

December 1995

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David Stoesz  
*Virginia Commonwealth University*

Mark W. Lusk  
*Boise State University*

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### Recommended Citation

Stoesz, David and Lusk, Mark W. (1995) "From Welfare State to Social Compacts: Welfare Transformation in Poland," *The Journal of Sociology & Social Welfare*: Vol. 22: Iss. 4, Article 6.

DOI: <https://doi.org/10.15453/0191-5096.2286>

Available at: <https://scholarworks.wmich.edu/jssw/vol22/iss4/6>

# From Welfare State to Social Compacts: Welfare Transformation in Poland

DAVID STOESZ

Virginia Commonwealth University  
School of Social Work

and

MARK W. LUSK

Boise State University  
School of Social Work

*Our nature is fluid, open,  
conditioned.*

—Gary Snyder

*Recent social, political, and economic development have strained the credibility of conventional constructs for organizing social welfare. In contrast to the "welfare state" construct that evolved during the industrial era, a "Social Compact" model is presented as more consonant with a post-industrial context. Features of the social compact are discussed, as well as its applicability to Poland.*

If the New World Order requires a new paradigm for conducting diplomatic and military affairs, this is no less true for social welfare. The multiple and interrelated global developments which grow out of the emergence of a new international order will have substantial consequences for domestic social policies. International markets continue to evolve rapidly, with national welfare tied to the ebb and flow of capital and labor. The institutional manifestation of global capitalism, the stateless corporation, is disconnected from national government, effectively undermining economic planning. The emergence of regional trade syndicates, such as the European Economic Community (EEC), further subverts the ability of nations to establish their own domestic policy agenda. Finally, the explosive development of information technology has advantaged those institutions with the economic

and intellectual assets to participate in the service economy over the more lumbering bureaucracies of the industrial era. These developments have quite simply overwhelmed our conventional understanding of social welfare policy. The implications of this transformation are as significant for the post-industrial economies of the West as they are the former command economies of Eastern Europe.

In response to the economic and political events reshaping the world, the authors propose a "social compact" as a sequel to the "welfare state". Historically, the concept of the welfare state is consistent with the evolution of industrial societies; a social compact is posited as synchronous with a post-industrial context. As proposed, a social compact is an ideal type in the Weberian sense: it is not a utopian construct, but one that has heuristic value because it clarifies conceptual differences. In all probability, the implementation of social compacts would be as problematic as that of earlier welfare state methods of human service provision. It follows that advocates of social justice will be better equipped to design future social programs to the extent they grasp the full range of options before them.

### Erosion of the Welfare State

Historically, the interplay between public social programs and a market economy has not been particularly stable. Conventional wisdom holds that governmental welfare programs serve to socialize the costs of capitalism. As economies grow, social policy evolves; when markets convulse, public programs expand to meet increasing need. Within nations, this connection has been understood fairly well.

Accordingly, traditional welfare state ideology was premised on the presumed need for a preeminent role for the state in the administration and finance of social welfare programs and benefits. In the wake of the conservative revolution in the United States, Great Britain and Latin America, however, the role of the state in economic policy in general, and in welfare policy in particular, has come under critical scrutiny. Even advanced European welfare states have been challenged by the combined assault of worldwide recession, an aging population, and declining European competitiveness. As early as 1981, *Time* reported

that "welfarism is threatening bankruptcy in some [European] countries" (Painton, 1981).

Reassessment of universal entitlements in many nations in northern Europe led policy analysts to conclude that the future of social programs resided not with governmental bureaucracies, but "less bureaucratized, more decentralized and in cases more privatized" programs (Lash & Urry, 1987). Citing conservative political victories in Scandinavia, Britain, and the United States, Gosta Esping-Anderson concluded that, "voters have not only rejected flawed and expensive programs, they have renounced the very idea of the welfare state. It seems an out-dated and naive vision whose time has come and gone" (Esping-Anderson, 1992).

