

# **PART I:**

## Family and the State in the Post-Communist Societies

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# Chapter 1

## **“Baltic Welfare State” or “Welfare States”?: A Comparative Analysis of Social Security Systems in Estonia, Latvia and Lithuania**

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### INTRODUCTION

The Baltic states went through a remarkable journey of socioeconomic and political transformation since they regained their independence from the Soviet Union in 1990–1991. Their achievements and failures in social policy reforms have been documented by a number of studies (see e. g. Aidukaite, 2006, 2009, 2011b, 2013; Ainsaar and Trumm, 2009; Guogis and Koht, 2009; Rajevska, 2009). It has been agreed that the overall development path of the welfare policies has been neoliberal in the Baltics, meaning less responsibility of the state and more responsibility of the individual and/or family in guaranteeing a decent standard of living for its population. However, strong elements of social insurance are in place, making the “Baltic welfare state” resemble many signs of the conservative-corporatist model and even the social democratic model where family policy (especially in Estonia) and female labour force participation are concerned.<sup>1</sup> Hence, a picture of social policy development over a period of more than two decades has been complex and contradictory. Complex in a sense that it experienced many reforms and changes over a rather short period of time. Contradictory, as the designed programmes and reforms do not always match their intended outcomes due to the relatively lower level of benefits and lower wages in the Baltic states when compared to Western developed democracies. Thus, merely implementation of similar social security programmes as in the “West” has not produced similar results in the

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1 However, it should be kept in mind that a higher female labour force participation compared to the EU-27 average is determined, in many cases, by the necessity of dual wage incomes in a family due to relatively low wages in the Baltic states and low status of a part-time job, which forces females to return to a full-time paid job as soon as parental leave is finished (see e.g. Aidukaite, 2009; Ainsaar & Stankuniene, 2011).

Baltic states. They are still at the bottom of the ladder, with some variation within, when comparing minimum and average wage, social security spending, satisfaction with life and well-being to the “old” and some “new” EU countries (Aidukaite, 2011a; Ainsaar, 2011; Gataūlinas, 2013). Nevertheless, the Baltic states are not uniform and some of the “trio” countries have better social policy outcomes than others. Estonia stands out when compared to Latvia and Lithuania, with its higher benefit levels and wages, lower unemployment, more financially sustainable social welfare system (see Aidukaite, 2013) and higher life satisfaction (see Ainsaar, 2011).

The social policy development of the Baltic states exhibits many similarities, but also differences (Aidukaite, 2006). The differences are pronounced if social policies are studied in more detail, examining take-up rates, levels of benefits and contributions. Nevertheless, the question still remains: Have the Baltic states converged or diverged in their social security arrangements? This paper examines the social security systems in the three Baltic states as they have developed to the present. It seeks to highlight emerging differences and similarities in social policy arrangements. The discussion is placed within a broader debate on the validity of various welfare state types/models in Central and Eastern Europe (CEE) and the Baltic states.

The paper is organized as follows: First, the debate on the emerging post-communist welfare state model/s is briefly discussed. This will help to better understand the changes in the CEE countries after the fall of the various communist regimes. Second, the “Baltic welfare state” and its progress over a period of more than two decades is briefly discussed. Third, the socioeconomic situation in the three Baltic states is analysed. Then, various social security schemes (social assistance, sickness, family/child benefits, pension and unemployment insurance) are reviewed in more detail. Finally, in the concluding section, a summary of the major results of the analysis is presented. The major argument of this paper is that although the three Baltic states started from the identical social policy arrangements inherited from the Soviet regime, in the period of more than 25 years of independence they have developed differences in their social security systems. These differences are especially pronounced in the protection of families and children. The low protection of families with children in Lithuania makes it more like the ideal type of liberal welfare state, while Estonia, with its generous policies for children and families, comes closer to the social democratic model. Latvia resembles a conservative-corporatist regime with modest benefits to children and heavy reliance on social insurance programs.

## 1. WELFARE STATE REGIMES IN CENTRAL AND EASTERN EUROPE

It has been 25 years since the publication of Esping-Andersen’s *Three Worlds of Welfare Capitalism*. Despite its criticism (see e. g. Arts and Gelissen, 2010), the *Three Worlds* was assessed by Emmenegger et al. (2014) as matching the criteria of being a classic. Namely, “it has advanced the methods in comparative welfare state research, synthesized earlier work, turned into a ‘standard reference’ and has certainly inspired debates beyond the confines of its own discipline” (p. 11). Indeed, it would be difficult to deny

the influence of the *Three Worlds* on a further plethora of welfare state typologies. As is well known, Esping-Andersen (1990) distinguished three types of regimes—social democratic, conservative-corporatist and liberal<sup>2</sup>—that vary in qualitatively different arrangements between the state, the market and the family. The three welfare state regimes still offer the most sophisticated understanding of “what welfare states are and what they do” and stimulates original research and productive discussions (Emmenegger et al., 2014: 5).

Undoubtedly, the *Three Worlds* also inspired a development of welfare state typologies fitting the CEE countries. The famous Esping-Andersen book appeared at the same time communist regimes collapsed in Europe. Although communist countries were not included into welfare state theorising, the interpretation of CEE’s newly emerging societies using Esping-Andersen’s work began soon after. It all started with Deacon (1992), who claimed that Hungary and the former Yugoslavia would come under the liberal regime, the Czech Republic would emerge as social democratic and East Germany would join the conservative-corporatist regime. The social policy of Bulgaria, Poland, Romania, Serbia and the former Soviet Union was labelled as a post-socialist conservative-corporatist welfare regime. According to Deacon, this regime can be defined as authoritarian corporatism shaped by the influence of Catholic teaching and the historical legacy of absolutism and authoritarianism. Looking back, we see that Deacon’s predictions have not come completely true, but they have some validity. The post-communist countries exhibit a great variety in social policy reforms and overall socio-economic development patterns (see Aidukaite, 2011; Cerami and Vanhuysen, 2009; Fenger, 2007). However, some subgroups within the CEE countries can be identified. For instance, Bohle (2007) demonstrated that the Baltic states’ welfare regime can be characterised as neoliberal, with low social spending and a low degree of de commodification. In contrast, the Slovenian welfare state comes closer to encompassing the West European model (conservative-corporatist), while the Visegrad countries exhibit something in between the conservative-corporatists and liberal wel-

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2 The distinctive characteristic of the “liberal” welfare state regime, as exemplified by the USA, Canada and Australia, typifies the means-tested assistance plan with an incorporated moderate social insurance plan. benefits, which are mainly received by clients on a low-income, usually working-class, state dependent, are modest and have a stigma attached. This model increases the demand for subsidised private welfare schemes. In the conservative-corporatist regime, the eligibility for benefits is mainly based on labour market participation and paid contributions. Social insurance coverage plays the most significant role in providing welfare in this regime. However, the right to benefits is strongly attached to class and status. This means that different occupational groups and classes are entitled to various benefits and services. The corporatist regime is also typically shaped by the church, and, hence, strongly committed to the preservation of the traditional family. The social-democratic regime, as exemplified by Sweden, Finland, Denmark, and Norway, exhibits such features as high levels of universalism and solidarity. Compared to the liberal or conservative-corporatist regimes, the level of inequality and poverty is the lowest in these countries. The key criterion for access to social benefits is citizenship (Esping-Andersen 1990).

fare states. Similarly, Lendvai (2008) grouped Estonia, Latvia, Lithuania and Slovakia as closely falling into the neoliberal model based on macroeconomic indicators of welfare state spending, income inequality and minimum wage. Poland and Hungary were put into the middle group, while the Czech Republic and Slovenia appeared as the most “socially conscious” welfare states according to their highest social spending levels and lowest poverty levels compared to the other eight new EU countries of CEE. Indeed, if major socioeconomic indicators (expenditure on social protection, the share of GDP per capita, the Gini index, the share of shadow economy and relative poverty rates) of the 10 “new” EU countries are being examined, we find the best and the worst performers among the new member states. The Czech Republic, Slovenia, and sometimes Hungary are found on the top with Poland and Slovakia in the middle, and the worst performers, such as the Baltic states, Bulgaria and Romania at the bottom (Aidukaite, 2011a).

Despite the variety in socioeconomic performance, scholars speak about an ideal typical post-communist welfare model (Aidukaite, 2011a; Cerami and Vanhuysen, 2009; Fenger, 2007; Golinowska et al., 2009). Such features as the supremacy of the social insurance system, high coverage but relatively low benefit levels and poor outcomes of social security can be attributed to the post-communist welfare regime (Aidukaite, 2011a). Golinowska et al. (2009: 29) listed key attributes that distinguish the new member countries today, which are of institutional and socio-economic character: a return to the Bismarckian social insurance system (established before the second World War); high take up of social security; drastic social security reforms within a short period of time; great influence of external experts and organizations; bigger problems connected with unemployment and labour (e)migration; the high education aspirations of the young generation, higher than in the “old” EU countries; accelerated demographic transformation in comparison to the “old” EU countries; the weakness of non-governmental organizations; high corruption; increasing inequalities and growing problems connected with deprivation and social exclusion and a weak civil society. Although, the manifestation of these attributes varies within the CEE region and over time, and some countries, as noted, are doing better than others, they are still pronounced in many “new” EU member states. They stem from the communist legacies and similar problems faced with the transition from the planned to the market economy (Aidukaite, 2011a).

## 2. THE BALTIC STATES: A CASE OF NEOLIBERAL DEVELOPMENT

The Baltic states have been praised and criticised for their neoliberal development over a 25 year period. Åslund (2010, 2011) praised the Baltic states for managing and getting out of the global financial crisis (2008/2009), which hit the Baltics much harder, especially Latvia and Lithuania, than their counterparts in the West (see Roubini, 2009). As is well known, the governments in Estonia, Latvia and Lithuania implemented harsh austerity measures; each of them cut public expenditures by about 6% and hiked tax revenues by about 3% of GDP (Åslund, 2013). In so doing, they managed to restore the growth after only two years of decline. Åslund (2013) presents the austerity measures of the Baltic states as a success story from which other countries, possibly Greece, can

learn. Nevertheless, scholars of social policy research have not been so optimistic. They emphasised the negative consequences of neoliberal transition, including outcomes of a recent global economic and financial crisis that was felt most in the Baltics from 2008 to 2010. The negative outcomes of the neoliberal transition can be summarised as follows: a negative demographic performance (Ainsaar and Stankuniene, 2011, Krumins, 2011), high outward labour migration (Park, 2014; Sipavičienė and Stankūnienė, 2011; Sommers et al., 2011), weak social dialogue (Woolfson, 2008), dissatisfaction with the subjective well-being (Gataūlinas, 2013) and overall damage “to the cohesion and sustainability of society in the longer run” (Sommers *et al.* 2014: 411).

Since the 1990s, the privatisation of various social policy fields has gradually taken place in the Baltics. The implementation of the private pension insurance funds has been one of the examples of turning a welfare state towards a more neoliberal direction. But other social policy fields such as tertiary education, housing and health care have also undergone some privatization. With more than 80% of housing stock being privatized, housing has become the private responsibility of the individual (Aidukaite, 2014). Currently, citizens have a choice, either to use public health care services, financed through the sickness fund (obligatory health care insurance financed through the social insurance contributions and state subsidies) or to visit private health care clinics or hospitals that have no agreements with the sickness funds, requiring full coverage for their services from the patients (Jakusovaite et al., 2005). Student fees have been introduced at the universities in the Baltic States, and private universities have appeared, offering alternative degrees and professions compared to those from the public higher education (Aidukaite, 2009).

In the Baltic states, the social security system is largely financed from the social insurance fund (pay as you go). The coverage is high—a majority of the population is insured in various social risks. Previous studies (Aidukaite, 2006, 2013) have shown that there is variation in how the social security system is organised if the three Baltic states are compared in detail. In all three countries eligibility for social benefits and services is mainly based on labour force participation, and earnings-related benefits are provided with minimum and maximum ceilings implemented. However, in Latvia and Estonia, one may find more elements of universalism where eligibility is based on citizenship/residency and flat-rate benefits are provided. In Lithuania, one may find more benefits and services where eligibility is based on proven need, and the level of benefits is minimal.

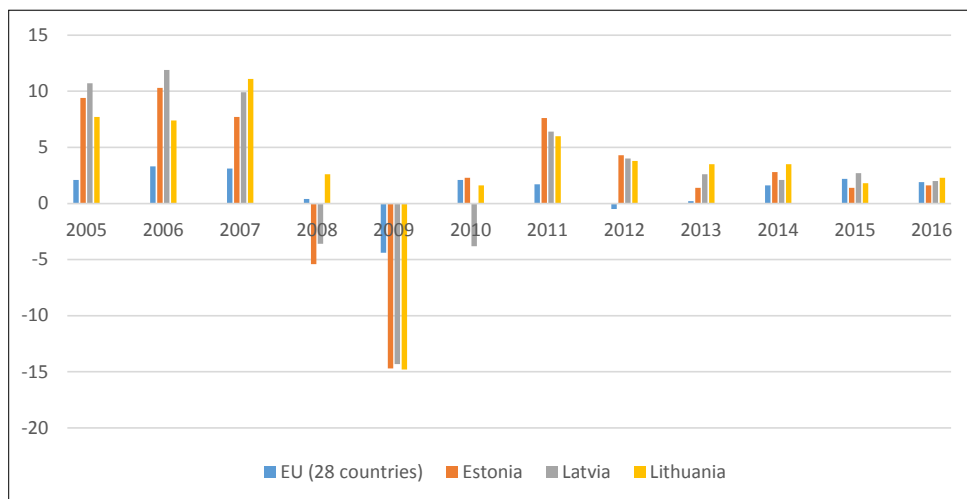
In the following discussion, we explore the differences and similarities in social security arrangements as they developed to the present in the Baltic States. But before moving into the analysis of various social security schemes, an overview of the socio-economic situation in the Baltic States is offered.

### **3. SOCIOECONOMIC SITUATION IN THE BALTIC STATES**

The Baltic States have gone through a remarkable socioeconomic journey since the 1990s. From 2004 until the global financial and economic crisis (2008), the Baltic states experienced the fastest growth in GDP in Europe (see Figure 1). The fall in GDP during

the crisis (2008–2010) was dramatic, particularly for Latvia and Lithuania. However, after a few years a very fast recovery followed. Furthermore, Estonia managed to join the Euro zone in 2011. Latvia and Lithuania recovered later and joined the Euro zone in 2014 and 2015 accordingly.

**Figure 1. The real GDP growth rate in the Baltic states (2005–2016) compared to the EU-28 average (percentage change on previous year)**



Source: Eurostat data

Table 1 presents major socioeconomic indicators of the three Baltic states. It compares pre-crisis (2004–2006) and post-crisis (2012–2016) periods. In 2005, the UN had clustered Estonia into a Very High Human Development countries’ group giving it a 38th place among about 50 of the most developed world economies. Lithuania was assigned 39th place, while Latvia remained in a High Human Development group, although on top, occupying the 48th position. After, almost ten years of development, Estonia went far ahead of Lithuania and especially Latvia, occupying the 30th position while Lithuania was placed on 37th and Latvia on 46th position.

The United Nations ranks countries each year according to life expectancy, literacy, well-being, income, standard of living, child welfare, access to health care and social security etc. of the population of a given country. Thus, Estonia stands in a better position than Lithuania and especially Latvia if Human Development Index is being compared. The lower performance of Latvia can be explained by high numbers of noncitizens in a country, who are mainly Russian minorities.<sup>3</sup> Studies (see Kruminis, 2011; Lauristin & Vihalemm, 2011; Leinsalu et al., 2004; Vanhuyse, 2009) pointed out the deteriorating social status, satisfaction with well-being, health and income of the Russian minorities in the Baltics.

<sup>3</sup> At the start of 2013, Latvia still had 297,883 “non-citizens” and Estonia had 90,533 “aliens” (Muiznieks et al. 2013: 293).



**Table 1. Major socioeconomic indicators of the Baltic States**

<b>Country/Indicators</b>	<b>Estonia</b>	<b>Latvia</b>	<b>Lithuania</b>
HDI rank 2014	30	46	37
HDI rank 2005	38	48	39
Shadow economy, % of GDP, 2004/2005	38.2	39.4	30.2
Shadow economy 2015	26.2	23.6	25.8
Severely materially deprived people (Eurostat) % of total population 2015	4.5 p	16.4	13.9 p
Minimum wage Euros (EUROSTAT) 2006	191.73	129.27	159.29
Minimum wage Euros (EUROSTAT) 2015	390.00	360.00	300.00
Gini index 2007/8	35.8	37.7	36.0
Gini index 2012	33.2	35.5	35.2
Average salary 2015 Euros Net	832	601	544
Mean monthly earning 2006	627	465	472
Mean monthly earning 2016	1066	806	706

*Source:* Eurostat; Fisher 2015; Schneider 2007, 2015; UNDP 2015; World Bank, 2015.

P – provisional value

If we further analyse the socioeconomic indicators presented in Table 1, we see that the situation in the Baltic states has improved for the majority of indicators. The shadow economy has decreased if years 2005 and 2015 are compared: from about 38% to 26% in Estonia; from about 39% to 25% in Latvia; and from about 30% to 26% in Lithuania. The minimum wage has increased. All countries have experienced an increase in a mean monthly earning if the pre-crisis (2006) and post-crisis (2016) years are compared. In all countries the GINI index went down from 2006/7 to 2012 from 36 to 33 in Estonia, from 38 to almost 36 in Latvia, and from 36 to 35 in Lithuania.

Nevertheless, if the Baltic states are compared to the other EU countries, they are still laggards when it comes to minimum wage, GINI index and shadow economy. The three Baltic states are among the EU countries with the lowest minimum wage. However, the minimum wage has always been higher in Estonia compared to Latvia and Lithuania (see Aidukaite, 2011a, 2011b). According to the latest Eurostat data for 2015, currently in the three Baltic states, the monthly minimum amounts to 390 Euros in Estonia, almost to 300 Euros in Lithuania and 360 Euros in Latvia (see Table 1). Compared to such countries as Belgium, Luxemburg, the UK or Ireland, this is very low. In the latter countries the minimum wage is higher than 1,200 Euros.<sup>4</sup>

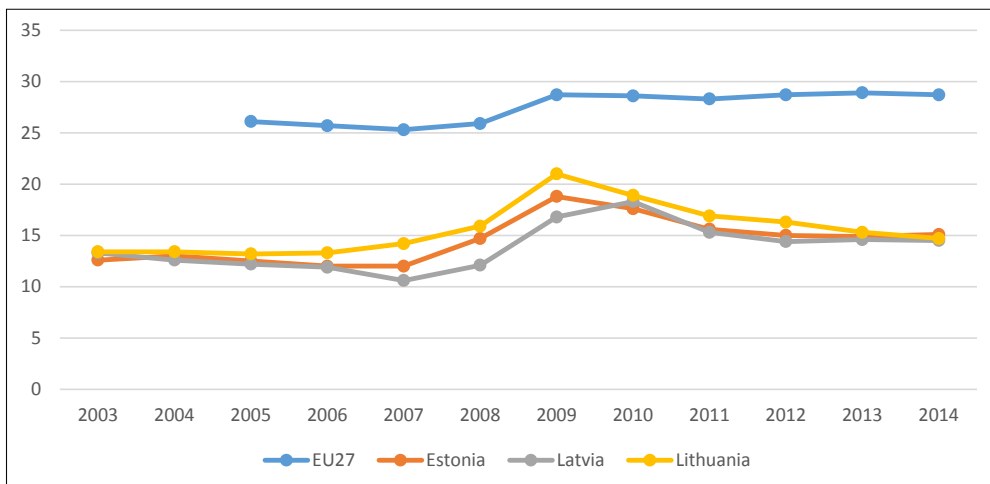
The income inequality expressed as a “Gini coefficient” has been decreasing in the Baltic states, as noted. However, this is still much higher than in Germany (20.6 in 2010), the Czech Republic (26.4 in 2011) or Norway (26.8 in 2010), but lower than in the USA (41.1 in 2010) (the World Bank, 2015). The Baltic states are still among the EU countries having the highest shadow economy rates, only outnumbered by Bulgaria (31%) (see Schneider, 2013).

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4 Based on Eurostat data

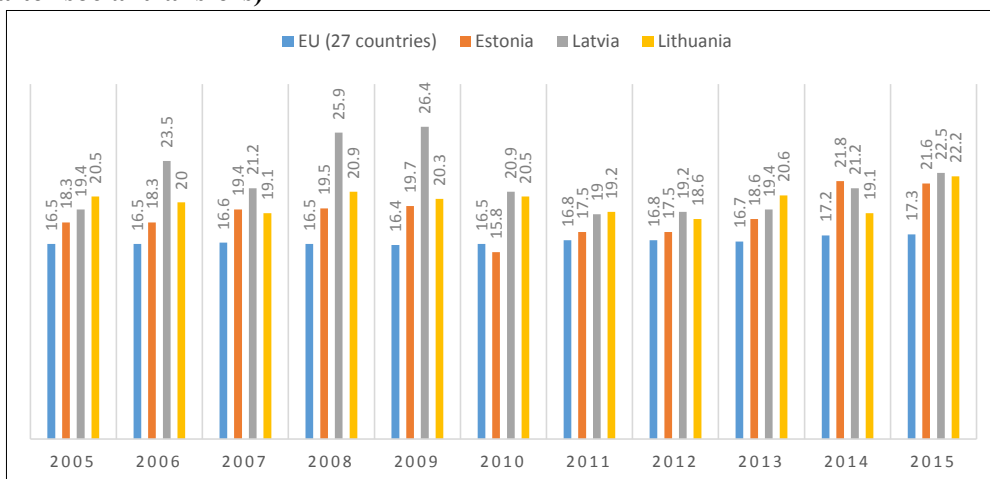
All three Baltic countries spend less on social protection as compared to the EU-15 and the EU-27 average (Aidukaite, 2009, 2011b). According to the Eurostat data, the three Baltic states from 2004 to 2014 on average spent from 13 to 19% of their GDPs on social protection, while the EU-27 average was about 27% (see Figure 2).

**Figure 2. Social protection expenditures (sickness, health care, old age, survivor) in % of GDP**



Source: Eurostat

**Figure 3. At risk of poverty rate (cut-off point: 60% of median equivalised income after social transfers)**



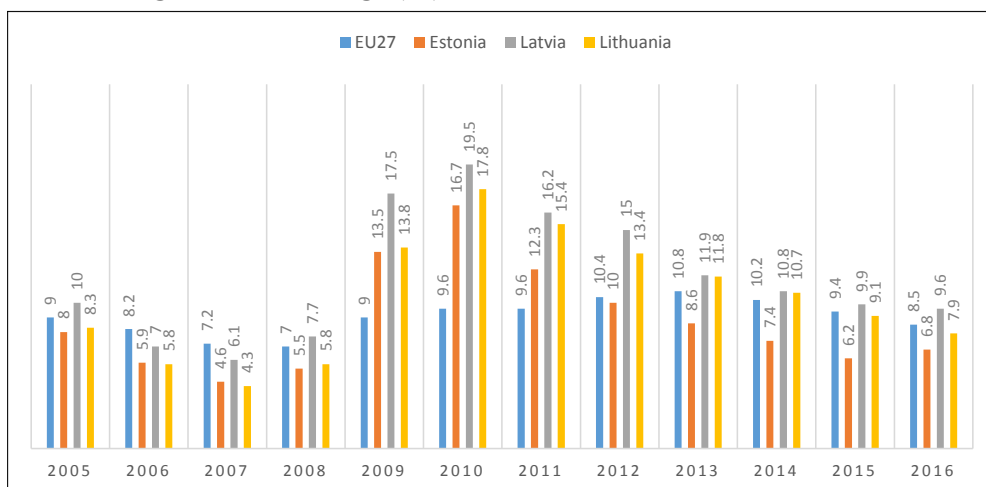
Source: Eurostat data

At risk of poverty rate (cutoff point: 60% of median equivalised income after social transfers) has usually been higher in the Baltic states compared to the EU-27 average (see Figure 3). According to the latest Eurostat data for 2015, Lithuania (22.2%) and Latvia (22.5%) are among the EU countries having the highest poverty rates in the

EU. Estonia, however, has managed to maintain a lower poverty rate (21.6%) than Latvia and Lithuania. In 2010, Estonia’s poverty rate (15.8%) was even lower than the EU-27 average (16.2%).

