Working Paper Series
GRINCOH
Growth-Innovation-Competitiveness
Fostering Cohesion in Central and Eastern Europe

Serie 5
Social cohesion and welfare

Paper No. 5.06

Barriers to welfare reform in the CEE: the case of employment rehabilitation services

Ágota Scharle*, Balázs Váradi*

* The Budapest Institute

2015

www.grincoh.eu

This paper was funded under the FP7 project "Growth– Innovation – Competitiveness: Fostering Cohesion in Central and Eastern Europe (GRINCOH)" under the Programme SSH.2011.2.2-1: Addressing cohesion challenges in Central and Eastern Europe; Area 8.2.2 Regional, territorial and social cohesion. Project Nr. 290657

Ágota Scharle, flora.samu@budapestinstitute.eu
Balázs Váradi[1], balazs.varadi@budapestinstitute.eu
The Budapest Institute
http://budapestinstitute.eu

Please cite as:
Scharle Á., Váradi B., (2015), 'Barriers to welfare reform in the CEE: the case of employment rehabilitation services', GRINCOH Working Paper Series, Paper No. 5.06

Barriers to welfare reform in the CEE: the case of employment rehabilitation services

Abstract

This paper aims to describe and explain the evolution of services to facilitate the re-employment of disabled people across the Visegrad countries. While the rapid and spectacular increase in disability pensions and its political motivations have been relatively well documented, the recent paradigm shift in this policy area has not yet been systematically examined. Few studies have examined the lack of incentives to facilitate the re-employment of low-productivity workers as a factor contributing to the persistence of low employment and large wage inequalities in the region. The paper documents policy changes between 1990 and 2013 in the Czech Republic, Hungary, Poland, Slovakia and Slovenia and identifies the main drivers by comparing two country pairs with similar initial conditions. The analysis of economic conditions, regulation, institutional structure and performance of employment services reveals that the internal forces that may promote the improvement of disability policies are relatively weak in the region. This underlines the importance of policy advice and incentives coming from international organisations, such as the European Union or the OECD.

Content

[1] The authors gratefully acknowledge the skilled research assistants of Bianka Borza, Gábor Csomor, Adrienn Győry, Donika Limani, and Flóra Samu, Linda Volosinovszki and invaluable advice received from Tereza Klouckova, Gašper Krstulović, Michal Polakowski, Tine Stanovnik, Kvetoslava Repková and Darja Zaviršek.

Introduction

The transitional recession of the early 1990s led to a sharp decline of employment in all of post socialist Central and Eastern Europe (CEE). However, the depth of the decline and the speed of recovery tended to vary considerably depending on the chosen policy mix. Hungary applied an ill-advised combination of fast privatisation with high benefits leading to persistently low employment, while the others went for the second best option of slow privatization combined either with high benefits and low spending on active labour market programmes (Poland and Slovenia) or relatively low benefits but more spending on activation (the Czech Republic and Slovakia).[2] In most countries, the policy mix included disability benefits as well, which were used to ease labour market tensions by removing jobseekers from the market, often on a permanent basis.

The rise in disability benefits has been far from negligible: in the early 1990s, between 5 to 11% of the working age population was receiving some form of disability pension, in most countries exceeding the share of unemployment benefit recipients (OECD 2010: 60). The problem also proved rather persistent: in 2011, still about 9% of the working age population was non-employed and disabled while only about 7% were unemployed in the Visegrad countries.[3]

In this paper, we document the development of disability policies in five CEE countries (the Czech Republic, Hungary, Poland, Slovakia and Slovenia) and examine the factors that may explain the differences in the observed trajectories of development.

Our general approach follows earlier work interpreting changes in welfare regimes as path-dependent adaptation to exogenous pressures (e.g. Pierson 2000, Swank 2001, Esping-Andersen et al 2002, Palier 2010). We compare economies responding to a similar external shock and identify the factors that may have determined the speed of adaptation in their welfare systems. We focus on disability services as a particular area of welfare policy that is relevant to most developed economies and where there is wide consensus over the right choice of measures.

The common shock affecting Western European countries in this policy area was manifested in the sudden rise of disability benefit expenditure in the 1970s and/or 1990s (Duncan and Woods 1987, Lonsdale 1993, OECD 2003), and ex-state socialist countries in Central and Eastern Europe after the 1989-1991 regime change. There is mounting evidence that the rise in disability benefit claims (or in some countries, the duration of benefit receipt) in Western Europe was itself a response to changes in the labour market and in welfare systems, rather than a symptom of demographic processes or

2 Balla et al (2008) show how these choices affect economic recovery: the transition entails a shift from centrally planned (or at least strictly regulated) wage setting to market wages that correspond to marginal products. Low productivity workers tend to set their reservation wages above the unemployment benefit, which is likely to be too high compared to their marginal product. It takes time for workers to notice this (through their failure to get a job) and lower their expectations. Inequalities continue to persist until wages adjust sufficiently. The adjustment process is longer if the cost of hiring low wage workers is increased by taxes, and shorter if it is reduced by subsidies. It must be noted that the predictions of this model are based on the job desctruction rate, which tended to be much higher in the case of sales external owners than in other forms of privatisation (e.g. via vouchers). The share of sales to external buyers was particularly high in Estonia and Hungary (cf Estrin 1999).

3 More precisely, the share of non-employed disabled persons ranged between 6.3 % in the Czech Republic and 12.6% in Slovenia, compared to an average of 6.8 % for the EU-28. The share of the unemployed was lowest in the Czech Republic (4.8%) and highest in Slovakia (9.4%).

developments in healthcare systems. The underlying cause was a decline and structural shift in labour demand, and a subsequent rise in long term unemployment, which led to a rise in unemployment benefit expenditures. This could generate an incentive for claiming disability benefits via two channels: directly, if governments eased eligibility criteria in order to reduce labour supply or indirectly, by reducing the value of alternatives, if governments responded by tightening access to, or cutting the level of unemployment benefits. Vanhuysse (2004) and Scharle (2007) show that in Hungary and Poland in the 1990s, incapacity benefits became an institutionalised way in which older workers could withdraw from the labour market as an alternative to unemployment.

