

THE TRIPLE CHALLENGE in Central Europe – RG Young

In a remarkably short period of time, the countries of Central Europe have put in place the institutions on which an effective market democracy depends, such as -

- free elections, held at regular intervals
- freedom of association and expression
- free press
- relatively independent judiciary
- private ownership
- banking systems

Such institutions set up structures of rewards and penalties to make the behaviour of political, administrative and business leaders more credible to the population.

It cannot be emphasised too much that development takes place only if there is a climate of **trust** and **confidence**.

For individuals to be willing to invest their time, energy or money in an activity (whether voting or starting a business or community organisation), they need to believe that their efforts have a high chance of producing results which they value.

If that belief is not there, then they will not make the appropriate investment of time or money.

The appropriate legislative framework - duly enforced (!) - supplies the confidence and **trust which is the invisible glue which binds together our economic and social systems**¹.

The "market", in other words, does not appear naturally. It is a social construct requiring systems of rules and organisations which are trusted by people. And used by them to take the variety of initiatives which create both a healthy economy and society.

All this does not happen overnight - and is one reason why progress has been slower in such matters as -

- the structure and status of public services
- the coherence of political parties
- the role of parliament (where western Europe also has its problems!)
- local government
- privatisation
- soundly based economic development

Progress in these areas requires **more than** the establishment of appropriate laws and institutions. It requires these new institutions to be actively used - by people willing to take initiatives and to work with other people to achieve new things.

The centralised systems which have been in place in Central Europe discouraged people from taking initiatives. They encouraged, instead, fatalism and passiveness - and a variety of manoeuvres and "double-speak" to get what one needs.

Such "coping" techniques do not die easily - particularly where the old bureaucratic structures and personnel are slow to go. And the **habits of working creatively and openly with others to get things done in the public domain** do not grow easily again - particularly when the new climate is celebrating the individual and competition in both the political and economic field.

Few people in the West seem to appreciate that moving from a centralised, totalitarian system to a more pluralistic one with a real and active market system in which citizens more confidently take initiatives - whether personal (complaints); economic (starting their own business); political (lobbying); or social (NGO) - is a task which **has never really been undertaken on this scale before**. The major constitutional and economic changes introduced in post-war Germany, for example, were built on the memory of autonomous political and economic systems which Hungary and Poland had at least a decade of economic and political preparation for the eventual fall of the Wall.

¹ This has most recently and fashionably stated in F Fukuyama's Trust (Penguin 1995)

What is also insufficiently appreciated is that the way each country exited from state socialism has profoundly affected the approach taken in each country to the reform process. David Stark and Laszlo Bruszt argue² that "**the diverse paths of extrication from state socialism yield distinctive patterns across a triangle formed by the state, the market and society**" -

- **reunification** in Germany with subsequent colonisation from the West; incorporation meant confidence in the state but deep distrust of society. German leadership used the state to try to transform both the economy and society. The Treuhand **in East Germany** had dramatically to alter its mission as the market for companies so quickly collapsed - and as the politicians of the new Laender and the increasingly powerful Unions had to be reckoned with.
- **capitulation** in Czechoslovakia - after decades of serious suppression of civil society - and a fast build-up of a very new political system. "Unlike the Germans they lack a strong state; yet unlike the Poles, they are not faced with strong civil society institutions that might negate their leadership. Czech political leadership attempted to use the market to transform the economy". Political leadership in the **Czech** republic used the rhetoric of neo-liberalism to conceal a pragmatic defence of employment. Despite Klaus' arrogance, the electoral system forced him to compromise - and the complex system of incremental bidding on which the voucher system was based has effectively and paradoxically returned companies to the State - via the 10 or so National Funds owned by the Banks backed up by the State. Havel's eloquent 1998 address to the Czech Parliament reflects the frustrations in that country (see later).
- **compromise** in Poland leading to a compromised parliament and a nation-wide (but weakening) workers' movement. "Whereas the Czech voucher system was a means of achieving a market that is self-legitimising, the Polish citizenship vouchers were intended to legitimise the market"
- **electoral competition** in Hungary with the opposition winning power before it had roots in society, the fragmentation of the unions and the enterprise managers emerging as the most powerful social actors in society. "The Hungarian elite distrusted the market - and was also uncertain about society's trust in its leadership. Lacking strong intermediary institutions with which it could negotiate, the elite had few means of knowing the limits of society's tolerance. It therefore avoided decisive steps for fear of the reaction" - stumbling from one crisis reaction to another. Managers of State agencies were quick to take advantage of pre 1989 legislation to establish, with state assets, free-standing companies - leading to a complex pattern of interlocking ownership - with the State, however, still there to bail out. Governments (notwithstanding the high calibre of the bureaucracy) were slow to develop coherent policy, slow to implement it and fast to change it - with no social dialogue (the constitution and electoral system give the PM huge powers).

