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Exploring Determinants of Welfare State Development in Post-Communist States

A Quantitative Comparative Analysis

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Abstract

Since the collapse of the communist regimes of Soviet Union and Yugoslavia, the welfare regimes in Central and Eastern Europe have been fundamentally transformed in accordance with the process of economic liberalization in these countries. However, the underlying factors behind the diverging paths and trajectories of post-communist welfare states have yet to be understood. Compiling a new dataset covering sixteen countries from 1996 to 2016, this thesis presents a quantitative analysis to explore underpinnings of welfare state development in post-communist states. First, informed by the Quality of Government (QoG) theory, the empirical evidence shows that institutionalization of electoral democracy and good governance practices play a central role in ensuring welfare efforts. Second, this study suggests that budgetary deficits and low economic performance have a significant negative impact on the level of social spending, as the productive use of economic resources are prioritized in those developing economies. Finally, in contrast with power resource theory, the results of this thesis provide evidence that parliamentary party composition has no effect on social welfare outcomes in this particular context.

Key words: good governance, welfare state, social policy, post-communist countries, comparative politics

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Either because it is always introduced at the very beginning of publications, or because one of my greatest sources of curiosity concerns how the authors feel in times of intense work towards the ones they are grateful for, I always read the acknowledgements with great respect. Although, sadly, I was unable to pursue the same dedication while reading the main body of the books from cover to cover. Considering the same will happen to this study as well (if someone – other than the examiner, opponent, and those who will be mentioned below– would show the courtesy of reading this master's thesis), the acknowledgements will probably be the most perplexing part of this thesis, and I have thought hard and long about it. While thinking retrospectively of numerous people who contributed to me making this journey a success, I acknowledge that all errors of insufficient gratitude are mine.

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List of Abbreviations

CEE	Central and Eastern Europe
CMP	Comparative Manifestos Project
EU	European Union
FDI	Foreign Direct Investment
FGLS	Feasible Generalized Least Squares
GDP	Gross Domestic Product
ILO	International Labour Organization
IMF	International Monetary Fund
OECD	Organization for Economic Cooperation and Development
PCSE	Panel-Corrected Standard Errors
PiS	Law and Justice Party of Poland (*Prawo i Sprawiedliwość*)
PRT	Power Resource Theory
QCA	Qualitative Comparative Analysis
QoG	Quality of Government
T&L Ideology	Party position on economic issues, calculated by Tavits & Letki (2009)
TSCS	Time-Series Cross-Section
UK	United Kingdom
US - USA	United States of America
USSR	Union of Soviet Socialist Republics
V-Dem	Varieties of Democracy
WWI	World War I
WWII	World War II

1 Introduction

"From each according to his ability, to each according to his needs"
Karl Marx, *Critique of the Gotha Programme* (1875)

"In the U.S.S.R. work is a duty and a matter of honour for every able-bodied citizen, in accordance with the principle: 'He who does not work, neither shall he eat.'"
1936 Constitution of the Soviet Union

In their colossal book entitled "*Soviet Communism*", Beatrice and Sidney Webb, who were among the founders of London School of Economics, described what they witnessed for two months in the Soviet Union as a "new civilization", which is "based upon a social equality that is more genuine and more universal than has existed in any other community" (Webb and Webb 1936, 12). The couple, who were both founding members of the Fabian Society, claimed that the Soviet Union unprecedentedly provided social arrangements for everyone "irrespective of wealth or position, sex or race, the poorest and weakest as well as those who are 'better off', while only a few countries were able to identify the inherent inequality in their social structure. Although their political sympathy towards the Soviet regime was evident throughout the work, this valuable account was more than a partisan acclamation on the economic and political characteristics of the communist regime: It was also a realistic internal critique of the harsh realities of western civilization, in which "millions of people go under-fed, under-clothed and under-housed, and are yet refused employment at wages" (Webb and Webb 1936, 25). This was a critique from the perspective of two British intellectuals, who authored the *Minority report* on the English Poor Law – the document which, in large part, inspired the foundations of the post-WWII British welfare state.

Despite the restrictions on political freedom and prevalence of coercive practices, even the critics of Soviet communism could hardly object to the fact that the Soviet welfare state, which had been providing a more comprehensive social protection for its citizens than the advanced industrialized countries, at least during the interwar period, had largely preceded the developed welfare states of the West in many respects, as Beatrice and Sidney Webb (1936, 1944) and Madison (1968) demonstrate. Indeed, for some researchers, the expansion of the welfare state has been closely related to the political rivalry between the two Cold War blocs (Obinger and Schmitt 2011, Obinger, Petersen, and Starke 2018). According to Erich Hobsbawm, it was "the fear of an alternative that really existed and could

really spread, notably in the form of Soviet communism", which paved the way for capitalist welfare states and high income for workers (1990, 21). In one way or another, the communist regimes of the Soviet Union and Yugoslavia have affected the formation of social protection regimes of the West, and presented a distinct, autocratic alternative form of welfare state throughout 20th century.

While there have been some programmatic differences between Soviet Union and Yugoslavia, it can be argued that both have pursued a similar strategy of social assistance, which was incompatible with the structural design of capitalist welfare states. As opposed to their Western counterparts, the communist regimes did not evaluate welfare programs as an "emergency" mechanism that should be initiated to protect citizens in case of "social breakdown" and/or inadequacy of market structures, but rather used as a persistent instrument to "prevent social breakdown" (Madison 1968, 49). Therefore, the communist welfare institutions were constructed not only to support those in need, but also provided continuous social assistance to all citizens, usually distributed in the form of highly subsidized foodstuffs, housing and transportation (Deacon 2000). Even though the authorities were unable to consistently apply these principles, the four components of the communist social insurance system can be characterized[1] as follows:

> (1) Coverage of all risks – death, disability, sickness, old age, pregnancy and childbirth, and unemployment –;
> (2) Coverage of *everyone* working for hire and members of his family;
> (3) Benefits equal to total earnings, financed entirely by employers and government;
> (4) Administration of all forms of social insurance by unified organs of a *territorial* type. (Madison 1968, 50)

This unique design of the communist welfare system had several implications for the post-communist era, which complicated their adaptation to capitalist welfare state structures. First, economic security and the provision of ongoing social assistance, especially guaranteed employment, stood in fundamental contradiction to a capitalist world order, in which economic insecurity had always been an essential part of efficiency and economic advancement (Madison 1968). While the strategic shift from prevention of social breakdown to interference under conditions of social breakdown was necessary after the dissolution of the Soviet Union and Yugoslavia, the reconfiguration of welfare systems in accordance with capitalist principles came at a cost. While the institutions of the communist era and their operations had been transformed, the misapplication of or delay in executing the welfare state transition had left citizens without adequate protection in many cases. The transformation of employment protection could be seen as the most problematic aspect of this evolutionary process: Although the practice of forced labour had had many undemocratic manifestations such as the *Gulag* and *Kolkhoz*,

[1] Even though Beatrice Madison's study proposed these principles for Soviet experience, these four principles could be claimed for Yugoslavia as well. For a detailed discussion on the Yugoslavian welfare system, see Ruzica (1992).

the abolishment of employment guarantees were not supported by comprehensive unemployment protection policies, and resulted in people suffering from high unemployment (Deacon 2000). In other words; although the collapse of the regimes abolished the practice of forced labour, citizens remained largely unprotected during the process of replacing the old Soviet principle of *"He who does not work, neither shall he eat"* with need-based social protection mechanisms. Second, as Madison (1968) emphasized, despite the claim of administering social policies at the territorial level, administrative decentralization was rather limited, and the Communist Party was the key for decision-making and implementation of social policies. It can be claimed that the high degree of administrative centralization hindered the development of institutional capacity at the local level, and the collapse of communist regimes left these institutions unattended in many cases. Thus, the government institutions of new states are largely shaped from scratch, having largely been affected by the economic and political preferences of the country.

With the collapse of socialist regimes in the Soviet Union and Yugoslavia, thirty independent states have been formed in their territories so far, and they have followed the 'varieties of capitalism' approach, along with different paths of democratization (Lane 2005). While the comparatively richer Central European countries have been integrated into continental market capitalism, hybrid-regimes in transition have been prevalent in the Black Sea region. Moreover, new forms of state capitalism under the control of totalitarian leaders have emerged in Belarus, Uzbekistan and Turkmenistan. Additionally, despite their shared political destiny and somewhat similar social security structures during the Cold War, the degree of democratization and welfare models implemented in these post-communist countries demonstrate a great divergence among themselves (Fenger 2007). While many of the Baltic and Central European post-communist countries have taken remarkable steps into the development of a welfare regime that shares many similarities with industrialized Western countries (Cerami and Vanhuysse 2009), the majority of Eastern European and Caucasian states have failed to follow a persistent and successful path of welfare regime establishment (Gugushvili 2015). Yet, the variance within the post-communist states cannot be oversimplified to the regional effects or a dichotomy between successes and failures; since both the neighbouring countries and so-called "successful" / "failed" examples exhibited very different patterns of social policy within their sub-groups.

1.1 The Purpose of the Study and Research Questions

In measuring the diverging trajectories of social protection regimes in CEE and its peculiar political context, the purpose of this investigation is to explore the underpinnings of welfare state development in the post-communist states. Although

there is a growing interest in the Eastern European welfare states, the existing literature largely focuses on the changing patterns of social policies (Kuitto 2016, Deacon 2000), welfare state typologies and pathways (Fenger 2007, Cerami and Vanhuysse 2009), and trajectories of social policy development in certain countries (Aidukaite 2004, Cook 2007), rather than examining the dynamics of varying welfare efforts across those countries. On the other hand, as it will be detailed in the next chapter, it has been observed that the existing welfare state theories are primarily constructed upon the empirical findings from OECD countries and, consequently, they embrace certain assumptions which do not fit the historical background and material conditions of post-communist countries. Therefore, by empirically analysing the level of welfare expenditure in post-communist countries, this thesis aims to address the following research questions:

1) What are the institutional, political and economic determinants of welfare regime development in post-communist countries?
2) Which one of the existing welfare theories would better explain the dynamics of post-communist welfare state development, and what theoretical insights can be derived from the literature on OECD countries?

Informed by the Quality of Government theory (Rothstein and Teorell 2008, Rothstein, Samanni, and Teorell 2012) and new institutional economics perspective (Acemoglu, Johnson, and Robinson 2005, Acemoglu and Robinson 2012, North 1991), the present study particularly investigates the effect of good governance and economic development on welfare efforts, by taking closer look at sixteen post-communist states between 1996-2016.

1.2 Organization of the Thesis

The overall structure of the study takes the form of five sections, and supplementary materials are shared in the appendix. The second chapter contextualizes the thesis by providing an overview of previous research and existing theories on the underpinnings of welfare state development, while its second part lays out the theoretical framework employed for this study. The third chapter discusses the variables and their sources, as well as specific methods by which the research and analyses were conducted. Then, in the fourth chapter, the results of quantitative analysis are presented bringing them together with the proposed hypothesis. The fifth and final chapter summarizes the principal findings of the thesis by discussing the explanatory power of existing welfare state theories in the context of communism. This chapter concludes the thesis acknowledging the limitations of the present study and future research possibilities.

2 Previous Research and Theoretical Framework

This chapter starts with outlining the major theoretical strands of the previous research on welfare state development, which is primarily constructed on the empirical findings from advanced industrial countries. Then I discuss its repercussions on the literature examining social policies in Central and Eastern European countries, underlining some categorical differences between market-oriented democracies and those post-communist states. The third section of this chapter aims to integrate the findings of selectorate theory into the welfare state literature, questioning the effect of regime type on government performance and redistributive politics. Finally, the theoretical perspective upon which this study is grounded will be presented by contemplating the implications of reviewed literature for post-communist countries meticulously, through which the *Quality of Government (QoG)* theory will be proposed as a novel approach explaining welfare state development in developing, post-communist countries.

2.1 Existing Scholarship on the Origins of Welfare State Development

As the early development of welfare state literature was "motivated by theoretical concerns with other phenomena" such as industrialization and capitalist contradictions, the term of *welfare state* has remained as a loosely-defined concept for a long time without a common agreement on its definitive attributes, and different paradigms have highlighted its distinct features (Esping-Andersen 1990b, 10). In his seminal work "The Three Worlds of Welfare Capitalism", Gøsta Esping-Andersen attempted to fill this gap and proposed an overarching concept of the welfare state by stressing its three inalienable characteristics: (1) granting social rights and entitlements that decreases individuals' dependency to market, a process which is called as "decommodification", (2) eradicating class-based social stratification by replacing it with social citizenship, and (3) interfacing between the market, the family and the state (Esping-Andersen 1990b). Since the publication of his book, researchers contemplating on welfare policies have, by and large, agreed upon Esping-Andersen's precise yet comprehensive conceptualisation.

Nevertheless, as the title of Esping-Andersen's book – which was written shortly before the collapse of Eastern Bloc – indicates, the capitalist world system has routinely been considered as an integral part of welfare state development, and this assumption has been long taken for granted by many scholars from different schools of thought. Structuralists argue that the welfare state developed as an inevitable result of the destruction of traditional society after industrialization (Wilensky 1975, Alber and Flora 1981), and presumed an exclusive connection between the welfare state and capitalism. Emphasizing the state's embeddedness in society, class conflicts and elites' interests, the Marxist stream of the structuralist approach also regarded the introduction of welfare programs by advanced industrial states as alleviations of the inherent contradictions of the capitalist mode of production (Miliband 1969, Poulantzas 1980), which makes welfare policies nothing more than a by-product of capitalism. Such an approach, which treats the emergence of the welfare state as consistent with the "logic of capitalism", is also supported by several studies emphasizing the greater support of right-wing parties for social programs in some historical periods (Shalev 1983, De Koster, Achterberg, and Van der Waal 2013) and the anti-revolutionary role of the welfare state in historical context (Rimlinger 1971, Hobsbawm 1990, Piven and Cloward 1993, Obinger and Schmitt 2011). On the other hand, the institutionalist approach, which has been commonly presented in opposition to the structuralists, has not led to a remarkable difference in associating capitalism and the welfare state. Indeed, as it is surveyed later in this thesis, the institutionalist approach emphasizes not only the integration of capitalist states into open-market economy (Katzenstein 1985, Esping-Andersen 1990a, 98-99), but also the role of democratization as it opens a window of opportunity for class-mobilization (Korpi 1983, Skocpol and Amenta 1986) and electoral bargaining between political elites and voters (Tufte 1978, Hobolt and Klemmensen 2006, Klomp and De Haan 2013). All in all, although the scholars of welfare studies have referred to a variety of social, economic and political factors as the triggering force behind the construction of welfare states, there has been almost a 'silent consensus' that perceives the welfare state as a unique characteristic of advanced industrial countries, which is in line with Gøsta Esping-Andersen's conceptualization. This explains the rigidity with which the free-market regime and democratic rule of government, which constitute the two main tenets of modern Western states, have been regarded as somehow necessary features of any welfare regime; in great part, because of the exclusive focus on OECD countries that has been dominant throughout the early works in the subfield.

Yet, the expansion of scholarly discussions around the welfare state into developing states in the last decades has led a further investigation of the determinants of welfare state development. While the welfare regime types in transition economies clearly differ from the advanced Western states, (Gough and Wood 2004, Abu Sharkh and Gough 2010), those geographically-dispersed developing countries are quite divergent among themselves as well in many respects, such as with regard to the level of social protection, wealth accumulation,

strength of democratic institutions, class mobilizations and economic development. Thus, in this context, the re-examination of the nature of the relationship between democracy, economy and welfare state development provides alternative explanations on what fosters the advancement of social welfare policies, bringing new questions to the surface. Accordingly, the distinct patterns of redistribution policies in low and middle-income countries have triggered a new discussion on the varieties of welfare capitalism in the developing world (Rudra 2007, Franzoni 2008, Fenger 2007), which has subsequently paved the way for a non-Eurocentric approach to the welfare state. Calculating institutional performance and welfare outcomes, Wood and Gough (2004) offered a new taxonomy of welfare regimes from a global perspective, which expanded the Esping-Andersen's classical categorization of welfare state regimes by adding new layers that also embrace middle and low-income countries (see Figure 1). Re-examining nine features inherent to welfare state regimes in OECD countries, which also embrace the capitalist mode of production and democratic "inter-class political settlement" (Gough and Wood 2004), they introduce two meta-welfare regimes called "informal security regimes "and "insecurity regimes", which is further divided into subcategories. The insecurity regimes provide almost no welfare support to its citizens but also hinder the emergence of social bonds and solidarity mechanisms, due to internal conflicts and accumulation of wealth and power in the hands of warlords. Informal security regimes, on the other hand, are capable of conducting some social policy programs to a limited extent, which is largely compensated for by communal relationships and kinship. In these peripheral capitalist countries, the poor mostly suffer from the lack of comprehensive universal welfare programs, while the family support and clientelist bonds work as temporal solutions to alleviate long-term insecurity. Despite their current weaknesses, informal security regimes have the potential to evolve into welfare regimes, as in the case of Korea and Taiwan, as Wood and Gough (2006) propose.

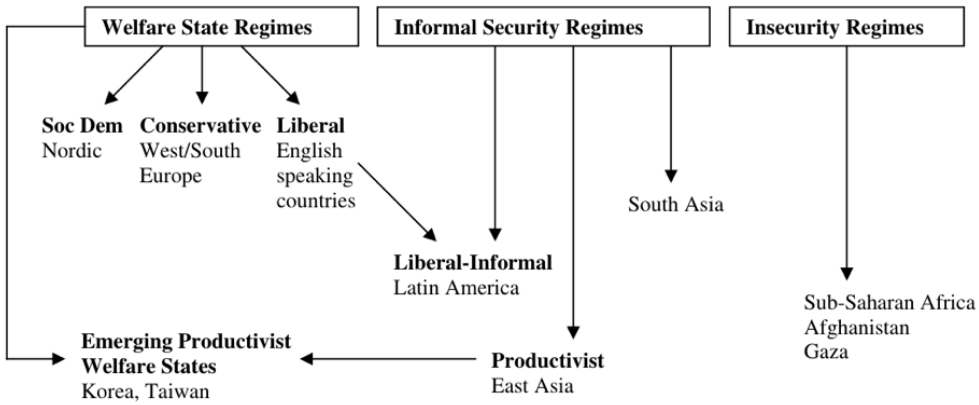

Figure 1: Taxonomy of Global Welfare Regimes (Wood and Gough 2006)

In their categorization, some post-communist states such as Slovakia, Slovenia, Czech Republic and Hungary, are counted among "actual or potential welfare state regimes" (Gough and Wood 2004). Later, Abu Shark and Gough (2010) further

analysed the welfare regime types in non-OECD countries, and several ex-Soviet states such as Belarus, Bulgaria, Croatia, Estonia, Lithuania, Poland and Romania are clustered among the best performers, both in 1990 and 2000, and are called "proto-welfare states". Despite the expansion of social protection programs, these countries are negatively affected by "the external imposition of neoliberal programmes" (Abu Sharkh and Gough 2010). On the contrary, the welfare regime in Kazakhstan and Moldova stepped back from the proto-welfare state towards successful informal security regimes in 2000, which are identified with low public expenditures albeit with relatively better outcomes. As Abu Sharkh and Gough's across-time comparison depicts in a theoretical manner, the post-communist countries form a divergent cluster in which its members move towards different directions in welfare state development, providing examples of both expansion and retrenchment of the welfare state, as well as stable cases such as Tajikistan. Such distinct welfare outcomes, which emerged just after a decade following the collapse of the Eastern bloc, render the post-communist countries a rewarding selection of cases to examine "the variation in policies of social protection in developing countries", where "the most exciting research opportunities in the study of welfare states lie" and it has been "one of the most dynamic fields of research in comparative politics" (Carnes and Mares 2007, 1-2).

