

# **Evolution of unemployment compensation in Central and Eastern Europe – balancing rights and activation of unemployed**

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(work in progress, comments welcome)

## **Introduction**

Central and Eastern European countries have been undergoing profound changes in their economic, political and social spheres. At the first glance, these are the countries sharing common history, located in geographically small region. Moreover, they are facing common challenges stemming from the efforts of internationalization, democratization and introduction of some form of market economy. One of the most important effects of the economic transformation has been the occurrence of official unemployment. The reaction of governments was the introduction of some measures counteracting deprivation of unemployed individuals.

The aim of this paper is to explore the unemployment compensation policies in the eight countries which joined the EU in 2004 since the beginning of transition with a special focus on the role of obligations and rights which are attached to unemployment compensation.

This paper applies innovative comparative method, the fuzzy set ideal types analysis which enables research to be sensitive to studying diversity.

Since *The Three Worlds of Welfare Capitalism* (Esping-Andersen 1990) the debate on the nature of social policy programs has been emphasizing their diversity, reflecting differences underlying worlds of welfare capitalism. While the studies comparing Western welfare states from the regime (diversity) perspective have been looming, the region of Central Europe was under-analysed in this respect. There might be some reasons for this. First, the welfare states of the region since the collapse of socialism have been seen as a monolith-due to regional closeness and similar historical developments. Second, social policy programs of CEE countries have been subject to many changes-this lack of discontinuity posed an analytical question whether it is possible at all to distinguish between different policy models. This situation was especially visible in the second half of the 1990s (Poole 2000). Finally, and combining the two previous points, the regime approach has been difficult to apply in CEE. Assuming continuous development of capitalist economies, accompanied by the expansion of social rights, the approach seems hardly applicable in the case where these processes were disrupted (and replaced for almost 50 years with socialist logic of welfare states) and then recalled again, but in a different economic situation and ideological climate.

The issue of unemployment compensation seems very interesting in this context. As the official unemployment (and therefore any policies directly coping with it) were not existing in the socialist era, the departure from the planned economy has brought about the unemployment. This, in turn, created the necessity of designing some form of protection against this risk virtually from the scratch. Such a situation of 'a virtual laboratory of experimentation' (Esping-Andersen 1996:267, as quoted by Poole 2000:187) gives the unique opportunity for a comparative social policy analysis.

Besides the interest in the features of unemployment compensation policies, there is a question of a link to more general trends which have been characterizing Western welfare states. Among others these are growing emphasis on individual responsibility and a withdrawal of a direct involvement of the state from social policy provision (Esping-Andersen 1996; Pierson 2001; Gilbert 2002; Jessop 2002). This logic seems also to apply to the unemployment compensation programmes. More precisely, some authors identify the growing importance of requirement of work as the condition for receiving unemployment compensation, either in form of extending qualifying period or *activation* (obligations) when receiving benefit or both (Clasen, Kvist et al. 2001; Clasen and Clegg 2006). In this context it is interesting to see how these trends have been present in the newly emerging economies.

The paper will approach this issue in following steps. First, it will identify relevant aspects of unemployment compensation policy. Second it will introduce the fuzzy set ideal types method. Third, the calibration of sets will take place. Next the analysis of empirical results from different perspectives will be presented. The paper concludes with some theoretical remarks.

### **Unemployment compensation in a comparative perspective-concepts and dimensions**

There is a variety of unemployment compensation dimensions that can be used for the purpose of a comparative analysis. Therefore, the selection of the relevant ones should be driven by theoretical and conceptual premises. First, since the 1990 work of Esping-Andersen, it has been widely acknowledged that welfare states can be located in qualitatively different regime clusters. While the application of the regime theory outside the Western world might be contested, the point remains: social policies may be based on different institutional logics and principles. Therefore, a comparative framework should be able to go beyond linear distribution of policies and be sensitive to their qualitatively different types.

Next, the selection of dimensions should create a basis for some clustering. While constructing a typology should not be the aim itself (Arts and Gelissen 2002) it could, however, lead to better understanding of unemployment compensation programmes' characteristics in the countries of Central and Eastern Europe. Finally, the selection of dimensions should allow for inferring about the change in character of the programmes.

This study focuses on four following dimensions: accessibility, generosity, duration of receiving benefits and obligations of claimants. These are widely accepted and used for purposes of comparative analysis of the unemployment compensations and cover conceptually important principles underlying benefits. Accordingly, the accessibility focuses on the rules of entry to the system: who is qualified and on what conditions; generosity reflects the relation between level of a benefit and earnings; duration deals with the length of period for which it is paid and finally, while obligations grasp the conditionality of receiving a benefit after it is granted.

Generally, the first three dimensions can be seen as the emanation of rights of unemployed persons, while the last one as the activation element of this policy. It is worth mentioning that the discussion concerning the unemployment benefits as a component of the labour market policy in CEE has been revolving around exactly these issues (cf. Centre for Co-operation with Economies in Transition. and Organisation for Economic Co-operation and

Development. 1993). More precise characteristics of the dimensions will be presented in the part concerning the calibration of sets.

### **Fuzzy- set ideal type analysis**

As stressed by Mary Daly (2000), a fruitful research on welfare state policies should be sensitive to the variation among cases and driven by clear conceptual and theoretical guidelines. Typically, it would require a case-oriented approach, emphasizing the analytical complexity of unemployment compensation policy. However, meeting this requirement usually means reducing the number of cases at hand as there is a trade-off between intensity and extensiveness. For the purpose of this paper an innovative comparative approach for studying unemployment compensation in eight countries is proposed. Based on the fuzzy-set theory it allows for a comparison of bigger number of cases without losing an emphasis on the complexity. As shown by Jon Kivist (1999; 2003), this type of comparative analysis can be successfully used for studying diversity and change of social policy. In the following, the description of the approach will take place.

The fuzzy-set theory has been introduced to social sciences by Charles C. Ragin. The fuzzy sets approach overcomes the problem of Qualitative Comparative Analysis (QCA) (Ragin 1987): instead of dealing with cases in categories of crisp sets (present, not present), it introduces fuzzy sets. With the latter analytical possibilities are significantly widened: cases may be analysed not only with respect to their presence/absence in the set, but also with regard to the degree of their membership in a given set (Ragin 2000).

