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An Analysis of Labour Structure and
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Abstract

This article asks whether Central and Eastern European societies should be seen as fully consolidated democracies or whether they should still be considered as democracies at risk. Using the concept of *embedded democracy* developed by Wolfgang Merkel and the members of the project on “Defective Democracies”, this paper argues that Central and Eastern European societies should be defined as *semi-consolidated democracies*, since one of the three rings of *external embeddedness* (the ring concerning the social and economic requisites of democracy) still shows significant deficiencies. The main argument is that due to the presence of shortcomings in the socio-economic environment, the process of democratic stabilization in the region is still far from finished. This is primarily reflected in the attitudes of Eastern European citizens towards non-democratic forms of government. Due to the important democratizing role of welfare institutions, this paper also proposes the inclusion of *welfare state efficiency* as a key element in the measurement of democratic consolidation.

Keywords: Central and Eastern Europe, democratization, consolidation of democracy, embedded democracy, defective democracies, welfare states in transition.

Introduction

The last wave of EU Enlargement on 1st May 2004 seems to have unreservedly implied the ultimate transition of Central and Eastern European societies to the circle of fully consolidated democracies. Are really things going in this way? Is EU accession alone able to stabilize the post-communist transition toward democracy? The aim of this article is to challenge this issue by asking whether Central and Eastern European societies should be described as fully consolidated democracies or rather as democracies at risk. Due to the presence of shortcomings in the socio-economic environment, the process of democratic stabilization in the region seems, in fact, still far from being finished. How can a democracy be addressed as stabilized if an always larger part of its population is systematically excluded from the economic improvements of the country?

In order to substantiate this argument, firstly, a brief overview of the economic performance of East European countries in transition is provided. A special focus is given not only to their economic achievements, but also and, more importantly, to the repercussions of economic crisis on the population. Subsequently, an analysis will be conducted on the *Consolidation of Democracy in Central and Eastern Europe 1990-2001* database (2005) (from here onwards CDCEE database) provided by the Central Archive for Empirical Social Research (ZA) of the University of Cologne. Here, the aim is to explore the relationships between social structure and orientation towards democracy. Finally, the role of welfare institutions as important democratizing forces will be discussed in context with the above research. The main argument here is that *welfare state efficiency*, on grounds of its democratizing function, should be included as a key element in the measurement of democratic consolidation of a country.

The Concepts of Embedded and Defective Democracies

Assessing the quality, and the problems, of democracy has been the object of numerous studies¹. Despite the existing extensive literature, the multi-dimensional character of democracy makes this research extremely difficult and only partially successful. The problem lies in determining which factors should be included and/ or excluded from any analysis of a democratic system. In the press, democracy often becomes synonym of *electoral democracy*, a term correctly accused of being extremely misleading for scholars and researchers willing to identify the main attributes of a democratic system². It is, in fact, not sufficient for a democracy to be defined as such only on the basis of the existence of relatively free elections. Rather, the interconnections of several dimensions should be accurately taken into account. It also seems that the indexes of democratic stability developed by Freedom House or by the Bertelsmann Foundation are also insufficient in identifying the character of democracy. Their primary analytical focus remains on electoral representation in the case of Freedom House³ or, for the most part, in the attachment to a market economy in the case of the Bertelsmann Transformation Index⁴.

A substantially more systematic and less arbitrary approach to the study of democracy is the one proposed by Wolfgang Merkel with the concept of *embedded democracy* (Merkel et al.

¹ Among the most often cited books see, for instance, Lipset (1959), Dahl (1971), O'Donnel and Schmitter (1986), Sartori (1987), Diamond and Lipset (1989), Di Palma 1990), Huntington (1991), Przeworski (1991), Putnam (1993), O'Donnel (1994), Linz and Stepan (1996), Dahl (1989), Lijphart (1999). For the most recent contributions, see special issue of *Journal of Communist Studies and Transition Politics*, 'The Quality of Democracy in Post-Communist Europe' (vol. 20, no 1, March 2004) or Diamond and Morlino (2005).

² In the case of "electoral democracy", only the electoral side of a democracy is highlighted, while other important aspects, such as the absence of inequality, tend to be systematically neglected. For a detailed discussion on the inadequacy of the concept of "electoral democracy" as well as various indexes of democratization, see Merkel et al. (2003), Berg-Schlosser (2004), Merkel (2004), Puhle (2005).

