
Mechanisms of Institutional Change in Central and Eastern European Welfare State Restructuring

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Abstract

This paper discusses the main *mechanisms of institutional change* influencing the transformation of Central and Eastern European (CEE) welfare states. It starts by providing a brief description of their main characteristics and continues by offering some empirical evidence specifically tailored to the CEE case. It adopts a *mechanisms-based explanation* approach. Here, the analysis is focused not merely on the identification of correlations existent between variables, but rather on the mechanisms and the causal chains that influencing the actions of actors lead to a determined outcome. The *relational character* of institutional change will be emphasized here. In fact, not only existing welfare institutions are altered during the process of institutional change, but also the existing institutional relations and organizational features of the welfare state. In the discussion, it will be argued that several *mechanisms of institutional change*, complementary to each other, have influenced the transformation in three different, but interconnected domains. In the domain of ideas, these mechanisms have taken the form of *ideational, communicative* and *coordinative mechanisms*, in the domain of institutions of *transformative adaptive mechanisms* and, finally, in the domain of interests of *increasing returns mechanisms*. Four specific *mechanisms-based explanation models* of institutional change (*dissonance-driven desire formation, rational imitation, vacancy chain, and self-fulfilling prophecy*) are portrayed, as well as the aggregating characteristics of *recombinant transformation (bricolage)*, as a key *mechanism of institutional change* in welfare state restructuring, are discussed.

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“a student [of sociology] who has a difficulty thinking of at least three sensible explanations for any correlation that he or she is interested in should probably choose another profession” (Stinchcombe 1968: 13, quoted in Hedström and Swedberg 1998: 10).

Introduction

The study of Central and Eastern European (CEE) social policy has now reached the attention of the international academic community, but despite an increasing number of publications on the topic, the *mechanisms of institutional change* occurring in those welfare states in transition have, so far, remained unexplored and this in spite of the clear importance that such an investigation might have for future reform proposals. How can better social policy reforms be implemented in the region if the paths and *mechanisms of institutional change* are not fully understood? In order to achieve this objective, this paper adopts a *mechanism-based explanation* approach. Here, the focus is given not on relationships between variables, but on actors and the intended and unintended outcomes of their actions. Following Peter Hedström (2008fc), the explanatory power of a *mechanism-based approach* lies, in fact, in the explanation of an event giving account of why it happened, not only by citing earlier events, but also providing (or suggesting) causal mechanisms (see also Hedström and Swedberg 1996, 1998; Elster 1998). For Jon Elster (1998), a mechanism explains by opening “the black box” and showing the “cogs and wheels” of the internal machinery. It also provides a continuous chain of causal intentional links between the *explanans* and the *explanandum*. As correctly emphasized by Hedström (2008fc), identifying the details of the mechanisms not only produces explanations that are more precise and intelligible, since it permits to identify structural similarities between processes that at first glance could seem completely dissimilar, but it also avoids an unnecessary proliferation of concepts. Moreover, the investigation of the mechanisms involved in an outcome can also allow the identification of a genuine causal relationship and not simply a correlation between variables. This ultimately allows the detection of models that otherwise would remained unknown.

Contrary to common assumptions and academic desires for single explanatory models, this paper will highlight the impossibility to identify one single *mechanism of institutional change* influencing CEE social policy. Rather, and this is the main argument, several *mechanisms of institutional change* took place simultaneously during the stages of *institutional design* and *institutional transformation*. This should, however, not surprise the reader. Institutional actors do not act in separation from one another, and so do *mechanisms of institutional change*. In the new-

institutionalist tradition (see Hall 1997), it will be argued that these *mechanisms of institutional change*, complementary to each other, have influenced the transformation in three different, but interconnected, domains. In the domain of ideas, these mechanisms have taken the form of *ideational, communicative* and *coordinative mechanisms*, in the domain of institutions of *transformative adaptive mechanisms* and, finally, in the domain of interests of *increasing returns mechanisms*. These *mechanisms* have contributed to alter not only the pre-existing welfare institutions, but the contemporary institutional relations and organizational features of the welfare state, ultimately affecting the *politics, polity* and *policy* spheres. The *relational character* of institutional change will, as a consequence, be highlighted. In addition, not only the path-dependent characteristics of institutional change will be emphasized, but also the innovative character of institutional change in Central and Eastern European social policy will be highlighted. Here, *recombinant transformation* (or *bricolage*) will be identified as the key aggregating *mechanism of institutional change*.

The paper is structured as follows. Section 1 provides a brief description of the *mechanisms of institutional change* attempting to highlight their main characteristics, while Section 2 provides some examples on the way in which they influence the transformation in the domains of *ideas, interests and institutions*. Section 3 then goes on providing some empirical evidence specifically tailored to the CEE case. Finally, Section 4 aims at making sense of the different features of institutional change through *causal reconstruction*. Here, four specific *mechanisms-based explanation models* of institutional change (*dissonance-driven desire formation, rational imitation, vacancy chain, and self-fulfilling prophecy*) are discussed.

New-Institutionalism(s) and Mechanisms of Institutional Change¹

The investigation of the *mechanisms of institutional change* in CEE social policy must, inevitably, be situated in the current new-institutionalist analysis. Since the first days of its inception in the 1980s, this strand of social enquiry has been the object of a lively academic debate which has resulted in a substantial expansion in its explanatory power, but also in violent internal diatribes and, to some extent, not always justified theoretical misunderstandings. Exponents of *rational-choice institutionalism* (Hardin 1982; Elster and Hylland 1986; Shepsle 1986; Fiorina 1995; Bates et al. 1998; Weingast 1998; 2002) have given primary attention to the fixed rationalist preferences of actors and institutions, proponents of *historical institutionalism*

(Hall 1986; Steinmo et al. 1992; Skocpol 1995; Hall and Taylor 1996; Thelen 1999; North 1990; Pierson 2000) to the self-reinforcing mechanisms and historical paths, while the advocates of *sociological institutionalism* (March and Olsen 1989; DiMaggio and Powell 1991; Brinton and Nee 1998) to the formal and informal rules that govern human behaviour. More recently, supporters of *actor-centred institutionalism* (Scharpf 1997; Schludi 2005) have emphasized the crucial importance of strategic interactions in the process of institutional change, while, in the newest, and probably less reductionist version, *discursive-institutionalism* (Schmidt 2000, 2006, 2008; see also Campbell and Pedersen 2001; Hay 2001, 2006), the ideational and communicative side of institutional change has also been called into question. Despite significant differences on the power attributed to each single variable (whether rationalities, historical legacies, norms, tactical exchanges or discourses), all these new-institutionalism(s) have shared a common emphasis on ideas, interests, and institutions as interrelated entities, as well as, and this will be the key point in this section, implicitly calling attention to the *relational and organizational character of institutional change*.

