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Social Policy and the New Middle Class in Central and Eastern Europe

TOMASZ INGLOT

The countries of Central and Eastern Europe, especially Poland and Hungary, have recently returned to international news headlines as leading examples of a worldwide trend of rising populism and reviving authoritarianism. Unlike the early 1990s, when memories of communist collapse and democratic breakthrough were still fresh, and popular mobilization ignited hopes for a full embrace of Western liberal values, today it seems increasingly difficult to credibly sketch an optimistic scenario for the future of this region. Yet on closer examination a much more complex picture emerges—one that defies easy stereotypes and generalizations. Disturbing accounts of democratic backsliding often obscure a more upbeat reality of growing economic prosperity based on the emergence of middle-class societies that are supported by reliable welfare protections.

Social Mobility Today

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Concentrating on the former communist countries that have been members of the European Union since the mid-2000s, we can identify the historical legacies and contemporary determinants of social mobility and social policy that have produced this unusual situation, where democracy has weakened in the context of improving standards of living. Paradoxically, the better their incomes and economic status become, the more newly ascended middle-class citizens and their families fear the future and long for even greater stability—relying on government-provided safety nets that have been challenged by more than two decades of market-driven economic policies since the early 1990s. This attitude is more com-

mon among older and middle-aged generations, whereas younger people, especially younger men, display much less trust in the state and often opt for migration in search of better prospects. Yet many old habits—and also, to a large degree, institutional legacies of the welfare state that survived the early postcommunist period and subsequent economic downturns surprisingly well across the region—are likely to endure into the next generation.

The historic process of simultaneous transitions to democracy and free-market capitalism inevitably prompted predictions of social unrest, state collapse, long-lasting joblessness, and extreme poverty. This scenario proved accurate in much of the former Soviet Union but less so in Central and Eastern Europe. By the end of the 1990s, after a period of painful adjustment and severe social dislocation that affected thousands of people, especially industrial and agricultural workers, Poland, the Czech Republic, Slovakia, Slovenia, Hungary, and the Baltic states had emerged as the leaders in the process of consolidating democratic rule and building viable market-based economies. The remaining countries, such as Romania, Bulgaria, and Croatia, were still lagging far behind but began to slowly catch up during the next decade.

Today, thirty years after 1989, all the societies of Central and Eastern Europe have been profoundly transformed, much beyond what many experts anticipated during the turbulent years of the early systemic transition. To many observers at that time, the region still appeared relatively uniform and the distance between East and West exceptionally wide and difficult to bridge due to the legacies of communist rule. Many of these legacies persist. But as the speed of societal change increases, we can see new and unexpected diverging trends within the

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region that uneasily coexist with rapidly emerging patterns of even more significant convergence with the rest of Europe, for better or worse.

The economies of the newer EU member states are growing faster than the average rate in the developed west and north of the continent. Poland, Hungary, and Romania have posted robust annual gross domestic product increases of four to seven percent in recent years. Both average and minimum wages, adjusted for purchasing power, are rapidly catching up to EU levels and even surpass those of Southern European countries such as Portugal and Greece. Much of Eastern and Southern Europe was especially hard hit by the Great Recession of 2008–10, but the former communist countries recovered relatively fast and now are poised to attract new investment and create jobs in the tech-heavy service sector.

WIDESPREAD GAINS

During the 1990s, the region's economic winners mainly included emerging business owners, many with deep roots in the former communist establishment, and well-educated professionals. Now, because mass unemployment has practically disappeared and many employers face chronic labor shortages, the gains are much more widely distributed across social strata. Hungary and the Czech Republic recently saw wage increases of 10 percent and more, compared with a respectable 5 to 7 percent in Poland.

Practically all the former Soviet bloc countries have completed a huge structural transformation of employment from unskilled routine work to a mostly skilled routine and managerial workforce. A precise definition of “middle class” remains elusive, but if we consider the term to mean an individual or a family earning average wages or above, the growth of this group in all of Central and Eastern Europe has been quite impressive. The United Nations estimates that this segment of society expanded by one-third across the region from 2001 to 2013.

The labor force in Central and Eastern Europe now consists overwhelmingly of people who were either children or youths under communist rule, or were born and educated after its collapse, and entered a totally transformed labor market as adults. The greatest change occurred in the agricultural and manufacturing sectors. Countries

such as Poland, Romania, and Bulgaria experienced accelerated urbanization and restructuring of employment toward service-based economies. Slovenia, the Czech Republic, and to some extent also Hungary had an early advantage in this area that was further augmented by steady inflows of foreign investment, which in turn helped fuel the growth of the new middle class during the 1990s.