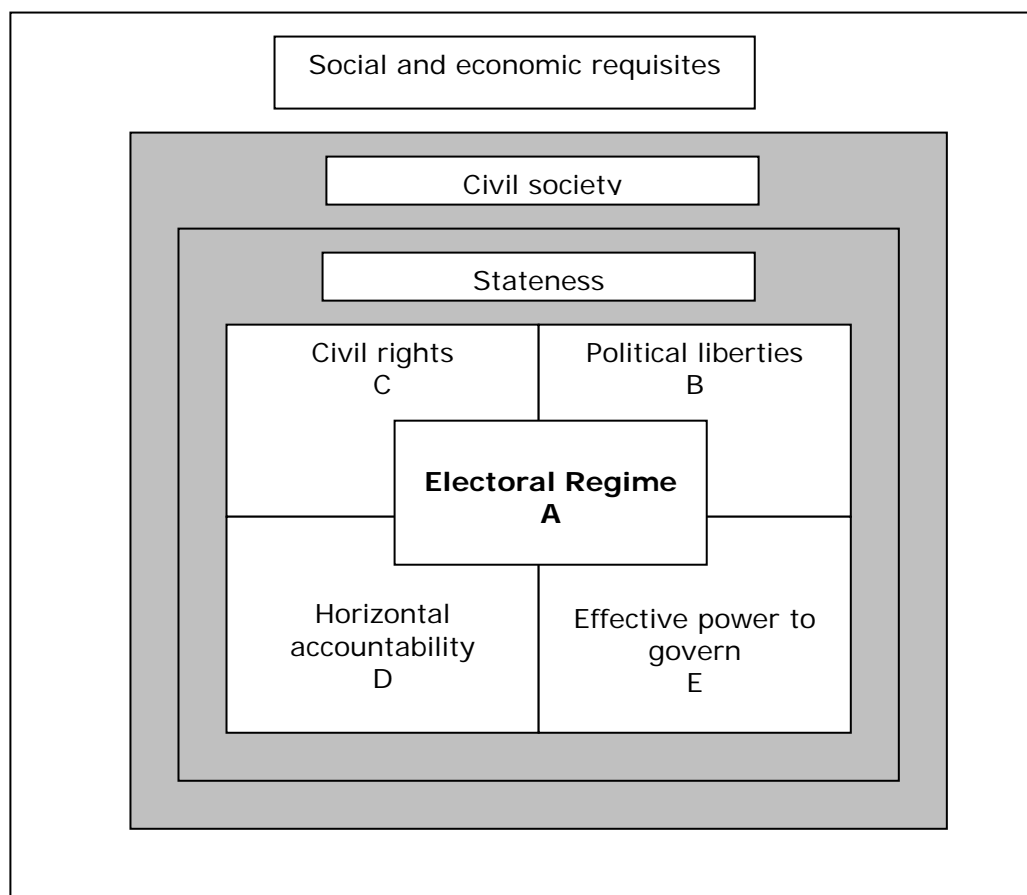
³ Freedom House classifies countries as *liberal*, *semi-liberal* and *illiberal* according to a seven-point scale, which, for the most part, pays attention to the functioning of formal institutions, such as a fair electoral process, and the existence of a well developed civil society. Freedom House (<http://www.freedomhouse.org/>).

⁴ The *Bertelsmann Transformation Index (BTI)* has its major focus on democratization and market liberalization operationalized by two parallel indexes: the *Status Index* and the *Management Index*. The *Status Index* shows "the development achieved by the states on their way toward democracy and a market economy", while the *Management Index* "reveals the extent to which governments and political actors have been consistent and determined in their pursuit of a market-based democracy". Bertelsmann Transformation Index (BTI) (<http://www.bertelsmann-transformation-index.de/>)

2003; Merkel 2004). For Wolfgang Merkel, and for the members of the project on “Defective Democracies”, an analytical concept of democracy should be concerned with defining the elements and conditions (of embeddedness) integrate to democracy, as well as the common defects and their causes that hinder democracies.

Put it very briefly, democracy is understood as *internally* and *externally* embedded in a wider socio-political environment. Internally, five different *partial regimes* secure the normative and functional existence of democracy. These correspond to: (a) the *electoral regime*; (b) *political liberties*; (c) *civil rights*; (d) *horizontal accountability*; and (e) *effective power to govern*. Externally, these *partial regimes* (or sub-regimes of democracy) are embedded in “spheres of enabling conditions for democracy that protect it from the outer as well as inner shocks and destabilizing tendencies” (Merkel et al. 2003; Merkel 2004, p.34). These correspond to: (i) *stateness*; (ii) *civil society*; and (iii) *social and economic requisites* (see Figure 1).

Figure 1. The Concept of Embedded Democracy



(Source: Merkel 2004, Fig. 1, p.37)

The *electoral regime* (a) involves the institutional structures that allow open and free elections and that, as a consequence, corresponds to the citizens' minimal rights of fair electoral representation. *Political liberties* (b), by contrast, refers to the possibility of access to political communication and organization through, for instance, the formation of interest groups free and independent from the state authority. Another important element is given by *civil rights* (c), which concern the possibility of being preserved from the "tyranny of majority"⁵. This involves, for example, the protection of life, of freedom, of property, but also the equal access to law and equal treatment. With *horizontal accountability* (d), it is intended that the surveillance of elected authorities by a network of independent and autonomous institutions be clearly defined by the constitution. Here, the core issue is the so-often quoted "check and balance" of powers. Finally, the fifth partial regime is given by *the effective power to govern* (e), that is to say, by the effective possibility that who has been elected is also the

⁵ Tocqueville (1985 [1835]) quoted in Merkel (2004, p.40.)

one who governs and that, for example, no other forces, such as the military, come to change the rules of the game.