The basic assumption of this approach is that empirical phenomena have a complex character. In order to catch this complexity it is reasonable to point out their constituting aspects and to think about them as configurations (ibid.). In effect, every case is viewed as belonging to pre-defined aspects (and varying in the respect to this membership). The configurational character of this approach stems from the presumption that theoretical constructs can rarely be described by one aspect (characteristic), and only multidimensional treatment of cases can provide their sufficient reflection in a process of research. Thus, it puts emphasis on the importance of interplay of ideas (theory) and evidence.

The centrality of theoretical and substantive knowledge results in precise definition of aspects (sets), but also reduction of a set's variation (as from a theoretical point of view not every variation is meaningful). This leads to another point: fuzzy sets should not be seen as conventional variables: they are neither binary variables, nor any other type, as they comprise qualitative anchors, which affect the membership assessment. Therefore, fuzzy sets are

simultaneously qualitative and quantitative, as they include the qualitative boundaries and quantitative variation within them (usually fuzzy set ranges from 0 to 1 and these values constitute qualitative boundaries).

The importance of the fuzzy set theory in the context of this paper is at least twofold. First, the innovative character of this type of analysis stems from the fact it allows for assessing both, the qualitative (in kind) but also quantitative (with regard to the degree) membership in a given set. In other words, the approach is able to catch qualitative (difference in kind) and quantitative (difference in degree) character of analysed phenomena simultaneously, which in turn might be a first step towards creating typologies (ibid). Second, the just mentioned properties of the fuzzy sets approach can be successfully used for assessing conformity of cases to ideal types. If one treats boundaries of combinations of sets (so-called crisply defined property-space locations) as the ideal types, the operations on sets can be used for establishing a relation between cases and theoretically constructed ideal types. These two aspects, combined with methodological and conceptual transparency, create the background for comparative analysis, satisfying requirements of both, the measurement validity (Adcock and Collier 2001) and precise location of cases in conceptual space defined by the researcher.

There are some rules which govern the fuzzy sets and their interpretation. Generally, they are similar to the Boolean logic; however the specific features of the fuzzy sets approach mark the difference. The most basic operations on sets are: *negation*, logical *and*, and logical *or*. Only the first two will be used here, and they are described below.

As far as the negation is concerned, the point is that the fuzzy membership of a case in set not-A is equal to 1- set A (or in more formal form:  $a_n=1- A_n$ ; where small a stands for the negation of the set A, A for the set and n is the *n*th case) (Ragin 2000: 172). The negation this way shows that thinking in bipolar categories strongly constrains the analysis. At the same time, the negation is a very useful tool, as it allows for conclusion that, for example, if some welfare state membership in set of generosity is 0.6, than this case scores 0.4 in the set of non-generosity (cf. Kvist 1999).

Logical *and* is used when two or more sets are intersected. The minimum rule governs this intersection in the case of fuzzy sets. It means that the membership value of such sets is equal to the lowest score achieved by any of them. Thus, if one has sets A·B (the sign · stands for *and*), and the case scores 0.6 and 0.8 respectively, the membership of this case in sets A·B is 0.6 (Ragin 2000: 173).

These operations on fuzzy sets allow for proper and fast assessment of the cases' membership assessment in a complex combination of sets. This is done by the evaluation of a

membership degree in the crisply defined property-space locations that is logically possible combinations of full membership and non-membership in the sets which create the property space. Logically, the number of crisply defined property-space locations equals to  $2^k$  where  $k$  stands for a number of dimensions. The idea of comparison is to contrast empirical evidence with each combination representing an ideal type and find the instance with the highest membership. It should be noted, however, that especially in social science, one may encounter the so called limited diversity (Ragin 1987, 2000). It is probable that ideal types may not find their empirical counterparts because there can be contradictory or impossible configurations of the aspects constituting social phenomena. In the following section, the calibration of sets constituting the unemployment compensation policy will take place. This, in turn, will allow for the configurational analysis.

### **Calibration**

For the purpose of the comparison, four dimensions of labour market policy are taken into account. The aspects of unemployment compensation policy are: accessibility and generosity of unemployment compensation, its duration and obligations concerning the claimants. It should be noted that this selection does not leave aside important conceptual trade-offs. Such issues as functional equivalence and existence of programs which follow the basic unemployment compensation are the subject of necessary simplification. However, this paper aims more at describing (changing) patterns, reflecting the policy choices of states, rather than detailed content of each single policy. For this purpose, the selected dimensions seem most appropriate. As they will be transformed into sets and then analysed configurationally, their analytical relevance is described below.

#### *Accessibility*

The first dimension taken into account is the accessibility of the unemployment compensation. The analysis of the accessibility to benefits should reflect at least the two interlinked problems: the accessibility to a benefit and the stratification dimension. The first issue refers to the conditions, under which the benefit is granted to the eligible individuals. The second concerns the principles which govern the eligibility criteria or in other words: who is eligible, who is excluded and on what basis.

Generally, this concept revolves around the participation in a formal labour market, but sometimes the meaning of activity treated as a basis for entitlement may go beyond it. Before going to the calibration part, few remarks should be made, however. The

unemployment compensation is not the only one, which applies to the category of those not employed. Accordingly, the unemployment benefits will never cover all members of this group, as they already may be clients of social assistance for instance, disability scheme or early retirement (Clasen, Kvist et al. 2001). Furthermore, it cannot be fully accessible for every person in every condition, as it would become a guaranteed wage (cf. Kvist 2000). Nevertheless, the idea of unemployment benefit as a remedy for loss of income, seems fully recognized, to different extent, however (Esping-Andersen 1990; 1999; Goodin 1999; Kvist 2000; Clasen and van-Oorshot 2002). Therefore, the conditions defining unemployed person and the principles of access to the benefit may vary across time and space.

In order to cope with this analytical difficulty this paper proposes to focus on the entrance principles reflecting both the scope of eligibility (who/which group is eligible) and the extent of work/other activity requirement in order to qualify. The accessibility of the benefits will be analysed on the basis of the requirements necessary to fulfil in order to get the benefits. The qualitative anchors are based on the consideration of different work requirements. In order to allow for more variation, this will be accompanied by an additional element: the analysis of which groups beside formal labour market participants are eligible (care-givers, school leavers, etc.). In bold terms, the stricter conditions and narrower scope, the smaller accessibility. This approach refers somehow to the differentiation whether a benefit is universal, selective or residual<sup>1</sup> (Clasen and van-Oorshot 2002).

