THE POLITICAL COST OF ECONOMIC REFORM IN CENTRAL AND EASTERN EUROPE: MASS POLITICAL BEHAVIOR UNDER DIFFERENT ECONOMIC REFORM INSTITUTIONS

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dedicated to the memory of
Edward Loal Rose

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Abstract

From the beginning of the transitions to democracy and the market, politicians knew that major economic reform would come at a political cost. A politician's choice of lower-cost reform appears on its face to be a reasonable, even rational, choice. With a decline in living conditions, high-cost reform appears to be political suicide: as the lives of voters worsen, voters will select a new government at the very least. The political cost of reform may include a range of political costs from increased economic and political disaffection to support for extremist parties and, perhaps, a return to authoritarianism. In this project, I compare countries which implemented high-cost "shock therapy" style reform programs (Poland, Czech Republic, and Bulgaria) to countries which implemented policies with lower short-term social costs (Hungary and Romania) and examine the political costs that resulted. I use public opinion data collected by the European Union (*Central and Eastern Eurobarometer*) and by Poland's Center for Public Opinion Research and examine the data using categorical data methods and time series analysis.

The empirical evidence suggests that political costs such as economic and political disaffection exist regardless of cross-national differences in social cost. And governments receive one benefit in this initial reform period: evidence from monthly Polish public opinion data suggests that reformers benefit from a period of "extraordinary politics" in the first eighteen months of the transition, a period in which economic assessments only weakly affect political assessments. Furthermore, more serious political costs are much less likely to be paid by these new regimes. Extremist parties

have emerged and gained support, but these parties have largely played a marginal role in the politics of these countries, with one key exception discussed in this project.

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Chapter I. Introduction

Almost a decade after the transition from communism was launched in Central and Eastern Europe, Russia plunged into an economic crisis in the summer of 1998. Russian economic reforms which had begun in 1992 with fairly harsh policies of stabilization, have since been piecemeal reforms at best, given that politicians were unable to come to an agreement over policy change. Conditions in Russia warranted bailout from the International Monetary Fund (IMF), but Russia did not appear committed to major economic reform. Like politicians in the early 1990s in Central and Eastern Europe, Russian politicians face a dilemma: they could reform the economy and pay a political price at election time, as they confront those people whose living conditions would certainly worsen under the reform program. Or they could not reform the economy (or reform it in gradual steps) and still pay a political price at election time from those people whose living conditions worsened.

At issue in Russia is not the necessity of reform, but rather the process or policies by which Russia reaches that economic end. Just as in Central Europe in 1990, Russia appears to have no choice but to make changes, but according to many observers the policies it chooses could lead to the ouster of the Russian government. In fact, in July 1998, United States Senator Jack Kemp wrote a letter to the editor of the *New York Times* stating his opinion on the Russian issue and the role of the IMF. Kemp's letter is noteworthy not only in his suggestion of the linkage between economic reform and its political costs, but also in that his argument is similar to those made at the beginning of the transition in Central and Eastern Europe. He writes:

> I oppose any financing until we are confident the IMF will stop imposing austerity measures and currency devaluations.... The IMF now proposes to lend Russia $11 billion, but the conditions it seeks would push Russia deeper into crisis and perhaps to the point where Russians might yearn for a return of authoritarianism.

Observers of the Central European transitions in 1989-90 were concerned with economic reform for the same reasons as is Senator Kemp today. Lawrence Weschler wrote an article for *Dissent* in the Spring of 1990 in which he commented on the Polish prospects in light of their harsh "shock therapy" economic reform program, a stabilization program similar to one implemented in Bolivia. Ironically, Weschler observes, the Poles in the Fall of 1989 were readying their January 1990 program just as the Bolivian government declared a state of siege as a result of labor unrest. The Bolivian government jailed over three hundred labor leaders (Weschler 1990: 208). Speculation that such an outcome would befall Central European governments led observers to conclude that the cost of such a reform program may well be too high. The prospect of a state of siege is a price that is too high for a system in transition to democracy and the free market.