According to Merkel (Merkel 2004, p.43), these five “partial regimes can only function effectively in a democracy if they are mutually embedded” or, in other words, if they are mutually connected influencing and supporting each other. *Internal embeddedness*, however, is not sufficient to ensure democracy. External factors also play a crucial role in fostering the democratic stability of a country. These factors also represent, more importantly, a threat to the democratic institutions already established. As illustrated in Figure 1, three main external factors are identified. *Stateness*, which refers to the existence of a state able to ensure that the rules of the game are put into practice (the opposite would be anarchy) (Puhle 2005, p. 10). *Civil society*, the second most important external factor, has several times been addressed as crucial for the democratic stability of a country. In particular, Merkel remembers that civil society provides: (a) protection from the arbitrary state rule (the Lockean function); (b) helps the separation of powers through a “*corps intermédiaire*” (the Montesquieuan function); (c) is the “school of democracy” where citizens can develop a more democratic thinking (the Tocquevillean function); and (d) represents a form of pre-institutional public sphere of critical public discourse (the Habermasian function (Merkel 2004, p.46). It has also been constantly demonstrated, that civil society fosters the development of *social capital* helping the consolidation of democratic institutions (Gabriel and Verba 1963, 1980; Merkel 1996; Rüb 1996; Merkel and Lauth 1998; Putnam 1993, 2000). Finally, the *socio-economic context* in which the different sub-regimes are embedded is a crucial factor in predicting the democratic stability of a country. This argument, introduced by the seminal work of Lipset (Lipset 1959, 1960; Lipset et al. 1993), emphasizes the importance (although not the exclusiveness, as often affirmed) of the economic performance of a country in the process of democratic stabilization. In addition, the interregional and regional integration may also help the stabilization of democracy. There is also a special

emphasis given to the role that international institutions (such as the European Union) can play in fostering the introduction and reinforcement of democratic values.

On the basis of the abovementioned model of *embedded democracy*, Merkel and his collaborators (Merkel et al. 2003) test for the presence of defects that might damage the democratic institutions recently implemented. Between the two opposites (*authoritarian and liberal democracies*), Merkel identifies four types of *defective democracies*: (1) *exclusive democracy*; (2) *domain democracy*; (3) *illiberal democracy*; and (4) *delegative democracy*.

Merkel's results, at the beginning of 2002, show that the Czech Republic, Estonia, Hungary, Lithuania, Poland, Slovak Republic and Slovenia were already addressed as *liberal democracies* (in that transition towards democracy has been faster and also its long-term sustainability seems ensured by the presence of effective, relatively stable and mutually embedded partial regimes), while defective democracies included Albania, Bulgaria, Croatia, Moldova, Romania, Russia, Ukraine (*illiberal democracies* in that the "constitutional state is incomplete and damaged, and constitutional norms have little impact on government actions. Civil rights are also limited or partially suspended") (Merkel 2004, pp. 49-50) and Latvia (an *exclusive democracy* in that "one or more segments of all adult citizens are excluded from the civil right of universal coverage") owing to the presence of not yet consolidated democratic institutions (primarily involving the *internal dimension of embeddedness*). This kind of categorization is certainly more systematic and more adequate than the one provided by Freedom House or by the Bertelsmann Foundation. It still raises, however, a couple of important questions, particularly with regard to the *external dimensions of embeddedness* in that whether countries such as the Czech Republic, Estonia, Hungary, Lithuania, Poland, Slovak Republic and Slovenia, that are characterized by the presence of a still "defective"

socio-economic environment, should rather be considered as *semi-consolidated* instead of *liberal democracies*⁶.

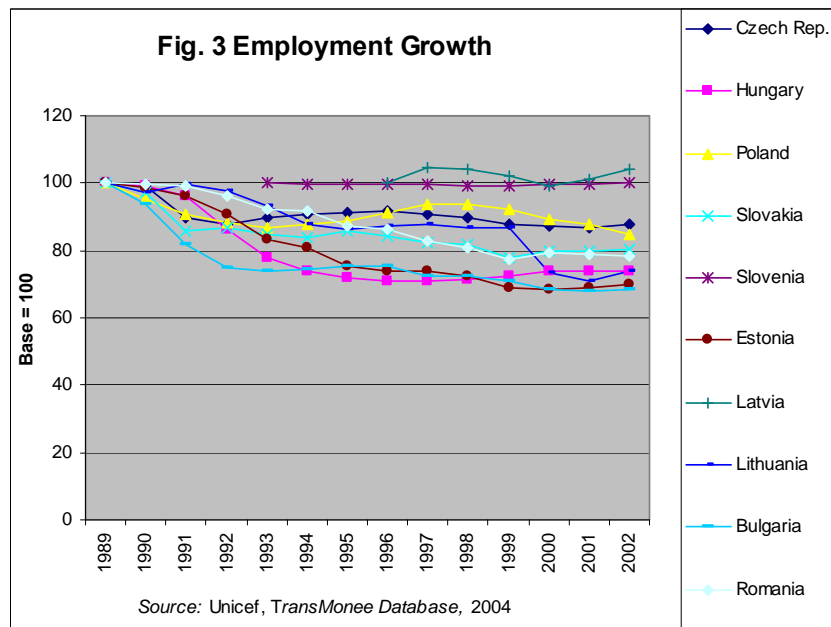
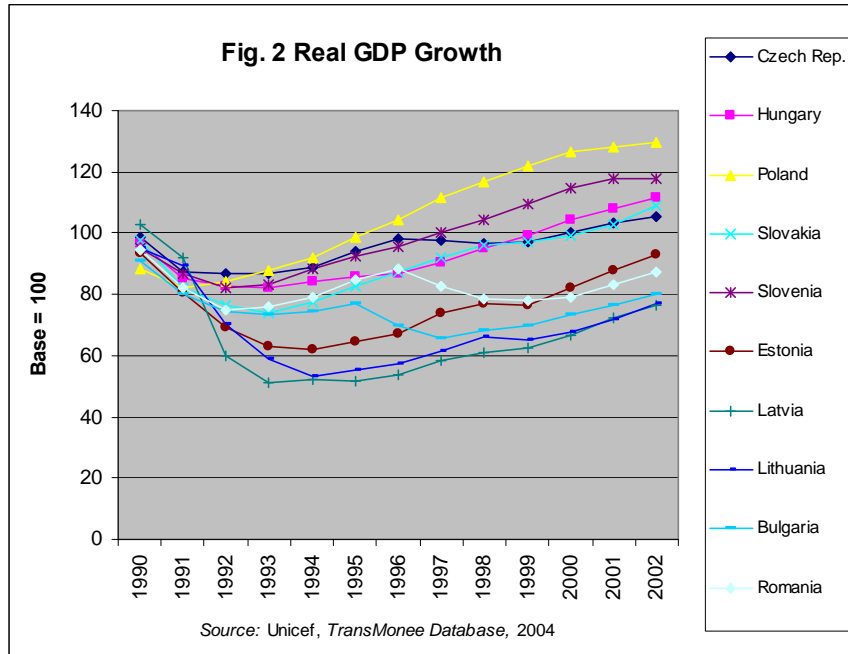
The Socio-Economic Context