The authors also looks at the "policy coherence" of reform in the countries and challenge the view that a strong Executive helps develop a clear and sustained reform process. They suggest that the strong Hungarian Executive has meant insufficient testing of proposals in negotiating forums with incoherent drift as a result. Against this, of course, one can argue that the mixture of strong parliaments and multi-party coalitions found in countries such as Romania and Latvia creates policy gridlock.

The basic question their analysis leaves us with (assuming its validity!) is the extent to which the balance of forces created by the specific historical circumstances of the 1980s and early 1990s are now immutable? And, if not, how a healthier balance might be created?

² Stark D and Bruszt L Postsocialist Pathways - transforming politics and property in East Central Europe (Cambridge 1998)

2. RETHINKING THE ROLES OF THE 3 SECTORS

Such a perspective is interesting for the light it seems to throw on the different trajectories of change in the different countries. The interaction between the three sectors, however, also helps make sense of wider attitude changes in the West during the 1990s which is an important phenomenon for those now building their own systems -

- Loss of confidence in politicians and the state
- Misgivings about the market
- Increased activity of a "third" sector

2.1 Suspicion of the State

In both Western and Central Europe, people are suspicious of government actions and organisations - in Central Europe with more obvious reason!

Bureaucracy is, by its nature³, inflexible and, by virtue of its monopoly position, the expertise and experience residing in it can easily become complacent.

One of the functions of the **political** process in a pluralistic system is to challenge that complacency - and make things more transparent. But the paramount driving force of the political system is political ambition - the desire to capture and retain power for a party and its leaders. That often leads to a mixture of childish and devious behaviour which has alienated the public.

In Western Europe -

The operation of state structures has reflected an amalgam of political and professional definitions of the "public good" which have often excluded the public.

In the past two decades the closed manner in which politicians and professionals have defined the public good has been profoundly challenged in **Western Europe** - and new mechanisms are now being developed⁴ aimed at making public services more "user-friendly" but give the public more choice.

There is still considerable debate about the results of the major institutional changes to which this has led - and choices on both the content and process of change⁵. One recent study⁶ focussed on the "Street Level Public Organisation" (SLPO) as the basic unit of "core public services (schools, police stations, hospitals) and suggests that reform works only if there is a consensus attempted between government, the professionals and the involved public

Central Europe countries

have three particular conditions whose cumulative effect is to breed **deep cynicism** about **the political system** -

- Public disputation - the experience of debating public issues in the open - is still something new. Political *disputes are therefore personalised*. The public is still unsure of whose voice to trust.
- Those in power have *strong opportunities and incentives to abuse their positions for personal gain*. The legislation and machinery for privatisation is still unclear - and processes of transparency and accountability in government not yet in place.
- Even well-intentioned politicians find their time taken up by crises and negotiations with international bodies (such as the IMF and EU) and have *no time left to ensure the 3 things required by good government* - (i) coherent (and agreed) programmes which (ii) reflect public concerns - (iii) effectively and flexibly implemented.

³ see JQ Wilson's Bureaucracy - what Government Agencies do and why they do it (Basic Books 1989) for the classic analysis

⁴ Foster and Plowden The State under Stress - can the Hollow State be Good Government? (Open University Press 1996)

⁵ Pollitt C and Bouckaert G Public Management Reform - a Comparative Analysis (OUP 2000)

⁶ McKevitt D Managing Core Public Services (Blackwell 1998)

And the bureaucracy has, for almost 50 years, been **an integral part of a very closed political system** and even now, after 9 years of a more competitive struggle for political votes, is deeply affected by clientism. Ministries still work in traditional styles -

- **hierarchical** (no real questioning or encouragement of creative/lateral thinking)
- **closed** (reluctant to work with other Ministries - or consult with social partners)
- **over-legalistic** (too much attention to legal detail and insufficient attention to policy aims and options - and to the practical realities of project management and implementation) As a result discussions often get lost in detail.
- **non-existent personnel management** (poor recruitment procedures ; lack of guidance and encouragement for staff etc)

The lack of trust people in Central Europe have of the state⁷ therefore reflects *two things* -

(a) their **daily experiences** of the insensitivity they experience from so many (but not all!) harassed officials **in various public offices**

(b) their perception that the **political system is mired in conflict, corruption and crisis** management.

2.2 Caution about the Market

The driving force of the second sector (commercial organisations in the market) is profit - subsequently distributed to the owners (shareholders) of the companies.

