

Liberté, Égalité, Fraternité: Reflections on the Changes following the Collapse of Communism

JÁNOS KORNAI

Collegium Budapest; Harvard University
Szentháromság utca 2, H-1014 Budapest, Hungary.
E-mail: kornai@colbud.hu; website: www.kornai-janos.hu

What happened 20 years ago in the region formerly ruled by a communist regime was a velvet revolution. And even if it was a revolution without bloodshed, it is a legitimate question to ask what was realized of the revolutionary motto: Liberté, Égalité, Fraternité? *Liberty* is a bundle of rights, composed of at least three sets: (1) political rights; (2) rights of free entrepreneurship, free entry to the market; and (3) freedom of choice between alternative goods and services. There is great progress in achieving all three categories of liberty. As for *egalitarian* values, inequality rapidly increased, causing aversion against the new order in a large fraction of society. Fraternité, in other words *solidarity*, is a widely accepted value, but there are great difficulties in its implementation. Post-socialist countries inherited a premature welfare state. The majority of people would prefer universal social entitlements, while the necessary material resources are not sufficient for these ambitious goals. This paper concludes with a discussion of various policy options for easing the contradictions between conflicting and inconsistent objectives.

Introduction

The French Revolution wanted to overthrow tyranny. Europeans recently celebrated the 20th anniversary of an event of no less historical importance: the overthrow of the tyranny of a communist dictatorship. For the formerly socialist region as a whole, this was a fundamental change accomplished peacefully, without violence or bloodshed.¹ What happened barely 20 years ago was a velvet revolution. Even though no blood was shed, it still was a revolution and therefore it is legitimate to ask what was realized of the revolutionary motto: Liberté, Égalité, Fraternité?

This motto does not, of course, cover all the fundamental values. Two that are clearly missing are growth and material welfare. Other analysts of the post-communist transition have examined their realization.^{2,3} I will focus on the three fundamental values in the title of this article. These have been closely examined in several valuable studies, but my purpose here is to construct an overarching framework.

Liberté

Freedom is a large bundle of rights. Let us survey the changes in three sets.

Political Rights, Human Rights

The citizen of a communist regime was deprived of elementary human rights. The changes granted him or her all the basic political rights:

- freedom of speech,
- free press, free from open or disguised censorship,
- freedom of association and organization,
- freedom of travel,
- the right to criticize the government, the right of political protest.
- rejection of the single-party state and introduction of the right of choice between competitive political forces and ideologies.

We witnessed a great new wave of *democracy* in our area. I do not enter here into the discussion about the definition of the term democracy. Instead, I use a simple, widely-accepted indicator. The *minimal condition* to consider a country democratic is when dismissal of leadership is not executed by political murder, military coup, conspiracy in the court of the ruler, or armed uprising. Instead, the leadership can be dismissed by a formalized, peaceful and civilized procedure of competitive elections.

The Table 1 covers the first ten new East-Central European members of the EU. In all of them, leadership was repeatedly dismissed by election, thus providing strong evidence that these countries have indeed become democracies. To use some Hungarian political jargon, in none of them has a political force been able to permanently ‘cement itself into power’. In other words, no governing party or coalition of parties has been able to eliminate the governing chances of the rival parties in opposition for a prolonged time.

In the eyes of many people, especially the younger generations, all these basic political rights are seen as self-evident facts of a normal life. They are not self-evident! Just think of China. There, the transformation of the economy into a prosperous market economy went ahead at full speed – but was not accompanied by parallel changes in the political sphere. The celebrations of the 20th anniversary

Table 1. Electoral dismissals in EU10, 1989–2008

	Elections 1989–2008	‘Electoral dismissals’	Years of dismissals
Bulgaria	6	5	1991, 1994, 1997, 2001, 2005
Czech Republic	6	4	1990, 1992, 1998, 2006
Estonia	6	5	1990, 1995, 1999, 2003, 2007
Hungary	5	4	1990, 1994, 1998, 2002
Latvia	6	4	1990, 1995, 1998, 2002
Lithuania	6	6	1990, 1993, 1996, 2000, 2004, 2008
Poland	7	6	1991, 1993, 1997, 2001, 2005, 2007
Romania	6	5	1990, 1996, 2000, 2004, 2008
Slovak Republic	6	5	1990, 1992, 1994, 1998, 2006
Slovenia	6	4	1990, 1992, 2004, 2008

Note. ‘Electoral dismissal’ occurs when there is (i) a major rearrangement of the governing coalition following elections, including (ii) the change in the government leadership and (iii) some shift in policy priorities.

Source. The table was compiled by Zdenek Kudrna (CEU) on the basis of the Economist Intelligence Unit (1990–2008).¹⁹

of the collapse of political tyranny in Eastern Europe coincided with that of the bloody attack on pro-democracy demonstrators on Tiananmen Square. Citizens of China were not allowed to gather on the Square and commemorate. China has remained a brutal police state. We, Eastern Europeans, are fortunate to have acquired, as a great gift, economic and political freedom at the same time. This coincidence of two great transformations in the same, historically very short, period is unique in the worldwide history of democracy and capitalism.