To sum up, after more than 25 years of transition the Baltic states are still the laggards of the EU, according to their social indicators: income inequality, shadow economy, and minimum wage. The social protection expenditures in the Baltics are among the lowest in the EU. Nevertheless, the situation in Estonia is better compared to Latvia and Lithuania. Unemployment, at risk of poverty rate, severe material deprivation have usually been lower in Estonia as well as minimum wage and monthly average earnings (see Figure 2, Figure 4, Table 1). For instance, in 2016 the unemployment rate in Estonia was 6.8%, while figures for Latvia (9.6%) and Lithuania (7.9%) were higher (see Figure 4). Yet, the level of social security benefits has been higher in Estonia than in the other Baltic states (see Aidukaite, 2006, 2011b). The differences among the three countries are especially pronounced if we take subjective satisfaction into account. The European social survey data of 2008 showed that satisfaction with one’s life, by the way democracy functions in the country and with the overall state of education and health care are higher in Estonia than in Latvia or Lithuania (Lauristin and Vihalemm, 2011).

**Figure 4. The total unemployment rate in the three Baltic states compared to the EU-27 average, annual average (%)**



Source: Eurostat data

## 4. SOCIAL SECURITY SYSTEM IN THE BALTIC STATES: DIFFERENCES AND SIMILARITIES

### *4-1. Social Assistance*

Previous studies (Aidukaite, 2011b, 2013) have already emphasised that in Lithuania one can find much stronger elements of the targeted model<sup>5</sup> in the social security system than in Latvia and Estonia. Indeed, at present all three countries have means-tested benefits for low-income families, but in Lithuania they are more wide-ranging and more heavily financed. Estonia usually spends on average 1.9% of total social expenditures on means-tested benefits and Latvia spends no more than 1.7%, while Lithuania spends on average 3.3% of total social expenditures on means-tested benefits (Aidukaite, 2011b, Table 3.2.1, p. 72). According to the latest Eurostat data, in 2014 Lithuania spent 0.5% of its GDP on means-tested benefits, while Latvia and Estonia spent only 0.2% and 0.1% accordingly. In Lithuania, means-tested benefits are quite wide-ranging, such as a social benefit, compensation for heating, cold and hot water, free school meals, a lump sum benefit and a benefit for families with children. In Latvia some means-tested benefits are also quite extensive, e. g. social assistance benefits for low-income families, housing benefit, a benefit for food, meals, a benefit for purposes related to the education and upbringing of children (Rajevska, 2009). Estonia, however, has one means-tested benefit, the so-called subsistence benefit (Trumm and Ainsaar, 2009). In Lithuania the qualifying conditions for the means-tested benefits are much stricter than in Latvia and Estonia. To qualify for means-tested benefits the claimant has to pass an income test, and property and assets tests while in Estonia and Latvia it is enough to pass the income test to qualify for these benefits (Aidukaite, 2011b, 2013).

### *4-2. Sickness Benefits*

Sickness benefits have not seen as much change since the Soviet period. In the Baltic countries, sickness was and still is earning-related, though there is a minimum and maximum ceiling set by the state. The entitlement or qualifying conditions for benefits are based on requirements of social insurance contributions and residency. All expenses are paid from the social insurance money that is financed by pay-as-you-go schemes: in Lithuania, the State Insurance Fund, in Latvia, the Social Insurance Budget, and, in Estonia, the Health Insurance Fund (Aidukaite, 2006, 2011b, 2013). At present, in all three countries the sickness benefit replaces about 70–80% of the previous wage during all periods of working incapacity (based on MISSOC 2016).

### *4-3. Family/Child Benefits*

The same schemes found to exist in many Western European countries can be found in the Baltic countries. For instance, employment support schemes like maternity and parental leave; transfer support schemes like childcare benefits and child allowances; some schemes for single parents and large families, as well as other benefits (orphans

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5 In the targeted model, eligibility for benefits and services is based on means testing and benefits are usually provided at a flat rate (Korpi and Palme, 1998).

and parents with guardianship duties) can also be found. However, significant differences can be found among the three countries. In Lithuania, employment-related family benefits dominate. There are generous maternity, parental and paternity leaves based on previous salary and employment. Maternity leave is paid for 126 days and amounts to 100% of the insured’s average income during 12 consecutive calendar months prior to the beginning of maternity leave. Those mothers who do not qualify for maternity leave, are entitled to receive a lump sum benefit paid 70 days before the expected date of childbirth. The parental benefit (paid to one of the parents, guardian or adopted parent) amounts to 100% of the insured’s average earnings and is paid for up to one year. However, parents can choose between a one year or two year parental leave. If the parent chooses to receive the benefit until the child reaches age two, 70% is paid until the child reaches age 1, thereafter 40% until age two. Lithuania also has a more generous paternity leave compared to Latvia, while Estonia has no paternity leave at all. The father is entitled to 100% of the beneficiary’s average income paid for 28 days. To qualify for all earnings-related benefits above the insured must have at least 12 months of contributions in the last 24 months before the first day of the benefits are paid in the case of maternity and paternity leaves; in the case of parental leave, seven months of contributions in the last 24 months. Further support in Lithuania is available only to poor families on a means-tested basis or to some targeted groups such as disabled children, orphans or children of parents on military duty.<sup>6</sup>

The design of the financial family support system in Lithuania stands in sharp contrast to those in Latvia and Estonia. In Latvia, the universal family support system prevails. The state provides earnings-related benefits for those who are economically active. There is a maternity leave that amounts to 80% of the insured’s average earnings in the previous 12 months, paid for 112 days. Parental leave can be paid up to one year (in the amount of 60% of the social insurance contribution wage) or up to 1.5 years (in the amount of 43.75% of social insurance contribution wage). If a parent chooses to work at the same time, 30% from granted benefits will be paid. Like Lithuania, Latvia has a paternity leave that is paid to the father for 10 consecutive days and amounts to 80% of the insured’s average earnings in the previous 12 months. With parental and paternity benefits, parents can also instantaneously receive a childcare benefit of 171 EUR per month, which is paid to every child up to his/her second birthday. Each child in Latvia is also entitled to a universal child allowance that is paid from the child’s first birthday to age 15 or longer (up to 19) if the child is in the education system. The amount paid increases with the number of children in a family. Latvia also has generous benefits to orphans, disabled children and guardians. In addition, children of poor families are entitled to means-tested benefits that are wide ranging in Latvia.<sup>7</sup> The government has also been supporting families through the taxation system since

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6 Based on European Union (2016 a, b, c); the Ministry of Social Affairs of Estonia (2016); the Ministry of Social Security and Labour of Lithuania (2016); the Ministry of Welfare of Latvia (2016).

7 Based on European Union (2016b); the Ministry of Welfare of Latvia (2016).

2014. There are tax allowances for dependents in a family as well as tax relief for large families (for details see European Union 2016b).

The Estonian family support system looks most generous in its design. This is because of the longer duration of payments and higher benefit levels compared to other Baltic states. Estonia has the same universal family support system as Latvia, however, in Estonia higher benefits are paid and for a longer time. Maternity leave amounts to 100% of the reference wage and is paid for 140 calendar days, longer than in Latvia and Lithuania. Parental benefits (100% of the reference wage), available to one of the parents, are paid for 435 days. Contrary to Latvia and Lithuania, Estonia has no paternity leave. Universal benefits in Estonia are available simultaneously with the earnings-related parental leave. Childcare allowance up to the child's third birthday is available to each child payable at a flat-rate. Further, children between 3 and 8 years of age receive childcare allowances. In addition, universal child allowances up to the child's 16th birthday (up to 19th birthday if studying) is payable monthly to each child residing in the country. The amount of the child allowance increases with the number of children in a family. As in Latvia and Lithuania, Estonia grants benefits to orphans, parents on guardian duty, adopted children and disabled children. If needed, the state also grants a means-tested benefit to poor families. In Estonia, single parents receive special treatment by the state. They are granted a single parent benefit that is not means-tested.<sup>8</sup>

It must be mentioned that there are also some categorical benefits in the three countries such as special benefits for children of parents who are on military duty, benefits for orphans, disabled children and parents on guardian duties.

When it comes to expenditures on family/children, Estonia is a leader, having the highest spending (11%), which is well above the EU average (8%); while Latvia and Lithuania spend less on family and children, for about 8% of their total social expenditure each (based on latest Eurostat data for 2014).

To sum up, the family and child support system is more generous in Estonia than in Latvia and Lithuania. Lithuania gives support for families with children based on previous social insurance contributions or on the means-tested basis. Estonia and Latvia give support based on previous contributions and citizenship (residency). In addition, means-tested benefits are also available to poor families and individuals.

#### ***4-4. Pension Insurances***

The three Baltic states are rapidly ageing societies. This is due to declining fertility rates and to increasing emigration (Ainsaar and Stankuniene, 2011). In response to the unfavourable demographic situation, the three countries have opted for privatization of the pension systems to ensure the financial sustainability of the pension insurance. According to the pension reform, the pension system was established with “three pillars” in Estonia, Latvia and Lithuania. The first pillar is a compulsory, state-managed, non-funded scheme based on current contributions or taxes (pay-as-you-go) and it began to operate in Estonia in 1993, in Lithuania 1995 and in Latvia in 1996. The second pillar began to operate in Latvia (a state-funded compulsory pension scheme) in

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<sup>8</sup> Based on European Union (2016 a); the Ministry of Social Affairs of Estonia (2016).

2001 and in Estonia (a compulsory privately managed and funded pension scheme) in 2002. In Lithuania, the second pillar is a voluntary privately managed funded pension scheme, which was introduced in 2004 (Aidukaite, 2006, 2009, 2011b, 2013). In Latvia and Lithuania the second pillar is financed by redirecting money from mandatory state social insurance contributions. The second pillar in Estonia is financed partly from additional contributions by employees and partly from the reallocation of a share of the pension insurance part of social tax.

The third pillar is a voluntarily funded private pension scheme. It started to operate in Latvia and Estonia in 1998, and, in Lithuania, the third pillar was implemented as late as 2004 (see Aidukaite, 2006, 2013; Casey, 2004).

The second pillar is only envisaged for the old-age pension. The first and third pillars are for old-age, disability and survivors' pensions. With the implementation of the second and third pension insurance pillars, the high-income groups can protect their standard of living through private insurance. The implementation of the privatization of pension insurance meant an important shift in the social policy design of the Estonian, Latvian and Lithuanian welfare systems as well as significant implications for their future development. However, the transfer of contributions from the first pillar to the second one had undermined the generational solidarity in the Baltics. It also contributed to the social insurance budget deficit from which all current pensions are paid (see, e. g. Gudaitis, 2010; Lazutka, 2007).

The old-age pension is low in Lithuania, and in the other Baltic states making elderly people in these societies live in relative poverty (Aidukaite, 2011b). In 2015, the average monthly old-age pension paid in Lithuania amounted to only 244.5 Euros, while in Latvia it was 273.40 Euros and in Estonia it was 349 Euros (Lietuvos statistikos departamentas, 2016; Latvijas Statistika 2016; Statistics Estonia, 2016). Estonia has the higher old-age pension and spends more Euro per inhabitant for old-age than Latvia and Lithuania (based on Eurostat data).

Age-related cash benefits remain most heavily financed in all OECD countries, and the Baltic states are no exception. In Estonia and Lithuania, slightly more than 44% of total spending goes to finance old-age benefits. In Latvia, the age-related spending is higher and amounts to 53%. The old age expenditure in the Baltic states is above the EU average, which is almost 40% (based on Eurostat data for 2013). Due to rapidly ageing populations and high emigration, the financial sustainability of old-age pension will be an urgent issue in the years to come in all three Baltic states.

#### ***4-5. Unemployment Insurance***

In all three countries unemployment insurances are earnings-related to some extent, but with minimum and maximum ceilings implemented. The qualifying conditions are strict for unemployment benefits in Lithuania: at least 18 months in paid employment, social insurance contributions or citizenship for those who do not have a work record. In Latvia it is enough to be employed and to have an insured period of at least 9 months to qualify for unemployment benefits. Estonia has a most generous design for the unemployed. For those who have a work record, the unemployment benefits are paid from the insurance fund. It is enough to be in paid employment and have paid contributions

for 6 months to qualify for employment-related benefits. Unemployment benefits can be also received based on proven need. They are paid from the state budget (Aidukaite, 2006, 2013; the MWL, 2012; the MSAE, 2012; the MSALL, 2014).

The duration and level of unemployment benefits in all three countries depend on the social insurance contributions and work record. The duration of unemployment benefits payments is shortest in Lithuania if the three Baltic states are compared: paid up to six months for those who have less than a 25 year work record, for those with up to a 30 year work record the payment is up to seven months, with a 30-35 year of work record it is paid up to eight months, and for those who have more than 35 years of work record it is paid up to nine months (SODRA, 2015). Latvia comes next with nine months payment for those who have insurance for at least 1 year and social insurance contributions have been paid for at least 9 months in the previous year (European Commission, 2015). In Estonia it is paid up to 6 months if the insurance period is less than 4.6 years; up to 9 months if the insurance period is 4.5–9 years. and up to one year if the work record is 9 years or more (the MSAE, 2012).

The replacement rate for the unemployment benefit is very low in Lithuania. The maximum ceiling for unemployment benefits was cutback even more during the crisis. At present it cannot amount more than 315.50 euro per month (SODRA, 2015). In Latvia the unemployment benefit is paid depending on the unemployment period. For an unemployed person with insurance length of one to nine years, the first two months he/she receives the full amount, for next two months it lowers to 75% of the granted unemployment benefit and for the last five months the payment is 45 Lats (64 Euro) per month (the MWL, 2012). In Estonia the value of the unemployment insurance benefit is connected to the insured person's salary prior to unemployment, at first forming 50% of the insured person's average remuneration per calendar day for the first 100 days and then 40% of the same from the 101st day of unemployment (the MSAE, 2012).

Overall, the unemployment benefits in the Baltic societies are very modest and the duration of the entitlement of this support is short when compared with the practices of several EU member states (Aidukaite, 2006). Although the expenses of unemployment as a percentage of GDP have increased slightly in the Baltic states since 2004, Estonia (0.5%), Latvia (0.5%) and Lithuania (0.4%), in 2012 the Baltics still spent much less on unemployment compared to the EU-27 average (1.5%) or the Euro area 16 average (1.6%) (Eurostat 2015). However, if duration and replacement rates are compared among the three Baltic states, Estonia has a more favourable situation for the unemployed, followed by Latvia and with Lithuania at the bottom.

## CONCLUSIONS

This paper reviewed the changes in social security arrangements among Estonia, Latvia and Lithuania as they have developed up to the present. The detailed examination of social policy arrangements of Estonia, Latvia and Lithuania revealed differences among three countries. The design of social security in Estonia is most comprehensive and generous if comparing the three countries, especially their family support systems. As for the other benefits, such as pension and unemployment, Estonia again is a leader



having higher benefit levels and longer payment duration (for unemployment). The reform of the pension insurance is also most sustainable in Estonia. The situation in Lithuania is less promising when it comes to social security coverage and generosity; this has especially become apparent after the post-crisis period (2008–2012) when some retrenchments were implemented in family policy, pension insurance and unemployment benefits (Aidukaite, 2013).

The findings of this chapter show that today the Baltic “sisters” are more distinct than ever in their social security arrangements. This is especially remarkable for the family policy, pension insurance and unemployment protection. If we try to place the social protection systems of the three countries into Esping-Andersen’s welfare state regime typology, we may find a combination of features from different regimes. However, the low protection of children and the unemployed in Lithuania makes it more similar to the liberal welfare state regime, while Estonia, with its generous policies for children and families, comes closer to the social democratic model. Latvia resembles the conservative-corporatist regime with modest benefits to children and a heavy reliance on social insurance programs.

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## Chapter 2

# Coping with a Declining Birthrate: Comparing Eastern Europe with Japan <sup>1</sup>

Manabu Sengoku

### 1. SIMILARITY BETWEEN CENTRAL EASTERN EUROPE AND JAPAN

The main aim of this paper is to compare the family policies, especially policies related to child-bearing, of Central and East European (CEE) countries,<sup>2</sup> but this paper also intends to make a brief comparison of the family policies of CEE countries with those of Japan in the last section. The reason for comparing CEE countries with Japan here is that, recently, CEE countries have been experiencing the rapid demographic changes that Japan has been experiencing since long before: continuous decline in the total fertility rate and rapid aging of society.

**Table 1. Total fertility rates of CEE countries and Japan**

	1970	1975	1980	1985	1990	1995	2000	2005	2010	2014
<b>Bulgaria</b>	2.17	2.23	2.05	1.97	1.82	1.23	1.26	1.37	1.57	1.53
<b>Croatia</b>	-	-	-	-	-	-	-	1.50	1.55	1.46
<b>Czech Rep.</b>	1.92	2.43	2.08	1.95	1.90	1.28	1.15	1.29	1.51	1.53
<b>Estonia</b>	2.17	2.04	2.02	2.13	2.05	1.38	1.36	1.52	1.72	1.54
<b>Hungary</b>	1.98	2.35	1.91	1.85	1.87	1.57	1.32	1.31	1.25	1.41
<b>Latvia</b>	-	-	1.90	2.09	2.01	1.26	1.25	1.39	1.36	1.65
<b>Lithuania</b>	2.40	2.18	1.99	2.08	2.03	1.55	1.39	1.29	1.50	1.63
<b>Poland</b>	-	-	2.28	2.33	1.99	1.62	1.37	1.24	1.38	1.29
<b>Romania</b>	-	2.59	2.43	2.31	1.83	1.33	1.31	1.40	1.59	1.52
<b>Slovakia</b>	2.41	2.55	2.32	2.26	2.09	1.52	1.30	1.27	1.43	1.34
<b>Slovenia</b>	-	-	2.11	1.72	1.46	1.29	1.26	1.26	1.57	1.58
<b>EU average*</b>	-	-	-	-	-	-	1.47	1.51	1.62	1.58
<b>Japan</b>	2.13	1.91	1.75	1.76	1.54	1.42	1.36	1.26	1.39	1.42

Source: OECD Family Database (<http://www.oecd.org/els/family/database.htm>).<sup>3</sup>

\*Average of EU-27 (excluding Croatia, but the difference between EU-27 and EU-28 is negligible in general).

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- 1 This work was supported by JSPS KAKENHI Grant Number JP 16H03575.
  - 2 In this paper, I will use the term “Central and East European countries” or “CEE countries” to refer to the 11 post-socialist countries that joined the European Union.
  - 3 All websites indicated in this paper were accessed on May 31, 2017.

**Table 2. Life expectancy in CEE countries and Japan**

		1990	1995	2000	2005	2010	2014
<b>Bulgaria</b>	Female	74.7	74.9	75.0	76.2	77.4	78.0
	Male	68.0	67.4	68.4	69.0	70.3	71.1
<b>Croatia</b>	Female	-	-	-	78.8	79.9	81.0
	Male	-	-	-	71.7	73.4	74.7
<b>Czech Republic</b>	Female	75.5	76.8	78.5	79.2	80.9	81.3
	Male	67.6	69.7	71.6	72.9	74.5	75.2
<b>Estonia</b>	Female	74.9	74.3	76.4	78.2	80.8	81.7
	Male	64.7	61.4	65.6	67.6	70.9	72.8
<b>Hungary</b>	Female	73.8	74.8	76.2	77.2	78.6	79.1
	Male	65.2	65.4	67.5	68.7	70.7	72.2
<b>Latvia</b>	Female	-	-	-	76.3	78.0	78.9
	Male	-	-	-	64.9	67.9	69.3
<b>Lithuania</b>	Female	76.3	75.1	77.4	77.4	78.9	79.6
	Male	66.4	63.3	66.7	65.2	67.6	68.5
<b>Poland</b>	Female	75.3	76.4	78.0	79.3	80.7	81.2
	Male	66.3	67.7	69.6	70.8	72.2	73.0
<b>Romania</b>	Female	73.1	73.5	74.8	75.4	77.7	78.7
	Male	66.7	65.5	67.7	68.4	70.0	71.4
<b>Slovakia</b>	Female	75.7	76.5	77.5	78.1	79.3	80.1
	Male	66.7	68.4	69.2	70.2	71.8	72.9
<b>Slovenia</b>	Female	77.8	78.5	79.9	80.9	83.1	83.6
	Male	69.8	70.8	72.2	73.9	76.4	77.2
<b>EU average</b>	Female	-	-	-	81.5	82.8	83.6
	Male	-	-	-	75.4	76.9	78.1
<b>Japan</b>	Female	81.9	82.9	84.6	85.5	86.3	86.8
	Male	75.9	76.4	77.7	78.6	79.6	80.5

*Source:* For CEE countries, Eurostat (<http://ec.europa.eu/Eurostat>); for Japan, National Institute of Population and Social Security Research (<http://www.ipss.go.jp>).

The decline in the fertility rate in CEE countries had already started in the 1970s and has decreased rapidly after the collapse of the socialist regime, as shown in Table 1. On the other hand, life expectancy has been dramatically increasing since the turn of the century in CEE countries, as indicated in Table 2, in accordance with the stabilization of the political and economic situation of these countries. As a result, aging of society is rapidly progressing in CEE countries, as if following the experience of Japan (see Table 3).

Ainsaar and Rootalu (2016: 796–798) have classified the demographic situation of European countries into seven types and, in their classification, all CEE countries are classified as having some kind of demographic risks as shown below:<sup>4</sup>

4 Ainsaar and Rootalu (2016) consider that the other four types do not face serious demographic risks: 4) countries with little demographic concern (the proportion of the younger



- 1) High-population-risk countries: Bulgaria, Croatia, Estonia, Latvia, and Lithuania (with Germany, Greece, Italy, Malta, and Portugal). The characteristics of these countries are an average percentage of the working-age population, a high rate of old age dependency, a low fertility rate, and a low proportion of the under-24 population; for these reasons, countries in this group are facing problems such as future labor shortage, unsustainability of the population, or the need to adjust to an aging society. Japan could be included in this category.
- 2) Moderate-population-risk countries: the Czech Republic, Hungary Romania, and Slovenia (with Austria, Spain, and Switzerland). This group of countries is characterized by a low fertility rate as in Group 1 countries but positive net migration. Countries in this group can count on immigration flows.
- 3) Future-positive-risk countries: Poland and Slovakia. These two countries have a good current population structure, but exhibit negative demographic growth behavior, very low fertility, and negative net migration.

However, in spite of the fact that these countries face similar demographic problems as shown above, and also despite the fact that these countries have the common historical experience of a socialist regime in which women's participation in paid labor was actively promoted by developing a public childcare system or extending maternity

**Table 3. Old age dependency ratios of Central and East European countries and Japan\* (%)**

	1990	1995	2000	2005	2010	2015
<b>Bulgaria</b>	19.5	22.2	23.8	25.2	26.5	30.2
<b>Croatia</b>	-	-	-	26.0	26.7	28.3
<b>Czech Republic</b>	19.0	19.3	19.8	19.8	21.7	26.6
<b>Estonia</b>	17.5	20.2	22.1	24.3	25.9	28.7
<b>Hungary</b>	20.0	20.9	22.0	22.7	24.2	26.5
<b>Latvia</b>	17.7	20.5	22.1	24.3	26.8	29.5
<b>Lithuania</b>	16.2	18.5	20.8	23.6	25.6	28.1
<b>Poland</b>	15.4	16.6	17.8	18.7	19.1	22.2
<b>Romania</b>	15.6	17.6	19.3	20.7	23.7	25.2
<b>Slovakia</b>	16.0	16.3	16.6	16.4	17.3	19.7
<b>Slovenia</b>	15.5	17.4	19.8	21.8	23.8	26.6
<b>EU average</b>	20.6	21.9	23.2	24.7	26.1	28.8
<b>Japan</b>	17.3	20.9	25.5	30.5	36.1	42.4(2014)

Source: See Table 2.

\* The old age dependency ratio is the ratio between the number of persons aged 65 and over and the number of persons aged between 15 and 64.

population is on par and the fertility situation is not critical (Belgium, Denmark, Netherlands, Norway, and the United Kingdom); 5) moderate-population-growth countries (Finland, France, and Sweden); 6) intensive-immigration countries (Cyprus and Luxemburg); and 7) high-population-growth countries (Iceland and Ireland).

leave and child benefits for women,<sup>5</sup> the ways of tackling these problems are different among CEE countries, as we will see in the next section. We will analyze the background to these differences in this paper.

The paper is organized as follows. In the next section, after a short survey of the “typology of family policy,” we will analyze the current situation of family policies in CEE countries in relation to the fertility rates and make it clear that relatively high-fertility-rate countries are adopting de-familializing (or de-familizing) policies to some extent. In section 3, we will analyze the background to which de-familializing policies are adopted in some countries and not in others from the point of view of political economy, and clarify that de-familializing policies, which seem to have some positive effects on the fertility rate, will not be adopted without the interference of politics. We will summarize the discussion and make a brief comparison between CEE and Japan in section 4.

## 2. VARIETIES OF FAMILY POLICY: DIFFERENCES AMONG CEE COUNTRIES

Various ways of classifying or typologizing family policies of CEE countries have been proclaimed over the years. The history of family policy classification has already been summarized by Lohmann and Zigel (2016), so we will consider some papers that include CEE countries in their classification.