As Carnes and Mares (2007) clusters, the previous research in welfare studies provided four different approaches disclosing the impetus behind welfare state development, which is largely deduced from empirical analysis of OECD countries but could be also pertinent to post-communist countries.

2.1.1 Structuralist Theory: Economic Growth and Industrialization

The early comparative studies on the welfare state dating back to 1960s argued that the systemic/structural factors integral to economic development and industrialization led to the birth and expansion of welfare states (Cutright 1965, Wilensky 1975). Focusing on the similarities of industrialized welfare states rather than their differences in culture and social power relations (Esping-Andersen 1990b), they closely associated welfare state development with a certain level of economic surplus reached through industrialization. In contrast with some other structuralists, who perceive social protection programs as a remedy for the transformation of traditional society after industrialization and the contention that an efficient solution could be offered by modern bureaucracy (Alber and Flora 1981), Wilensky and Lebeaux (1958) primarily focused on the level of accumulation of wealth, which helped them to explain the century-long time gap between the industrial revolution and introduction of public policy programs, rather than a concurrent development (Esping-Andersen 1990b). They proposed that the prosperity of wealth could be only transferred to welfare programs when the level of surplus is sufficient to finance both investments and welfare, as the former has

been prioritized (Wilensky and Lebeaux 1958). As Wilensky (1975) proposes, the need for an educated workforce in industry, and the bureaucratization of the state in later stages of industrialization, created an incentive for governments to invest in their citizens. Moreover, the maintenance of a certain degree of equality among the citizens was necessary for the functioning of the capitalist system, which makes social spending a good trade-off for efficient production (Okun 1975). From the structuralist approach, the emergence of productivist welfare states in Korea and Taiwan could be seen as an outcome of their recent economic development as well (Carnes and Mares 2007).

Another strand of structuralist theory emphasizes the impact of openness to trade, proposing the argument that governments in open economies should protect domestic workers, as international competition risks their income and employment (Cameron 1978, Katzenstein 1985). Measuring economic openness through the volume of imports and exports in OECD countries between 1960 and 1975, Cameron (1978) found strong support for his hypothesis, which has been also confirmed by other scholars examining the impact of trade across the globe for a longer time-span (Rodrik 1998b, Adsera and Boix 2002). However, despite historically positive effect of international trade on social policies, Dani Rodrik underlines that rapid globalization also undercuts the finance of social insurance mechanisms (Rodrik 1998a), and he provides evidence for an alternative explanation that the volatility in trade volume, which threatens the income of workers, forces governments to protect citizens from adverse shocks (Rodrik 1998b).

These two hypotheses claiming a positive relationship between the expansion of the capitalist economy and welfare state development has been criticized on several points. Firstly, the empirical studies of Cutright (1965) and Wilensky (1975) provide evidence for the "logic of industrialism" approach by looking at levels of economic development in advanced industrialized countries, even though these did not control the impact of class mobilization across countries or institutional, political differences (Esping-Andersen 1990b). Secondly, as these early studies were only able to conduct their analysis in the OECD countries, due to strictly restricted data availability, the universality of their arguments has been questioned and contemporary studies have found either no effect or a weak impact of economic development on a larger sample (Adsera and Boix 2002, Mares 2005, Carnes and Mares 2007). Thirdly, as the level of aggregate public spending does not explain what kind of welfare policy commitments are made, the structuralist approach generally fails to explain the divergence of prioritized social policy areas among countries with similar welfare policy spending (Carnes and Mares 2007).

2.1.2 Power Resource Theory

Largely pioneered through the works of Walter Korpi (1983), John Stephens (1979) and Gøsta Esping-Andersen (1985), the Power Resource Theory (PRT) highlighted the strong interconnection between the generosity of social policies and the distribution of power between social classes within a country. The main assumption underlying PRT can be summarized as follows: As the power discrepancy between the working class and employers gets smaller, the level of social spending increases due to the increasing bargaining power of the former. Hence, countries facing a strong working-class mobilization through labour unions and social democratic political parties have introduced comprehensive welfare state regimes in which employers have had to make some concessions (Korpi 1983, Huber and Stephens 2001). Examining the expansion of welfare policies in post-WWII Europe, power resource theorists argue that the generosity of the Scandinavian welfare systems was a product of both strong working-class mobilizations and, more particularly, a "red-green" alliance in coalition formations, which would explain the difference between Austria and Sweden despite having comparably strong labour movements (Esping-Andersen and Korpi 1984, Esping-Andersen 1990b). While the works of PRT scholars expanded the scope of welfare studies by investigating the variation in degree of generosity between welfare state regimes, as well as prioritized policy types, their theoretical contribution still remains salient and highly influential on welfare studies scholarship, in which contemporary works provide support for the hypothesis (Allan and Scruggs 2004, Huber and Stephens 2001, Korpi and Palme 2003).

Nevertheless, PRT has also attracted some objections. Researchers examining the role of right-wing parties in social spending have noted that the conservative parties – particularly Christian democratic parties – also significantly spent more on social policies pursuing their own distinctive welfare state project (Kersbergen 1995, Castles 1982). Taking such criticism into account, power resource theorists have evidently addressed the positive impact of Christian democratic parties (Esping-Andersen 1990b, Huber, Ragin, and Stephens 1993, Huber and Stephens 2001), and admitted the "fallacy in the theory's assumptions about the class formation" referring to the historical base of working-class mobilization around Church, ethnicity and language in pre-capitalist communities (Esping-Andersen 1990b, 17). Other critiques of PRT, which constitute the basis of cross-class alliances approach, pointed out that PRT's assumption of "zero-sum conflict among workers and employers" (Carnes and Mares 2007), cannot be taken as axiomatic, since employers do not always resist social policies (Mares 2003, Swenson 2002). Thirdly, PRT's monotypic understanding of social democratic parties has been challenged, noting that universal protection programs have not been univocally advocated by all social democratic parties. Rueda (2005) demonstrated that many social democratic parties in OECD countries have prioritized the concerns of the contracted employees, which formed their voter base, over those vulnerable to

unemployment. Similarly, the left-wing parties in CEE countries significantly spent less than right-wing parties due to structural differences in the political system of post-communist countries (Tavits and Letki 2009). Finally, PRT failed to consider the decisive influence of government institutions, their legitimacy and trustworthiness, and political corruption (Rothstein, Samanni, and Teorell 2012).

2.1.3 Cross-Class Alliances

Challenging the class-conflict based explanation of PRT, Peter Baldwin's study on the origins of the solidaristic welfare state has offered an alternative perspective focusing on cross-class alliances during the development of welfare programs in five European states (1990). He highlighted that "even the bourgeoisie has had much to win from a correctly crafted welfare state" (Baldwin 1990, 28), and middle-class and farmer parties, such as *Venstre* in Denmark and *Bondeförbundet* in Sweden, have been fervent advocates and implementers of universal welfare programs. His research revealed that comprehensive welfare programs such as old-age pensions date further back to the pre-WWI period, which was well before the post-WWII domination of social democratic parties. This actor-oriented explanation highlights that the class position of actors is not the sole rationale behind their social policy positioning, as internal group dynamics and risk assessments also affect the decision-making process. Thus, for Baldwin, the incidence of risk for a given social group and its capacity for self-reliance reshapes their policy positioning in regards to redistributive measures (Baldwin 1990, 12). As a result, groups under the high incidence of risk and low capacity for self-reliance have supported universal welfare programs to insure themselves against the burden of social risks (Carnes and Mares 2007). Later, Swenson (2002) found more evidence for the cross-class coalition hypothesis, pointing out the fact that New Deal in the USA was passed with the backing of segmentalists and cartelists despite the lack of a strong labour movement during the 1930s, while Swedish Social Democrats had made only modest changes in social programs. Mares' research on German and French business firms and labour markets also showed that a corporatist agreement in favour of social policies emerges between employers and workers when both want to invest in skills (2003). The need for the skilled labour force in East Asian economies, as the advocates of the cross-class alliances hypothesis claims, could be a plausible explanation for why Korea and Taiwan are on the path of becoming welfare states (Carnes and Mares 2007).

Even though their inquiry into the role of employers presented a new perspective on welfare state development, the advocates of the cross-class alliances approach have been criticised for misinterpreting "employer's consent to reform proposals from the left as evidence of their first-order preferences for welfare state expansion" (Korpi 2006, 202). As Korpi remarks, the cross-class alliance approach explicitly admits that employers were not the protagonists for social reforms but

were involved in already-initiated processes of welfare state expansion as consenters. This does not contradict PRT, as it acknowledges the possibility of cross-class alliances, yet it "appears to be of much smaller significance than the class-related ones" (Korpi 2006, 2003). Despite the empirical findings on the correlation between welfare state expansion and composition of people's skills (Iversen and Soskice 2001), which is in line with Mares' historical analysis, Korpi interprets this correlation as the outcome of left-wing and confessional cabinets rather than national skill profile, as they disregard variation in unemployment levels across socioeconomic groups and overlook life-course risks scrutinized in PRT (Korpi 2006, 203-205).

2.1.4 The State-Centred, Institutionalist Approach

Although a positive impact of democracy on social redistribution has long been assumed, even before the birth of modern welfare state (Esping-Andersen 1990b, 15), the question of how state institutions and existing policies affect the development of welfare states has not been very central to the formulations of structuralist, PRT and cross-class alliance theorists. The institutionalist perspective on the welfare state fills this gap by applying the broader theoretical discussion around institutionalism to welfare studies. Proposing to "bring the state back in" to analyses of policymaking and social change (Evans, Rueschemeyer, and Skocpol 1985), the institutionalists underline the path dependency in welfare reforms, which is largely shaped by state structures, norms and the preferences of bureaucrats. Hugh Heclo's comparative research on social policies in Sweden and the United Kingdom (1974) pioneered the institutionalist approach, explaining differences in social policy outcomes between these two countries through their perception of previous failures. For Heclo, the decisions of policymakers are the outcome of a "process of social learning expressed through policy", which is heavily affected by past experiences and existing policies (Heclo 1974, 306). Weir and Skocpol's examination of macroeconomic policies in Sweden, Britain and the USA during the Great Depression illustrated that, despite its high level of unionization and having a Labour government, Britain did not follow Keynesian policies, as opposed to Sweden, primarily because "the absence of extensive experience with large-scale or centrally managed public works expenditures, the administrative difficulties of launching any such new endeavour appeared to be formidable" (Weir and Skocpol 1985, 122). On the other hand, the openness to policy change in the USA and Sweden resulted in Keynesian policies that significantly increased the level of social expenditures, even though the USA lacked working-class mobilization and social democratic parties. Likewise, in another comparative study on social insurance and pension systems in Britain and the USA, Skocpol and Orloff critiqued the explanatory power of the logic of industrialism approach, proposing that the divergent social policy outcomes in the two countries are the product of institutional differences in terms of civil bureaucracy, states' capacity to cope with

political corruption, and programmatically oriented political parties (Orloff and Skocpol 1984). Their state-centred framework emphasized that policy preferences of social groups are deeply affected by the autonomous actions of bureaucrats, state institutions and their transformation.

In *Protecting Soldiers and Mothers,* Skocpol further elaborated her institutional explanations on welfare state development by concentrating on how governmental profligacy and political corruption in the implementation of the Civil War pensions scheme hindered the development of universal welfare programs in the United States. According to Skocpol, although the United States was a relatively well-developed welfare state on the eve of the 20th century, the dominance of clientelist relations during the expansion of Civil War pensions from between 1870-1910 made a highly negative impression on US reformers, who were finally convinced that the United States is not capable of implementing "any new social spending programs efficiently or honestly" (Skocpol 1992, 60). As Skocpol demonstrates in the US case, "policy feedbacks" significantly affect social policymaking through changing/expanding state capacity and transforming social identity, goal and capacity of politically active groups (Skocpol 1992, 58). Additionally, Paul Pierson's findings on welfare state retrenchment during the Reagan and Thatcher administrations (1994) presented a new institutional perspective, which illuminated the dynamics during the dismantling of the welfare state by also referring to "policy feedbacks". According to Pierson, despite their common endeavour to diminish social spending in Britain and the USA respectively, the relative success of Thatcher and Reagan significantly varied across countries and policy areas, due to the differences in existing policy designs (Carnes and Mares 2007). In spite of the criticisms of institutional determinism, the institutionalist school of welfare policies insists on the hypothesis that "policies create politics" and have underlined "the need for social scientists to be attentive to the Braudelian focus on the *longue durée*" (Lynch and Rhodes 2016).

The state-centred approach has been very useful in explaining the welfare reforms in developing countries, where the preferences of policymakers have a great influence on agenda-setting in contexts where there is a lack of established institutions, strong labour unions and social democratic parties (Carnes and Mares 2007). Yet, critics of the institutionalist approach point out its numerous theoretical and methodological weaknesses. Firstly, institutionalists are accused by many power resource analysts of neglecting the power dynamics and class-conflict in society, although Walter Korpi regarded rational-choice institutionalism compatible and complementary with PRT (Lynch and Rhodes 2016). Secondly, the explanatory power of the state-centred approach is questioned due to its indeterminate predictions on continuity and rapid change, as both were predicted in different studies (Carnes and Mares 2007). The policy changes based on path-dependent trajectories are hardly predictable, which creates a methodological problem on the testability and falsifiability of institutionalist arguments.

2.2 Explaining Welfare State Development in Central and Eastern Europe: Dominant Paradigms

Along with relatively industrialized countries in Latin America, many of the former communist states in Central and Eastern Europe have been treated as the frontrunners of social policy development in the developing world (Abu Sharkh and Gough 2010). Considering those countries implemented extensive and universal social protection schemes under the communist regime – which were in fact "as developed as those in the West" in some cases (Aidukaite 2009) –, the reestablishment of welfare programs in the post-communist countries comes as no big surprise. However, the divergence in social policy outcomes and generosity of welfare programs across countries and policy areas are striking, considering the fact that such a gap appeared in less than three decades. While many Central European and Baltic post-communist states are evolving towards the welfare state regimes of Western Europe (Cerami and Vanhuysse 2009), the generosity of social protection programs in Armenia, Azerbaijan and Kazakhstan seem far behind those of the Soviet era.

Regardless of their variation in current policy outcomes, what makes the post-communist states distinct cases is the fact that their welfare state experience under the Soviet Union and Yugoslavia had peculiar sets of norms, institutions and ideation. Firstly, as opposed to the institutional redistributive model dominant in the West, the welfare programs in the Eastern bloc were conducted on the principle of merit, work performance, or productivity, which is described as the "industrial achievement-performance model" (Titmuss 1974, 31). Consequently, there had been a categorical difference between the need-based social security regime of liberal democracies and "handmaiden model" of welfare policy in communist states. Another notable difference between Western Europe and the Eastern bloc, which distinctively shapes the state structures, political culture and social mobilizations in those countries, was their political system. As Wilensky (1975) emphasized, the manner and degree of citizens' political participation, as well as their influence on policymaking, vary between countries, and communist states such as the USSR and East Germany were labelled "totalitarian", with a high level of coercion and mass participation at the same time (Aidukaite 2009). Considering the possible effects of high coercion in the form of the "dictatorship of proletariat", it can be argued that the hypotheses of PRT and cross-class alliances would not be easily applied to the USSR, Yugoslavia and East Germany due to their structural divergence from the liberal democracies, in areas such as workers' obligatory membership of labour unions and lack of a "bourgeois" class. Similarly, these

asymmetries between the two sides of the Iron Curtain necessitate the reformulation of institutionalist and economy-driven explanations too, as they would only become applicable to the Eastern bloc after adaptation. For instance, due to job guarantees under Soviet regime, the communist governments seldom needed to introduce unemployment benefits (Deacon 2000), which could be seen as a lack of administrative experience in its organisation in the post-communist era from an institutional perspective. Although the provision of healthcare was formally free for everyone, the quality of services was low with high mortality rates, and bribery in the form of "gifts" was prevalent. Most importantly, granting rights and social benefits from the top to those below, under the proletarian dictatorship, prevented the development of society as an autonomous agent fighting for its rights. Thus, throughout the years in which the above-mentioned welfare theories developed, the welfare state development in the communist countries was largely disregarded until the fall of communism in 1991, while Wilensky's *The Welfare State and Equality*, which was published in 1975, was the last book covering Eastern European states (Aidukaite 2009).

Despite the regime change and their gradual adjustment to the global market economy, it could be claimed that the Soviet heritage of post-communist countries still affects their policy-making process through party formations, policy feedbacks, cross-class relations and economic growth, in various ways (Saxonberg 2019). Accordingly, several studies examined whether, and how, the classical welfare state theories would explain the dynamics of social policy reforms in CEE states, by taking a closer look at their theoretical implications. Firstly, Deacon (2000) claimed that, in spite of the limited effect of economic globalization on welfare policies, the social policies of post-communist states were hit by political globalization, as "global actors (such as the World Bank) promulgating for ideological reasons a particular view of desirable social policy in the region", which fosters the privatisation of education and pension schemes as well as the regulation of housing markets (Deacon 2000, 157). The accounts of the "logic of industrialism" also underline the adverse effects of the market integration process, during which financial crises, low economic output and external debt led to austerity in social expenditures (Aidukaite 2009, Müller 2001).

Secondly, the suitability of PRT in Eastern European countries has been discussed in various studies, but the adaptation of European political groups to the Eastern European context had many difficulties, mainly because of the unsettled structure of party politics and unique cultural/historical connotation of certain ideologies. As opposed to Western Europe, the left-wing parties are seen as the successors of the communist parties and have to prove their disassociation from socialism to curb their pariah status (Tavits and Letki 2009), while Christian democratic parties are either relatively small or non-existent at all. Instead, the national-conservative, populist parties like *PiS* in Poland and *Fidesz* in Hungary have been able to enjoy a parliamentary majority in a fragmented party system,

where the policy positioning of political parties is neither clear nor stable. In the end, the lack of programmatic differences between political parties and their vote-seeking attitudes (Lipsmeyer 2002, Cook, Orenstein, and Rueschemeyer 1999), governments' protest avoidance (Vanhuysse 2006) and citizens' high expectations of social assistance from comparing the current social policies with the conditions of socialist era (Saxonberg 2019) has made the cutbacks on social spending politically difficult. Under these circumstances, the research on the effect of governing party ideologies has produced contradicting results: Lipsmeyer (2000) argued that right-wing parties are more likely to take radical measures for welfare state retrenchment by increasing the retirement age and cutting the replacement rates down, whereas Tavits and Letki (2009) proposed that left-wing parties have used their credibility in economic policy to enact tighter budgets as opposed to outspending right-wing parties.