We turn now to other dimensions of freedom.

Rights of Free Entrepreneurship, Free Entry to the Market, Security of Private Ownership

This sphere of changes required a large number of new laws, an independent judiciary to enforce the new laws, and several other institutional changes.

There are various appraisals of the changes in economic freedom. I cite here only one well-known survey, the ‘Economic Freedom Index’ (Table 2), to demonstrate the significant increase of economic freedom in our region.

There are several studies confirming that replacing the predominance of public ownership with the predominance of private ownership, free entry, and competition

Table 2. Economic Freedom of the World (EFW) index in post-socialist countries

	1990	1995	2006
Hungary	5.35	6.36	7.41
Bulgaria	4.08	4.48	6.54
Romania	4.73	3.98	6.58
Poland	4.00	5.30	6.77
Albania	4.12	4.49	6.99
Czech Republic		5.81	6.84
Estonia		5.55	7.82
Latvia		4.91	7.20
Lithuania		4.89	7.23
Slovak Republic		5.54	7.52
Slovenia		4.96	6.40
Ukraine		3.90	5.51
World mean	5.68	5.99	6.58

Note. The EFW index is calculated by the Fraser Institute (USA). Economic freedom is measured by 42 indicators in five spheres: governmental expenditure, legal structure and property rights, access to capital, freedom of international trade, regulation of credit, labour and business activities. Based on these 42 indicators a composite index in the range 0–10 is calculated. In 2006, Hong Kong got the highest (8.94) and Zimbabwe the lowest (2.67) score. For a more detailed description of the methodology, see Ref. 20.

Source. The table was compiled by Professor Judit Kapás in collaboration with Professor Pál Czeglédi, University of Debrecen, Faculty of Economics.²⁴ The original source is Ref. 20.

contribute to growth, innovation, technical progress and efficiency. Therefore, it has a great instrumental value in bringing about fundamental values such as the increase of citizens' material welfare. In this article, however, I am putting the emphasis on the intrinsic value of freedom of enterprise. Whatever the economic consequences, it is great to have the 'human right' to start a business, enter a market, challenge competitors, experiment with innovations at your own initiative without waiting for orders and bureaucratic permissions. I underline this ethical aspect, because it is not sufficiently appreciated by the one-sided technocratic appraisal of economic changes.

Freedom of Choice between Alternative Goods and Services

The socialist system generated a shortage economy. Interruptions without any early warning occurred in the electricity supply, causing tremendous harm for firms and households. There were recurrent grave shortages of basic foodstuffs

and other consumer goods, long queues, empty shelves. To buy a car or to have access to housing one had to wait for years.

As with the earlier-mentioned domains of freedom, I regard the replacement of the shortage economy by a buyers' market not simply as a change in the situation of the economy. The shift has ethical implications, as it enhanced the freedom of the individual.⁴ A chronic shortage economy implies deprivation of an elementary human right, namely the freedom to choose what you want to buy. I earn my income and I want to decide what to do with my money. Chronic shortage means to be restricted in my choice by the availability of goods. When spending, I had to apply forced substitution, i.e. instead of buying what I wanted I had to buy what I got. The buyers found themselves in humiliating situations. The seller could dictate and the buyer tried to be humble, accommodating, even trying to bribe the seller. All this disappeared very quickly.

We often hear that it does not matter whether the binding constraint is on the supply or the demand side. Constraints of availability or constraints of affordability – these are equivalent limits of action. I disagree with these views, because the difference between the two types of constraints is relevant. Freedom of consumer choice is not a luxury of the rich. Well-to-do people could find the ways and means of going around the limits of rationing and find the goods on the black market, or pay with hard currency. Poor people's losses were relatively graver, because they were not able to spend their modest income and even more modest savings in the way they wanted.

Let me sum up. We are enjoying fundamental achievements with regard to liberty.

It is a sad observation, but still it is a socio-psychological fact, that a large number of people do not attribute a high value to freedom. Other basic values are more appreciated. There are several surveys that compare the order of values in the minds of individuals. Table 3 shows the well-known World Values Survey.

The table shows clearly that a significantly smaller number of individuals attach the highest importance to freedom in the post-socialist area than in countries that had a capitalist system before 1989.