One way of classifying family policy is to conduct multivariate analysis, such as cluster analysis or regression analysis, in order to clarify the position of each country. Boje and Ejrnæs (2011) performed a cluster analysis of 21 European countries including some CEE countries employing four variables (childcare take-up for children aged 0–3; effective parental leave; take-up of part-time work among women; and spending on family policy), and concluded that the CEE countries included would be classified into two types:

- 1) The family care model, characterized by a low proportion of women in part-time jobs and with badly paid parental leave, forcing most mothers to rely on a male breadwinner: Estonia, Latvia, and Slovenia (with South European countries).
- 2) The extended parental leave model, characterized by long periods of effective parental leave: the Czech Republic, Hungary, Lithuania, and Poland (with Finland).<sup>6</sup>

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5 Some researchers attribute the differences in family policy to historical factors during and before the communist era (for example Hašková and Saxonberg (2016)) but, in this paper, we do not consider the influence of historical factors, as historical factors cannot explain the difference between countries that formed a federal state during the era of state socialism.

6 Boje and Ejrnæs (2011) propose three more clusters for classifying European family policy: the long-leave, part-time model (ex. Germany); the short-leave, part-time model (ex. Netherlands); and the extensive family model (ex. Sweden and France).

Another way is to classify family policies on the basis of certain criteria or scoring. Ciccio and Verloo (2012) have classified the parental leave systems of CEE countries into three types by using so-called fuzzy-set ideal type analysis:<sup>7</sup>

- 1) The male breadwinner model, based on a traditional division of gender roles and leaving the responsibility of childcare to women: the Czech Republic, Estonia, Hungary, Latvia, Poland, and Slovakia.
- 2) The caregiver parity model, also based on traditional divisions but that values them equally by means of care allowances and other benefits: Bulgaria, Lithuania, and Romania.
- 3) The universal breadwinner model, characterized by women's participation in the labor market and the outsourcing of care to the state/market: Slovenia.

Saxonberg (2013) has classified family policies from the point of view of genderizing/degenderizing, and classified European countries into six groups by scoring the genderizing/degenderizing level of child day care and parental leave as follows:<sup>8</sup>

- 1) High level of degenderizing: Norway, Sweden, and Iceland.
- 2) Genderizing parental leave and degenderizing childcare: Belgium, Denmark, Finland, and France.
- 3) Degenderizing parental leave and genderizing childcare: Hungary and Germany.
- 4) Explicitly genderizing: Austria, the Czech Republic, Italy, and Slovakia.
- 5) Low level of parental leave and genderizing childcare: the Netherlands and Spain.
- 6) Low level of degenderizing (or implicit genderizing): Australia, Poland, the United Kingdom, and the United States.

Javornik (2014) has classified the family policies of European countries by scoring the level of the national legislation on parental leave and parental services. As for CEE countries, Lithuania and Slovenia have been characterized as de-familialized countries with extended public service for care; the Czech Republic, Estonia, and Hungary as (explicit) familialized countries by supplying cash and help for families caring

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7 Fuzzy-set analysis is a way of classifying data not only by kind but also by degree by using fuzzy sets, which take a value between 0 and 1, in contrast to crisp sets, which take either 0 or 1. See Ragin (2008) for details.

8 Saxonberg (2013:43) scored parental leave and child day care as follows:

1) Childcare

Degenderizing: over 20% of children under 3 in public childcare; spending of over 0.6% of GDP on formal childcare for children aged under 3; full-time care for children aged 3–5

Genderizing: fewer than 15% of children under 3 in public childcare; spending of 0.3–0.7% of GDP on formal childcare for children aged under 3; at least 65% of children aged 3–5 attending formal care

Low level: fewer than 10% of children under 3 in public childcare; spending of less than 0.3% of GDP on formal childcare for children aged under 3; fewer than 65% of children of aged 3–5 attending formal care

2) Parental leave

Degenderizing: high income replacement rate with father quota

Genderizing: maternity leave with medium or low replacement rate (or flat rate)

Low level: residual means-tested benefit or none

for their own members; and Latvia, Poland, and Slovakia as implicitly familialized countries with weak public support for care.<sup>9</sup>

In addition, there exist some descriptive classifications. Frejka and Gietel-Basten (2016) classified the family policies of post-socialist countries into four types by the direction of family policy programs and family policy institutions: the comprehensive family policy model (Estonia and Slovenia); the pro-natalist policy model (Belarus, Bulgaria, Latvia, the Russian Federation, and Ukraine); the temporary male breadwinner model (the Czech Republic and Slovakia); and the conventional family policy model (Croatia, Hungary, Lithuania, Poland, Romania, and Serbia). They are also trying to analyze the relationship between policy and fertility, and indicate that countries with comprehensive family policy may have created favorable conditions for cohort fertility to stabilize, and that the total fertility rate of countries with a pro-natalist policy has increased relative to other countries (Frejka and Gietel-Basten 2016: 34–36).

These are a few examples of attempts to classify CEE countries' family policies, but we can find that there is no agreement among researchers on how the family policies of these countries should be classified by surveying these papers. Almost all of them admit that there would be a difference in family policies among CEE countries, but their classifications differ because of the difference in method and criteria. In some cases, the same country is classified into a totally different category according to the difference in criteria for classification. For example, Frejka and Gietel-Basten (2016) classified Estonia into the comprehensive family policy model, but Ciccia and Verloo (2012) classified Estonia into the male breadwinner model. In addition, the situation may change with the lapse of time, so a classification at one point may change at another point. Tentatively, I have conducted the same cluster analysis as conducted by Boje and Ejrnæs with new data, and have found that CEE countries can be basically classified into the same clusters, separated from most Western European countries.<sup>10</sup> Or, if we focus on sub-clusters, we may classify CEE countries into three groups (the Czech Republic and Poland; Latvia, Lithuania and Slovenia; and Estonia and Hungary).

Considering this confusing situation, it may be unproductive to make another classification here, even if we employ some strict criteria or statistically stringent analysis. Instead, we will check the difference in main family policy instruments in relation to the fertility rate *a posteriori*, by focusing on the relationship between the de-familialization (de-familization) or familialization (familization) of childcare and the total fertility rate.

Concerning the de-familialization of childcare, universal (public) day care for preschool children, especially children aged 0–3, would be included. Some kind of parental leave should also be included, as it has degenderizing effects if it is appropri-

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9 Javornik used the ideal type of family policy proposed by Leitner (2003) for this classification.

10 I have used the same four variables (childcare coverage for children aged 0–3; effective parental leave weeks; take-up of part-time work among women; and spending on family policy) and the same 21 countries for this cluster analysis with data of 2014, instead of data of 2002–2004, which Boje and Ejrnæs used. See the appendix for details.

ately constructed (Saxonberg 2013; Ciccia and Verloo 2014; Javorik 2014). According to Saxonberg (2013: 35), parental leave has a de-familializing (or de-genderizing, according to Saxonberg's usage) effect if it is open to both parents, the replacement rate is high, the duration of leave is not too long, and some kind of father quota exists, as these schemes will promote the participation of fathers in childcare and will discourage women's exit from the labor market following childcare. We will investigate parental leave in CEE countries with these points in mind.

**Table 4. Indicators of de-familializing of childcare in CEE countries**

	Coverage of public childcare		Parental leave				Fertility rate (2014)
	Age 0–2 (%)	Age 3–5 (%)	Length, in weeks	Average payment rate (%)	Father quota, in days	Average payment rate (%)	
<b>Bulgaria</b>	11.2	82.1	26*	90	15	90	1.53
<b>Croatia</b>	16.9	56.7	26	100	0	0	1.46
<b>Czech Republic</b>	5.6	80.5	156	70	0	0	1.53
<b>Estonia</b>	23.2	89.6	62**	100	10	100	1.54
<b>Hungary</b>	14.5	89.7	52	70	5	100	1.44
<b>Latvia</b>	24.0	91.0	78	70	10	80	1.65
<b>Lithuania</b>	28.8	82.6	52**	100	28	100	1.63
<b>Poland</b>	11.0	74.1	148	Flat	14	100	1.32
<b>Romania</b>	12.4	98.5	61	85	5	100	1.52
<b>Slovakia</b>	6.4	73.0	156	Flat	0	0	1.37
<b>Slovenia</b>	40.3	87.2	37	90	30	90	1.58

*Source:* For coverage of public childcare, OECD Family Database; for parental leave, European Parliament (2015); for fertility rate, Eurostat.

\*Basically limited to mothers, but fathers can take a portion of the leave.

\*\*The period can be extended by lowering the payment rate.

The current de-familializing childcare policies of CEE countries are shown in Table 4. According to this information, countries with high rates of public childcare coverage for children under 3 (over 20%) show relatively high fertility rates (Estonia, Latvia, Lithuania, and Slovenia, the same as or above the EU-27 average). As for parental leave schemes, Estonia, Lithuania, and Slovenia fit the de-familializing parental leave model, with a short period but high replacement rate, and are relatively open to fathers. We may also include Latvia in this group, though the replacement rate in Latvia is lower than in the other three countries. On the other hand, the fertility rates of Poland and Slovakia are relatively low in accordance with the low coverage rates of public care, flat-rate benefit of parental leave, and lack of paternity leave.<sup>11</sup> Judging from these facts, we may say that de-familializing policies have some positive effect on the fertility rate.

<sup>11</sup> The paternity leave system of Poland was introduced in 2010 and extended from 7 days to 14 days only in 2013 (Siemieńska and Domaradzka, 2016: 58), so we can say that the effect of this new scheme would be limited as of 2014.

**Table 5. Indicators of familializing of childcare in CEE countries**

	Maternity leave			Family cash benefit			Fertility rate
	Length, in weeks	Average payment rate (%)	% of average wage	Addition by age or number of children	Upper age limit (student)	Means-test	
<b>Bulgaria</b>	58+4 days	90	6	None	17(19)	Yes	1.53
<b>Croatia</b>	14	100	5	None	15(19)	Yes	1.46
<b>Czech Republic</b>	28	70	3	By age	14(25)	Yes	1.53
<b>Estonia</b>	20	100	2	By number	15(18)	No	1.54
<b>Hungary</b>	24	70	6	By age	18(22)	No	1.44
<b>Latvia</b>	16	80	2	None	14(18)	No	1.65
<b>Lithuania</b>	16	100	3	None	18*	Yes	1.63
<b>Poland</b>	26/52**	100/80**	3	Both	17(20)	Yes	1.32
<b>Romania</b>	18	85	5	By number	18	Partial***	1.52
<b>Slovakia</b>	34	65	3	None	15(25)	No	1.37
<b>Slovenia</b>	15	100	8	By number	17(25)	Yes	1.58

*Source:* For maternity leave, European Parliament (2015); for family cash benefit, OECD Family Database. The data of Croatia's cash benefit is supplemented by MISSOC (<http://www.missoc.org/>).

\*Only paid until age 7 if there are two children or fewer. \*\*Choice between 26 weeks and 100% replacement or 52 weeks and 80% replacement. \*\*\*Universal benefit with the addition of means-testing.

Concerning the familialization of childcare, we will study parental leave reserved for mothers and cash benefits for children, as these are the main instruments for assisting childcare at home (Saxonberg 2013:35–36; Lohmann and Zigel 2016: 53). According to Saxonberg (2013: 34), parental leave has explicitly familializing (genderizing) effects if it provides a strong incentive for mothers to leave the labor market at least during the first two years from a child's birth without giving an incentive to fathers to share in the leave, that is, maternity leave that reserves at least 15 weeks only for the mother and pays a high replacement rate for that period, followed by long extended leave that might be open to fathers but with a low or flat-rate benefit, and no paternity leave for fathers. Concerning cash benefit, it is admitted that cash benefits in general have the effect of familialization (Lohmann and Zigel 2016: 53). In addition, childcare benefit will familialize childcare further if it is restricted by means-testing, as women will be discouraged from working outside and forced to care for children at home because of women's relative low wages in relation to men's (Sengoku 2012).

The current familializing policy schemes of CEE countries are presented in Table 5. According to this information, we cannot find a clear relationship between familializing policy and fertility rate. Although we can see that relatively de-familialized countries (Estonia, Latvia, Lithuania, and Slovenia) have a short period of maternity leave and a low level of family cash benefits,<sup>12</sup> we cannot find any clear relationship between

12 Except the cash benefit of Slovenia. In addition to the high rate in relation to the average wage, 90% of children are covered by this cash benefit (Kolarič et al. 2009: 451).

familializing policies and fertility rates regarding other CEE countries. Concerning West European countries, Baizan, Arpino, and Delclòs (2016) have conducted multiple regression analysis to find the relationship between family policies and fertility rates, and have found that de-familializing policies are positively associated with fertility but that familializing policies' effect on fertility is less clear (positive but statistically insignificant). The same may be true of CEE countries.<sup>13</sup>

In the next section, we will analyze the reason that most CEE countries have not introduced de-familializing policy instruments, in spite of the fact that these policies have a positive effect on the fertility rate to some extent.

### 3. POLITICAL ECONOMY OF FAMILY POLICIES IN CEE COUNTRIES

#### *3-1. Framework of Analysis*

Haggard and Kaufmann (2008: Introduction), who compared the social policies of East Asian, Latin American, and East European countries, argue that the welfare policy formation of these countries is influenced by three factors: economic policy of the state, which will affect the labor market and decide the interest of the actors; political strategy of the elite, which will affect the formation of beneficiaries or political alliances; and the regime type, which will affect competition between interest groups. As for CEE countries, we do not have to consider the differences in political regime at present, so we will concentrate on the economic and political aspects of family policy making.

The relationship between the economic system and welfare policy has been discussed in relation to the framework so-called varieties of capitalism. In this scheme, differences in welfare policy are related to the type of capitalism as such (Iversen and Stephens 2007: Schröder 2013):

- 1) The coordinated market economy, with a high level of manufacturing industry, tends to improve social welfare for laborers. In this economy, most firms need industry- or company-specific skills for manufacturing, so firms have an incentive to invest in the education and protection of laborers. In addition, social democratic parties backed by labor unions are active and promote the extension of welfare in such an economy, as workers tend to cooperate for their operations and unite for the improvement of labor conditions.
- 2) The liberal market economy, with a high level of finance, ICT, and service industry, tends to place the responsibility of welfare on individuals. In this economy, most firms need general skills that can be mastered by individuals and utilized by any company, including companies abroad, so companies do not have an incentive to invest in the education and protection of laborers. In addition, in the liberal market economy, labor unions are generally weak, as workers are inclined to compete with each other for their achievements, instead of uniting for the improvement of labor conditions.

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13 I have also conducted a multiple regression analysis including Western and Eastern European countries, and have obtained the results that public childcare has a positive effect on the fertility rate, but this result is not statistically significant.

For these reasons, in general, liberal or residual welfare prevails in liberal economies, and social democratic or conservative welfare prevails in coordinated economies.<sup>14</sup> However, as for family policies, we cannot explain the development of de-familializing policies only by this scheme. In liberal economies, the responsibility for childcare tends to be left to the individual, and parents have to choose whether they care for their children by themselves or seek care in the market in general, but there is also a possibility that the liberal parties would pursue activation policies, including de-familializing policies, to promote women's participation in the labor market. On the other hand, in coordinated economies, social security schemes for workers, such as pensions, work-related accident insurance, and social health insurance, will be improved, but welfare policies relating to family will not necessarily be developed because of the genderizing effect of industry-/ company-specific skills (Estebez-Abe et al. 2001: 158–160). Most laborers working in the manufacturing industry are men, as (1) women have little tendency to choose vocational schools for the choice of their future, and (2) employers tend to avoid the female worker who has a possibility of taking parental or maternity leave, because it is generally not easy to find an appropriate skilled worker to replace her in a short period. In addition, if female workers take parental or maternity leave for a year or more, employers would have to bear the double burden of their leave (income compensation for the female worker and wage for the substitute worker). For these reasons, labor unions are mainly composed of men, and tend to pursue policies based on the male breadwinner model but, in this case, there is also a probability of adopting de-familializing policies if trade unions pursue these policies.

In addition to this economic aspect, we will add party politics in order to explain the adoption of policies in each country. The relationship between welfare policies (including family policies) and party politics are concisely summarized by Häusermann (2012). First, Häusermann has classified social policies into two categories: old welfare policies for addressing the needs of an industrial society, especially for the typical risks of income and job loss relating to typical employment; and new social policies for tackling the risks of the post-industrial era, such as atypical employment, long-term unemployment, working poverty, family instability, or lack of opportunity for labor market participation due to care obligations or obsolete skills.

Next, Häusermann has shown “ideal-typical actor positions” toward welfare reform in relation to these two social policies as follows:

- 1) Liberal parties and employers: typically advocate retrenchment of welfare, but support activation to promote labor market participation.
- 2) Conservative parties (mainly Christian democrats): see activation and social investment for the labor participation of women and public pre-primary schooling as a threat to traditional family and gender roles, but support the breadwinner model social policy, such as social security for workers or cash benefit to families.

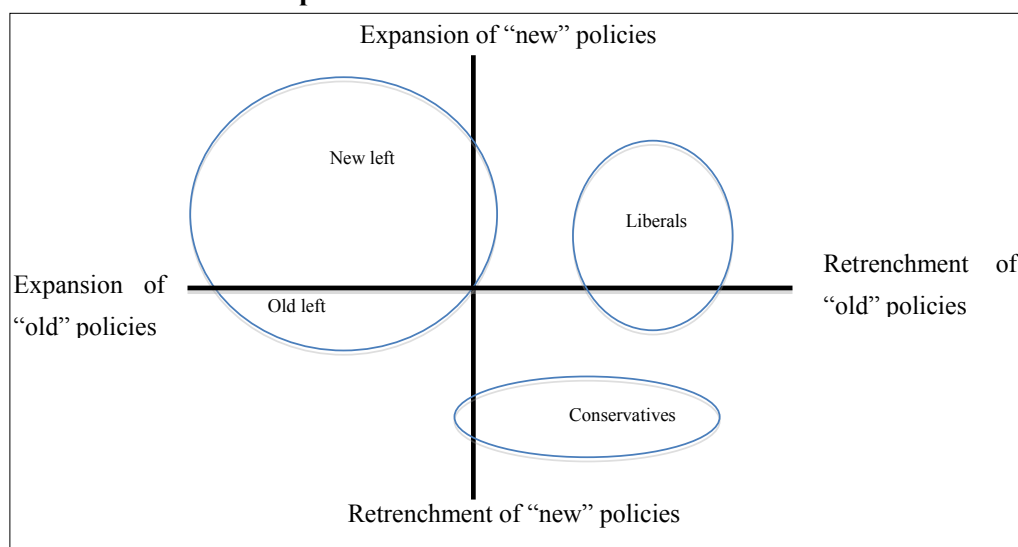
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14 In a country with a strong conservative (Christian democratic) party, a conservative or corporative welfare system is likely to prevail, and a social democratic welfare system is likely to be constructed in a country without a strong conservative party (Iversen and Stephens 2007: 607–612).



- 3) Old leftist parties: advocate expansion/maintenance of old social policies, as they are supported by traditional blue-collar workers.
- 4) New leftist parties: support old welfare policies to some extent, but they are the main advocate of new social policies, as they are supported by outsiders (new risk bearers such as youths and females facing the problems indicated above).

**Figure 1. Ideal-typical actor positions in the multidimensional policy space of welfare reform in Europe**



Source: Häuserman [2012:121].

Lastly, according to Häusermann, under the current situation where no specific group can form a majority in the parliament, every group has to find allies and create a policy package to realize their welfare purposes, and this will lead to the formation of various kinds of coalition. For example, if the left is split between the old and the new, apart from a coalition formation of liberal and conservative enacting retrenchment, there may be a case where there are conservative approaches to the old left to restrict new social policies and keep the breadwinner model or liberal approaches to the new left to introduce activation. This actor configuration framework explains the difference in policies among countries (see Figure 1).<sup>15</sup>

However, these four political parties/groups do not necessarily exist in all countries because of differences in the party system, so we have to pay attention to the pattern of party competition as well. If the main axis of party competition is economic between the liberals and the old left social democrats, both groups would pursue

<sup>15</sup> In fact, Häusermann's framework itself cannot explain the reason that a specific coalition is formed in a country. On this point, Häusermann argues that "the actor configurations in the new policy space of the European welfare state are characterized by complex multidimensionality, which makes the result of reform processes highly contingent" (Häusermann 2012: 122).

orthodox liberal/social democratic policies, as this is an appropriate way to attract their own supporters. However, in countries that lack influential leftist parties, the liberals may pursue activation policies or the conservatives may pursue familializing policies to attract potential leftist voters. We also have to bear this point in mind.

### ***3-2. Economic and Political Situation of CEE Countries***

Concerning the analysis of CEE countries, I will focus mainly on the eight countries that joined the European Union in 2004 (EU-8 countries) because (1) these countries have similar experiences in democratization, marketization, and creation of a legal framework for accessing the European Union, and (2) all countries adopting de-familializing policies are included in this group, so it is useful to analyze the differences among these countries.

First, concerning the economic situation of CEE countries, we will investigate the percentage of gross value added of the manufacturing and service industries in each country for simplification. The situation in 2014 is indicated in Table 5.

According to these data, in the Czech Republic, Hungary, Slovakia, and Slovenia, the percentage of manufacturing exceeds 20% of GDP and, in the other countries, the percentage of service exceeds 40% of GDP, so we can judge that the former four countries are close to a coordinated economy, and that the other countries are close to a liberal economy.

Among the countries with a coordinated economy, only Slovenia has adopted de-familializing policies, and the other countries seem to emphasize familializing policies, such as long-term maternity leave (the Czech Republic, Hungary, and Slovakia) and/or relatively generous family cash benefits (Hungary). Among the countries with a liberal economy, the Baltic States adopted de-familializing policies, and the family policy instruments of Poland are relatively underdeveloped in comparison with other CEE countries, as Frejka and Gietel-Basten indicate (2016: 28–29). Judging from this result, the type of economy corresponds to the family policy to some extent, except in those countries adopting de-familializing policies. We will analyze the political situation of de-familializing countries first, and analyze the situation of the other countries after that.

**Table 6. Leading sectors in CEE countries in 2014 (% of gross value added)**

	<b>Manufacturing</b>	<b>Service*</b>
<b>Czech Republic</b>	26.8	37.9
<b>Estonia</b>	16.2	44.1
<b>Hungary</b>	23.3	38.4
<b>Latvia</b>	12.5	50.9
<b>Lithuania</b>	19.2	45.7
<b>Poland</b>	18.9	41.2
<b>Slovakia</b>	21.9	39.8
<b>Slovenia</b>	23.1	38.0

*Source:* Eurostat.

\*Includes wholesale and retail trade, transport, accommodation, food service activities, information, finance, real estate, and other service activities.

Take the case of Slovenia first. Slovenia had developed companies and networks that could survive the shift to a market economy during the self-management socialist era (Feldmann 2007: 342), so most firms and employment by them have been preserved after the regime transformation. For this reason, Slovenia has been able to preserve not only its industrial structure but its welfare system and a high level of employment among women even after the regime transformation, too, and this fact has contributed to the extension of reconciliation of work and family life after the regime transformation (Kolarič et al. 2009: 446). In addition, the relatively strong labor unions with a high rate of women's participation have been able to resist liberalization or a conservative political orientation (Fink-Hafner 2010: 244).<sup>16</sup> Recently, the conservative-liberal government has lowered the ceiling for receiving child allowance and limited some universal rights, whereas paternal leave has been extended from 15 to 30 paid days (Hrast and Mrak 2016: 710–711) but, as we have seen before, decreasing cash benefits and promoting fathers' participation in childcare will have the effect of de-familialization, so the tendency of reconciliation may be reinforced in Slovenia.

Contrary to Slovenia, the Baltic States were forced to restructure their industries, as the industries of these countries were integrated into the division of labor in the Soviet Union, and could not survive in a market economy (Feldmann 2007: 341–342). After the regime transformation, the Baltic States changed their economies to a liberal economy, as the economies of the Baltic countries have been supported by the light, computer-related, finance, or service industries. In the Baltic States, the influences of liberal and/or conservative parties are relatively strong in relation to leftist parties because of this economic situation. But, as for family policy, liberal and/or conservative parties are worried about a significant population decline in the transition period, so family policies have been prioritized. During the first few years, these parties saw public childcare as a legacy of Communism and preferred cash benefits, but the labor force participation rates of women in these countries grew year by year, so even conservative/liberal governments had to extend public childcare facilities (Toots and Bachmann 2010: 38–40). One factor that has promoted women's participation in the labor market is the structural change of the economy. The industries indicated above require broad-spectrum skills in general and, as Estevez-Abe indicates, general skill systems are more “gender neutral” (Estevez-Abe et al. 2001: 160) and it is easier for women to find work in a liberal economy than in a coordinated economy.<sup>17</sup> In these countries, liberalized economies have positively affected women's employment and family policies.<sup>18</sup>

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16 About half of union membership (49.9% in 2008) were women (<http://www.eurofound.europa.eu/observatories/eurwork/comparative-information/trade-union-membership-2003-2008>).