Throughout the region, earlier patterns of limited mobility continued: few mid-career, lower-skilled workers moved away from their home communities. But the disappearance of local industrial employment and falling agricultural income drove many younger people away in pursuit of new opportunities in their own countries and abroad.

In contrast to the 1990s, when disruption in the labor markets produced widespread unemployment and poverty, many of the new member states since the EU's enlargement to the east have seen substantial employment growth in branches of manufacturing where integration with Western markets, especially Germany, plays a funda-

mental role. New industrial assembly plants around Warsaw, Lodz, Wroclaw, Budapest, Gyor, Bratislava, Prague, Bucharest, Gdansk, and other urban centers across the region have contributed to rapid urban expansion. Many

cities and suburbs now resemble their Western counterparts in terms of income and amenities. The restructured industries are smaller but nimbler, with better-paid workers—more integrated with the multinational corporations in Western Europe, but not yet automated enough to threaten employment.

OPPORTUNITY AND UNCERTAINTY

When it comes to social mobility, common trends within Central and Eastern Europe are largely determined by a generational divide, urban versus rural location, gender, and education. All European societies, including those in the post-communist region, are rapidly aging; in the East, many retirees depend on secure but low pensions as their sole income. However, a substantial number of them have become property owners, due largely to generous government policies that reprivatized communal and state housing during the 1990s. As property values appreciated rapidly in many areas, elderly people found themselves holding valuable assets, which are often passed on to

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the next generation in ways that were not possible during communist times.

This type of family support provided a necessary cushion to many younger workers, especially in Hungary, Romania, and Bulgaria, who lost jobs and income during the post-2008 recession. These countries (but not Poland) were especially hard hit by the global financial crisis. Social mobility suffered as a result, but not so much as to arrest the overall upward trajectory of long-term wage and income growth, even for the lower-earning strata.

Trade-union membership declined precipitously throughout Central and Eastern Europe after the fall of communism. However, public-sector employment began to expand again in recent years. Labor protections remained strong within this sector, accompanied by better wages and benefits, often as a result of strikes and public protests.

The growing upper and lower middle classes, including doctors, lawyers, businesspeople, and other professionals, successfully adapted to new market realities during the 1990s and continue to thrive with increased salaries and improved overall standards of living, including easier access to credit. But the younger generation faces more uncertainty with less employment stability in a transformed labor market where temporary and part-time contracts are now common. This contrasts starkly with expanding opportunities for social and economic mobility in new career fields that did not exist before, such as Internet sales, privatized health-care, legal, and educational services, and high-tech employment outsourced from more developed countries, such as computer programming and video game design.

For the most part, this younger group falls into three broad categories: those whose parents belong to the already privileged upper or middle classes; entry-level employees who are forced to accept short-term labor contracts with uncertain prospects and no benefits; and highly mobile migrants who choose to leave their countries for better wages and opportunities in Western Europe.

MOBILITY PATTERNS

Mass migration arguably has been the leading factor driving social mobility in all Central and Eastern European countries since the mid-2000s, when EU enlargement opened up Western Euro-

pean labor markets to workers from the new member states. Migration is also where many new converging and diverging trends become visible upon closer scrutiny.

While the overall number of Eastern European immigrants residing in the West stabilized in 2018 at around seven million, the dynamics of the process have changed dramatically. Romania and Bulgaria replaced Poland as the largest emigrant countries. As many as 14 percent of Romanians, 10 percent of Bulgarians, and almost 7 percent of Poles were residing abroad. A majority of the Polish migrants live in the United Kingdom, while Italy is the top destination for Romanians, and Hungarians favor Germany and Austria.

Increasingly, foreign remittances play a large role in raising standards of living of families back home, especially in the areas of consumption and housing construction, not unlike what was observed during the 1950s and 1960s in Southern Europe. Emigration from the Baltic states, Slovakia, and Hungary also has become very large-scale, with severe demographic consequences. It is less pronounced in the Czech Republic and Slovenia, but the circular nature of short-term migration among young people from these two countries, in search of both work and educational opportunities in Western Europe, has become a major factor behind increased social mobility.

Yet Western business analysts have pointed out the beginning of a different trend: Eastern European wages and job offers are becoming much more attractive. In combination with stagnant wages and rising living costs (especially unaffordable housing) in Western countries, this may induce many migrants to return home. Some are already doing so, though not yet in numbers that would indicate a wider trend. We can clearly distinguish mass migration countries from those that are more stable in this regard, but none of the new member states has yet experienced a reverse trend of citizens returning home en masse.