Here lie great tasks for education, in forming a better understanding of the importance of freedom. It has to start in primary school or even in kindergarten, continue at all levels of secondary and higher education, and end with the influence exerted by the printed press, electronic media and the internet. It is a common task of teachers and university professors, politicians and journalists, anyone who is influencing the thinking of people. There are good signs of progress and, at the same time, frighteningly bad signs of demoralization. The rivalry of parties has had repulsive side-effects of corruption, irresponsibility and demagoguery. There are currents of disappointment in the competitive liberal parliamentary democracy. Some strata of society long for a strong leader, for a tough law and order regime. It is disturbing and frustrating that extreme right-wing

Table 3. Values: freedom versus order

Country	Preference for freedom (fraction of respondents, %)	Preference for order (fraction of respondents, %)
Poland	19.8	66.3
Czech Republic	21.4	72.4
Slovakia	21.9	74.6
Bulgaria	26.3	64.0
Hungary	27.2	63.4
East Germany	27.5	68.3
Romania	31.6	61.2
West-Germany	45.7	45.8
Sweden	48.1	42.5
USA	48.9	46.2
Spain	50.5	42.9
World mean	40.9	54.0

Note. Time of Survey: 1997–1998. The following question was asked from the respondents: ‘If you had to choose, which would you say is the most important responsibility of government: 1. To maintain order in society; OR 2. To respect freedom of the individual.’

Source. World Values Survey (1995).²¹

groups, winning votes with racist, anti-Semitic, anti-Gipsy and anti-capitalist rhetoric, have received considerable support. The extreme Right in post-socialist countries is using – misusing – the achievements of the rights of free speech and association to attack the fundamentals of human rights and freedom. Unfortunately, the suffering caused by the ongoing economic crisis creates a fertile ground for these attacks and might pave the way to tyranny. Not only one or another post-socialist country, but Europe as a whole must be alert. Remember Weimar!

Égalité

Soviet-style socialism was certainly not an egalitarian system. The declared rule was the allocation of goods according to his/her work. This happened according to the principle of meritocratic distribution, where scaling merit – in the practice of existing socialism – is, however, in the power of the party-state. This scale would allow much more income to the hero of socialist labour than to an average worker, more to a district party secretary than to a university professor. Members of the nomenclature had material privileges, not so much in higher salary but in better housing conditions, access to goods in short supply, and to better-equipped privileged hospitals and resort-places. Yes, there was some inequality, but

Table 4. Gini index for comparable per capita consumption indicator

Country	1987–1990	2003
Bulgaria	0.245	0.351
Czech Republic	0.197	0.234
Estonia	0.240	0.402
Hungary	0.214	0.268
Latvia	0.240	0.379
Lithuania	0.248	0.318
Poland	0.255	0.356
Romania	0.232	0.352
Slovenia	0.220	0.220
Slovak Republic	0.186	0.299

Source. Ref. 8.

looking at the total income and wealth distribution of the whole population, what really characterized society was more some kind of grey equalization, a drastic suppression of income inequality. The difference between the salary of the head of a large company and that of the average employee was not too much. The efficient and the inefficient manager, the innovator and the conservative industrial and agricultural leader received more or less the same remuneration, and if there were minor deviations from the mean, that depended rather on loyalty to the political party than on performance, on learning, on being industrious and innovative.

The state of income inequality changed dramatically, in a very short time, after the change of the system. Let us look first at a few numbers in Table 4.

There are large differences across countries, for reasons I do not discuss in this paper. If we put the post-socialist countries in the list of a larger number of countries, including those that did not go through a socialist period, and ranked the countries according to the inequality indicator, we would see the post-socialist countries dispersed at very different places of the long list. There are certainly factors at work unrelated to the systemic change.

However, instead of comparing the countries, if we look at the data for each country over time, comparing the situation before the collapse of communism, and then about 15 years later, the figures in each row are significantly, or in some countries even spectacularly, different. They show the deep impact of systemic change.

There were several effects, leading to the huge increase of inequality.^{5–8}

The change brought forward winners: successful entrepreneurs, individuals with special gifts for business; innovators introducing new products and technologies, opening new markets; and industrial and commercial leaders who were

able to manage a quick adaptation to the new economic environment, domestic and foreign markets. Some made good use of their knowledge of foreign languages, or skills in using modern information technologies. All these special talents and efforts were generously rewarded by the market economy. That is just one of the great virtues of the market: extra high reward for extraordinary performance. That provides an indispensable incentive for innovation, competition and efficiency.

But, of course, besides the rewards for genuine merits there are other sources for financial success. Some people were extremely smart in the process of privatization, acquiring assets formerly owned by the state cheaply, or for nothing, coming close to the action of stealing. There were those who used, in a sly way, former personal connections built up domestically or with other countries of the Soviet empire. Others were not shy to bribe state officials and politicians. These two components, the beneficial bright and the despicable dark part cannot be sharply separated. All the pure and the dirty elements, the white and the black, are blended into a grey and sticky mixture. In any case, on the upper end of the distribution we see very high incomes, many times the highest income during the socialist period.

There were also traumatic changes at the lower end of the distribution, caused by several factors.