As transitions progressed, the Poles did not have to declare a state of siege as did the Bolivians, but they did face rising opposition and pressure to change from the path of democracy and the market. Stanisław Tymiński emerged in the 1990 presidential election, promised major change in the course of economic reform, and appealed to a large portion of the dissatisfied public. By the summer of 1992, the government faced major worker strikes. One observer of the summer events, Paul Zarembka, interviewed Poles and reported that "some used the word 'revolution,' some thought a military government was possible, and one retiree and a one-time bitter critic of the 'communist' regime suggested to me a return to the prior system with some modifications" (Zarembka 1993: 27).

Economic reform appeared to bring renewed support for the old regime. Across the region in Russia, a *New Statesman & Society* reporter interviewed a woman who said, "I know I shouldn't say this, but sometimes I can't help thinking that under Brezhnev we had pretty well everything we wanted" ("Shock therapy": 16). The Russian extremist politician Vladimir Zhirinovsky took advantage of this nostalgia and his Liberal Democratic Party became the second largest party in Russia's lower house after the 1993 election. Likewise, in Romania, extremist parties were so successful in the 192 election that they served as government support parties.

From the beginning of the transition period in 1990, politicians knew that major economic reform would come at a cost. Bolivia stood as a clear example of the political fallout that could result from macroeconomic stabilization policies. In light of the chaos that might follow shock therapy style programs, some Central European politicians came to support less costly reform programs. For instance, Prime Minister Jozsef Antall of

Hungary argued that a "great leap" toward the market would be detrimental, in fact, it would lead to catastrophe (quoted in Pataki 1990: 21). Likewise, President Iliescu of Romania stated that their economic policy would protect the weakest in society and would avoid polarization in the country based on wealth and poverty ("Romania" 1990: 18).

Politicians recognized the social and political cost of reform; some politicians chose high cost reforms, some chose lower cost reforms. A politician's choice of lower cost reform appears on its face to be a reasonable, and even rational, choice. Strategic politicians seeking reelection certainly realized that harsh economic reform packages would worsen living conditions in the short term and, thus, bring a high social cost. With a decline in living conditions, we expect that there will be some political cost associated with the policies: research in democracies across the globe has documented the linkage between economic indicators and political behavior. As a result, reform appears to be political suicide: as the lives of voters worsen, voters will select a new government at the very least. But the political costs of reform could potentially be even higher – voters may select an extremist government, if we consider the strong support for extremist parties in Russia and Romania, for instance. This outcome is likely enough, in fact, that Senator Jack Kemp is still concerned about it in the context of Russia. Political costs, then, may include:

Political Costs of Reform

- Increased economic disaffection.
- Increases political disaffection and votes against incumbent reformers.
- Support for extremist parties.
- A return to authoritarianism.

Even in light of these potentially high political costs, politicians are not given many options. They are often in a predicament during a transition, faced with politically untenable policy options. One certainty that politicians have in this situation is that economic reform leads to widespread disaffection. This fact has led to much research and speculation about why politicians would reform in the first place. If politicians are seeking reelection and, thus, seeking to reduce the political cost of reform, it is not clear why they would ever choose to reform. Some researchers have argued that politicians must introduce reform packages because of the dire state of their country's economic situation (Diamond 1995). If they must introduce *some sort* of reform, they ought to choose policies which come at a lower social cost, perhaps an incremental or gradual reform program (Kowalik 1991; Pickel 1992). Indeed, some argue that rapid reform programs are not feasible because coalitions will rise up to end the reform program and, in the end, these citizens might become disillusioned with democracy itself (Nelson 1993, 1995). However, others argue that under grim economic conditions that many transitional countries face, elites become risk-acceptant and choose far-reaching, rapid reform programs (Weyland 1996). In addition, they might recognize that the potential economic gains outweigh the political cost of reform or that incremental-type reforms lack credibility among potential economic participants.