The rise in disability benefit receipt makes states face up to the classic problem of welfare systems: cash benefits for the active age population should alleviate poverty without discouraging labour supply. Economic theory offers no clear cut solution to this problem, but there is growing evidence that a carefully calibrated combination of cash benefits, active labour market programmes and behavioural conditions can successfully curb growing inactivity without sacrificing income maintenance. The details of the appropriate mix of policies have been tested and refined over the past decades by a large body of empirical research and policy analysis and are now part of the standard labour market policy toolkit advocated by the EU and the OECD (EC 2010, EC 2013, OECD 2010). There is indeed remarkable convergence across developed countries in their relevant labour market policies, however, with considerable variation in the speed of change.

As we argue in the next section, there is no comprehensive and generally accepted theory of reforming welfare regimes, which is most probably in part explained by the difficulty of developing such a theory.

Limiting our analysis to rehabilitation services for the disabled serves to reduce the above mentioned difficulty of the task in two dimensions:

1. focusing on a specific reform agenda where the goals and the tools are both clear and by and large universally applicable in developed economies,

2. comparing cases with broadly similar welfare regimes.

The first limitation makes it easier to define the outcomes of the adaptation process in a way that is comparable across countries, while the second limitation reduces the number of explanatory variables.

This approach entails certain limitations in its potential results, discussed in more detail in the earlier paper, the chief two of which is (1) the concern that findings might not carry over from disability policy to other areas of the reform of the welfare state and (2) that findings under one type of welfare regime might not be relevant for another (Scharle and Váradi 2013).

Possible explanations in existing research

What variables could explain the variation in the direction, extent and speed of structural changes in public policy in general? Unfortunately, as we already claimed, we do not have a generally accepted theoretical answer to this question. Here we continue applying a method introduced and argued for in more detail in the previous paper (Scharle and Váradi 2013). We first attempt to establish a list of what might possibly explain the variations in the way and speed in which policy outcomes react to secular changes in technology and the global division of labour , restricting our attention to:

a. policy changes in social welfare (especially employment) policy and policies affecting the working age population only,
b. explanations for the occurrence, extent and speed, not so much the direction of those policy changes;
c. liberal democratic regimes in which the rule of law applies,
d. in the last 60 years.

We also refrain from considering the universe of *all* possible explanations and try to identify the set of *plausible* explanations that have been already advanced and supported by some kind of empirical proof.

A further challenge is to tell apart explanations that affect policy as it appears on the books: in decrees and acts of legislatures, from ones that also or primarily affect outcomes by modifying the success of implementation of those rules. This is of special importance when discussing policies in a region where policy implementation tends to lag behind legislation. We rely most on the wide-ranging and insightful inductive collection of Tompson (2009) on the political economy of reform, comprising twenty case studies.

In what follows, what we strive to disentangle is what factors can have slowed down, speeded up or sidetracked the connection that leads from a secular change in technology and global division of labour (that puts a pressure upon extant patterns of labour demand in developed countries) to adequate policy outcomes that represent successful adaptation to that change. Sidestepping the detailed discussion of the references, given in our earlier paper (Scharle and Váradi 2013), we present the plausible explanations for differences across countries in a tabular form. The three categories used (actor-based, political-institutional and general-structural) should not be taken for more than what they are: heuristics for introducing some order into the jungle of potential drivers affecting the speed of change.

Table 1. Potential explanatory variables and their expected effect

Explanatory variable	Expected direction on OECD-recommended policy changes	Does it also affect the success of implementation?	Relevant earlier work (re disability policies)
Actor based			
ideas, values and interest of			
Citizens	more inclusive attitudes, interests aligned with activation help change	Yes, (lack of) trust in general could	Schur and Adya (2012), Schur and Kruse (2000)
organised elites			
external actors (EU)			Cerami (2010)
effective communication (of goals and measures)	helps change	Yes, if also addressed at those who matter in implementation	Tompson (2009), OECD (2010)
Political-institutional			
institutions of interest mediation	Important, tied to welfare regime type, but the direction is hard to predict	Interest conflicts between agencies or levels of government charged with implementation and actors in charge of regulation could	corporatist structures (Bengtsson 2000) consensual culture (OECD 2010) barriers to voting (Schur and Adya
reform window	Can help change		
path dependence	Can hinder change		
trust in politicians	makes it easier to make stakeholders accept change		
quality of bureaucracy	below a certain level might result in misguided	Yes, the bureaucracy is usually	Tompson (2009), OECD (2010), Prinz (2010)

Explanatory variable	Expected direction on OECD-recommended policy changes	Does it also affect the success of implementation?	Relevant earlier work (re disability policies)
	policy (or botched or ineffectual implementation)	implementing change, too	
General structural			
resources (GDP, EU funds)	lack of resources has an ambiguous effect: it could make the government want to save more on monetary compensation but spend less on costly measures of integration		
demographic change	a growing proportion of old age people could make the issue directly and indirectly (through higher retirement age) more important		
economic/fiscal crises	a short run pressure to curb compensation increases		Tompson (2009), OECD (2010)
globalisation, technological change	multiple effects, the direction is hard to predict		Scharle (2007)

**Especially compared to other policy areas where the affected population has no pressure groups.*

The development of rehabilitation services in the region

The adequate response to a rise in disability claims includes preventive measures, financial and administrative incentives (e.g. replacement rate and entitlement conditions of sickness and disability benefits) to curtail access to benefits as well as rehabilitation services to help labour market reintegration. These elements are intended to increase labour supply incentives while maintaining incomes, and may be supplemented by further measures to increase labour demand, reduce employer discrimination and encourage preventive investments (OECD 2010).

The success of this policy mix requires not only the correct calculation of monetary incentives and the careful design of screening procedures, behavioural conditions and services, but also the proper implementation of these. In most welfare regimes this is the more difficult part as it usually implies a change in the attitudes of staff in welfare institutions delivering the provisions (Prinz and Tompson 2009). Attitudes and interests may compromise the effectiveness of all elements of the policy mix, but this risk is perhaps greatest in the screening of disability claims.

Though built on the foundations of pre-war insurance systems, the design of socialist disability policies was somewhat simpler than the mature welfare systems of the West, given the strong administrative incentives and relatively high wages that ensured almost full employment. Disability benefits were relatively generous, preventive measures tended to be weak and the screening of claims mainly depended on lost capacities, without considering options for retraining in a new vocation (except in Poland). In Hungary, Poland and Slovakia, disability benefits were in most cases permanent, while in the Czech Republic and Slovenia there was a regular review procedure.

The Polish case is slightly different from the other four in that it promoted work rehabilitation rather than withdrawal from the labour market and maintained a fairly advanced system of occupational rehabilitation within a network of sheltered cooperatives across the country (Thornton 1998). The vocational assessment criteria were somewhat stricter than in the other countries, and frequent sickness absence monitoring also acted as a preventive measure. Lastly, though disability benefits were provided on a de facto permanent basis, benefit recipients could continue working without losing their benefit.