The accessibility is operationalised through the ratio of time necessary to qualify to the period of reference (Clasen, Kvist et al. 2001). The inclusion of groups other than workers will move the score towards higher level of accessibility. Thus, the more groups are eligible for the unemployment benefit and the condition of previous work is loosened, the more accessible the unemployment compensation. The cross-over point is established for the ratio 0.5 (for example 6 months of work within 12 months or 2 years within 4 years of reference period). The higher qualitative point refers to the situation where there ratio equals to 0.25. The lower qualitative point is established when the ratio equals 1. The scores are modified, when other activities than work are sufficient to qualify (when military service, child care and attending school are taken into account). Table 1 shows approximate distribution of the categories.

### *Generosity*

Second dimension against which the unemployment benefits are compared is their generosity. This will be done by the analysis of replacement rates of the benefit as this

measure is widely used in the international comparisons. This aspect reveals to what extent the benefit replaces the income lost due to the unemployment. Simplifying, if the level of benefit is high it means that the function of it is to sustain the standard of living, if low - it aims at guaranteeing the fulfilment of the most basic needs. Therefore, a high level of benefit may protect against stigmatisation, related to the loss of position. From the perspective of job-searching, the high level may give more opportunities, while the low level of a benefit may lead to the accumulation of difficulties (Gallie and Paugam 2000).

This study analyses nominal replacement rates. Next issue refers to the moment in which comparison is done: the replacement rate of the benefit may change in the period of entitlement. In order to account for this problem, the replacement rate used here consist all levels in the period of entitlement and gives them proportional weights concerning their relative durations. Finally, the analysis takes into account the existence of floors and ceilings, increasing and lowering, respectively, the actual level of benefits.

The calibration of the set is done as follows. The lower cut-off point (*fully out*) is set at the level of 30 percent. It has been argued that the level of salaries in the region is generally low as, for example in the case of Poland the relation between the survival minimum (based on the basket of minimum needs) and the average salary is approx. 25% and the relation with socially desirable needs-the social minimum-is around 50% (Kurowski 2002). For others countries of the region, these ratios vary, however, the relation is rather robust (ILO 1995; Vaughan-Whitehead 1995; Cerami 2003). Therefore, this qualitative anchor takes a middle ground. When it comes to two other qualitative anchors, the cross-over (neither in, nor out) point is established at 45% of the average income, while the higher cut-off point (*fully in*) is set at 60% of the average wage.

### *Duration*

The duration of entitlement is the third dimension used for the purpose of the unemployment compensation comparison. This feature of the unemployment compensation policy refers to the period for which an individual can withdraw the benefit. It should be noted, that the duration is closely connected to the accessibility: fulfilling certain conditions may be decisive for the duration of withdrawal. On the other hand, compliance to obligations can influence it as well. Nonetheless, analytically this aspect of unemployment compensation is crucial as it looks on the other side of the protection against deterioration of financial situation: not only to what extent, but also for how long one has a guaranteed replacement of



income. As mentioned above, this issue may have profound consequences for both the stigmatisation and widening job search opportunities (cf. Gallie and Paugam 2000).

The calibration of the set is done as follows. The cross-over point is set for the period of 9 months. This level refers approximately to the duration of benefit in the OECD countries pursuing the modest policy in this respect. The lower cut-off point, for 3 months while the higher qualitative anchor for period of 18 months. Comparatively, the previous value is typical for residual policy types, while the latter for those more comprehensive in the OECD (Riboud, Sánchez-Páramo et al. 2002). Table 1 presents in more details the way the duration dimension is translated into fuzzy set value ranges.

### *Obligations*

The final aspect of unemployment compensation analysis is the obligations of benefits claimants. This element, seen as the ‘activating’ pillar of the labour market policy, has been hotly debated in recent years (Centre for Co-operation with Economies in Transition. 1996; Esping-Andersen, Regini et al. 2000; Gallie and Paugam 2000; Clasen and Clegg 2006). The phenomenon of activation is multifaceted: while considered as the element of accommodation of policies to changing context in labour markets, it may also be seen as the element of a ideological shift regarding the role of public authorities (Gilbert 2002).

Generally, the activation refers to the more active role of both authorities (provision of training, counselling and so on) and unemployed persons (participation in such programs). This paper looks at the sanctions which accompany the obligations concerning participation in activation measures as indicated in formal rules. Certainly, this measure is a proxy, as the bureaucratic discretion, regional and occupation differences in treatment of unemployed are not taken into account, nevertheless it reflects to some extent the attitude of authorities with respect to the issue of obligations (for a discussion see: Kvist 2000; Clasen, Kvist et al. 2001). This point seems especially important given the argument of Gallie and Paugam: in times of high unemployment the activation may be a way of ‘keeping the unemployed occupied rather than providing any serious career perspectives’ (2000: 5).

This paper follows the analysis of Jon Kvist (2000) and studies the severity of sanctions stated in formal rules governing suspension of a benefit in case of a job offer and/or training refusal. Given the poor quality of available data, the scope is narrower here: we analyse the number of refusals leading to the suspension of benefits and the period, after which the benefit may be eventually granted again. The severity of benefit suspension is based on the number of refusals leading to it. This is accompanied by the possibility of

renewal of benefit eligibility. For example, the sanctions are more acute in the case of one refusal than one refusal with the renewal etc.

Combining these two dimensions (the number of refusals acceptable and the possibility of re-granting the right to benefit) we decided to establish the three qualitative anchors at the following levels. The lower cut-off point (no obligation, fully-out) represents the situation, when receivers of the benefit are not punished at all for refusing a job offer. Consequently, the upper cut-off point (fully-in) is reached by countries where any job refusal leads to automatic suspension of the benefit without the right to re-apply for it. As decided after analysing different combinations of policies also in the Western Europe (Esping-Andersen, Regini et al. 2000), the cross-over point characterizes relatively moderate version of sanctions – with suspension of the benefit without the perspective for re-gaining it, however, after two refusals of job offers. The scores between these three critical points will be evaluated according to the further sanctioning power of the arrangements. Thus, for instance, less strict (than cross-over level) versions of policies – with more rejections of a job offers needed for withdrawing the right to benefit, or shorter brakes in receiving the benefit, are the basis for intermediary points. The same applies for the more stricter arrangements. Where appropriate, the sanctioning power of the given solution is softened in the (very rare) cases of the benefit reduction, instead of their total suspension. Table 1 summarises this section and gives a starting point for the empirical analysis.