It is perhaps insufficiently appreciated in Central Europe that the market delivers real consumer satisfaction only if at least three stringent conditions are met -

- there is a reasonable amount of competition (so often the competition in the West has been oligopolistic)
- there is information (how do people choose between so many producers of computers without the intensive consumer tests done by specialist magazines?)
- there is reasonable equity of purchasing power (and in both Central and Western Europe income inequalities have been growing)

It is only in the **last decade or so that technical changes have given consumers in the West real choice**; and the income levels (and crime rates) in many poor urban areas has discouraged commercial investment (even on a small scale). Such areas have therefore been denied some basic facilities in the West. .

Clearly **income and information deficiencies make choice virtually non-existent for Central European consumers** who are (and feel) generally exploited by a commercial sector which is in essence more of a trading - than producing - system. And generally interested in fast profits (while the going is good) rather than building up loyal customers on the contemporary western model. And profits, moreover, which are reaped generally by the nomenklatura of the previous regimes who were in a good position to use their networks to take advantage of the privatisation process. And whose continuing political connections tend to block serious considerations of different ownership options.

In a recent book, Jeff Gates⁸ (not to be confused with Bill!) has expressed regret that so little of the technical advice given to Central and East Europe has offered the employee-ownership as an option. Instead, the West has accepted the pathetic argument that the development of a market economy required the rapid growth of a "nouveaux riches" class - and that it was a bit purist to expect Western standards of fairness and honesty in the acquisition of these riches. Clearly there

⁷ Rose R, Mishler and Haerpfer C Democracy and its alternatives - understanding post-communist societies (Polity 1998)

⁸ The Ownership Solution

are options - which the West has been reluctant to publicise for fear that they would be used by the old guard to rationalise old methods.

2.3 CIVIL SOCIETY - a "third" sector crucial to the reform effort

It is these problems of the "first two" sectors that creates the market opportunity or need for a "third sector", "voluntary organisations", "civil society".

An NGO is, literally, **non-governmental** - ie it is defined by what it is not. It is not (or should not be) driven by considerations of party politics or bureaucratic procedures. But the negative definition goes further - an NGO is also **non-profit**. Not in the sense that it cannot on occasion charge for certain services (eg training) but in the sense that its motive for existing and doing the basic things it does are not commercial but altruistic. It exists and acts because it cares - for example about the inability of either public services or the market to provide a decent environment and security in poorer urban areas. The driving force of an NGO is (or should be) its commitment to its client group or "cause". By virtue of their different motivation and loyalties, NGOs have traditionally performed an important function in policy development - as well as service provision - in EU countries. They have brought people into the shaping of policy who would not otherwise have become involved. This has enriched both the stock of both new ideas and people on which an effective democracy depends.

Clearly **Central Europe** offers considerable scope for voluntary activity - from those who recognise the present inability of the market or the state to deal with issues they care about - disabled people; young people at risk; local safety etc

Voluntary activity, however, requires time and self-confidence from the volunteer both of which are in short supply in societies characterised by the struggle for survival. This has implications for the nature and role of NGOs which donors need to be more sensitive to.

The West was very quick to offer Central Europe support for the non-governmental sector. Although the machinery of government was needed to carry out the systemic institutional changes which were urgently required to create an operational market democracy, there was initial ambivalence about support for public administration reform. The state structures were, after all, badly compromised; and the West has learned (or should have!!) the hard way about the difficulties of reform from within⁹.

The role of an active "Civil society" in giving the networks and confidence to challenge the complacency of politicians and bureaucrats had also been learned in the West in the 1970s and 1980s and seemed all the more necessary for Central Europe.

Certainly ordinary people in Western Europe were moved to make donations to Western NGOs to funnel to the new Central European NGOs springing up to deal with a variety of social crises which received the attention of Western media in the early 1990s (before Yugoslavia beckoned!). The Soros Foundation has been active in the development of civil society. And the European Parliament insisted in the mid 1990s that some of the PHARE money be made available to assist the development of policy skills and experience outside the formal political system.

The development of Central European NGOs is now, as a result, an attractive area for young professionals to work in - who have learned to expect more job autonomy and satisfaction than is yet available in the public sector or business.

And if some of the staff move from the NGO sector into the private or political sector, this is part of the key function potentially being performed by some NGOs in Central Europe - assisting into existence a professional and ethically-responsible cadre of business and political leaders.

But that does leave a big gap in work amongst ordinary people in both urban and rural areas. Here too, therefore, there are options.

⁹ see Pollitt (above) and Hood C The Art of the State – culture, rhetoric and public management ((Oxford 2000)

NGOs in Western Europe

The development of the third sector (or NGOs) in the West has been shaped by the wider social system (and its underlying social values) in which they have operated. Their current role, structure and funding therefore vary significantly from country to country.