Employment incentives and employment rehabilitation services were poorly developed in the socialist system and mainly constrained to the opportunity to work in unskilled jobs in segregated sheltered workshops. Poland and Hungary were to some extent an exception. In the Polish case the above mentioned cooperatives[4] maintained rehabilitation departments and out-patient clinics, with specialised physicians, psychologists, nurses, physical education teachers, physiotherapists, social assistants, trainers, vocational assessment experts, sign language interpreters etc. and developed their own theoretical and practical approaches to employment rehabilitation. The cooperatives were also engaged in genuine economic activity, though were not exposed to free market competition. The same applied to their disabled employees: they were not expected nor prepared to leave the cooperative and find work in the open labour market.

In Hungary, there was no similarly elaborate system for vocational rehabilitation, but a quota system was set up already in 1983, requiring employers to have 5% disabled employees in their labour force and to provide rehabilitation for their own employees who have lost some of their work capacity.[5] Sheltered workshops were also well established throughout the country (Winter 1990).

In the 1990s, all the five countries took some steps to improve labour market integration policies for people with disabilities, while few of them (notably, Slovakia tightened vocational assessment in 1995) curtailed the generosity of the benefit system. Quota systems were set up or tightened in all the countries, requiring employers to employ 5-6% disabled workers, and subsidies for employers were introduced or increased. Poland followed this trend, but only after dismantling the network of cooperatives so that it could not build on the expertise established in these over the years. These measures did not significantly increase disabled employment in the open labour market, partly as the incentives were not very strong and compliance was poorly monitored, and partly because of the slow recovery of post-transition labour markets.

A further constraint on the growth of integrated employment was the slow development of personalised services that would prepare disabled jobseekers for work in the open labour market. The so called “supported employment” approach was first introduced by American or British donors who financed the training of rehabilitation professionals and supported the establishment of NGOs in the region. Czech and Hungarian NGOs were set up in the mid-1990s, while Polish and Slovak initiatives followed only in the late 1990s (Repková 2008, Vitáková 2009). In Slovenia, though supported employment services were introduced as a possible rehabilitation measure and the right to independent living was acknowledged by a government strategy as early as in 1991, in practice there are no NGOs providing such services in a systematic way (Cowi 2011).

Selecting cases for further analysis

We rely on the typology of OECD (2010) to select countries for further analysis. Since our interest lies in European developments, we focus on Social Democratic and Corporatist regimes (the Liberal model in this typology includes only the UK from Europe). The main criterion for selecting the countries is that they should differ substantially *within* their welfare regime group in terms of changes in legislation (as measured by the two indicators in Figure 1), policy implementation (as measured by public expenditure) and outcomes (as measured by the change in employment). While

[4] Established in 1949, by 1988, the network of 422 co-operatives employed 190,000 disabled people. The share of disabled employees varied around 70% in most co-operatives (Thornton 1998).

[5] Poland also established the obligation to set up rehabilitation workshops in large firms but without a precise quota and sanctions.

admittedly crude, the latter measure is intended to serve as an indicator of the depth and success of the reforms. Table 2 below presents a summary of within-group variation based on the country level data.

Table 2 Magnitude of change in legislation, implementation and impact by welfare type since 1990

		legislation	implementation (spending)	impact (employment)
Corporatist	A) Austria, Belgium, Hungary	Medium	small	small (NI)
	B) France, Poland, Greece	Small	(ND)	small (NI)
	C) Czech, Slovak Republic, Slovenia Ireland, Italy, Portugal, Spain	Medium	small (NI)	mixed
Social-democratic	A) Denmark, Netherlands, Switzerland	large	large	small (NI)
	B) Finland, Sweden, Norway, Germany	Medium	medium	Large

Source: OECD (2010) for welfare regime types (except Slovenia, which we added on the basis of the feautres described by the OECD[6]) and authors' judgement. NI= no improvement, ND= no comparable time series available.

Using the existing data we have identifed extremes among CEE where spening on rehabilitation is low/high and where employment of disabled workers is low/high (see table below). We decided to focus on the Visegrad countries and Slovenia rather than Estonia as the former had more policy changes in the observed period.

Table 3 Rehabilitation policy outcomes within the CEE

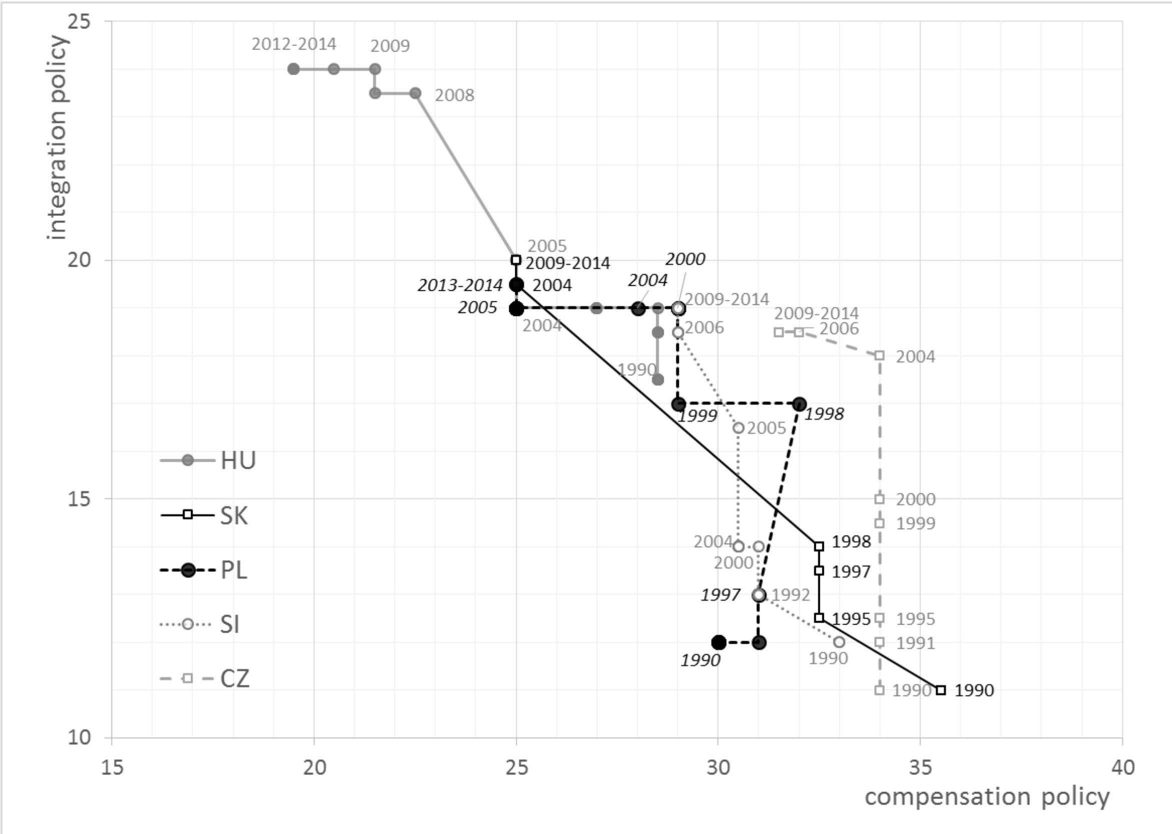
	spending on employment rehabilitation	
	low	high
low employment rate (large disability gap)	Pl	Hu, Cz
high employment rate	Sk	Si, Ee