- The most important change appeared in the labour market. There had been not simply full employment, but chronic labour shortage in the mature socialist economies. Unemployment came as a terrible blow to a society not used to this tormenting phenomenon. Some women withdrew voluntarily from the labour market, and assumed the social functions of wives and mothers working exclusively in their own households. But apart from this fraction of voluntary withdrawal, the lack of jobs led to a large decrease in the employment rate, and to a large increase in recorded unemployment.
- A number of individuals were in some sense ‘downgraded’; they lost their former higher position and had to take lesser paid jobs.
- Mainly as a consequence of inflationary periods, the real value of pensions fell, and millions of elderly people were sinking into deep poverty.
- Various forms of discrimination were witnessed as well. While nominally all citizens in democratic countries have equal rights, we see discrimination of the Roma (the Gypsies). There is a large Gypsy minority in Hungary, Romania, Slovakia and in other post-socialist countries. The share of the unemployed is much higher among the Gypsies than in the rest of the population.

Several researchers have studied the influence of post-socialist transformations on income redistribution; thus, rich empirical literature is available on the topic. No work refutes the general assertion: inequality has significantly increased.

Table 5. Public opinion about government activity for less unequal income

Country	Time of survey 2006	Country	Time of Survey 2006
Bulgaria	1.55	Austria	2.15
Hungary	1.66	Belgium	2.25
Ukraine	1.71	Sweden	2.27
Portugal	1.78	Ireland	2.28
Russia	1.88	Switzerland	2.29
Spain	1.89	Germany	2.37
Cyprus	1.91	Norway	2.43
France	1.91	Netherlands	2.52
Slovenia	1.95	United Kingdom	2.54
Poland	2.00	Denmark	2.92
Estonia	2.04	<i>East- Central Europe (mean)</i>	<i>1.86</i>
Slovak Republic	2.07	<i>East-Central Europe (weighted average)</i>	<i>1.85</i>
Finland	2.07	<i>World (weighted average)</i>	<i>2.12</i>

Note. The following question was asked from the respondents: ‘Please, say to what extent you agree with the following statement: The government should take measures to reduce differences in income levels: 1. agree strongly, 2. agree, 3. neither agree nor disagree, 4. disagree, 5. disagree strongly’.

Source. European Social Survey (2006).²²

The increase of the gap between rich and poor is caused partly by the process of transition, the swift and radical movements, ups and downs, of society, and therefore might operate only temporarily. However, among the causal factors there are also permanent features of a capitalist system. Capitalism has an inherent tendency to generate much higher income inequality than socialism.

The proposition about inequality as a systemic tendency of capitalism does not imply that we should be standing by and helplessly watch this feature of the system. It cannot be eliminated without overthrowing the system itself, but it can be modified to some extent. Government intervention can reduce the degree of inequality. All over the world a large fraction of the population is calling for redistributive government policy. Table 5 demonstrates that demand for government action in order to decrease inequality is definitely stronger in the majority of post-socialist countries than in the majority of other countries without a communist past. The mean in East-Europe is more attracted towards an equalizing economic policy than the world average. (Note, however, that some European countries, e.g. Spain, Cyprus, France and Finland, are ahead of some post-socialist countries with their public opinion being less attracted to equalization.)

There is a recurrent cry: ‘Let the rich pay!’ That is not simply a sober requirement of sound public finance: taxes should be levied where effective tax collection is feasible. It is an emotional slogan: some call it unjust that the rich are rich. Therefore, the more we deprive the richer person from a large part of his or her income and wealth, the better we feel. That became a central idea in populist political rhetoric. I do not agree with these slogans. I feel, along with many others, that we do not get extra satisfaction from Robin Hood measures.

The most important instrument of improving income distribution is to create increased equality of opportunities. The crucial role is played by education. It is a trivial truth – and still, that is, the most important proposition – that inequality starts with unequal chances of learning. There are important and very convincing studies on the subject. Children from poor or even illiterate families start out with a handicap when compared with children from families with a higher level of education. Their chances deteriorate further by the lower probability of admittance to the better schools and to the universities. It is not sufficient only to talk about equal rights, but pro-active measures are needed.

In addition to the large differences in conventional education we have to keep in mind the inequality of knowledge in a broader sense. In our high-tech society, the chances of achieving a higher income are determined by how well equipped the individual is in the art of using the computer, the internet, and other tools of modern information technology. These factors might have a much stronger impact on income distribution than the progressive or regressive nature of taxation.

Some tangible results of the struggle against corruption would contribute to the improvement of the dissatisfaction caused by the inequalities.⁹ It would strengthen the conviction that there is a strong relationship between real performance and high income, where great fortune and huge income through dishonest means would be an exception.

Fraternité

A contemporary synonym for ‘fraternité’ might be ‘solidarity’. The ethical postulate of my obligation to show solidarity with my fellow-citizens is one of the most complicated problems of society in general, and of post-socialist society in particular.

Our legacy from communism is a ‘premature welfare state’. That is a name I coined at the beginning of the transition, receiving the approval of some colleagues, and angry rejection by others. I made enemies with quite a few of my writings, but none of my propositions generated so many as this one.

The socialist state codified in law, and accepted in practice, the citizens’ right to various forms of services and support.