Ideas, interests and institutions are as interlinked as their relations with the actors involved in the process of institutional change. Institutions delimit the arena where the battles for change take place, interests crystallize the individuals' and institutional dominant concerns, while ideas provide the substantive reasons for immediate action (or inaction). Ideas, interests and institutions are, thus, mutually permeated (Lepsius 1990; Hall 1986; Palier and Surel 2005). Policy action aimed at institutional change can, in fact, only occur if situated in a clear institutional context (it would be impossible in a institutional limbo of procedures), if meeting specific vested interests and if corresponding to previously agreed set of ideas (or *paradigms* to use Kuhn's definition) (Kuhn 1970). The process of institutional change becomes, in this context, a highly *relational* and *organizational* process, since it involves a continuous recombination of existing relationships (expressed also in terms of the *ways of doing things*) between the actors and the environment in which they are embedded.

Surprisingly, however, the *relational* and *organizational* character of institutional change has, up to present date, largely been neglected, especially when applied to comparative welfare state research. Here, the behaviour of actors (e.g. individuals or other social and institutional units) has primarily been analyzed in terms of their motives and objectives, neglecting the "relational" factors that may exist between individuals, institutions, interests (and the substantive

¹ For this section I have greatly benefited from discussions with Frank Ettrich to whom I am grateful.

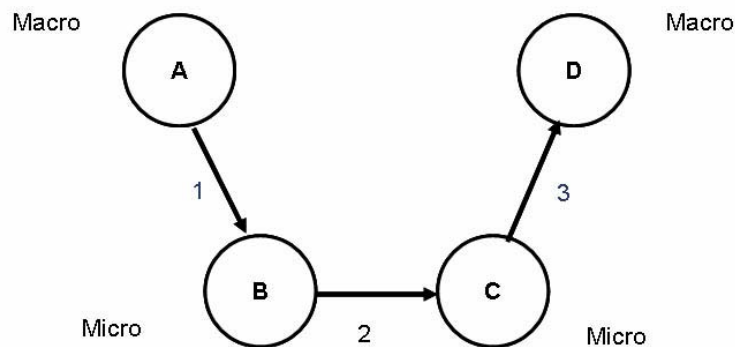
leading ideas) and the ways in which they are “organized” together. Talking about *mechanisms of institutional change* in welfare state research becomes, in this context, a matter of talking about “organizational relations” among actors (e.g. veto players, policy-makers, citizens or trade union members), among institutions (e.g. ministries of finance, of labour and social affairs, etc.), among interests (e.g. trade unions’ specific concerns), among ideas (e.g. neo-liberal vs. social democracy), as well as amongst institutions, interests, ideas and actors themselves. From this perspective, *mechanisms of institutional change* can be understood as a sub-class of *social mechanisms* (Mayntz 2003; Ettrich personal communication), in the sense that they involve relations among spheres of social life. They are institutions-, interests- and ideas-permeated, as mentioned above, but also, and not less importantly, relations- permeated in the sense they are embedded in a set of previously organized institutional relationships.

Mechanisms of institutional change must also be described according to the ways in which, and how, mid stages a determined result is achieved from a set of alternative possible options (Mayntz 2003). A mechanism can only then be identified when the process, linked to a special result and set-up condition, is shown. According to MacAdam et al. (2001) and Tilly (2001), a mechanism must include, in fact, the *set-up conditions*, *intermediate activities* and *termination conditions*. On the basis of these considerations, these authors identify a threefold typology of “environmental”, “cognitive” and “relational” mechanisms. Environmental mechanisms influence the change in the “conditions affecting life”, cognitive mechanisms involve psychological mechanisms that cause specific behavioural patterns, while relational mechanisms, to quote Tilly, change the “connections among people, groups, and interpersonal networks” (Mayntz 2003: 9).

Similarly, Hedström and Swedberg (1996, 1998) differentiate between “situational” (macro-micro), “individual action” (micro – micro) and “transformational” (micro – macro) mechanisms on the basis of their levels of influence. According to the authors, “instead of analyzing relationships between phenomena exclusively on the macro-level, one should always try to establish how macro level events or conditions affect the individual (macro - micro), how the individual assimilates the impact of these macro-level events (micro-micro) and how a number of individuals, through their actions and interactions, generate macro-level outcomes” (macro-macro) (Hedström and Swedberg 1998: 21-23). On the basis of Coleman’s (1986) so-called micro-macro graph, Åberg and Hedström (2005) and Hedström (2008fc) further discuss this concept illustrating how the gap between a model and reality can be narrowed creating a

closer link between quantitative research and agent-based modeling. Social scientists usually explain social or macro-level outcomes (**D** in Figure 1) with references to other social or macro-level phenomena (**A**). But simply providing a link between **D** and **A**, statistically or otherwise, would lead to a rather incomplete explanation since the mechanisms that tell us about how and why they are related cannot be found at this aggregate level (Hedström 2008fc: 23 *provisional*). Instead, Åberg and Hedström (2005) and Hedström (2008fc: 22-25 *provisional*) propose to analyze “how individuals’ properties and orientations to action are influenced by the social environments in which they are embedded (**link 1**), how these properties and orientations to action influence how they act (**link 2**), and how these actions bring about the social outcomes we seek to explain (**link 3**)” (see Fig. 1). Explaining the entire causal chain of mechanisms **1-2-3** instead of simply linking the variables **A** and **D** is the main logic of the *mechanism-based explanation* approach adopted in this paper.