Source: Authors assesment based on Eurostat data.

We collected data on relevant economic factors, financing and regulation on rehabilitation services and other ALMP (institutions in charge of delivery, quality assurance, allocation of funding) and their efficiency. In particular, we focused on legislative changes to construct a dataset covering 1990-2013 of two composite indicators measuring the generosity of disability benefits and the availability of rehabilitation services on a scale of 1 to 50, constructed by an OECD report (OECD (2010). The results of this work are summarised in the figure below.

[6] Countries in the Corporatist group of type C) tend to have relatively underdeveloped rehabilitation and employment policies and generous compensation policies, though the sickness benefit level is lower than in the other subgroups but of long duration.

Figure 1. Legislative changes affecting monetary compensation and labour market integration of disabled people in five countries 1990-2013



Source: Own research based on local legislation. The measures for 2007 were based on that published by the OECD (2010), with minor adjusments in a few cases. Years are printed in Italics for Poland.

As the figure suggests, all the countries started out from a similar position (of high compensation and low integraiton) in the 1990s and moved in the same direction in their disability policies. Hungary made rather bold steps between 2006 and 2013, while the other countries tended to slow down after the global crisis set in. The Czech Republic on the other hand appears to have followed a slightly different path, in that it has continued to offer relatively generous compensation compared to the other four countries.

We selected two country pairs and explore the potential factors that may explain the differences in the evolution of policies in these two countries. An obvious choice in our framework is to compare the Czech and the Slovak case, where policies started out from the (almost) same position, but diverged during the past twenty years. For the other pair, we picked Poland and Slovenia, whose initial position was also quite similar but later followed a somewhat different path. We chose to exclude Hungary from the ensuing analysis as the initial position of Hungary in 1990 seemed considerably more advanced than that of the other four countries.

In many respects, the Visegrad countries had similar social and institutional structures at the eve of the political transformation of 1989. Eastern European societies had a strong preference for equality and state intervention to reduce inequalities (Delhey 1998, Murthi and Tiongson, 2008). Public awareness and support for the social integration of vulnerable groups and among them people with disabilities was however weak, as a legacy of segregating and paternalistic policies (Zaviršek 2006, Reichová and Repková 2005). The managers of large segregated institutions and sheltered workshops were strong defenders of the status quo while disability NGOs were weak in all the five countries.[7] As we show in the next section, there was some variation in the influence of other actors, such as the unions, or international organisations.The political institutions of the Visegrad countries had been very similar. Before 1989, the communist regime established single party systems with very little genuine consultation with interest organisations, except in Slovenia that was outside the Soviet block and allowed more autonomy to firm management and workers councils (Sirovatka 2008, Stanojević 2012, Váradi 2012). The democratic structures established after 1989 varied in some features (such as the strength of the president, uni- or bicameral parliament, the four-year electoral cycle, or divisions in the party system) but all struggled with the inheritance of a public administration skilled in planning rather than designing sophisticated incentives for independent actors in a competitive economy (Meyer-Sahling 2009, Verheijen 2006). Public trust in political institutions and especially in parties tended to be low and declined further towards the late 1990s in reaction to corruption scandals in most CEE countries (Ulram and Plasser 2001, Pridham 2009).

The initial economic and demographic structure also tended to be similar across the region. Income levels were similar in 1990, with Poland lagging behind a little. The old age dependency was not as high as in rapidly ageing Western societies and remained so during the past 25 years, though with some variation within the CEE.[8] As already mentioned in the first section, the transition to market economy disrupted trade relations and economic production with a lasting impact on labour demand. The labour market shock was especially large in Hungary and Slovenia. The Czech and Slovak labour markets faired somewhat better and recovered faster, partly because of a better choice of labour market policies and also due to the somewhat lower share of the uneducated within the working age population.

Czech versus Slovak case

Disability legislation in the Czech and Slovak Republics was very similar in 1990 as they were the same country[9] before their peaceful divorce: in 1990 Slovakia had the most generous compensatory policies of the five countries (35.5) followed closely by the Czech Republic (34) and both were at the same low level of integration policies as the four others (except for Hungary). By the end of the period under scrutiny, both countries reached a similar level of integration regulation, but the Czech disability compensation policy remained rather unconditional and generous (31.5) whereas by 2014 Slovakia reached a point (25) that is similar to the 2014 Polish, slightly more stringent than the 2014 Slovenian score and is equal to the 2004-2007 value for Hungary.

[7] Civil society in general tended to be weak in the region, though with some exceptions (in Poland, the Catholic Church and Solidarity, in Slovenia remnants of the so called valley communities retained horizontal ties within an otherwise strongly hierarchical society.)

[8] Initially the dependency rate was higher in the Czech Republic and Hungary (19-20%), than in the other three countries (15-16%). In Hungary, Poland and especially Slovenia it increased steadily during the past 25 years, while in the Czech Republic and Slovakia, it only started to rise after 2005 (data from Eurostat on-line: tsdde510).

[9] However, some policies were regulated at the federal level (set out in Act. No 556/1990 Art. 22), eg.: employment relations, wage regulation, the minimum income, social services and benefits, and the legal framework for the pension system is in federal competence, while the structural arrangement and the assessment procedures of pensions are set by national legislation.