**Table 1: Specification of indicators and translation of data to fuzzy-score ranges and verbal qualifiers**

<b>Empirical indicator</b>	<b>Fully out</b> <b>0</b>	<b>Mostly but not full out</b> <b>0.01-.24</b>	<b>.More or less fully out</b> <b>0.25-0.49</b>	<b>Neither in nor out</b> <b>0.5</b>	<b>More or less in</b> <b>0.51-0.75</b>	<b>Mostly but not fully in</b> <b>0.76-0.99</b>	<b>Fully in</b> <b>1</b>
<i>Accessibility</i> of the unemployment compensation based on work requirements (ratio of work requirement to period of reference) and scope of eligibility	1 (Res)	.99-.75	.74-.51	.5 (Sel)	.49-.38	.37-.26	<.25 (Univ)
<i>Generosity</i> measured as the replacement rate	<30	30.1-37.4	37.5-44.9	45%	45.1-52.4	52.4-59.9	>60%
<i>Duration</i> of the unemployment compensation in weeks	< 12	13-25	26-37	38	39-59	60-77	>78
<i>Obligations</i> of the unemployed measured by the number of negative sanctions plus possibility of re-establishment of the benefit	No obligations			2 refusals, no possibility			After 1st refusal

## Empirical analysis

This section starts with the description of the data, next it presents dimension by dimension comparison and concludes with a configurational analysis.

### *Data*

This paper utilizes a variety of data sources. The study covers the period 1989-2004, which poses serious problems as far as the information concerning social policy changes is concerned. It uses the US Social Security Administration's *Social Security Programs Throughout the World* publications from years 1989, 1991, 1993, 1995, 1997, 1999, 2002 and 2004, published in co-operation with the International Social Security Association. Certainly, the data coming from the SSA have limitations: even though it covers the whole period, one may encounter the vague information included there (Clegg and Clasen 2003). However, this is the only source, which contains the information concerning chosen eight countries for such a long period. Unfortunately, the data from this source is very inconsistent and it has to be checked in other sources coming from the OECD and World Bank publications. Whenever possible, the data are supported by the information coming from other sources, such as MISSCEEC (Mutual Information System on Social Protection in the Central and Eastern European Countries), MISSOC (Mutual Information System on Social Protection in the Member States of the European Union) and MISSCEO (Mutual Information System on Social Protection of the Council of Europe). For a full overview see Appendix.

### *Accessibility*

Table 2 presents the values of fuzzy scores for the accessibility dimension of the unemployment compensation policy.

**Table 2: Fuzzy membership scores in accessibility of the unemployment compensation**

Country/Year	1989	1991	1993	1995	1997	1999	2002	2004
<b>Czech Rep.</b>	NS*	0.77	0.94	0.8	0.8	0.8	0.8	0.8
<b>Estonia</b>	NS	1	0.6	0.6	0.6	0.85	0.85	0.85
<b>Hungary</b>	0.67	0.75	0.75	0.77	0.75	0.75	0.86	0.75
<b>Latvia</b>	NS	1	0.1	0.1	0.1	0.1	0.25	0.25
<b>Lithuania</b>	NS	1	0.34	0.34	0.6	0.6	0.6	0.6
<b>Poland</b>	NS	1	0.6	0.1	0.1	0.1	0.1	0.1
<b>Slovakia</b>	NS	0.77	0.94	0.67	0.67	0.67	0.67	0.25
<b>Slovenia</b>	0.1	0.33	0.33	0.33	0.33	0.33	0.33	0.33

\*No scheme existing

Source: See Appendix

One of the most important features of development of unemployment compensation systems in the post-communist countries is their open and generous character at the point when they were newly introduced. Therefore, four out of eight countries (Baltic countries – still belonging to the USSR, plus Poland) reached full set-membership in 1991, while 3 others (Czech Republic and Slovakia, still as a united country plus Hungary), approach it. This high level of accessibility was sustained in most of the countries. In the Czech Republic the high score from 1994 is the result of extending the basic period for calculating the days with paid insurance from 12 months to 3 years. Though the criteria were reversed after 1994, the high score since 1995 reflects the inclusion of new groups, comprising, among others, parents taking care of children under 4. Higher levels of accessibility were also introduced in Estonia and Lithuania at the end of the 1990s. In Estonia parents taking care of children under 7 became eligible for unemployment benefit, in Lithuania, on the other hand, the reformers decided to include new groups, and to introduce special schemes for dismissed due to the employer's fault. Furthermore, relatively high score on Hungary reflects the long, 4-year basic period for calculating contributions (360 days). Temporary decrease in the obligatory length of contribution to 200 days made the score from 2002 even higher, still, the changes were withdrawn after that short period. In Slovakia, interestingly, the level of accessibility was inherited from solutions present in Czechoslovakia, however, new groups were not added, as in the Czech Republic. Moreover, the last two lower scores are the consequence of change in the qualifying criteria – from 12 months of employment in the last 3 years to 24 months in 3 years (2002) and 3 years in 4 years (2004), respectively.

Finally, there is a group of countries with relatively and constantly strict eligibility criteria. Therefore, Poland and Latvia introduced the principle of means-testing already at the beginning of the 1990s. In Poland that was a dramatic change in comparison to fully available unemployment benefits according to the first law on employment from 1989. In Latvia, the higher score from last two years is the result of introducing earning-related schemes (though with very strict criteria – 9 months of contribution paid in last 12 months). In Slovenia, finally, the requirement of 12 months of employment during last 18 months has not been reformed since early 1990s.

### *Generosity*

Table 3 gathers the fuzzy scores for generosity of the unemployment compensation.