Fig. 1 Macro-Micro Linkages



A: Actions of others or other relevant environmental conditions
 B: Individual reasons or other properties influencing their actions
 C: Individual Action
 D: Social Outcome

(Source: Hedström 2008fc)

Identifying the causal chain (*causal reconstruction*) and the mechanisms according to which a phenomenon originates becomes, in this context, crucial for understanding the path and direction of institutional change (Mayntz 2002, 2003). *Mechanisms of institutional change*, as repetitive processes that link particular set-up conditions with specific causal results (see Goodin 1996; Elster 1998), are seen, in this way, as *steering procedures and processes* that materialize through

institutionalization, de-institutionalization and re-institutionalization processes. In other words, they *construct, de-construct and re-construct* previous ideas, interests and institutions in new forms, while changing the relations and the organizational structures among the constituting elements. *Mechanisms of institutional change* do, as a consequence, not only play an important *institutionalization function* in providing a stable, recurring, repetitive, patterned behavior of institutional change (see Goodin 1996), but they also play a *regulating* as well as a *stabilization function*, in that they regulate and institutionalize social and institutional praxis.

In the course of this paper, *mechanisms of institutional change* will be defined, in general terms, as “recurrent processes generating a specific kind of outcome or event” (Mayntz 2003: 1), and more specifically, as *steering procedures and processes*, whose main characteristic is *repetitive action* aiming at pursuing a specific *institutional change* through an alteration of the main *organizational* relations. This alteration materializes through a *causal chain* in ongoing processes of *construction, de-construction and re-construction* of ideas, interests and institutions. As will be shown, taking as case study the transformation of CEE social policy, several *mechanisms of institutional change* have materialized in the region affecting the *politics* (the welfare logic of a nation), the *polity* (through establishment of determined welfare institutions), and the *policy* sphere of the welfare state (including the alteration of specific policy features of the welfare arrangement, such as, for example, the retirement age). Subsequently, a dominant aggregating *mechanism of institutional change, recombinant transformation (or bricolage)*, can be highlighted.

Mechanisms of Institutional Change: Some Examples

In this section, a literature review of the main *mechanisms of institutional change* is carried out, since an exploration of previous works is crucial for understanding the ways in which institutions evolve, they relate to each other, and adapt to changing circumstances. Concepts, such as *discursive institutional change* (see Schmidt 2006, 2008), *recalibration* (Ferrera et al. 2000; Hemerijck 2007), and *incremental transformative change* (Streeck and Thelen 2005), are discussed here and then applied to the CEE case. These are all forms of adaptive transformative institutional change, which can have path-dependent (North 1990, 2005; Pierson 1996, 2001), path-departing (Ebbinghaus 2005), as well as path-creating (Garud and Karnøe 2001; Lessenich 2003) characteristics.

Ideational, Communicative and Coordinative Mechanisms

The role that *ideas* and *discourses* play in social policy change has now become the object of increasing scholarly attention (see, for instance, Schmidt 2006, 2008; Beland 2005, 2007; Cerami 2008a). The reasons for such interest are easy to imagine. *Ideas* and *discourses* represent the background and foreground of political action, which then turns into specific programs and policies. However, despite increasing attention, very few studies have put *ideas* and *discourses* in a specific institutional context. The most recent work of Vivien A. Schmidt is a noteworthy exemption to this trend. In her article “Discursive Institutionalism: The Explanatory Power of Ideas and Discourses”, Schmidt (2008) moves the debate on new-institutionalism a step forward highlighting how *ideas*, as the substantive content of discourse, may be sub-divided into three levels — *policies, programs, and philosophies* — and two types — *cognitive* and *normative*. To clarify, *policies, programs* and *philosophies* refer, respectively, to the policy solutions, to the specific agendas that underpin the policy solutions and to the paradigms that reflect the underlying assumptions and organizing principles. *Policies, programs* and *philosophies* also contain two types of ideas. *Cognitive ideas* provide the recipes, guidelines and maps, while *normative ideas* refer to the values and norms attached. *Discourse*, by contrast, as the interactive process of conveying ideas, materializes in two forms: the *coordinative discourse*, among policy actors, and the *communicative discourse*, between political actors and the public. In the policy sphere, for example, the *coordinative discourse* consists of the individuals and actors at the center of the policy construction who seek to coordinate agreement (e.g. policy-makers, civil servants, etc.), while, in the political sphere, the *communicative discourse* consists of the individuals and groups at the center of political communication who seek to communicate decisions to the public (e.g. party leaders, government spokespeople, etc.). According to the author, the institutions in *discursive-institutionalism* are not external rule-following structures, but simultaneously structures and constructs internal to agents. Interests are then subjective ideas neither “objective” nor “material”, while norms tend to be dynamic, inter-subjective constructs rather than static structures.

Even though Schmidt does not use this exact definition, *ideational, communicative and coordinative mechanisms of institutional change* are, in short, the key elements according to which each transformation in institutional relations occurs. In particular, *ideational mechanisms of institutional change* could be defined as those representing the interactive and creative

processes and procedures caused by the exhaustion or obsolescence of old policy ideas (e.g. Keynesianism or Thatcherism). These take form primarily through an image creation and a figurative representation of possible better alternatives. *Communicative mechanisms of institutional change* can, in this context, be described as the communicative processes and procedures caused by the necessity to communicate the new images and figurative representations to the actors involved (both institutional actors and the public) in the policy-making process. These mechanisms primarily take the form of announcement activities aimed at producing a change in policy orientation. Finally, *coordinative mechanisms of institutional change* represent the coordinative processes and procedures caused by the need of establishing new linkages (*organizational relations*) among the actors and institutions involved. These mechanisms aimed at achieving a specific set goals take the form of synchronization activities among actors and institutions.