The trajectory is markedly different: the Czech one is concave: compensation policies were almost untouched until 2005, in which period regulation re integration wastightened, first gradually (until 2003), then by one blow 2003-4. After 2005, integration policies hardy changed, whereas compensation policies were made slightly more austere. By contrast, Slovakia changed the two dimensions several times concurrently: both in 1994-1995 and in 2003-2004 big changes happened in two dimensions at the same time. Small changes in integration 1994-1998 and 2008-2009 did not go hand-in-hand with changes in compensation.

Several factors emerged that may explain the diverging path of Czech and Slovak policies. First, although the Slovak economy tended to grow at a healthy rate slightly above Czech growth for most of the period, it has been less successful at returning to the high employment level of the Socialist era, partly due to the deepness of the transitional shock[10] and a somewhat larger agricultural population. This has put more pressure on Slovak governments to introduce labour supply incentives and benefit cuts to activate the non-employed population. The second factor lies in political developments. Both countries had a proportional electoral system and a rather fragmented political scene after the transition with many parties, frequent shifts and unstable coalitions. Differences in the Czech party system, however, were more in line with a traditional, Western state redistribution-centered left-right dimension than the Slovak, which property may have made tightening compensation policy for the disabled a harder political sell in the Czech Republic than in Slovakia throughout the period. Moreover, the emergence of a strong populist movement in Slovakia (led by Vladimir Meciar) provoked organised resistence and paved the way for a Center Right reform push in 1998-2006, using the rhetoric of benefit abuse and the need for activation. Third, while in the 1990es disability advocacy groups were weak in both countries, in the new millenium the Czech organisations reached a level of political strength that was enough to make the government back down (in 2011) – this may have also contributed to less cuts in compensations in that country. Lastly, though accession to the EU inspired reforms in both countries, the political troubles of the Slovak state generated considerable uncertainty about their accession, which created an additional incentive to reform the welfare system according to EU recommendations.

The Polish versus the Slovenian case

Poland and Slovenia had a very similar disability policy system in 1990 in terms of the overall generosity of cash transfers and access to employment rehabilitation.[11] The development of measures to support labour market integration progressed at a rather slow pace in both countries and most adjustments happened around EU accession. They diverge however in their compensation policies: Slovenia only takes a small cut in 2006, while Poland makes repeated and in some years inconsistent steps to reach a relatively ungenorous compensation system (similar to the 2014 Slovak one , and the 2004 Hungarian one). In the following section we look for factors that may explain the difference in Polish and Slovene policies in the compensation of disabled persons.

[10] The percentage point difference in employment between 1989 level and worst year of crisis (1999/2000): the Czech drop was 13%point, the Slovak 21%point.

[11] The Polish system granted easier access to disability benefits as claims were evaluated by an insurance doctor (rather than by a team as in Slovenia) and, once obtained, pensions were de facto permanent (as opposed to being regularly reviewed as in Slovenia. By contrast, the threshold for granting a full pension was lower in Slovenia, and sick pay regulations were also more generous. Slovenia was slightly more advanced in providing employment rehabilitation service since 1990.

In the Polish case, access to disability benefits was already rather easy and made even more lenient between 1996 and 1998, by extending coverage and relaxing some of the vocational assessment (Vanhuysse 2004). However, medical assessment was tightened in 1998 and the regular review of disability pensions was introduced in 1999, along with a stricter monitoring of sick pay. A further reform in 2005 cut the replacement rate for sick pay and further tightened access to disability benefit by making pensions strictly temporary and introducing expert teams to evaluate claims. In Slovenia, there was a rise in disability pension claims in the early 1990s, but the rise in spending was kept at bay by slight adjustments in the pension system in 1992 and 1999 (Stanovnik 2004).

Though Poland had managed to reduce the inflow into disability benefits by 1995, as well as the stock of benefit recipients, this has not led to a corresponding rise in employment (OECD 2006). This is partly due to the poor supply of rehabilitation services but also to declining labour demand that characterised the Polish economy until 2004. Labour force statistics for 2002 and 2011 signal a considerable rise in disabled employment, but also an increase in the share of the disabled population. In Slovenia, no marked increase in disabled employment has been observed though any change is difficult to register given the lack of reliable statistics that are comparable across years. Employment in the open labour market has not increased even in recent years (Grammenos 2013).

In the early 1990s, both Poland and Slovenia followed a cautious strategy of relatively slow privatisation and a cushioning of social tensions with easier access to disability and early pensions (rather than active labour market programmes as in Czechoslovakia).[12] The total loss in employment during the transition years was larger in Slovenia, but it also had more potential for recovery given the relatively low share of the uneducated workforce. Both countries cooperated to some extent with World Bank experts in reforming their pension systems (Stanovnik 2002, Guardiancich 2004).[13]

The divergence of their policy trajectories during the transition may be explained by the more prudent fiscal policy[14] of Slovene governments that eased the immediate pressure for reform, together with the very wide consensus over keeping the welfare system intact. Slovenia did not share the apprehension of the Visegrad countries about state intervention and the achievements of the socialist era as these were not linked to Soviet oppression. Moreover, former Communists leaders were not uniformly discredited (some were in fact seen as defenders of Slovene interests in the Yugoslav federation) and remained influential as members or leaders of the newly emerging parties. The 1992 elections were won by the centre-left Liberal Democratic Party led by Janez Drnovsek, a former president of Yugoslavia, who came to be prime minister, while the first elected president was Milan Kučan, the leader of the reformed Slovenian League of Communists. Unions also remained

[12] The share of the private sector stood around 60% in the GDP in 1995 (somewhat lower, 50% in Slovenia and 70% in the Czech Republic). However, in Poland and Slovenia some share (28 and 37 % respectively) of public ownership was retained in privatised firms and a significant share of the firms was privatised via management-employee buyout (Estrin 1999). These features tended to reduce the job distruction rate, compared to Hungary where the dominant privatisation method was sales to foreign owners.

[13] In Slovenia, the cooperation was less intense: the reform that was finally adopted did not follow most Word Bank recommendations and the Bank was not involved in financing its implementation (Stanovnik 2002, World Bank 2000).

[14] The disintegration of the Yugoslav federation also helped Slovenia to balance its budget. Slovenia had been a net contributor to the federal budget and it stopped forwarding revenues to the federal budget even before it formally declared independence (Borak and Borak 2004). Slovenia declared its independence of Yugoslavia on June 25, 1991, was internationally recognised in January 1992 and joined the United Nations on May 22, 1992.

relatively strong throughout the 1990s.[15] As a result, there was no ideological divide over welfare spending and in fact no welfare cuts until the mid 2000s.