The explanatory power of the institutionalist approach has been relatively strong in the post-communist countries, although "the influence of the political elite and bureaucrats is rather underresearched" (Aidukaite 2009, 30). On the example of Baltic states, it is asserted that policymakers and bureaucrats have had the utmost impact on welfare state development (Aidukaite 2004). The weakness of grassroots movements and civil society in Eastern Europe is indicated among the reasons of welfare state retrenchment, as citizens cannot effectively oppose the imposition of liberal policies (Howard and Howard 2003, Ferge 2001). Yet, the institutionalist accounts of social policy reforms in post-communist states do not offer a comprehensive perspective which could illustrate variations across countries and time.

2.3 Providing "Welfare" for Political Survival? Selectorate Theory and Instrumentalisation of Social Policies in Authoritarian Settings

As a general assumption dominant in many scholarly works on democracy and social policy, the social choices of elites and ordinary citizens contradict each other, as the latter is in favour of redistributive taxation in contrast to the preferences of the rich (Acemoglu and Robinson 2006, 15). Since welfare policies are largely funded by tax revenues and aim to decrease the inequalities within society providing economic support to those in vulnerable positions, the low and middle income citizens would potentially be the beneficiaries of welfare state expansion, while the financially privileged elites would have much more to lose than the poor when tax-funded public expenditures increase. Due to their conflicting interests in regard to redistribution of power and income, their group preferences between democracy and dictatorship, as well as in relation to different political institutions,

should rationally diverge. Consequently, democracy as a regime type where a majority of the population have a say in political decisions is predicted to create relatively more favourable outcomes for the people. Thus, whether the political institutions are designed in favour of elites or ordinary citizens directly affect not only the scope of redistribution, but also "future allocation of political power" (Acemoglu and Robinson 2006, 16). As an implication of this hypothesis, several studies have examined the effect of electoral competition on welfare state expansion, and found that the necessity of political parties attracting more voters in democracies positively affects public expenditures (Cutright 1965, Tufte 1978, Hobolt and Klemmensen 2006).

Nevertheless, evaluating democracy among the pioneering forces behind welfare state expansion has been considerably criticized in reference to "historical oddities", although all established welfare states are quite democratic (Esping-Andersen 1990b). For its critics, this hypothesis would not answer the question of why the very first examples of welfare policies had been introduced in Bismarckian Germany, and in France under Louis Napoleon, well before the democratization of those countries. Similarly, the failure of welfare state development in the United States, where the oldest standing democracy of the modern world has been established, has commonly been referred to as a counterfactual case for the democracy thesis. Furthermore, while many democratic regimes have had a very limited welfare provision, the 20th century also witnessed the foundation of extensive welfare states in rather poor but totalitarian regimes such as the Soviet Union, Eastern Germany, Yugoslavia and Cuba. In parallel to these historical examples, Wilensky (1975) also indicates that the regime type and ideological position of ruling parties have almost no effect on social expenditures, although his classification of regimes and the robustness of his findings has been much debated. In sum, all these criticisms point out that, even if the industrialised welfare states have retained a high level of democracy, it does not necessarily mean that democratisation fosters welfare regime development.

Even though the literature on the economic performance of dictatorships and redistribution policies in non-democratic settings has developed independently of the discussions on welfare state development to a large extent, its findings are illuminating when examining the varieties of welfare states. As opposed to the common perception that assumes autocrats do not provide public goods and services, since they are supposed to behave like bandits, McGuire and Olson's formal model offered a new approach on the economics of autocracy, which indeed proved that "an 'invisible hand' gives a roving bandit an incentive to make himself a public-good-providing king" (McGuire and Olson 1996, 73). They argued that even autocratic leaders with unlimited power do not extract all resources for their self-interest, because their long-term interest in receiving stable and adequate income through taxation encourages them to compromise with the interests of society, whose level of production and efficiency directly affects tax revenue.

Defining a win-win situation for both society and autocrats by referring to the concept of "encompassing interest", they underline that the limitation of tax rates and public redistribution of some of the resources at the optimal level are necessary to avoid deadweight loss, which could occur if the productivity and social efficiency of society decrease. Thus, a secure autocrat seeking long-term stability should limit his tax rate and invest in public goods and services in order to maximize income, and welfare provision may become a political instrument for political survival, thanks to the overlapping interests between the autocrat and his citizens.

McGuire and Olson's hypothesis was later extended by the findings of selectorate theory, which drew attention to the importance of the relationship between the size of ruling groups (hereafter "*winning coalition*", denoted by W) and policy preferences (Bueno de Mesquita et al. 2003). Assuming all incumbents aim to retain their power and manoeuvre accordingly, the authors underline that what primarily shapes leaders' policy choices and institutional arrangements is the size of necessary political support to form a minimal winning coalition, rather than the regime type. While the term of "selectorate" (denoted by S) is defined as "the set of people whose endowments include the qualities or characteristics institutionally required to choose the government's leadership" (Bueno de Mesquita et al. 2003, 42), they claim that the more the ratio of W/S increases, the more public policy investment of the incumbents rises. The logic behind this argument lies in the characteristic differences between public and private goods. Public goods, which mostly consist of universal social programs and services, are nonexcludable and nonrival in nature, and all individuals can freely benefit from these in an egalitarian way. On the other hand, private goods, such as tax forgiveness and other special privileges, can be provided only for key supporters, since these are rival, costly and excludable goods. As a result, the political leaders that necessitate larger political support mostly rely on public goods, even though all leaders distribute both private and public goods as an instrument of promoting their political survival. On the contrary, other regimes requiring lower W/S ratio and stronger loyalty within the winning coalitions – such as military and single-party dictatorships – may prioritize the distribution of private goods to a small group of the population. Although their distinction between low and high r W/S regimes largely coincides with the democracy-dictatorship dichotomy, it provides "a more nuanced understanding of political dynamics than is achieved through the use of categorical regime labels" (Bueno de Mesquita et al. 2003, 55) and offers a plausible explanation of the variation of economic performance across non-democratic countries. Since the ratio of W/S significantly differs across non-democratic countries, the larger size of the winning coalition and selectorate does not necessarily make a regime democratic, as is seen in the example of electoral authoritarian regimes. All in all, the selectorate theory highlights the possibility of extended welfare programs under authoritarian settings, and authoritarian leaders like Jair Bolsonaro, Tayyip Erdoğan and Viktor Orbán may indeed invest in the

expansion of public policies deliberately. Similarly, an empirical analysis of authoritarian rulers between 1946-1996 supported the argument that autocratic leaders instrumentalise public institutions to extend their tenure in office, and give some policy concessions to broaden their base of support when they face a tough opposition (Gandhi and Przeworski 2007).

Last but not least, one should mention the rentier state theory, which provides another counterargument to challenge the assumption that democracy has an inalienable role in welfare state development. While the term "rentier state" has been used by Marxists with a different connotation, Hossein Mahdavy has reconceptualized its meaning to indicate "countries that receive on a regular basis substantial amounts of external rent", where external rents also include the revenues from exported natural resources (i.e. natural gas and oil) and rents paid by foreigners, as in the case of the Suez Canal (Mahdavy 1970, 428). Since all countries enjoy receiving a certain level of income through external rents, the conditions necessary to label a country as a "rentier state" are later refined, underlining its four main characteristics: (1) rents should be the predominant source of income, (2) rents should be derived from external sources rather than internal circulation of money, (3) a small group of people should govern the generation of rents, while the majority of the population is only engaged in its distribution and utilisation, (4) the state has to be the main recipient of generated rent, as they channel the revenues to the economy through public expenditure (Beblawi and Luciani 1987, 12). The prevalence of rentier states in the Middle East has been evaluated among the principal factors preventing the development of democracy and efficient economic development, which is seen as the "resource curse" (Ross 2001, 2013). In his seminal work examining the relationship between natural resources and democratization across the globe, Michael Ross revealed the significant but negative impact of oil and mineral resources on democracy. Among the possible causal mechanisms he proposed, the "rentier effect" is directly related to public expenditures: Due to their effort to appease social movements and prevent any possible pressure for democratization in advance, the resource-rich countries distribute a significant share of their income to its citizens and engage in greater public expenditure. Moreover, as the government budget is largely financed by oil and gas revenues, they can impose lower tax rates, which possibly reduces the demands for greater accountability and representation (Ross 2001). Based on his findings, it can be claimed that oil-rich autocratic countries may opt to invest in social policies, which could be utilized as a "bribery mechanism" hindering democratization.

In conclusion, depending on the theoretical and empirical implications of the theories discussed above, one can argue that there are plenty of reasons to examine whether democratisation has had an impact on welfare state development in post-communist countries. Considering the fact that the governments' inclination to extend public policy provision may stem from various reasons, and the autocratic

legacy of selected countries for this study, there might be still an alternative trajectory of welfare state development, in which democratization has no effect on social policies in CEE countries.

2.4 The Theoretical Perspective of This Study

Reappraising the main tenets of the literature and theories of the welfare state reviewed above, this section attempts to present a plausible explanation for the determinants of welfare regime development in post-communist countries. Being largely inspired by Quality of Government theory (Rothstein and Teorell 2008, Rothstein, Samanni, and Teorell 2012), this thesis primarily follows an institutionalist approach stressing the salience of impartial, transparent and uncorrupted government institutions. The theoretical framework of this study also incorporates the economic and ideological aspects of welfare state development, which are prevalent in the post-communist setting of CEE and Central Asia.

2.4.1 Why Institutions Matter: A Quest for Polyarchal Democracy

As Skocpol formulated in compiling the fundamental findings of institutionalist scholars, the state-centred approach emphasizes the definitive role of the following four processes in the formation of national policies of social provision:

> (1) the establishment and transformation of state and party organizations through which politicians pursue policy initiatives;
> (2) the effects of political institutions and procedures on the identities, goals, and capacities of social groups that become involved in the politics of social policymaking;
> (3) the "fit" – or lack thereof – between the goals and capacities of various politically active groups, and the historically changing points of access and leverage allowed by a nation's political institutions; and
> (4) the ways in which previously established social policies affect subsequent politics. (Skocpol 1992, 41)

The institutional factors such as standard operational procedures, institutional capacities and legislative rules stand at the very beginning point of policymaking in each process, putting them into a predominant position affecting welfare state development. Nevertheless, Skocpol's framework, which is based on the historical analysis of the American social policy experience, is not applicable to the rest of the world as it stands, since she did not indicate certain institutional characteristics in which a welfare state is more likely to flourish. As mentioned previously, the institutionalist approach also underestimates the dominant power relations and class conflict within society. Hence, this study does not only rely on institutionalist explanations, but attempts to integrate the foundations of different approaches.

At this point, the Quality of Government (QoG) theory appears as a novel approach combining and complementing the findings of Power Resource Theory, historical institutionalism and "good governance" focused studies on institutional economics (Rothstein and Teorell 2008, Rothstein, Samanni, and Teorell 2012, Acemoglu and Robinson 2012). Despite agreeing with PRT in many respects, QoG scholars accentuate that PRT cannot explain why wage earners trust government institutions with the implementation of of social insurance programs, but take this as axiomatic, disregarding the possibility of non-governmental alternatives to handle risk protection, such as labour unions. Secondly, they pointed out that working-class mobilizations across countries were not equally successful in the enactment of desired policies, due to corrupt and partial bureaucrats and institutions. Revealing that these problems stem from an extensive focus on "well governed" Nordic countries, they refined the micro-foundations of PRT incorporating an institutionalist approach into it. Since the distrust for public institutions and level of corruption are comparatively high in developing countries, the QoG scholars proposed to focus on how these factors influence citizens' support for public policy programs and willingness to fund them through taxation. They argued that:

> Even people who are true believers in social solidarity and strong supporters of redistribution are likely to withdraw their support for an encompassing welfare state if these three requirements are not met: … Policy's *substantial justice*, its *procedural justice*, and the amount of '*free riding'* that can be expected in the process of its implementation" (Rothstein, Samanni, and Teorell 2012, 10).

Accordingly, what QoG theory demonstrates is the overall fairness of public policy programs and redistribution mechanisms, as well as government capacity in minimizing the perceived collective action problem, play a fundamental role in the development of welfare states. To simplify its theoretical framework; the causal mechanism of public policy change in QoG theory can be illustrated as follows:

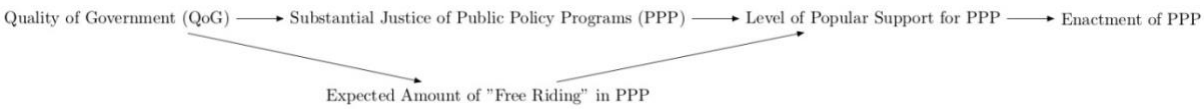

Figure 2: Diagram on the Causal Mechanism of QoG Theory

As QoG scholars remarked, their theoretical perspective also stands in the intersections of maximalist conceptualisation of democracy (Dahl 1971, 1989) and institutional explanations highlighting the importance of good governance for economic growth and development (Acemoglu, Johnson, and Robinson 2005, Acemoglu and Robinson 2006). Following the same path, this thesis proposes that the rigidity of following six political institutions listed in *Table 1*, which constitute

the necessary conditions for a large-scale democratic government (called *polyarchal democracy*) and form the basis of QoG, is directly and significantly correlated with welfare state development.

Table 1: Components of Polyarchal Democracy & Their Functions

	Components	Necessary for
1	Elected representatives	Effective participation, control of agenda
2	Free, fair and frequent elections	Voting equality, control of agenda
3	Freedom of expression	Effective participation, enlightened understand, control of agenda
4	Alternative information	Effective participation, enlightened understand, control of agenda
5	Associational autonomy	Effective participation, enlightened understand, control of agenda
6	Full citizenship	Full inclusion

Source: Reproduced from Dahl (1998, p.99)

However, inspired by the hypotheses of Acemoglu, Johnson and Robinson (2005) and Acemoglu and Robinson (2008), this study suggests that political institutions and the state of democracy not only shape policy outcomes directly, but also instrumentally affect them via economic institutions and performance. Considering the remarkable variation in current economic capacity of post-communist states, it can be argued that this indirect impact of democratization may have played a greater role in welfare state development than it does in Western Europe, where the economic performances of industrialized countries are similar.

2.4.2 Reappraising Economic Determinants of Welfare States

In respect to the expected outcomes of economic factors, this research attempts to combine the findings of structuralists and the power resource approach, as their inferences based on advanced industrial countries have to be adapted to the peculiar conditions of the post-communist setting. For this purpose, economic determinants of the welfare state unfold into two distinct processes: (1) globalization and implementing the principles of a free market economy, and (2) economic development and growth.

Shortly after declaring their independence from the USSR and Yugoslavia, those new small states were forced to make an involuntary choice between economic isolation and integration into a capitalist world order, which would bring a rapid economic transformation and its inevitable risks together. Aiming to distance themselves from the communist past, the majority opted for a free market

economy and involvement in the globalization process. Although their political and economic orientation towards the West may have contributed to the institutionalisation of polyarchal democracy, this study hypothesizes that the welfare state structures in post-communist states have been negatively affected by the processes of market integration and globalization, largely because their domestic producers were not ready to compete with suppliers from established, industrialized countries. Consequently, the majority of post-communist states, which are geographically located on the edge of industrially-advanced countries, became an open market for Western Europe, which caused large trade deficits, especially in the early years of their independence. Counted among the "losers" of globalization (Teney, Lacewell, and De Wilde 2014), the expected reverse effect of market integration and globalization on post-communist states is also consistent with historical examples. As Ha-Joon Chang demonstrated, almost none of today's developed countries, including the flag-bearers of liberal market policies, such as the USA and United Kingdom, reached their current state of prosperity by following liberal policies. Indeed, they "actively used 'bad' trade and industrial policies, such as infant industry protection and export subsidies – practices that these days are frowned upon, if not actively banned by the World Trade Organization" (Chang 2002, 2). Moreover, the theoretical framework of this thesis also embraces the predicted outcome of the international economy in PRT (Huber and Stephens 2001), which expects lower taxes and welfare state expenditures in liberalizing countries in order to appeal to foreign investors.

On the other hand, it is predicted that the level of economic development positively influence the welfare state expansion, if and when other things are equal. At this point, this study adopts the causal explanation of Wilensky and Lebeaux (1958), who assumed that "a certain level of economic development, and thus surplus, is needed in order to permit the diversion of scarce resources from productive use (investment) to welfare" (Esping-Andersen 1990b, 14). In light of the fact that post-communist countries are predominantly low-middle and middle income countries, the level of economic development would not be adequate to comprehensively invest in welfare policies for some of them. Thus, countries with lower GDP per capita would be more likely to implement aggressive capitalist policies.

2.4.3 Programmatic Ambiguity of Post-Communist Political Parties

The expected causal effect of government ideology on welfare states constitute the main point of divergence of this study from the QoG theory and thereby PRT. As they manifested in the experience of the OECD countries, left and Christian democratic governments have both prioritized the empowerment of the welfare state, respectively because of their ideological positioning, which was in favour of both the working-class and Christian values of supporting the poor (Huber and

Stephens 2001, Rothstein, Samanni, and Teorell 2012). Without objecting to the validity of their argument in the broader context, this thesis proposes that the ideological positions of political parties in CEE do not matter in terms of welfare policy outcomes, due to lack of programmatic political parties, the dominance of national-conservative parties replacing Christian democratic parties, and scepticism towards the left-wing parties arising from their association with the communist past.

It should be noted that, by rejecting the impact of party ideology on total public and welfare expenditures in CEE, this thesis partially challenges the theoretical arguments and findings of Tavits and Letki (2009), which can be counted among the leading works on party ideology in post-communist countries. Although the present study acknowledges their claim that "in the context of transition from socialism to democracy, the standard expectations of partisan theory of policy outcomes are not likely to hold" (Tavits and Letki 2009, 566). Due to the above-mentioned reasons, it is argued that their proposition of reversed party ideology ("*Left is Right*") does not appear to be true, if this hypothesis is tested over a longer-term and more contemporary time period. In fact, the robustness of their empirical findings has previously been questioned, underlining time-related bias in the measurements of the Comparative Manifestos Project (CMP), which they used for the analysis (Coman 2019). After the reassessment of Tavits and Letki's (2009) analysis with adjusted ideology measures, Coman (2019) found no significant correlation between party ideology and public expenditures between 1989-2004. Nevertheless, apart from the data noisiness and reliability problems, this study draws attention to the fact that despite their own critique of the validity of partisan theory during political transitions, Tavits and Letki (2009) still attribute a programmatic vision to political parties in the CEE. What is suggested here is that these political parties rather pursue populist, personalistic and clientelist policies; and do not hold any certain, long-term perspective on the welfare state. Indeed, many political parties in post-communist countries have no clear position on policy issues, including social policies, which makes them predominantly non-programmatic (Aidukaite 2009). Thus, this thesis hypothesizes that ideological positioning of political parties in CEE would have no effect on the branches of government spending, which can be demonstrated even with unadjusted CMP measures.