The collapse of the Iron Curtain opened the door to a new wave of democratization in Europe, but it also coincided with a severe economic and human crisis, which is still affecting the people of Central and Eastern Europe. After the euphoria of the first months of transition, citizens and politicians of Eastern Europe were soon confronted with a bitter reality: the transition towards democracy would have implied extremely high social costs and these costs would have influenced the lives of million citizens for many years to come. This bitter reality materialized principally in a stagnant economy, raising unemployment, and a drastic increase in poverty and income inequality (with its associated disadvantages). In order to provide a first response to the increasing pressures coming from the restructuring of the political and economic system, national governments introduced drastic macro-economic stabilization measures, as suggested by the most influential international financial institutions (notably the IMF and the World Bank). If, on the macro economic side, these actions partially succeeded to avoid a further deterioration of national budgets, on the social side, these measures were highly risky and catapulted many millions of Eastern European citizens in an unexpected reality of inexorable poverty.

As Figure 2 and Figure 3 show, although real GDP growth has now reached, in almost all countries, the level it had in the beginning of the transformation, this has not coincided with sufficient job creation. The trend in employment growth shows, in fact, more dramatic results with almost all countries finding themselves below the level they had in 1990. Numerous explanations for such negative trend have been given, but, perhaps, the most convincing one is provided by Nesporova (1999, 2002a, 2002b), who identifies as the main reason the

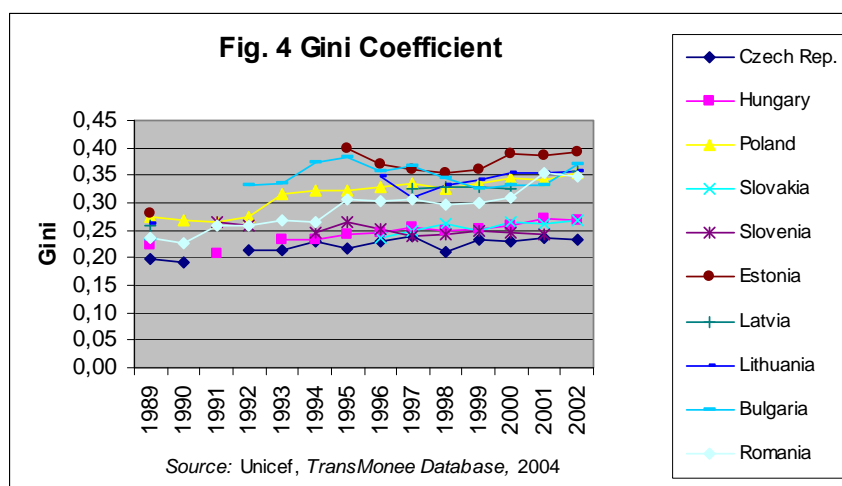
⁶ Please note that due to the last wave of EU Enlargement in May 2004 and the future one expected in 2007, all new and future EU Member States now tend to be considered as liberal democracies.

necessity of enterprises to be competitive, by reducing labour costs and redundant labour, while simultaneously increasing production. This obviously involved a decrease in real wages and consequently poverty for workers.



The negative economic performance of transition countries coupled with mistakes in sequencing the orders of reforms (Stiglitz 2002) resulted in a drastic raise in income equality

(see Figure 4), with an increasing section of the population now formally excluded from a normal and socially desirable life. Here, it is important to point out that the most vulnerable groups of transition are also those most vulnerable in the labour market (such as women, semi-skilled or low-skilled workers, employees of ex state-owned enterprises, people belonging to ethnic minorities, or citizens with handicap)⁷. A recent report on social inclusion in Europe sponsored by the European Commission sadly recognized that “in the majority of the new Member States many of the expected improvements from recent changes [those following the transformation towards a market economy] have yet to fully materialize” (European Commission 2004, p. 11).