By contrast, Poland was more exposed to short term fiscal risks and had more support for welfare cuts and a reduction of state intervention in its political system dominated by centre right liberal parties with no credible proponent of social democratic values. The membership rates and political influence of Polish unions was rapidly eroded in the early 1990s, which further weakened support for preserving welfare provisions (Vanhuysse 2004). The pension system remained fragmented (with separate funds for farmers) and costly,[16] and EU recommendations consistently referred to the need for reforming sickness and disability rules from the very beginning of the accession process in 1998.

Interestingly, though the legal framework of disability policies is much more elaborate in Slovenia than in Poland (incorporated in laws and regularly published strategies), they seem to differ much less in terms of implementation. Two factors may explain this outcome: first, the relative strength of sheltered (segregated) institutions that have a strong interest in preserving the status quo, and second, the general weakness (or disinterest) of government administrations to develop and implement complex employment policies (Zaviršek – Gorenc 2009). As Grosse (2006) notes, the Polish Labour Ministry administration failed to develop its own policy concepts for the labour market and the regions, and only blindly followed formal requirements by the EU (Grosse 2006: 156).

Summary and conclusions

The paper outlined a strategy for identifying barriers to institutional change, focusing on the shift away from cash transfers to households to the provision of social services and from large, one-size-fits-all programmes to personalised rehabilitation services. We showed that Central and Eastern European welfare regimes that have a similar initial structure also fit the general European trend. They, however, differ in their speed of adaptation to the challenges posed by external shocks to the labour market. In particular, these countries have been rather slow to improve policies that support the labour market integration of disabled jobseekers.

We focused on four countries with a Corporatist welfare regime that show considerable variation in terms of changes in disability policies, public expenditure and outcomes. This allowed us to control for several contextual variables that may also influence the speed of adaptation and focus on a manageble number of variables that differ within welfare regimes.

Comparing policy developments in the Czech Republic and Slovakia on the one hand and Poland and Slovenia on the other, we identify fiscal constraints, pressure to comply with the recommendations of the European Union (especially at the time of accession), and exposure to the influence of international organisations (the World Bank) as the most important drivers of change.

---

[15] When the centre-right government announced a wage freeze amid soaring inflation, unions responded by a wave of strikes peaking in a large general warning strike in the spring of 1992 (Stanojević, 2012). The strike reflected the mobilising capacity of the old trade union, and strengthened their voice in tripartite negotiations for many years, sustained further by the privatisation process that was slow and favoured worker buy-outs over foreign investors.

[16] The fragmented nature of the system increases the costs very directly, as some of the contributions are not even paid into the central budget but are instead reallocated to rehabilitation and other (not very closely scrutinised) spending by the pension fund for farmers (KRUS).

These findings suggest that the internal forces that may promote the further improvement of disability policies are relatively weak in the CEE region, which underlines the importance of policy advice and incentives coming from international organisations, notably the EU, the IMF and the OECD.

Regarding policy implications, it seems that the improvement of disability policies would bring considerable potential gains for employment and economic growth in the CEE region. Beside external pressure, impact assessments and cost-benefit analyses of existing initiatives may help to convince or sideline opponents and pave the way for shifting funds from ineffective sheltered workshops towards personalised rehabilitation services. Once a network of such services is firmly established and stable funding is provided, a combination of subsidies for employers and a tightening of access to benefits could lead to a significant increase in employment among people with disabilities.

References

Alesina, A. and A. Drazen (1991) Why are Stabilizations Delayed?, *American Economic Review* 81, pp. 1170-1188.

Alesina, Alberto & Silvia Ardagna & Francesco Trebbi (2006) "Who adjusts and when? On the political economy of reforms," Harvard Institute of Economic Research Working Papers 2108, Harvard - Institute of Economic Research.

Banks, J., Kapteyn, A., Smith, J. P and van Soest, A. (2004) International Comparisons of Work Disability, IZA Discussion Paper 1118, April 2004.

Berkowitz, M (ed.) (1988) Measuring the efficiency of public programs. Costs and benefits in rehabilitation. Philadelphia: Temple University Press.

Boeri, T., Conde-Ruiz, J. I. and Galasso, V. (2012) The Political Economy Of Flexicurity. *Journal of the European Economic Association*, European Economic Association, vol. 10(4), pages 684-715, 08.

Bonoli, G. (2010) The political economy of active labour market policy. Reconciling Work and Welfare in Europe. RECWOWE.

Borak, Neven and Borak, Bistra (2004) Institutional Setting for the New Independent State, in: Mrak et al (eds): Slovenia. From Yugoslavia to the European Union, World Bank, 53-66.

Botero, J., S. Djankov, R. La Porta, F. Lopez-de-Silanes, and A. Shleifer (2004) The Regulation of Labor. *Quarterly Journal of Economics* 119: 1339-1382.

Brooks, C. and Manza, J. (2006) Why Do Welfare States Persist? *Journal of Politics* 68/4

Cimera, R. E. (2008) The cost trends of supported employment versus sheltered employment. *Journal of Vocational Rehabilitation*, 28(1), 15-20.

Corden, A. and Thornton, P., (2003) Results-based Funded Supported Employment: Avoiding Disincentives to Serving people with Greatest Need, Research Report W160, Department for Work and Pensions Research Management, Sheffield.

Cseres-Gergely, Zs. and Galasi, P. (2012) The information base of policy making, impact assessment. Chapter 3.2 in Károly Fazekas and Ágota Scharle (eds) From Pensions to Public Works: Hungarian Employment Policy from 1990 to 2010, BI, Budapest 2012.

Delhey, Jan (1998) Inequality and support for redistributive policy. One world of Post-Communism, two worlds of Western Capitalism, WZB 1998-401, Berlin. http://bibliothek.wzb.eu/pdf/1998/iii98-401.pdf

Duncan and Woods (1987) Social Security Disability Programs: An international perspective. New York: Rehabilitation International.

Ebbinghaus, R. (2006) Reforming Early Retirement in Europe, Japan and the USA. Oxford University Press, Oxford 2006.

EC (1999-2013) European Commission Country-specific recommendations http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm and http://register.consilium.europa.eu/ .

EC (2010) Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committe and the Committee of the Regions. European Disability Strategy 2010-2020: A Renewed Commitment to a Barrier-Free Europe, COM/2010/0636 final.