Underlying most of the research on reform paths is the assumption that higher levels of social cost bring increased political cost. Any work that addresses why reformers choose harsh stabilization policies when incremental change comes at a lower political cost assumes that a lower social cost of reform brings a lower political cost. Work which argues that harsh policies are not politically feasible and that a gradual path is more prudent assumes that differential social costs bring differential political costs. This project explores this assumption: do differential social costs bring differential political costs? If so, which reform path is the most politically feasible for strategic politicians? If politicians cannot choose *whether* to reform, they may be able to decide *how to do so.* Under the social cost assumption, politicians may have the option to choose an economic reform package that comes at a lower social cost and, thus, a lower political cost.

Economic Reform Choices

Jack Kemp in his letter to the *New York Times* implies that the Russian government ought to have a choice in the policies it implements. Kemp does not believe that the IMF should impose austerity measures and currency devaluations on Russia, for instance. Such economic measures are of the nature imposed on the Polish public in January of 1990. Kemp, then, is suggesting that Russians ought to be able to choose a less painful reform path. Indeed, Prime Minister Antall of Hungary followed a program of implementing "separate bundles" of reform, rather than a full-scale, rapid reform program that would end in "catastrophe" (Pataki 1990: 21). Both imply that governments can achieve economic reform at a lower social cost and a lower political cost. In fact, the essence of the reform debate is over the economic and political implications of different reform choices.

This debate on economic reform choices has centered around three general types of reform paths: (1) an austere reform program which emphasizes macroeconomic stabilization policies, (2) an incremental, gradual reform approach which emphasizes institutional change, and (3) a mixed market approach which emphasizes social security. The first path of reform is characterized by harsh stabilization policies and has been referred to as "rapid" reform programs, "shock therapy," "neoliberal" reformer, and "Washington style reforms," which I use interchangeably. The two additional paths of reform, the lower cost alternatives, have, on one hand, highlighted the need for a social safety net above budget austerity (mixed market approach). On the other hand, they have highlighted the need to reform slowly and tailor the program to the specific country context (evolutionary economics approach). Conceptually I group these lower social cost reform programs together in this project because they have been offered as alternatives to IMF supported austerity measures. They are often referred to as gradual reform programs (in some cases simply because they are not rapid), but in this work I refer to them primarily as "lower cost" reform programs, highlighting the key analytic distinction between them and more harsh policies.

In this project, I am concerned with the first path of austerity versus the other two lower social cost alternatives. Most discussion has centered on the political fallout that might result from harsh austerity programs, less discussion has focused on which lower cost alternative is better. Observers from Central European governments and mass publics, from European and American universities, and from the U.S. Senate would advise transitional governments against a harsh reform program and opt instead for a lower cost alternative. Lower cost programs may pose *less of a risk* for politicians in getting ousted and less of a risk for the regime in facing mass nostalgia for authoritarianism.

However, I argue that the relationship between social cost and political cost, while intuitive, requires investigation. The social cost of the current reform program can only be gauged by a citizen relative to some prior experience with reform. While social cost can be measured by researchers in an objective fashion, people experiencing cost have only the information in their environment by which to measure the cost of the current reform program. They have no incentive to collect information on social cost under alternative programs that their government may have implemented. I argue that the link between social cost and political cost, then, is not a straight-forward one. Yet the assumption of a direct relationship between these two costs underlies much of our thoughts on economic reform choices.

To Examine the Political Impact of Social Cost

Observers of democratic transitions have assumed a relationship between the social and political cost of reform. Increased social cost of reform leads to increased political cost. In the next chapter, I outline this assumption in a model that I call the "social cost model." Implicit in Senator Kemp's mind is a social cost model that drives his view of Russia. The social cost model has great intuitive appeal and, as a result, underlies many of our thoughts of reform. The problem is that it is inappropriate to use the social cost model as a basis for policy prescription at the beginning of a transition. The social cost model might hold at the individual level, or across time in one country. But if we use the logic of the social cost model to choose one reform path over another in a context in which citizens have little direct experience with reform, we run the risk of making a poor policy decision.

The intuitive social cost model is not appropriate because, in this context, it makes unreasonable assumptions about citizens. A voter experiences the social cost of his reform program because he lives amidst the consequences. But that voter cannot collect information easily on how the social cost compares to that of an alternative reform program. His base of comparison is a country with full employment and no open inflation (a communist system), not an alternative reform program with a different social cost. The behavior predicted by the social cost model requires information of voters that they do not even have an incentive to collect.