Preferences for One-Party System

Before going into an in-depth explanation of the calculations made, a brief description of the database used in this study is necessary. The CDCEE database is the result of a cross-country survey which has included several experts and interviewers in numerous Central and Eastern European countries (Belarus, Bulgaria, Czech Republic, Estonia, East Germany, Hungary, Latvia, Lithuania, Poland, Romania, Russia, Slovakia, Slovenia, Ukraine and Krasnoyarsk). Personal interviews with a standardized questionnaire have involved a

⁷ For more information on the changes occurring in Central and Eastern European social policy, see Cerami (2006a).

representative sample⁸ of individuals aged 18 and older living in permanent residence. Interviews have been carried out in two waves. The first wave was conducted between 1990 and 1992, while the second wave took place between 1998 and 2001. The main goal of this comparative research project was to analyze the current state of consolidation of democratic institutions in the region, primarily focusing on the changes in political culture.

Calculations involve the following question “Which do you think would be better for our country: one party or multi-party system?” and are made according to the position of individuals in the social and labour structure⁹. This very simple question leaves no doubt for possible misunderstandings of what the respondent really wishes for his or her country and is also expressed in a way that does not suppose that one item is implicitly better than the other.

Table 1 provides information on the relationships between labour structure and preferences for one-party system among the different transition countries in the years immediately after the collapse of communism (round of interviews 1990-1992). As it can be seen, in all employment sectors, workers showed clear preferences for multi-party systems. At the beginning of transition, only 11% of employees of the state or of state-owned enterprises¹⁰, as well as independently employed, still demonstrated preferences for one-party system, followed by the members of a cooperative or a collective farm, with a modest, if compared to more recent results, 17%. Here, it is interesting to note how only in Poland, Romania and Slovak Republic the members of a cooperative or a collective farm were close to the

⁸ The sample includes 28 926 cases. Belarus: 1000 (2. wave: 1998); Bulgaria: 1074 (1. wave: 1990), 1021 (2. wave: 1999); Czech Republic: 1003 (1. wave: 1990), 1004 (2. wave: 2001); Estonia: 943 (1. wave: 1991), 1000 (2. wave: 2001); East Germany: 1087 (1. wave: 1992), 1013 (2. wave: 2000); West Germany: 1022 (2. wave: 2000); Hungary: 1277 (1. wave: 1990), 1086 (2. wave: 1999); Latvia: 1099 (2. wave: 1998); Lithuania: 918 (1. wave: 1991), 1005 (2. wave: 2001); Poland: 919 (1. wave: 1991), 1369 (2. wave: 2000); Romania: 1234 (1. wave: 1990), 1208 (2. wave: 1998); Krasnojarsk: 1485 (1. wave); Russia: 1500 (2. wave: 1998); Slovakia: 1033 (2. wave: 2001); Slovenia: 686 (1. wave: 1991), 1001 (2. wave: 1999); Ukraine: 1079 (1. wave: 1991), 1200 (2. wave: 1998). To adjust the Bulgarian, Estonian, Latvian, Lithuanian, Polish and Russian sample, a weighting factor is provided by the institutions responsible.

⁹ For the purpose of this study only the datasets of Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia are used.

¹⁰ This group of people were, at the time, almost the majority of workers.

threshold of one-fifth (24%) of preferences for one-party system. By contrast, with regard to the independently employed, distribution of responses were more equal and only Poland showed a high result of 33% of preferences for one-party system against an average of 11%. Finally, family members helping out the major income earners showed the lowest preferences for one-party system with an average of 5%, considerably overcome only in Hungary with a score of 16%.

Table 1 Employment status: Preferences for one-party system Wave 1 (1990-1992)

	CEE	Bulgaria	Czech Rep.	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovak Rep.	Slovenia
Employee of the state/ a state enterprise	11	5	6	11	10	NA	16	15	13	9	NA
Member of a coop./coll. farm	17	13	18	11	19	NA	6	24	24	24	NA
Independently employed	11	0	8	17	12	NA	19	33	6	14	NA
Family member helping out the major income earner	5	6	0	5	16	NA	6	NA	0	0	NA

Source: Author's calculations using CDCEE database

The second wave of interviews, which took place in all countries between 1998 and 2001 provided more detailed information (of position of the individual in the labour market) for analysis. Table 2 shows not only that the preferences for one-party system increased during the decade, but it also shows that the lower the position of the individual in the labour structure, the higher are his or her preferences for one party-system. The distribution of preferences tends, however, not to be homogeneous. In countries, where the social consequences of economic transition have been more painful, individuals in the lower social classes also show greater preferences for one-party system (see, for example, the results of the Baltic States, Romania and Slovakia). Deeper analysis of occupations shows that employers are, as a norm, more determined in preferring a multi-party rather as one-party system and only in the Baltic States and Slovakia the percentages are close to, or overcome, 20%.

Similar, considerations apply to highly educated specialists and non-manual office supervisors. With non-manual office non-supervisors and foreman supervisors, the percentages of respondents who prefer one-party systems tend to increase, to an average of 15%. This situation worsens, however, among skilled workers and, more clearly, among semi-skilled and unskilled workers. The percentages of those who prefer a one-party system tend not only to be well above the threshold of 20%, but they also reach, for unskilled workers, 42% in the case of Lithuania and even 50% in Romania. Clearer orientations for one-party systems are expressed by farmers and, especially, by agricultural workers. Here, the percentages of one-party preferences are 30% on average, such as in the cases of the Czech Republic, Hungary, Lithuania and Romania, =but rarely do they come close or overcoming the threshold of 40%. Interestingly, the members of armed or security forces do not show a drastic orientation for systems based on one party. Only in Estonia and Lithuania are these preferences close or overcome the threshold of 20%, while a worrying 40% exists only in Romania.

