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CHAPTER 8

The Politics of Pension and Health-Care Reforms in Hungary and Poland

JOAN M. NELSON

When the formerly Communist countries of Eastern Europe began their transformation into market-oriented economies, reforms in social programs and services were minor parts of the adjustment agenda. Government and public attention focused mainly on other issues: macroeconomic stabilization, the opening of the economy, privatization of enterprises.

Half a dozen years into their economic transformations, however, those countries which had reasonably effectively addressed many of the initial economic challenges of adjustment began to focus attention much more squarely on pension and health-sector reforms. Hungary adopted radical changes in its pension system in mid-1997. Poland designed a similar set of reforms in two packages, one passed before the elections and change of government in autumn 1997, and the second approved in autumn 1998. Latvia had adopted partial pension reforms somewhat earlier and is now expanding its reforms, while similar measures are moving ahead in Croatia, Estonia, Macedonia, Romania, and Slovenia.

A great deal of analysis has focused on the substance of these reforms and the merits and drawbacks of specific design components. However, the context, the goals, and the character of these reforms combine to pose formidable political challenges. This chapter focuses not on design but on the politics of social-sector reforms.

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Social-sector reforms are usually "second (or third) generation" reforms in the broad structural adjustment agenda.[1] They are likely to unfold in a quite different political climate than initial macroeconomic measures. If early stabilization measures were reasonably successful, then widespread public perceptions of acute crisis will have faded. In other cases, poorly designed or irresolute stabilization measures may have had only limited effect, leaving most groups disillusioned with "reform programs." In either of these scenarios, what Leszek Balcerowicz (the architect of Poland's initial reforms) labeled the period of "extraordinary politics" will have passed.[2] Interest groups, legislatures, and the general public are likely to be much more resistant to autocratic styles of executive leadership imposing measures designed by technocrats with minimal consultation. Social-sector reforms will usually have to be designed, launched, and implemented in the context of "politics as usual," even if the impetus and rationale for reform comes from perception of a deep-rooted structural crisis.

The objectives of social-sector reforms are also more sharply disputed than are the goals of initial stabilization and liberalization measures. The first stages of transition were accompanied, in many cases, by a "negative consensus": the imperative need to stabilize the economy and the conviction that the old system had failed. But later stages require building a "positive consensus" regarding the emerging economy and society. That need is sharpened by unease in many quarters regarding the increased inequality and insecurity associated with market mechanisms. Education, health, and pension systems powerfully shape most citizens' opportunities and security. Public opinion demands reforms in these areas, but the precise design of the reforms is intensely controversial.

Beyond context and goals, the intrinsic character of social-sector reforms poses political obstacles. Early macroeconomic steps in the adjustment agenda rely on price changes such as devaluation and interest-rate adjustments and on cuts in government expenditures. Initial liberalization entails dismantling controls and subsidies. Such measures are politically controversial, but they are not complex administratively.

[1] Major systemic reforms in health, education, or pension systems are seldom part of the initial or early package of reforms in a sustained structural adjustment program. Structural adjustment is usually triggered by severe fiscal and external account imbalances. Social-sector reforms take considerable time to design and implement, and therefore cannot contribute to the initial dominant stabilization goal. Moreover, some social-sector reforms, especially pension reforms, virtually require that other institutional reforms, especially in the financial sector, be in place first.

[2] That period was much less marked in some countries, like the Czech Republic or Hungary, than others, like Poland, but nonetheless occurred in some degree in most post-Communist countries.

With the backing of top political leaders, they can be put into effect by a small number of senior economic officials. They take effect rapidly, sometimes overnight. They affect much of the population and can prompt widespread protest, but if the government can deflect or weather initial protests, the risks almost always subside.

Social-sector reforms, like most major institutional changes, are inherently slower and more complex. They demand the cooperation of far more agencies and groups within and outside of government, and they take months or years to put into effect. Multiple actors mean many potential veto players; lengthy implementation means multiple veto opportunities. Moreover, and in contrast to macroeconomic stabilization, institutional reforms are likely to mean permanent losses to specific groups, which may prompt tenacious resistance.

Some kinds of institutional reform seem to be more difficult than others. In broad comparative perspective, there has been considerably more progress in reforming financial systems or trade regimes than in restructuring social sectors or labor-market institutions. Among social sectors, in turn, pensions seem to be considerably easier than health and education. The contrasts almost surely reflect differences in the numbers, variety, and commitment of stakeholders and the length of time required to implement reforms. Further, this study argues that the presence or absence of a fairly clear blueprint for reform, or even of two clear contending visions, helps explain why some institutional reforms tend to move ahead more rapidly than others.

The chapter is organized around three questions or puzzles.

The first puzzle concerns timing. Social-security experts in Hungary and Poland recognized at least by the mid-1980s that their pension systems were inequitable and unsustainable in the long run. Both before and after the collapse of Communist governments, some modest steps were taken to reduce near-term pressures on the system. However, basic systemic reforms were not seriously pursued until 1996. *Why then, and not earlier?*

The second puzzle concerns political feasibility. In many of the world's wealthy, aging democracies, pension reforms are an urgent need. Yet in most of these countries, the issue provokes such intense political passion that even quite small changes are extremely difficult. *How, then, did Hungary and Poland manage to adopt radical revisions in their systems?* What were the interests and resources of the main actors? What were the channels and processes that permitted compromises?

The third puzzle focuses on the contrast between reforms in pension systems and in health-care delivery. In Eastern Europe and elsewhere, reforms in health care arguably are more urgent than pension reforms,

on both welfare and fiscal grounds. Indeed, in Hungary and Poland the same groups that pressed successfully for pension reforms originally had hoped to introduce major health-sector reforms as well. But reforms in health-care delivery have proved far more difficult. *Why did pension reforms move so much more decisively than those in health?* This last question, in particular, may provide a partial test of the points sketched here regarding the reform of complex institutions.

The First Puzzle: Why Pension Reforms in 1997, Not Earlier?

In Hungary and Poland, severe problems with long-established pension systems had been deepening for more than a decade. As throughout Central Europe, the systems were state-managed, defined-benefit schemes financed on a pay-as-you-go (PAYG) basis. In such systems, today's work force (or, more precisely, that portion of the work force that pays social-security contributions) finances the costs of today's pensions. As populations age, however, there are fewer active workers relative to retirees. That demographic challenge confronts many of the countries of Eastern Europe, as well as most in Western Europe, North America, and Japan.

In Hungary and still more clearly in Poland, however, demographic changes were not the main source of difficulties in the 1990s.[3] At the beginning of the transition both countries deliberately encouraged early retirement and granted liberal disability pensions, in part to reduce anticipated unemployment. Therefore the number of pensioners and the costs of pensions surged. At the same time, workers paying into the social-security programs dwindled because of unemployment, a shrinking labor force, and widespread and growing evasion. Not only self-employed and informal-sector workers, but some major public employers – for instance, the Hungarian railways and some Polish mining companies – were chronically in deep arrears in their contributions (Orosz, Hausner, interviews).