Instead, many lower-skilled service jobs in countries such as the Czech Republic and Poland are now filled by Ukrainian and Belarusian migrants, who often lack formal work permits. This trend is especially significant in the context of the recent European crisis over migration from outside the continent and the continuing refusal of many Eastern European governments to accept

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refugees and asylum seekers from the Middle East and Africa. It indicates a turn toward a culturally restrictive immigration policy that encourages people from neighboring Eastern European countries to fill vacant jobs, based on the anticipation that these newcomers will be more quickly assimilated and accepted by the native populations.

Mobility patterns among the native labor force are much more varied than ever before and often include increased population movements within the country. This is usually concentrated within a particular region: most of those who decide to relocate either join others from the same town or village in a specific foreign destination, or else move to the closest urban center rather than more remote locations within the same country.

I recently visited two of the poorest rural communities in central Poland's Mazowsze province. Average per capita GDP levels are relatively high in the area due to its proximity to Warsaw, but deep intraregional inequalities persist. One of these communities was an industrial hub under communist rule but suffered economic collapse, long-term unemployment, and deep poverty in the 1990s. It revived slowly during the next decade, largely thanks to mass migration to Warsaw, about two hours away by train. A neighboring community, previously reliant on subsistence agriculture, experienced two successive phases of employment transition, the first fueled by commercial vegetable farming and the second, which followed a plunge in agricultural prices, spurred by the migration of many residents to the UK.

Similarly complex patterns of movement and inequality can be found across Poland and other countries in the region. Impoverished and stagnant northeastern Hungary contrasts with prosperous and more socially and spatially mobile Budapest and western Hungarian provinces; Transylvania and greater Bucharest stand out for their relative prosperity and economic growth compared with other, more impoverished regions of Romania. In the Baltic states, internal inequalities cut along ethnic lines: the more mobile ethnic Latvians and Estonians are better positioned to take advantage of new opportunities than Russian minorities in those countries. The latter often lack the native language proficiency, educational credentials, and even formal citizenship status needed to match the prosperity of the majority ethnic groups.

Across the region, younger people in the 20–49 age bracket, both men and women, have become more mobile, prepared to adapt to new job mar-

ket realities and eventually join the rising middle class, if they have not emigrated already. Many studies have found that young women across the region are better adjusted to the changing economy and readier to embrace educational and career-changing opportunities than men. This has been the case not only in the better-developed Eastern European societies such as Poland, the Czech Republic, Slovakia, and now also Romania, but in many Western countries such as Germany. In Poland, large numbers of women opened new businesses during the 1990s; since then, the share of female university graduates has surpassed 60 percent.

Due to the improvement of the labor market across the board, higher education is no longer the most desirable path to better wages or living standards, but postcommunist societies still benefit from a rapid expansion of university enrollment initiated during the 1990s. This has been most visible in larger, previously much less upwardly mobile societies such as Poland, where higher-education enrollment peaked at around nine million, compared with under one million at the beginning of the transition. The latest cohort of new job seekers in the services and manufacturing sectors is often employed, at least on a temporary basis, while still attending university. Graduation may no longer be a necessary condition for remaining on the job when trained employees are harder to find.

This is part of another converging trend across Europe: enrollments are stabilizing and many universities are restructuring their course offerings to better reflect the needs of the labor market. Some of the more popular majors now include management, administration, human resources, and marketing.

REFORM AND INEQUALITY

The trends described so far suggest a positive story of increasing social mobility in Eastern European countries, with rapidly growing middle classes and an expanding consumer society, augmented by better wages and remittances from emigrants working in Western Europe. On the negative side, however, these changes have simultaneously contributed to growing inequalities. The standard measure of inequality—the Gini coefficient—has increased in most countries in the region, but more so in Poland, Romania, and Bulgaria than in Hungary, the Czech Republic, Slovakia, and Slovenia.

In many instances, governments' social policies have contributed to this trend by expanding existing programs and adding new ones to benefit growing middle-income groups, especially young working families with children. A closer look at these policies makes it easier to understand the recent upswing of public support for populism and nationalism in the context of the most comfortable living standards the region has ever experienced.