Table 2 Occupation: Preference for one-party system (%) Wave 2 (1998-2001)

	CEE	Bulgaria	Czech Rep.	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovak Rep.	Slovenia
Employer: 10, more employees	11	0	7	21	0	23	14	0	0	31	11
Employer: less than 10 employees	13	5	8	6	13	13	26	14	16	23	8
Highly educated specialist	8	7	8	8	3	9	16	6	5	18	4
Non-manual office: supervisory	13	3	4	6	13	18	41	7	15	13	9
Non-manual office: non-supervisory	15	15	10	15	11	19	15	12	23	16	15
Foreman/ supervisor	15	20	6	21	22	6	14	11	22	14	11
Skilled manual worker	21	20	15	18	16	19	24	23	39	17	19
Semi-skilled manual worker	23	19	11	16	20	21	29	29	30	23	27
Unskilled manual worker	31	24	25	11	35	28	42	28	50	38	33
Farmer: own farm	16	0	0	0	22	20	43	27	49	0	0
Agricultural worker	31	34	45	10	39	25	37	20	54	29	21
Armed forces/ security	12	11	0	29	10	10	40	4	19	0	0

Source: Author's calculations using CDCEE database

Employment sector preference, as shown by the precedent tables, also reveals that workers in agricultural sector are the group more likely to prefer one party-system, followed by employees of the state or of a state-owned enterprise (see CEE averages, Table 3). Intra-country differences, however, exist. In Lithuania and Slovakia, respectively 27% and 22% of workers in governmental offices show preferences for one-party system, while this percentage in other countries tends to be substantially lower (with an average of approximately 14%). It is also interesting to note that employees of the state or of state-owned enterprises in Romania and in Slovakia (the ratio is 36% and 26% respectively) show much higher preferences for one-party system than the Eastern European average of 19%. As far as private (non agricultural) self-employed and private (non agricultural) employed is concerned, these groups tend to show the lowest preferences for one-party system after workers in government. Only in Lithuania and Slovenia (23% and 29%) for private (non agricultural) self-employed and in Poland and Romania (23% and 27%) for private (non agricultural) employed do percentages tend to be substantially higher than in other countries.

Table 3 Employment sector: Preference for one-party system (%) Wave 2 (1998-2001)

Country	CEE	Bulgaria	Czech Rep.	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovak Rep.	Slovenia
Government	14	7	7	10	13	14	27	10	15	22	15
State-owned	19	18	13	15	13	18	19	17	36	26	13
Private (non-agric.) self-employed	16	14	10	8	12	17	23	11	18	19	29
Private (non-agric.) employed	17	13	9	16	16	15	19	23	27	18	14
Agriculture	27	36	25	15	16	22	37	26	47	31	21
Other	22	30	25	12	14	46	15	3	23	27	NA

Source: Author's calculations using CDCEE database

Much easier and clearer is the preference for a one-party system by full-time and part-time workers, as well as for people not working at all. As it can be expected, full-time workers show the lowest preferences for one-party system (average 16%), followed by part-time workers (average 21%) and, finally, by the unemployed (average 25%). Even in this case, intra-region differences exist and show how the countries where the economic transition has

been more painful (particularly Lithuania, Romania and Slovakia) also tend to show higher preferences for one-party system.

Table 4 Work full-/part-time: Preference for one-party system (%) Wave 2 (1998-2001)

	CEE	Bulgaria	Czech Rep.	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovak Rep.	Slovenia
Full-time	16	17	8	14	13	12	20	14	27	19	12
Part-time	21	10	24	17	21	20	35	15	32	23	11
Not working at all	25	17	18	NA	22	25	30	19	44	26	18

Source: Author's calculations using CDCEE database

Similar patterns are present in the preferences according to the social class in which the respondents think to belong¹¹. Again, individuals who see themselves as belonging to the upper classes tend to have the lowest score (average 8%). Here, the only exceptions are Latvia with 40% of preferences for one-party system, followed by the Slovak Republic with 22%. The second lowest preferences are expressed by people in the upper-middle classes, with an average of 12%. Averages of 14% in the case of lower middle-classes, of 24% for the working class and 27% for the peasant class are also clear to see. Important results to note here are the relatively high scores of Romania (39%) and Slovakia (33%) for the working class. Finally, particularly high scores are shown by citizens who refer themselves as belonging to the peasant class in Romania who express 50% of preferences for one-party systems against an already high average of 27%.

Table 5 Social class of oneself: Preference for one-party system Wave 2 (1998-2001)

	CEE	Bulgaria	Czech Rep.	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovak Rep.	Slovenia
Upper class	8	0	0	NA	0	40	0	0	9	22	0
Upper-middle class	12	16	9	18	6	10	20	8	13	12	6
Lower-middle class	14	11	9	14	12	13	23	9	18	16	10
Working class	24	17	14	16	24	26	27	22	39	33	22
Peasant class	27	28	24	0	NA	19	32	26	50	32	28

Source: Author's calculations using CDCEE database

¹¹ This question refers to subjective class and not to the objective social position of the individual in the social structure.