**Table 3: Fuzzy membership scores in generosity of the unemployment compensation**

Country/Year	1989	1991	1993	1995	1997	1999	2002	2004
<b>Czech Rep.</b>	NS	1	0.83	0.83	0.83	0.5	0.5	0.5
<b>Estonia</b>	NS	0.67	0.67	0	0	0	0.5	0.5
<b>Hungary</b>	0.91	1	1	1	1	1	1	1
<b>Latvia</b>	NS	0.67	0	0	0.67	0.67	0.67	0.67
<b>Lithuania</b>	NS	0.67	0.97	0.97	0.07	0.07	0	0
<b>Poland</b>	NS	0.73	0.2	0.2	0.07	0	0	0
<b>Slovakia</b>	NS	1	0.83	0.83	0.83	0.83	0.5	0.67
<b>Slovenia</b>	0.67	0.67	0.67	0.67	0.67	0.67	1	1

*Source:* see Appendix

As far as the generosity dimension is concerned, it varied quite significantly across cases and over time. We may observe some patterns, however. Some countries guaranteed generous benefits in the beginning of the analysed period, to reduce them later (and in some cases, to rise their level again). Others started with modest provision to increase it with time.

To start with the most generous country, Hungary, except for 1989, it maintained very generous unemployment compensation over the analysed period. Even though there were some reforms introduced, the level of provision was exceptionally high for this group of countries. Hungary contrasts starkly with the case of Poland, which provided quite high levels of benefits only in the beginning, subsequently reducing them to a significant extent. In the latter country the flat-rate benefit was introduced already at the beginning of the 1990s and established at the level of 36% of the average wage. In the second half of the 1990s, however, the benefit was paid in a fix amount, which further decreased its generosity.

When it comes to the Czech and Slovak Republics, they pursued rather similar policies in terms of their generosity. Both countries started with the high level of provision, reducing it in steps. The most important change in the Slovak system was the introduction of a replacement rate decreasing with time (50% for the first and 40% for the second phase). These actions took place faster and to a greater extent in the Czech Republic - the change in Slovakia reflected by the scores was reversed in 2004.

The Baltic countries diverged significantly in terms of generosity of the unemployment compensation policies. Estonia started from a quite high level, than reduced the generosity dramatically, to restore a modest level from 2002. In the mid-1990s this country had the lowest replacement rate in the region (about 7% in 1997). Higher scores from 2002 and 2004 are the result of introducing earnings-related system. In Latvia this swing occurred faster and for a shorter time and eventually, higher level of benefits was restored. Initially, the level of benefit in Latvia depended on the minimum wage (90%), but in the mid-

1990s earnings-related system was enacted, which set the replacement rates on two levels decreasing with time (80% and 60%,). This system was also reformed recently with decreasing the rates to 75% and 50% respectively. Lithuania took a different path: the level of benefits was subsequently rising to reach high generosity and then from the second half 1990s on it dropped significantly. In other words, as at the beginning of the 1990s this country had an earnings-related system with three phases of payments (70%, 60% and 50%), afterwards it introduced more complicated system and a ceiling that significantly lowered generosity.

Slovenia demonstrates interesting pattern. The level of benefits was rather high from the beginning and then it grew even higher. The increase in the scores for the last two years are the result of higher replacement rate, as the average of the numbers from two phases of the payment - 70% and 60%, respectively. Previously, the replacement rate equalled to 50% for the whole period.

In terms of fuzzy scores, the countries differ significantly. While initially the scores were high (*mostly, but not fully in to fully in*), it took three distinct paths: in some countries they were sustained, in others slowly decreased, and finally in some the sudden drop took place.

#### *Duration*

Table 4 presents the data concerning the dimension of duration.

**Table 4: Fuzzy membership scores in duration of the unemployment compensation**

Country/Year	1989	1991	1993	1995	1997	1999	2002	2004
<b>Czech Rep.</b>	NS	0.67	0.27	0.27	0.27	0.27	0.27	0.27
<b>Estonia</b>	NS	0.27	0.27	0.27	0.27	0.27	0.27	0.27
<b>Hungary</b>	0.67	1	0.67	0.67	0.67	0.67	0.5	0.5
<b>Latvia</b>	NS	0.27	0.27	0.27	0.5	0.5	0.5	0.5
<b>Lithuania</b>	NS	0.27	0.27	0.27	0.27	0.27	0.27	0.27
<b>Poland</b>	NS	1	0.67	0.67	0.67	0.67	0.67	0.67
<b>Slovakia</b>	NS	0.67	0.27	0.27	0.46	0.27	0.27	0.27
<b>Slovenia</b>	0.67	0.67	0.27	0.27	0.27	0.27	0.27	0.27

*Source:* See Appendix

The duration of the unemployment compensation varies both across the countries and time. Generally we may distinguish two groups of countries. In the first group the duration of unemployment compensation was high from the very beginning of existence of the system and then it was reduced with time. This group comprises the Czech Republic, Hungary,

Poland, Slovakia and Slovenia. In the second group, consisting of the Baltic Republics, the duration had been modest from the introduction of the scheme.

As for the countries from the first group, those with the longest period of receiving the benefits were Hungary and Poland. In Hungary the scheme started with 12 months of duration, while with the 1990 reform it was doubled. In 1993 one year entitlement was re-introduced, to be replaced by 9 months in 2002-2004. Polish unemployment compensation was characterized by long duration of the benefits. In 1991 the benefit was granted for an unlimited period, while from 1993 on (the late 1991 reform), this parameter had been reduced to one year. Nevertheless, it should be noted the Polish unemployed, especially in the second half of the 1990s., had the longest benefit entitlement in the analysed region.

The Czech and Slovak republics followed quite similar path. In 1991 (in Czechoslovakia at that time), the benefit was paid for one year and then this was reduced by half. The only exemption took place in Slovakia in 1997, where more generous provision was enacted. Slovenia also falls closely to this pattern.

Finally, the policy in the Baltic republics was characterized by short duration (6 months) of the benefits from the very beginning. The only outlier was Latvia, which extended this period to 9 months in 1997-2002.

To conclude, only two countries (Poland and Hungary with some exemptions) were characterized by long duration of benefits (*mostly, but not fully in*) over whole analysed period, while other countries were *mostly, but not fully out* of the set of generosity.