- Everyone was entitled to free health care, but in many clinics and hospitals the quality of treatment was unsatisfactory, the patients suffered

from long waiting lines and overcrowded hospital wards, obsolete equipment, unsatisfactory hygienic conditions, shortages of medicines.

- Everyone was entitled to free education, but the quality of education was very uneven, teachers were underpaid and overworked, to some extent adverse selection of teachers occurred, with not the most capable choosing the profession. Schools were crowded and badly equipped with furniture, not to speak of modern information technology.
- Subsidized rents made public housing affordable for everyone, but young people had to wait years and years to get the right to move into an apartment of their own, residential construction supplied buildings of outrageously low quality.
- The firm or the municipality provided day care or kindergarten to every family, free or at a nominal fee.
- In the state sector (including firms in state ownership) every pension-aged employee was paid a state pension, financed either from the budget, a pension fund supported by state guarantee, or the firm.

I called the state organization providing those (and similar other free, or almost free) allowances in a summary fashion a ‘premature welfare state’. I called it premature because I, in line with several other economists, realized that the development level of the socialist economies did not make the fulfilment of those promises possible. In practice, the state was either unable to fulfil its promises about universal entitlements, or, when trying to do so, realized them on a poor, low quality level.

The sharp disparity between entitlement and actual provision, the promises of the state and the actual availability of material resources, were characteristic systemic features of socialism. And this legacy was also one of the gravest problems of policy-makers in the process of post-socialist transition.¹⁰

Which way to go from the initial conditions of the premature welfare state? I do not intend to advocate a certain programme, presenting my own pro and con arguments, in this paper. I have done that in other studies. My aim here is to give a general overview suggesting four categories of political attitudes vis-à-vis the welfare state, distinguishing two ‘pure’ and two ‘mixed’ cases.

There are two ‘pure’ directions.

The first direction is to give up the principle of universal entitlements. Replace it with the principle of support only for those who need state assistance. Yes, we feel *Fraternité*, we all are brothers, but most of my brothers do not need my support, they take care of themselves. I am ready to help when I see that someone is unable to solve their problems. Let me illustrate the idea with a few examples.

- Universal entitlement to free university education should be eliminated. Instead, tuition fees must be introduced. Those who cannot afford the fee could get a student loan repayable from future higher income.

In addition, special stipends could be granted to those (and only to those) who would not be able to live the normal life of a student without special financial assistance.

- If there is universal entitlement to free care for all children, all families, rich and poor, must get an allowance from the state according to the number of their children, they must have access to a free kindergarten and so on. In the case of the more restricted provision principle, only those families who cannot afford the costs of raising children and cannot pay for the services of a kindergarten, get special support from the state (and ultimately from the general taxpayer).

This is the direction urged by most economists, and by market-oriented reformers. It is accepted by truly conservative politicians confessing to a liberal credo (using the term ‘liberal’ in the European, and not in the American interpretation).

Following this direction, the post-socialist welfare state would shrink to a proportion more adequate to the level of development of the economy.

There are pragmatic arguments supporting the first direction: soundness of fiscal policy, lower tax-rates stimulating investment, employment and entrepreneurship. And then we hear also arguments taken over from political philosophy: respect for individual autonomy and freedom of choice, rejection of the paternalistic attitude of the state, and ultimately the rejection of the interference of politicians in the domain of privacy and individual sovereignty.

The second direction is to maintain all universal entitlements and bitterly resist any curtailment. Even the enhancement of entitlements might be considered. Proponents of this policy are willing to cover the large expenditures by higher taxes.

This is the direction advocated by many sociologists, and also by many doctors, teachers, social workers, members of professions devoted to work in the various sectors of the welfare state. As for the political spectrum, this direction is unambiguously and consistently supported by the ‘Old Left’, i.e. politicians still loyal to the ideology of the Scandinavian and German Social-Democrats of the 1950s.

Advocates of the second direction refer to pragmatic arguments. Means-tests, checking the eligibility of special groups in need require the operation of huge bureaucracies. Handing out universal benefits is much simpler and requires smaller administrative costs. Some claim that parliamentary support is often easier to find for universal entitlements than for earmarked provisions. And also in this case we hear arguments derived from propositions of political philosophy. The line of thought supporting universal eligibility to welfare services is rooted in the idea of a more profound meaning of equality: every individual is entitled to the same bundle of rights. The state has identical obligations to all its citizens.

The adherents of the second direction underline the close connection between two objectives, and ultimately between two values set by the revolutionary motto;

namely between *Égalité* and *Fraternité*, between equality and solidarity. In the earlier section of my paper I referred to inequality measured by recorded monetary income (e.g. the Gini coefficient of money income distribution). However, a large part of the consumption of a household arises from provisions in kind. Free health service, free education, and subsidies lowering the costs of certain expenditures contribute to the equalization of household consumption. The wider the coverage of universal entitlements, the larger the relative size of the welfare state – the more equality prevails. The more *Fraternité*, the more *Égalité*.