Anglo-Saxon countries with their stronger individualistic philosophies have, for example, been more ruthless in sacrificing significant sections of their population to achieve the changes demanded of the market than the French, for example, whose more inclusive social philosophy has been profoundly affected by Catholicism. This has shaped three different types of "voluntary organisation" in those countries

- The poverty and inequity this created in Victorian times was the context creating the first wave of philanthropy in both Britain and America. The driving force here was the conscience of those who had achieved - and wanted to return something to society. Carnegie, Ford and Rockefeller in the States; Gulbenkian in Portugal; Rowntree and Cadbury in Britain - these were the more visible expressions of an concern about poverty which found expression itself in voluntary middle-class fund-raising on behalf of the local poor. Subsequently many of the larger Foundations funded more policy-oriented activities - including Think-Tanks.
- The second wave of NGOs came in the late 1960s as the post-war Generation educated in the new social sciences challenged the conventional wisdom of the Cold-War generation. Its driving force was political idealism - and its focus successively the nuclear bomb; homelessness; and ecology. Their aim was nothing less than fundamental changes in policies and systems. And they have generally succeeded - witness the effect of environmentalists on both business and politics.
- The concerns (and in some cases the personnel) then released found a focus in the social inequalities at a more local level - through the new profession of social and community work which developed strongly in Britain as a result of highly innovative social welfare legislation in the late 1960s. Many community workers were appointed by municipalities in the 1980s to act as advisers to small groups of residents trying to improve conditions in housing estates with high unemployment and poor social conditions. The best of such work has produced inspiring examples of local initiatives¹⁰. Britain has only recently recognised the critical role such "social entrepreneurs" play. The driving force for this type of activity has been a mixture of salary and professional pride.

Governments have been happy to support many of these developments, the motives being-

- their recognition that NGOs, by virtue of being non-governmental, were **more responsive to need**. They can react faster.
- they can be **more innovative** in their practice since they are not so publicly accountable : and can therefore offer the public sector pilot experience
- they are **closer to the customer** : and can offer public services important and objective critiques.
- the NGOs are using the **free resources of volunteers**; that, indeed, is seen as their main feature - that they can activate the energy and commitment of ordinary people
- support for citizen organisations gives governments a **positive image** for support of pluralism (ie diversity)
- the management has a **higher degree of commitment** than has traditionally been found in a bureaucracy

NGOs in Western Europe can be classified in various ways - one is according to their purpose and funding source

¹⁰ see Gibson T. The Power in Our Hands (Jon Carpenter 1996)

Purpose Sources of Funds	<u>Ideas</u>	<u>Services</u>	<u>Lobbying</u>
Fund-Raising	"Greenpeace"	Red Cross	Shelter
Grants (Govt/ International)	Think Tanks	Pre-School groups	Community Organisations
Charging (workshops/ publications)	Think-Tanks	Sheltered homes for vulnerable elderly	Big business

NGOs In Central Europe

Four very different types of structure can be found using the NGO label -

- National Foundations with a strong pluralistic mission (ie to help develop democratic activities and values and civil society). They are usually well-resourced (from external sources, both NGO and official) and staffed with highly educated young professionals. They may or may not have local branches. Much of their activity is training - and quasi-commercial. Some other Foundations, however are more ideological.
- National Foundations with a "service" mission (ie to advance the interests of a particular disadvantaged group such as the handicapped). These have a strong voluntary input - particularly at the local level which is one of their basic features and have attracted external (but now declining) NGO funding.
- Local Community and Neighbourhood Organisations - concerned to improve the conditions for a geographical community, in the first instance perhaps concentrating on such groups as the unemployed or young people. Such organisations are not, however, at the moment generally very evident.
- "Front" organisations - which use the NGO framework to pursue aims which do not actually belong to the sector. These are concerned simply to make money for the individuals establishing them (getting round the tax or import laws). Such practices have been exposed in the media - and have unfortunately given NGOs as a whole a negative image.

Official statistics suggest there are 50,000 NGOs in Romania, for example - but it is clear that a large number of these exist on paper only. It would appear that there are about 5,000 real and active NGOs in the country - largely in the urban areas - although a new Fund for Social Development is now trying to encourage their establishment in rural areas.

Many foreign NGOs tend to assume that their experience can simply be replicated here in Central Europe. This is, however, ethnocentrism of the worst sense. The questions which need to be posed about NGOs in Central Europe are -

- What sorts of gaps exist in the development of the market and government systems which it seems reasonable to expect the NGO sector to fill? And, looking ahead, how will things change?
- Where do NGOs get their funding from - with what implications for their loyalties and accountabilities?
- What is the motivation of external funders in encouraging the development of NGOs here?
- What is the balance of motivation amongst those who drive NGOs here? To what extent idealism? To what extent salary and ambition?
- And what does this imply for the role of NGOs?