### *Obligations*

Table 5 presents information on the obligations of the unemployed in the unemployment compensation systems in these 8 countries.

**Table 5: Fuzzy membership scores in obligation dimension of the unemployment compensation**

Country/Year	1989	1991	1993	1995	1997	1999	2002	2004
<b>Czech Rep.</b>	NS	0.7	0.7	0.7	0.7	0.7	0.7	0.7
<b>Estonia</b>	NS	NA	0.3	0.3	0.3	0.3	0.25	0.25
<b>Hungary</b>	0.6	0.6	0.6	0.6	0.8	0.8	0.8	0.8
<b>Latvia</b>	NS	NA	NA	NA	NA	NA	0.3	0.3
<b>Lithuania</b>	NS	NA	0.3	0.3	0.6	0.6	0.6	0.6
<b>Poland</b>	NS	0.65	0.5	0.25	0.3	0.3	0.3	0.3
<b>Slovakia</b>	NS	0.7	0.7	0.3	0.3	0.3	0.3	0.3
<b>Slovenia</b>	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6

Source: See Appendix

Searching for the information concerning the obligations of the beneficiaries was the most difficult part of the research, though we deal with these problems already calibrating the set. At this point it was impossible to find more detailed information for Latvia for most of the years and for Estonia and Lithuania for 1991. Here, in contrast to three other dimensions of comparison, full set-membership reflects the obligation side of the social programme, not the rights attached to it. Again, a great variety of outcomes can be observed – but mostly among countries, while the trends within most of the countries are more stable. In four countries, most generally, one job refusal results in cancelling the right to benefit (though on different conditions). No significant change could be observed in the Czech Republic – here after the first refusal of a job offer the benefit is withdrawn, but with the possibility of reapplying for it after 3 months. In Slovenia, similarly, rejecting one job offer disqualifies from the right to benefit (though giving some ‘justifiable’ reasons is allowed). Hungary is another country with quite strict obligations – as rejecting the possibility of retraining, for instance, was included into the list of reasons for suspension of the payments, the score rose from the late 1990s. In Lithuania, finally, the rules were restricted after amending the main law on employment in 1996. Previously, not accepting several job offers resulted in the reduction of the benefit.

The second group comprises countries with moderate obligation attached to unemployment benefit. In most of these cases, however, the rules were softened in the mid-1990s. In Poland these changes were very dynamic – in 1992 the possibility of rejecting two (instead of one) job offers was introduced. This solution survived until 1994, when the law started to allow for three rejections – for a short period, though. Since then, not accepting two offers is possible, with the possibility of reapplying for the benefit after 6 months. In Slovakia the sanctions concerning cooperation with the employment office were formulated less strictly than in the Czech Republic. Therefore, the job offer can be rejected several times due to the wide range of ‘justifiable’ reasons, and the obligations are more about contacting the employment office more frequently. In Estonia, in the end, the applicant can refuse two job offers, but the right to the benefit can be re-established. At the end of the 1990s the necessity to accept the community work was excluded from the list of the job offers.

#### *Unemployment compensation in CEEC – emerging patterns?*

Analysing changes with regard to particular dimensions of comparison is helpful for grasping the practical side of reforms. However, the main goal of this paper is the configurational analysis. For this purpose the four dimensions of the unemployment compensation policy are taken into account. This gives 16 possible combinations. A



membership of each combination of sets is assessed and the highest value is chosen.<sup>ii</sup> The table below (Table 6) presents only the highest scores of the unemployment compensation policy dimensions for each country in selected years. Beneath we summarize our findings concerning unemployment compensation policy. As far as the highest scores are concerned, the policies conformed to twelve ideal types.

**Table 6: : Fuzzy membership scores of unemployment compensation policy in ideal types**

Country/Year	1989	1991	1993	1995	1997	1999	2002	2004
<b>Czech Rep.</b>	NS	A·G·D·O <b>0.67</b>	A·G·d·O <b>0.7</b>	A·G·d·O <b>0.7</b>	A·G·d·O <b>0.7</b>	A·g·d·O/ A·G·d·O	A·g·d·O/ A·G·d·O	A·g·d·O/ A·G·d·O
<b>Estonia</b>	NS	A·G·d <b>0.67</b>	A·G·d·o <b>0.6</b>	A·g·d·o <b>0.6</b>	A·g·d·o <b>0.6</b>	A·g·d·o <b>0.7</b>	A·G·d·o/ A·g·d·o	A·G·d·o/ A·g·d·o
<b>Hungary</b>	A·G·D·O <b>0.6</b>	A·G·D·O <b>0.6</b>	A·G·D·O <b>0.6</b>	A·G·D·O <b>0.6</b>	A·G·D·O <b>0.67</b>	A·G·D·O <b>0.67</b>	A·G·D·O/ A·G·d·O	A·G·D·O/ A·G·d·O
<b>Latvia</b>	NS	A·G·d <b>0.67</b>	a·g·d <b>0.73</b>	a·g·d <b>0.73</b>	a·G·d/ a·G·D	a·G·d/ a·G·D	a·G·d·o/ a·G·D·o	a·G·d·o/ a·G·D·o
<b>Lithuania</b>	NS	A·G·d <b>0.67</b>	a·G·d·o <b>0.66</b>	a·G·d·o <b>0.66</b>	A·g·d·O <b>0.6</b>	A·g·d·O <b>0.6</b>	A·g·d·O <b>0.6</b>	A·g·d·O <b>0.6</b>
<b>Poland</b>	NS	A·G·D·O <b>0.65</b>	A·g·D·o/ A·g·D·O	a·g·D·o <b>0.67</b>	a·g·D·o <b>0.67</b>	a·g·D·o <b>0.67</b>	a·g·D·o <b>0.67</b>	a·g·D·o <b>0.67</b>
<b>Slovakia</b>	NS	A·G·D·O <b>0.67</b>	A·G·d·O <b>0.7</b>	A·G·d·o <b>0.67</b>	A·G·d·o <b>0.54</b>	A·G·d·o <b>0.67</b>	a·g·d·o/ a·G·d·o	a·G·d·o/ <b>0.67</b>
<b>Slovenia</b>	a·G·D·O <b>0.6</b>	a·G·D·O <b>0.6</b>	a·G·d·O <b>0.6</b>	a·G·d·O <b>0.6</b>	a·G·d·O <b>0.6</b>	a·G·d·O <b>0.6</b>	a·G·d·O <b>0.6</b>	a·G·d·O <b>0.6</b>