17 Toots and Bachmann argue that the Baltic States did not apply the family-based approach in taxation, and this factor also contributed to women's participation in the labor market (Toots and Bachmann 2010: 39).

18 But this situation does not mean that de-familializing is improving smoothly in Baltic countries, as it is admitted that the economic crisis has negatively affected the family policy development of these states (Aidukaite 2016: 435–436; Ainsaar and Kesselmann 2016: 183–185; Rajevska and Romoanovska 2016: 488–489). In addition, even in the Baltic States, especially in Lithuania, there still exist strong effects of the traditional family model (Ocenasova and Sotirovic 2015: 82–85).

Let us turn now to cases in which family policies have not been de-familialized: the Visegrád countries. Among this group, the Czech Republic, Hungary, and Slovakia are classified as coordinated economies, as these countries have kept their manufacturing industries by utilizing traditional machinery and/or automobile industries with the help of foreign capital (Greskovits 2008: 27). Here, it must be noted that the case of Hungary should be distinguished from the other two countries because of the difference in the party system.

In the Czech Republic and Slovakia, the main political cleavage is socio-economic: social protectionism (social democratic parties) versus market liberalism (liberal parties). In this situation, liberal parties will pursue liberal policies to keep their supporters, and social democratic parties also will carry out policies relating to the social protection of laborers for the same reason. As a result of this situation, welfare schemes are incessantly reorganized following a change of government, forming a “welfare mix” of Anglo-Saxon liberal features and insurance-based Bismarckian features (Ripka and Mareš 2009: 116; Wientzek and Meyer 2009: 474–475). Under this condition, de-familializing family policies will not be actively promoted by either side, as liberal parties would resist an extension of any kind of welfare, and social democratic parties would also resist the introduction of de-familializing policies from the point of view of the breadwinner model, to which most workers incline (Ocnasova and Sotirovic 2015: 92).<sup>19</sup> In addition, especially in the Czech Republic, both parties often form a coalition government with Christian democratic parties, and this fact also contributes to the delay of de-familialization of family policies.

In Hungary, the parties of influence were the liberal-oriented Socialist Party and the populist national-conservative party Fidesz, but the situation changed after 2010, as the Socialist Party lost most of its supporters between 2006 and 2010. The Socialist Party government with a liberal coalition partner introduced a radical austerity package right after the election held in 2006 including a reduction in welfare allowance. In addition, Hungary was hit by the international economic crisis triggered by the so-called Lehman Shock, and had to accept an emergency loan from the EU and the IMF. For these reasons, Hungary experienced a severe recession and the Socialist Party suffered a historical defeat in the 2010 election (Lakner and Tausz 2016: 331–332). After that, Fidesz is the only influential party in the party system of Hungary. Fidesz has basically pursued the strengthening of traditional family values and historical churches, and Lakner and Tausz (2016: 348) call the welfare policies of this party “anti-liberal paternalistic conservatism.” In this situation, there is little possibility that de-familializing policies would be introduced in Hungary.

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19 It is often said that laborers in the Czech Republic and Slovakia have a strong tendency toward the traditional family model. For example, when the liberal Topolánek government in the Czech Republic decided to cut the cash benefit and the budget for public care, labor unions did not resist these measures because, by reducing public spending for family policies, women would exit the labor market to take care of children at home and this would function to preserve men’s employment (Szikra and Tomka 2009: 30–31).

Lastly, Poland is the only Visegrád country that is classified as a liberal economy, in spite of the fact that Poland had been industrialized during the socialist era just like the other Visegrád countries. The point is that Poland's main industries were mining and heavy industries such as the shipbuilding or steel industry, and all of these industries have been restructured and workers have had to move from these industries to the service or computer industries (Hardy 2007: 764–767). This structural change had a destructive influence upon trade unions and the social democratic (post-Communist) party and, in Poland now, the pro-European liberal Civic Platform Party and the national-conservative Law and Justice Party have become influential in the party system. In this situation, Civic Platform is the only actor that may adopt de-familializing policies as, by adopting these measures, Civic Platform would attract support from potential (new?) leftist voters. And, in fact, the Civic Platform government between 2007 and 2015 promoted comprehensive family policy reforms, such as lengthening of maternity leave, introduction of paternity leave, and extension of childcare facilities and early education to stimulate employment, especially during its second term since 2011 (Inglot 2016: 250; Siemieńska and Domaradzka 2016: 582). However, these measures have not produced clear results in a short period and the fertility rate of Poland has not recovered. After the change of government in October 2015, the conservative Law and Justice has changed the direction of family policy from activation to re-familialization by extending cash benefits for families caring for children. First, the Law and Justice government raised the limit of income for receiving means-tested family cash benefits so that more families would be covered by this benefit. In addition, the government introduced a new universal family cash benefit called “Family 500+” in 2016. By this scheme, 500 PLN (about 110 euros) cash benefit per child is paid monthly to families with two children or more.<sup>20</sup> We cannot estimate the effect of this policy change at present, but we can say that de-familializing policies will not be promoted in Poland in the near future.

#### 4. COMPARING JAPAN WITH CEE COUNTRIES

In this last section, we will compare the situation of Japan with CEE countries after summarizing the results of this paper. As we have seen, the fertility rate seems to be higher in countries that have promoted de-familializing policies than in countries that have not promoted de-familializing in the CEE area. Two factors contribute to the difference between these two groups: industrial structure and political condition. In general, a liberal economy would lead to a laissez-faire approach, and a coordinated economy would lead to familializing policies. However, there is a possibility that de-familializing policies will be adopted in both economies if accompanied by favorable

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20 It will also be paid to the first child if the combined monthly income of the family is below PLN 800. See the website of the Ministry of Family, Labour and Social Policy for details (<http://www.mpips.gov.pl/wsparcie-dla-rodzin-z-dziecmi/rodzina-500-plus/>). The name of this ministry was also changed by Law and Justice in October 2015 (the former name was the “Ministry of Labour and Social Policy”).

political conditions. In Slovenia, continuation of the labor participation of women and the existence of influential labor unions support de-familializing, and liberal/conservative parties are unable to resist on this point. In the Baltic States, restructuring of the economy (and the tax system) has promoted the participation of women in the labor market, and this fact has forced liberal/conservative parties to extend public childcare. On the other hand, in the Czech Republic and Slovakia, there are no influential political parties pursuing de-familialization, as both liberal and social democratic parties have no incentive to promote de-familializing policies. In Hungary, after the Socialist Party deteriorated by mismanagement of the economy, actors promoting de-familialization do not exist. Lastly, in Poland, there was a possibility of de-familialization by the liberal party, but this trial was interrupted by the change of government.

Now I will expand this argument to the Japanese case. An outline of Japanese family policies is as follows:<sup>21</sup>

- 1) Coverage rate of public childcare: 30.6% from age 0 to 2, and 91.0% from age 3 to 5.
- 2) Parental leave: 52 weeks with 58.4% replacement rate, no paternity leave.
- 3) Maternity leave: 14 weeks with 67% replacement rate.
- 4) Family cash benefit: 3% of average wage, addition by number of children but reduction by age, 15 years old upper limit, means-testing reintroduced from 2012.

Comparing these measures with those of CEE countries, we can find that Japanese family policies are close (or inferior?) to those of CEE countries in general. This fact may be explained by these factors.

- 1) The proportion of manufacturing in gross value added is only 18.7% as against service activities accounting for 55.6%. In 1996, the proportion was 22.2% and 50.4%, respectively.<sup>22</sup>
- 2) Concerning the political situation, the relatively liberal Democratic Party tried to extend family policies by abolishing the means-testing of family cash benefit and having the National Treasury bear the tuition fees for high school. However, after the national-conservative but economically liberal Liberal Democratic Party returned to power in 2012, these measures have been reversed by reducing benefits or reintroducing means-testing.

The point is that the political and economic situation of Japan resembles that of Poland. In both countries, the influence of leftist parties or trade unions has been weakened in accordance with the change of economic structure, and liberal parties' projects for assisting families have been unable to attract support from voters. But there is one major difference between Poland and Japan. The current Law and Justice government in Poland has adopted anti-liberal economic policies (a retreat from a liberal economy?) and has extended family cash benefits, but the Liberal Democratic Party of Japan has been actively promoting liberalization of the economy and reduction of welfare expenditure, including family benefits. This curious mixture of liberalism and conservatism may lead to the retrenchment of family policy in Japan.

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21 OECD Family Database, with revision of recent changes.

22 Cabinet Office, Government of Japan (<http://www.esri.cao.go.jp/jp/sna/menu.html>).

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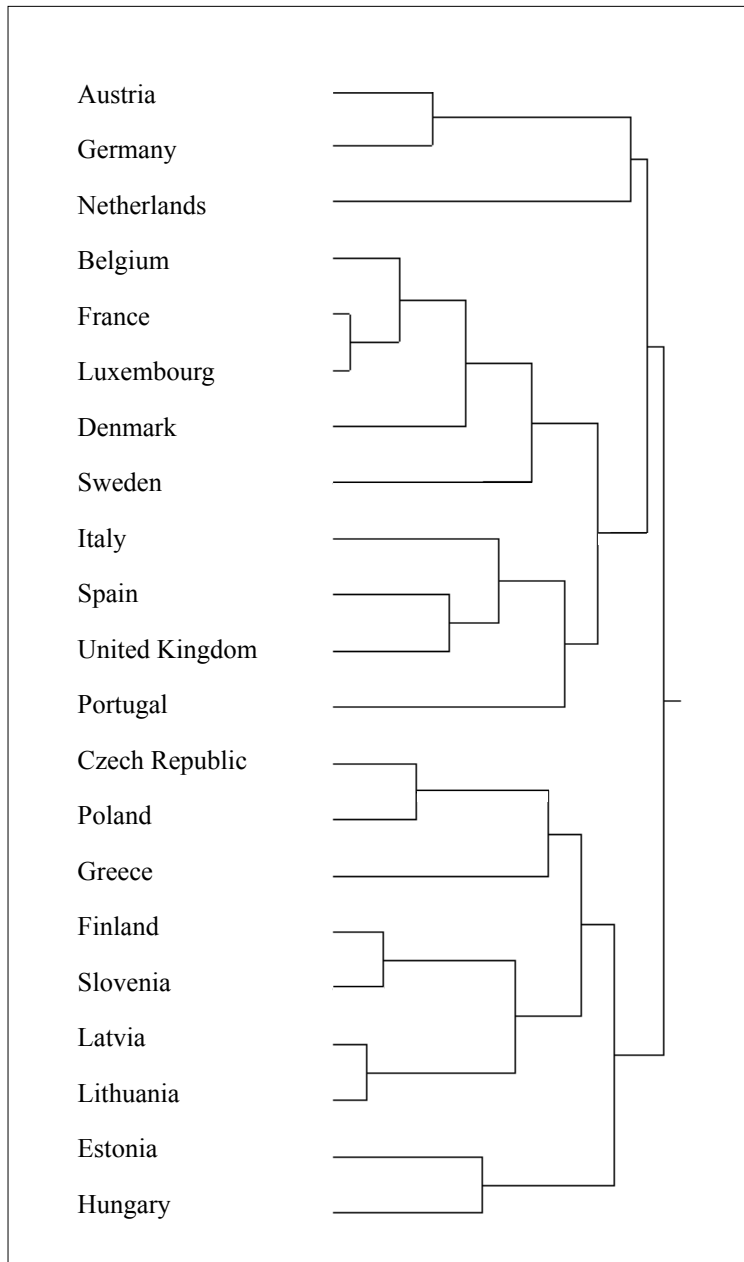
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**Appendix: Results of Cluster Analysis according to the Method Indicated by Boje and Ejrnæs**



**Data used for the Cluster Analysis**

	<b>Childcare coverage age 0–3 (%)</b>	<b>Effective parental leave weeks</b>	<b>Female part-time employment (%)</b>	<b>Total spending on family policy (% of GDP)</b>
<b>Austria</b>	19.2	51.2	47.8	2.3
<b>Belgium</b>	54.7	15.0	41.3	2.3
<b>Czech Republic</b>	5.6	56.3	9.2	1.2
<b>Denmark</b>	65.2	27.0	30.9	4.8
<b>Estonia</b>	23.2	85.1	12.9	1.8
<b>Finland</b>	27.9	42.6	17.0	3.3
<b>France</b>	51.9	18.8	30.0	2.5
<b>Germany</b>	32.3	42.6	47.0	1.5
<b>Greece</b>	13.8	23.2	13.0	0.7
<b>Hungary</b>	14.5	71.1	7.6	2.0
<b>Italy</b>	24.2	25.2	32.4	1.4
<b>Latvia</b>	24.0	54.2	9.8	0.9
<b>Lithuania</b>	28.8	62.0	9.7	1.0
<b>Luxembourg</b>	55.1	26.1	33.2	3.4
<b>Netherlands</b>	55.9	16.0	75.3	1.0
<b>Poland</b>	11.0	41.6	9.8	1.4
<b>Portugal</b>	47.9	20.0	12.3	1.1
<b>Slovenia</b>	40.3	48.4	12.9	2.1
<b>Spain</b>	38.1	16.0	24.9	0.6
<b>Sweden</b>	46.9	38.1	34.9	2.5
<b>United Kingdom</b>	33.6	12.2	39.6	1.6

*Source:* For spending on family policy and take-up of part-time work among women, Eurostat (<http://ec.europa.eu/Eurostat>); for female part-time employment and public spending, OECD Family Database (<http://www.oecd.org/els/family/database.htm>).

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## Chapter 3

# Elderly Care in Post-Soviet Russia<sup>1</sup>

Noriko Igarashi

### INTRODUCTION

In this paper, I analyze elderly care in post-Soviet Russia. I conducted survey-based research pertaining to families and labor in post-Soviet republics and tried to clarify the situation regarding gender. I became interested in elderly care in Russia over the last 7 to 8 years (Igarashi 1998, 2002, 2009, 2010, 2012, 2016a). From my research, it appears that it is considered “natural” for women in Russia to do housework and take care of children (Igarashi 2015, 2016b). Following on from this, several questions occurred to me. Who cares for the elderly at home? What kind of help do they receive from the state? At the same time, I considered whether the elderly in Russia can approach death with dignity. About 25% of the Japanese population are aged over 65 years<sup>2</sup>; thus, Japan faces a major issue with elderly care. However, the percentage of people over 65 in Russia is approximately only 13%.<sup>3</sup> Thus, elderly care in Russia has not yet become an urgent issue. However, Russia is also forecast to become an “aging society,” and the proportion of elderly people is projected to be the same as Japan by 2050, such that elderly care will become a major issue in Russia too.<sup>4</sup>

In this study, I examine who cares for elderly people in Russia and what support they receive from the state. First, I review previous studies and research methods. Second, I provide an overview of the present situation regarding gender in Russia. Next, I analyze the present situation regarding elderly care. Finally, I highlight some problems with elderly care.

### 1. PREVIOUS STUDIES AND RESEARCH METHODS

Studies on elderly care in Russia are rare. Caldwell, Melissa L. (2007) analyzed changes in caregiver characteristics between the Soviet and post-Soviet era in Russia, and reported a reduced proportion of family member caregivers and higher proportion of foreign car-

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1 This work was supported by JSPS KAKENHI Grant Numbers 16K02023, 25360032, 25245034.

2 World Bank, World Development Indicators 2016.

3 Ibid.

4 [https://esa.un.org/unpd/wpp/publications/Files/WPP2015\\_Volume-I\\_Comprehensive-Tables.pdf](https://esa.un.org/unpd/wpp/publications/Files/WPP2015_Volume-I_Comprehensive-Tables.pdf)

egivers over that period. Kay, Rebecca (2013) examined state-funded homecare services in rural Russia, using an ethnographic research approach to highlight interactions between care, work, and kinship with respect to the relationship between home care workers and elderly wards. Using empirical methods, Orlova, U. L. (2015) analyzed the quality of life of elderly people living in homes for the elderly on a long-term basis. Tkach, O. A. (2015) empirically examined practical, emotional, and economic changes in the elderly care provided by family members. Grigor'eva, I. A. (2015) provided an overview of social services for the elderly in St. Petersburg. These studies provide some information on elderly care in Russia; however, they do not chronologically clarify overall changes in elderly care in post-Soviet Russia. In contrast, I analyze laws on care and state care systems, including a discussion on who provides care and the kind of state support they receive. For this I draw on not only the literature but also my own field work. Moreover, according to the results of my field work, I discuss some problems regarding elderly care in today's Russia. Although it has no direct connection to Russian elderly care issues, Japan is nevertheless another country with an aging population, and much literature on elderly care in Japan has been published, (e.g. Kasuga (1997), Sugimoto (ed.) (1997), Yamane (2010), and Ueno (2011)).

I have studied the problem of Russian elderly care since 2009, focusing on the providers of care for elderly Russians, and gathered extensive research data between March 2009 and August 2016 in St. Petersburg, Vladivostok and Kazan, as well as in Khujand in Tajikistan.

My main interviewees were employees at administrative bodies, universities, and various other organizations, including approximately 30 people who previously or currently provide care for relatives, approximately 20 migrant women living in St. Petersburg, and people from Khujand (mainly women) who have worked in Russia.

Because it has recently become more difficult to conduct field work in Russia and Tajikistan, I have had to ask my acquaintances, friends, and colleagues in research to introduce me to their acquaintances and friends who take, or have taken, care of their relatives or parents. I also interviewed female migrants from Central Asia who provide elderly care for a living, although a survey method that relies on acquaintances of acquaintances could introduce bias with respect to the research subjects. However, it is currently difficult to conduct research in Russia using non-survey-based methods. Unfortunately, few of the female migrants approached agreed to be interviewed, because they do not want to attract any attention to themselves or cause problems with the authorities, as they principally came to Russia to work. I asked dozens of women from Central Asia working in shops in Russia to introduce us to their friends, relatives, and acquaintances who provide care to elderly persons, or wish to become homecare workers. In this paper, to ensure anonymity I have changed the names and ages of these women to protect their privacy.

## 2. GENDER SITUATION IN RUSSIA

Both women and men were expected to work in the former Soviet Union, which was considered to be a country that, in a sense, had achieved "equality of men and women

in society,” although this must be placed in inverted commas. In fact, although as many women worked full-time as did men, this was because, even with both the wife and husband working, they barely made enough money to support a family. In terms of policy, women were considered part of the labor force, so it was rare for a woman to be a “housewife” in the Republic of Russia. However, in Central Asia, there was a small number of housewives, because some women had so many children that they could not continue to work.

The problem here was that housework and child rearing were considered women’s work, despite the fact that women were also mobilized into the labor force. This double-helping of work for women was not resolved; indeed, it was rarely discussed. However, that is not to say that there was no discussion about it at all. There were, for example, some signs of a subtle shift towards allotting a share of housework to husbands.<sup>5</sup> However, this has not, to date, resulted in any specific policy that takes consideration of work-life balance.

In recent years, the falling birth rate in Russia has become a matter of great urgency. In contrast to the financial support provided at the national level, as a social policy measure to counter the declining number of children,<sup>6</sup> the government does not seem to consider the issue of an aging society to be equally important. It is also evident that elderly care in Russia is not as urgent an issue as it is in Japan, simply because of the shorter average life expectancy in Russia. However, studies have revealed that the burden of work on women has increased two-, three-, or even four-fold.

Russian people may consider the issue of an aging population in their own country unworthy of discussion, merely because women are devoted to in-home elderly care, just as they are to house work and child rearing. That is, while the problem does exist, it has not yet come to be considered as one that needs to be actively addressed. Due to the shorter life expectancy, there are fewer bedridden elderly people in Russia than in Japan, where long-term nursing care is in great demand. This should not necessarily lead to the conclusion that the issue is of no importance in Russia. An era marked by a declining birth rate and aging population is forecast for Russia in the near future; accordingly policymaking to address its aging population *is* of great importance for the future of Russian society.

### 3. ELDERLY CARE IN RUSSIA

State-funded elderly care in the Soviet era was virtually non-existent. The only assistance available to the elderly was a pension and live-in elderly facilities.<sup>7</sup> Social services for the elderly in Russia began with the “Federal Law on social services for the elderly and the disabled in the Russian Federation”<sup>8</sup> in August 1995 and the “Federal Law regarding the foundations of social services in the Russian Federation,” enacted in

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5 Ineko (1969), pp. 115–119.

6 E.g. New Childcare Allowance “Maternity Capital,” Increasing the number of kindergartens.

7 Grigor’eva (2015), p. 254.

8 Federal’nyi zakon ot 2 avgusta 1995 g. N 122-FZ.

December 1995.<sup>9</sup> The law passed in August was further reinforced and complemented by that passed in December.

Since then, several amendments have been added, such as the Federal Law of the Russian Federation, N 442-FZ, passed on December 28, 2013, and *On the Foundations of Providing Social Services to Citizens in the Russian Federation*, which went into force on January 1, 2015 and revised the qualification criteria for assistance beneficiaries.<sup>10</sup> However, because my main field surveys were conducted before the enforcement of this law, this paper does not address the content of the revision.

Services are rendered according to Federal law. In 2004, applications were assessed by reference to the standards of individual members of the Russian Federation, such that the characteristics and application of the services varied depending on a person's location.<sup>11</sup> This was evident from my oral surveys conducted in St. Petersburg, Kazan, and Vladivostok.

In Russia, the main funding for social care is provided by the federal government, individual federation members, and local governments. At present, Russia has no public nursing care insurance system in place. Thus, public care is limited to the elderly, and is largely free. A proposal in 2011 suggested the introduction of a nursing care insurance system, but there have been no developments since then regarding the introduction of such a system.<sup>12</sup>

Services stipulated by law include material aid, in-home social services, institutional social services, and the provision of temporary resorts, day-care services, counselling, and rehabilitation.<sup>13</sup> At first glance, a care system appears to have been established. However, problems have materialized regarding beneficiaries and care payments.

### ***Beneficiaries of Care and Payment***

Beneficiaries of services are those with living difficulties.<sup>14</sup> Among elderly people, services are regulated as follows. Senior citizens in need of permanent or temporary assistance, due to partial or complete loss of the ability to meet their basic needs and/or movement disabilities, are entitled to social services provided by the public and non-governmental sectors of the social services system.<sup>15</sup>

People in the following three groups are provided with such services free of charge:<sup>16</sup>

- (1) Those who are unable to support themselves due to age, disease, or disability, whose pension is less than the minimum cost of living in the region, and who have no relatives to support or care for them.

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9 Federal'nyi zakon ot 10 dekabria 1995 g. N 195-FZ.

10 Federal'nyi zakon Rossiiskoi Federatsii ot 28 dekabria 2013 g. N 442-FZ.

11 Federal'nyi zakon ot 22 avgusta 2004 N 122-FZ.

12 <http://strategy2020.rian.ru/news/20111109/366196040.html>

13 Federal'nyi zakon ot 10 dekabria 1995 g. N 195-FZ.

14 Federal'nyi zakon ot 10 dekabria 1995 g. N 195-FZ Stat'ia 3.

15 Federal'nyi zakon ot 2 avgusta 1995 g. N 122-FZ Stat'ia 5.

16 Federal'nyi zakon ot 10 dekabria 1995 g. N 195-FZ Stat'ia 16.



- (2) The unemployed, victims of accidents and casualties of natural disasters or armed or tribal conflicts.
- (3) Minors without parents or custodians, or with living difficulties due to disability, disease, poverty, or domestic violence.

The elderlies are provided with services free of charge if they meet the following conditions:<sup>17</sup>

- (1) Living alone and receiving a pension less than the minimum cost of living in the region, including those with disabilities and those living with a senior spouse.
- (2) Senior citizens who receive no support or care from their relatives for satisfactory reasons, such as living in a far-distant area, poverty, or illness, or whose pension is less than the minimum cost of living in the region.
- (3) Living with family, and with an average income less than the minimum cost of living in the region.

There are separate provisions for those who receive services for a fee.<sup>18</sup> The criteria for full-fee services are as follows.

- (1) Living alone, with a pension exceeding more than 150% of the minimum cost of living in the region (includes those with disabilities and those living with a senior-age spouse).
- (2) Senior citizens who do not receive support or care from relatives for satisfactory reasons, such as living in a far-distant area, poverty, and illness, or whose pension is more than 150% of the minimum cost of living in the region.
- (3) Living with family, and with average income more than 150% of the minimum cost of living in the region.