This increased prosperity rests for the most part on dramatic changes in the labor market. The region has seen a radical shift from widespread unemployment to labor shortages, a historic expansion in higher-education opportunities, and unprecedented mass migration to the West. Nonetheless, given a rather uneven cyclical pattern of growth and slowdown or recession in many of these countries since the early 1990s, citizens might remain deeply skeptical about the future in the absence of a reliable social safety net. In this part of Europe, welfare states have never offered generous benefits and remain heavily based on traditional Bismarckian social insurance, financed largely by payroll taxes on employers and employees.

In the past, the communist safety net also included universal entitlements such as free health care and education, child-care services, housing subsidies, and various in-kind benefits supplied by employers. Another influential legacy comprises the reforms implemented during the first decade of the postcommunist transition. These changes focused mainly on three areas: unemployment protection, more restrictive targeting of welfare assistance for the poor, and, most importantly, pension reform. Other service-based programs were dismantled or stagnated due to inadequate funding.

As many scholars pointed out at the time, Central and Eastern European welfare states came under pressure from two different directions. They faced domestic political pressure to protect state budgets in an era of economic crisis, while the international financial institutions, primarily the International Monetary Fund and the World Bank, and assorted other Western advisers urged them to undertake a fundamental transformation of their allegedly overextended safety nets to conform with the neoliberal agenda of promoting free markets and private property. The most representative reform ideas of this period were partial pension

privatization, based on new mandatory and voluntary investment funds alongside state-funded basic benefits, and the restructuring of antipoverty programs with new work incentives and conditional assistance for the needy.

The combination of the two legacies—the evolution of the communist version of Bismarckian welfare states and the decade-long transitional reforms that incorporated neoliberal ideas—laid the foundation for the latest wave of changes. These have included providing increased income stability via cash benefits and tax credits to many households, especially those with dependent children. Such policies have helped generate political support for the ruling populist and/or nationalist parties in countries such as Poland, Hungary, the Czech Republic, Slovakia, and Romania.

This latest stage of social policy reforms began in the early 2000s and has been closely linked to EU membership, in terms of both ideas and practice. First, EU accession entailed the extension of the European social agenda into Central and Eastern

Europe. This took the form of recommendations rather than directives, since social policies generally remain within the exclusive jurisdiction of member states, in areas such as youth employment, gender equality,

social inclusion of marginalized groups (like the Roma minority in Hungary, Romania, and Slovakia), and early childhood education. Drafted before the Great Recession, many of these proposals aimed at better coordination and adaptation of the existing welfare states to rapidly changing economic conditions in the era of neoliberalism and globalization, marked by slow growth among the leading developed economies and unprecedented disruption of traditional employment.

Second, the new EU member states, regardless of whether they were governed by the parties of the ex-communist left as in Poland and Hungary, or center-right ones as in Romania or Slovakia, had already adopted free-market economic policies by the early 2000s. They gladly embraced European social-policy recommendations as long as these came with generous funding assistance that relieved pressure on domestic budgets, especially in the areas of infrastructure and administration of social programs. This phase of welfare reforms was notable for its emphasis on previously neglected areas such as family policy and

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related programs for younger people and women, rather than just the elderly and the unemployed. They also came with expectations for more gradual implementation that appealed to subsequent austerity-minded governments.

The recession of 2008–10 altered this policy landscape in a fundamental way, leading many countries to reverse or revise the signature changes of the neoliberal era, such as partial pension privatization. But they did so without rejecting EU recommendations in other spheres, despite the fact that many imported reform ideas were marked by the dominant ideological consensus that has become deeply unpopular since the Great Recession. These policies included benefits and services for working women, children, and parents more generally, with a special focus on generous maternity protection, extended parental leave and payments, nurseries, kindergartens, care and education programs for the elderly, and low-income housing. Many of these policies were driven by fiscal considerations, but political factors also played a role—such as fear of an electoral backlash following a brief but painful period of economic austerity.

Even though the average level and generosity of these initiatives still fall short of the standards in more developed European countries, the unprecedented transfer of ideas, expertise, and funding assistance helped modernize and stabilize the postcommunist welfare states. In addition, the EU emphasis on subsidiarity—bringing essential government services and administration closer to the people—in combination with previous local government reforms led to the construction of yet another layer of social services at the municipal and commune level, especially in Poland, the Czech Republic, Slovenia, and Slovakia.

Today, social policy implementation depends on working partnerships with civil society and citizens' groups, which also receive EU support. Only a handful of larger NGOs with international backing are able to provide social services on their own, but many organizations participate in planning, personnel training, and various promotional activities that help connect government with the people.