As social-security revenues shrank, transfers from government budgets had to increase.[4] At the same time, high payroll taxes discouraged investment and skewed it toward labor-saving patterns, while encouraging evasion.[5] Demographic projections made clear that current imbalances between costs and revenues would become much worse early in the next century. In addition, there were serious problems of complex and opaque formulas for calculating pensions and inequitable treatment across categories of workers. Public-opinion polls indicated widespread dissatisfaction with the systems.

In both Hungary and Poland, social-security specialists had recognized the inequities, complexity, and long-term unsustainability of the systems by the late 1970s or early 1980s. Poland's system was substantially revised in the early 1980s, but included politically motivated concessions to miners, teachers, and others. By the early 1990s, experts were again debating new reforms, including some very radical proposals, but mainline thinking focused on adjusting the existing system. In Hungary, meanwhile, the social-security system was removed from the general budget in the early 1990s. In 1993 two separate funds, each with its own elected governance board, were established to manage social-security contributions for health and pensions. Private voluntary pension and health-insurance funds were authorized in the same year, while changes in the design and administration of the PAYG system were under intensive study (Augusztinovics, Ferge, interviews).

In both countries, then, shortcomings of the pension systems had long prompted extensive analysis, proposals, and debate. However, the reforms of 1997 were broader in scope and more radical in design than any since the basic outlines of the systems had been established (in 1975 in Hungary, 1982 in Poland). What brought about the surge of reform action?

New Actors: The Ministry of Finance

New actors provide part of the answer to the question. Ministries of finance took an aggressive lead in promoting systemic reform. As guardians of the budget, they had always taken some interest in the

[3] In Hungary, the ratio of elderly to working-age population actually declined during the second half of the 1990s. In Poland, while the ratio increased somewhat during the 1990s, it is projected to fall slightly between 2000 and 2005 (Palacios and Rocha 1998: 187, table 7.5; Hausner, Chapter 7, in this volume).

[4] Hausner estimates that state subsidies to Poland's Social Insurance Fund reached 4.3 percent of GDP in 1992, and dwindled gradually in later years. Subsidies to the Farmers' Social Insurance Fund, a separate system with lower contributions, cost approximately an additional 2 percent of GDP in each year from 1992 through 1996 (Hausner, Chapter 7, in this volume). In Hungary, payroll taxes funded pension and health care jointly and the deficits are hard to disentangle, but by 1993 and 1994 the two programs together required budget transfers of roughly 5 percent of GDP (Palacios and Rocha 1998: 179, fig. 7.1).

[5] In Hungary from April 1992 the total tax on gross wages for pensions was 30.5 percent, of which employers paid four-fifths. An additional contribution for the health fund brought the total tax to 54 percent (Palacios and Rocha 1998: 213, n. 4). In Poland, employers paid 45 percent of the gross payroll for pensions and health; employees did not contribute (Phare 1997: 116).

social-security systems. But until the mid-1990s, they focused mainly on short-run fiscal issues. After the pension systems were separated from the general budget, fiscal concerns focused on containing pension fund deficits and resulting demands on the general budget, generally by manipulating the formulas that linked the levels of pensions to changes in the levels of wages. Not until the mid-1990s did ministries of finance begin to spearhead radical changes in the long-term design of pension systems.

This new role was not driven by short-run fiscal concerns. Indeed, the kinds of reforms promoted by ministries of finance in both countries were known to increase rather than reduce fiscal burdens in the short and medium run. Rather than driving the neoliberal reforms, near-term fiscal considerations constrained them: in Hungary, fiscal burdens were a major and explicit reason for phasing in the new system very gradually. In Poland, certain revenues from the concurrent privatization program were earmarked to support the pension reforms, but as in Hungary, careful fiscal calculations were a major element shaping design.

Ministry of Finance emphasis on social-security reforms was driven mainly by the logic of the larger structural adjustment process. In Hungary, the macroeconomic austerity package introduced by Minister of Finance Lajos Bokros in March 1995 marked a turning point in Hungary's post-Communist economic policies (Kornai 1996). To consolidate the country's painfully reestablished economic stability, Bokros sought to reconfigure fiscal institutions. Pension reforms became part of this drive. In Poland, Grzegorz Kołodko, minister of finance from April 1994, described the pension system as "a veritable time bomb," and its reform as "an absolute precondition of sustaining – let alone improving – the country's fiscal integrity" (Kołodko 1996: 26). In both countries, the prospect of fairly rapid accession to the European Union reinforced a long-term perspective on public finance (Dethier, personal communication).

International Influences

By the mid-1990s, direct and indirect international influences also heightened pressure for radical pension reforms. In the wealthy industrialized nations, demographic shifts fueled intense interest in pension reforms. At the same time, the Chilean model for social-security reform challenged older ideas and exerted a powerful influence. In 1981 Chile had replaced its traditional system with a mandatory, fully funded, defined contributions system in which workers contributed over their working lives to individual accounts managed by private, competitive pension

fund management firms. A means-tested social assistance program augments the incomes of those retired people who have only very low pensions. By the early 1990s, the system was attracting widespread praise (in good part for its impressive success in bolstering Chile's equity markets), as well as considerable criticism. Especially in Latin America, but increasingly in Eastern Europe as well, it also attracted partial imitators.[6]

International financial and development agencies sharply increased their attention to pension systems and reforms in the early 1990s, spurred by the need to consolidate hard-won fiscal gains, by mounting demographic pressures in much of Eastern Europe and the Southern Cone of Latin America, and by the possibilities suggested by the Chilean model and its variants. As early as 1990–91, both the International Monetary Fund (IMF) and the World Bank sent missions to Hungary analyzing social benefits including the pension system, but did not urge full or partial privatization (Kopits 1992; World Bank 1992). In 1994 the bank published a major study, *Averting the Old Age Crisis*, which strongly endorsed a multipillar approach to pension reforms. Since then, the bank has fairly consistently encouraged this broad approach, while supporting considerable variation in accord with specific country circumstances. Meanwhile other international and regional organizations, especially the International Labor Organization and the European Union (working mainly through its Phare Technical Assistance program) also increased attention to pension reform. While there is no neat one-to-one correspondence between specific agencies and particular outlooks (Deacon 1996), in general these latter organizations have emphasized improving PAYG.

In Eastern Europe, direct encouragement and advice from international agencies may have been supplemented by less direct influence from international capital markets. By the mid-1990s, ratings agencies and international markets had begun to include pension reforms in their lists of actions demonstrating serious commitment to reform. The need to attract foreign investment was particularly imperative in Poland and Hungary, which were burdened with large international debts. Both therefore had strong incentives to maintain external confidence in their economic management and growth potential, and to build their reputations as good places to invest.

[6] In the early or mid-1990s Argentina, Bolivia, Colombia, Mexico, Peru, and Uruguay adopted reforms that incorporated modified elements of the Chilean approach. Australia, Denmark, Sweden, Switzerland, and the United Kingdom also enacted major pension reforms.

The Second Puzzle: Why Were Pension Reforms Politically Feasible?

Pension reforms involve complex and detailed projections and calculations, as well as difficult trade-offs regarding goals and values. Hungarian and Polish reformers had to address three levels or categories of opposition. The ministries and agencies most directly concerned and specialists outside of government focused largely on technical issues, some of which provoked bitter disputes. A different kind of opposition came from vested interests: those groups and organizations that benefited from the current systems and feared that reforms would reduce their benefits. Still a third level or kind of opposition was rooted in principles and values.