The Role of Welfare Institutions as Democratizing Forces

New democracies cannot be consolidated overnight, but the democratic transition needs to be strengthened through long and ongoing processes of institutional innovation in which numerous elements can change or consolidate the rules of the game. According to Merkel (1996), for example, democratic consolidation necessarily involves the expansion of four main areas: 1) *institutional consolidation*; 2) *representative consolidation*; 3) *behaviour consolidation*; and 4) *consolidation of the civic culture*. Moreover, since regime change inevitably implies a significant degree of uncertainty (O'Donnell and Schmitter 1986), in this unpredictable process of transformation, new political actors are called to reduce uncertainty by providing a new form of legitimacy. As Offe (1994) and Rüb (1996) have highlighted, new democratic rules must be institutionalized and shared by the community according to the principles agreed in advance with the citizens (the so-often quoted “social contract”). In this context, social security systems help to confer a moral legitimacy to the transformation towards a capitalist-based society, facilitating the creation of a new consensus around the new democratic rules (quoted in Cerami 2006a, p. 33).

Here, the correct *timing* and *sequencing* of economic and social reforms becomes vital. In fact, not only economic growth *per se* is sufficient to understand the level of democratic consolidation of a nation, but rather a more exact indicator is given by the efficacy of redistributive policies. Contrary to common assumptions that see economic growth strictly linked to poverty reduction (Alam et al. 2005), a recent UN Economic Survey of Europe (UNECE 2004) has called attention to the fact that inequality has increased in the Baltic republics of Estonia and Lithuania where there has been rapid economic growth, as well as in Czech Republic, Hungary and Romania where growth has been less evident in recent years, but still present. It can thus be argued that in transition economies, not the market alone, but rather efficient welfare institutions can ensure a more equal redistribution of resources, especially for the less integrated groups of society.

For example, if no welfare state would exist, the percentages of people at risk of poverty¹² in the region would be substantially higher and, in particular, there would be more than 10% citizens at risk of poverty in Bulgaria, more than 20% in Estonia, Hungary, Romania and Slovakia, between 30% and 40% in Latvia, Lithuania and Slovenia, more than 40% in Poland and, finally, more than 60% in the Czech Republic. In plain numbers, this means 150 thousand less people at risk of poverty in Bulgaria, 1.3 million in Czech Republic, 90 thousand in Estonia, 500 thousand in Hungary, 180 thousand in Latvia, 270 thousand in Lithuania, 5.3 million in Poland, 1.1 million in Romania, 270 thousand in Slovakia and 120 thousand in Slovenia (see Table 6).

Table 6 People at risk of poverty (2003)

	% before social transfers	% after social transfers	% of change	Total number before transfers	Total number after transfers	Change in number	Total Population
Bulgaria	16	14	13	1 255 328	1 098 412	156 916	7 845 800
Czech Rep.	21	8	62	2 142 693	816 264	1 326 429	10 203 300
Estonia	25	18	28	339 000	244 080	94 920	1 356 000
Hungary	17	12	29	1 724 208	1 217 088	507 120	10 142 400
Latvia	24	16	33	559 560	373 040	186 520	2 331 500
Lithuania	23	15	35	796 398	519 390	277 008	3 462 600
Poland	31	17	45	11 847 735	6 497 145	5 350 590	38 218 500
Romania	22	17	23	4 790 016	3 701 376	1 088 640	21 772 800
Slovakia	28	21	25	1 506 176	1 129 632	376 544	5 379 200
Slovenia	16	10	38	319 200	199 500	119 700	1 995 000

Source: Eurostat 2005, *Structural + Long-Term Indicators*, Brussels, Eurostat. Author's calculations.

Nevertheless, despite the important role that Central and Eastern European welfare institutions have played in reducing poverty, especially during the first years of transition (Cerami 2006a, pp. 191-213), the balance sheet after more than a decade of transformation still remains extremely negative with approximately 16 million people living at risk of poverty in 2003¹³. It is not by chance that recent studies on the perceptions of Eastern citizens on the social consequences of transition show an increasing feeling of insecurity and injustice that

¹² Risk-of-poverty rate is defined as "the share of persons with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income (after social transfers). This share is calculated before social transfers (original income including pensions but excluding all other social transfers) and after social transfers (total income)". Source: Eurostat (2005).

¹³ This is the sum of the total number of people at risk of poverty after transfers as shown in Table 6.

may result in nostalgia for the system in force antecedently (Delhey and Tobsch 2000, 2003). Here, it is perhaps important to remember the main paradox that existed during communism, where market mechanisms and not welfare institutions played the main function of redistribution (Konrád and Szelényi 1978; King and Szelényi 2004). It is in fact no secret that the communist nomenklatura had succeeded to ensure for itself special privileges (such as better houses, longer holidays or better education), while the rest of the communist citizens could only rely on the redistributive effects of the central planned economy: a redistributive economic mechanism, which also ensured the legitimacy and stability of the system. With the collapse of central planned economy, this ambiguous redistributive equilibrium was suddenly interrupted, leaving the great majority of citizens fully unprotected.

Welfare State Responses to New Risks

What did go wrong in the reform process? Why has an inefficient social security system been replaced by a more non egalitarian one? Right *timing* and *sequencing* of reforms, for example, did not go hand in hand (Stiglitz 2002), but a brief overview of the social security reform process in the region also shows that *monetarization and individualization of social risks* (Cerami 2006b) have been the main characteristics of welfare state change, which have implied a rapid shift from public to private responsibility before a functioning economic system was put in place. This new welfare logic, very distant from the old state-paternalistic communist one, was not only limited to the most lucrative sectors of social protection, such as pensions, but it also involved other sensitive areas, such as health care, protection against unemployment, and social assistance.