Considering condition (3), elderly people living with family and with an average income exceeding 150% of the minimum cost of living need to pay 100% of the fees for care. Thus, such individuals prefer to employ informal homecare workers; this would seem to be a pragmatic choice. In short, according to the law, elderly people living with family can receive care services, but in reality this is only the case for elderly people living alone and with a low income. Moreover, according to federal law 1995 N 195-FZ Article 9–2, elderly people living alone can receive in-home care,<sup>19</sup> whereas those living with family cannot.

#### 4. MAJOR ISSUES IN ELDERLY CARE

##### *4-1. Who Is the Care for?*

As mentioned above, “living alone” and a low income are virtual prerequisites for the elderly to receive care services free of charge. In Japan during the 1980s, welfare

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<sup>17</sup> Ibid.

<sup>18</sup> Postanovlenie Pravitel'stva RF ot 15 apreliia 1996 g. N 473 Prilozhenie.

<sup>19</sup> Federal'nyi zakon ot 10 dekabria 1995 g. N 195-FZ Stat'ia 9.

services for the elderly also generally only benefitted those living alone with a low income. This was because the family was considered to be responsible for nursing the elderly, and because there were not enough facilities available.<sup>20</sup> Likewise, in Russia, in addition to the insufficient number of facilities, children are generally considered to have an obligation to care for their parents, and this is widely considered to extend to not only parents but also close relatives confined to bed due to aging or disease.

Regarding caring for their parents, some interviewees referred to “Article 87: Family Law of Duty to Support,” including the Vice Chairman of St. Petersburg City Social Policy Committee. Answering the question, “Is it possible to be admitted to a facility if you are living together with family?” she made a striking remark:

Russian Family Code stipulates that we should care for our own aged parents, but they can be admitted to a facility for appropriate reasons, or at the elderly person’s request, or on provision of a medical certificate.<sup>21</sup>

It is clear that this city administrator considered that care for the elderly was the obligation of the children. In addition, in the latter half of the interview, she mentioned that it is not impossible for an elderly person living with family to enter an elderly home. However, considering the first half of the interview, she certainly implied that such cases were rare.

The Vice President of Kazan Medical University also commented on the obligation of children to care for their parents:

Our mentality is well-illustrated in the Act. If a child is still alive and is not too old, s/he should care for his/her own parents. This is registered in the Family Code, and social awareness accords with that.<sup>22</sup>

A director of a home for the elderly in St. Petersburg non-profit organization (NPO) did not address the Family Code. Nevertheless, she answered the question, “Is it a Russian tradition that family members take care of the elderly?” as follows:

That is right. Family members usually care for the elderly. It is our mentality. We maintain a sense of community. It is natural that the elderly live with their family; moreover, it shames the family to place the aged in a facility. I would never move my mother there.<sup>23</sup>

In the current system, nursing care is provided by the family due to the fundamental idea of care within the family, which is based on the mentality of the “child’s obligation of family care,” as stated in the Family Code. As noted above, in Russia, only elderly people living alone can benefit from in-home care services or be admitted to a facility for the elderly, whereas elderly people living with their family do not meet the qualifications for either. It can be safely said that family nursing care is ordinarily accepted among Russians, but there is no doubt that this can place a heavy burden on the family. Consequently, it is to be expected that women suffer the heaviest burden

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20 Masuda (ed.) (2008), p. 173.

21 March 15, 2011.

22 February 27, 2012.

23 August 16, 2011.

with respect to providing nursing care within their family. This is also clear from the following interviews with people caring for their parents at home.

Nadia (50s)<sup>24</sup>

Nadia, who lived with her parents and nephew, cared for her father at home for about 10 years. He died in 2006 and could not even walk during the last 3 years of his life; thus, the care required much stamina. Her father was a veteran who fought in the Siege of Leningrad. Thus, even though he lived with his family, he was entitled to some state-funded care. However, the family did not exercise that option, saying that if their neighbors knew that social workers were visiting, they would wonder why the family was not caring for him. Additionally, Nadia said that she could not hire private homecare workers; she considered that she had no choice in caring for the father in her own way.

Lena (50s)<sup>25</sup>

Lena worked at the Union of the Committees of Soldiers' Mothers of Russia. She often went on business trips to the Chechen Republic. She lived with her 90-year-old mother, who had dementia, so it was difficult to leave her alone to go on business trips. Her work with the Union was unpaid; thus, she made a living by doing three jobs. That her mother had dementia was known by the regional dementia center; furthermore, when her mother pushed the emergency button at home, the regional center called Lena as soon as possible. Nevertheless, her mother sometimes forgot to push the button and Lena was very worried about her. Lena was very fatigued by having to both work and provide care. Thus, she wanted her mother to go into an elderly home. However, according to current law, nursing homes for the elderly are not available for elderly people living with family. If her life continued as it was, Lena dreaded the idea of getting ill. She suffered through many anxious days.

Ira (52)

Ira was 52 years old. She was a public worker and her mother was 85 years of age. Her mother became unwell more than 4 years previously. At that time, Ira did not live with her mother, and asked a social worker to visit her mother twice per week. However, the social worker performed only simple tasks, such as cooking and cleaning. In addition, her mother's memory impairment was becoming gradually more apparent. Her mother forgot having turned on the gas, and she asked the social worker to buy the same things repeatedly. Thus, because Ira could not help her mother while living separately, and ultimately refused the services of state social workers, Ira instead moved in with her. Then, Ira had no time and was always exhausted. However, she could not make her mother move into care facilities because, generally speaking, it is not acceptable in Russian society to move one's own relatives into care facilities.

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24 August 20, 2009.

25 August 22, 2010.

#### ***4-2. Is It a Luxury to Die at Home?***

As mentioned before, living alone and being on a low income is a prerequisite for the elderly to receive free nursing care or be granted admittance to a facility. Should an elderly person, whether living alone or with family, who wishes to stay home for the rest of their life, even after becoming bedridden or being unable to receive care from the family for some reason, have that wish fulfilled?

Considering the feelings of care receivers, it seems desirable to defer to an elderly person's wishes to live at home until they die.<sup>26</sup> In-home services in Russia include:<sup>27</sup>

- (1) Organization of food, including delivery of groceries.
- (2) Assistance in the acquisition of medicines, medical products, food and greatly needed manufactured goods.
- (3) Assistance in receiving medical care, including maintenance in medical organizations.
- (4) Provision of the living conditions necessary for health and hygiene.
- (5) Legal support and organization of legal services.
- (6) Organization and support of ritual services.
- (7) Other.

In contrast, the services provided by social workers in Japan can be subdivided into physical care and life support. Home-visiting physical care services refer to assistance with using the toilet, bathing, postural transitions, dressing, going out, moving and transferring, getting up and going to bed, and other necessary aspects of physical care. Home-visiting life-support care services comprise assistance with daily affairs, such as arranging clothes, cooking, cleaning, washing clothes, shopping for daily living necessities, and receiving medicines.

On the face of it, provision (4) above, i.e. provision of living conditions to ensure health and hygiene, appears to include the physical care services provided in Japan. In reality, however, Russian social workers' duties exclude most physical care-giving activities. Social workers in Russia are occupied by activities such as preparing meals, delivering groceries, or paying utility bills, and the majority visit an elderly client twice per week. In addition to these visits, nurses also visit twice per week, so care receivers usually receive four visits in a week. The frequency and content of these visits may be effective for relatively healthy elderly people who are largely self-sufficient, but not for those who are bedridden or in nappies.

Furthermore, elderly people living with their family are ineligible for such care visits, and can receive visiting care services only by paying for them. In such cases, they have to pay in proportion to the total family income, and even then nappies cannot

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26 According to the Cabinet Office of the Government of Japan, more than half of the Japanese population wishes to spend their last days at home [[http://www8.cao.go.jp/kourei/whitepaper/w-2013/zenbun/s1\\_2\\_3\\_03.html](http://www8.cao.go.jp/kourei/whitepaper/w-2013/zenbun/s1_2_3_03.html)].

27 Government decree of June 24, 1996 N 739 "On the provision of free social services and paid social services by public social services."

be changed several times a day. This was made clear in an interview with Director of Home Social Services, in the city of Kazan.

“Who changes the nappies of the elderly bedridden? Social workers?”

“Social workers visit on fixed days only. Not all day long, either.”

“Is it not possible to use the service if living with a family?”

“We have no elderly persons registered and living with their family. If you have a bedridden elderly person in your family and cannot take care of them, you go through the procedure to put them in a facility.”<sup>28</sup>

Thus, social workers visit neither bedridden elderly persons nor those living with family. If an elderly person living with family does need services, then the total family income is taken into account. Even if they pay for visiting care services, excretion care services are excluded. In other words, the service is not available for those with the greatest need.

If one desires visiting homecare, public nursing care is not sufficient to cover all needs. Thus, who performs the physical care work that is beyond the scope of social workers in Russia? Family caregiving is the basis for addressing the shortfall, and a family member is the most likely caregiver, but another option is a *sidelka* (i.e. a homecare worker).

#### **4-3. Sidelka**

The so-called “*sidelka*” plays an important role in Russia in caring for the aged and sick. A *sidelka* is someone, possibly a registered nurse, who can provide some medical treatment. According to the Vice Chairperson of St. Petersburg City Social Policy Committee, *sidelkas* have different working patterns: a few hours a day, all day, or live-in. *Sidelkas* as official employees do exist, but very few people want to become *sidelkas* under present conditions because, unlike social workers, they have to provide physical care. For example, under St. Petersburg city law, there is a system for sending *sidelkas* to attend to veterans and those involved in the Siege of Leningrad.<sup>29</sup> There are no state-funded *sidelkas* in St. Petersburg; instead, they are hired from NPOs or private companies under contract with St. Petersburg city. Director Kolton of the Jewish Charity Centre said, “The city is not good at caring for bedridden elderly people. On the contrary, we are good at taking care of serious cases; therefore, we would rather accept those in serious condition.”<sup>30</sup> This was confirmed by existing public *sidelkas* in Vladivostok.

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28 February 27, 2012.

29 [http://old.gov.spb.ru/gov/admin/terr/reg\\_admiral/odchaya/social/soc\\_obs/sidelki](http://old.gov.spb.ru/gov/admin/terr/reg_admiral/odchaya/social/soc_obs/sidelki)  
Zakon Sankt-Peterburga ot 08.12.2010 № 719-166 «O dopolnitel'nykh merakh sotsial'noi podderzhki otdel'nykh kategorii grazhdan po finansirovaniu raskhodov, sviazannykh s predostavleniem uslug po sotsial'no-meditsinskomu ukhodu na domu».

30 August 22, 2016.

*Sidelkas* are classified under the social service sector. You can demand nursing services when someone in a serious condition becomes bedridden. Vladivostok City has 15 *sidelkas*. They work 8 hours a day, 5 days a week. Not enough *sidelkas*, but we had none 2 years ago.<sup>31</sup>

Public *sidelkas* provide services for elderly people living alone. *Sidelkas* are also available, however, if the family member lives at a great distance, such as in a foreign country, or cannot be present for some other reason. The elderly are compelled to move into a facility when a public *sidelka* cannot be sent due to the *sidelka* shortage. An alternative method is to hire *sidelkas* using a private company or, most commonly, by asking personal friends. According to my research, the lowest-priced *sidelka* was 150 rub/h, or 2,000 rub/day.<sup>32</sup> Thus, a *sidelka* is a costly option. This was also clear from my interviews.

When my mother was seriously ill in hospital, the nurses and social workers were all so busy that I had to take the first few days off to accompany and care for her. While I was on duty, and could not come to the hospital, I hired an unofficial *sidelka*, or some of my female cousins came over to care for my mother during the day. At night, I always had to hire a *sidelka* to care for my mother.<sup>33</sup>

My mother is 85 years old. She has dementia. When we lived separately, home workers visited her twice a week, but this did not help me with my mother. Thus, I moved in with her; now we live together. I hire an unofficial *sidelka*; this is less expensive than from private companies. Nowadays, a woman from Ukraine visits my mother every day for 4.5 hours. I pay 100 rub/h, so I can work.<sup>34</sup>

The mother of my colleague is bedridden. She hires a *sidelka* privately. The *sidelka* is from Central Asia. My colleague said that a woman from Central Asia is less expensive than a Russian woman. It is very natural to hire a *sidelka* in Russia at present. However, we look for a cheaper option.<sup>35</sup>

As can be seen, the number of elderly people who are actually eligible for state-funded care is very limited. Moreover, the services provided are so poor that many aged people cannot live at home until their death if they are recognized as a care receiver. Furthermore, family care is considered fundamental, with women especially providing care. Thus, to deal with the burden of their jobs, housework, child-rearing, and caring for the elderly, these women need outside assistance and the only real option is a *sidelka*. However, if you constantly hire *sidelkas*, then it becomes expensive. Thus, many Russians look to hire cheaper *sidelkas*. According to the last interview, employment of women from Central Asia has been increasing. It is true that Russians often say that it is better to hire Ukrainians and Moldovans than women from Central Asia.

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31 From an interview with Director of the Administration of Primorskii Krai, Department of Social Protection of the Population of GUSO Primorskii Center of Social Service of the Population (September 8, 2011).

32 Igarashi (2015).

33 February 27, 2012.

34 March 16, 2016.

35 March 17, 2016.

I have researched female immigrants from Central Asia; this topic is beyond the scope of this article, and I will discuss it further elsewhere. However, unlike other countries, immigration to Russia remains an issue, another legacy of the Soviet period.

### CONCLUSIONS

My analysis, based on a survey pertaining to elderly care in Russia, revealed the following:

- (1) Laws regarding elderly nursing care do exist and, with reference to public care facilities and in-home care systems, they seem well-defined.
- (2) However, a very limited number of elderly persons can actually make use of the services.
- (3) Within the Constitution and the Family Law, there is an “Article on the Duty to Support.”
- (4) Family members and relatives typically try to manage the care for elderly people at present in Russia.
- (5) The burden of nursing care for the elderly always falls predominantly on women.
- (6) It is more common in Russia to find *sidelkas* through connections, rather than using public or private nursing care systems.
- (7) Migrant women work in Russia as *sidelkas*.

Migrant workers should not be ignored because they provide support and act as a driving force in the field of elderly nursing care in Russia. Further and more detailed studies need to be conducted on this issue.

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## **PART II:**

Neoliberalism and Its Foes: The Battle for  
Post-Communist Countries

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## Chapter 4

# Globalization, Neoliberalism and the Transition to Capitalism in Russia

Peter Rutland<sup>1</sup>

### INTRODUCTION: THE SHIFTING CONTOURS OF THE GLOBAL ECONOMY

The past 25 years have seen two intersecting processes: the dismantling of socialist centrally planned economies in Eurasia, and the explosion of a second wave of globalization fueled by a revolution in transport, communications, and information technology. These two processes interacted in a complex manner: sometimes reinforcing each other, sometimes under-cutting each other. The winners of privatization were not always the same as the winners of globalization.

Both forces have had a destabilizing impact on existing political institutions. Elsewhere, globalization weakened both autocratic regimes (eg. the dictators of Tunisia and Egypt toppled by the Arab Spring in 2011) and even democracies (as evidenced by the election of Donald Trump, the Greek debt crisis, and the Brexit referendum—the last two threatening the stability of the European Union).

Russian reformers found themselves facing a Mission Impossible. It was in itself it a huge challenge to dismantle the institutions of central planning and introduce a market economy, with the attendant revolution in people's skills and ways of thinking. At the same time, however, they found themselves chasing a moving target. Global capitalism was evolving at an accelerating rate, spurred by the information technology revolution. The world was becoming “flatter,” and national governments found themselves increasingly constrained in their economic policy options. On top of that, the center of gravity of global trade was shifting from the US to China. Russian leaders could no longer be sure what exactly was the model of capitalism that they were trying to “catch up” with, since that model was evolving before their very eyes. In the 1980s they were just learning that East Asian style developmental state, exemplified by Japan and South Korea, was performing better than the European or American varieties of capitalism (Miller 2016, 24). But the 1990s saw the lowering of trade barriers, financial deepening and

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cross-border integration of manufacturing, that posed new challenges for states seeking a successful development strategy.

Globalization has unleashed a new wave of cut-throat international competition. Trade as a share of global GDP went from 9% in 1970, to 31% in 1990 and 52% in 2008, slipping back to 45% in 2015.<sup>2</sup> The integration of global supply chains means that much manufacturing activity is driven down towards the “China price”—the cost of producing that item in China’s coastal cities (Harney 2009). As Chinese wage rates have risen above \$1 an hour, manufacturers have shifted south, to Vietnam, Bangladesh and Indonesia, building the infrastructure to bring those countries further into the global division of labor. Financialization has also deepened the integration, with financial flows across state borders now running at nearly 100 times the level of global GDP (\$73 trillion). This has brought cheaper capital, but also greater instability as many of those quicksilver funds tend to flee from emerging markets at the first sign of economic or political instability. Increasingly, the only “patient capital” on offer, with long-term payback at low interest rates, is from China—and it usually comes with strings attached, from project control to equity stakes.

Volatility and uncertainty have become hall-marks of the global economy. The “second modernity” which we are currently experiencing is characterized by interdependence, risk, and complexity (Beck and Grande 2011). These trends culminated in the 2008 financial crash, which caused a deep and persistent slump from which many developed economies have yet to fully recover.

Global economic integration has become a transnational phenomenon, no longer synonymous with the West and reflecting Western values and institutions. Hence there is now a “plurality of modernities.” (Manent 2006) The increasingly differentiated, transnational division of labor that modernity brings makes it more difficult to define clear parameters for society’s moral foundations or conditions for self-rule. Adapting the social and political order to these dramatic shifts in the international division of labor has been a daunting task. Can existing state institutions, be they democratic or authoritarian, cope with this instability? The burden of adjustment remains primarily at the level of the nation-state. Global governance structures are weak, and the fate of the European Union’s bold regional integration remains unclear given the structural flaws exposed by the Greek crisis, and the new challenge of Brexit. At the same time, business corporations themselves seem to have been losing interest in trying to find solutions at the nation-state level. We have seen the rise of what Steven Gill has called the “new constitutionalism”—an emphasis on protecting property rights through national and trans-national judicial processes, mainly designed to insulate capitalist corporations from democratic accountability and regulation (Gill & Cutler 2014).

The past few decades have seen contradictory trends in social inequality. On the one hand, unprecedented growth in many emerging market economies saw global poverty halved between 1981 and 2010, with the number living in “extreme poverty” (less than \$1.25 a day) falling from 50% to 21%—despite a 60% increase in world population (World Bank 2013). However, even as global inequality *across* countries decreased, the

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2 Madison 2015; <http://data.worldbank.org/indicator/TG.VAL.TOTL.GD.ZS>

inequality *within* each country, developed and developing, was increasing (Milanovic 2016). There has been accompanied by increased feminization of the labor force in many economies. This is socially progressive, and helped to reduce poverty, but it also exerted a downward pressure on male wages.

This wave of globalization came at a time when the body of ideas and policies known as *neoliberalism* came to dominate global economic policies (Babb 2012; Aligicia and Evans 2009). Neoliberalism is a somewhat vague and contradictory set of policy prescriptions—advocating the retreat of the state at the same time as the state is expected to guarantee property rights and the smooth functioning of competitive capitalism (not to mention social stability). One of the core ideas is the promotion of international trade, allowing the deepening of the international division of labor. Critics argue that neoliberalism is primarily a political rationality rather than an economic theory, framing itself as a check on political power and guardian of individual freedom. Increasingly, this logic has become detached from a focus on the nation-state: the old “raison d’etat” (reason of state) has been replaced by “la nouvelle raison du monde” (the “new reason of the world”) (Cerny 2010; Dardot and Laval 2015). Social inclusion is reduced to market inclusion through skill acquisition, and the commodification of social policy.

The post-war Keynesian welfare state faced growing debts as it struggled to sustain universal public services in the 1970s, in the face of high inflation and unemployment and sluggish growth. The Thatcher-Reagan revolution led many states to shed public services and step back from economic regulation, turning into what has been called the “competition state” (Cerny 2010) or, since 2008, the “austerity state” (Cramme 2013). Progressive parties such as the Democrats under Bill Clinton or “New Labour” under Tony Blair embraced the neoliberal agenda, seeing that as the only way to win national elections. The German Social Democrats under Gerhard Schroeder took a different approach in 2003, holding down wages and introducing labor market flexibility in order to boost productivity (Hawley 2013). This worked economically, turning Germany into the power-house of the EU economy—but failed politically, in that the Social Democrats were voted out of office in 2005 and Angela Merkel served as Chancellor for the next 11 years. Also the yawning productivity gap between Germany and the PIGS (Portugal, Italy, Greece, Spain) could only be closed by brutal austerity measures or labor outmigration in the latter countries.

The creation of the “single European market” after the 1992 Maastricht Treaty had increased the international integration of European economies while stripping the national governments of many of the tools to blunt its impact. There was only limited scope for fiscal stimulation after the 1997 Stability and Growth Pact, no more devaluations after the introduction of the Euro in 1999, no chance of default. The main adjustment mechanism would be austerity (“internal devaluation”). European integration disembedded liberalism from its national welfare-state foundation but did not create any meaningful transnational solidarity. The rule-makers in Brussels, insulated from democratic accountability, became the executors of the neoliberal project. But the decisions themselves are not even being made in Brussels itself, but by disembodied horizontal networks of trans-national elites. Lee Jones (2016) argues that “EU policy

networks are essentially clubs of national elites working to marginalise and exclude parts of their own electorates from power over decision-making.”<sup>3</sup>

The fall of the Berlin Wall in 1989 and the subsequent incorporation of the former socialist countries of the eastern bloc only served to accelerate these processes. Free movement of labor from the east kept up downward pressure on wages in the developed economies, while capital was also free to move to set up factories in the new member states, where wages and corporate taxes were lower (Bohle & Greskovits 2013). The EU’s cohesion strategy was all about integrating the member states in order to improve the global competitiveness of the European economy (Sitera 2015). The collapse of the Soviet Union also removed an ideological buttress for organized labor: socialism had proved to be a failure as an alternative economic model to capitalism.

In all the developed economies, workers’ share of national income has been declining due to technological change, deepening international competition, and the declining political power of organized labor (Piketty 2014). From 1970–2014 it fell in 26 out of 30 countries surveyed by the OECD (2015), from a 4% fall in UK to 14% in Spain. It fell by 6% in China and 4% in India, but interestingly it rose in Russia by 3% (1995–2014), a result presumably of strong growth, a relatively tight labor market, and a relatively inclusive social policy.<sup>4</sup> Real wages have been flat in the top 36 economies since 2008 while productivity rose 6% (Jacobs & Mazzucato 2016).

Neoliberalism emerged from the 2008 crash relatively unscathed—which is paradoxical, since it was neoliberal-inspired financial deregulation that caused the cataclysm in the first place (Cooper 2011; Eagleton-Pierce 2016; Peck 2010). Conservatives won elections in the UK and Germany, and even where progressives were in power (US, France) they did not substantially deviate from the neoliberal agenda, once the initial crisis-management phase was over. There were admittedly some lasting changes to the model post-2008, including a tolerance of monetary expansionism and low interest rates (at least while inflation is also low) (Mau 2016a, 354). Capital controls are now seen as a “legitimate part of the toolkit,” though their effectiveness, given the scope for evasion, is open to debate (Ostry et al. 2010, 15). There has been a renewed interest in the state adopting a pro-active industrial policy, both a policy that is comparative advantage following (CAF) and comparative advantage defying (CAD) (Becker et al 2010).

Angela Merkel spoke for most European leaders when she stated that there is “no going back to a time before globalization.”<sup>5</sup> However, we increasingly see a bifurcated global economy, split between a cosmopolitan-oriented elite with the skills or capital to reap the benefits of globalization, versus a predominantly low-skilled mass of workers eking out a living, predominantly in the public and service sectors. With the decline of socialist utopianism, leftist alternative programs are few and far between. Ordinary people have responded by “coping, hoping, doping and shopping” (Streeck 2016).

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3 Lee Jones, <http://blogs.lse.ac.uk/brexit/2016/06/10/the-eu-locked-in-neoliberalism-and-locked-out-its-people-brexit-is-the-alternative/>

4 Mau has the labor share in Russia rising even more, from 40% in 1998 to 50% in 2010 (Mau 2016a, 364).

5 <https://www.theguardian.com/us-news/2016/nov/16/barack-obama-and-angela-merkel-call-for-continued-transatlantic-cooperation>



## 1. RUSSIA: FINDING A PLACE IN THE GLOBAL DIVISION OF LABOR

Russia's attempt to build a competitive market economy and liberal democracy in the 1990s was, by and large, a failure, for reasons too complex to detail here (Rutland 2013a; Gelman 2015). Russia's post-soviet leaders face a triple challenge in trying to modernize their country's economy. First, as the world's largest producer of oil and gas, Russia is burdened by the "oil curse"—a well-documented combination of pathologies that dog the development of countries heavily dependent on oil export revenues: an overvalued currency, volatile exchange rates, corruption, concentration of wealth and power, etc. (Ross 2013). Second, the country suffers from what one might call the "Russian curse": a centuries-old tradition of a strong centralized state; deemed necessary to preserve internal stability and external security of what became the largest country in the world, trying to hold a vast stretch of territory from Europe to North America (Hedlund 2012). Third, it suffers from the "Soviet curse": 70 years of socialist central planning that reinforced the statist tradition of Tsarist Russia and adding new distortions such as a bloated military industry complex, disdain for entrepreneurship, dependency on state handouts, and informal networks of trusted partners that inhibit open competition and public accountability.