Competing Concepts of Pension Reform

Analysis, debate, and political maneuvering regarding pension reform in both countries focused on two competing concepts of reform. The first concept assumed that the public, PAYG system was both sustainable and desirable, but required far-reaching reforms. Specialists agreed on the need to raise the age of retirement, remove or reduce the special privileges of particular occupations or groups, cleanse the systems of the multiple irrationalities and inequities that had developed over time, tighten the links between contributions paid into the system and benefits paid out from it, and establish predictable and equitable methods for adjusting pensions to changes in prices and economic circumstances.

The second concept started from the assumption that mature PAYG systems in aging societies could be sustained only by imposing ever-higher costs on society as a whole. Those costs not only would cripple post-Communist recovery and growth but also would induce such widespread evasion that the systems would gradually crumble. Many advocates of the second concept believed that PAYG (improved along the lines listed earlier) could and should remain a component of a mixed system for an extended period. But they focused on introducing a compulsory fully funded "second pillar," with benefits tightly linked to contributions. They argued that the second pillar would greatly reduce problems of evasion. In order to generate returns high enough to provide comfortable pensions, at least part of the funds should be invested in equities and managed by competitive private firms. The flexibility and sustainability of the system would be enhanced if there were also a voluntary "third pillar" consisting of private individual supplementary pension plans.

Advocates of the two concepts clearly disagreed over certain values. Most of those who favored fixing PAYG alone placed high priority on the intrinsic redistributive or solidaristic character of the established systems – that is, the principle that a basic (and not too minimal) pension is a right of all citizens, and that each successive generation has an obligation to help to support the preceding generation in its old age. Advocates of the second concept, in contrast, usually viewed the second pillar's emphasis on individual responsibility and self-reliance as a moral virtue, as well as a practical device for reducing evasion.

Some other major disagreements between the two groups turned less on values than on interpretations of facts and probabilities. Advocates of fixing PAYG were deeply skeptical about turning over management of compulsory individual second-pillar retirement accounts to private management firms. They argued that such arrangements imposed unnecessary and inappropriate risks on individuals and claimed that experience in Chile and elsewhere indicated serious problems. Proponents of mixed systems countered that only private-sector investments would generate adequate pensions in the face of the demographic pressures; they claimed the critics failed to grasp the workings of equity markets.[7] Mixed-system advocates often emphasized that once the contributions to the second-pillar accounts began to build up, they would provide a major deepening and broadening of equity markets. Critics responded that the redesign of the pension system should focus on fulfilling its own functions as well as possible. Building up capital markets was not an appropriate objective of pension system reform, especially if that goal jeopardized or diluted important pension functions.

The Struggle within the Governments

As the ministries of finance began to press for radical pension reforms in 1995–96, they met strong opposition within their own governments. In Hungary both the Pension Insurance Fund and the Ministry of Welfare initially opposed proposals for a strong mandatory fully funded component that would gradually replace PAYG. After several months of intense debate in winter 1996, the Ministry of Welfare agreed to cooperate with the Ministry of Finance to develop a modified multipillar plan, and the cabinet endorsed this approach on May 9, 1996. An interministerial committee prepared framework legislation outlining the proposed reforms; this was approved by the legislature in summer 1996. With this mandate,

[7] Hausner (Chapter 7, in this volume) suggests that in Poland lawyers tended to support PAYG whereas economists leaned toward more radical reforms.

the committee moved into a year of hectic technical projections and analysis, coupled with extensive discussions and negotiations with a wide range of interests. A set of bills was sent to Parliament in June 1997. The key bill establishing the second pillar and regulating the new privately managed funds was approved by 78 percent of those present and voting (or 56 percent of all MPs). Throughout this process, however, the Pension Insurance Fund continued to reject the multi-pillar approach bitterly, for reasons discussed shortly.

In Poland, the idea of radical, Chilean-style reform had been introduced as early as 1991 by the then chairman of the Social Insurance Institution (ZUS) Wojciech Topinski and Marion Winiewski, but was rejected as too radical at the time. By mid-1994, however, Minister of Finance and First Deputy Prime Minister Grzegorz Kołodko called for a basic shift in pension arrangements as an important element in his "Strategy for Poland" (Kołodko 1996: 52). As Jerzy Hausner describes more fully in this volume (Chapter 7), it was blocked for almost two years by adamant opposition from Minister of Labor and Social Policy Leszek Miller, whose stance reflected both his and his staff's commitment to PAYG principles and strong personal rivalry with Kołodko.[8]

The stalemate was broken in spring 1996, when Miller was replaced as minister of labor by Andrzej Bączkowski. By autumn, Bączkowski established a small task force, the Plenipotentiary for Social Security Reform, charged with drawing up detailed plans for pension (and initially for health) reform. Bączkowski himself took on the role of plenipotentiary. In November a heart attack tragically terminated his leadership. His replacement as minister of labor, Tadeusz Zieliński, was hostile to radical reforms. However, in the interim Jerzy Hausner, long a senior economic advisor of Kołodko, had been appointed to replace Bączkowski as plenipotentiary. As a condition for accepting the position, Hausner insisted that the task force be attached not to the Ministry of Labor but to the office of the prime minister. From early 1997, the office of the plenipotentiary spearheaded the reform effort, with the backing of the Ministry of Finance, the prime minister, and the president, but with mixed support and opposition from the remainder of the cabinet.

Like Hungary's interministerial committee, Poland's extraministerial plenipotentiary was under pressure to complete a reform package before

[8] During this long period of intragovernmental stalemate, the Ministry of Finance continued to work toward radical pension reform. It commissioned a detailed study based on Chile's experience, sponsored a series of professional opinion surveys, and consulted representatives of various economic and social groups (Hausner, Chapter 7, in this volume, and interview).

upcoming elections. The deadline in Poland was considerably tighter: with elections scheduled for September 1997, the reform team worked intensely to present a partial package of draft laws (including the crucial provisions establishing a second pillar) to the Parliament by summer. The laws won approval, but a second package needed to complete the system (including controversial changes in the ongoing PAYG component) was postponed until after the elections. The new government took some time to review the bills and submit them to the legislature. Once submitted, the bills' progress through the key legislative commission was also slow, but the pension package was approved in late September 1998, and the new system went into effect early in 1999.

The specific designs of the reforms were overwhelmingly results of domestic rather than international goals and pressures. The point is worth emphasizing, because both reform teams were directly and extensively supported by the World Bank, and to some extent by other external agencies and donors. In Hungary, the World Bank provided major financial support for the group's work. Perhaps as important, the Budapest office of the bank put the task force in touch with a large network of pension specialists all over the world and helped to provide two-way translation of documents and comments on specific issues. In Poland, the technical director of the plenipotentiary was a World Bank staff member seconded from Washington. Both he and the part of the bank from which he was drawn could provide extensive networking as well as technical support.