The three-pillar scheme of pension, sponsored by the leading international financial institutions (notably the World Bank) as the best way to tackle the problem of population ageing, has now been introduced in almost all Central and Eastern European new EU member states, with the sole exclusion of Czech Republic and Slovenia, where discussions about its full implementation, however, are not absent. Without going into a detailed analysis

of the risks linked to the establishment of private pension funds in times of market instability¹⁴, the introduction of such schemes, due to the associated problem of “double-payment¹⁵”, has aggravated the budget of many social insurance funds¹⁶, reducing the manoeuvre of governments to invest in other sectors of social security.

The reforms of the health care sector have primarily involved the introduction of health insurance. Financing a new health care model, distant from the Semashko system¹⁷ in place during communism, with the money of workers instead of with the money of the state was seen as the fastest and easiest way to increase the level of health care expenditures (in all countries well below the OECD average) with a minimum effort of the state¹⁸. Unfortunately, this policy option demonstrated several weaknesses in times of raising unemployment, aggravating instead of improving the status of the state budget. Central budgets in the region are now called to cover the solvency of numerous health insurance funds, but also to ensure several unprotected citizens, who otherwise would remain uninsured.

As far as the sector of protection against unemployment is concerned, after a first period of generosity, when CEE governments introduced extensive early-retirement policies and unemployment benefits and re-compensate workers for the dissolution of the state-socialist social contract¹⁹, more recent reform trajectories involve the restriction in entitlement criteria and in the amount of unemployment benefits, now accused of providing disincentives to re-enter the labour market. This shift of social policy paradigm has not only implied a

¹⁴ For a detailed discussion on the problems associated with the establishment of the three-pillar scheme in Central and Eastern Europe see Cerami (2006a, pp.88-106).

¹⁵ In order to finance the switch from pay-as-you-go to funded schemes, current workers are called to pay, for current pensioners, as well as their own personal funds. For more information on this topic see Bonoli (2000), Myles and Pierson (2001).

¹⁶ Hungary, for example, has recently been forced to remove the obligation for career starters to take part to the private pillar and the state guarantee for the second pillar has also been abolished.

¹⁷ The Semashko health care model was a highly centralized scheme, fully part of the central planned economy. The Soviet organizational structure implied that decisions concerning health care planning were taken at the national level with little or no knowledge of local requests. For more information on the communist health care model see Cerami (2006a, pp. 107-122).

¹⁸ For similar considerations on financing social protection in France, see Palier (2005).

¹⁹ The foundation of the communist social contract was based on full employment. Every communist citizen had the right and obligation to work for the sustenance of his or her family. Welfare benefits were then granted accordingly.

redefinition of responsibilities for the dismissals of numerous workers following the restructuring of firms from the state to the individual, but it has also produced the negative effect in marginalizing an increasing number of citizens who have seen their jobs disappeared and have been unable, due to an inefficient labour market, to find alternative sources of income.

The establishment of a basic social safety net, introduced in the first years of transformation with the idea of providing an immediate help to the, supposedly, few disadvantaged people and losers of economic transition, has, only, to some extent, been successful in reducing extreme poverty or targeting the real poor (World Bank 2004). Milanovic (1998, p.118) has estimated, for instance, that in order to guarantee a minimum income level to these populations, it would be necessary to spend, on average, from 9 to 10 percent of GDP each year. Evidently, these are exceptionally high amounts that no country could afford.

The present and future negative social consequences of transformation clearly represents a serious challenge to what Offe (2003a) defines as the process of *democratization of democracy*. A democracy cannot be stabilized if its core functions are not democratized. *Democratic functions*, however, tend to go beyond simple institutional structures that allow a democratic system to be representative, such as the existence of fair and equal election, free media, checks and balances or powers or instruments of direct democracy (e.g. referendums). Rather, they correspond to the real possibility of citizens to have equal access to *democratic benefits*, such as the absence of any form, in the widest possible sense, of discrimination. What should not be forgotten, as Offe remembers, is that “the modern state does not have a universally recognized “meta-social” mandate from which its legitimacy can be derived, it turns to the “people” as its ultimate source of authority” (Offe 2003b, p. 103). For these reasons and, in particular, because of the important redistributive role that welfare institutions can play in amortizing the costs of transition, this paper proposes to include

welfare state efficiency, often neglected by political analysts, as a core element in the process of democratic consolidation of post-communist countries.

Conclusion

The analysis carried out in previous sections has highlighted the weaknesses and the precarious character of Central and Eastern European transition towards democracy. On the basis of the concept of *embedded democracy*, this article has demonstrated that one of the three rings of *external embeddedness* (the ring concerning the social and economic requisites of democracy) still shows significant deficiencies and that this is influencing the attitudes of Eastern citizens fostering preferences for one-party instead of multi-party systems. As the analysis of the preferences according to the position of the individual in the social and labour structure has shown, despite the existence of intra-region differences, a large proportion of workers, especially those in the lower positions, now express preferences for non-democratic forms of governments. It can thus be concluded that this socio-economic context is negatively impacting the area of *behaviour consolidation* and, for this reason, Central and Eastern European societies cannot be addressed yet as fully liberal democracies, but rather they should be considered as democracies at risk or as *semi-consolidated democracies*. This paper also proposes to introduce *welfare state efficiency* as a core element in the analysis of the processes of democratic consolidation, since the redistributive impact of welfare institutions provides legitimacy to the political and institutional order recently established.

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