Proponents of the second direction are right when claiming that a majority of people in the post-socialist countries (among them the Ukraine, Belarus, Russia and Romania the most) demand a paternalist attitude from the state.¹¹ This is indicated in the survey data in Table 6. Thus, paternalist rhetoric and economic policy is popular, and can bring votes to its advocates and implementers.¹²

I juxtaposed two clear and transparent positions, both supportable by pragmatic arguments and by profound philosophical reasoning. Unfortunately, the game of politics is not played on the field of sound, calm pragmatic debate, nor in the crispy, clean air of ethical postulates. The game is played in the arena of political gladiators, fighting for political life or death, for votes, in order to gain electoral victory and hoping for the disaster of the political opponent. The groups supporting unambiguously and consistently the two ‘pure’ directions are important players (in some countries over certain periods one or the other group might be even the dominant player). But there are other political groups (parties, or factions within a party, or various non-partisan movements) which cannot be put in either of these two ‘pure’ categories. Politicians, both in government and in opposition, experience the strong resistance against the reduction of the welfare state. Everybody knows, it must be mentioned, that we face here a ‘ratchet-effect’: change in one direction is possible, but back to the previous position is impossible. It is politically easy and highly popular to increase spending in order to enhance the welfare state, and it is politically difficult and highly unpopular to cut these expenditures. Small wonder that beside the two ‘pure’ directions just mentioned we see everywhere many examples of unclear, fuzzy political attitude.

To the third category of political attitude belong the populists, promising the full maintenance or even the extension of all entitlements, the preservation of the extra-large-size welfare state – without revealing the source of financing the expenditures. It is the less bad case if they present irresponsible false promises only during an election campaign or in vehement attacks on liberal reforms sitting in the benches of the parliamentary opposition. The more disastrous case occurs when such a populist party wins an election and then fulfils its irresponsible promises, leading to catastrophic fiscal deficit and all the concomitant sad macroeconomic consequences.

Table 6. Preference for equality

Country	Egalitarian preference (fraction of respondents %)	Egalitarian preference rejected	Country	Egalitarian preference (fraction of respondents %)	Egalitarian preference rejected
Hungary	78	17	France	61	34
Romania	75	15	United Kingdom	58	34
Bulgaria	69	22	Sweden	54	40
Slovakia	67	29	Austria	53	38
Poland	65	24	Denmark	52	44
Czech Republic	62	31	Netherlands	45	52
			EU 27 mean	65	29

Note. The following question was asked: ‘We need more equality and justice even if it means less freedom for the individual.’ The first column gives the share of ‘agree’ answers and the second answer of the ‘disagree’ answers, in percentage of all respondents.

Source. Standard Eurobarometer (2008).²³

The main characteristic of the fourth category is the lack of principles. A well-known reaction to hard choices is inconsistency shown by a political party, and/or by a government. One step in the first direction (cutting certain expenditures of the welfare state) is taken in January, and then another step in the opposite direction (increasing some other expenditures of the welfare state) in February. Politicians belonging to the fourth category want to please the voters on the Right on even days and voters on the Old Left on odd days. Hesitation, vacillation, unpredictable words and deeds – those are the characteristic features of this political attitude. It leads to confusion among voters, who do not understand what is going on. Provisional gains of popularity may occur by the deceived supporters of the ‘pure’ Direction One, or Direction Two, who do not see clearly at the beginning which way the politicians are going. But sooner or later they understand that they were misled by the zigzag moves back and forth between two opposite sets of goals.

In my perception this is what is happening with the modern Tony Blair-style New Social-Democracy in various countries, including some countries in the post-socialist region, among which is my own country, Hungary. The policy concerning the Welfare State is in many respects inconsistent, because it seeks to satisfy two opposite, mutually exclusive, sets of values, and to please simultaneously two large constituencies having radically different preferences and disliking each other.

The scaffold of my paper was provided by the motto of the French Revolution. In the heated atmosphere of 1789 and the following years, nobody cared whether the three elements of the motto were consistent or they contradicted each other. Remember the historical age: this was almost a century before Bismarck in Germany introduced social insurance, more than a century before Social-Democrats in Scandinavia and England started to build a modern welfare state. But nowadays, policy-makers in the long-distance fight for structural transformation cannot evade the problem of consistency. If they try to do so, they have to pay a political price.

General Picture and Prognosis

I would happily present my own prognosis, my own vision of the future. But I am afraid that in the area I have chosen for this paper I do not see clearly what is going to happen in the future.

Looking around in the region of post-socialist transformation, we get a very mixed impression. There is certainly no uniform direction of changes related to the activity of the welfare state. Efforts to eliminate certain universal and broad entitlements appear in some countries at a certain point in time, while in others new social rights are added to the long list of entitlements inherited from the socialist regime. There are steps forward in one direction, followed by reversals and steps in the opposite direction.