Predictably, such involvement provoked criticism in both countries. Yet there is little in either reform story to indicate that the World Bank dictated, or even strongly influenced, the specific choices and design details that emerged from the process of analysis and political negotiations. The international financial community (including but going well beyond the World Bank and the IMF) contributed powerfully to the evolution of thinking regarding pension reform options and to the political decision that early action was imperative. Both timing and the broad shape of reform were influenced by outside forces. But the more specific design details were outcomes of the analysis and political judgment of the reformers themselves, and of their negotiations and compromises within their governments and with interest groups, watchdog institutions, and legislatures.

Public Opinion and Major Vested Interests

In both Hungary and Poland, survey evidence shows that most of the public had lost confidence in the traditional pension systems by the mid-

1990s. Earlier proposals to reform those systems by specific measures such as increasing the age of retirement and equalizing it for men and women had prompted widespread opposition. The new, broader reform proposals bundled such measures with the introduction of the second, fully funded, privately managed pillar. The broader package apparently was more acceptable politically, in part because it appeared more credible. Moreover, a sizable part of the public – particularly the younger and better-educated – liked the idea of individual accounts and a strong link between contributions and benefits (Müller 1998).[9] But while public opinion was permissive, in neither country did it drive the reforms. Most people were confused by the technical details and skeptical about some aspects of the new proposals.

Pensioners might have been expected to dominate the politics of pension reforms. In both countries, the surge of early retirements after 1989 had swelled the number of pensioners beyond the already substantial fraction of the population at or above retirement age. And because older people (except the very elderly) tend to vote in greater numbers than the young, pensioners may account for 30 to 40 percent of voters (Slay and Vinton 1997). Moreover, many pensioners are affiliated with potentially influential organizations: unions (particularly the post-Communist ones) or specialized associations. In Poland, two separate pensioners' parties were formed before the 1997 national elections.

Yet in fact pensioners played little direct political role. In both countries, the reforms were designed to have minimal impact on current pensioners or on those expecting to become pensioners in the next few years. Concerns that the new fully funded pillar would siphon social security contributions from the ongoing first pillar were eased by introducing the new system gradually, while continuing to direct the bulk of funds into the PAYG component. Pensioners also were concerned with reforms in the indexing arrangements, and (in Poland) argued that they should share in the earmarked benefits from privatization of certain state assets. In Hungary, potential opposition was substantially deflected by an advi-

[9] A survey commissioned by the Polish plenipotentiary in April 1997 to help gauge the acceptability of a multipillar system found strong majorities in favor of a tighter link between contributions and benefits. Most respondents were not much concerned that such an approach would result in increased inequality (*Security* 1997: 179–83). This evidence was used in the intragovernment debate to counter Ministry of Labor assertions that Poles would not tolerate a reform that significantly increased inequality (Hausner, interview). In Hungary, the Ministry of Finance commissioned a series of five surveys beginning in October 1996. The surveys found a growing proportion of the public (60 percent initially, 80 percent later) were aware that pension reforms were being developed; younger and more educated Hungarians were most likely to favor a multipillar approach.

sory Council of Elder Affairs, created shortly after Prime Minister Horn took office, to discuss pensioners' concerns. They were also promised a 6 percent real increase in their pensions, effective at the beginning of 1998. In Poland during the electoral campaign of autumn 1997, it is striking that neither of the two pensioners' parties attacked the pension reforms, despite the fact that the second half of the package, which included controversial changes in the ongoing traditional component, would come before the legislature for approval during the next administration. Neither party attracted the minimum 4 percent of the vote required to win seats in the Sejm.

In both countries, labor unions were far more involved than pensioners in negotiations over pension reforms. But the unions did not speak with one voice. In Poland, some elements within both Solidarity and the post-Communist union confederation OPZZ were deeply skeptical about diluting the PAYG system, partly on the grounds that fully funded, individual accounts would destroy the redistributive and solidaristic character of the system. However, some leading Solidarity officials were more receptive to radical changes, had criticized earlier government proposals that lacked a fully funded component, and had submitted their own proposals for far-reaching reforms.

The plenipotentiary consulted extensively with representatives of the major unions. The formal channel of discussion and negotiation was the Tripartite Commission, established in February 1994 as part of an attempted social pact. The commission includes representatives of unions, private employers, and government. At the suggestion of the plenipotentiary, a smaller and less formal group was formed to screen proposals for the full council. This group took a number of specific substantive decisions, which modified but did not undermine the basic goals of the reform and contributed to the sense that the reform was a collaborative and nonpartisan undertaking (Hausner, Chapter 7, in this volume). Unionists also took part in study visits to Chile and elsewhere.

One of the most serious points of contention with Solidarity was the method of using revenues from privatization of certain state assets to support the pension reform. The plenipotentiary wanted to transfer sales proceeds directly to the budget, to cover costs associated with the creation of a second pillar. Solidarity urged "empropriation," a different and more complex approach to transforming ownership of state enterprises (see Hausner, Chapter 7, in this volume; Gesell, Müller, and Süß 1998). The Solidarity proposal was attractive because it promised "seed money" from privatization for individual pension accounts; however, it would severely delay the reforms and would entail other costs. An ingenious compromise, utilizing the empropriation idea on a small scale, succeeded

in winning sufficient support to pass the legislature (Hausner, Chapter 7, in this volume).

In Hungary, solidaristic leanings probably contributed to opposition within the post-Communist union confederation MSZOSZ. In contrast, SZEF, the major union confederation representing public service workers, favored reforms. Beyond ideology and calculations of members' interests, however, unusual institutional arrangements created a powerful incentive for MSZOSZ to oppose reforms.

As mentioned earlier in this essay, in 1993 Hungary established separate autonomous institutions to manage the pension and health-care systems, both funded largely from the social security contributions paid by employers and workers. (For the origins of this system, see Haggard, Kaufman, and Shugart, Chapter 3, in this volume.) The Pension Insurance Fund and the Health Insurance Fund each had governance boards, composed in equal halves of representatives of union federations and employers. Among union representatives, MSZOSZ dominated, and because the employers' representatives were usually rather passive, the post-Communist union federation effectively controlled both boards. Until the government elected in 1998 eliminated the boards' autonomy, this control was a valuable asset for a union federation that, while probably still the largest in the country, has steadily lost members and influence. Despite legal safeguards, the board's control over large flows of money permitted financial maneuvering widely believed to have benefited the union as an institution, key leaders, and political parties.

Therefore, pension reforms that channeled a sizable and growing fraction of pension contributions away from the system managed by the Pension Insurance Fund and into individual, privately managed accounts clearly threatened MSZOSZ power and financial interests. The Pension Fund's governing body and especially its MSZOSZ members were intensely hostile to the proposed reforms. They were bolstered by some of the social-security analysts in the pension administration, who held strong solidaristic values and questioned the technical analyses of the interministerial reform commission.

However, rivalries and disagreements regarding strategy within MSZOSZ gave reformers some room for maneuver. Whereas MSZOSZ representatives on the Pension Fund governing board were unyielding in their opposition, those representing MSZOSZ on the Interest Reconciliation Council (Hungary's Tripartite Commission) were more moderate (or, according to varying interpretations, more opportunistic). When the proposed pension reforms were submitted to the council for approval in May 1997, MSZOSZ won a series of concessions, but did not attempt to block the measures entirely. Several of the concessions were

temporary: for instance, it was agreed to postpone reforms of disability pensions and to delay by two years introduction of a revised formula for indexing pensions. This latter concession, however, locked in large real pension increases for 1998 and 1999, based on an expected decline in inflation. Widows' benefits were also increased (Ladó, interview, Palacios and Rochas 1998: 203).