By the early 1990's even that exemplar of welfare states, Sweden, was moving decidedly toward a mixed economy in which the nonprofit and corporate sectors played a more prominent role, indicative of a "shift from state to market" (Marklund, 1992). Economic stagnation compounded by massive revenue diversion to social programs drove other European nations to reconsider their commitment to the welfare state. With social programs adding up to fifty percent of labor costs, the welfare state was becoming an unmanageable burden to increasingly precarious economies. "The ballooning costs of social welfare programs of the disabled, the infirm, the elderly and the unemployed in Europe are threatening the Continent's economic future," observed the *New York Times* (Cohen, 1993). Citing budget deficits and slow economic growth, Germany's Chancellor Kohl proposed over \$45 billion in social benefit cuts (Lane & Waldrop, 1993).

While most critics of the modern welfare state have been on the political right, growing disenchantment with centralized state social policy has also been emerging among non-conservatives—most notably progressives. Increasing pressure to reassess the role of the national government in social policy has been exerted with the emergence and consolidation of regional trade blocs, such as the European Economic Community (EEC) and the North American Free Trade Agreement (NAFTA). Gradually, anomalies have subverted the welfare state paradigm. These problems have been influential by identifying weaknesses in governmental hegemony over welfare: the intrinsic limits of state social policy (Glazer, 1988; Jencks, 1992), the ineffectiveness and

inefficiencies of state programs (Janicke, 1990), the importance of the informal sector (Lusk, 1992), rent-seeking behavior (Tullock, 1988), and the importance of localism (Morgan; Butler, Kondratas, 1987).

### Social Policy in a Borderless World

The emergence of global capitalism introduces a critical anomaly to an already shaky welfare state paradigm. The profundity of global transitions in economic, political, and social affairs has been captured by Milton and Rose Friedman. The Friedmans posit three "tides" of political-economic events that have swept over entire nations: (1) the rise of laissez-faire (the Adam Smith Tide) through the 19th century; (2) the rise of the paternalistic welfare state (the Fabian Tide) through the 20th century; and (3) the resurgence of free markets and individual liberty (the Hayek Tide) portending the 21st century (Friedman, 1988). Social program paradigms are compatible with these broad transformations. For example, in response to the massive dislocations of industrialism accompanying the rise of laissez-faire, residual welfare emerged. As a solution to the labor force dislocations of capitalism, the modern institutional welfare state followed. In its varied forms, it suited the divergent requirements of the nations of the first world sufficiently well to contribute to their triumph over the command economies of the second world.

While the globalization of capitalism has proceeded virtually unimpeded, it has produced an equally profound political consequence: the decline of the geo-political nation state. Japanese corporatist, Kenichi Ohmae argues poignantly that, "The nation state has become an unnatural, even dysfunctional, unit for organizing human activity and managing economic endeavor in a functionally borderless world" (Ohmae, 1993). Insofar as the proliferation of international markets antiquates more provincial understandings of capitalism and its corollaries, the decline of the jurisdictional integrity of the nation state poses impossible problems for conventional solutions to social need.

Most scholars' consideration of the various types of welfare state presume a nation state. Assuming a governable, sovereign territory—the reasoning follows a predictable line of inquiry—

what are differences in type and degree of government commitment, directly or through surrogates, to social needs, such as housing, health, employment, income, and pensions? Analyses of the experiences of various countries typically leads to an ideological continuum or, in the case of more sophisticated treatments, the identification of various types of welfare state.

But, what if there is no governable territory *per se*? The demise of the nation state wreaks havoc on conventional definitions of the welfare state. Indeed, the essential functions through which a welfare state evolves presuppose a sovereign state. First, the welfare state is a construct of public policy, the legislation of enactments by a representative national political body. Second, a primary resource of the welfare state consists of funds derived from taxation. Finally, funds are legislatively designated to finance programs which are incrementally deployed to complete a whole fabric designed to anticipate and meet basic social needs of the citizenry. Each of these precepts makes sense insofar as a public has authority over a geo-political boundary. Legislation, taxation, and programming all exist within a policy context in which nations control their destinies. A welfare state is irrelevant for a functionally borderless world for the same reason that the Germans do not make public policy for the Japanese, that the French do not tax Canadians to finance their programs, and that the American Social Security program is unrelated to the retirement needs of Poles (except for those who have moved to Chicago, of course).

Thus, fundamental shifts in economy and polity necessarily affect social welfare. Indeed, the magnitude of these changes suggest a question that is, in some ultimate sense, unavoidable: what is the sequel to the welfare state? What would a "post-welfare state" formulation mean for the nations of Eastern Europe, more specifically, Poland?