On one side of the debate about what is to be done are modernizers who still insist that the only way to restore Russia's prosperity and standing in the world is to embrace Western market institutions—even as those institutions are fraying and failing in the face of intensified globalization. Their leading exponent now is former finance ministry and long-time Putin friend Aleksei Kudrin (Kudrin 2013; Pis'mennaia 2013). Although their numbers have shrunk over the course of the Putin administration, they still hold some influential positions, including Finance Minister Anton Siluanov, Central Bank head Elvira Nabiullina, Deputy Prime Minister Arkady Dvorkovich, and First Deputy Prime Minister Igor Shuvalov (Minchenko 2016; Rubin 2016).<sup>6</sup> However, Sergei Aleksashenko (2016b) argues that it is something of a stretch to describe them as a "liberal" faction, as if they are ideologically committed to a reform agenda. He argues that the main characteristic of this group is simply that they are technically competent managers. Most of the committed liberals have left politics—or quit Russia altogether (such as Sergei Guriev, former head of the New Economics School, and Sergei Aleksashenko himself). One of the remaining members of the "liberal" group, Aleksei Uliukaev, the minister of economic development, was arrested for corruption in November 2016, accused of taking a \$2 mn bribe to approve Rosneft's acquisition of Bashneft (Matveev 2016).

On the other side are nationalists who believe that integration into the global economy has reduced the Russian economy to a "raw materials appendage" of Europe and China, and undermined the political institutions and cultural norms that are central to Russian identity (Rutland 2016). The "nationalists" are also a diverse group, ranging from ideological Eurasianists who prioritize reintegrating the former Soviet economies, to lobbyists for Russia's manufacturing and defense industries. They argue

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6 For a profile of Shuvalov, see Bekbulatova 2016.

that erecting barriers to Western economic influence and creating an alternate trading bloc is necessary to prevent the exploitation of the Russian economy and even the possible destruction of the Russian state (Glaz'ev 2011, Deliagin 2015). A moderate nationalist position is represented by the Stolypin Club, formed in 2015 by Boris Titov (head of the Delovaia Rossiia business organization and since 2012 the presidential ombudsman for business) and Andrei Klepach (vice president of Vneshekonombank and former deputy minister of economic development) thought to be sponsored by presidential aide Andrei Belousov (Viktorov 2016; Berres 2016).<sup>7</sup> The Stolypin Club, who call themselves “market realists,” released an expansionist economic strategy in June 2016 (Stolypinskii klub 2016). Sergei Glaz'ev, who had formerly been involved, quit the Stolypin Club in August 2016, allegedly because it was becoming too closely associated with the “Right Cause” (Pravoe delo) political party that Titov headed since February 2016—and which was renamed the “Party of Growth” in March 2016 (Belaev 2016).<sup>8</sup>

At the level of Russia's national leaders, the rhetoric of Western-oriented modernization prevailed, at least until the 2014 Crimean crisis; while in the broader political society, as represented in the mass media, tropes of hostility towards global integration are still prevalent (Hopf 2013).

It is possible to imagine a middle position, a third way between the modernizers and the nationalists: a distinctively Russian economic model which combines elements of trade openness with measures to ensure Russia's long-term development. After becoming president in 2000 Vladimir Putin tried to pursue that middle path, but the stagnation which the Russian economy has experienced since the 2008 financial crisis suggested that Putin's hybrid model was not working—even before the 2014 Crimea crisis. In May 2016 Putin called a meeting of the formerly dormant presidential council on economic policy where he listed to the arguments of both sides.<sup>9</sup> He told the participants that they should focus on practical matters and not become prisoners of “ideological assumption,” since “in economic discussions there can be no monopoly on truth” (Zasedanie 2016).

## 2. THE EVOLUTION OF PUTIN'S STRATEGY

When Putin was nominated acting president in 1999 he was fully aware that Russia was falling further behind the economies of the developed West. He concluded that Russia's viability as a great power required him to accelerate economic modernization and deepen Russia's participation in global integration. In his pre-election manifesto in 2000 he warned that “It will take us about 15 years and an annual growth of our gross domestic product by 8% a year to reach the per capita GDP level of present-day

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7 See their website: <http://stolypinsky.club/>

8 Titov's party won just 1.3% of the vote in the party list vote in the September 2016 State Duma elections.

9 The Economic Council had been formed in July 2012 but had not met since April 2014. <http://kremlin.ru/events/councils/by-council/32>

Portugal or Spain, which are not among the world's industrial leaders" (Putin 1999). Russia did manage to reach Portugal's 2000 GDP per capita in 2012, although its GDP still lagged 22% behind the 2012 Portugal level (Gilman 2012).

In his first address to the Federal Assembly in July 2000 Putin was harshly critical of the policies of the 1990s, which led to a situation where "the growing gap between the leading countries and Russia is pushing us towards the Third World" (Putin 2000). He argued "We have had to choose: operate on alien aid, advice and credits or rely on our own resources." In practice, however, Putin recognized the advantages that could be gained from participation in the international division of labor—access to cheap capital, superior management skills, and the latest technology. He did not turn Russia away from global integration: he kept the ruble a convertible currency, lifting the remaining capital controls; and continued to pursue WTO membership, which Russia finally achieved in 2012 (Sutela 2012). Putin did not reverse the privatizations of the 1990s—with the exception of the oil industry, where he brought the two largest private companies, Yukos and Sibneft, back into state ownership in 2004.

The global financial crisis of 2008–09 hit Russia hard, with Russia experiencing an 8% drop in GDP in 2009, the deepest of any of the G20 countries (Robinson 2013). However, despite the economic turbulence of 2008–09, real wages and pensions continued to rise. The state pressured businesses not to fire workers and shut loss-making plants—as in the celebrated incident in Pikalevo in June 2009, where Putin berated Oleg Derispaska for allowing one of his factories to sink into bankruptcy, leading to worker protests (Fortescue 2009).

In the fall of 2008 the government spent \$209 bn (half its reserves) to slow the rate of fall of the ruble—enabling banks and corporations to cover their dollar-denominated debts and not default, as they had been forced to do in the crisis of 1998. Optimists argued that this showed that the government's caution in hoarding a significant part of the oil revenues from the boom years had paid off, providing the state with a cushion to ride through the crisis. Skeptics such as Vladimir Mau argue that this also unfortunately meant that the crisis did not provide a stimulus to structural reform, and that the crisis was a "wasted" opportunity (Mau 2016, 272).

Another contrast to the 1998 crash was that the 2008 crisis did not significantly weaken the political authority of the Putin-Medvedev leadership. However, a political crisis unfolded in the wake of the successfully-managed economic crisis. In September 2011 Putin revealed that he would be returning to the presidency in 2012, triggering mass discontent and a slump in his popularity. The Kremlin was frightened by the sight of the tens of thousands of protestors who took to the streets of Moscow to challenge the results of the December 2011 State Duma elections.

In response to this political challenge, on his return to the presidency in May 2012 Putin executed an ideological right turn. He encouraged a series of legislative measures to appeal to traditional values (such as a ban on foreign adoptions and LGBT propaganda) and cracked down on civil society groups receiving foreign money. He also targeted the Pussy Riot group after their performance in the Cathedral of Christ the Savior, as a symbol of the gulf between Russian and Western values. This led to a tension between the competing economic and political logics driving the Kremlin's

policy: “Putin is trying to modernize the country with one hand while strengthening its spiritual bonds with the other” (Stanovaia 2013).

In 2012 Putin laid out a program of state spending to improve Russia’s long-term growth prospects while also boosting living standards and the quality of public services. This looked more like a Soviet-style mobilization program than the modernization through liberalization which Medvedev had promoted when he was president. Putin’s decree no. 596 “On the state’s long run economic policy” of May 2012 set a dozen ambitious long-term goals, including: 25 million new job places by 2020; investment to reach 25 percent of GDP by 2018; a 30% increase in high tech products; a 50% increase in labor productivity; and to boost Russia’s World Bank “ease of doing business” rating from 120th place to 50th by 2015 (and 20th by 2018) (Rutland 2013b). Over the course of the next year Putin pressured ministry officials to follow through on the new program (Kolesnikov 2013). The May decrees introduced a recentralization of federal control over social and economic decision making, with federal spending rising twice as fast as regional spending. Spending by regional governments as a share of GDP declined from 16% to 11% 2008–2016 (Ranepa 2016, 13).

These programs were given a high degree of visibility by the Kremlin-controlled mass media, and provided a vehicle for Putin to display his active concern for the nation’s socio-economic progress. However, at the conclusion of the program’s first year, in May 2013, Deputy Prime Minister Vladislav Surkov, co-chair of the commission for implementing the presidential decrees, was forced to resign because of failures in implementing the decrees (Koshcheev 2013).

Putin also started to move towards an alternative third-way approach in the form of the Eurasian Economic Union: a regional trading bloc that would be under Russia’s control and would be to a degree insulated from the global economic institutions dominated by the US and its allies. However, that approach also proved wanting. The change of government in Ukraine that occurred in February 2014 following the Euromaidan protest movement signaled that Ukraine was pulling away from economic integration with Russia, leaving only Belarus, Kazakhstan, Armenia, and Kyrgyzstan as partners in the EEU. The subsequent military confrontation and Western sanctions have pushed Russia in the direction of autarchy.

The 2014 Ukraine crisis saw a strengthening of the nationalist wing of the Putin administration (Rutland 2016). In July 2012 Sergei Glaz’ev had been appointed economic advisor to Putin, replacing the liberal Arkady Dvorkovich (who was promoted to deputy prime minister in charge of economic policy). Glaz’ev is a critic of globalization, arguing that it leads to the deindustrialization of mature economies, while the deepening financialization of the international economy exposes countries to speculative bubbles while strengthening the power of the US (Glaz’ev 2011). He believes that recycling the petro-wealth through a state-led investment campaign in infrastructure and manufacturing, behind protectionist barriers, can best preserve Russia’s industrial base. He argues for the need to create a separate international payments system with the BRICS countries to insulate themselves against Western sanctions; more investment in R&D to prevent bans on technology transfer from disrupting key industries; and the introduction of capital controls to stop capital flight (Glaz’ev 2014).

In contrast, the liberals believe that it should be private business not the state that invests in modernizing Russian industry, and that the state should focus its efforts on creating a favorable investment climate—low inflation, secure property rights, lower corruption and bureaucratic barriers, and a welcome mat for foreign investors with their know-how and technology (Foreign owners have an equity stake in one in four Russian manufacturing firms.).

The main standard bearer for the liberals, such as they are, is Aleksei Kudrin, a close friend of Putin who served as finance minister from 2000 until September 2011 (when it seems he clashed with then-president Medvedev, who was about to step down and become prime minister). Kudrin warned that “Business is very concerned by what it is hearing on the radio and TV,” and he feared cutting ties with West “that will hold back modernization in all directions.” He continued “There are forces in the country who have long wanted . . . isolation, maybe a certain self-sufficiency. Today this has all fallen on fertile ground” (Kudrin 2014). In April 2016 Kudrin was charged with drawing up a new economic reform plan at the Center for Strategic Research—the fourth such liberal reform plan since Putin came to power (Rogov 2016). The predecessors were the German Gref’s plan of 2000, Elvira Naibullina’s “oil modernization” of 2008, and Putin’s “Strategy 2020” of 2012 (*Strategiia* 2012). The Gref plan was partly implemented, to good effect, but the subsequent two were dead on arrival due to exogenous economic and political shocks—the 2008 crash and the 2012 authoritarian turn.

In the wake of the annexation of Crimea, Western countries imposed sanctions on select Russian banks and energy companies, which made it difficult for Russian firms to refinance their debts. In July 2014 Putin responded by imposing counter-sanctions, banning the import of foodstuffs from countries involved in the sanctions regime.<sup>10</sup> The ruble started to plummet, inflation surged to 15%, and the Russian economy plunged into a recession with a 3.7% drop in GDP in 2015. The Central Bank spent \$12 bn defending the ruble as it came under attack in November 2014, doubling interest rates to 17% and allowing the ruble to freely float—losing 40% of its value (Seddon 2016). After that interest rates fell back to 10%, and have stayed at that level, above the rate of inflation and a deterrent to investors. Inflation in January-October 2016 fell back to 7.4%, while unemployment was stable at 5.6% (World Bank 2016, 6). But real disposable income fell 5.8% in the first 8 months of 2016, including a 3.7% in the real pension (World Bank 2016, 18). Those below the poverty line (c \$5 a day) stood at 14.6% of the population, up from 11% in 2013. Fixed capital investment fell 7.1% y-o-y in the first half of 2016, following a 6.9% fall in 2015 (World Bank 2016, 13). One positive sign was that in May 2016, for the first time since 2013, the government issued \$1.75 billion 10-year Eurobonds with an effective rate of 4.75%. In January the government announced a 10% cut in spending in 2016 (excluding defense and social spending), by October it had managed to reduce spending by 0.8% of GDP, to 17.1% (World Bank 2016, 23). Despite much talk of the ruble depreciation stimulating import-substituting industrial producers in Russia, in the first half of 2016 manufacturing continued to decline, by 1.7% (a downward trend which began in January 2013) (World Bank 2016, 27).

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10 In January 2016 Turkey was added to the counter-sanctions in retaliation for its November 2015 shutdown of a Russian bomber.

According to the three year budget projection released in October 2016, the finance ministry plans to cut inflation to 4% and the budget deficit to 3.2%, with a freeze on spending (Prokopenko 2016; Ministry of Economic Development 2016). It forecasts GDP growth of 0.6% in 2017, 1.7% in 2018 and 2.1% in 2019, with oil conservatively projected at \$40 a barrel. Liberal economists argue that fiscal stringency is necessary to reassure investors and lower interest rates (Nazarov 2016) while critics argue that the high interest rates amount to a transfer to the budget sector from the private sector (Rogov 2011). The budget process was taking place amidst great uncertainty over Russia's future trajectory (the projections were revised three times in October)—and of course fierce battles between departments facing spending cuts.

The impact of the sanctions and counter-sanctions was multiplied by a slump in global oil prices, so it is hard to disentangle the one from the other (Aleksashenko 2016a). Gurvich and Prilepskii estimate the impact of the sanctions as a loss of 2.8% of GDP by 2017, or \$168 bn—as against a loss of \$398 bn due to the slump in oil prices (Gurvich and Prilepskii 2015, table 10). In other words, two-thirds of the contraction was due to the slump in oil revenues, and less than one third to the impact of sanctions and counter-sanctions. Russian imports fell by half in 2015, but one did not see any disproportionate fall in EU exports to Russia compared to other non-sanctioned countries, which is another piece of evidence against the impact of sanctions (Gros & Mustilli 2016). Cutting off Russia from foreign global markets clearly hit Russian borrowers (and the government, which stepped in to refinance them) and accelerated the decline in incoming foreign investment (Domanska & Kardas 2016).

One lasting feature of the sluggish post-2008 global recovery has been the failure of commodity prices to return to pre-crisis levels. This is of particular concern to Russia and other energy exporters such as Azerbaijan, Kazakhstan and Turkmenistan. Oil peaked at over \$140 a barrel in July 2008 before falling to \$30 in December 2008; rising to \$106 in 2014 and then falling again to \$31 in January 2016, with an average of \$45 in 2016.<sup>11</sup> This is a result of new supplies coming onstream, particularly shale gas and oil in the US, but also offshore projects in Australia, Mozambique and elsewhere. At the same time, demand has been levelling off because of energy-saving measures and the rise of renewable technologies. Even in China, with its rapidly expanding car ownership, oil imports have been flat.

## CONCLUSION

Russia's political economy is clearly under strain—but that does not make it an outlier by global standards. All governments are struggling to maintain political legitimacy in the face of sluggish growth and intensified international competition. Russia's economy certainly has some distinctive characteristics, such as a high concentration of ownership, high dependence on oil and gas exports, and a large military industry sector. But the government's overall role in the economy is roughly on a par with other upper-middle income countries (40% of GDP); and with a floating convertible cur-

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<sup>11</sup> <http://www.macrotrends.net/1369/crude-oil-price-history-chart>

rency, no capital controls, and trading half its GDP, Russia remains well integrated into the global economic system. The costs of adjustment to the 2008 financial crash and the self-induced international political crisis of 2014 have been steep, but have largely been shifted onto the backs of Russia's poor and middle classes—without undermining the legitimacy of the political regime.

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## Chapter 5

# **Neo-Liberalism or EU Conditions: Economic Policies in the CEECs and Balkan Countries**<sup>1</sup>

Masahiko Yoshii

### INTRODUCTION

This paper is a revisit of Uegaki (2013) and Sengoku (2013), which discussed how the neo-liberalism was assumed in Russia and the Central and Eastern European Countries (CEECs) in the 1990s.

Uegaki (2013) mentioned that neo-liberalism, a philosophy of “enlightenment from above,” penetrated into Russia by education to students, advice to the government, practicing what students have learnt or the government has been advised, and teachers themselves’ practicing what they taught. He criticised enlightenment from above, or market Bolshevism, which was repeatedly denounced by von Hayek, because it is a constructivist behaviour.

Sengoku (2013) noted firstly that transition reforms at the beginning of the 1990s, such as abolishment of price controls, restoration of currency convertibility, and trade liberalisation, were the practice of neo-liberal economic policies. Furthering the argument, he insisted that the second wave of practicing neo-liberal economic policies appeared in the 2000s in the shape of reduction of personal and corporate income taxes, reduction of social welfare expenditures, deregulation of labour protection and other regulations, and introduction of privileges for incoming FDIs. We must note that he also added that the second wave of neo-liberalism did not appear in some CEECs, as the first wave aroused hostile feelings towards neo-liberalism among the population.

This paper concentrates on the neo-liberalism movement in the CEECs, and will propose another perspective on the movement, that is, the impacts of EU accession. The paper will show that the accession negotiations compelled the CEECs to assume social market economic as well as neo-liberal thoughts. Furthermore, the paper will predict how the Western Balkan countries may react to the demands of the European Union.

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<sup>1</sup> The author expresses his appreciation to Professor Akira Uegaki and other participants at the seminar, who gave valuable comments and held helpful discussions.

## 1. NEO-LIBERALISM PENETRATION IN THE 1990s

It used to be said that neo-liberalism was imposed on the first phase of the transition process in the former Soviet countries, especially Russia, and many CEECs. Because most of these countries did not have enough financial resources to cope with their current account deficit problems they faced at that time and to proceed with their systemic transformation, they had to rely on financial assistance from abroad, especially from the International Monetary Fund (IMF) and the World Bank. These international financial institutions imposed the so-called Washington Consensus on these countries as conditions for lending aid money.

The Washington Consensus is not a clearly defined idea, but is thought to be a set of economic policy reforms considered to be desirable by these Washington-based international financial institutions (Williamson 1989). These conditions are as follows (Williamson 2000, pp. 252–253):

- Fiscal discipline;
- A redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure;
- Tax reform (to lower marginal rates and broaden the tax base);
- Interest rate liberalisation;
- A competitive exchange rate;
- Trade liberalisation;
- Liberalisation of inflows of foreign direct investment;
- Privatisation;
- Deregulation (to abolish barriers to entry and exit); and
- Secure property rights.

As the way that Poland and other advanced CEECs implemented transition reforms is very well known, we will examine the macro-economic stabilisation policy in Romania at the beginning of the 1990s as an example of IMF conditionalities on the economies in the CEECs.<sup>2</sup>

After the collapse of the Ceaușescu regime, Romania firstly liberalised prices in November 1990, which caused 23 and 12 per cent hikes in the consumer price index, respectively, in November and December 1990, and depreciation of its currency, the Leu. Thus, the Romanian government asked the IMF to provide Romania with stand-by credit. According to the Letter of Memorandum by the Romanian National Bank to the Executive Board of the IMF,<sup>3</sup> the macro-stabilisation targets of the Government of Romania in 1991 are the following:

- Preventing a real GDP fall;

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<sup>2</sup> For details, see Yoshii 2000, pp. 72–80.

<sup>3</sup> The National Bank of Romania, “Memorandum on Economic Policies of the Government of Romania to the IMF” in Government of Romania, *The White Book of the Romanian Reform*, Bucharest, 1991, pp. 35–46.

- Reducing the consumer price increase to 15 per cent per year by the end of 1991; and
- Increasing the foreign reserve from 0.7 billion US dollars to 1 billion US dollars by the end of 1991.

The following macro-economic stabilisation measures were to be implemented to attain these targets:

- Tight fiscal and monetary policy;
- Flexible interest rate policy;
- Wage control by the income policy; and
- An adequate exchange rate policy.

Thus, Romania had to follow the prescription worked out by the IMF to get through the hard times at the beginning of the 1990s. However, we should note that the macro-stabilisation policies in Romania were not a one-shot shock therapy, but a somewhat gradualist therapy. Romania, for example, introduced phased price liberalization, and gradually abolished subsidies for basic foodstuffs.

Furthermore, we should note that Romania did not fully follow the prescriptions by the IMF. Romania helped state enterprises with bad debts by the compensation mechanism, and could not create a hard budget economy. The second transition reforms in 1996 under the Constantinescu-Ciorbea administration produced the same results. The new government tried to further liberalise its currency, the Leu; to reduce the fiscal budget deficit by halving subsidies to agriculture and industry, restraining the increase in public workers' wages, and reducing public investments and energy-related expenditures; and to restructure the state-owned sectors so that Romania could access the EU. These reforms, however, encountered various resistance, and the implementation pace slowed (Yoshii 2000).

Different from the CEECs where economists, including such famous economists as Janos Kornai, Leszek Balcerowicz, and Václav Klaus, learnt neo-classical economics and where standard macro- and micro-economics textbooks were translated before the collapse of the Berlin Wall, the impacts of Western economic literature in Romania was rather limited due to the restricted contact.<sup>4</sup> Exceptions might have been researchers of the Institute of International Economies, which could have a limited window onto Western economic thoughts.<sup>5</sup>

## 2. ACCEPTANCE OF EU CONDITIONS IN THE CEECs

As we have seen, the CEECs tried to assume and practice the neo-liberal economic therapies prescribed by the IMF at the beginning of the 1990s, in order to stabilise their macro-economies and to advance their systemic transformation. Since the middle of

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4 Aligica and Evans 2009, p. 47.

5 The most famous former staff member of the institute is Mugur Isărescu, who has been the governor of the National Bank of Romania for almost a quarter-century from 1990, except from 1999 to 2000 when he was prime minister.

the 1990s, however, another motivation has been added: EU accession. The CEECs had to assume the *Acquis Communautaire*, the body of EU law, and follow common and recommended economic policies of the EU so that they might join the European Union.

The mainstream economic thought of the EU or the European Commission, especially in the competition and industrial policies, is well known to be of a neo-liberal nature. For example, through the CEECs' accession negotiations, almost of all the preferential treatment to attract foreign direct investments was to be abolished as it was thought to breach the neo-liberal competition policy principle.<sup>6</sup>

But the social and economic model of the European Union is an aggregate of four European models: the Continental, Northern European, Mediterranean, and Anglo-Saxon models.<sup>7</sup> Considering the importance of Northern European countries, especially Germany, in the past and present politics and economy of the EU, the Northern European model, especially the German model, is thought to have had the biggest impact on the economic thought of the EU.

On the one hand, post-World War II economic thought in Germany was constructed mainly on the basis of Ordo-liberalism, which is known as the social market economy, and has been the core economic thought of the CDU/CDS.<sup>8</sup>

Ordo-liberalism considers the free market economy not as a natural plant, but as a cultivated plant, which needs careful care for its growth and ripening. Ordo-liberalism emphasises the need for a state to ensure that the free market should produce results close to its theoretical potential, and it had a big influence, for example, on forming the Restriction of Competition Act in Germany, which in turn played a significant role in creating and developing the EU competition policy.<sup>9</sup>

On the other hand, neo-socialism became the basis of the postwar German economic thought of the SPD.<sup>10</sup> The basic value of neo-socialism is based not only on freedom but also on equality or justice, as well as solidarity, which attaches importance to social policy and cooperative action.

These two main economic thoughts in Germany, as well as the French version of the social market economy, have created a basis of the economic thought of the European Union. These economic ideas are now conceptualised as the "European Social Model."