3 Data and Methodology

To test the proposed hypotheses and address the determinants of welfare state development in post-communist countries, this comparative study employs quantitative methods of analysis, compiling data from various sources covering the period of 1990-2017. During the initial process of data collection, the exclusive coverage of thirty post-communist states, all of which used to be under the hegemony of the Soviet Union or a part of Yugoslavia during the Cold War period, was targeted. Yet, due to the limitations on data availability and some reliability problems in the available data, the scope of regression analysis was narrowed to sixteen countries between 1996-2016, which corresponds to the data frame that could be utilized for statistical analysis in Stata. Nevertheless, to the author's knowledge, this study is one of the rare attempts to study post-communist welfare state development to this breadth, since the majority of similar studies solely focus on the OECD or/and EU member countries, omitting a remarkable number of CEE countries because of data limitations[2]. The extension of analysis towards non-OECD states would provide a broader perspective presenting the dynamics of social policy change both in "successful" and "failed" welfare regimes of the post-communist setting. As the degree of QoG and welfare efforts differ to a greater extent within EU and non-EU countries than among EU members, it could be argued that the current study avoids possible selection bias (King, Keohane, and Verba 1994, 124-131) in a large-*n* analysis.

In order to encapsulate the different paths of welfare regimes in ex-Soviet countries, this study, as mentioned, prefers to apply quantitative methods of analysis over qualitative ones, e.g. QCA, for several reasons. First and foremost, quantitative methods of analysis facilitate to the tracking of cause-effect relations between dependent and independent variables, because quantitative analysis "allows researchers to 'hold constant' some factors in order to make causal inferences" (Rich et al. 2018, 77). This enables researcher to detect and clarify the effects of variable(s) on the dependent variable in a more effective way than qualitative methods of analysis can offer, because the qualitative track makes causal inferences without the possibility of holding constant independent variables, thus grasping cause-effect relations as a whole and verbally interpreting these relations, rather than showing them numerically. Second, this study aims to explore the causes behind the different paths and trajectories of welfare states in post-communist countries. While quantitative analysis gives an opportunity to examine the

[2] These studies include but not are limited to Kuitto (2016), Haggard and Kaufman (2008) and Hemerijck (2013).

dynamics in sixteen states, conducting such a huge amount of fieldwork for gathering information through qualitative analysis seems very difficult and somewhat impossible task. As a result, the study is based on a time-series and cross-sectional (TSCS) dataset, applying quantitative methods of analysis in order to make a comparison across and within the countries possible. Third, another reason for choosing quantitative methods of analysis is the reliability that quantitative methods provide. Reliability refers to "get[ting] the same value for any given case when we apply the measure several different times" (Rich et al. 2018, 98). This also enables other researchers to use same datasets so that they can have the opportunity to prove or negate the results. Fourth and last, this study does not opt to apply the method of Qualitative Comparative Analysis (QCA) on the grounds that the number of variables and cases in this study is greater than the optimum number of cases and conditions in QCA examples. Since QCA is based on the truth table to visualize the outcomes and the number of truth table is calculated with 2^k (where k refers to number of conditions) (Schneider and Wagemann 2012, 93), the number of independent variables and cases in this study are reasons hindering a fit for the optimum conditions required for studying QCA. As a result of these factors, the study opts to use and apply the quantitative methods of analysis, which is also prevalent in comparative welfare state research.

In regard to the size of its cross-sectional and time-series dimensions, the compiled panel data can be categorized as a short panel (Cameron and Trivedi 2009). Considering this structural factor, this panel data is analysed using regression models with panel-corrected standard errors (*PCSE*). Originally proposed by political scientists Nathaniel Beck and Jonathan Katz (1995), PCSE estimator is a widely-used method in quantitative social analysis, especially when dealing with large cross-sectional data. Through the Monte Carlo experiments, Beck and Katz (1995) demonstrated that the use of feasible generalized least squares (known as *FGLS*) in short panels produces standard errors leading to extreme overconfidence, which is another estimator introduced by Richard Parks (1967) as an alternative to standard OLS regression when analysing heteroskedastic panel data. As opposed to Parks' FGLS estimator, which is only advantageous when the number of time points (t) is at least double the number of units (x) (Beck and Katz 1995, 642), the PCSE estimator produces robust standard errors even when the longitudinal dimension of data is equal to the number of cross-sections (Reed and Ye 2011). As further analysis showed, PCSE make better estimations when $\frac{t}{x}$ is equal or very close to 1 (Reed and Webb 2010), which is indeed the case for this analysis. Thus, it can be argued that the employment of the PCSE estimator is the suitable method to test our hypotheses with the available data. In addition, based on the results obtained from the Wooldridge-Drukker test for autocorrelation in panel data, the results of analysis are corrected with Prais-Winsten transformation, which is designated to handle serial correlation of the AR(1) type.

3.1 Dependent Variables

Since the primary goal of this research is to explain under what conditions countries move towards a welfare state, four types of public expenditure – three of which directly address levels of spending on the welfare-provisioning functions of government – are chosen as dependent variables. Even though the employment of social spending as the parameter of welfare policy change has been questioned (Clasen and Siegel 2007, Carnes and Mares 2007), these criticisms are more related to the general problem of dependent variables in comparative welfare studies, which still remains unresolved to a large extent. Yet, even the critics of using social spending data largely admit that "in many research contexts expenditure sensitive approaches can indeed offer a valuable perspective for exploring welfare state dynamics" (Clasen and Siegel 2007, 67). In a similar manner to other comparative studies of welfare state development (Wilensky 1975, Huber and Stephens 2001, Rothstein, Samanni, and Teorell 2012), this thesis also employs the *size of social expenditure as a percentage of GDP* as a proxy measurement of welfare state effort made by governments[3]. Even though the complementation of social spending analysis with other indicators, such as net replacement rates and decommodification scores, has been desired, this goal could not be achieved due to lack of data availability.

In retrieving the data points from *IMF Government Finance Statistics (GFS)* database (IMF 2018), three types of public expenditure among the classified ten functions of government – education, health and social protection – have been considered as the indicators of welfare expenditure. As will be demonstrated in the next chapter, the first two regression models are run based on total government expenditure, while the remaining six models are focused on three dimensions of the welfare state. The first measurement of welfare effort, *total welfare spending as a percentage of GDP*, is calculated using the sum of the above-mentioned three types of welfare expenditure. Then, the same models have been tested based on its two subcomponents, *total public health spending* and *total public education spending* respectively (both are as a percentage of GDP). As the total social protection expenditure is very highly correlated with total welfare spending ($r = 0.9364$), they both produced almost identical results. Thus, only the latter is presented in this study.

Figure 3 below demonstrates the average of total welfare spending by country, covering all available data at IMF GFS between 1990-2017. As the most generous

[3] Another alternative measurement of social spending would be the share of education, health and social protection as the percentage of total government spending, rather than their share in GDP. However, since the size of total government expenditure within GDP significantly varies across countries and a welfare state should direct a considerable percentage of GDP into social policies, this measurement is not preferred. As the preliminary research of this study showed, its use would create quite problematic results, i.e. countries with smallest government budget, such as Kazakhstan, could be seen as the champions of social policies.

welfare state in CEE, Slovenia stands at the leading position allocating 29.7% of GDP on average, which is almost triple that of the worst-performing; Kazakhstan (10.6% of GDP). What is striking about this descriptive figure is that Caucasian post-communist states are positioned among the weakest welfare states as a cluster, though such a neighbourhood effect has not been observed for other geographic regions.[4]

3.2 Independent and Control Variables

In accordance with the theoretical framework emphasizing the importance of good governance and electoral democracy, the *polyarchy* index constitutes the key independent variable of this thesis. Developed by the Varieties of Democracy (V-Dem) Project, the polyarchy index annually measures electoral democracy across the world by assessing to what extent the subcomponents of Dahl's polyarchy concept are achieved[5] (Coppedge et al. 2019). As one of the most developed and comprehensive indices of on electoral democracy, the observed values of polyarchy diverge from 0 (low) to 1 (high). When the democratic performance of post-communist states is examined from the period from their independence until 2017, Czech Republic becomes the electoral democracy of the region, scoring 0.87 on average, which is then followed by Estonia, Poland and Slovenia. At the other side of democratization, the four Central Asian countries – Turkmenistan, Uzbekistan, Tajikistan and Kazakhstan – are listed among the top five most autocratic regimes within post-communist countries, where Turkmenistan scores the worst with 0.15.

Apart from the polyarchy index, two dummy variables are added to assess whether, and in what ways, *presidential regimes (Scartascini, Cruz, and Keefer 2018, Teorell, Dahlberg, et al. 2019)* and *membership of the European Union* affect social spending. Even though these variables are not as comprehensive as the polyarchy index, and correlate with it to some extent, they are included as independent variables for two reasons. Firstly, Huber and Stephens (2001) argue that the availability of multiple veto points hinders welfare state development, as it slows down the pace of policy change. Although the Comparative Welfare States Dataset, where their indicator on constitutional veto points is taken, only covers OECD countries, the current study assumes that the inclusion of a dummy variable on the regime type can partially compensate for the lack of this additive index based on the political system and frequency of referenda. Nevertheless, it should be noted that this variable is primarily added into the analysis to test Huber and Stephens' hypothesis, which is predicted to have no significant effect since polyarchy is

[4] Other figures depicting the descriptive statistics on average spending on education, health and total government expenditure by country can be found in the Appendix A.1.
[5] For a detailed account on the measurement of polyarchy, see Teorell et al. (2019).

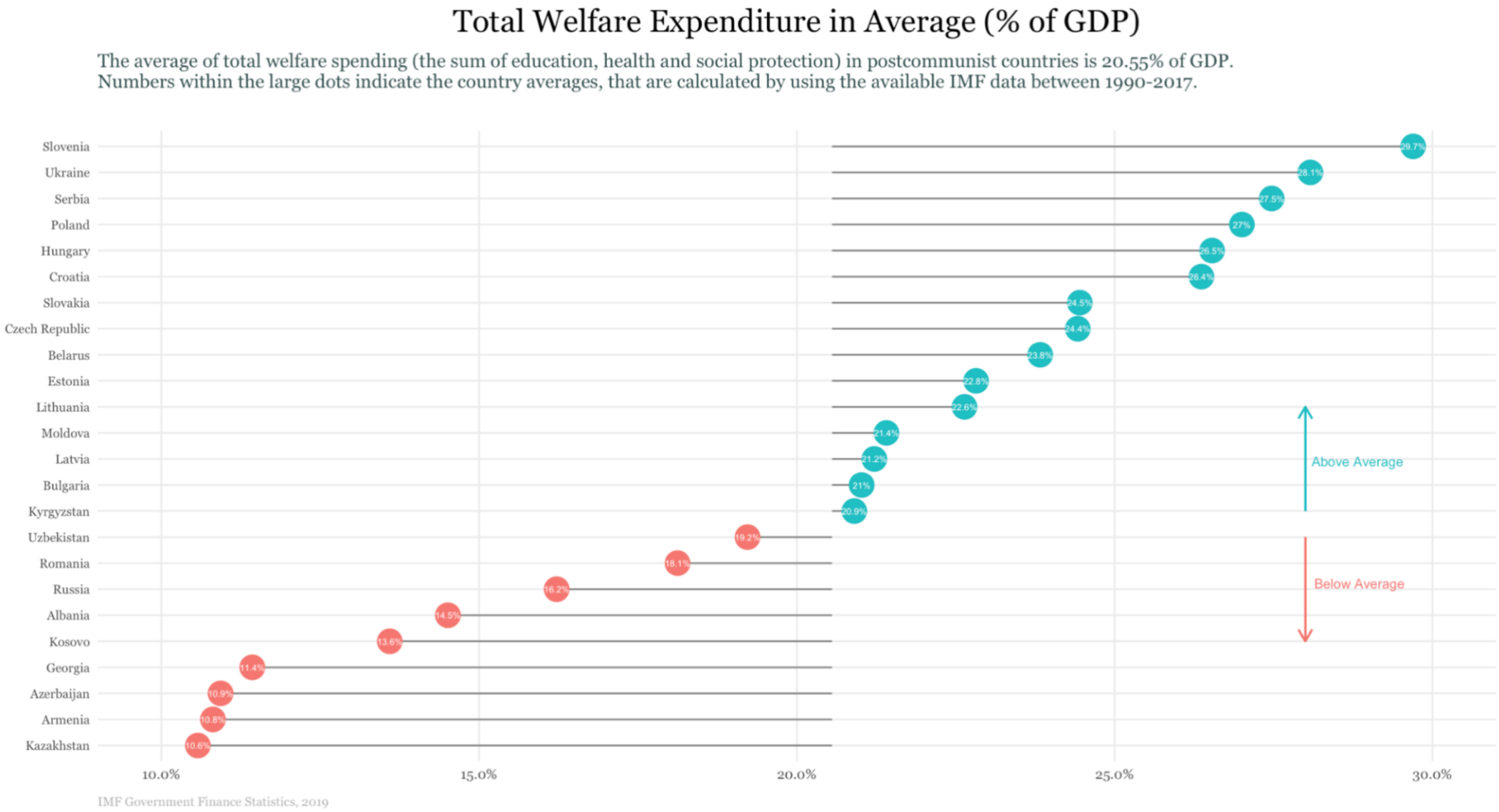

Figure 3: Country Averages for Total Welfare Spending

already taken into consideration. Secondly, assuming membership of the EU is conditional on the country's success in democratization, adherence to the rule of law, and liberalisation of the economy; the EU membership dummy has been introduced to investigate the overall influence of the EU. As detailed under the theoretical framework, economic liberalisation was seen as an impediment for the expansion of the welfare state, while the other two conditions of EU-membership would be supposed to have a positive correlation with welfare efforts.

The second cluster of independent and control variables includes seven distinct measures of economic performance, all of which are commonly included in the analyses of welfare states. In the inquiry on its economic origins, *GDP per capita* and *budget deficit* are the independent variables utilized to understand whether a nation's prosperity and its government's fiscal constraints affect social spending or not. The answer to this question is closely related to the economic surplus hypothesis of Wilensky and Lebeaux (1958), which this thesis also embraces. While the measurement of GDP per capita is based on the records of Maddison Projects (Bolt et al. 2018, Coppedge et al. 2019), the data on net budget deficit/surplus, which is calculated as revenue minus total expenditure, is derived from general government net lending/borrowing indices of the *IMF World Economic Outlook database* (IMF 2019). Secondly, to assess how globalization and integration with the liberal market economy influence welfare state development, *openness to trade* and *foreign direct investment (FDI)* variables are included. As Acemoglu and Yared (2010) and many others have chosen before, a country's openness to trade has been estimated as the sum of exports and imports as a share of GDP, for which World Bank (2019) records are used. The data on the net inflow of FDI was also retrieved from the same source, which is covered in the QoG database (Teorell, Dahlberg, et al. 2019). Finally, the percentage of *population aged over 65, unemployment rate, natural resources rent,* and *military spending* are added as control variables on economic performance[6].

A third type of independent variable directly addresses the impact of government ideology, which has long been claimed to trigger the welfare state development, when the left-wing and Christian Democratic political parties are dominant (Korpi 1983, Huber, Ragin, and Stephens 1993, Huber and Stephens 2001). While these studies take those political parties' share in cabinet, this research had to rely on their share on parliament as proxy, due to data limitations. Despite the availability of data on the parliaments and governments of OECD countries such as *ParlGov* and *ERDDA*, no up-to-date database covering the cabinet seats in post-communist countries has been found. The only available source, *Comparative Data Set for 28 Post-Communist Countries* (Armingeon and Careja 2007) covers years only up to 2007. Additionally, even for the years in its coverage, the authors remark

[6] To control its effect on education spending, percentage of population at school age (5-18) has also been included in the preliminary analysis. However, since no significant effect has been found and its inclusion decreases the number of observations, it is omitted in the final analysis.

that they had been unable to code twelve of these countries, as the party affiliation of ministers were not announced.

To compensate for the lack of cabinet ideology data, the allocation of parliamentary seats is suggested as the proxy variable, depending on the prediction that the party seat shares in parliament and government will be highly correlated. Indeed, a brief examination on the example of OECD countries confirms this assumption[7]. Thus, *left-wing seat share* and *Christian Democratic seat share* refers to the distribution of parliamentary seats, based on the data of Manifesto Projects (Volkens et al. 2018). As the descriptive statistics in Appendix A.2 show, the parliamentary power of Christian Democratic parties seem quite limited, probably because of the dominance of national-conservative parties. In addition, an interaction variable of left-wing seat share and polyarchy is introduced in four models being inspired by Rothstein, Samanni and Teorell (2012). However, as it will be later discussed among the limitations of this study, the lack of reliable, continuous data on labour union density hindered the examination of PRT hypothesis on the effect of working-class mobilization.

Lastly, to replicate the analysis of Tavits and Letki (2009) and test their hypothesis that left-wing parties have better opportunities to implement market liberalization thanks to their "pro-welfare image" and consolidation of the left, the *T&L ideology* variable has been constructed. While doing this, the same procedures used by Margit Tavits and Natalia Letki have been followed, except the fact that the cabinet share item is replaced with the parliamentary one. Policy positioning on economic issues for each political party has been computed through using the CMP database, and the subcomponents of this calculation are presented in *Table 2*. Then, depending on the distribution of parliamentary seats, an overall score for the economic orientation of the whole parliament is calculated.[8]

Right Wing (Liberal, Reformist)	Left Wing (Socialist, Antireformist)
per401 Free Enterprise: Positive	per403 Market Regulation: Positive
per402 Incentives: Positive	per404 Economic Planning: Positive
per407 Protectionism: Negative	per406 Protectionism: Positive
per409 Keynesian Demand Management: Positive	per412 Controlled Economy: Positive
per410 Productivity: Positive	per413 Nationalization: Positive
per505 Welfare State Limitation: Positive	per503 Social Justice: Positive
per507 Education Limitation: Positive	per504 Welfare State Expansion: Positive
per4011 Privatization: Positive	per506 Education Expansion: Positive
per4012 Control of Economy: Negative	per4123 Publicly Owned Industry: Positive
per4013 Property-Restitution: Positive	per4124 Socialist Property: Positive
	per4131 Property-Restitution: Negative
	per4132 Privatization: Negative

Note: Party economic left–right score = (per401 + per402 + per407 +per409 + per410 + per505 + per507 + per4011 + per4012 + per4013) – (per403 + per404 + per406 + per412 + per413 + per503 + per504 + per506 + per4123 + per4124 + per4131 + per4132).

Table 2: Subcomponents of T&L ideology score (Tavits and Letki 2009, 567)

[7] By testing the data used by Huber & Stephens (2001), the correlation of cabinet and parliament shares is calculated as 0.849 for Centre-Christian parties, 0.95 for right-Christians and 0.6319 for the left parties.

[8] If the composition of parliament changed due to general elections, the weighted score of both parliaments were taken by counting the days in office, as Armingeon and Careja (2007) and thereby Tavits & Letki (2012) did.

4 Results of Analysis

Before moving into a detailed discussion on the results of the regression analysis, *Figure 4* and *Figure 5* are presented below to illustrate the linear relationship between the most comprehensive dependent variable –total welfare spending – and the two key independent variables, polyarchy and GDP per capita respectively. As *Figure 4* illustrates, there seems to exist a positive relationship between polyarchal democracy and welfare expenditures at first glance. On the upper right of the figure, the Central European countries of Slovenia, Poland and Hungary appear as the champions of welfare state efforts with high polyarchy scores, while Ukraine[9] can be counted among the most generous spenders on social policy despite its low polyarchy score. On the bottom left side, the Caucasian post-communist states, and Kazakhstan, whose low level of social spending was mentioned before, stands with their unsurprisingly low polyarchy scores, whereas some autocratic states such as Belarus, Uzbekistan and Kyrgyzstan endeavour to compete with the democratic, EU-member states. Although the levels of social expenditure in autocratic countries vary to a large extent, as the selectorate theory noted, it should be highlighted that there is not even a single democratic country with low welfare spending, which is in line with the predicted outcomes of QoG theory.