Perhaps the key concession related less to the pension reform itself than to MSZOSZ political concerns. MSZOSZ wanted to change the method by which the governing boards of the pension and health funds were selected. Members of the first boards had been chosen in national elections in May 1993, for four-year terms. These terms were due to expire just as the pension reform bills were coming before the Interest Reconciliation Council (IRC), prior to submission to Parliament. Fresh elections might erode MSZOSZ dominance. The union sought a different formula for selecting the new boards, a formula that would preserve its control and the associated political power and financial opportunities. The IRC agreed to ask each of the "sides" in the pension and health fund boards (i.e., labor and management) to reach agreement among themselves regarding how to allocate their seats. That formula was ratified in legislation passed in the summer of 1997. The unions then reached an agreement allocating seven of fifteen labor seats to MSZOSZ and dividing the balance among other major labor federations (Ladó, interview). MSZOSZ therefore maintained control over the pension and health insurance boards, in exchange for dropping opposition to the modified pension reforms.[10]

In both Hungary and Poland, the governments' capacity to manage union opposition to pension reforms was enhanced because the then current governments were controlled by post-Communist parties with strong ties to the post-Communist labor federations. In Poland, parliamentary deputies affiliated with the post-Communist union OPZZ held about a third of SLD seats (Surdej, interview). Similarly, in Hungary the Socialist Party contained a sizable MSZOSZ component. But both governing parties also included influential moderate and neoliberal factions. In Hungary the Socialists' coalition partner, the Free Democrats, further counterbalanced the more hard-line union wing of the Socialists. In Poland, the SLD coalition partner, the Peasant Party, was not at all reformist in its leanings, but was largely indifferent to the pension issue because farmers' pensions were separate from the main system and excluded from the proposed reforms. While union officials were given

[10] This solution prompted bitter criticism from a range of politicians and others, including the Socialists' coalition partners, the Free Democrats.

their say, primarily in the Tripartite Commissions, the dominant parties were able to exert party discipline on crucial votes.

In addition to the major union federations, reformers also had to deal with a number of more specialized groups. In both countries, miners, teachers, railway workers, and some smaller occupational groups enjoyed early retirement or higher pension privileges. In Poland, miners received double the average pension and retired roughly nine years earlier (Hausner, Chapter 7, in this volume). These groups are politically powerful: for example, the Hungarian railway system has been permitted to accumulate massive arrears to the pension system over many years. In Hungary, potential opposition from these groups was avoided by postponing any attempt to alter their privileges. In Poland the first package of laws sent to the Sejm similarly evaded the issue. The second package, approved in late 1998, established a uniform system for all workers who have not already qualified for pension privileges. The government proposed and the unions have agreed that older workers in previously privileged sectors who have not yet worked the full number of years required to qualify under the old system will be compensated on terms to be negotiated within the Tripartite Commission (rather than through the legislature) after the new system has been adopted. Costs of compensation will be borne by the general budget rather than the pension system. An important feature of the Polish reform scheme is the creation of notional defined contribution accounts within the old PAYG component, linking individual workers' contributions more closely to the benefits they can expect on retiring. Among reasons why the reformers favored this feature (adapted from Swedish and Latvian experience) was the fact that it is inconsistent with, and therefore might ease the elimination of, privileges for particular groups (Hausner, interview).

Among major stakeholders one other category must be mentioned: private insurers and (in Hungary) firms already established to manage voluntary pension funds. In Poland, representatives of the association of insurance companies met a number of times with the plenipotentiary. They sought reforms based on capitalization, broad access for private insurance firms (including foreign firms) to second-pillar programs, and equal tax treatment for firms managing mandatory and voluntary pension funds. The group was disappointed with respect to several features of the semifinal design, and indeed reopened certain questions of tax treatment with the new government after the September 1997 elections. The process of consultation itself, however, was viewed as transparent and reasonable (Kostkiewicz, Myjak, interviews).

In Hungary, the process through which existing private insurance and pension firms had access to the reformers was less transparent. Private

voluntary individual and group pension funds had expanded rapidly after they were authorized late in 1993. By late 1997 some 250 pension mutuals had been established, with about 600,000 members (over 15 percent of the labor force). Employers favored such plans because they did not have to pay taxes on the wages contributed to the pension accounts (Gál, interview). Whereas experts from the sector were invited to advise on technical aspects of the reforms, no channels were set up for more structured representation or negotiation. Perhaps because of concerns that too many firms would compete for the new opportunities created by the reforms, or perhaps in part because of political influence, the legislation governing the qualifications for managing mandatory second-pillar funds favors the largest already-established firms, many of which are linked to large, often foreign insurance or banking companies.[11]

Watchdog Institutions and Their Influence

In designing politically feasible reforms, the pension reform teams in Hungary and Poland had to consider not only stakeholders and public opinion, but also the probable reactions of oversight institutions. Constitutional courts in both countries, and the institution of the Ombudsman in Poland, can review and reverse the actions of government agencies. These institutions are independent of other governmental bodies, including the judicial system. The constitutional courts are responsible for protecting the integrity of the constitution and the values it embodies. They have the power to overturn specific features of laws judged to violate constitutional guarantees of individual rights; in Hungary this can be done even before a law is implemented.

The legal concept of acquired rights to benefits has proved an important constraint on changes in the design and financing of social benefits. In Hungary, Minister of Finance Bokros's 1995 austerity package included provisions to substitute targeted for universal family assistance and to modify sick pay and other provisions. The Constitutional Court promptly declared some of these measures invalid, because they failed to provide an "adequate adjustment period," or were more fundamentally in conflict with the constitution. The minister of finance stated that

[11] After obtaining a formation license, a firm had six months to recruit at least 2,000 members and to meet requirements regarding staff, procedures, and equipment. The requirements favored those third-pillar funds linked to insurance companies, with large numbers of agents to recruit members, and ready access to capital to finance start-up equipment and arrangements. Of 250 funds handling voluntary pension funds, about 50 applied for licenses when the reforms went into effect in January 1998, and only a handful had recruited 2,000 members as of March 1998 (Spat, interview).

the court's decisions wiped out half of the expected savings from the austerity package (Sajó 1996: 35; Dethier and Shapiro 1998: 458).

Anticipation of such rulings led the pension reform teams to certain decisions about design. For example, in Hungary the reformers initially planned to require all workers below a cutoff age (in the mid-thirties) to direct part of their social security contributions to individual second-pillar accounts. However, later they decided to make contributions compulsory only for new workers entering the labor force (who did not yet have acquired rights in the old system), while letting current workers of any age choose whether to do so, thereby avoiding possible adverse judicial rulings (Dethier and Shapiro 1998: 463).

In Poland, in addition to the Constitutional Court and ombudsman, a legislative council advises the prime minister regarding the constitutionality of proposed legislation. Composed of established, mainly older lawyers, the council was familiar with Communist and traditional Western European social-security arrangements. Most of its members opposed the mandatory fully funded second pillar, which they regarded as contrary to the basic principles of solidarity and to state guarantees underlying a pension system. Some of their concerns were met by adding a state guarantee underwriting any deficits in the mandatory pension funds. Doubts that the new system even qualified as "social security" within the meaning of the constitution were resolved by noting that the PAYG pillar would continue to receive more than half of the mandatory contributions to the system.