The European Social Model is an evolving set of principles and policies responding to the aspirations and will of the peoples of Europe as expressed by democratic votes. It is inextricably interwoven with the process of closer European unity developed after the Second World War, as embodied in the Council of Europe and the European

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6 Yoshii 2010.

7 Tanaka 2014, p. 466.

8 Nojiri 1976, pp. 43–59.

9 The Restriction of Competition Act is based on Ordo-liberalism, not a mere imported version of the Anti-trust Act of the United States. And the German competition policy has been most strictly implemented in European countries, having played a leading role in creating and developing the EC competition law (Sensui 2000, p. 195).

10 Nojiri 1976, pp. 60–65.



Union, which share the same commitment to the values of human dignity, individual freedom, social solidarity, political liberty, and the rule of law that form the basis of all genuine democracy.<sup>11</sup>

After having incorporated the European Social Model into the policy framework,<sup>12</sup> the EU adopted the Lisbon Strategy in 2002, the action and development plan devised in 2000 for the economy of the European Union between 2000 and 2010. Although the main target of the Lisbon Strategy was to make the EU the most competitive and dynamic knowledge-driven economy in the world, attaining sustainable economic growth with more and better jobs and achieving greater social cohesion were also added as important agenda items of the EU.<sup>13</sup>

The Lisbon Strategy was followed by Europe 2020, the agenda for growth and jobs for the current decade. It emphasises smart, sustainable, and inclusive growth as a way to overcome the structural weaknesses in Europe's economy, improve its competitiveness and productivity, and underpin a sustainable social market economy. To attain inclusive growth, the following targets are to be met by 2020:

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11 <http://assembly.coe.int/nw/xml/XRef/Xref-XML2HTML-en.asp?fileid=21972&lang=en>  
The following sentences are inspired by Hikuma 2016.

12 Barcelona European Council in 2002 stated that the European social model is based on good economic performance, a high level of social protection, and education and social dialogue. An active welfare state should encourage people to work, as employment is the best guarantee against social exclusion (Presidency Conclusions, Barcelona European Council 15 and 16 March, 2002, SN 100/1/02 REV, p. 8).

13 Presidency Conclusions, Lisbon European Council 23 and 24 March, 2000. Concrete targets of social protection are to:

- strengthen cooperation between Member States by exchanging experiences and best practice on the basis of improved information networks, which are the basic tools in this field; and
- mandate the High Level Working Party on Social Protection, taking into consideration the work being done by the Economic Policy Committee, to support this cooperation and, as its first priority, to prepare, on the basis of a Commission communication, a study on the future evolution of social protection from a long-term point of view, giving particular attention to the sustainability of pensions systems in different time frameworks up to 2020 and beyond, where necessary. A progress report should be available by December 2000. And concrete targets of promoting social cohesion are to:
- promote a better understanding of social exclusion through continued dialogue and exchanges of information and best practice, on the basis of commonly agreed indicators; the High Level Working Party on Social Protection will be involved in establishing these indicators;
- mainstream the promotion of inclusion in Member States' employment, education, and training, health and housing policies, this being complemented at Community level by action under the Structural Funds within the present budgetary framework; and
- develop priority actions addressed to specific target groups (for example minority groups, children, the elderly, and the disabled), with Member States choosing amongst those actions according to their particular situations and reporting subsequently on their implementation.

- To reduce the share of early school leavers to 10 per cent from the current 15 per cent and increase the share of the population aged 30–34 having completed tertiary education from 31 per cent to at least 40 per cent; and
- To reduce the number of Europeans living below the national poverty line by 25 per cent, lifting 20 million people out of poverty.<sup>14</sup>

To achieve these targets, the member countries also have to decide their own national development programmes and set their national targets, and the achievement is to be monitored by the European Semester system.

Thus, assuming the *Acquis Communautaire* by the CEECs means not only adopting neo-liberalism but also continental neo-liberalism and a social market economy, or the European Social Model, which are now the bases of economic policies in the CEECs.

The most apparent changes of social policies in the CEECs at the turn of the century were a cut in social security expenditures and radical pension reforms in accordance with the initiatives of international organizations including the World Bank. The reasons that the CEECs accepted the initiatives of these international organisations as the bases of their social policies are as follows:

- The EU also put emphasis on fiscal sustainability to modernize its Social Europe; and
- The member countries themselves have strong competences in the domain of social policy.<sup>15</sup>

But when the accession negotiations took place at the end of the 1990s, the EU also began to pay attention to the social policies in the CEECs. And the EU used its Open Method of Coordination (OMC) to raise the social inclusion level.<sup>16</sup>

We have to admit that neo-liberalism is the most important economic idea in creating economic policies by the EU, and Hermann (2007) describes well how neo-liberal thought has been widely accepted in the European Union. What we would like to emphasise here is the fact that the social and economic model of the European Union is an aggregate of four European models, which the CEECs should also assume in the process of the EU accession negotiations, while they also have to pay attention to neo-classical macro-economic policies.

### 3. ACCEPTANCE OF EU CONDITIONS IN THE WESTERN BALKAN COUNTRIES

As the Western Balkan countries (WBCs)<sup>17</sup> are among most undeveloped countries in Europe, and as most of them experienced tragic political turmoil in the 1990s and at the

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14 [https://ec.europa.eu/info/strategy/european-semester/framework/europe-2020-strategy\\_en](https://ec.europa.eu/info/strategy/european-semester/framework/europe-2020-strategy_en)

15 Tanaka 2007, pp. 203-204.

16 Yanagihara 2011.

17 The WBCs are, in this paper, Albania, Bosnia and Herzegovina (B&H), FYR Macedonia, Kosovo, Montenegro, and Serbia.

beginning of the 2000s, they were also forced to accept foreign experts<sup>18</sup> and strategies of international financial institutions, especially the IMF and the World Bank.<sup>19</sup>

For example, the government of Serbia received financial assistance from the IMF in 2001 after the ceasefire of the Kosovo War. According to the Letter of Intent and the Memorandum of Economic and Financial Policies submitted to the IMF in May 2001,<sup>20</sup> the medium-term economic policy framework was geared to achieving sustainable growth and external viability, by a fiscal policy of disinflation, tight monetary policy, liberalisation of the exchange and trade systems, and private sector reform, that is, privatisation.

Then, the WBCs have also started a process to access the EU since the beginning of the 2000s. The Stabilisation and Accession Agreement (SAA) was the first step to fulfilling their obligations for EU membership. The integration process since then is summarised in Table 1.

**Table 1. Process of EU integration**

	Albania	B&H	Kosovo	Macedonia	Montenegro	Serbia
SAA signed	June 2016	June 2008	July 2014*	April 2001	October 2007	April 2008
Interim trade agreement came into force	December 2006	July 2008	-	June 2004	January 2008	December 2009
SAA came into force	April 2009	June 2015	April 2016	April 2004	May 2010	September 2013
Submission of EU accession	April 2009	February 2016	-	March 2004	December 2008	December 2009
Candidate status	June 2014	-	-	December 2005	December 2010	March 2012
Status to start negotiations	-	-	-	-	June 2012	December 2013
Negotiation started	-	-	-	-	June 2012	December 2015

\* The SAA was initialled.

Source: <http://ec.europa.eu/enlargement/countries/detailed-country-information/>

Thus, all the WBCs are being incorporated in the process of EU integration, and not only Montenegro and Serbia, which have already started their accession negotiations with the EU, but also the other countries are deemed to assume the *Acquis Communautaire* in the long run.

However, there are vast differences in the atmospheres around EU accession of the CEECs and the WBCs.

18 The window to neo-liberal economics under the former Yugoslavia was wider than that of Romania. See Kasse and Sparschuh 2002.

19 Toskovic, Popovic, and Markovic 2015, p. 62.

20 <http://www.imf.org/external/NP/LOI/2001/yug/01/index.htm#mefp>

Firstly, through the fifth EU enlargement in the 2000s, “enlargement fatigue” has been strongly felt in the existing EU member countries. In the opening statement in the European Parliament plenary session in July 2014, Mr. Jean-Claude Juncker said that<sup>21</sup>

the EU needs to take a break from enlargement so that we can consolidate what has been achieved among the 28. This is why, under my Presidency of the Commission, ongoing negotiations will continue, and notably the Western Balkans will need to keep a European perspective, but no further enlargement will take place over the next five years.

Another sign of enlargement fatigue is the fact that DG Enlargement was renamed the DG European Neighbourhood Policy and Enlargement Negotiations.

Secondly, the WBCs have to be sitting in the waiting room for EU accession for a very long time. Serbia had to wait for six years from the submission on EU accession until negotiations started. Furthermore, Macedonia has been waiting for more than a decade to hear the status of starting the negotiations, because its economic level is so low that Macedonia has not been recognised as a functioning market economy, and because a Macedonia naming dispute exists.

Thirdly, the WBCs have witnessed some new EU member countries’ resistance. Czech president Václav Klaus and Polish president Lech Kaczyński refused to give their signatures to ratify the Lisbon Treaty in 2009, and the Czech Republic refused again to approve the Fiscal Compact in 2012. Hungary closed its border with Serbia and Croatia when a vast number of refugees tried to enter Hungary, a time at which Chancellor Merkel proposed to all the member countries that they receive refugees.

The atmosphere against the WBCs’ accession to the EU has discouraged the WBCs’ governments and peoples from further steps towards EU accession. According to an opinion poll in Serbia, which asked whether you would support Serbia’s accession to the EU if there were a referendum tomorrow, we can recognise how support by the general public has decreased since 2009, although opinion against EU accession has not increased since 2010.

## CONCLUSIONS

This paper revisited the discussions by Uegaki (2013) and Sengoku (2013). The paper has shown the following:

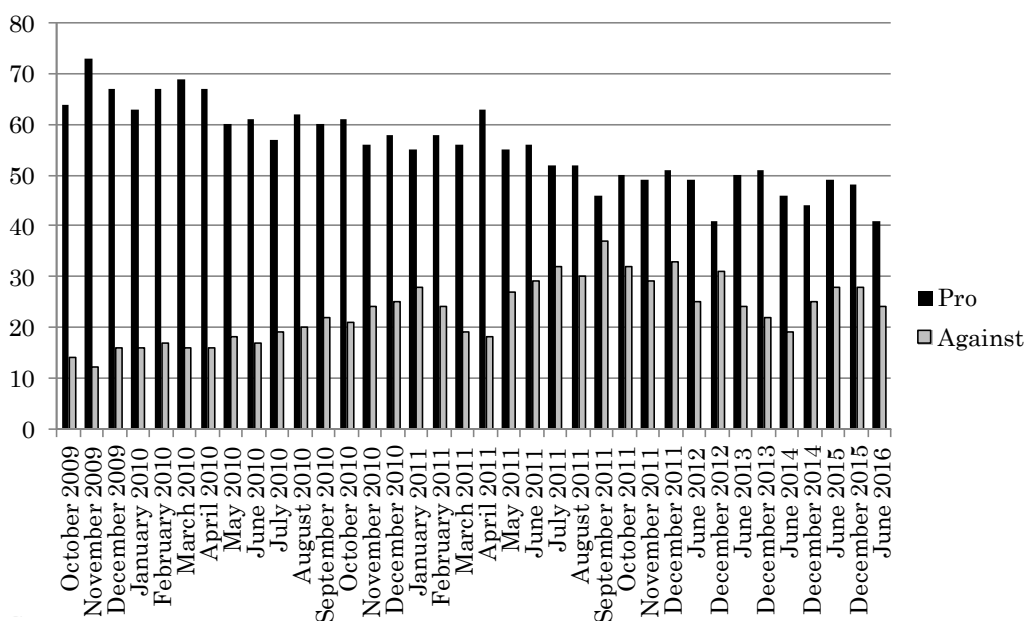
- In the first phase of transition to a market economy, both the CEECs and WBCs followed the neo-liberal therapies prescribed by international financial institutions, mainly by the IMF.
- However, when their EU accession or integration processes started, the CEECs and WBCs had to follow the *Acquis Communautaire* of the European Union, which is the body of policies prescribed along the EU models, especially the German model, as well as along neo-liberal lines of thought.
- The WBCs began to tire of sitting in the waiting room for EU accession, while the atmosphere in the existing EU member countries has become hostile to their accession.

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<sup>21</sup> The following sentences are cited from Higashino 2017.

This paper has left two issues unresolved. Firstly, the paper remains a proponent of the latter two findings above, and cannot show solid evidence for the findings. Secondly, a third conclusion has appeared in the present ongoing EU integration processes, which will need decades to go to be finalized. In this sense, we will have to keep on watching the process.

**Figure 1. EU membership support in Serbia**



Source: [www.seio.go.rs](http://www.seio.go.rs)

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## Chapter 6

# Different, Yet the Same? Neo-Liberalism in the Czech and Slovakian Economic Policies

Pavol Baboř

### INTRODUCTION

Neo-liberal economic thinking has been gaining dominance in Europe for several decades. The way the European Union responded to global financial crisis shows that the crisis is hardly to become a tipping point in the recent development. Therefore it comes as no surprise that most of Eastern European members have followed the economic recipes prescribed in Brussels. However, not all post-communist member states adopted the common solutions to the same degree.

This paper compares macro-economic policies in two post-communist EU members with a common past but diverse approach to the current EU economic integration: the Czech Republic and Slovakia. Two countries used to form a single federation a few decades ago, but chose different speed of EU integration nowadays. While Slovakia accessed the Euro Area and its politicians are regularly claiming the wish to maintain in the “core of European integration” (SITA 2017), the Czech Republic keeps its own currency and refused to adopt the Fiscal Pact in 2012.

Comparing the neo-liberal paradigm in two countries could be a never-ending exercise, as the space of what constitutes neo-liberal seems to be without borders nowadays. As the monetary policy and recently austerity measures establish the core difference between the neo-liberal and Keynesian economic thinking, this paper will focus on key monetary and fiscal rules. Additionally, we will also describe the popular attitudes towards the corresponding economic choices that governments face.

In order to explain the development of fiscal and monetary policies in the Czech Republic and Slovakia it is important to start with a brief overview of the political-economic situation in Europe right after 1989 and the choices Czechoslovakia had. The next section thus begins with a brief explanation of how neo-liberalism became the main economic narrative in Europe. Subsequently we describe the dominance of neo-liberal paradigm in the EU decision-making in order to support our argument that the Czech Republic and Slovakia did not have many options when deciding about its macro-economic policies. However, as the last section will show, there is still room for independent decision-making.

## 1. NEO-LIBERALISM IN EUROPE

Neo-liberalism has undoubtedly become one of the most frequently used term in political economy recently. Searching for the keyword neo-liberalism (and *neoliberalism*), Web of Science returns around 6,000 scientific articles and Google Scholar shows around 300,000 hits. This being said, it follows that as being such widely used, many authors and readers can understand an array of various meanings under the term. Flew (2014) provides examples of how neo-liberalism is linked to problems such as rising popularity of Bollywood style weddings or reality television programs such as Big Brother od MasterChef.

Needless to stress out, several definitions of neo-liberalism exist. We will therefore not bring forth yet another definition of our own, but we use the definition of Campbell and Pedersen (2001) who understand neo-liberalism as a “heterogeneous set of institutions consisting of various ideas, social and economic policies, and ways of organizing political and economic activity...” The characteristic features of neo-liberal arrangement is the “minimalist welfare-state, taxation, and business regulation programs; flexible labor markets and decentralized capital—labor relations unencumbered by strong unions and collective bargaining; and the absence of barriers to international capital mobility” (Campbell and Pedersen, 2001, p. 5). Mudge (2008) adds that it is necessary to understand that the ideas behind neo-liberalism consider free market and market principles sacred. Harvey (2005) explains that the indivisible part of the neo-liberal concept is human dignity and individual freedom, which contributed to the success of neo-liberal concept in its early phase.

Although many authors agree on that neo-liberal hegemony started in the 1970s, it is difficult to pin down the exact starting point. However, the fall of Bretton-Woods financial system together with 1973 Oil crises are just two symbols of the period of high inflation and simultaneously high unemployment, known as stagflation. As Centeno and Cohen put it, “policy makers increasingly adopted the view that government interference was the main culprit” (2012, p. 319). Putting the economy back on the right track involved reforms that preferred market forces rather than state intervention.

Mudge (2008) agrees that neo-liberalism could rise into to its hegemonic position due to the multiple crises of 1970s. However, Mudge explains that in its early, “project form, neo-liberalism can be understood as an interconnected set of counter-hegemonic political and intellectual struggles” (2008, p. 710). After the World War 2 Western countries witnessed the rise of welfare states, social spending and governments exercised power over monetary policies. In other words, Keynesian perception of economy organization prevailed. Thinkers around Friedrich von Hayek were politically marginalized and their influence over policy makers almost equaled to zero in the years after the WW2. It was only the inability of many leaders to solve the crises of 1970 with Keynesian policies that gave rise to political right and charismatic leaders as Reagan in the United States and Thatcher in the United Kingdom. Key political contribution to this development was what Centeno and Cohen call “a rejection of the left by significant parts of the middle class, including the better paid sectors of the working class” (2012, p. 324). By the end of 1980s neo-liberal ideas and economic policies dominated

the Western states and their politics. In other parts of the world, they were strongly promoted by international financial institutions as the International Monetary Fund and the World Bank, often using the conditionality of their financial assistance.

## 2. EU: A NEO-LIBERAL PROJECT?

As outlined above, the neo-liberal turn in Western economies was rather influential by 1980s. As many would argue, neo-liberal economic paradigm became increasingly dominant also in the EU policy making and impacted the way the EU proceeded in its integration. As noted by Bugarcic, decades after the Treaty of Rome the European Economic Community “did not evolve into more than a customs union” (2013, p. 7). Adoption of the Single European Act (SEA) in 1986 marked the beginning of a process that would lead to a full monetary union 20 years later.

The main goal of the SEA was to proceed with creation of single market and the Act set December 1992 as the date Single Market was to be completed. In order to do so member states agreed to adjust decision-making process in the Council. Single Market was defined as “an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of this Treaty” (now Art. 26 of the Treaty of European Union). This became rather important wording in the years to come and currently the four freedoms present an unwritten golden rule of the European Union.

As set by the SEA, in 1992 the Treaty of European Union was signed, which opened the door to monetary union and political integration of the member states. Andrew Moravcsik (1998), one of the most-cited scholars studying the history of EU integration highlighted that the process of Treaty revisions in 1980s and 1990s was a consequence of broad political consensus on the neo-liberal goal of single European market.

With the creation of the economic and monetary union the role and functions of a central bank had to be designed. The European Central Bank, Palley (2013) argues, was designed in a more neo-liberal way than its counterparts in the US or UK. The ECB is an independent institution from executive and legislative bodies of the EU and national states. The main reason according to Palley is that the ECB is prohibited from “helping governments finance their deficits and manage their debts” (2013, p. 41).

After the 2008 financial crisis the economic policy-making proved to take neo-liberal stance again. European Semester and European Financial Stability Facility in 2010, Euro-plus Pact and Six-Pack in 2011, and then European Stability Mechanism and Treaty on Stability, Co-ordination and Governance in the EMU (known as the Fiscal Treaty) in 2012 marked the austerity and strict monetary rules as the key response to the crisis.

The result of several pacts and intergovernmental treaties is that the national public budgets are subjects to EU level monitoring and sanctioning. Although it is still possible that a national government resort to Keynesian style fiscal policies the architecture of Euro Area institutions was designed in order to prevent this. As Bugarcic notes, this “basically outlaws Keynesianism and its counter-cyclical economic policies” (2013, p. 25).

Purpose of this section was not to describe all the changes in the EU integration process that lead to crisis. It is only important to illustrate how the neo-liberal economic thinking settled down in Europe and its dominance grew over time. Bearing this in mind, one can acknowledge the limitations of the real option post-communist Eastern Europe had in the beginning of transition period.

### **3. POST-COMMUNIST CZECHOSLOVAKIA: JUMPING ON A BANDWAGON**

Change of regime in Czechoslovakia was rather short and smooth, at least when compared to the Baltic States, Poland, Hungary or Romania. After the velvet revolution in November 1989 the new, interim government included people representing opposition. Transition to a market economy was a clear promise of the then government.

After the 1990 election a new government was formed, which committed itself to economic reforms based on private ownership and monetary stability. The function of Finance Minister was held by Václav Klaus, who was to become a prominent advocate of neo-liberal economic thinking. It is not the purpose of this article to describe in detail the economic reform of Czechoslovakia from early 1990s. The basic principles should suffice: strict monetary and fiscal policies were introduced, trade was liberalized and opened to international markets, large privatization followed (for more detailed see for instance Adam 1993). The transformation was supervised by the IMF under the stabilization program. As the IMF report states, the early 1990s cooperation included “a significant element of ‘learning by doing,’ jointly between the country authorities, IMF staff and other international advisors” (Roaf et al. 2014, p. 7).

Klaus’ view on economic transformation was challenged and criticized. Komárek, head of the Forecasting Institute of the Czechoslovak Academy of Sciences wrote that

economic reform was excessively politicized and ideologized ... instead of being based on strictly professional research. [Reform] was hastily compiled from “eclectic sets of textbooks of current standard macroeconomics combined with stereotyped proposals of anti-inflationary and pro-export monetary programmes ... exported to Central and East European countries and propagated by such theoreticians as e.g. Prof. J. Sachs ...” (Komárek 1991 in Adam 1993, p. 640).

However, Klaus was rather explicit that he favored “shock therapy” approach rather than gradualist transformation of the economy. He was also very openly against any state role in the restructuring of the economy. Adam observed that Klaus “apparently believes that once the state has made the correct provisions (such as restrictive monetary and fiscal policies, and liberalization of prices and foreign trade) the rest should be left to market forces” (1993, p. 641).

### **4. THE CZECH REPUBLIC AND SLOVAKIA**

After the separation of Czechoslovakia both of the succession states adopted a fixed exchange rate regime, pegging their own currencies against a currency basket. However, the fiscal policies varied increasingly after the separation. Reliable and comparative data are only available from 1995 onward, but it is obvious that Slovakian government

was running relatively larger general government deficits and also increasing its public debt much faster than the Czech government.

In 1997 the Czech crown found itself under speculative attacks and was thus forced to leave the currency peg and adopted managed float against the German Deutchemark (Krkoška 2010). On the other hand, in Slovakia the fixed exchange rate was enforced for political reasons by Vladimir Mečiar's government in order to keep price levels relatively low. After the election Mečiar was replaced by Dzurinda government and the fixed exchange rate regime was abandoned. As Mečiar was seen by the European Union as a semi-authoritarian Prime Minister and Slovakia was ousted from the integrational process under his government, abuse of monetary policy for political reasons was perceived rather negatively by the successive government.

Thus it happened that two countries took different lessons from the monetary crisis they encountered in late 1990s. In the Czech Republic the currency peg was considered (at least partially) the cause of the crisis and therefore was to blame for a relatively long economic recovery in the end of 1990s. As a result, monetary autonomy became broadly supported. On the other hand, in Slovakia the general perception was that it is necessary to avoid political interference with monetary decision in the future and thus strengthen the independence of central bank. European integration was seen as a solution that would ensure strict monetary and, eventually also fiscal policy as well.

For a few years it seemed that Slovakia will not access the European Union together with the Czech Republic. While the latter was the frontrunner of the accession negotiations, the former was excluded from the talks in 1997 because the country failed to meet political criteria (of being a functional democracy). However, after change in government Slovakia was invited back to the negotiating table in 1999. Pro-Western government of Mikuláš Dzurinda was able to close remaining chapters in a fast pace and catch-up with the so-called first group of countries.