As noticed already for several times, the analysis of unemployment compensation policy in the post-communist countries is especially interesting due to the fact that in most of these countries this kind of policy did not exist during the state-socialist period. One of the first observation at the beginning of transformation is that the reformers created quite open and generous system of income support, though the rights to unemployment benefits were also connected with relatively high level of obligations. In most of these countries, therefore, persons, who registered as unemployed, were automatically entitled to the benefit. In Poland, for example, the first version of regulations concerning unemployed allowed for receiving the benefit with no formal constraint concerning its duration. Still, after the first signs of unemployment, reformers in most of these countries started to introduce restrictions. In the Czech Republic and in Slovakia the duration of the period of payment was shortened by half, in Poland, on the other hand, the qualifying criteria were restricted by introducing income-testing, and the level of benefit was established as a flat-rate, not generous payment. For the Czech Republic this resulted in shifting from conforming to the ideal-typical combination

with all the dimensions scoring high (A·G·D·O) to the one with low score on duration (A·G·d·O). Poland underwent the most dramatic changes – from conforming to the same, as the Czech Republic, ideal-type in 1993, Poland's unemployment compensation policy stabilised in the cluster scoring low in all the dimensions (including obligations), but with the long period of payment (a·g·D·o).

Second, while some countries experienced more changes, others were relatively stable. Interestingly, the cases of stability and resistance to change are two countries, where the unemployment compensation programs were *already* in place. Slovenia represents the example of a stable unemployment compensation policy – a characteristic combination for this country ensures generous level of benefit, but paid not for a very long time and after meeting quite demanding qualifying criteria (a·G·d·O). Similarly, in Hungary the generous and accessible version of unemployment insurance scheme prevailed for most of the time (A·G·D·O). On the contrary, policy developments in other cases, and especially in the newly existing countries, were undergoing more reforms. Interesting cases for comparison are here Czech Republic and Slovakia, that took two different paths after starting from the same one. The former, thus, sustained the form of quite strict obligations, and at the end of the 1990s generosity of the benefits started to be undermined. In Slovakia, the reformers did not decide for enhancing the sanctions, however, recent changes include more demanding qualifying criteria. The latter fact resulted in this country's shift from the combinations of policies with accessible and generous benefit paid for shorter period and with no serious obligations attached to it (A·G·d·o) to the one with restricted accessibility (a·G·d·o).

Third, contrary to expectations, not all the policies were equally introducing restrictions. In Estonia, where the level of benefits has traditionally been the lowest in the region, the element of more generous benefits is slightly introducing change in the last two points of time under analysis. As this change is not radical, it results in distinguishing two combinations with ambiguous meaning of the score on generosity dimension. Lithuania, representing again more stable case, increased accessibility to benefits, but accompanied it by more clearly defined obligations of the unemployed. Additionally, it also shifted to combination with small score on generosity (and respectively, this country changed membership in the ideal-types from the combination a·G·d·o to A·g·d·O).

Fourth, while these reforms could be easily observed, as the time was passing by, they rarely proceeded in different directions. In other words, no 'trial and error' phase of frequent policy shifts 'back and forward' took place, as it could be observed, for example with regard to childcare policy (Szelewa and Polakowski 2006). Instead, the policies took rather divergent

paths and the changes were introduced in a more incremental manner. Therefore, shifting from one combination to another was hardly ever revolutionary – usually it involved reforming only one element out of four constitutive dimensions and involved delicate changes within this dimension. One of the consequences of such developments in policies are ambiguous results for the last two to three years, where two – instead of one combinations are dominating. This problem is discussed also in the next section.

Finally, the reforming tools were very divergent. In the Czech Republic and in Estonia the unemployment compensation policies were reformed through changes in generosity, in Lithuania and in Slovakia transformation of the system is channelled through reforming the rules of accessibility, and in Latvia and in Hungary changing duration was the element of reforms. Interestingly, in all these three pairs of cases developments went in the opposite direction.

In short, one cannot talk about consolidation of the policies in this region. After initial similarities, these countries took *divergent paths of development*, reforming their policies with different tools and in different directions. Still, the changes have more evolutionary than revolutionary character.

The next section outlines the discussion of the conclusions drawn from the empirical analysis.

## **Discussion**

While the analysis of institutional features of unemployment compensation programs has been looming in the Western world, the similar approach to studying Central and Eastern Europe is still rare. The main occupation of policy analysts concerning this region has been either the analysis of spending or effectiveness of programs (conducted mainly by international organizations, such as the World Bank or OECD), leaving aside the insight into the content and logic of policies. While the previous are important for the policy-making tasks, the latter are crucial for a thorough explanatory research. Some early attempts to analyse unemployment policies took place (Deacon 1992a; Deacon 1992b), however, they were constrained to the initial developments' analysis. Unfortunately, longitudinal cross-country studies, which may create a starting point for a comparative analysis, have been missing. This study partially fills this gap.

Usually, the next analytical step should involve some clustering or creation of a typology. While these have been developed for Western Europe in generally (Esping-Andersen 1990; Esping-Andersen 1999) and unemployment compensation specifically (Gallie

and Paugam 2000), similar attempts have been limited for CEE. There are two possible reasons for this underdevelopment.

First, the question arises to what extent typologies developed for the West can successfully be used in the East. As signalled earlier, they draw to some extent on the specific experience of industrialized countries. Second, they are based on the presumption of an institutional stability. Even though it has been demonstrated that in the West some change of the unemployment compensation occurred (Kvist 2000), these developments are constrained by the specific institutional context (Hall and Soskice 2001; Pierson 2001; Streeck and Thelen 2005). As this study demonstrates, the changes, which had occurred since the beginning of transition, do not give a strong basis for clustering - the unemployment compensation policies are in the constant flux and there are very few signs of their consolidation.