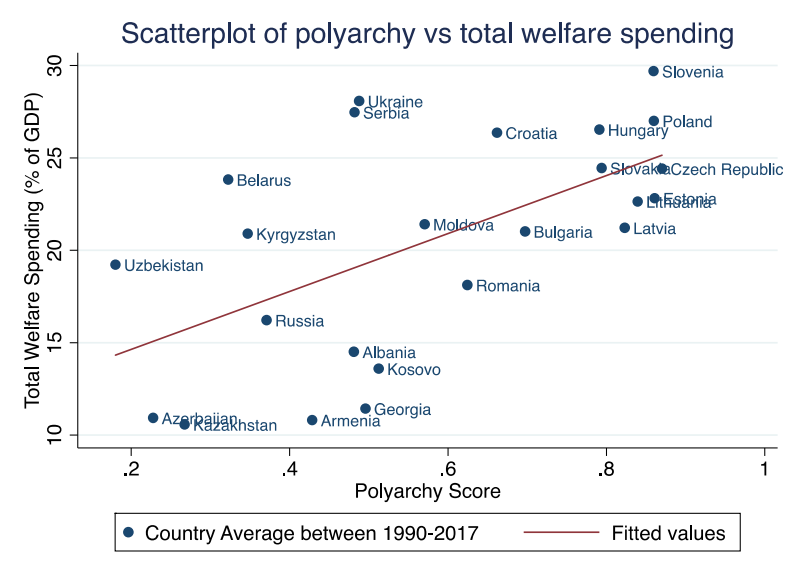

Figure 4:Polyarchy and total welfare spending in Post-communist countries between 1990-2017

[9] Although Serbia also seems to perform similarly to Ukraine, the data on its welfare spending is conspicuously missing. For this reason, it could be misleading to reach a conclusion about Serbia based on the available data.

In *Figure 5*, a scatterplot diagram depicting the correlation between economic prosperity and welfare effort is presented. Same as in Figure 4, the country averages of economic and welfare performance are calculated by taking the mean values of non-missing GDP per capita and total social expenditure data, and the result shows the positive trend between these variables. Once again, Ukraine overperforms in welfare policies considering their economic constraints, and spends as much as Croatia, Hungary and Poland, whose GDP per capita is almost its double. On the other hand, the leading power of the former USSR – Russia – can be counted as the worst-performing welfare state, despite its relatively better economic capacity, which is around the same level as that of the Central European, EU-member states. Nevertheless, the bottom right of Figure 5 contains no post-communist state, which means that those financially prosperous countries do not neglect welfare state development.

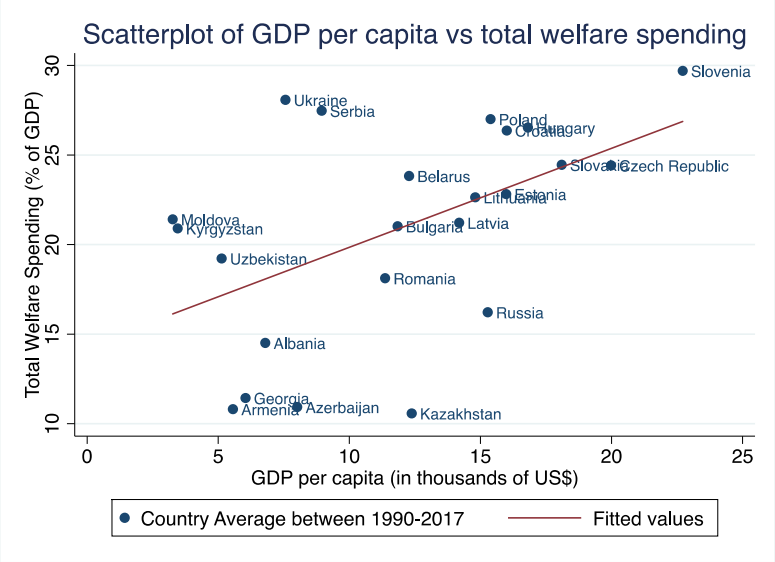

Figure 5:GDP per capita and total welfare spending in Post-communist countries between 1990-2017

When the change over time in total welfare spending is considered[10] (*Figure 6*), it can be argued that the ups-and-downs of welfare effort for a given country show parallel patterns with democratic transitions, at least in some cases. Despite still allocating a small fraction of its resources to social policies, Georgia made some progress in welfare effort while its democracy was also developing slowly but continuously. Similarly, the increase in welfare spending of Moldova (denoted as *MDA* on the figure 6) after 2007 and its decrease around 2011 coincide with the changes in the strength of polyarchal democracy in Moldova. Once again, in the following years of the Orange Revolution in Ukraine, which took place between November 2004 and January 2005, a steep increase in social expenditure was observed, but then the welfare efforts in Ukraine stepped back together with its democracy.

[10] Illustrations on the over-time change of other dependent variables can be accessed in Appendix A.3.

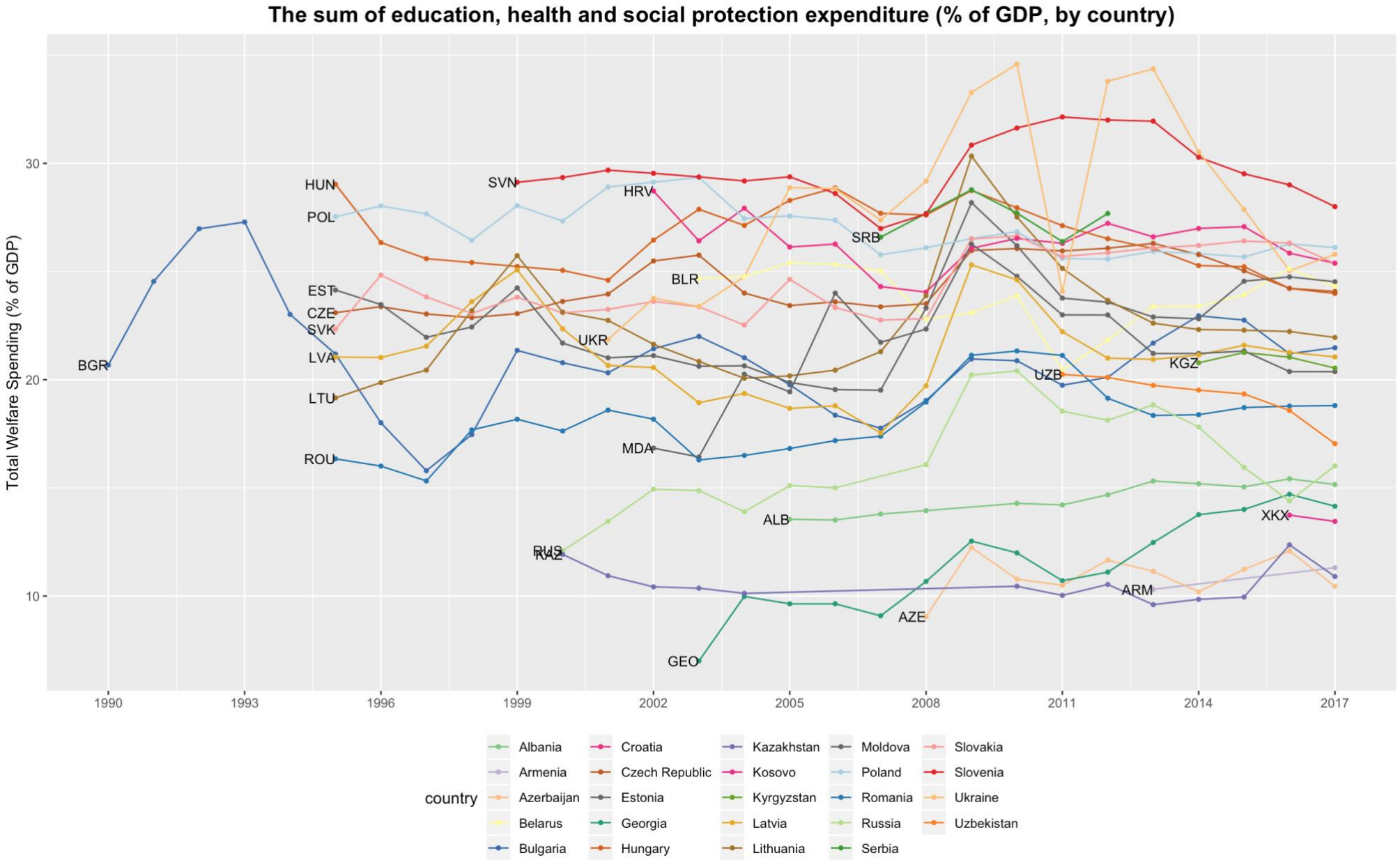

Figure 6:Over-time Change of Welfare Effort by Country

4.1 Underpinnings of Total Government Expenditure

Following this brief discussion which is based on descriptive statistics, the underpinnings of the welfare state can be systematically scrutinized through regression analysis. As mentioned, the compiled panel data was unable to cover all post-communist countries due to data limitations, especially on the government spending of less-democratic countries. While the lack of reliable data on post-communist states may partially stem from their institutional incapacity of assessing the size of public expenditure for different functions at aggregate level, it could also indicate the countries which avoid government transparency. In fact, missing data predominantly comes from the countries with very high levels of corruption, restricted civil liberties and low polyarchy scores, such as Tajikistan, Turkmenistan and Azerbaijan. Nevertheless, as can be seen in *Table 3*, 280 observations from 16 countries[11] between 1996-2016 were able to utilized for the systematic analysis, which is still substantial enough for the research purposes.

Having four dependent variables, each of which has been tested in two models, Table 3 presents the statistical estimates from eight regression models. The two models of a dependent variable just have slight differences arising from a methodological difference in estimating government ideology, while the rest of the independent and control variables are kept the same. As will be discussed in detail, the strength of polyarchal democracy has a significant and positive effect on both general public expenditure and types of social spending in all models, four of which are at the 99 percent confidence interval. In a predicted manner, GDP per capita and size of budget deficit are also significantly correlated with the dependent variables in general.

On the other hand, the test results on the effect of EU membership must be interpreted with caution, and needs further clarification. Although a significant negative correlation has been estimated between the EU membership and social spending, the EU-member post-communist countries have been consistently listed among the most generous welfare states within this cluster, as the descriptive statistics depicted above show. Thus, after the statistical analysis, it was thought that such a consistent negative correlation could be the result of a selection bias, which occurs "whenever the treatment (the causal factor of interest) is not randomly assigned across cases, thus violating the *ceteris paribus* assumption of causal analysis" (Gerring 2017, 217). Since the EU-candidate countries must satisfy certain legislative and procedural requirements to become members of the Union,

[11] This include Albania, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Moldova, Poland, Romania, Russia, Slovakia, Slovenia and Ukraine.

Table 3: Determinants of welfare state development in post-communist countries between 1996-2016

VARIABLES	(1) Total Public Spending (% of GDP)	(2) Total Public Spending (% of GDP)	(3) Total Welfare Spending (% of GDP)	(4) Total Welfare Spending (% of GDP)	(5) Health Spending (% of GDP)	(6) Health Spending (% of GDP)	(7) Education Spending (% of GDP)	(8) Education Spending (% of GDP)
Polyarchy	11.975***	10.853***	8.810**	8.711**	2.439**	2.709**	3.031***	3.448***
	(3.092)	(3.041)	(4.026)	(3.819)	(1.126)	(1.168)	(1.025)	(0.928)
Openness to trade	-0.005	-0.008	-0.009	-0.008	0.007***	0.006**	0.001	0.002
	(0.011)	(0.012)	(0.009)	(0.009)	(0.003)	(0.003)	(0.003)	(0.003)
EU membership	-1.052***	-0.919**	-0.637***	-0.657***	-0.308	-0.296	-0.082**	-0.084**
	(0.388)	(0.420)	(0.152)	(0.144)	(0.196)	(0.196)	(0.035)	(0.041)
Presidential regime	-2.686**	-3.107**	-0.050	-0.090	-0.718*	-0.752*	0.082	0.060
	(1.135)	(1.334)	(0.993)	(1.049)	(0.415)	(0.437)	(0.229)	(0.216)
T&L ideology	0.039		-0.028		0.012		-0.004	
	(0.043)		(0.034)		(0.012)		(0.010)	
Left-polyarchy interaction	-3.129		0.404		0.504		-0.068	
	(2.169)		(1.328)		(0.437)		(0.374)	
Natural reseources rent	0.350***	0.321***	-0.060	-0.060	0.022	0.023	-0.004	0.003
(% of GDP)	(0.116)	(0.119)	(0.176)	(0.178)	(0.075)	(0.076)	(0.036)	(0.034)
Population aged 65+	-0.007	-0.067	0.184	0.154	-0.008	-0.006		
	(0.204)	(0.232)	(0.189)	(0.197)	(0.057)	(0.061)		
Unemployment	0.058	0.063	0.096	0.094	-0.000	0.001	-0.014	-0.020
	(0.088)	(0.087)	(0.059)	(0.061)	(0.016)	(0.016)	(0.020)	(0.021)
Budget deficit	-0.916***	-0.918***	-0.377***	-0.384***	-0.090***	-0.090***	-0.054***	-0.059***
	(0.055)	(0.053)	(0.058)	(0.058)	(0.023)	(0.023)	(0.010)	(0.010)
FDI	-0.002	-0.005	-0.019*	-0.019*	-0.011***	-0.011***	-0.007***	-0.008***
	(0.009)	(0.009)	(0.011)	(0.011)	(0.004)	(0.004)	(0.002)	(0.002)
GDP per capita (thousands of US$)	0.328***	0.321***	0.188**	0.203***	0.102**	0.098**	-0.029	-0.034
	(0.079)	(0.079)	(0.077)	(0.073)	(0.045)	(0.048)	(0.023)	(0.021)
Military spending (% of GDP)	0.260	0.241	-0.705**	-0.750**	-0.101	-0.093	-0.119	-0.158
	(0.494)	(0.482)	(0.308)	(0.323)	(0.066)	(0.065)	(0.092)	(0.099)
Left seat share		-3.479*		-0.177		0.274		-0.338
		(1.999)		(1.163)		(0.402)		(0.386)
Christian democratic seat share		-3.854**		-0.965		-0.089		-1.743***
		(1.966)		(1.367)		(0.394)		(0.378)
Constant	25.090***	27.458***	10.504***	11.349***	0.996	0.761	3.258***	3.268***
	(4.170)	(4.843)	(3.858)	(4.190)	(0.776)	(0.933)	(1.021)	(0.963)
Observations	279	279	280	280	280	280	280	280
R-squared	0.781	0.785	0.638	0.637	0.478	0.470	0.532	0.555
Number of country	16	16	16	16	16	16	16	16

Notes: Prais-Winsten regression with AR1 autocorrelation structure and heteroskedastic panel-corrected standard error (PCSE). PCSE are given in parantheses.
T&L ideology: Tavits & Letki (2009) ideology scale in terms of economic issues; EU: European Union; FDI: Foreign Direct Investment; GDP: Gross Domestic Product.
*** p<0.01, ** p<0.05, * p<0.1; two-tailed test.

which largely coincide with the necessary conditions for polyarchy, EU membership should be regarded as a variable with possible selection bias. In fact, as it can be seen in *Figure 7*, all EU-member states have higher polyarchy scores than the non-member post-communist countries, and those who succeeded in joining the EU in earlier years are more democratic. Considering the fact that the impact of EU membership cannot be separately tested when polyarchy is present[12], the regression analysis has been repeated omitting this variable. However, exclusion of the EU membership variable did not lead to any remarkable difference in test results, which can be compared by looking at *Table 4* in Appendix A.4.

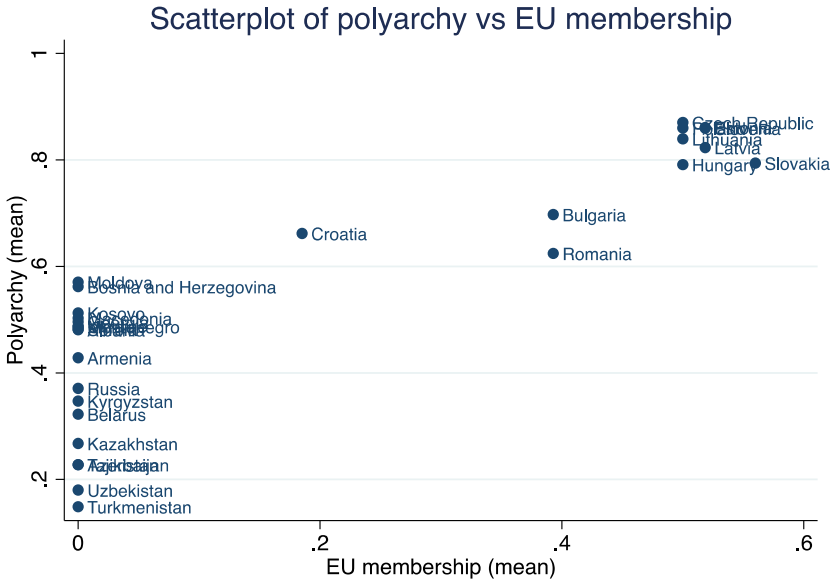

Figure 7: Relationship between Polyarchy and EU membership

The first and second models in Table 3 were constructed to assess whether and how the level of aggregated government expenditures is related to the independent and control variables. The results confirm that countries with established democratic institutions tend to undertake greater public expenditure, since the coefficients of polyarchy (11.975 and 10.853 respectively) are correct at a 99 percent confidence interval. This conclusion can be explained as follows: Countries with better democratic institutions are able to collect more taxes than the others, so that they can invest more in government functions. This assumption is related to the literature proposing the "no taxation without representation" hypothesis, which claims that "the need to raise taxes forces authoritarian governments to democratize", as the rulers are obliged to give some concessions (usually in the form of political representation) to their citizens in exchange for the right to impose taxation (Ross 2004, Herb 2005). The negative impact of presidentialism on total government spending could also be justified with the same argument. Since presidentialism

[12] For the same reason, V-Dem indicators on corruption and neopatrimonialism have been omitted pursuant to the preliminary analysis.

usually leads to the monopolization of political authority in the hands one person, who can arbitrarily exercise decision-making power undermining the rule of law, it could be proposed that presidential regimes spend less on government functions, as they can collect less taxes.

Looking at the impact of financial factors on total public spending in Table 3, one can easily suggest that economic performance and constraints significantly affect the size of government budgets. While the increase in GDP per capita and natural resources rent fosters public expenditures, it is demonstrated that governments facing a budget deficit tighten their spending. When the coefficients and panel-corrected standard errors are examined, all three independent variables seem quite significant (within the 99 percent confidence interval), even though none of them are as powerful as polyarchy in explaining the level of aggregate spending. On the other hand, the effects of globalization and market liberalization, which are measured through trade openness and net inflow of FDI, seems to be negligible along with the control variables. Overall, the analysis of these economic indicators points out three important results: Firstly, as the economic prosperity of nations increases, governments are more likely to spend on public expenditures more generously. Secondly, when other things are held constant, countries retrieving higher revenues from natural resources undertake higher public expenditure, which could be seen as the "spillover effect" of resource rents. Thirdly, no direct and significant relationship between the level of total government expenditures and integration into the liberal market economy has been found, although there could be an indirect relationship through GDP per capita.