Transformative Adaptive Mechanisms of Institutional Change

A recent, but increasingly influential classification of *mechanisms of institutional change* taking place primarily in the sphere of institutions is the one provided by Wolfgang Streeck and Kathleen Thelen (2005) who emphasize the importance of *incremental transformative change* as main mechanism of institutional transformation. The authors offer a five-fold typology of types of institutional change (*displacement, layering, drift, conversion, and exhaustion*) each one associated to a particular mechanism (*defection, differential growth, deliberate neglect, redirection or reinterpretation, depletion*). *Displacement*, which involves a slow rise in salience of subordinate to dominant institutions, takes place through a mechanism of *defection* when institutional incoherence opens space for deviant behaviour. This implies a cultivation of a new logic of action through the rediscovery and activation of dormant or latent institutional resources. *Layering*, on the other hand, materializes when new elements are attached to existing institutions gradually changing their status and nature. The main mechanism here is *differential growth* in which there is a faster growth of new institutions created on the edges of old ones (new fringes eats into old core). The third type of institutional change, *drift*, primarily concerns a neglect of institutional maintenance in spite of external change, resulting in slippage in institutional practice on the ground. The main mechanism here is *deliberate neglect* in which change in institutional outcomes are effected by strategically neglecting adaptations to changing circumstances. *Conversion*, the fourth type, entails a redeployment of old institutions to new purposes, which

become attached to old structures. The main mechanism here is *redirection* or *reinterpretation* aiming at reducing the gap between rules and enactment, due, for example, to limits of institutional design, to ambiguity of institutional rules, or to changed contextual conditions. Finally, *exhaustion*, is the more dramatic of these types of institutional change, since it takes place through a gradual breakdown of institutions over time. The main mechanism here is *depletion* in which the normal working of an institution undermines its external preconditions representing serious limits to growth through “decreasing returns” (see Streeck and Thelen 2005, Table 1.1, p. 31). Streeck and Thelen’s classification emphasizes, in short, the role of incremental change with transformative results in institutional relations. The authors see the welfare state as an evolutionary system, which mutates on the basis of changing circumstances, transforming and adapting its structure incrementally according the new environmental requirements.

Also for Ferrera et al. (2000), Pierson (2001) and Hemerijck (2007), the welfare state can be better described as an evolutionary system that undergoes a process of constant adaptation. The authors, however, propose the concept of *recalibration*² to describe the institutional learning processes that Western European welfare states are facing. *Recalibration* involves, in this context, an adaptive transformation that can take place in four crucial areas: *functional*, *distributive*, *normative* and *institutional*. *Functional recalibration* concerns a redefinition of the main functions that the modern European welfare states are called to cope with. At the beginning of the 21st Century, these primarily involve coping with emerging “new” social risks, caused by the de-industrialization and tertiarization of employment, women’s entry in the labour market, increasing instability of the family structure, as well as by processes linked to the privatization of the welfare state (Esping-Andersen 1999; Esping-Andersen et al. 2002; Taylor-Gooby 2004; Armingeon and Bonoli 2006). These “new” social risks also involve “new” categories of people, such as atypical workers, people with low education attainments or on long-term care. *Distributive recalibration*, by contrast, involves a re-allocation of social protection benefits across new and different policy clienteles. This results from an emerging labour market segmentation between “insiders” and “outsiders” with subsequent rise in inequality of income and life chances. *Normative recalibration* concerns, in this context, the norms and values promoted by a specific welfare regime (see Esping-Andersen 1990). Scandinavian welfare systems still tend to promote universal values as the core of their normative foundations, while Continental and Anglo-Saxon welfare regimes continue to have as their normative basis,

respectively, the maintenance of the professional status of workers (conservative welfare states) or a strict association between market performance and citizens' coverage (neo-liberal welfare states). Finally, *institutional recalibration* concerns a reform in the institutional design. This involves, in more practical terms, a redefinition of the responsibilities attributed to the different levels of decision-making, the structure of social and economic policy governance, as well as the separate and joint responsibilities of individuals, states, markets and families (Hemerijck 2007: 15-18). For the concept of *recalibration*, the key means for achieving the necessary institutional realignment is *policy learning*, even though *policy diffusion* or *policy transfer* dynamics can also play a crucial role. In short, welfare institutions evolve and adapt to the new environment, but change in institutional relations tend to be the result of a learning process in which past mistakes are investigated, metabolized and, if possible, adequately addressed.

Increasing Returns as Mechanisms of Institutional Change

Positive feedback and *increasing returns* are probably the more often discussed topics in comparative welfare state research. In very few words, the main argument put forward by new-institutionalist social policy scholars (Pierson 1996, 2000, 2001; Bonoli and Palier 2001, 2007; Hinrichs 2001) is that social policy programs tend to generate their own set of interests, which then spill-over as political support from program "winners" for continuation (Weaver 1986; 2008; Pierson 2000). *Positive feedbacks* dynamics (such as those linked to already acquired benefits, e.g. occupational pensions), thus, tend to produce *increasing returns* for status-quo maintenance influencing the preferences of actors and institutions involved in the reform process. *Increasing returns* become, in this context, *mechanisms of institutional change* that automatically constrain the policy options for change (e.g. precluding the road to alternative paths of reforms due to sunk costs and transaction costs). When transformation takes place, this usually takes the form of path-dependent incremental adjustments to the status quo (see Thelen and Streeck 2005).

The validity of the *positive feedback* argument has, however, also attracted its critiques. In fact, not only path-dependent institutional change is possible, but also possibilities for path-departure exist (see Ebbinghaus 2005; see also Bonoli and Palier 2007). In this case, *decreasing returns* caused by *negative feedbacks* can open windows of opportunities for substantial regime change. Programs, in fact, do not only generate their own set of interests and winning constituencies, but may also generate growing and unsustainable demands on budgetary

² The term 'recalibration' seems, however, to have been suggested by Jonathan Zeitlin.

resources (*negative feedback*) forcing for regime transition. In addition, programs can also generate oppositional coalition from program losers or new demands from program winners that cannot be satisfied within existing policy regime (Weaver 2008). *Decreasing returns* become, in this context, crucial *mechanisms of institutional change* that automatically open policy windows for the search of alternative policy regimes or for the development of new policy paradigms. When this occurs, transformation can deviate from a previously established path (path-departure) (Ebbinghaus 2005), or, potentially, even including several elements of innovation that might ultimately lead to the creation of a completely different and new path (path-creation) (for a definition of path-creation, see Garud and Karnøe 2001; Lessenich 2003).