### Types of Organized Response to Need

Variations on the welfare state theme have been explored by numerous scholars, and Bob Deacon has provided a particularly lucid analysis of their contributions. What makes Deacon's comparative analysis prescient is his observation that the "bureaucratic state collectivist system of welfare" has become obsolete

as a result of the political and economic events just discussed (Deacon, 1992). Yet, for the same reason that a borderless world overwhelms the conventional idea of a welfare state, it also provides an outline for its successor. One way to clarify this transformation is to use ideal types (Gerth & Mills, 1974), in other words to contrast "the welfare state" with a notion of "social compacts." Principle elements are presented in Figure One.

Figure One

*Types of Organized Response to Need*

<i>Characteristic</i>	<i>Welfare State</i>	<i>Social Compact</i>
Era	Industrial	Post-industrial
Auspice	Nation state	Trans-national accords
Ideology	Democratic-Socialist	Democratic-Capitalist
Dominant norm	Equality	Equity
Benefit archetype	Entitlements as Rights	Benefits conditioned on productivity
Standard of benefits	Uniform nationwide	Vary regionally
Role of state	Provides benefits- services	Brokers policy accords
Role of beneficiary	Recipient	Consumer
Method of finance	Compulsory taxes	Elected contributions
Organizational structure	Public bureaucracy	Private membership organization

### Social Compacts

Consistent with the emergence of sub-global trading blocs, such as the EEC and NAFTA, social compacts would be trans-national agreements sanctioning provider organizations to compete in the provision of social welfare. The social compact would articulate the structure and process of enrolling participants and providing benefits. Because benefits would be closely related to productivity, the social compact would include rules regarding workers' pay and benefits, health care, unemployment, job training, and pensions<sup>1</sup>. In this respect the social compact would be similar to the "social charter" of the EEC, although the financing and methods of service delivery would differ. Benefits for the social compact would be funded similarly to social insurance,

from separate pools created by mandatory contributions of workers and employers, in some instances supplemented by general revenues to insure those outside the labor market. The role of the state would be restricted to fiscal and program accountability and regulatory oversight. The provision of benefits would be contracted out to private providers that would agree to conditions of provision specified in the social compact. Citizens would be free to enroll with the provider of their choosing, and providers would be prohibited by law from turning down any prospective enrollee. Benefits would be calibrated according to standard of living indices for various economic regions, effectively eliminating nation-wide standard benefits. Government responsibilities for program oversight and monitoring would be complemented by the political accountability of collective bargaining units of consumer and professional providers.

The social compact diverges from the welfare state in several important ways. Rather than being a source of welfare provision, the state would be instrumental in reaching and ratifying accords about the content of the social compact and overseeing program quality and accountability. Provision of benefits would be removed from government and contracted out to competitors, thus reducing public bureaucracy. Rather than having to receive service from a government welfare monopoly, consumers would have a choice, providers would have reason to be responsive to consumers—an incentive structure which is presently absent in social welfare. Significantly, benefits would be calibrated according to variations in the cost of living of different economic regions, eliminating standard benefit levels<sup>2</sup>.

### Applications to Eastern Europe and Poland

How would social compacts evolve in the nations in which command economies were dominant not so long ago? One approach involves the privatization of collectivized property. The simplest privatization strategy is to divide the value of a state monopoly by the number of citizens and issue them shares. This is similar to the Polish “mass privatization plan” used to divest the state of selected state-owned enterprises (SOE’s) (Sachs, 1992). This mass approach may be conceptually appealing because of its



simplicity, but is fraught with problems. For one, it is exceedingly difficult to price the value of a social asset, enterprise or program. While physical assets such as clinics and offices may be easy to divest, the value of a social enterprise, particularly in a formerly communist state, is practically negligible. Moreover, support for rapid privatization among the Polish people is not strong. Even though sixty percent of the Polish economy is now private, the shock of post-communism has made Poles doubtful about privatization reform (Lewandowski, 1993).