As mentioned above, one of the conclusions after observing the policy developments in a dynamic perspective is that the shifts from conforming to one ideal-typical mix of policies to another one have usually had an incremental character, when only one of the four dimensions went under reform. One could try to analyse this observation in the light of recent theoretical developments concerning the institutional change. For instance, Kathleen Thelen and Wolfgang Streeck (2005), analysing the reforms of the welfare state in Western Europe, talk about 'transformation without disruption'. Their main idea is that institutions of welfare state are being reformed gradually, slowly, with progressive replacement of some elements of the existing arrangements by the new ones, that in the end might transform the old institutions and redirect them into new goals, serving the interest of new actors.

While the authors distinguished between different modes of institutional change, their main idea can serve as a theoretical hint for grasping the developments in the Eastern European policies of unemployment compensation. From this point of view recent changes in Slovakia represent a convenient example. Slovakian unemployment compensation policies took a distinct path since this country became a separate political unit in 1993. It could be characterised by high level of accessibility and generosity combined with shorter period of payment and less strict obligation side (A·G·d·o). However, starting in 2000, this country started to slightly restrict the access to unemployment benefit, as well as decreasing its generosity which in our analysis results in two equally dominating combinations for the year 2002 (a·G·d·o and a·g·d·o). While the latter change had not been sustained, the accessibility became even stricter and one of the two combinations from 2002 prevails in 2004 (a·G·d·o). If one takes a look at the right-hand side of the table, similar situation can be observed in four other countries, where only slight changes make it impossible for a clear-cut inclusion of the

policy mix to only one ideal-typical combination. In the Czech Republic, since 1999, there are also two combinations with the highest score (that is, logically, 0.5). One of them represents the ‘old’ version of institutional solutions (A·G·d·O), another one shows change in generosity (A·g·d·O). In Estonia the last two scores are also ambiguous, due to the increase in generosity (the two co-existing combinations are A·G·d·o and A·g·d·o). In Hungary and in Latvia similar situation is the result of slight changes in duration of payments. And even if this does not say much about how these policies will evolve in the future, Slovakian example and the persistence of the ambiguous situation in the rest of these cases might be a sign of particular tendencies in the development of these institutions. In other words, these policies might be in the specific and critical stage of the gradual change. The fuzzy-set approach used in this paper was especially helpful for grasping this dynamics.

### **Summary**

The aim of this paper was to analyse the unemployment compensation policy in the eight countries of Central and Eastern Europe in the period 1989-2004. This paper has demonstrated the usefulness of the fuzzy set ideal-types analysis. The emphasis on the close relation between theoretical concepts and empirical material provides a solid grip for studying (change of) policies. The configurational view of phenomena combined with an inductive analysis of conformity to ideal types allows for revealing policy types excluded by existing typologies. Finally, the approach has proved to be useful for the analysis of continuity and change and/or divergence of the unemployment compensation policies.

The conclusions from the empirical findings are following:

- The component of this policy were changed rather often
- The unemployment compensation were in flux
- The level of obligations (activation component) differed among countries.
- One cannot talk about the consolidation of this policy across the region, therefore it is hard to cluster the countries;
- The most stable cases were the ones which already had the policy before the transition started (Hungary and Slovenia);
- Changes in the ideal types of the unemployment compensation were rather incremental than revolutionary and rare rather than frequent;

- The direction of these changes might be observed by identifying new (apart from old) dominating combinations of policies that can potentially (but gradually) dominate and converse the existing institutional solutions.

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**Appendix:**

Sources of the data:

MISSCEEC II: Mutual Information System on Social Protection in the Central and Eastern European Countries Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia. Situation on 1 January 2002

Available at:

[http://ec.europa.eu/employment\\_social/social\\_protection/missceec\\_en.htm](http://ec.europa.eu/employment_social/social_protection/missceec_en.htm)

MISSOC: Comparative Tables on Social Protection in the 25 Member States of the European Union, in the European Economic Area and in Switzerland - Situation on 1 May 2004

Available at:

[http://ec.europa.eu/employment\\_social/social\\_protection/missoc\\_tables\\_archives\\_en.htm#2004](http://ec.europa.eu/employment_social/social_protection/missoc_tables_archives_en.htm#2004)

MISSCEO: Mutual Information System on Social Protection of the Council of Europe: MISSCEO COMPARATIVE TABLES OF SOCIAL PROTECTION SYSTEMS in 18 member States of the Council of Europe (Albania, Armenia, Azerbaijan, Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Moldova, Poland, Romania, the Russian Federation, the Slovak Republic, Slovenia and Switzerland) as well as Australia and Canada 10th edition (situation on 1 July 2000)

Available at:

[http://www.coe.int/t/e/social\\_cohesion/social\\_policies/04.activities/3.social\\_security/4.missceo/5\\_%20Missceo.asp#TopOfPage](http://www.coe.int/t/e/social_cohesion/social_policies/04.activities/3.social_security/4.missceo/5_%20Missceo.asp#TopOfPage)

MISSCEO: Mutual Information System on Social Protection of the Council of Europe Comparative tables of social protection systems in 21 member states of the Council of Europe, Australia, Canada and New Zealand 11th edition (situation on 1 January 2002)

Available at:

[http://www.coe.int/t/e/social\\_cohesion/social\\_policies/04.activities/3.social\\_security/4.Missceo/default.asp#TopOfPage](http://www.coe.int/t/e/social_cohesion/social_policies/04.activities/3.social_security/4.Missceo/default.asp#TopOfPage)

Social Security Programs Throughout the World: Europe, 2004. Social Security Administration: Washington DC

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<sup>i</sup> One might say that if the access to the benefits does not require special conditions, than the program is fully universal. However, this situation is purely theoretical, because even in Scandinavian countries, perceived as the most universal, one has to meet the criterion of residence or citizenship (Esping-Andersen 1990). Nevertheless, the condition of citizenship or residence still should be perceived as the emanation of universal provision. In the literature there is a discussion about a dual nature of universality: it is said that both the liberal and social democratic regimes provide universal benefits (Clegg and Clasen 2003; Clasen and van Oorshot 2002). However, this applies only to the general rule: in both regimes the benefits are financed through taxes, but the eligibility criteria are significantly different. While in the case of liberal regime there is the condition of passing the means- (income) test, in the social democratic one, only requirement of the citizenship or residence is in power.

<sup>ii</sup> As noted above, due to the limited diversity of social phenomena, not every combination may find an empirical instance. However, in this study each combination found a case conforming to it.