Mechanisms of Institutional Change in CEE Social Policy

This third section provides some empirical evidence tailored to the CEE case. Here, the *mechanisms of institutional change* taking place in the sphere of ideas, institutions and interests are discussed. Two main stages of institutional change are identified. The first stage of *institutional design* (see Elster et al. 1998) is the *blueprint* of the new welfare state that has been created in ideational terms and communicated to the actors involved and to the public, and the second *stage of institutional transformation* is the new welfare arrangement that has been implemented and adapted in order to meet the new emerging needs.

Ideational, Communicative and Coordinative Mechanisms in CEE Social Policy

During the first stage of *institutional design*, in the immediate aftermath of the collapse of communism, new political ideas (*policies, programs, and philosophies*) no longer based on communist values were immediately discussed and agreed upon at cabinet meetings and at international round table talks, while new political discourses (*coordinative* and *communicative*) were then developed and communicated to policy-makers and the citizens. The newly agreed *policies, programs, and philosophies* covered a wide range of issues, and implied a substantial redefinition of the main welfare state functions, institutional settings and associated relations so far in place. In more practical terms, at the level of *ideas*, the new *policies* introduced involved a shift from universal to individual-based benefits, and from an equalization to a differentiation of their access and structure. New social policy *programs* focused, by contrast, on a shift of agenda from benefits granted on the basis of the collective work-status in the central planned economy to benefits provided on the basis of the individual work performance in a market economic

environment. This evidently implied a drastic change of the underlying social policy *philosophies* that could no longer be centered on public, but rather they now had to be based on private, responsibility. In terms of *cognitive ideas*, detachment from market performance and unjustified equalization of benefits were now addressed as the real enemies to fight in the new welfare organization. Unconditional market orientation and individual merit were, especially during the first period of reforms, real objectives to pursue at any cost, even if these costs would have meant a temporary rise in income and social inequality. In terms of *normative ideas*, new buzzwords, such as activation, market achievements and independency from the welfare state, were timidly introduced as the new normative foundations of the post-communist welfare state. These new leading *ideas*, very different from the ones present during communism, did not remain in an ideational limbo, but materialized in substantially new *discourses* (new since they involved the new democratic games occurring in a participatory democracy). *Coordinative discourses* involved the coordination of actions and beliefs of party members, ministries, policy-makers, local authorities and not-for-profit organizations now centered on the new established social policy priorities. *Communicative discourses*, by contrast, involved all cadres of the decision- and policy-making process called to communicate to the general public, in the most possible persuasive manner, the new circumstances and the requirements of a market democracy. This clearly represented a drastic ideological redefinition of the state-society relations with new tasks and responsibilities now attributed to both sides. To sum up this process, in Central and Eastern Europe, *ideational, communicative and coordinative mechanisms*, which stemmed from the external environment (macro-micro) acted at the level of the individual reasons and actions (micro-micro), and helped to achieve a specific set goals (micro-macro) (in our case welfare state restructuring), primarily through communication and synchronization activities among the actors and institutions involved.

Transformative Adaptive Mechanisms of Institutional Change in CEE Social Policy

After a first stage of *institutional design* where the new welfare state, as an image, started to have clear defined borders, a second stage of *institutional transformation* through the establishment of a fully operational market-based welfare system took place. During this second stage of institutional change, politicians and policy-makers have, in fact, been called to transform and adapt the welfare arrangement existent during communism in order to make it compatible with the specific institutional culture of the nation or, in other words, attempting to make it sustainable

in the long-term, but also “environmental friendly”. Several *mechanisms of institutional change* took place simultaneously, each one overlapping and complementing each other.

Within this stage of institutional change, the key elements of Thelen and Streeck’s (2005) classification based on incremental transformative change can be identified. *Displacement* through a mechanism of *defection* has, in fact, occurred in all countries involving the *politics, polity and policy* spheres. The institutional incoherence, that resulted from central planning, opened up space to the cultivation of a new market-oriented social policy logic in which dormant latent institutions and policies have been both rediscovered and reactivated. This re-activation concerned the re-enforcement of Bismarckian characteristics already present during communism. These regarded the modes of access to social protection based on work performance and contribution records, earnings-related benefits, social contributions as a main financing mechanism and involvement of social partners in the management of the social insurance funds³ (for more information on Bismarckian welfare states in Western Europe, see Palier and Martin 2007. In Eastern Europe, see Inglot 2003, 2008; Szikra 2004; Tomka 2004; Cerami 2006, 2008b). *Layering* through a mechanism of *differential growth* has, in contrast, principally occurred at the *polity and policy* level where new elements (layers) have been attached to existing institutions. According to Inglot (2008: 25, 26, 32), the post-communist welfare state in East Central Europe consists, in fact, of a historical core of the inter-war welfare state (1919-1939) with institutions and laws pertaining to work injury, pension, disability, sickness and maternity insurance, followed by a post-war expansion of the welfare state (1949-1989) with newer institutions and policies (such as pay-as-you-go financing of social insurance, national health service and family programs) attached to existing layers, associated, finally, with reinforced earnings-related and market oriented principles as introduced after the fall of communism (1989 onwards). *Drift*, characterized by a mechanism of *deliberate neglect*, has also taken place in the region but in specific social policy sub-fields in which existing institutions and institutional practices once linked to the functioning of the central planned economy have slowly disappeared. The best example here is probably given by the governments’ abdication to artificially subvention of the price of products and the volume of the work-force, which has then resulted in a reduction of workers’ purchase power and social protection. *Conversion* through mechanisms of *redirection* and *reinterpretation* has also taken place, even though primarily at the *polity and policy* level.

³ Please note that during communism, the main trade union was responsible for the management of social insurance funds. This autonomy, however, was only virtual, since the trade union was under direct control of the communist

Old institutions and policies already in force during communism have been adapted to new purposes and changing circumstances. A noteworthy example can be seen in the reforms of family benefits. These benefits have been maintained at a general high level if compared to Western standards (e.g. three years child care in Hungary), but adapted to the new emerging needs caused by changing family and employment structures. Finally, *exhaustion* through a mechanism of *depletion* has also taken place. The best example here is given by the dismissal of the communist party over-centralized control over the functioning of the welfare system. The “normal” working of this institutional practice would have, in fact, seriously undermined the correct functioning of the post-communist welfare state.