The heterogeneity of movements in both directions was apparent before 2006. The population of the region went through difficult times. They had to face the difficult reallocation of resources, the dramatic changes in property rights, the lack of capable institutions for a while, worsened by the grave difficulties caused by the transformational recession in the 1990s – all these factors contributed to a fall in output, due to the transformational recession, much deeper than in the depression after 1929 – the worst recession in earlier economic history. This event coincided with the trauma of unemployment shocking millions of people accustomed to full job security. The impact of the double blow of recession and loss of job security was softened to some extent by the services of the inherited welfare state.^{13,14} People who lost their jobs were at least not left to their own meagre means for health care, and child support continued. Many would-be-unemployed escaped in early retirement or pension-schemes for the handicapped, and the bureaucracy turned a blind eye if these escape-routes were not perfectly clean of irregularities. In addition to inherited entitlements, new ones were created, e.g. insurance and/or governmental support for the unemployed, or high subsidies for energy consumers, to counteract at least partially the impact of price liberalization, or new subsidies for building private homes and so on. The anger and frustration would have been much more intense if the welfare state with all the old rights and the newly created entitlements had not been available. That is an important factor in explaining the adherence of a very large section of the population to the welfare state.

At the beginning of the first decade of the 21st century, an economic upswing started. The first beneficial results of shifting from the inefficient socialist system to capitalism, promising more efficiency and faster growth began to show up. And then came the new blow, the global financial crisis and recession. Nobody knows yet whether the fall in output will be deeper than it was after 1929, or even deeper than the downturn of production in the post-socialist region after the change of regime – but it is already causing great trouble and much suffering for millions of people.

Given the second traumatic experience of sudden change, unexpected economic trouble and a disturbing feeling of uncertainty, demand for a protective state will certainly become stronger and louder. Politicians will come under double pressure. A large part of the citizenry is ready to give up claims for individual sovereignty and make concessions with respect to liberty, and is ready for a state – even more paternalistic than earlier – to take over the responsibility for welfare and security. Several countries will abandon plans for reforming the welfare state in the direction of reducing it to a smaller size, eliminating some of the universal entitlements, and so on. On the other hand, sooner or later the politicians (at least those who are elected to power and take responsibility for revenues and expenditures of the state) will feel the intense pressures of the

macroeconomic situation. Generous spending in the spirit of *Égalité* and *Fraternité* carry a frightening price tag: budget deficit, high debt/GDP ratio, runaway deficit of the current account, the reluctance of investors to purchase government bonds and so on. The financial markets, the banking sector, the stock exchange, the various financial institutions, investment banks, brokers and the legion of analysts employed by these institutions are not softened by noble sympathy with their fellow-citizens and by the goals of charity. Neither are they cruel or heartless, as depicted in the harsh and biased caricatures of populist political rhetoric – they just do their job. In any case, the true macroeconomic difficulties, plus the loud criticism and warnings coming from the financial-business community, push politicians in the opposite direction. Spending must be cut to such an extent that taxes can be reduced to allow more room for private investment, serving the upswing of production.

What will be the outcome of these contradictory pressures? The only honest answer is the confession: I don't know. It will probably be different in each country, depending on the depth of the crisis, on the proportion of winners and losers, on the distribution of voters for the two pure directions, Direction 1 or Direction 2, or for Direction 3, populists, or for Direction 4, inconsistent parties and movements. Perhaps there will be lucky countries where a great statesman appears, facing the tough choices in the short-run without losing the sight of a wide and long historical horizon. And there will be unfortunate countries, led by confused and confusing politicians, lost in the labyrinth of contradictory pressures, stuck in stagnation and rigid, frozen bureaucratic structures. I am afraid that I have to finish with a question-mark. Who knows what is going to happen in my victorious and trouble-hit region with *Liberté*, *Égalité* and *Fraternité*?

Acknowledgements

I am grateful to Pál Czeglédi, Zsuzsa Dániel, Judit Hürkecz, Judit Kapás, Zdenek Kudrna, Balázs Muraközy, Andrea Reményi and Dániel Róna for their valuable advice and their help in data collection and manuscript editing. I would like to thank the Erste Foundation, Collegium Budapest and the Central European University for supporting my research, the basis of the present paper.

References and Notes

1. There was one exception. In Romania the hated tyrant Nicolae Ceausescu and his wife were sentenced to death and executed in the first turbulent days of the uprising.
2. EBRD (2008) *Transition Report 2008: Growth in Transition* (London: EBRD).
3. EBRD (2009) *Transition Report 2009: Transition in Crisis* (London: EBRD).