DIVERGENCE AND DIVISION

These developments are further evidence that convergence in the latest social policy initiatives within the region and Europe as a whole continues to coexist with lasting patterns of divergence,

most visible in the imprint of historical legacies and the pace of change. Several populist and nationalist governments in the East favor a restructured welfare state with traditional benefits, such as state pensions, and improved programs for the younger generation. However, the nationalist politicians who gained power in Budapest and Warsaw have shifted the emphasis of the latter, often in coordination with like-minded lobbies at the EU level, from gender equality to family assistance, especially for large families with children.

In line with another divergent trend, only a few countries feel compelled to accelerate reforms, innovate, and introduce costly new programs and services, some of which may be recommended by the EU. Most instead concentrate on reversing older reforms such as pension age increases. The Hungarian, Czech, Slovak, and Slovenian governments inherited well-developed family policy programs, combining parental benefits and child services, in place since the 1980s and 1990s. Defending the conservative status quo has been their top priority.

The Law and Justice party's government in Poland recently introduced a generous new family assistance program, the so-called 500+ child upbringing allowance. It provides 500 zlotys (120 euros) per month for the second and each subsequent child, or starting with the first child in families below a certain income threshold. The ruling party has turned this benefit into a potent symbol of its social agenda and the ultimate fulfillment of its 2015 campaign promises. To its credit, in the first year since its 2016 implementation, the poverty rate among children declined by approximately 20 percent—although inequality continues to grow, since the bulk of beneficiaries still consists of middle-class families with steady jobs. In total, almost 2.5 million families now receive this benefit at a cost equivalent to 1 percent of GDP.

Prime Minister Viktor Orbán of Hungary can draw much more heavily on preexisting welfare institutions to expand his government's popular appeal, while selectively adopting different kinds of EU-provided assistance to modernize social policy at the local level, especially in the area of social inclusion of the Roma minority. The appeal of the ruling Fidesz party depends to a large extent on the cultivation, rather than expansion, of an established middle-class support base that continues to rely on a stable social safety net. Since Hungarian society is aging rapidly, younger people are more

likely to suffer economic insecurity, largely due to the lack of concern for their needs.

As a recent conflict over a pro-business law allowing excessive overtime with no additional compensation shows, the government ignores the plight of younger generations with little fear of political backlash. In March 2010, I attended three electoral rallies in Budapest held by competing parties on the national holiday. Only the Fidesz rally that featured Orbán drew a predominantly middle-aged crowd of families with children.

Orbán's latest population policy measures, announced in mid-February 2019, seem to be an attempt to expand domestic support for the inward-looking, nationalist, and anti-immigrant agenda of Fidesz. However, an income-tax exemption for mothers of four or more children fits into the traditional pattern of catering to the middle-class base, which is well represented by organizations focused on the interests of large families. The additional promise of 21,000 new child-care facilities targets a different group of young working families. But the shortage of such establishments is most apparent in the countryside, so the most likely beneficiaries will probably be conservative Fidesz voters. Other parts of the program such as new housing subsidies and car payment relief, if implemented with sufficient funding, could be more significant for the younger generation. All this ultimately depends on the continuing expansion of the economy, which is endangered by the country's demographic crisis.

In other countries, such as Poland, Romania, Bulgaria, and Slovakia, the middle class has been much more sharply divided between liberals and

nationalists. Opposition parties can compete more seriously, if not always successfully, with the ruling nationalists, often using similar social policy appeals to middle-class families with children and stable employment.

News headlines that focus on rising nationalism and threats to liberal democracy in Central and Eastern Europe often obscure a more complex reality of rapidly transforming societies that in many ways enjoy historically unprecedented levels of prosperity and opportunity for social advancement. The main contributing factors have been a radical transformation of the labor market, increased mobility of young people, many of whom are now much better trained and educated, and a transformed and modernized social safety net. However, as is also true in many Western societies today, such as Britain, Germany, parts of Scandinavia, and the United States, improved economies, near-full employment, and higher wages coexist with growing inequality and cultural anxiety, especially concerning migration from other continents.

Now that their economies are growing faster and their societies are beginning to resemble the rest of developed Europe, Central and Eastern Europeans have a lot to gain, at least as long as EU funding continues for a couple of years. They also have the most to lose if the world economy slows down and European policies become less generous. The current populist governments are well aware of this. In the absence of yet another global crisis or a radical change in EU policies and institutions, they are likely to continue to exploit the political potential of this new golden age of socioeconomic opportunity for as long as they can. ■