During this *stage of institutional transformation*, the welfare state was not only transformed, but also adapted to changing circumstances. All key features of Ferrera’ et al.’s (2000), Pierson’s (2001) and Hemerijck’s (2007) concept of *recalibration* (*functional, distributive, normative and institutional recalibration*) can, in fact, be identified. *Functional recalibration* has implied, for instance, a redefinition of the main functional relations between institutions and actors and, in particular, this has involved the transition from a welfare state that aimed at preserving the communist *status quo* to a welfare state that accompanied the transformation towards a market-based economy. To use a famous definition developed by Fritz Scharpf (1999) in the field of European studies, the main *functional recalibration* occurring in the post-communist welfare state was, especially during the first period of reforms, associated to the necessity of ensuring “negative” market-making integration through the introduction of market-based welfare provisions. While, in a second phase, the recalibrations also ensured some form of “positive” market-correcting integration through the introduction of a social safety net able to cushion the negative repercussions of the economic transition. The transition had, in fact, to be conducted in a way so as not to neutralize the main social pacifying functions of the welfare state. Privatization of the economy and of the welfare organization was, in this context, coupled with the maintenance of a certain degree of public responsibility (see Vanhuysse 2006), then replaced by the social prerogatives promoted in the light of the future waves of Enlargement.

Distributive recalibration was also necessary. This primarily involved the reallocation of benefits across new policy clienteles, which, in the first period of transition, had meant a reallocation of benefits from the “communist industrial worker” to new and more diversified occupational categories resulting from the privatization of the economy, while, in a subsequent

period, implied tackling with the new emergent problem of poverty and unemployment. In fact, *distributive recalibration* has not only touched classical categories of workers, but also all CEE citizens due to, for example, the restructuring of the economy and dismissal of several state-owned enterprises. As it can be expected, adapting the redistributive priorities and efficiency of a system, in which all benefits were decided and granted at firm level, was, of course, an extremely difficult task for which unprecedented policy efforts were required. The collapse of most of the state-owned enterprises required governments to take several distributive responsibilities for which they were institutionally not ready for. These included establishing an extensive system of protection against unemployment and social assistance benefits so far almost inexistent, recalibrating family policies to the new labour market requirements, not to mention, providing new sources of protection and insurance for elderly and the sick.

Normative recalibration, that is, the adaptation of the norms and values attached to a specific welfare regime, was also an unavoidable consequence in this stage of institutional change. The refusal of a pure American-style neo-liberal model as promoted by the most influential financial institutions (notably the World Bank, the IMF and the OECD), replaced by the introduction or rather the re-introduction (or re-enforcement) of a Bismarck-type social insurance was, in this context, the easiest way to link the new welfare logic, now based on individual and performance-based achievements, with the new allocative priorities of a market democracy. In more practical terms, this implied a shift from universal and flat-rate benefits to contribution and earnings-related ones (Cerami 2008b). Fortunately, however, this shift was not conducted from scratch, since it found some already existing institutional material in the pre-World War II system of social protection of these countries, ultimately smoothening the post-communist reform process.

Finally, *institutional recalibration* has implied, on the one hand, the transformation from an authoritarian system, based on central planning to pluralist social policy making (now the main characteristic post-communist welfare states) in which different institutions take care of different aspects of the policy-making process, but also the re-configurations and re-adaptations of existing institutional practices and relations in order to bring them in line with the bureaucratic requirements of a competitive market democracy. During this stage, the decentralization of power and responsibilities to local authorities was finalized, involving not only the establishment of new local and regional communities, but also new administrative institutions, such as more independent ministries of health, labour and social affairs. Due to emerging problems posed by

unconstrained decentralization of responsibilities some recentralization of power also became necessary and the excessive devolution of responsibilities has now been often reconsidered. The most notable examples of this process of *recalibration* are, perhaps, the setting of minimum requirements for pension and health insurance funds as well as the legal obligations for central and local governments to ensure an always larger section of potentially unprotected population (e.g. unemployed, sick, disabled, etc).

To sum up, all the above mentioned changes have resulted in a *recalibration of organizational relations (functional, distributive, normative and institutional)* that have greatly altered the institutional make-up of the welfare state previously imagined and, at first hand, primitively implemented. This recalibration has ultimately affected the *politics* sphere (a new more socially aware welfare logic has been promoted by politicians and policy-makers), the *polity* (existing dysfunctional institutions have been recalibrated, while new ones have been created *ex novo*) and *policy* (realignment of benefits to new needs) spheres. The centralized bureaucratic structure, once in force during communism, was replaced by a decentralized system of decision- and policy-making where governance clearly become multilevel and was more equally shared by several authorities. Different responsibilities were granted to ministry officials, policy makers, and civil servants. In addition, not only the relationships between the ministries changed, but decision- and policy-making became then characterized by a system of multi-level governance⁴, including trade unions, interest groups, and various other social actors.

Increasing Returns as Mechanisms of Institutional Change in CEE Social Policy

In Central and Eastern Europe, *increasing returns mechanisms* have primarily involved, on the one hand, the vested interests that already existed as a result of the communist heritage, while, on the other, the emergence of new patterns of interest formation and representation that emerged as a result of the privatization of the economy. It comes, in this context, as no surprise that the social policy reform process was primarily negotiated within existing elites and only after communicated to the public. This was mainly because those who were in the position of acting as veto players used their power to reduce the workers' mobilization capacity through the access to relatively generous welfare benefits (Vanhuysse 2006). As argued by Vanhuysse (2006), the unusual increase in welfare provisions and beneficiaries that occurred in countries with a low budget capacity can be explained by the future political benefits that a social stabilizing strategy

would have brought for these democracies in transition. *Increasing returns*, especially during the first period of transition, took the form of the continuation of privileges granted to particular professional categories (e.g. miners, soldiers, police, etc.), but also to continuation of state protection through early retirement and generous unemployment benefits. Once these *increasing returns* (as *mechanisms of institutional change*) could be ensured to the population at large, and the subsequent political support from potential program “losers” (“early winners”) ensured, the path towards privatization could further be followed. In Albert O. Hirschman’s tradition (Hirschman 1978), governments have, in brief, reduced the *voices* of threatened workers, by increasing their *exit options*, while providing, at the same time, sufficient incentives for *loyalty*.