4. Lucky for not knowing the shortage economy from their own experiences, the younger generations have other sources, not only the economic literature. They should read the novel *The White King* by György Dragomán (see Ref. 15), and then they will probably have an idea what queuing, bananas turning up in shops only on special occasions or electricity being unpredictably cut off meant in Ceausescu's Romania.
5. T. Kolosi and T. I. György (2008) *Rendszerváltás: Nyertesek és vesztesek*. (Transition: Winners and Losers.). In: *Újratervelés: Életutak és alkalmazkodás a rendszerváltás évtizedeiben (Re-planning: Life and Adaptation in the Transition Decades)*, edited by T. Kolosi and T. I. György (Budapest: TÁRKI) pp. 11–50.
6. B. Milanovic (1999) Explaining the increase in inequality during transition. *Economics of Transition*, 7(2), pp. 299–341.
7. B. Milanovic and L. Ersado (2009) *Reform and Inequality during the Transition: An Analysis Using Panel Household Survey Data, 1990–2005* (Washington, DC: World Bank).
8. P. Mitra and R. Yemtsov (2006) Increasing inequality in transition economies: is there more to come? *World Bank Policy Research Working Paper 4007*, September (Washington DC: World Bank).
9. There is a strong feeling of disappointment and loss of trust in institutions as a reaction to the spreading corruption, tax-avoidance and massive violation of norms tolerated by the state (see Ref. 16). This public sentiment, among others, contributed to an increased and louder outcry against growing inequality.
10. S. Haggard and R. R. Kaufman (2008) *Development, Democracy and Welfare States* (Princeton, Oxford: Princeton University Press) offers a comprehensive and profound description about the reforms of the welfare state in the post-socialist region, comparing them to the similarly directed changes in Latin-America and East-Asia.
11. Let me quote Isaiah Berlin's words (in Ref. 17):

For if the essence of man is that they are autonomous beings... then nothing is worse than to treat them as if they were not autonomous, but natural objects, ... whose choices can be manipulated by their rulers ... paternalism is despotic, not because it is more oppressive than naked, brutal, unenlightened tyranny, ... but because it is an insult to my conception of myself as a human being. How sad it is that only few people can understand and recognize this thought.
12. An American and a German economist (see Ref. 18), in their remarkable research, found that people in the Eastern part of Germany (i.e. the ex-GDR) demand a paternalist welfare state much stronger than those in the Western part, where values and expectations are socialized in a different way.
13. M. Kean and E. Prasad (2002) Inequality, transfers, and growth: new evidence from the economic transition in Poland. *Review of Economics and Statistics*, 324–341.
14. P. Vanhuyse (2006) *Divide and Pacify* (Budapest: CEU Press).
15. G. Dragomán (2007) *The White King* (Garden City: Doubleday).

16. I. G. Tóth (2009) *Bizalomhiány, normazavarok, igazságtalanságérzet és paternalizmus a magyar társadalom értékszerkezetében (Lack of Trust, Anomy, Feeling of Injustice and Paternalism in the Value Structure of the Hungarian Society)* (Budapest: TÁRKI).
17. I. Berlin (1969) Two concepts of liberty. In: *Four Essays on Liberty* (Oxford: Oxford University Press) pp. 118–172.
18. A. Alesina and N. Fuchs-Schündeln (2007) Good bye Lenin (or not?): the effect of communism on people's preferences. *American Economic Review*, **97**(4) pp. 1507–1528.
19. Economist Intelligence Unit (1990–2008) Country Reports. www.eiu.com. Retrieved on December 12, 2009.
20. J. D. Gwartney and R. Lawson (2008) *Economic Freedom of the World. Annual Report* (Vancouver: Fraser Institute).
21. World Values Survey (1995) Official data file v.7. <http://www.worldvaluessurvey.com/>. Retrieved on December 12, 2009.
22. European Social Survey (2006) *Round 3* (Oslo: Norwegian Social Science Data Services). <http://ess.nsd.uib.no/ess/round3/>. Retrieved on December 12, 2009.
23. *Standard Eurobarometer 69* (2008) November (fieldwork Apr–May). http://ec.europa.eu/public_opinion/archives/eb/eb69/eb69_en.htm. Retrieved on June 11, 2009.
24. P. Czeglédi and J. Kapás (2009) *Economic Freedom and Development* (Budapest: Akadémiai Kiadó).

About the Author

János Kornai is Allie S. Freed Professor of Economics Emeritus at Harvard University, Permanent Fellow Emeritus of Collegium Budapest – Institute for Advanced Study, and Distinguished Research Professor at the Central European University. He is a member of the Hungarian Academy of Sciences and the European Academy, and Foreign Member of the American, British, Bulgarian, Finnish, Russian and Swedish Academies. He has served as President of the Econometric Society, of the European Economic Association, and of the International Economic Association. He has received the highest Hungarian prizes for scholarship, as well as the Seidman Award (USA), the Humboldt Prize (Germany) and the Leontief Medal (Russia). He has also become Officer of the Ordre National de la Légion d'Honneur (France). His research has focused on the critical analysis of the socialist system and post-socialist transition. After the collapse of socialism in Eastern Europe his attention has partly turned to economic policy, especially to macroeconomic problems and the reform of the welfare state. His works have been translated into more than twenty languages.