EC (2013) Commission Staff Working Document Follow-up on the implementation by the Member States of the 2008 European Commission recommendation on active inclusion of people excluded from the labour market - Towards a social investment approach, Brussels, 20.2.2013 SWD(2013) 39 final.

Esping-Andersen, Gøsta (1990) The Three Worlds of Welfare Capitalism. Cambridge: Polity Press & Princeton: Princeton University Press, 1990.

Esping-Andersen, Gøsta (1996) "After the Golden Age? Welfare State Dilemmas in a Global Economy", in: Gøsta Esping-Andersen (ed.), *Welfare States in Transition. National Adaptations in Global Economies.* London: Sage, 1-31.

Esping-Andersen, Gøsta, Gallie, Duncan, Hemerijck, Anton & Myles, John (2002) *Why We Need a New Welfare State*. Oxford: Oxford University Press.

Estrin, Saul (1999) *Privatisation and company restructuring in Central and Eastern Europe: Issues and progress,* in: Larçon, Jean-Paul, (ed.) Entrepreneurship and Economic Transition in Central Europe. Kluwer Academic Publishers, Massachusetts, USA, pp. 21-36.

Fernandez, Raquel and Dani Rodrik (1991) Resistance to Reform: Status Quo Bias in the Presence of Individual- Specific Uncertainty. *American Economic Review* Vol. 81, No. 5 (Dec., 1991), pp. 1146-1155.

Galasso, V. and Profeta, P. (2002) The political economy of social security: a survey. European *Journal of Political Economy*, vol. 18(1), pp. 1-29, March.

Grammenos, Stefanos (2013) European comparative data on Europe 2020 and people with disabilities, ANED Final report, December 2013.

Guardiancich, Igor (2004) Welfare state retrenchment in Central and Eastern Europe: the case of pension reforms in Poland and Slovenia. *Managing Global Transitions*, 2(1), 41-64.

Hacker, J. S. (2004) Privatizing Risk without Privatizing the Welfare State: The Hidden Politics of Social Policy Retrenchment in the United States. *American Political Science Review*, Vol. 98, No. 2 (May, 2004), pp. 243-260.

Häusermann, S. (2010) The politics of welfare state reform in continental Europe: modernization in hard times. Cambridge University Press, Cambridge.

Huber, E. and Stephens, J. (2000) Partisan Governance Women's Employment and the Social Democratic Service State. *American Sociological Review* 65:323-42.

Høj, J. et al. (2006) "The Political Economy of Structural Reform: Empirical Evidence from OECD Countries", OECD Economics Department Working Papers, No. 501, OECD, Paris.

Inglot, T. (2008). Welfare States in East Central Europe 1919-2004. New York: Cambridge University Press.

Kahneman, D. And Tversky, A. (1979) Prospect Theory: An Analysis of Decision under Risk. Econometrica, 47(2), pp. 263-291, March 1979

Keefer, P. and Khemani, S. (2004) Why do the poor receive poor services? *Economic and Political Weekly* February 28, 2004.

Kohli, Martin, Rein, Martin, Guillemard, Anne-Marie and Gunsteren, Herman (1991) Time for retirement, Cambridge University Press.

Korpi, W. (1983) The Democratic Class Struggle. London: Routledge and Kegan.

Kregel, J. And Dean, D. (2002) "Sheltered vs. Supported Employment: A Direct Comparison of Long-Term Earnings Outcomes for Individuals with Cogninitve Disabilities" in J. Kregel, D. Dean and P. Wehman (eds) Achievements and Challenges in Employment Services for People with Disabilities: The Longitudinal Impact of Workplace Supports Monograph, Richmond, VA: Virginia Commonwealth University.

Kreider, B. and Pepper, J.V. (2007) Disability and Employment: Reevaluating the Evidence in Light of Reporting Errors, *Journal of the American Statistical Association*, June 2007, 102(478) pp. 432-441.

Lonsdale, S. (1993) Invalidity benefit. An international comparison. United Kingdom Department of Social Security http://research.dwp.gov.uk/asd/asd5/ihr/ih001.pdf

Mätzke, M (2009) Welfare Policies and Welfare States: Generalization in the Comparative Study of Policy History. Journal of Policy History Volume 21, Number 3, 2009 pp. 308-329

Mettler, S. and Soss, J. (2004) The Consequences of Public Policy for Democratic Citizenship: Bridging Policy Studies and Mass Politics. *Perspectives on Politics* Vol. 2, No. 1, Mar., 2004.

Meyer-Sahling J.H. (2009) Sustainability of civil service reforms in Central and Eastern Europe five years after EU accession, OECD SIGMA paper No. 44.

MSAH (2008) The OECD thematic review on reforming sickness and disability policies to improve work incentives. Country Note: Finland, Ministry of Social Affairs and Health memorandum, Finland.

Murthi, M. and Tiongson, E.R. (2008) Attitudes to Equality: The “Socialist Legacy” Revisited Policy, World Bank Research Working Paper 4529

Myles, J. and J. Quadagno (2002) ‘Political Theories of the Welfare State’, *Social Service Review*, 76, March, 34–57.

Nordhaus, W. (1975) ‘The Political Business Cycle’, Review of Economic Studies, 42(2): 169–90.

OECD (2003) Transforming Disability into Ability. Policies to promote work and income security for disabled people. OECD, Paris.

OECD (2006) Sickness, Disability and Work (Vol. 1): Norway, Poland and Switzerland, OECD, Paris.

OECD (2010) Sickness, Disability and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries, OECD, Paris.

OECD (2012) Health at a Glance Europe 2012. OECD Paris.

OECD (2013) Mental Health and Work: Norway, OECD Paris.

Olson, M. (1982) The rise and decline of nations. New Haven, CT: Yale University Press.

Palier, Bruno (2010) Ordering change: Understanding the ‘Bismarckian’ Welfare Reform Trajectory, in: Palier (2010) (ed.) A Long Goodbye to Bismarck? The Politics of Welfare Reform in Continental Europe. Amsterdam University Press, Amsterdam.

Pfau-Effinger, Birgit (2005) Culture and Welfare State Policies: Reflections on a Complex Interrelation, *Journal of Social Policy*, 34, 1: 1-18.

Pierson, Paul (2000) Increasing Returns, Path Dependence, and the Study of Politics, *American Political Science Review*, vol. 94(2), pp. 251-6.