Not only *positive feedbacks* materialized in the region, but also *negative feedbacks* occurred. In fact, social programs in force during communism not only generated their own set of interests and winning constituencies, but also an always larger set of losers, not to mention growing and unsustainable demands on budgetary resources forcing for regime transition. Oppositional coalition from program losers, as well as new demands from program winners that could not be satisfied within the existing policy regime (e.g. new elites), also existed. In case of status quo maintenance, these growing *decreasing returns* soon became evident to the policy community and the population at large, ultimately, facilitating a selective policy and regime change, even though in a highly ambiguous manner. Differentiation in the access and structure of benefits became, for example, the key features in pension and health insurance, but state responsibility was continued to be guaranteed for non solvent funds and unprotected citizens. Similar considerations apply to the tax and distributive responsibilities given to local authorities (clearly not in the position of ensuring regional socio-economic homogeneity), but also to the privatization of large state-owned enterprises (clearly not in the position of bearing most of the restructuring costs). In summary, *increasing* and *decreasing returns* played a key role in the process of welfare state transformation by opening and closing windows of opportunities (Jon Elster’s black box or ‘cogs and wheels’ of the machinery; see Elster 1998) for path-dependent as well as path-departing transformations.

Making Sense of Different Patterns of Institutional Change: Causal Reconstruction and Recombinant Transformation

In the previous sections, the *main mechanisms of institutional change* taking place in CEE social

⁴ On the concept of multi-level governance, see Marks et al. (1996).

policy have been identified and discussed. This final section aims at making sense of the different patterns of institutional change that exist in the region providing a model of *causal reconstruction* as well as highlighting the role of *recombinant transformation (bricolage)*, as *aggregative mechanism* of institutional change. In terms of *causal reconstruction*, a concatenation of four *mechanisms-based models* of institutional change can be identified as determining the overall process of CEE welfare state restructuring. These can be illustrated by making reference to Hedström's (2008fc) models of *dissonance-driven desire formation*, *rational imitation*, *vacancy chain*, and *self-fulfilling prophecy*.

Festinger's (1957) notion of *cognitive dissonance* is, probably, the most classic illustration of how the desires, perceptions and actions of individuals can automatically change (or be changed) if they enter in contrast (in dissonance) with the existing environment. For example, if an individual (A) decides that obtaining an objective (O) is crucial, but other individuals (B and C) whose participation is necessary for obtaining this objective, do not desire or perceive O as so important, in order to reduce the dissonance, A can implement several copying strategies. A can, for instance, decide to persuade B and C about the importance and necessity of O, or, if still unsuccessful, can try to persuade himself or herself that O was, at the end, not such a necessary and valuable objective (Elster 1998). In terms of ideas, interests and institutions, the transformation of the welfare in CEE has clearly been influenced by such a causal chain of *dissonance-driven desire formation* mechanisms (for a definition, see Hedström 2008fc) originated at the macro level, that is, from the imbalance initiated from what the individual felt as a necessary welfare system to what was effectively implemented. This has then triggered ideational, communicative and coordinative copying processes and procedures (previously referred to as *ideational, communicative and discursive mechanisms of institutional change*), which, started at the micro level (the level of the individual), reconstituting mentally the elements of the desirable/necessary object, have subsequently pushed for *communicative* and *coordinative action* (for the concept of *communicative action*, see Habermas 1981) that has facilitated the final outcome of welfare state restructuring (macro-level).

Not only causal mechanisms of *dissonance-driven desire formation* have influenced the social policy reform process in the region, but also causal mechanisms of *rational imitation*. As illustrated by Hedström (1998, 2008fc), *rational imitation* occurs when the actions of one actor influence the beliefs and subsequent actions of others. An example of *rational imitation* is usually given by the choice of a restaurant. A large crowd in a restaurant is, in the mind of a potential

diner, often perceived as a sign that that restaurant is, in effect, a good one, even though no serious empirical evidence on the taste of the food has yet been provided. An empty restaurant, by contrast, will probably lead to the opposite idea, ultimately, influencing the potential client to choose for another place, at least, as long as, as humorously emphasized by Hedström (2008fc), he/she does not wish to be alone. Here, the decisions and actions of the individual are clearly taken on the basis of irrational-driven assumptions, but also on the basis of mechanisms of *rational imitation*. In the case of CEE social policy reforms, the beliefs and actions of some institutional actor involved in the policy process have, not rarely, helped to influence the beliefs and subsequent actions of others. The best example can here be given by the introduction of the three-pillar scheme of pension in Hungary and Poland (see Orenstein in this volume) which has then influenced the beliefs and actions of other actors and countries on the desirability and necessity of that specific model, well before sufficient empirical evidence on its real long-term sustainability was, in effect, provided. The identification of these causal mechanisms of *rational imitation* can, in this context, help us to explain the unprecedented speed and extent of this reform option in the region.

Another *mechanisms-based explanation* model helpful for understanding the patterns of welfare state transformation in the region is *vacancy chain*. In *vacancy chains*, the actions of some actors create new opportunities and changes in the actions of others. A telling example provided by Hedström (2008fc) is with reference to Harrison White's (1970) analysis of vacancy-driven mobility patterns in the United States. A vacancy available in one office leads an individual to fill this position, but, at the same, it creates a new vacancy (the new employee's old office). This results not only in mobility among individuals, but also in new chains of opportunities. In Central and Eastern Europe, the privatization of the economy has resulted in historically unprecedented vacancy and opportunity chains, which have touched not only the sphere concerning the restructuring of the market economy, but the organization of the welfare state itself now fully anchored on the new economic environment. The increasing mobility of individuals and availability of services in the market economy has, in fact, resulted in new chains of opportunities and of vacancies also in the welfare state sector facilitating a *cascade-like* process of restructuring (construction, de-construction and reconstruction) of the existing welfare organization.