As opposed to what has been shown with the example of the OECD countries (Huber and Stephens 2001, Rothstein, Samanni, and Teorell 2012) and first fifteen years of post-communist states (Tavits and Letki 2009), the estimates in Model 1 and 2 show that the party composition and ideological positioning of the parliament is not a powerful indicator of government expenditure. Firstly, even though Tavits and Letki (2009) claim that right-wing cabinets spend significantly much more as total spending in comparison to left-leaning cabinets, the findings of this study demonstrate that the T&L ideology indicator is no longer a significant basis for the analysis of total spending. These results also signal that the objections raised by Coman (2019), who claimed a time-bias in CMP estimations, and thereby the findings of Tavits and Letki (2009), may be valid, since the shift in the examined time period from 1989-2004 to 1996-2016 produced quite different results. Secondly, turning back to the PRT hypothesis, the estimates based on parliamentary seat shares reveal that both left-wing and Christian Democratic parties in the CEE region seem to enact tighter budgets, in contrast to the predicted positive effect. Yet, the impact of left-wing seat share is only significant within a 90 percent confidence interval (the lowest possible significance level), whereas the Christian Democratic seat share has relatively higher significance. However, whether the Christian Democratic parties are able to influence policy outcomes in practice is

questionable, as they only control 7.3% of the parliaments on average. In sum, in assessing the low significance of the left share estimate and the limited political power of Christian Democrats, it is hard to claim a significant impact of these political groups either in positive or negative ways.

4.2 Main Findings on the Origins of Welfare State Development

Starting from Model 3, the primary findings of this study have been presented, scrutinizing the determinants of welfare state development through six statistical models. Model 3 and 4 assess the importance of each independent variable on aggregate welfare spending, which is equivalent to the sum of social protection, education and health expenditures, as a percentage of GDP.[13] As social protection costs are dominant with regard to total social spending, Models 5-8 enable the crosschecking of the findings of Models 3 and 4, based on health and education expenditures, respectively. For this reason, the test results from three dependent variables will be discussed altogether, concentrating on the overall impact of independent and control variables.

4.2.1 "No Social Protection without Representation": Confirming the Salience of Polyarchy

The most crucial finding to emerge from this study is that Quality of Government, which is measured by polyarchy, has a significant and positive impact on all types of welfare expenditures. These results confirm the validity of QoG theory within the context of post-communist states, many of whom are developing countries. Based on the estimated coefficients in Models 3 and 4, the countries with the highest and lowest polyarchy scores would have a 5,5 percent QoG-led difference in social spending rates in favour of the highest-performer, as the polyarchy scores of analysed observations vary between 0.27 and 0.91.[14] Even though smaller polyarchy coefficients are calculated in the present study in comparison to the work of Rothstein, Samanni and Teorell (2012), it can be claimed that the models in both studies lead to a substantially similar level of difference, expressed as percentage of GDP. In other words, due to the smaller difference in the polyarchy scores of OECD countries, the multiplication of their polyarchy coefficients with the greatest possible difference in polyarchy across countries yields 5 percent of GDP, which corresponds to a similar divergence in aggregate outcome. As the post-communist

[13] For detailed information on the classification of government expenditure by function, see IMF (2018).
[14] The lowest score belongs to Russia in 2016, while the highest score is observed in Czech Republic (1997 and 2003) and Poland (2011).

states spend relatively less on welfare policies than OECD countries[15], the explanatory power of polyarchy coefficients appears quite high.

While the positive effect of polyarchy has been found to be robust, at 99 percent for education spending and at 95 percent for the other dependent variables, it is somewhat surprising that no significant effect of presidentialism has been noted. This outcome would partly be explained by its correlation with the polyarchy index, which could mask the effect of regime type. However, it should be noted that the presidential regime is found as a statistically significant result on the analysis of total government expenditure (Model 1 and 2), and the correlation between polyarchy and presidential regime variables are not particularly high (r = -0.27). These results therefore should be taken seriously, and it could mean that presidential regimes do not differ to a significant degree from parliamentary regimes with regard to social policy provision, with all else unchanged. Indeed, if the fact that presidential regimes usually work with smaller budgets is considered, it can be inferred that these states allocate a larger proportion of their total budget to welfare policies, in comparison with parliamentary regimes. Nevertheless, since no significant impact of presidentialism is measured, this outcome stands in contradiction of those of Huber and Stephens (2001) and Rothstein, Samanni and Teorell (2012), who found that the existence of multiple constitutional veto points slows down a possible policy change, and therefore retards welfare state expansion.

This rather conflicting result may be due to the following three reasons. Firstly, the measurement of the availability of constitutional veto points in the present study differs from their "additive index of federalism, presidentialism, bicameralism and the use of popular referenda" (Huber and Stephens 2001, Rothstein, Samanni, and Teorell 2012). Secondly, although Rothstein, Samanni and Teorell (2012) constructed their QoG indicator following similar principles to that which has been used for the V-Dem polyarchy variable, it can be claimed that the V-Dem polyarchy index provides a more comprehensive picture of polyarchal democracy, as it is the "first complete measure of Dahl's polyarchy since Coppedge and Reinicke (1990), which covered only one year" (Teorell, Coppedge, et al. 2019, 72). Hence, using a more fine-grained index of polyarchy would be reducing the role of constitutional veto points. Thirdly, depending on institutional differences between OECD countries and post-communist states, the availability of constitutional veto points may have no impact on the pace of policy enactment, which can be considered as the most plausible interpretation of the contradictory findings.

[15] The average total welfare spending of the analysed 280 observations is 22.76% of GDP. More descriptive statistics are available at Appendix A.2.

4.2.2 Economic Origins of Welfare State Development

A second set of variables examined whether, and in what direction, economic issues influence social spending, and their results have been found largely consistent with the proposed hypotheses and findings based on total government expenditure. While variables reflecting the wealth of a nation and economic performance are estimated with the utmost importance, it can also be claimed that the evidence of the impact globalization and market liberalisation is weak. On the other hand, it is seen that none of the control variables have a significant effect on the welfare policies.

In line with the structuralist approach, which emphasizes the decisive role of industrialization, results revealed in Models 3 to 8 provide a strong evidence that welfare efforts are constrained by economic factors, such as the level of budget deficit and GDP per capita. With the estimated significance at a 99 percent confidence interval in all models, the budget deficit of governments has an appreciable negative effect on all kinds of social spending. Even though it does not seem very surprising, this finding provides evidence that the social protection and fundamental public services such as education and health are evaluated as the "most disposable" government expenditures. Unlike welfare expenditures, the replication of the same analysis applied to military spending shows that the level of military expenditure is not prone to budget deficits. Hence, it can be proposed that social policies usually fall victim to austerity attempts[16], as they are significantly reduced when government expenditure exceeds revenues. These results also differ from the findings presented by Rothstein, Samanni and Teorell (2012), who found no statistically significant effect of budget deficit/surplus in six of ten regression models.

Even though the evidence of the effect of GDP per capita is not as strong as that of the effect of budget deficit, the results confirm that the level of economic output significantly reinforces social spending. Although it has been claimed that the structuralist approach often fails to show a significant correlation between economic development and social spending, empirically, when their hypothesis is tested outside of OECD countries (Carnes and Mares 2007, 870-871), multiple regression analyses have revealed that the economic well-being of the nation, measured by GDP per capita, exerts a powerful effect upon welfare state development. Thus, as was predicted, these findings provide evidence for the hypothesis of Wilensky (1975). Informed by the economic surplus hypothesis proposed by Wilensky and Lebeaux (1958), the following causal mechanism could

[16] It should be noted that all models include two variables – unemployment and trade volumes –, which can control the effect of exogenous shocks, such as a financial crisis. Hence, the causal mechanism underlying these results cannot be explained in reference to increasing demand for social protection, although Huber and Stephens found that "with more people dependent on welfare state transfers and fewer people paying taxes to support the welfare state, budget deficits ballooned and governments moved to control and then reduce deficits by cutting entitlements" (Huber and Stephens 2001, 2).

be proposed to answer the question of why richer countries allocate a greater share of GDP to welfare programs: Post-communist states coping with low levels of GDP per capita, which reflects their financial instability, low economic output and inefficiency of production, tend to unleash a savage form of capitalism which prioritizes economic growth over the protection of the poor. Considering that low GDP per capita reduces total welfare and healthcare expenditures but not education, it can be argued that the well-being of elderly people is likely to be sacrificed in poorer countries, where the "productive" use of scarce resources is prioritized. On the other hand, since "cross-country regressions indicate that change in education is positively associated with economic growth" (Krueger and Lindahl 2001, 1135-6), it can be argued that the productive economic return of investment in education has been acknowledged.

Moving on to look at the control variables; no consistent, statistically significant effect of unemployment, elderly population or military spending can be claimed. While the coefficients of unemployment and an elderly population are statistically insignificant in all models, the results on military spending point out its negative correlation only with regard to total welfare spending, 57% of which comes from the expenditure on social protection on average. Counting its insignificant impact on health and education spending, it is clear that the negative correlation between military expenditure and total welfare spending primarily stems from the costs of social protection, although further research is required to explore the causal mechanism behind this correlation. Nevertheless, since correlation does not imply causation, one should also avoid hasty interpretations, and there might be no plausible causal relationship between military and total welfare spending.

Even though the lack, or abundance, of natural resource rent does not significantly change the level of social spending, this outcome can be regarded as rather surprising, with regard to its appreciable impact on total government expenditure. A comparison between the total government expenditure and social spending shows that the above-stated spillover effect of natural resources does not imply to welfare expenditures, but probably does to other functions of government.

4.2.3 The (Non)influence of Party Ideology

As the final part of the data analysis, the implication of party ideology on social policies are explored. Despite claiming impacts in opposite directions, the previous research on both OECD countries (Korpi 1983, Korpi and Palme 2003, Huber and Stephens 2001) and post-communist Europe (Tavits and Letki 2009) have demonstrated that cabinet party ideology somewhat affects welfare efforts. More importantly, together with the strength of working-class mobilization, the cabinet share of social democratic and Christian Democratic governance has constituted the

foundations of PRT, which emphasizes those political groups' policy preferences in prioritizing the protection of vulnerable citizens. Yet, the findings of present studies demonstrate that the ideological composition of parliament has inconclusive effects on the welfare preferences of post-communist countries. As can be seen on the 4th, 6th and 8th columns of Table 3, neither the change in parliamentary share of left-wing parties[17] nor of Christian-democratic parties[18] have significant effects on welfare expenditures in overall.

A possible explanation for these results, as was previously proposed, may be the lack of coherent policy-based agendas among post-communist parties. The party systems have remained rather unconsolidated and programmatic differences are not at the forefront (Cheeseman et al. 2012, Aidukaite 2009). As a case study on the Ukrainian party system noted (Cheeseman et al. 2012), political parties in Eastern Europe began to become more institutionalized and programmatic only after the second half of the 2000s. Thus, the insignificance of party ideology in regard to social spending is a rather understandable outcome in the post-communist context, where the formation of the current party system started only in the 1990s. As opposed to the communist single-party rule, which restricted electoral competition, the OECD countries, where PRT is grounded, experienced democratic governments throughout the 20th century, and these political parties are well-institutionalized, dating back to as early as the 19th century. Secondly, due to the unpopular legacy of communist rule, left-wing parties are publicly discredited in many cases (Bozóki, Bozoki, and Ishiyama 2002, Tavits and Letki 2009). This factor is compounded by the global trend of decline in traditional class-based voting and weakening interconnections between the working-class and social democratic parties since the 1990s. As a perfect example of the prevalence of anti-communist sentiments within the working-class in post-communist countries, it may be recalled how the mobilization of the *Solidarność* movement in Poland, which was founded as a trade union of shipyard workers in Gdansk, pushed the Soviet Union to permit the first free elections of the Eastern Bloc, an event which later triggered a revolutionary cascade against communist rule across Central and Eastern Europe (Kuran 1995).

Nevertheless, concerning the robustness of the above-stated findings on party ideology, its effect is also tested through the interaction variable of polyarchy and left seat share. Thus, the question of whether the party ideology matters in more democratic regimes is investigated. The results derived from alternative tests (see 3rd, 5th and 7th models) demonstrated that support for social democratic parties is not a significant underpinning of welfare state development in democratic post-communist countries, either. Although the inclusion of trade union density rates was sought, in order to fully address the hypothesis of PRT as another variable, the

[17] The sum of ecological (ECO), socialist or other left (LEF) and social democratic (SOC) parties, as categorized in the Comparative Manifestos Project (CMP). The inclusion of these party groups is also consistent with the party categorization of Huber & Stephens (2001).

[18] Christian Democratic (CHR) parties as indicated in CMP (see *parfam* variable on the codebook)

effect of unionization could not be assessed due to the lack of reliable and yearly-coded data.[19] However, it should also be considered that measuring working-class mobilization via trade union density rates could be misleading for post-communist countries, as they could be artificially high for some countries, especially during the 1990s, due to the Soviet heritage of compulsory union membership.

Although the analysis of the parliamentary share of left and Christian Democratic parties revealed that they have no profound impact on social spending, one could argue that policy positioning of other parties might play a role in welfare state development, especially because of the fact that the above-mentioned party groups occupied only 38.1% of parliamentary seats on average. Hence, an inquiry into the general composition of these parliaments is needed, which is conducted by replicating the ideology measurement used by Tavits & Letki (2012). As is proposed in the theoretical framework, the results from the time period between 1996-2016 identify that the change in parliamentary composition in reference to economic issues does not lead major changes in welfare efforts. In claiming no effect of party ideology on any type of government expenditure in post-communist countries, this study contributes to a recent scientific discussion on the robustness of Tavits & Letki (2012) findings, partially confirming the results presented by Coman (2019).

[19] To the author's knowledge, the only available data on trade union density covering post-communist states is produced by the ILO. Yet, since the data points are overwhelmingly missing for selected countries, this variable is not analysed in the final analysis (If it were included, the observation number would drop from 280 to 137). Interpolation is not used due to the high volatility of observed rates.

5 Conclusion and Implications

This thesis set out to assess the determinants of welfare state development in post-communist countries, which was often evaluated as a peculiar case. Having a unique experience of an alternative but also comprehensive welfare system under communism, these young independent states also have many commonalities with other non-OECD countries, as developing economies. The second purpose of the current study was to investigate the applicability of major welfare state theories for "another universe", as these hypotheses are also shaped by the structural and institutional limitations/opportunities of OECD economies. As QoG scholars have remarked, "one way to evaluate the strength of a social science theory is to ask how well it 'travels'"(Rothstein, Samanni, and Teorell 2012, 24), and post-communist states on the periphery of Europe have been seen a good starting point for this "journey". Therefore, the research question, and design of the thesis, have been largely constructed to test the suitability of existing theories in the post-communist setting. Although this sounds quite ambitious, it would be better to perceive this study as a humble attempt to understand the dynamics of welfare policies in the CEE region, which is also bounded by certain limitations as it will be discussed below.

In accordance with these goals, this study has empirically investigated the effect of institutional, economic and ideological factors on welfare efforts, by taking a closer look at the social spending of sixteen post-communist states during the last two decades. This examination has been conducted in reference to previous studies on both advanced-industrialized countries and the CEE, whose theoretical contributions illuminated the path of this thesis. More specifically, contemplating the fundamental elements of structuralist, power resource and institutionalist theories, an attempt to propose a combined theory on post-communist welfare state development has been made. While doing that, this study mostly relied on the "good governance" perspective of QoG theory, suggested in Rothstein and Teorell (2008) and Rothstein, Samanni and Teorell (2012), and this approach is complemented by structural explanations underlining the importance of industrialization. Considering the new institutional economics perspective, which underlines the importance of institutional factors on economic growth and hand-in-hand development of economy and democracy (North 1991, Acemoglu and Robinson 2012, Acemoglu, Johnson, and Robinson 2005), the combination of QoG-based institutionalist and structuralist welfare theories could be regarded within the domain of new institutional economics, which is not much applied to explanations of the underlying factors behind welfare state development.

The results of empirical tests clearly demonstrate that the suggested combination of institutionalist and structuralist theories is largely capable of explaining the underpinnings of new welfare regimes in Central and Eastern Europe, which were reconstructed after the fall of communism. One of the most significant findings to emerge from this study is that the institutionalization of electoral democracy, which is measured by the V-Dem polyarchy index following the conceptualization of Robert Dahl (1971), plays a pivotal role in ensuring social welfare provision. The comparative analysis shows that countries with impartial, uncorrupted, accountable and trustworthy governments, achieved through free and fair elections, are more likely to invest in the social protection and fundamental public needs of citizens, such as education and healthcare. The causal mechanism behind the close relationship between democracy and welfare policies may be reasoned as one of the premises of this thesis. Since the incumbents in polyarchal regimes should maintain their public support by obtaining the approval of citizens in frequent and competitive elections, the likelihood of electoral turnover reinforces the democratic governments with regard to the prevalence of good governance practices. Thus, it can be argued that the public control of the political agenda, which also pressures the government within the legislative period, thanks to a free press disseminating information from alternative sources, fosters citizen-centred and corruption-free governance practices, in which citizens' rights are protected by the rule of law. In return, tax-payers become more likely to trust in public authorities and their implementation of social policy programs, which would leave little room for bureaucratic discretion and free-riding, as QoG theory also emphasized (Rothstein, Samanni, and Teorell 2012).

One could argue that there might be a few cases where autocratic regimes invest in welfare provision at comparable levels to democratic countries. Remembering Figure 4 on the relation of polyarchy and total welfare spending, the similar level of social spending between Belarus and Czech Republic could be put forward as evidence for this claim. Although this may be the case, these exceptions are less likely to result in the development of consistent and comprehensive welfare states. While it is more realistic to evaluate them as the ephemeral generosity of autocrats, the selectorate theory provides a valuable perspective clarifying why a non-democratic regime would allocate a considerable share of its revenue to social policies: Autocrats challenged by a powerful opposition are forced to cooperate with others to broaden the base of the winning coalition, where they need to sacrifice some of their privileges (Bueno de Mesquita et al. 2003). In similar manner, Belarusian leader Alexander Lukashenko, who has been serving as the president of Belarus since July 1994, pursued a "political strategy which has centered on creating revenue from external economic rents and using them to establish a kind of social contract with the population, providing sustained social welfare in exchange for public loyalty" (Freedom House 2012). Nevertheless, the provision of welfare policies in autocratic settings is rather a by-product of power relations, which could be arbitrarily stopped if the contextual conditions no longer

necessitate the distribution of "bribery in the form of welfare provision". Moreover, in assessing the detrimental impact of dictatorships on economic development (Acemoglu, Johnson, and Robinson 2005), it can be claimed that there would be limits on the generosity of welfare programs in non-democratic countries. As the present study demonstrates, economic development is crucial for the expansion of the welfare state, and poor countries are less likely to transfer the lion's share of their GDP into non-productive activities.