Outcomes

Concessions to pressures from oversight institutions and varied interest groups substantially reshaped both Polish and Hungarian pension reforms from the ideas originally put forward by ministries of finance. But in both countries multipillar systems have replaced the single traditional PAYG approach. Hungary now has, in essence, a four-pillar system: "a 'zero' pillar consisting of a means-tested income guarantee for the old, financed from general taxes; a first pillar, consisting of an earnings-related PAYG, financed entirely from contributions; a second pillar, mandatory, private, and fully funded; and a voluntary pillar" (Palacios and Rocha 1998: 211). As a result of compromises regarding the allocation of workers' contributions between the first and second pillars, the new second pillar initially will receive only a quarter of pension contribution funds, while the first, PAYG pillar will continue to constitute the bulk of the system for many years into the future. The reforms also substantially modify the PAYG component, including a gradual increase in

the normal retirement age to sixty-two (from sixty for men and fifty-five for women), an increase in minimum years of service for early retirement, and a slightly delayed change in the formula for indexing benefits (linking pensions to wages and prices equally, rather than solely to net wages).

In Poland, legislation approved in June and August 1997 creates a mandatory fully funded second pillar, authorizes and regulates a voluntary pension insurance system, and earmarks revenue from privatizations to help finance the costs of the transition to the new system. The second package of bills, approved in September 1998, creates notional individual accounts within a reformed PAYG first pillar and reduces or eliminates special privileges within that system for specific occupations. As in Hungary, the system offers workers in the middle generation (in Poland's case, between thirty and fifty) a choice between the old and new system. The parliamentary commission that reviewed the legislation rejected government proposals to change the age of retirement from sixty for women and sixty-five for men to sixty-two for all workers, but accepted the rest of the proposed legislation.

In both countries, critics from both sides – those opposing the concept of a multipillar system and those who would have preferred more rapid and thoroughgoing shifts to a fully funded system – were left dissatisfied with the outcomes. In Hungary the former group in particular felt marginalized by what it viewed as a steamroller process (Ferge 1997). But most major stakeholders felt that they had been consulted and had had an impact on the outcome. In short, the democratic process substantially molded but did not block major systemic reforms.

The Third Puzzle: Why Pensions but Not Health?

In both Hungary and Poland in 1998, it is often claimed that "health reform has not begun." That is an exaggerated view, especially in Hungary. There have, in fact, been major changes in health-care delivery. But in contrast to the stories of pension reform, to date there has not been a focused drive to establish a new model or vision for the sector. Therefore there is no compact "reform story" to be told.

Problems of the Sector and Attempts at Reform

Hungary and Poland inherited from the Communist era health-care delivery systems that provided universal coverage and some high-quality services but were also burdened with major inefficiencies. These included excessive emphasis on hospital care and excessive hospital capacity, a

lack of long-term care facilities like nursing homes (adding to the pressure on hospitals), neglect of public health and healthy life-style programs, and too great reliance on medication, among many other problems. In both countries, as almost everywhere in the post-Communist world, patient copayments were virtually unknown but under-the-table "gratitude money" was ubiquitous, both to reduce waiting time and to obtain better service. Historical allocations and political jockeying largely determined the distribution of investment funds, and maintenance was widely underfunded and neglected.

In Hungary, a series of reforms considerably altered the health-care delivery system after 1989. But most of the changes proved to have severe flaws (Orosz, Ellena, and Jakab 1998: 227, box 8.2). Funding was switched from general taxes to compulsory insurance in 1990, collected jointly with pension contributions from workers and employers. As mentioned earlier, in 1992 the Social Insurance Fund was split into a Health Insurance Fund and a Pension Fund. The responsibilities and powers of the Health Insurance Fund were not entirely clear, and there were constant power struggles with the Ministry of Welfare and the Ministry of Finance. The fund also had chronic deficits. After the 1998 elections the Health Insurance Fund was placed under the authority of the prime minister's office.

Private practice was legalized in 1989. Many physicians with private patients free-ride on the public system, for instance, using the laboratory services and diagnostic facilities of public clinics or hospitals where they are also employed. The pharmaceuticals market was also liberalized. While products became much more available, their prices also soared, contributing to high public spending on health care. Ownership of public hospitals and clinics was transferred to local governments in 1990, but little control over financing and operations went with the legal titles. Primary care was reformed in 1992, converting district doctors to "family physicians," introducing capitation payment, and offering greater scope for patient choice, but primary doctors continue to offer mainly prescription and referral services. An attempt in 1995 to cut back on excess hospital capacity accomplished little but generated tremendous opposition among health workers and the public.

János Kornai (Chapter 6, in this volume) suggests that by the mid-1990s the health-care sector in Hungary displayed many of the characteristics of "market socialism" in the larger economy a decade earlier. Opaque and muddled property rights for facilities, tight wage controls, fixed service prices, the limited autonomy of the directors of operating units and frequent intervention from above, and soft budget constraints create an array of perverse incentives. A small private sector provides

choice and better-quality services for the wealthy and near wealthy; most of the population grumbles.

When the Hungarian Ministry of Finance began to press for pension reforms, in late 1995, it intended to tackle health-care delivery reforms as well. Indeed, health was viewed as the more important of the two, because the system provided greater scope for manipulation, was more opaque, and was subject to pressure from many lobbies. The double program proved too ambitious politically, and health reform was quietly dropped as a near-term goal. Indeed, it was a dispute between the reformist minister of finance Lajos Bokros and the remainder of the cabinet over the deficits of the Health Insurance Fund that triggered Bokros's resignation, although the underlying causes for his resignation were broader. By autumn 1997, however, with pension reform legislation safely passed, the Ministry of Finance appointed a new deputy state secretary whose primary responsibility was to plan and coordinate health-sector reforms if the government won reelection in May 1998. However, the elections put in power a new coalition, which promptly eliminated the autonomy of the pension and health insurance funds and split the former Ministry of Welfare.

In Poland, planned reforms in health-care delivery have been less extensive, although there has been considerable change in the actual system "by default" (Kochanowicz 1997: 5). Private practice and private hospitals were authorized in August 1991. By 1997 roughly half of Poland's 70,000 doctors split their time between public and private practice, while the remainder worked solely within the public system. Particularly in Warsaw, not only the wealthy but the middle classes increasingly turned to private practitioners. An estimated 40 percent of all resources spent on health care comes from out-of-pocket payments; that sum includes sizable copayments for medications and widespread illegal gratuities within the public system (Koronkiewicz, interview).

Most public health care is provided through the vovoidships or provinces, and by local integrated health-care management units. From 1992 on, health funds from the national budget bypassed the Ministry of Health and went directly to the vovoidships. A number of limited but important programs have been introduced to improve health-care provision, including measures to strengthen the role of primary-care physicians, encourage use of contracting, and experiment with integrated services that include prevention and public-education components.

