middle-income countries (Haggard and Kaufman, 2008), the particular interest coalitions that usurped power at this critical juncture of post-communist state-building could thereby structure the emerging shape and distributional logic of the new policy regimes. In both the Baltic and the Visegrad cases, power politics have helped to break up the social foundations for anti-reform collective action, and they have consolidated the particular democratic capitalist pathway chosen (respectively neo-liberalism and embedded liberalism).

The dramatic reversal of the political clout of Latvian and Estonian Russian speakers after independence and the large-scale creation of new (working-aged) Hungarian and Polish pensioners constitute clear instances of path-departure, beyond mere institutional layering. At a crucial juncture, the particular policies implemented in these two sets of countries – and not, for instance, in comparable cases such as Lithuania and the Czech Republic respectively – have reshaped the prevailing logics of distributive politics in these four polities. Lastly, in both sets of countries, these strategies have either embodied or contributed to a distinctly illiberal turn in political life. The 'liberal backsliding' observed across much of post-communist Europe over the past few years has been well documented. It has been evident in decreasing levels of support for liberal politics (as measured by class-based economic protests, electoral turnout levels, and support for liberal and non-extremist parties), coupled with rising levels of political anomie (as measured by high levels of dissatisfaction, disengagement and disillusion regarding the new political and economic order).¹³ As argued above, the first stage of post-communist politics in the early and mid-1990s has led to broadly successful damage control strategies, by which government elites used emergency public policies to prevent large-scale reform protests and consolidate democratic and market consolidation. But in the second stage, towards the late 1990s and into the present decade, the very success of these earlier policies may have turned angry workers increasingly towards protests votes for illiberal populist parties (Vanhuysse, 2008b). A third, more contentious stage may have been ushered in by the worldwide economic crisis from late 2008 onwards; a crisis that has hit countries such as the erstwhile 'Baltic Tigers', Hungary, Bulgaria and Romania particularly hard, due to the national-developmental and macro-fiscal strategies they have adopted. For instance, following its IMF-led 10 billion-euro emergency package in October 2008, the Latvian government has announced real public sector wage cuts of 30–35 per cent, while its economy was forecast to shrink by 8–10 per cent in 2009 (Barysch, 2009). In this light the eruptions of riots

and violent protests observed in January 2009 alone on the streets of cities such as Vilnius, Sofia, Bucharest and Riga (the worst since Latvian independence) may prove to have been a harbinger of more economic protests in the near future.¹⁴

Popular disillusionment with the liberal politics and policies of the early post-communist era has been especially pronounced among the economic losers of transition, and it is almost invariably stratified along educational and regional lines (Paczynska, 2005). In terms of peaceful voice, voting turnout rates have been artificially inflated in the Baltic cases due to the straightforward exclusion of scores of Russian speakers. Even so, here as elsewhere in Central and Eastern Europe, voting turnout has declined fast after the first post-communist 'founding' elections, to reach very low levels by international standards. Turnout rates slumped to 66 per cent on average in Hungary and to 69 per cent in Latvia over the second-to-fifth general elections, and to respectively 46, 61, 71, and 74 per cent in Poland, Estonia, the Czech Republic and Slovakia over the second-to-sixth elections.¹⁵ As Arend Lijphart (1997, p. 2) famously argued, low voter turnout means unequal and socioeconomically biased turnout. The use of voting as an expression of political protest could therefore be expected to be diminished by the well-known tendency of economically weak actors to record low levels of actual involvement in politics (Anderson, 2001). In sum, decreasing voting turnout levels of the kind observed in post-communist democracies are likely to have disproportionately reduced the policy influence of socioeconomically disadvantaged groups in electoral as well as collective action terms. Flying high over post-communist Europe like the devil in *The Master and Margarita*, even the ghosts of Machiavelli and Bismarck might have learnt a thing or two.