A second objection to evaluating polyarchy as an underpinning of the welfare state would arise from the fact that some of the most democratic countries on the globe, such as the United States and United Kingdom, have relatively small welfare states, which are categorized as liberal welfare regimes (Esping-Andersen 1990b). However, the findings presented in this study have documented that none of those post-communist countries sustaining a high level of polyarchy have spent less than 20 percent of GDP on welfare policies on average, and the failure of the welfare state in the United States has been evaluated as an outcome of negative policy feedbacks (Skocpol 1992). Contrarily, the Soviet and Yugoslav heritage in post-communist countries is more likely to give positive policy feedbacks in reinforcing welfare state expansion, as the citizens also exert pressure in favour of comprehensive social protection and "social justice" (Tavits and Letki 2009, 556).

Last but not least, the results of this study have identified that prosperous and more productive nations have better capacity to invest in welfare policies, and allocate a greater percentage of their GDP per capita to social expenditures. Yet accounting for all other variables, the poorer post-communist states direct their resources to education as much as richer nations, despite spending less on social protection and healthcare. In regard to the overall effect of globalization and market liberalization, the empirical analysis reveals the significantly negative impact of foreign direct investment on health and education spending. Supporting the predictions of Huber and Stephens (2001), this finding is also in line with the proposed theoretical framework: The post-communist states, which are geographically located on the periphery of advanced industrialized countries, appeal to foreign investors largely because of cheap manufacturing costs. Therefore, foreign investors in need of cheap unqualified labour have a good incentive to invest in low-tax countries, whereas they would refrain from entering high-tax imposing welfare states. On the other hand, the results of regression analysis refute the predicted hypothesis on the effect of trade openness, which is mostly estimated as insignificant.

Taken together, the findings of this research provide insights to understand why the welfare policy outcomes in post-communist states diverged to a great extent just within three decades, and support the QoG-based explanations of the welfare state. However, as opposed to Rothstein, Samanni and Teorell (2012), this thesis suggests regarding QoG and good governance practices as the key instrument of welfare

state expansion rather than as a complementary factor for PRT, due to the peculiar post-communist context. Even though the effect of unionization could not be tested due to data inadequacy, it is evident that partisan mobilizations have no explanatory power on the welfare efforts of the Central and Eastern European governments, as QoG scholars had also expected. By empirically testing the validity of QoG theory outside of OECD countries, this thesis has been one of the first attempts to explain the post-communist welfare states from the perspective of good governance.

5.1 Limitations of the Study and Future Research Possibilities

Finally, a number of important limitations of this study are to be acknowledged. The major limitation lies in the fact that post-communist countries lack comprehensive and accurate data from alternative sources. Although the absence of adequate data on macroeconomic issues is not a problem specific to these countries, what makes studying post-communist countries more challenging is that data availability shows a great variation within the selected cluster, which covers both OECD and EU-member countries and the rather isolated states of Central Asia. Yet, this can be regarded as a general limitation in the domain of welfare studies, whose scope is largely restricted to advanced welfare states. It is evident that the fundamental transformations of post-communist states would be analysed in a more detailed way, if there could be access to annually-updated and continuous data for all those countries since 1990. By narrowing down the scope of research from thirty to sixteen countries, as well as its time frame, the current research was only able to examine the post-communist welfare states partially. Even for the analysed years and countries, some variables such as cabinet composition and constitutional veto points had to be measured via proxy variables which are detailed in the data and methodology chapter, while the effect of trade union density could not be addressed at all. Nevertheless, despite being bounded by external limitations, the present research was able to investigate a large number of observations, and it can be argued that its findings can be generalized for all post-communist states.

Another limitation of this thesis could be named as the dependent variable problem, which should be considered in close relations to the data limitations. As Jochen and Siegel (2007) discussed in detail, the question of how to assess welfare state development has been a crucial question of welfare studies, while quantitative studies have used several methods in measuring the dependent variable. They have criticized the use of total welfare spending data "to infer changes in the generosity of social rights", as "the categorical imperative of comparative research aimed at investigating the extent of welfare state expansion or retrenchment, rather than analysing merely the change in 'welfare efforts'"(Clasen and Siegel 2007, 8-9). To

deal with this problem, researchers examining the welfare state in OECD countries were able to test their hypotheses by using alternative dependent variables such as net replacement and coverage rates, benefit generosity as well as disaggregated spending data specified for individual welfare programs. Unfortunately, these alternatives were not possible for post-communist states, since none of the existing welfare datasets cover them to any large extent. One way of dealing with this problem would be focusing on OECD and/or EU-member post-communist countries, which would be at the expense of selection bias. As discussed above, becoming a member of the EU and OECD necessitates some economic and democratic conditions that many post-communist countries have not yet achieved. Hence, this study aimed to include as a large sample as possible from those countries, which enables a comparison between so-called "successful" and "failed" welfare states, rather than examining the variation within proto-welfare states. It should be further noted that aggregate social expenditure data is commonly used for quantitative analysis in many studies, including that of Huber & Stephens (2001).

As King, Keohane, and Verba emphasized, "the difference between quantitative and qualitative measurement is in the style of representation of essentially the same ideas" (1994, 152). Even though the findings presented in this study are likely to be confirmed if it would be reanalysed using qualitative methods, the theoretical arguments of this thesis would more probably be confirmed through case studies. Yet, considering the time and word constraints, it was not possible to complement the findings with case studies. The reliance on quantitative analysis rather than mixed-methods can be counted among the limitations of this thesis.

In view of all the limitations that have been mentioned so far, suggestions and possibilities for future research largely include possible remedies for those constraints. First of all, there is the vital need for comprehensive datasets on post-communist and other developing countries, which would provide alternative and more reliable measures of welfare state development and efforts. Despite some previous attempts to construct databases covering countries around the world, such as Mares (2005) and ASPIRE Project (World Bank 2015), the variety of welfare indicators, and accessibility of the collected data, need to be developed. Thus, the salient future research possibility lies in empirical analysis of post-communist and/or developing countries with more fine-grained datasets, which will require the intensive work and collaborations of researchers.

Moreover, considering the limitations of quantitative studies in explaining the causal mechanisms underlying corellations, the research on post-communist welfare states can be enhanced by conducting case studies along with quantitative analysis. By using mixed-methods for larger-scale research, the underpinnings of post-communist welfare state development can be scrutinized in detailed ways. More specifically, detailed investigations of the historical evolution of welfare

institutions, transformations of social policies and democratization trends would be conducted from the institutionalist perspective, which has been proposed as the most powerful approach in explaning the welfare state in the given context. Finally, to develop a broader understanding on the origins of welfare state development, the validity of hypotheses stated by major welfare theories would be tested on Latin American and/or South Asian countries, where the theoretical insights will be derived from the trajectories of developing proto-welfare states.

6 References

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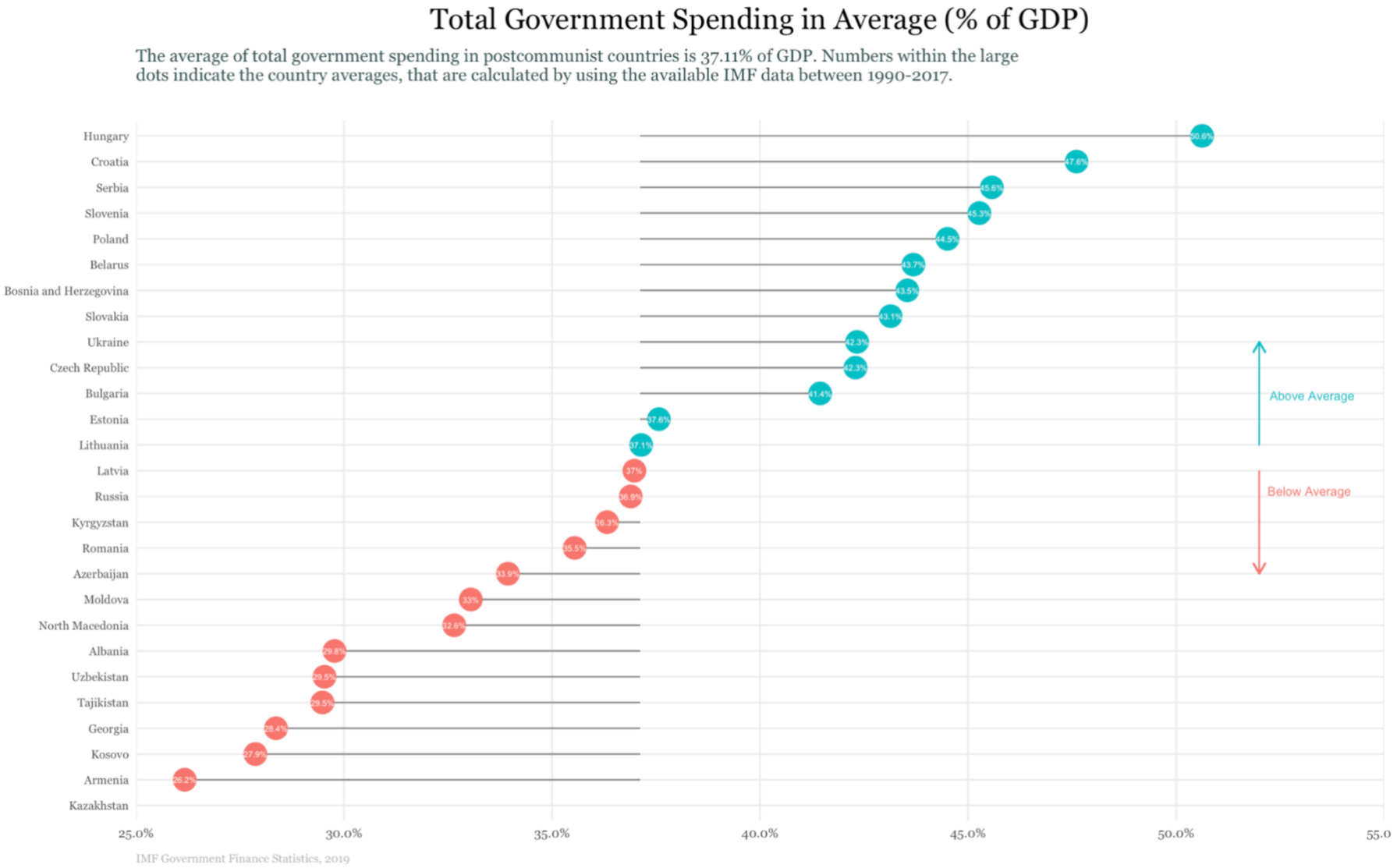
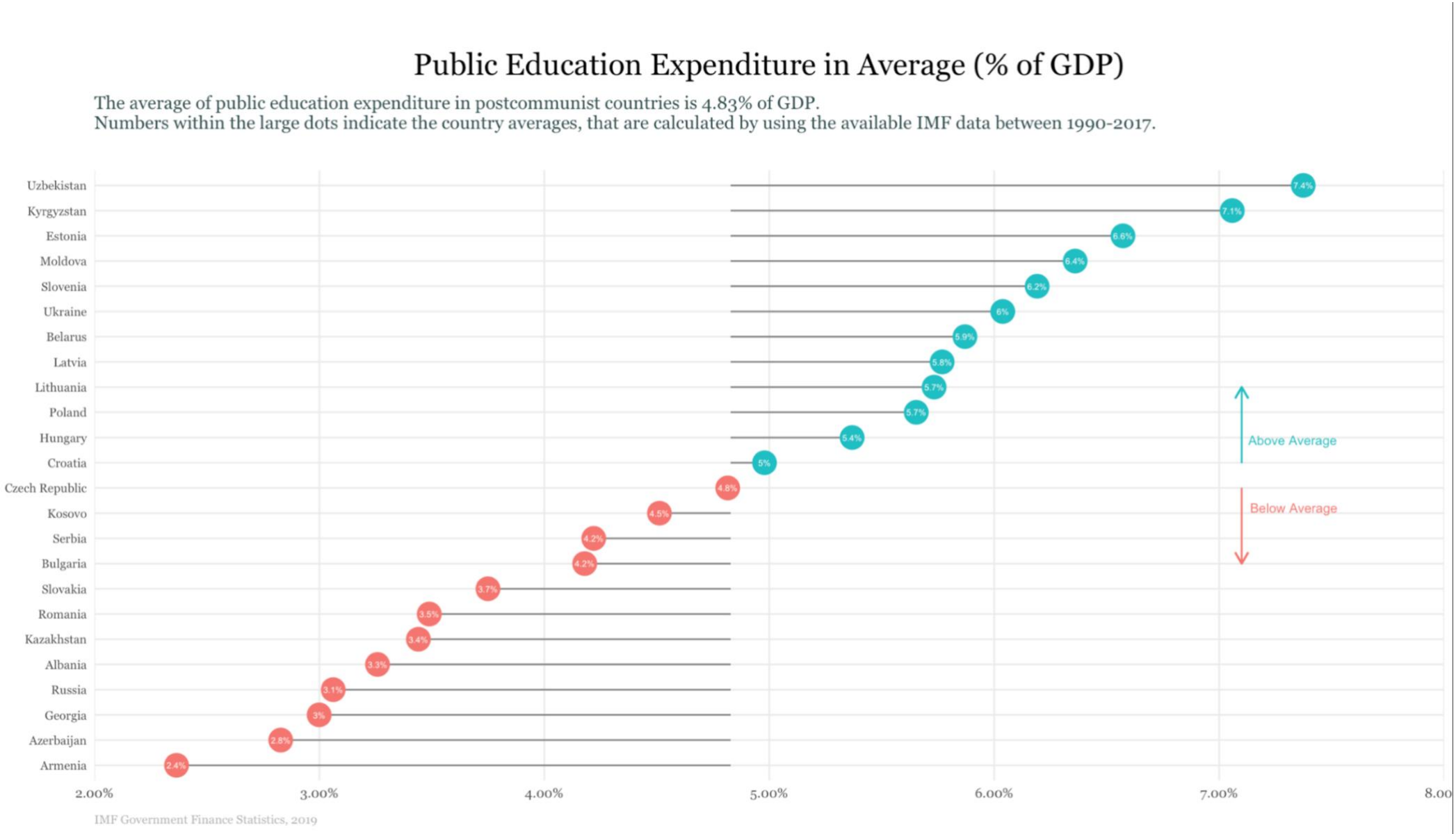
Appendixes

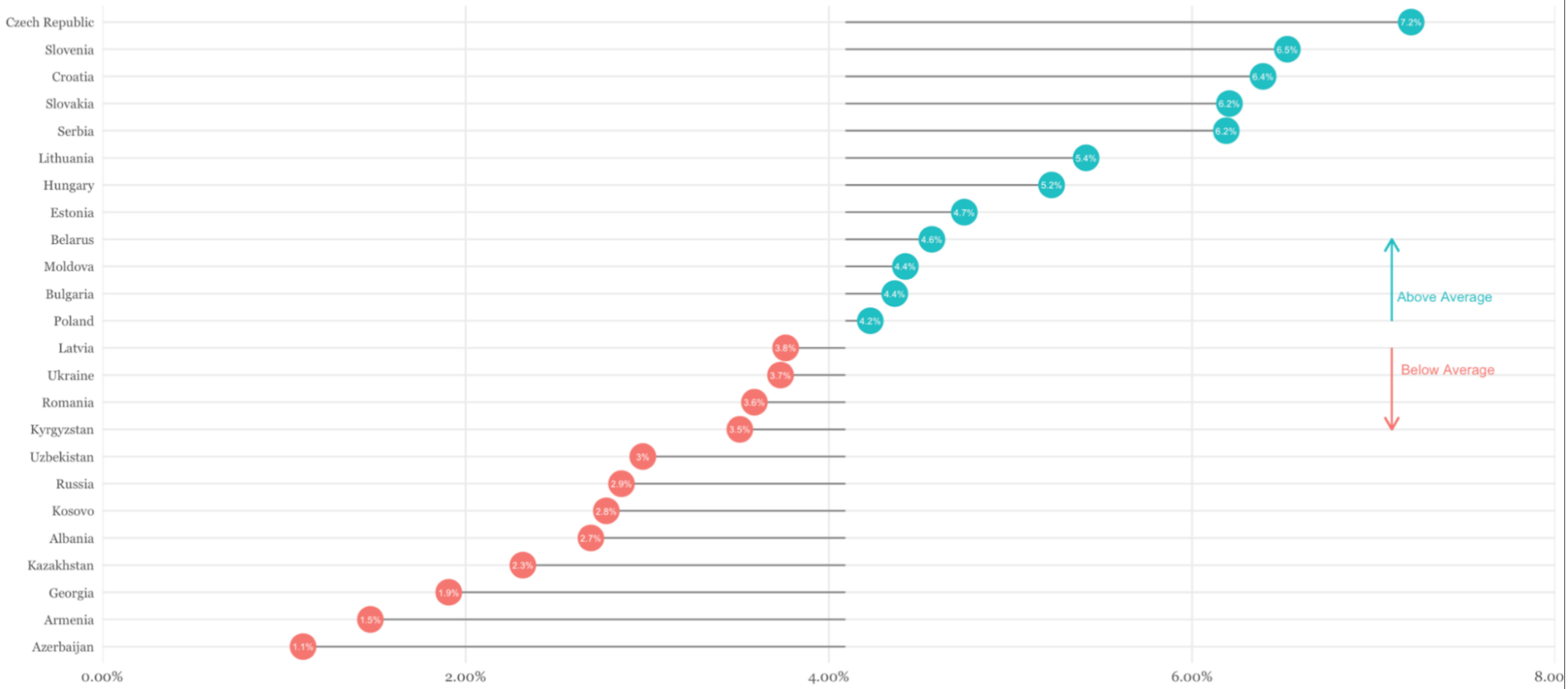
A.1 Figures on Averages of Dependent variables by Country




Public Education Expenditure in Average (% of GDP)
The average of public education expenditure in postcommunist countries is 4.83% of GDP.
Numbers within the large dots indicate the country averages, that are calculated by using the available IMF data between 1990-2017.
Uzbekistan
Kyrgyzstan
Estonia
Moldova
Slovenia
Ukraine
Belarus
Latvia
Lithuania
Poland
Hungary
Croatia
Czech Republic
Kosovo
Serbia
Bulgaria
Slovakia
Romania
Kazakhstan
Albania
Russia
Georgia
Azerbaijan
Armenia
7.4%
7.1%
6.6%
6.4%
6.2%
6%
5.9%
5.8%
5.7%
5.7%
5.4%
5%
4.8%
4.5%
4.2%
4.2%
3.7%
3.5%
3.4%
3.3%
3.1%
3%
2.8%
2.4%
Above Average
Below Average
2.00%
3.00%
4.00%
5.00%
6.00%
7.00%
8.00
IMF Government Finance Statistics, 2019

Public Health Expenditure in Average (% of GDP)

The average of public health spending in postcommunist countries is 4.09% of GDP.
Numbers within the large dots indicate the country averages, that are calculated by using the available IMF data between 1990-2017.