Despite planned and unplanned changes, basic problems persist, and new ones have been introduced by the changes themselves. Health-care providers and the public are both deeply dissatisfied. Proposals for more

far-reaching and integrated reforms have been debated since the beginning of the decade. In 1995 the Ministry of Health and Social Welfare prepared and the government approved legislation that would shift health-care funding largely to an insurance basis and restructure aspects of health-care administration. Meanwhile a small commission associated with the Solidarity opposition prepared a less detailed alternative approach reflecting the views of the physicians' union. This competing sketch was also submitted to the Sejm, through President Wałesa (Tymowska, interview). The Parliament established a special commission to develop an integrated proposal. In February 1997, after eighteen months of work including extensive consultations with many foreign experts, a bill establishing the broad outlines of a new national health-insurance system was approved by the legislature (Bossert and Wlodarczyk 2000: 13–15).

Yet even as the legislation was nearing completion, some within the government sought different changes. The mandate of the Government Plenipotentiary for Social Security Reform, established late in 1996, originally included health-sector reforms as well as pensions. The Ministry of Health strongly objected to what it viewed as an intrusion on its responsibilities. After the death of Minister of Labor and Plenipotentiary Bączkowski, the new plenipotentiary made clear that he would address health reforms only if the primary responsibility were assigned clearly to him and not to the minister of health. That was not politically feasible,[12] and the plenipotentiary therefore focused on pensions alone (Kornatowski, Rutkowski, interviews).

The new government that took office in autumn 1997 drafted legislation needed to implement the broad health-insurance reforms designed by the previous government. But it was critical of aspects of the earlier legislation. The coalition members also disagreed with each other, especially regarding the role of local governments in the new system (Tymowska, Kornatowski, interviews). Indeed, for years proposals for reorganizing the health care system were entangled with the broader issue of restructuring subnational governments and their relations with the center, and neither reform was able to move forward. In July 1998, however, a bill restructuring local government was finally passed. Legislation establishing independent public health-insurance funds and a new system of contracting for health services followed. But the Amended Health Insurance Act was partly inconsistent with the Public Administration Act on subnational government, and left important issues to be

[12] Among other factors, the minister of health was seriously ill at the time, and the prime minister was most reluctant to undercut his authority (Hausner, interview).

determined by future regulations (Bossert and Wlodarczyk 2000: 15–17). Dispute over specifics continues, and implementation has been extremely difficult.

In short, in both Hungary and Poland the need and demand for health-sector reforms have been strong, but decisive action has been difficult or impossible. What accounts for the contrasting histories of pension and health-care delivery reform efforts?

Political Obstacles to Reform: Multiple Powerful Interests

Proposals for health-care reforms affect a broad and varied array of vested interests. Given the widespread dissatisfaction with the systems, most of these groups seek not to block but to control change.

In both countries, the ministries of health tended to reflect the interests of specific groups of doctors, rather than a broader spectrum of health-care providers. In Poland under the SLD government, for instance, the ministry was strongly influenced by the medical elite associated with teaching hospitals (directly linked to the ministry). This influence was reflected in ministry proposals for revised administrative structure, carving the country into regions that corresponded with medical academy locations but not with other administrative units (Tymowska, interview). In Hungary, control over most aspects of health-care administration shifted from the Ministry of Welfare to the Health Insurance Fund when the latter was created in 1993. The division of responsibilities and power between the fund and the ministry became a chronic source of tension. In neither country was the ministry particularly powerful within the government.

Health care providers in both countries are fragmented, in part as a result of highly segmented and specialized Communist health-care systems (Ellena, interview). Doctors are divided along many lines: by primary care versus specialized services; by specific specialties; by engagement in private practice versus full-time public-sector employment. Doctors' interests also diverge from those of other medical workers. In Poland there are often ten or more unions represented in a single hospital (Tymowska, interview). Medical universities have their own (usually quite powerful) associations; so do financial directors of hospitals, various categories of nurses, and public-health workers. In principle the Medical Chamber provides an overarching organization. Although membership is compulsory for doctors, however, the chambers are not necessarily representative. In Poland, the chamber has often acted like a union, organizing strikes and demonstrations. Many doctors

are indifferent to or alienated from the chamber, and very few take part in its elections (Tymowska, interview).

In both countries, medical workers in general regard themselves as seriously underpaid, and they have indeed suffered substantial drops in the real value of their official salaries. Gratitude money and fees for private practice partly counterbalance dwindling real salaries but are extremely unequally distributed. Many health-care providers feel that funding is the root of the sector's problems, although awareness of the need for cost consciousness and efficiency is growing (Orosz, interview). Many also want to keep the security of public-service jobs, at the same time that they would like higher incomes and greater autonomy.

In both Hungary and Poland, local and provincial governments also have major stakes in the precise design of health-care reforms. In Poland, expenditures on health account for more than half of all expenditures at the level of the vovoidships or provinces (Kornatowski, interview). Health services are also a major function of the much smaller g'minas.[13] Even modest changes – for instance, pressure to make more use of contracting – may make vovoidship officials nervous, because they lack experience and fear that choosing one provider rather than another may provoke protests (Łuczak, interview). Subnational officials are understandably wary of proposals that increase their responsibilities without commensurate increases in authority and funding. More radical shifts in unit boundaries, or in the responsibilities and funding sources of existing units, have sweeping implications for control over jobs, money, assets, and political relationships.

The pharmaceutical sector – domestic and foreign manufacturers and distributors, and pharmacists themselves – are also obvious interested parties in health reforms. In both Hungary and Poland, excessive prescription is a serious weakness of the health-care system; coupled with rising prices, this is also a major source of increased costs. Both countries have addressed the problem partly through increased reliance on patient copayments. In turn, that has prompted concerns about the burden on the poor. Hungarian attempts to compensate through means-tested subsidies have led to widespread cheating (Orosz et al. 1998: 242–43).

Public opinion is also broadly and intensely engaged by proposed reforms in health-care arrangements. Commitment to free public service has probably been eroded in both countries by the growing use of private care and the prevailing practice of gratitude money for public providers. Surveys indicate strong public support in Poland for shifting to an insurance system of funding, though it is difficult to judge whether the support reflects realistic expectations regarding the effects of such a shift. Other kinds of changes, however, may well prompt public outcries. For instance, when in 1995 the Hungarian government attempted to rationalize and reduce the number of hospital beds and to close some of the least efficient clinics and hospitals, there was strong popular resistance from those who had been using the targeted centers.

[13] G'minas were the smallest unit for Polish local government until restructuring in late 1998.

As with pension reforms, oversight institutions also are political players. For example, the ill-fated Hungarian attempt to cut back on hospital beds was complicated by the fact that the Constitutional Court ruled the cuts could not be carried out through a simple administrative regulation. Instead, the court required a detailed law to be presented to the Parliament, specifying how many beds were to be cut in each local jurisdiction. The predictable result was to mobilize intense local opposition (Ellena, interview).

Unassertive External Players

External forces have been much less active in promoting health than pension reforms. Many international, bilateral governmental and nongovernmental agencies and groups provide technical and financial assistance to the health sector in Eastern Europe. Most of these focus on specific projects; few address broader health policies and strategies. Among these few, the World Bank has played the leading role. Even the World Bank, however, has not pursued a sharply focused sector strategy in either country (Ellena, interview; World Bank 1997). Moreover, the bank's frustration with the Hungarian government's poorly thought through reform attempts (such as the attempt to cut hospital beds) contributed to the 1996 decision to remove health-sector components from a large Public Sector Adjustment Loan.