Pridham, G. (2009) Democratic consolidation in the Czech Republic: Comparative perspective after twenty years of political change, *Czech Journal of Political Science,* XVI(4), pp. 267–287.

Prinz, C. (2010) Sickness, Disability and Work: “Lessons from Reforms and Lack of Change across the OECD Countries” In M. Kautto and J. Bach-Othman (eds.) Disability and employment– lessons from reforms, Finnish Centre for Pensions, Reports 2010:4.

Prinz, C. and D. Tompson (2009), “Sickness and Disability Programmes: What is Driving Policy Convergence?”, *International Social Security Review*, Vol. 62, No. 4, pp. 41-6.

Reichova, D., Repková, K. (2005) Podpora zamestnavania obcanov so zdravotnym postihnutim (Supported employment of persons with disabilities). Rodina a praca (Family and Labour), Issue 7/2005.

Repková, K. (2008) Civic Organizing of Persons with Disability and Social Capital. Sociology - Slovak Sociological Review (Sociológia - Slovak Sociological Review), Issue: 4 / 2008. Annual reports of Slovak

Disability Council available at http://www.nrozp.sk/Rothstein, B., Samanni, M., and Teorell J. (2012) Explaining the welfare state: power resources vs. the Quality of Government. *European Political Science Review*, 4, pp 1-28.

Rubaii-Barrett, N. and Wise, L. R. (2008) Diversity Accessibility and E-Government: An Empirical Analysis of State Practices. *Journal of Disability Policy Studies* 19, 52-64.

Scharle, Ágota (2007) Labour market explanations for the rising incidence of disability claims, in Cseres-Gergely, Fazekas and Scharle (eds) The Hungarian Labour Market. Institute of Economics, HAS, Budapest.

Schmidt, Vivien A. (2001) The Politics of Adjustment in France and Britain: When Does Discourse Matter? *Journal of European Public Policy*, 8, 247–64.

Schmidt, Vivien A. (2002) Does Discourse Matter in the Politics of Welfare State Adjustment? *Comparative Political Studies*, 35:2, 168–93.

Stanojević, Miroslav (2012) The Rise and Decline of Slovenian Corporatism: Local and European Factors, Europe Asia Studies, 64(5), 857-877.

Stanovnik, Tine (2002) The political economy of pension reform in Slovenia, in: Fulz, E (ed): Pension reform in Central and Eastern Europe, vol. 2. Budapest: ILO.

Stanovnik, Tine (2004) Social Sector Developments, in: Mrak et al (eds): Slovenia. From Yugoslavia to the European Union, World Bank, 315-333.

Swank, Duane (2001) Political Institutions and Welfare State Restrucuring: The Impact of Institutions on Social Policy Change in Developed Democracies, pp. 197-237 in Paul Pierson, (ed.): The New Politics of the Welfare State. Oxford University Press, Oxford.

Tepe, Markus & Vanhuysse Pieter (2010) 'Who Cuts Back and When? The Politics of Delays in Social Expenditure Cutbacks, 1980- 2005,' West European Politics, Vol. 33, No. 6, pp. 1214-1240.

Tepe, M. and Vanhuysse, P. (2012) Accelerating Smaller Cutbacks to Delay Larger Ones? in: Vanhuysse, Pieter & Goerres, Achim (eds) (2012), Ageing Populations in Postindustrial Democracies, Abingdon: Routledge/ECPR European Political Science Series, pp. 127-144.

Thornton, Patricia (1998) Employment Quotas, Levies And National Rehabilitation Funds For Persons With Disabilities: Pointers For Policy And Practice, Geneva: International Labour Office.

Tompson, William (2009) The Political Economy of Reform. Lessons from pensions, product markets and labour markets in ten countries, OECD, Paris.UN (1993) The Standard Rules on the Equalization of Opportunities for Persons with Disabilities. 1993, United Nations, New York.

Ulram, Peter A. and Plasser, Fritz (2001) Mainly sunny with scattered clouds. Political culture in East Central Europe, in Pridham and Ágh (eds) Prospects for Democratic Consolidation in East-Central Europe, Manchester University Press, 2001. pp 115-137.

Vanhuysse, P. (2004) The pensioner booms in post-communist Hungary and Poland: political sociology perspectives. *International Journal of Sociology and Social Policy*, Vol. 24. No. 1–2. pp. 86–102.

Van Lin, M, Prins, R., és de Kok, J. (2002) Active Labour Market Programmes for People with Disabilities: Facts and figures on use and impact. EIM 2002.

Van Oorschot, W. (2010) Disability benefit reforms in the Netherlands 1980-2006, Re-trenchment and reconstruction, in M. Kautto and J. Bach-Othman (eds.) Disability and employment– lessons from reforms, Finnish Centre for Pensions, Reports 2010:4.

Váradi, Balázs (2012) The role and significance of labour affairs in the system of government institutions, in Á. Scharle and K. Fazekas (eds.) From Pensions to Public Works. Hungarian Employment Policy 1990-201, MTA-KRTK and Budapest Institute, Budapest, 2012.

Verheijen, T. (2006) EU-8 administrative capacity in the New Member States: The limits of innovation? Report No. 36930-GLB, The World Bank, Washington.

Vitáková, Petra (2009) Supported employment in Capital Prague and Central Bohemia regions, The Forum of Examples of Good Practice, an accompanying event of the Ministerial Conference on Social Services, Prague.

Vis, B. (2010) The Politics of Risk-Taking. Amsterdam: Amsterdam University Press.

Vis, B. (2011) Prospect Theory and Political Decision Making. Political Studies Review, 9: 334–343. doi: 10.1111/j.1478-9302.2011.00238.x

Winter, Zsuzsa (1990) A védett foglalkoztatás hazai története. (Különös tekintettel a célszervezetek 1980-1989 közötti évtizedére) [History of sheltered employment in Hungary, focusing on sheltered workshops between 1980 and 1989], Szociálpolitikai Értesítő 1990. 3. pp 89-111.

World Bank (2000) Republic of Slovenia: Country Assistance Strategy – Progress Report, Washington: World Bank.

Zaviršek D. (2006) Disabled Women Everyday Citizenship Rights in East Europe: Examples from Slovenia. In: Lukić, J., Regulska, J., Zaviršek, D. (Eds.), Women and citizenship in Central and Eastern Europe. Aldershot: Ashgate. pp 62-87.

Zaviršek, D. and Gorenc, K. (2009) Report on the social inclusion and social protection of disabled people in European Countries, Aned Report.