IMF Government Finance Statistics, 2019

A.2 Descriptive Statistics

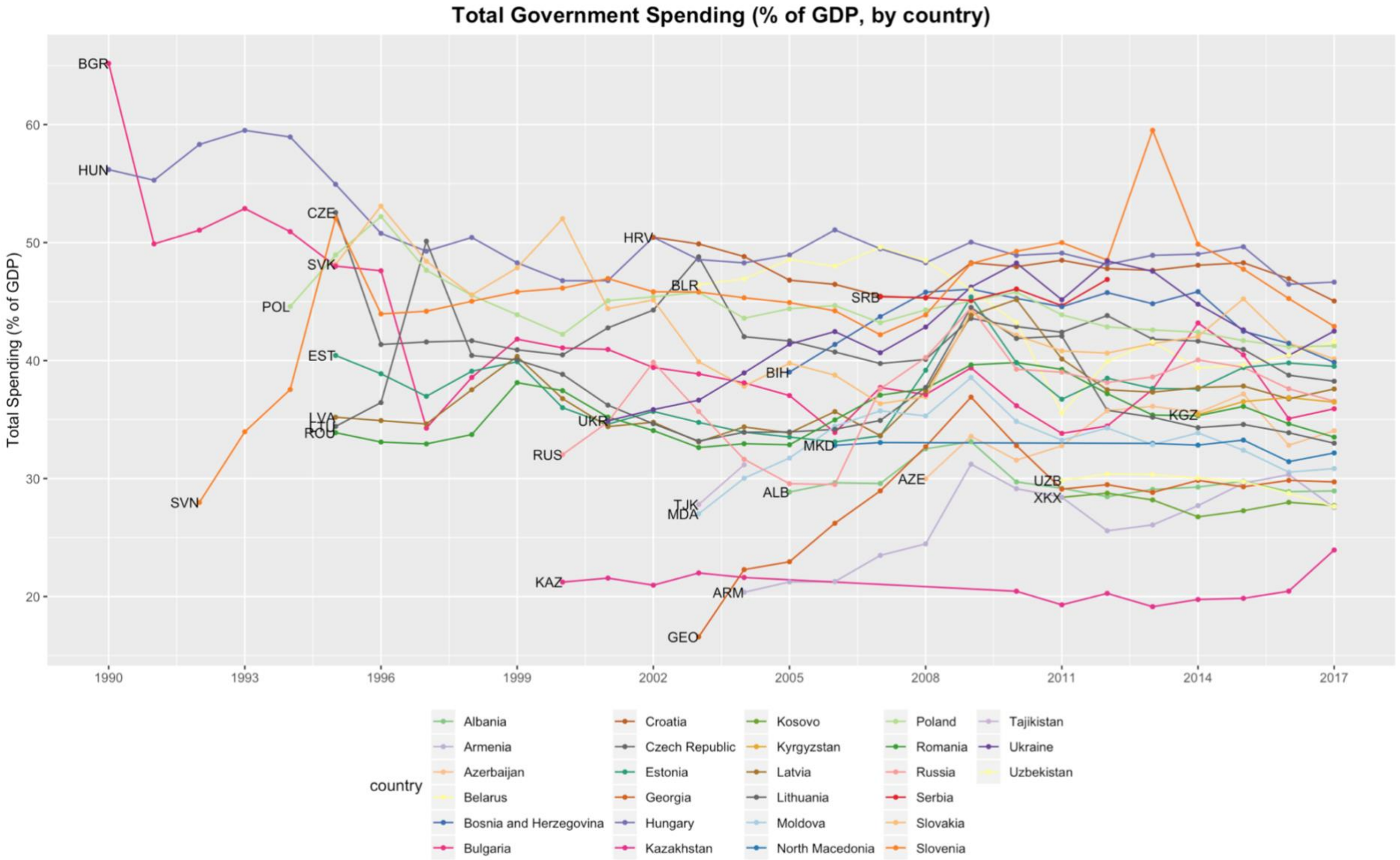
Descriptive Statistics on All Observations

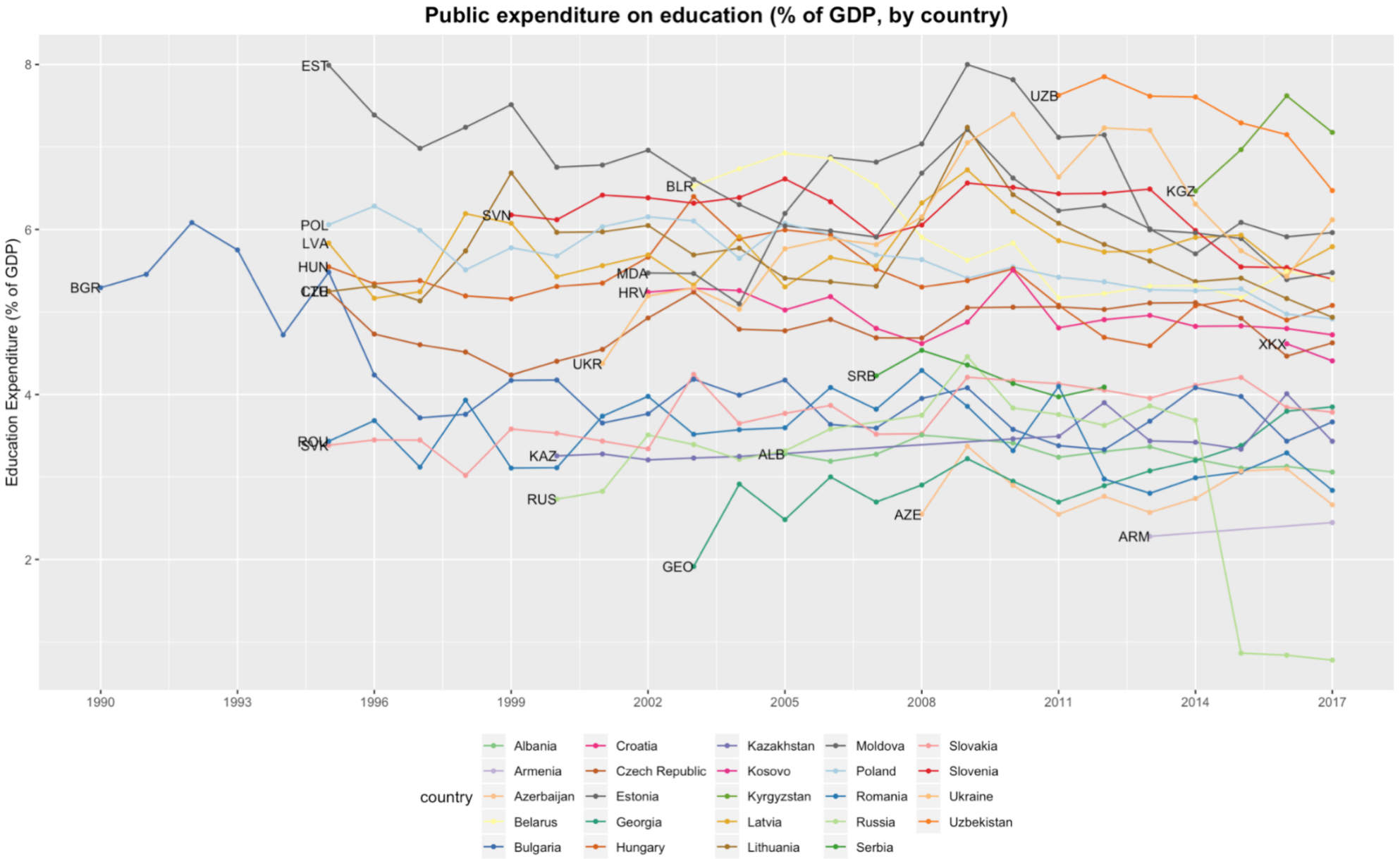
Variable	Obs.	Mean	Std. Dev.	Min	Max
Polyarchy	756	.547	.248	.082	.91
GDP per capita (thousands of US$)	718	11.176	6.785	1.251	30.118
EU membership	756	.184	.388	0	1
FDI	655	5.185	6.431	-15.989	55.49
Population aged over 65	696	11.738	4.454	3.302	20.801
Unemployment rate	691	11.257	7.091	.481	37.25
Budget deficit	606	-2.162	3.929	-15	21.8
Military spending (% of GDP)	372	1.552	.94	.279	8.816
T&L ideology	523	-9.532	7.183	-26.794	10.851
Left seats	523	.308	.199	0	.891
Christian democratic seats	523	.073	.129	0	.546
Trade openness	715	95.957	32.481	23.216	190.679
Natural resources rent (% of GDP)	723	5.657	11.028	0	86.453
Left*Polyarchy	523	.196	.134	0	.551
Presidential regime	674	.53	.499	0	1

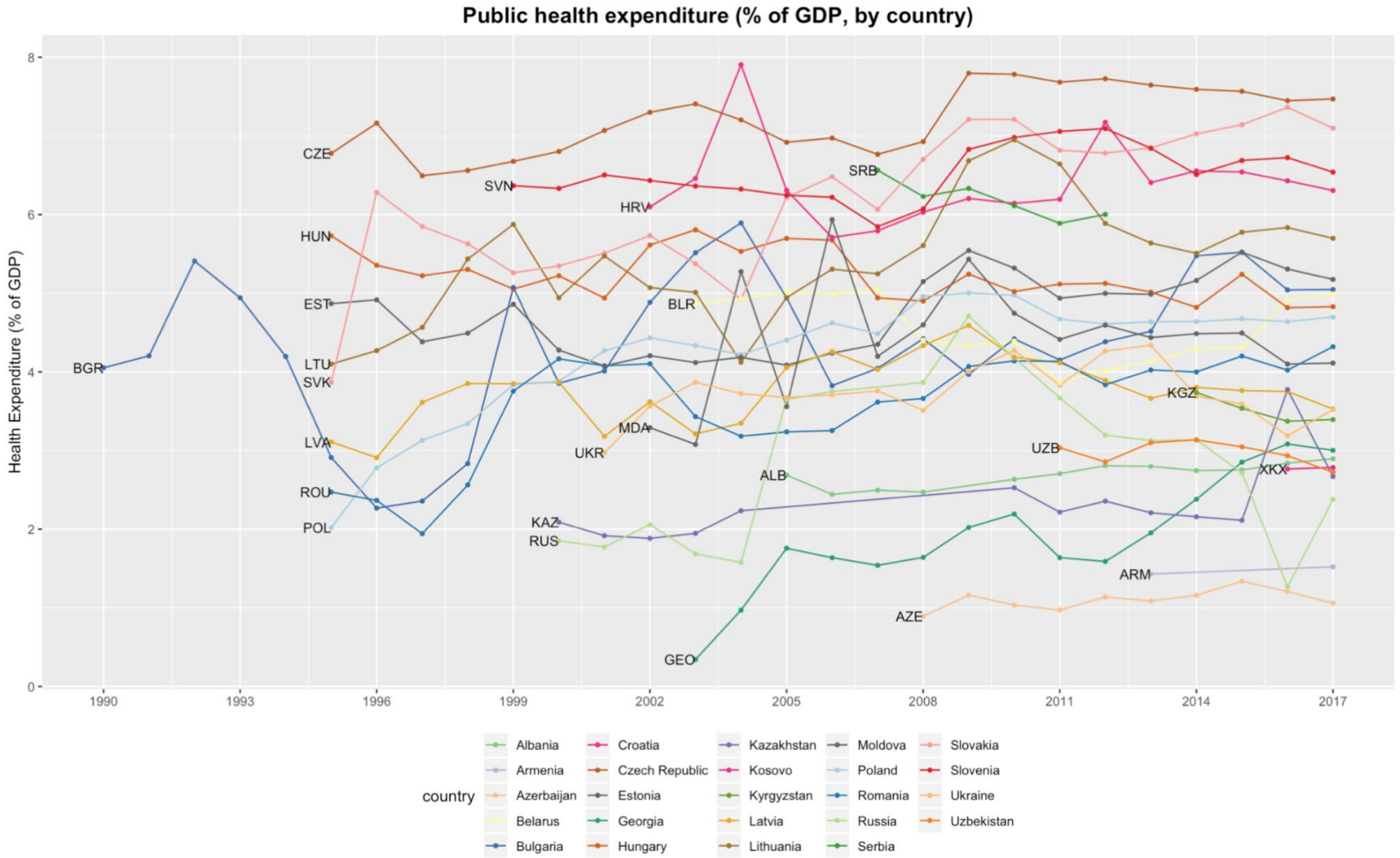
Descriptive Statistics on Observations used for Regression Analysis

Variable	Obs.	Mean	Std. Dev.	Min	Max
Polyarchy Index	280	.75	.163	.269	.909
GDP per capita (thousands of US$)	280	15.755	6.436	2.368	30.118
EU membership	280	.446	.498	0	1
FDI	280	5.285	6.42	-15.989	55.49
Population aged over 65	280	15.004	2.415	8.522	20.474
Unemployment rate	280	10.041	3.964	3.69	19.92
Budget deficit	280	-2.635	3.038	-13.8	7.8
Total government spending (% of GDP)	280	40.19	6.425	16.584	59.517
Military spending (% of GDP)	280	1.53	.936	.279	8.816
Health spending (% of GDP)	280	4.796	1.524	.344	7.904
Education spending (% of GDP)	280	4.988	1.297	.841	8
T&L ideology	280	-12.847	5.982	-26.794	-1.674
Left seats	280	.306	.189	0	.891
Christian democratic seats	280	.075	.122	0	.546
Trade openness	280	105.67	33.879	43.678	183.993
Natural resources rent (% of GDP)	280	2.148	3.879	.131	21.69
Left*Polyarchy	280	.229	.142	0	.55
Total Welfare Spending (% of GDP)	280	22.763	4.886	7	34.584
Presidential regime	280	.307	.462	0	1

A.3 Over-time Changes in Dependent Variables by Country




Public expenditure on education (% of GDP, by country)
Education Expenditure (% of GDP)
8
6
4
2
1990
1993
1996
1999
2002
2005
2008
2011
2014
2017
EST
UZB
BLR
KGZ
SVN
POL
LVA
HUN
CZE
BGR
MDA
HRV
UKR
XKX
SRB
ROU
SVK
KAZ
ALB
RUS
AZE
ARM
GEO
country
Albania
Armenia
Azerbaijan
Belarus
Bulgaria
Croatia
Czech Republic
Estonia
Georgia
Hungary
Kazakhstan
Kosovo
Kyrgyzstan
Latvia
Lithuania
Moldova
Poland
Romania
Russia
Serbia
Slovakia
Slovenia
Ukraine
Uzbekistan


Public health expenditure (% of GDP, by country)
Health Expenditure (% of GDP)
8
6
4
2
0
1990
1993
1996
1999
2002
2005
2008
2011
2014
2017
CZE
SVN
HRV
SRB
HUN
EST
BLR
BGR
LTU
SVK
KGZ
MDA
UKR
LVA
UZB
ALB
XKX
ROU
POL
KAZ
RUS
ARM
AZE
GEO
country
Albania
Armenia
Azerbaijan
Belarus
Bulgaria
Croatia
Czech Republic
Estonia
Georgia
Hungary
Kazakhstan
Kosovo
Kyrgyzstan
Latvia
Lithuania
Moldova
Poland
Romania
Russia
Serbia
Slovakia
Slovenia
Ukraine
Uzbekistan

A.4 Replication of Table 3 after omitting *EU Membership* variable

Table 4: Replication of *Table 3* excluding EU membership

VARIABLES	(1) Total Public Spending (% of GDP)	(2) Total Public Spending (% of GDP)	(3) Total Welfare Spending (% of GDP)	(4) Total Welfare Spending (% of GDP)	(5) Health Spending (% of GDP)	(6) Health Spending (% of GDP)	(7) Education Spending (% of GDP)	(8) Education Spending (% of GDP)
Polyarchy	12.057***	10.914***	8.930**	8.858**	2.468**	2.720**	3.083***	3.493***
	(3.156)	(3.097)	(4.028)	(3.821)	(1.118)	(1.166)	(1.018)	(0.920)
Openness to trade	-0.009	-0.011	-0.011	-0.010	0.006**	0.005**	0.000	0.002
	(0.010)	(0.011)	(0.009)	(0.009)	(0.003)	(0.003)	(0.003)	(0.003)
Presidential regime	-2.759**	-3.175**	-0.070	-0.113	-0.739*	-0.778*	0.088	0.064
	(1.110)	(1.305)	(0.960)	(1.015)	(0.405)	(0.429)	(0.224)	(0.212)
T&L ideology	0.038		-0.030		0.012		-0.005	
	(0.044)		(0.034)		(0.012)		(0.010)	
Left-polyarchy interaction	-3.193		0.459		0.495		-0.061	
	(2.139)		(1.302)		(0.425)		(0.372)	
Natural reseources rent	0.362***	0.333***	-0.046	-0.045	0.026	0.026	-0.001	0.005
(% of GDP)	(0.120)	(0.124)	(0.176)	(0.178)	(0.075)	(0.076)	(0.036)	(0.034)
Population aged 65+	-0.054	-0.111	0.154	0.121	-0.021	-0.020		
	(0.199)	(0.224)	(0.187)	(0.193)	(0.056)	(0.061)		
Unemployment	0.055	0.060	0.091	0.088	-0.001	0.001	-0.015	-0.021
	(0.090)	(0.089)	(0.060)	(0.063)	(0.016)	(0.016)	(0.020)	(0.021)
Budget deficit	-0.912***	-0.916***	-0.378***	-0.386***	-0.090***	-0.089***	-0.054***	-0.059***
	(0.055)	(0.054)	(0.058)	(0.058)	(0.023)	(0.023)	(0.010)	(0.010)
FDI	-0.003	-0.006	-0.020*	-0.020*	-0.011***	-0.011***	-0.007***	-0.008***
	(0.009)	(0.009)	(0.011)	(0.011)	(0.004)	(0.004)	(0.002)	(0.002)
GDP per capita (thousands of US$)	0.292***	0.291***	0.166**	0.181**	0.092**	0.089**	-0.033	-0.038*
	(0.087)	(0.087)	(0.076)	(0.072)	(0.041)	(0.045)	(0.023)	(0.021)
Military spending (% of GDP)	0.306	0.275	-0.691**	-0.739**	-0.088	-0.082	-0.118	-0.159
	(0.491)	(0.478)	(0.307)	(0.323)	(0.064)	(0.063)	(0.092)	(0.099)
Left seat share		-3.535*		-0.155		0.247		-0.331
		(1.990)		(1.147)		(0.393)		(0.385)
Christian democratic seat share		-4.018**		-1.048		-0.147		-1.761***
		(1.914)		(1.327)		(0.387)		(0.373)
Constant	26.181***	28.485***	11.095***	11.989***	1.299	1.095	3.260***	3.284***
	(4.080)	(4.689)	(3.868)	(4.173)	(0.856)	(0.977)	(1.013)	(0.955)
Observations	279	279	280	280	280	280	280	280
R-squared	0.780	0.784	0.636	0.634	0.469	0.461	0.532	0.555
Number of country	16	16	16	16	16	16	16	16

Notes: Prais-Winsten regression with AR1 autocorrelation structure and heteroskedastic panel-corrected standard error (PCSE). PCSE are given in parantheses.
T&L ideology: Tavits & Letki (2009) ideology scale in terms of economic issues; EU: European Union; FDI: Foreign Direct Investment; GDP: Gross Domestic Product.
*** p<0.01, ** p<0.05, * p<0.1; two-tailed test.