The Missing Blueprint

Closely linked to the absence of assertive external influence is the fact that there is no dominant model for health-care delivery reforms analogous to the recent international semiconsensus regarding multipillar pension systems. Health systems vary widely among wealthy nations. Almost all confront serious problems and provoke widespread criticism from care providers and the public. Although there may be considerable agreement on broad principles and goals, and no shortage of proposals to address specific issues, in most countries there is no blueprint or even a "vision" of an improved system that commands broad consensus.

In both Hungary and Poland, we have seen that the conflict between two fairly clear broad concepts of pension reform structured debate and shaped decision making. The international semiconsensus regarding the desirability of the multipillar system not only bolstered the conviction of the proponents of the concept but also prompted direct and vigorous World Bank and other external support.

In contrast, during interviews in Hungary and Poland, half a dozen health-sector specialists remarked, spontaneously and not in response to specific questions, that there was as yet no broad vision of a better-functioning and sustainable health-care delivery system (Orosz, Csaba, Ellena, Kornatowski, Łuczak, and Tymowska, interviews). The inconclusive course of reform proposals in Poland illustrates not merely absence of agreement on a single approach, but a process that might be described as groping for approaches. Presumably the Hungarian Ministry of Finance had in mind precisely the need for a vision of health-sector reform, when it commissioned a book-length study by prominent economist János Kornai. That book, written to be accessible to the general public and published early in 1998, may indeed help to structure and advance public debate in Hungary.

The difficulties of formulating a blueprint for health-care delivery reform are rooted in the character of the sector. They flow not only from the structure of the sector, with its many levels of operation and stakeholders, but also from the complexity of health-care objectives and the difficulties of measurement and valuation. Like education, health-care delivery serves multiple goals and constituents. It is difficult to reduce the trade-offs among groups and goals to a common denominator. How shall resources be divided between improved care for children or the elderly? Principles of equity and solidarity demand that certain services and facilities be available to everyone, but how generous should that guaranteed package be? There are no adequate technical answers to these and similar questions.

Moreover, again like education and in much greater degree than pensions, health programs produce not only crucial individual benefits but also tremendously important public goods. The public-goods component implies a major role for the public sector, but the division of responsibilities among public (national and subnational) agencies, private for-profit agents, voluntary organizations, households, and individuals is highly flexible and immensely controversial (Kornai, Chapter 6, in this volume).

Given these complexities and characteristics, neoliberal economic concepts and approaches that have provided the paradigm for many of the institutional reforms in market-oriented structural adjustment may apply

only partially and with substantial caveats in the health sector. And, as Kochanowicz notes, liberal analysts have given much less attention to reform of social sectors and welfare provision than to macroeconomic policies and directly productive economic sectors. The appeal of Western European social democratic models has dwindled with the growing crisis of the Western welfare state; even in strongly Catholic Poland no clear Christian Democratic approach has been articulated. But the now-dominant neoliberal intellectual current provides only partial and uncertain guidance (Kochanowicz 1997: 5).

Some Implications for the Process of Social-Sector Reforms

As more post-Communist countries move beyond initial stabilization and liberalization, social transformation issues will become increasingly central. This study uses a simple two-country, two-sector set of comparisons to explore some of the factors that ease or hamper far-reaching social-sector reforms. The contrasts between rather radical reforms in pension systems and fragmented and inconclusive change in the health sector reflect differences in intrinsic complexity, in centralized versus decentralized administration and delivery, in the variety and commitment of vested interests, in the availability of clear-cut "models" to focus proposals and debate, and in the role of external influence.

On all these dimensions, pension reform is "easier" than health-sector reform. Pension systems are much less complex administratively, nor do they generate large, powerfully organized providers' associations. In recent years a fairly clear-cut, though not uncontroversial model or vision of pension reform has helped to structure national debates. Powerful external actors, both public and private, often directly or indirectly support application of that model in specific countries. Nevertheless, in both Hungary and Poland pension reform required extensive debate, consultation, and compromise. More generally, in democracies, reforms in social sectors and especially in social services (health and education) are likely to demand extraordinary efforts to develop at least partial consensus on the broad outlines of new arrangements and to encourage coalitions willing to support specific building blocks.

The process of social-sector reforms may affect not only the sustainability of the reforms themselves but also the broader consolidation of democratic government. Put slightly differently, the manner and channels through which reforms are designed, adopted, implemented, assessed, and modified will be viewed by citizens as partial evidence of how well their political system is working.

To some extent, of course, this applies to all reforms and, indeed, to any significant change in economic policies. A government that decides most major economic and social policies behind closed doors and resorts to decrees to sidestep public debate and legislative approval forfeits the legitimacy that democratic processes can generate, even if the economic decisions themselves produce generally good results. If the pattern is long continued, citizens are likely to regard their country's democratic institutions as flawed and weak.

However, public opinion in democracies will accept top-down decision making in some matters more than others. People expect policy decisions widely viewed as arcane, requiring highly specialized knowledge, to be made by "the experts." Top-down decision making is also more acceptable to address problems viewed as urgent, where the costs of delay are obvious. Most of the public therefore regards it as appropriate that decisions regarding macroeconomic policies should be made by a small circle of high-level officials, especially in a crisis. On issues that they believe they understand in greater degree, and where there is no obvious reason for rapid action, citizens in democracies are much more likely to expect open debate and consultation. Social-sector issues in general fit this description.

At the same time, many social-sector reforms bear directly on widespread and deeply felt fears, hopes, or values. It is often noted that social-security reforms are difficult because they affect entitlements. In the post-Communist world, however, many, perhaps particularly younger people, doubt the capacity of their country's institutions and economies actually to deliver the pensions, health care, and other benefits required by law. Their doubts open space for reforms.

Although belief in entitlements may be less of an obstacle to reforms in some post-Communist countries than is often assumed, proposals for reorienting social services and transfer programs nevertheless rouse powerful emotions. The wrenching transformation of the past decade has increased opportunity, liberty, and affluence for many. But transformation has also sharply increased inequality and – perhaps more important – insecurity for much of the population. Most middle-strata people who have managed to maintain, recover, or increase their incomes must nonetheless worry about job security, declining quality of public-health and education services, and pension systems that look increasingly inadequate. Private insurance is still unfamiliar, often unavailable, and for many unaffordable.

Almost all concrete social sector reforms will generate considerable opposition and even broader skepticism, unless and until they produce clear-cut benefits. Procedural legitimacy – the widespread perception

that not only the formal rules but also the spirit of open and fair debate were observed, and that all major interested groups had an opportunity to state their case – is probably a more obtainable goal than broad consensus on specific designs. It may well be that the minimum political requirements for sustainable social-sector reforms therefore coincide with what is needed to maintain or deepen confidence in the political system's capacity to heed and, at least partially, to respond to widely felt concerns. Such a double reward for attention to the *process* – and not only the design – of reform may be one of the few optimistic conclusions growing out of this most complex and daunting set of issues.

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