An alternate approach to privatization conceives of both the country conditions and enterprise conditions necessary for the effective transfer of an SOE to the private or non-profit sectors (Kikeri, Nellis, & Shirley, 1992). When competitive enterprise conditions are coupled with country conditions that are market-friendly and in which there is a high capacity for state regulation, experience indicates that the best strategy is to sell the SOE. A state-owned automobile factory in Hungary or a state airline in England would exemplify these conditions. A non-competitive enterprise in a country with a low capacity to regulate and which is less market friendly indicates a more gradual approach. These conditions suggest a strategy which is premised on promoting conditions of economic and social development by installing a policy framework which is market-friendly, developing a stable regulatory environment, and gradually privatizing management. It presumes the need to steadily privatize selected social programs, learn from the experimentation, and move agencies and programs into a competitive environment. Social enterprises in Eastern Europe fulfill these conditions.

The primary difference between the privatization of conventionally-productive assets in a competitive environment and the creation of a social market is that the nation(s) involved in the social compact must establish minimal benefit levels that would be assured to its consumer members. Beyond a basic state-funded floor benefit available to all families (such as an earned income tax credit), compacts would permit the private development of various benefit packages, the costs of which would be covered by members' premiums. Under such an arrangement, it is conceivable that many welfare benefits could be commodified; health, housing, training, and child care are examples.

A prototype of the social compact organization exists in the health maintenance organization (HMO), a prepaid membership form of health care provision common in the United States. A second example reflects the corporatization of welfare in industrial societies—the employee assistance program (EAP). These programs provide social services to workers and their families (Karger & Stoesz, 1994). While HMO's and EAP's have been associated with corporate practices that have traditionally been associated with social and economic dislocations that generate welfare programs, under certain circumstances—worker control, nonprofit auspice, among others—their social value can be accentuated. Both the HMO and the EAP have their corollary in the cooperative. Paid cooperative membership entitles one to participation in collective benefits—a model for which there is at least some functional precedent in Eastern Europe.

Under a social compact form of social welfare, human service professionals would be employees or contracted agents of membership groups or they might form independently owned organizations that would solicit members. As social compact associations adjusted to the preferences of members and employees, the more dynamic firms would flourish while unresponsive firms would wither. More successful organizations would also be able to extend existing service and plan innovations. Over time, the provision of services would be continually renewed and refined as members and employees sought better providers in an open market.

In order to be an effective method for providing social welfare, the social compact model has preconditions. Foremost, governments must sanction the operation of free-standing organizations that are independent of the governmental and commercial sectors. The social compact model works only when genuine competition exists between providers, and this cannot be assured unless new organizations and a supportive market climate can be created. In addition, allowance must be made for joint ventures between indigenous provider organizations and foreign and domestic firms. If we can forge joint ventures to build tractors, why can't we create them to provide health care?

Privatization has been proceeding rapidly in Poland utilizing both large and small scale strategies. Most state-owned retail

trade is now private and the number of private trade firms is growing at rates of over 100% per year. The best progress seems to be in small scale privatization of modest property components, shops, and firms. A crucial area of success has been in joint ventures between local businesses and the Polish government or between Polish entrepreneurs and foreign firms and banks. By the end of 1990, there were 1,306 joint-venture companies, double the number from the previous year (Mujzel, 1992).

Among the most notable of joint ventures is one which uses micro-enterprise as its strategy. The Polish American Enterprise Fund has, in a little over two years since its creation, parlayed \$5 million in capital into \$48 million for fixed-interest rate loans that are guaranteed by the Polish government. A joint venture between Chicago's South Shore Bank and the Polish state banks, the Fund has made more than two thousand loans (averaging \$25,450) that have generated 7,700 jobs. Richard Turner of the South Shore Bank has observed that while the loans have financed a variety of activities, none have been in the human services (Personal communication, August 11, 1993). Ventures such as the Enterprise Fund could be instrumental in stimulating the emergence of a vigorous social sector. The potential of the Catholic Church as a catalyst for the evolution of an independent sector (Deacon, 1992) has not yet been developed fully and could do much to improve "the miserable state of basic social services" (Mujzel, 1992).