Finally, Roberton K. Merton's (1968) *self-fulfilling prophecy* can also be taken as a useful example of key causal chains that have influenced the social policy reform process in the region.

As a sequential chain of several *rational imitation* mechanisms (see Hedström 2008fc), the *self-fulfilling prophecy* occurs when an initial belief (whether false or true) results in a behavior that sooner or later makes the initial belief become a reality. Robert K. Merton's famous example was based on the insolvency of a bank caused by false rumors about its bankruptcy. These rumors led the depositors to withdraw their money and to close their bank accounts, ultimately letting the bank really go bankrupt. In Central and Eastern Europe, the best example of *self-fulfilling prophecy*-related mechanisms is probably represented by the not always justified rumors and beliefs of an imminent collapse of pension schemes in the region (please note that old dependency ratios in CEE tend to be lower than in Western Europe; see, for instance, ILO 2000), associated to the beliefs about the uncontested superiority of private schemes. The ultimate result was then that these schemes not only became the favorite policy option of several countries, but their introduction was also subjected to a run.

Now, how do we make sense of all of these, at first glance, different patterns of institutional change? Which is, at the end, the dominant *mechanism of institutional change* in Central and Eastern European welfare state restructuring? The main argument put forward in this paper is, indeed, that several *mechanisms of institutional change* have taken place simultaneously, all of them ultimately affecting the *policy, polity* and *politics* sphere. At the highest level of abstraction (the level concerning the construction of a welfare state which is a social construction of an unidentifiable object), an *aggregating mechanism of institutional change, recombinant transformation* (or *bricolage*), can be identified. In *Social Policy in Central and Eastern Europe. The Emergence of a New European Welfare Regime* (Cerami 2006), it has been argued that the transformation of CEE welfare states is characterized by the creation of "unique hybrids" encapsulating elements of various worlds of welfare: the re-enforcement of Bismarckian-oriented policies as heritage of the Austro-Hungarian empire, the maintenance of egalitarian and universal aspirations as fostered during the communist period, coupled with the introduction of market-friendly welfare provisions as main social policy logic of the post-communist environment. Similarly, but with a substantially minor emphasis on the impact of universal provisions, other authors (Szalai 2005; Offe and Fuchs 2006; Gans-Morse and Orenstein fc) have highlighted how a combination of Bismarckian and neo-liberal features are now the main characteristics of the contemporary CEE systems of social protection, thus, placing these welfare states in transition somewhere in between Esping-Andersen's conservative and neo-liberal world. Before these considerations, however, other scholars had already emphasized the

recombinant properties of institutional changes. For example, David Stark (1996) has described the transformation of CEE capitalism as a form of “organizational hedging in which actors respond to uncertainty by diversifying assets, redefining and recombining resources” (Stark 1996: 993). Colin Crouch has emphasized similar properties of institutional transformation in the reform of European capitalist governance (Crouch 2005) and Western European welfare states, while Wolfram Lamping and Friedbert W. Rüb (2004) have applied this model to the specific case of German welfare state reforms. Regardless of whether one decides to accept or to refuse the existence of one or several models of welfare capitalisms in Europe, the variegated character of each institutional transformation can only with difficulty be denied. In fact, welfare state restructuring means, in reality, continuous processes of construction, de-construction and reconstruction of existing ideas, interests and institutions and with their associated organizational relations. If a constructive transformation then has to take place, this cannot be other than, like the DNA of an individual, *recombinant*, aiming at mixing elements in new meaningful chains.

It can, as a consequence, be affirmed that path-dependent, path-departing and path-creating characteristics are not necessarily mutually exclusive elements of an institutional transformation. By contrast, it becomes important, in this context, to look at the factors in light of which past and present features have joined together, leading to specific paths of transformation. In all stages of institutional change, *policy learning* dynamics have played (and are still playing) a vital role in making sure that adaptation to the specific social policy culture of a nation, as well as to changing circumstances, took place in the best possible way. *Cross-national policy learning* has, in fact, greatly increased in importance in recent years, since the pressures of all international organizations (e.g. the EU, World Bank, IMF, OECD, ILO, WHO) for benchmarking and best-practices are now strong. This is not to say that *policy diffusion* and/or *policy transfer*⁵ of ideas and programs (such as the three pillar scheme of pension) are not taking place or disappearing from the scene. Rather, after the euphoria for unrestricted market-based provisions pursued especially during the first period of transition, the main attention of national and international experts seems to have turned to more country specific recommendations, which also have to take into account social goals and the possible shortcomings of national markets.

⁵ For the sake of clarity, even though these two concepts have often be used interchangeably, following O’Connor (2007), we understand policy diffusion as a process that implies a semi-silent acceptance of norms and policies communicated by external actors, while policy transfer as a process of silent acceptance of prescriptions promoted at a different, international level.

Conclusion

This paper has investigated the various *mechanisms of institutional change* that have influenced the transformation of CEE welfare states. The main argument has been that several *mechanisms of institutional change* have taken place simultaneously, all of them ultimately affecting the *policy, polity* and *politics* sphere. The *organizational relational* character of institutional change has also been highlighted. In particular, it has been affirmed that a correct analysis of welfare state change must not only investigate changes in institutional structures, but also changes in the *organizational relations*. These take the form of interactions among actors (e.g. veto players, policy-makers, citizens or trade union members), among institutions (e.g. ministries of finance, of labour and social affairs, etc.), among interests (e.g. trade unions' specific concerns), among ideas (e.g. neo-liberal vs. social democracy), as well as amongst institutions, interests, ideas and actors themselves (e.g. emerging patterns of interest-mediation and negotiations among veto-players in a specific institutional context). By adopting a *mechanisms-based explanation* approach this paper has also highlighted the causal chains that have linked a particular starting condition to a specific institutional outcome. Transformation in the spheres of ideas, interests and institutions have displayed not only path-dependent, but also path-departing as well as path-creating characteristics. In order to make sense of the various patterns of institutional change, an aggregating mechanism of *recombinant transformation* (or *bricolage*) has been identified as playing a key role in the overall process of welfare state restructuring.

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ANNEX