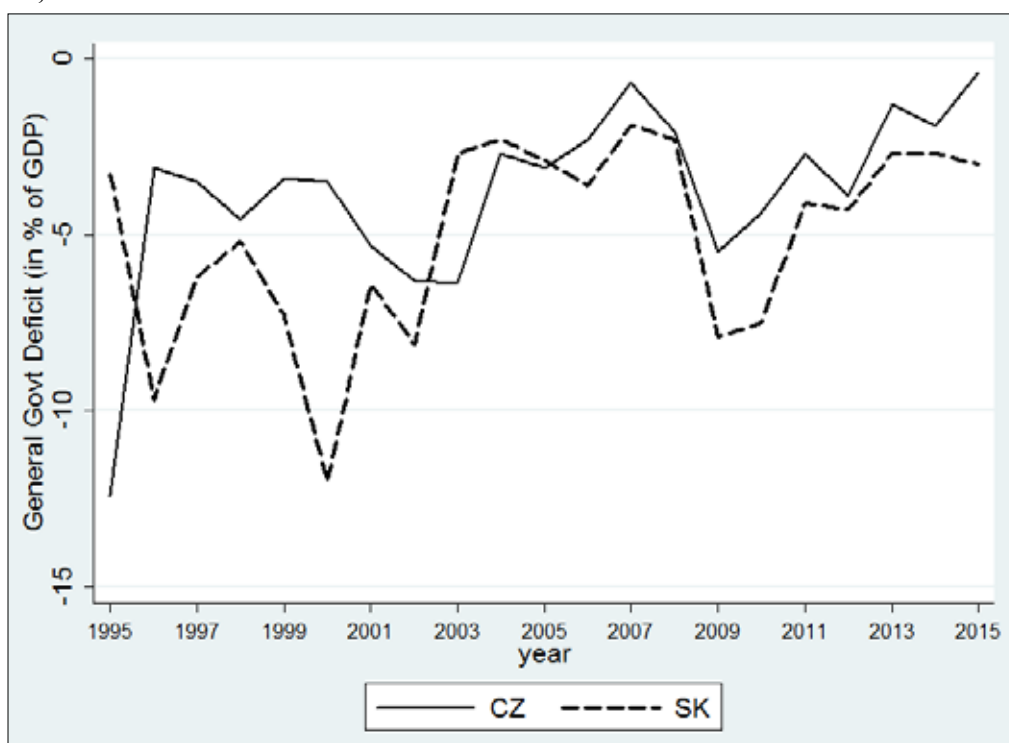
And so in 2003 it was obvious that the former partners in the Czechoslovak federation will become partners again in the European Union. For all the new-coming members in 2004 (and later) there is an obligation to enter also the Economic and Monetary Union, although the timeframe remains unclear. Both countries committed themselves to join the EMU fully without necessary delays. The Czech Republic stated 2009–2010 as its goal, while the Slovakian government aimed for even earlier date: 2008. A possible explanation was that the government as well as the Slovakian Central Bank considered full EMU membership necessary for stabilization of economic reforms, and also as an important signal to foreign investors that the pro-Western political course is irreversible.

From economic point of view, joining the Euro Area as soon as possible is rational and arguments are clear. Based on the optimal currency union theory, the two countries have had their business cycles synchronized with the EU, recorded very high trade-to-GDP ratios. For businesses the common currency would eliminate exchange rate risks and administrative costs. In many indicators the Czech Republic seemed even more prepared for Euro accession than Slovakia. If we look at the period between the EU accession and the financial crisis (2004 to 2007 including), the Czech Republic's public finance are sounder than Slovakia with the average budget deficit of 2.2 % of

GDP (compared to Slovakia's 2.7 % of GDP). Czech public debt averaged to 28.1 % of GDP during the same period (compared to Slovakia's 33.8 % of GDP).

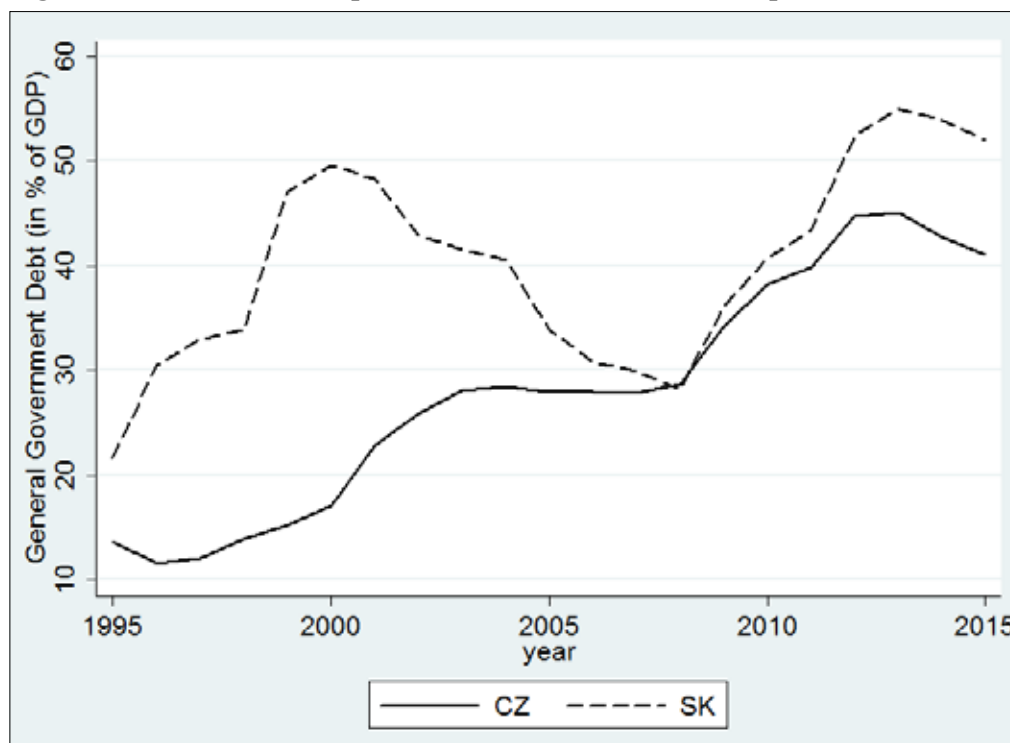
Graphs below present the development of two key macroeconomic indicators in the current neoliberal economic thinking—public debt and general government deficit. Figure 1 show that budget deficits of Slovakia and the Czech Republic run in a similar pattern. This indicates that the business cycles of two countries are synchronized to a considerable extent, as the budget deficit is dependent on the business cycle. However, Slovakia's deficit has been higher almost the whole time, suggesting that tighter integration with the EMU does not automatically translate into more austere government budget.

**Figure 1: General Government Deficit, Comparison of Slovakia and Czech Republic, as % of GDP**



Source: Eurostat 2016.

Figure 2 shows public debt in the Czech Republic and Slovakia. In regard to public debt, we see different development until the financial crisis, and only after the crisis the debt levels seem to be synchronized. However, as was the case with the budget deficit, Slovakia performed worse almost the whole two decades, in terms of higher debt. This again suggests that the Czech Republic could have adopted more severe fiscal austerity without being bound by the Fiscal Compact rules. We will come back to this in the discussion section of this paper.

**Figure 2: Public Debt, Comparison of Slovakia and Czech Republic, as % of GDP**

Source: Eurostat 2016.

Despite all of the economic arguments, the fact is that Slovakia integrated its monetary and fiscal policies with the Euro Area much tighter than the Czech Republic. While Slovakia joined the Euro in 2009, the Czech Republic has not decided upon the deadline at the time of writing. In addition to the currency union, the Czech Republic also refused to sign the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, also known as the Fiscal Pact. Next to the United Kingdom, these were the only countries to reject the Fiscal Pact (with Croatia doing so later in 2013). As BBC reported the then Prime Minister Petr Nečas stated three reasons for his country's opt-out: "limited access to Eurozone summits for those EU members who don't yet use the euro; a failure to properly address Europe's debt crisis; and the ratification process in the Czech Republic, which Mr Nečas freely described as 'very complicated and uncertain'."<sup>1</sup>

Putting economic reasoning aside, what is a reason for such different approach of Slovakia and the Czech Republic to economic governance? The next section of this paper will review other possible explanations, mainly institutional and political.

<sup>1</sup> <http://www.bbc.com/news/world-europe-16814821>

## 5. INSTITUTIONAL DIFFERENCES AND POLITICAL LEGACIES

The most important institution in regard to integration to a monetary union is the authority responsible for monetary policies. In Slovakia and the Czech Republic it is the central bank assuming the role.

Formally, both the Slovak National Bank (SNB) and the Czech National Bank (CNB) are independent institutions with autonomy in monetary policy-making (with competences being shifted to the European Central Bank in case of Slovakia after the EMU accession). However, as Pechova (2012) convincingly argues, the two central banks do not have the same relationships with their respective governments and this variation may lie behind distinct attitude towards the Euro accession.

After the monetary crisis in the Czech Republic the central bank found itself under political criticism, mainly from Václav Klaus and Miloš Zeman who blamed it for slow recovery (Johnson 2006). Criticism continued also in early 2000s and after Klaus became the republic's President. Pechova indicates that years of criticism might have resulted in the CNB advising against the ERM II entry in 2005. As one of the reasons the report states that the CNB (together with Ministry of Finance and Ministry of Trade) did not believe that country could "materialise the [*hypothesised*] Euro accession benefits" (Ministry of Finance, Ministry of Trade and CNB 2005, p. 5). Václav Klaus, being the President of the Czech Republic at the time, considerably contributed to the right-wing government formation in 2006. Klaus' promotion of a distinctly Euro-sceptic governmental bloc represents a serious barrier to Eurozone accession.

In Slovakia, the central bank is rather independent, which is also supported by the fact that senior board members are only appointed "upon nomination by the SNB Governor or the Parliament" (Pechova 2012, p. 794). The SNB has also a history of relatively strict monetary policy and positive approach to the Euro accession. It is a well-known public secret that the SNB Governor Ivan Šramko summoned the newly appointed Prime Minister Robert Fico in 2006 and convinced him to refrain from anti-euro rhetorics as it had been damaging the economy's reputation.

Additionally, Slovakia never had an Euro-sceptic President. Neither Rudolf Schuster (serving as President between 1999 and 2004) nor Ivan Gašparovič (2004–2014) expressed negative attitudes towards the EU integration or Euro Area in particular. Ivan Gašparovič performed as a relatively passive President before the Euro adoption, which might be explained by his unofficial affinity to the main governing party Smer-SD. Based on the above we can state that the economic and political elites were more pro-Euro in Slovakia than in the Czech Republic.

According to Pechova (2012), the institutional factors contribute strongly to the legitimizing discourses in two countries. Subsequently, the legitimizing discourse shapes approach of the state towards Euro adoption. Thus, it serves as the mediator between institutions and political decisions.

As noted above, Slovakia's international reputation was heavily damaged during the Mečiar government of 1994–1998. As country was the only one excluded from the EU accession negotiations, this created stigma for civil society as well as other political actors. For subsequent government and many think-tanks it was necessary to



do anything possible to get Slovakia back on the track as fast as possible. Side effect of these efforts was that the EU had been talked about mostly in positive terms and hardly anybody dared to question country's membership or discuss possible negative consequences. 'Back to the EU' or 'Back to West' was the main political campaign motto of Dzurinda's coalition in 1998 and 2002. Anchoring Slovakia in the EU structures was perceived as a kind of insurance against political forces that would attempt to re-introduce anti-democratic practices again. The discourse created in the early 2000s has also endured during and after the financial crisis. In December 2013 Prime Minister Fico said that he does not "regret, not even for a second" that Slovakia introduced Euro in 2009 and that if the EU integration proceed in multiple areas at various pace, Slovakia "must be in its core" (Fico 2013).

On the other hand, the Czech Republic's leading politicians, most notably Klaus and Zeman were more reserved when it comes to the European Union integration. Especially Klaus voiced his reservations in relation to the EMU publicly already before the crisis. Zeman has replaced Klaus in the presidential office in 2014 and increasingly has become a known critic of the European Union. According to some observers (Bonker 2006, Hanley 2008, Pechova 2012) the Czech politicians aspired for a more important and more global role and were rather active in organizations such as OECD, WTO or NATO, at least comparing to other post-communist countries. This might stem from the fact that the Czech Republic was indeed one of the most developed post-communist countries. Additionally, inter-war Czechoslovakia was one of the most industrialized and economically developed countries in Europe. Reasons described above could have contributed to more self-conscious attitudes and independence-valued collective identity, which in turn translate into slightly Eurosceptic attitudes and national interests prioritizing.

## 6. ATTITUDES TOWARDS EURO AND NEOLIBERALISM

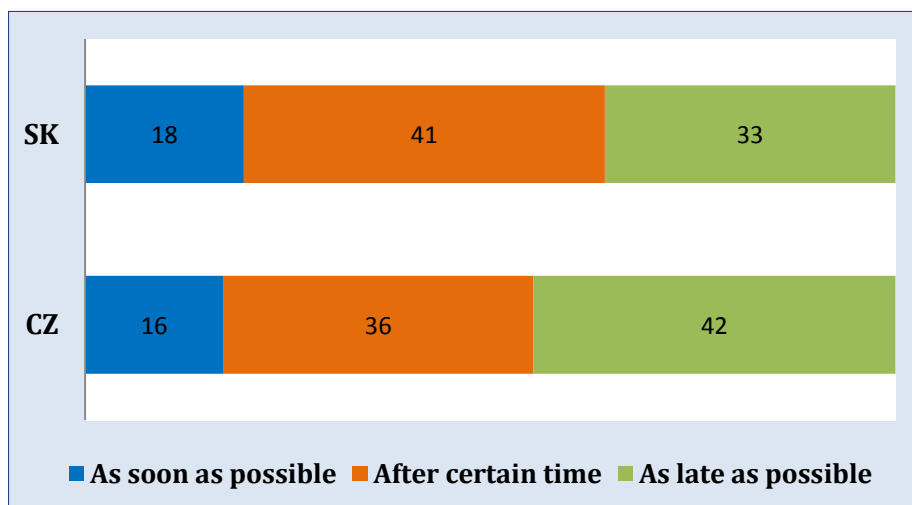
Obviously, the Czech politicians were considerably more pessimistic about the monetary union. Before concluding we should examine one more possible element that could play a role and thus help us understand the differences between two countries—public opinion. It is a legitimate question to ask whether the politicians' attitudes might have only reflected the popular wishes.

The first Eurobarometer that included questions on Eurozone integration took place in September 2004, a few months after post-communist countries accessed to the EU. Among other issues it showed that in both countries less than majority of people were aware that the Euro introduction is obligatory as it is part of the EU accession treaties and their country cannot opt-out from this obligation (48% of correct answers in the Czech Republic, 41% in Slovakia).

Figure 3 shows peoples' desire for the timeframe of adopting Euro, as polled in September 2004. Only 18% of Slovaks and 16% of Czechs voiced their desire to introduce the European single currency as soon as possible. It is also evident that the two populations are rather similar in their view on the Euro adoption time-frame. As shown in Figure 4, the share of supporters of the early euro adoption has been changing

over time only marginally. While in September 2004 there were 18% Slovaks supporting the euro introduction as soon as possible, the number increased to 25% in May 2008 (at which point it was practically decided and unavoidable).

**Figure 3: Desire for Euro Adoption Time-Frame** (Share of population in %, “don’t know” answers are not included)



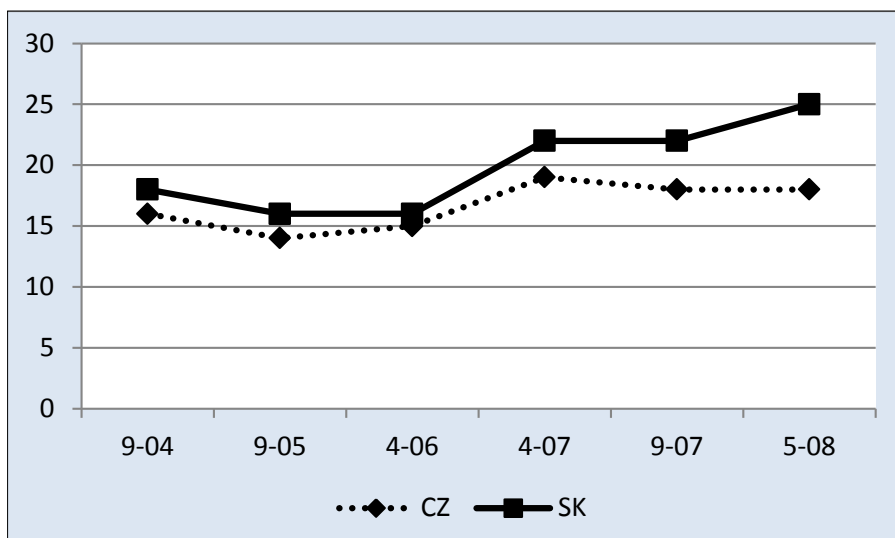
Source: Eurobarometer 165b, Field Work September 2004.

Finally, we inspect the support for euro adoption expressed as a share of people who expected positive consequences the adoption could have for a country. Figure 5 shows the development of the indicator between September 2004 and May 2008, after which the comparison has no practical sense due to Slovakia’s Eurozone accession.

According to Eurobarometer the share of people who assessed euro’s consequences positively is around 50% in Slovakia and slightly less in the Czech Republic. However, the development over time is rather similar in the two countries. This could indicate that the opinion on this issue is influenced by external factors, most likely the Eurozone and its problems.

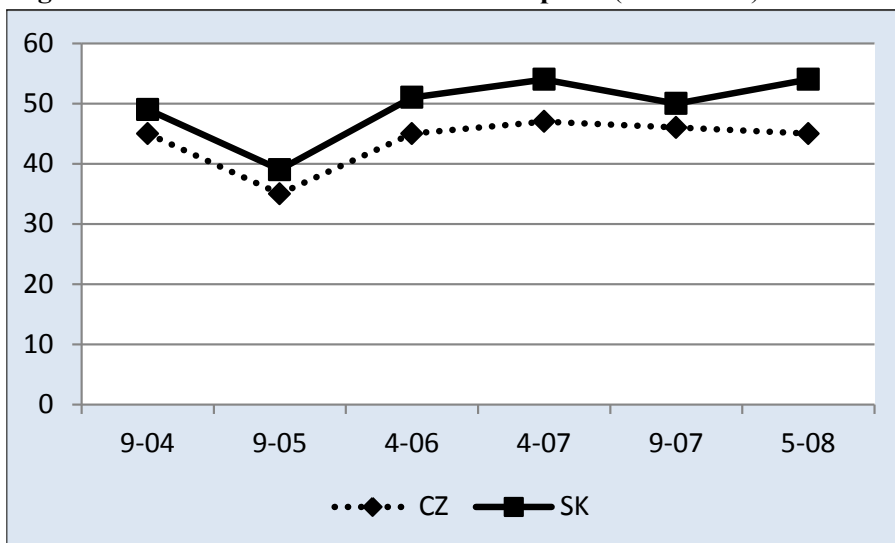
Most importantly, the reviewed support for euro and the desired time-frame of its accession suggests that the Slovakian and Czech populations are rather similar in their views on the European single currency. Therefore it is difficult to accept that the cause of rather different elite’s approach would be derived from popular opinion. Rather contrary, it is more probable that the public opinion is not the source of politicians’ distinct approach to monetary integration into the Eurozone.

**Figure 4: Share of Early Euro Adoption Supporters (in %, month-year shown on x axis)**



Source: Eurobarometers 165b, 183, 237.

**Figure 5: Positive Assessment of Euro Adoption (Share in %)**



Source: Eurobarometers 165b, 183, 237.

### ***Discussion***

In this paper we try to make three important arguments. The first one is that post-communist countries, the Czech Republic and Slovakia being among them, had only a limited scope of choices when reforming their economies. Particularly so, given that they wanted to become an integral part of Western Europe (in terms of being part of developed, democratic part of World civilization). Neo-liberal economic thinking was

already dominating the European integration processes at the time post-communist countries started their economies' transition.

Second, despite the neo-liberal pressures countries found themselves under, they still could, and many did so, choose the strategic tools and frames of their monetary and fiscal policies. Despite a very similar beginning of the economic transition as Czechoslovakia, two successive countries thus stand at rather distinct positions a quarter of century later. On the one hand there is Slovakia in the core of the European integration. It is a member of the European Monetary Union, shifted major part of its monetary competences to the ECB in Frankfurt am Rhein, Germany, and signed the so-called Fiscal Compact, which puts its fiscal policy under scrutiny and sanctioning mechanisms of the European Commission in Brussels, Belgium. On the other hand, the Czech Republic rejected to be closely integrated with the European Monetary Union. Since before the global financial crisis the country is showing a relatively cold approach, despite the fact that the accession treaty obliges all post-communist countries to access the EMU, eventually. The Czechs also rejected the Fiscal Compact, being the only continental EU member to do so at the time of introduction (only other country being the UK).

In this paper we attempted to convince the reader that there is no sound economic argument for such a differentiated approach of the Czech Republic. Macroeconomic performance and the monetary stability before the crisis were better on the Czech side than on the Slovakian one. We argue that it is the political legacy and the role of collectively shared ideas that create the national discourse behind the distinct approach of two countries. As highlighted by Pechova, discourses and collective ideas that are most often bounded by national boundaries, are key to understanding and “distinguishing particular identities” (2012, p. 796). In case of the Czech Republic and Slovakia, it seems that identity and political discourse were shaping the Euro-related policies and integration to a much larger extent than actual economic reasoning or economy performance.

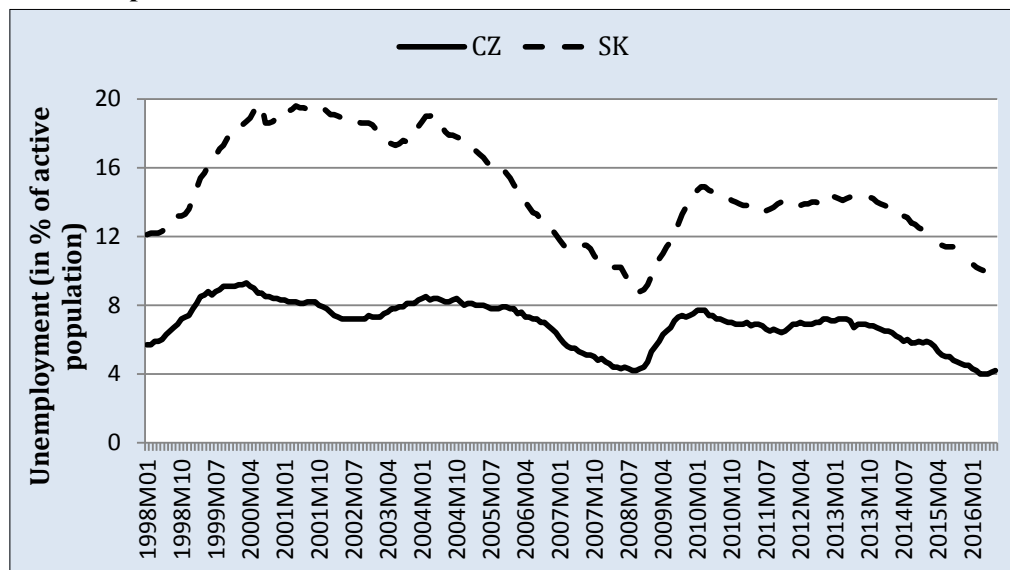
This brings us to the third argument, as derived from the comparison of former Czechoslovakia successors. Regardless of the choice of strategic frameworks for fiscal and monetary policy, the actual performance remains neo-liberal in its nature. Despite the Czech Republic being formally out of obligations for austere, balance-budget and decreasing debt policies, the macroeconomic indicators are even better than in Slovakia.

We cannot provide a definite answer on why this is the case. More likely than not, several factors contribute to the end result. First, a small open economy with its own currency and a flexible exchange rate regime must maintain relatively high credibility in order to service its public debt without exceptional disruptions and costs. In other words, maybe even more austerity must be applied in order to compensate being outside the EMU.

Secondly, the Czech Republic has inherited rather low structural imbalances, compared to Slovakia. Figure 3 supports this argument and shows the unemployment rate development since 1998. Similar shape of the lines indicates that the unemployment is to a large extent dependant on the business cycles, which are rather synchronized. However, the unemployment rate in Slovakia has been permanently higher with broader fluctuation band than in the Czech Republic. While the peak-to-bottom

difference in the Czech Republic is about 5 percentage points, Slovakia has almost 11 percentage points peak-to-bottom difference.

**Figure 6: Unemployment Rates in Slovakia and the Czech Republic, as % of Active Population**



## CONCLUSION

After 1989, Czechoslovakia as well as many other post-communist countries experienced transition from command to market economy. From today's perspective it seems that there were very few (if any) alternatives other than neo-liberal economic reforms for those states with the EU integration goals. While privatization and market liberalization were prime concerns in the beginning, choices of strategic monetary and fiscal policy instruments remained in the center of political decision-making throughout 2000s and are still nowadays.

This paper compares the Czech Republic and Slovakia with a particular focus on strategic monetary and fiscal policy choices. After reviewing a common start of the transition in early 1990s, we described the differences in strategic choices the two countries made in relation to the European integration in the monetary and fiscal policy areas. In this paper we provide an explanation of why Slovakia and the Czech Republic chose distinct paths. The main argument is that it mainly historical and political legacies—perception of a global role for the Czech Republic and Mečiar's era in Slovakia—that set different paths and preference perception for two countries. On the other hand, we highlighted that escaping the EU's fiscal and monetary integration (being out of the EMU and Fiscal Compact) does not translate into less neo-liberal, in this case less austere policies. Unanswered question remains whether the austerity of the Czech Republic—as shown by relatively low budget deficits and public debts—are a necessity of a small open economy with its own currency, or, self-imposed recipe allowed by the relatively low structural imbalances.

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