Equally important is the question of capitalization. Under conditions of diminishing resources, privatization of the social sector has the potential of contributing to the collapse of the social infrastructure. Capital to finance social compacts can be derived from several sources. Again, joint ventures with foreign firms can be a source of financing and technical assistance essential for specific activities. Yet another method for capitalization would be to encourage Individual Development Accounts (IDA's). IDA's are accounts through which government matches an individual's contribution to create tax-sheltered accounts which may be used for selected purposes: completing vocational training or university education, buying a home, establishing a business, or supplementing a pension (Sherraden, 1991). The initial capital for such accounts could be bolstered by investments of shares created

under the privatization of social monopolies. Since government contributions could be held until an individual actually uses the IDA, capital would be saved for years before the government would have to honor its commitment, thereby creating a pool for social investments.

Regarding Poland, the discipline and organization associated with the Catholic Church make it a particularly good candidate for the administration of a successful IDA program. Conceivably, the Church could take the lead by initiating such a program as a social compact provider utilizing state funds and the IDA pool account. Another promising development is the use of Employee Stock Ownership Plans (ESOP's) to privatize collective property (Mujzel, 1992). If ESOP's can be used to restructure the industrial sector, why not use them to restructure the social welfare sector as well?

### Conclusion

The Social Compact represents a new paradigm for social welfare, one that is more responsive to market requirements than the welfare state<sup>3</sup>. In emphasizing the role of the private sector vis-a-vis government, the Social Compact paradigm calls for a state that is less central to social policy. This should not be mistaken for a rationale for government to divest itself of its social obligations, however. Our view is not that government has no role in pursuing the welfare of those who have not been beneficiaries of democratic capitalism. It is rather that social programs should be constructed, to the extent possible, in a manner that is consistent with principles of freedom of choice and market economics. The task is not to replace capitalism, but, as has been said before, to make it successful in human terms. Governments must be innovative in establishing social policies that will be relevant to sub-global markets of the twenty-first century.

Reconciling market economics and social justice requires a tolerance of inequity and patience in the legislative process even under the most optimal of circumstances. When basic social protections have been suddenly withdrawn for the sake of economic progress, as has been the case in Poland, the challenge is more acute (Gebert, 1993). Jeffrey Sachs, an economic advisor to the

Polish government, observes that "maintaining a proper balance between social needs and budgetary possibilities is a key economic and political challenge that has no easy solution in sight" (Sachs, 1992). Such pessimism notwithstanding, Poland brings to the world stage considerable assets, among them an industrious work force, visionary political leaders, and a moral constitution that is soundly anchored. To be sure, the insecurities generated by economic transition are troublesome, leading some to wish for the old securities that accompanied command economics. Yet, such nostalgia is illusory. In analyzing a public opinion poll conducted shortly before the fall of the communist government, Adam Sarapata concluded that most Poles seemed resigned to "the permanent monotony of life," (Sarapata, 1992) hardly a just condition for an illustrious people. Indeed, the many strengths of Poland will become more obvious—and more valued—as the lower-cost, more vigorous nations of Eastern Europe begin to compete with EEC (Marshall, 1993).

In these respects, Poland is advantaged to a significant extent compared to its brethren of the former Warsaw Pact. Poland shows little evidence of those cultural divisions that have torn apart Yugoslavia, and which threaten Romania and the nations of the former Soviet Union (Huntington, 1993). In response to the leveling and modernizing influences of global capitalism, some developing nations are shaping their identity on atavistic tribal vengeance and internecine bloodshed (Barber, 1992). Poland is unlikely to follow this path. As Bob Deacon has concluded, the very different circumstances of the former Eastern Bloc lead ineluctably to disparate social policy strategies. Of the options dictated by circumstances, Poland appears among the more favored.

### Notes

1. For details see, Commission of the European Communities, *The Community Charter of Fundamental Social Rights for Workers* (Brussels, 1990); *Proposal for a Council Recommendation on the Convergence of Social Protection Objectives and Policies* (Brussels, June 27, 1991).
2. This part of the Social Compact would apply to cash benefits, not to other services, such as health care, training, etc.
3. The social compact is probably unsuited for application in developing nations since it presumes a degree of industrial development, education of workers,

and existing technology not evident in the Third World. For a model of sustainable development, see M. W. Lusk and D. T. Mason, "Development Theory for Rural Practice," *Human Services in the Rural Environment* 16, 1, (Summer 1992), pp. 5–10.

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