To test the social cost model requires comparing different national-level economic policies that should result in differing levels of social cost. In Chapter III, I review the specifics of how I test the social cost model in this project. However, in general, I compare political behavior in countries which chose different economic reform packages. I select five countries in the transitional Europe, a cluster of three countries in Central Europe (Poland, Czech Republic, and Hungary) and two countries in the Balkans (Bulgaria and Romania). Within each cluster, countries differ in economic policies but share important historical background factors. I compare behavior within regions, but make generalizations across all of the transitional countries. This research design serves as a direct test of the social cost model.

In the rest of the project I present empirical evidence against the social cost model. Chapter IV is a foundational empirical chapter in which I test the empirical link between the social cost of reform and disaffection toward the economy – the first potential political cost I list above. In Chapters V and VI I examine the link between social cost and support for reformers and politics in general, the second potential political cost. Finally, I explore the relationship between social cost and support for extremist parties in Chapter VII.

Across two regions of post-communist Europe, there is no evidence that differing levels of social cost bring about different levels of disaffection. These data suggest that since there is no difference cross-nationally in economic disaffection, there should not be a difference in political disaffection nor in the rise of extremist parties. The ultimate political cost, however, is not economic or political disaffection, but rather the unmaking of the regime that the reform program is trying to sustain. Chapter IV shows that the social cost model fails in predicting varying levels of economic disaffection. Even so, scholars have linked the technocratic style with which more costly programs are implemented to disaffection with the democratic regime itself. Chapter VII looks at one type of such disaffection: the selection of opposition parties to replace incumbent reformers.

It is in this chapter that a difference between lower cost and rapid reform programs becomes clear. In one sense, the policies a reformer chooses do affect whether a more conservative, social democratic party or an ultra-conservative, extremist party will emerge and attempt to replace the reformer. Policy choices in this context will shape the nature of the reformer's electoral competition. However, it is low-cost reform implemented by conservative forces which is more likely to lead to the emergence of extremist parties rather than a more radical reform program. Liberal parties implementing rapid reform will have more conservative, social democratic parties to compete with. If a conservative party emerges from the founding election and implements low-cost reform, this can ultimately be destabilizing – its policy choices will more likely lead to defections to anti-reform parties. With no incentive to collect information on subtle differences between low-cost reform platforms, people dissatisfied with the current low-cost program, who want to slow down reform, will likely support a party that intends to end reform altogether. A *low-cost reform program is more likely to lead to higher political costs.*

Differing social costs of reform will not lead people to behave in fundamentally different ways. They will be dissatisfied with their reform program when their baseline of comparison is no reform and, at some point, they will punish the incumbent reformers for the cost of reform. But who those incumbents are can fundamentally shape what opposition emerges which is, perhaps, the most important concern for transitions to democracy.

Chapter II. Reform Paths and The Social Cost Model

Strategic politicians face choices in the economic policy packages they can implement. Some policy programs come at a high social cost. "Shock therapy," or "neoliberal reforms" emphasize macroeconomic stabilization and lead to increased inflation and, perhaps, decreased output in the short run. Lower social cost models such as an incremental, gradual reform approach with an emphasis on slow institutional change, or a mixed market approach with an emphasis on social security, appear to be more strategic choices for politicians. These reform approaches come at a lower social cost and, thus, should bring a lower political cost. Politicians, then, may be able to temper disaffection from the reform program with a more incremental approach to reform that distributes the social cost over time. Yet politicians do select harsh stabilization policies even though they seem to have a political incentive not to do so. Research from economics both praises and criticizes the choice of rapid reform (Lipton and Sachs 1990; Sach and Lipton 1990; Åslund 1994, 1995; Murrell 1992, 1993, 1995). Likewise, other social science work examines the motivation for and outcome of such a radical reform strategy, given the apparent link between the social and political cost of reform (Przeworski 1991; Nelson 1993; Drazen and Grilli 1993; Diamond 1995; Armijo et al. 1995). I review these works to show why politicians might select their reform programs, but also to point out the assumptions behind these works. Most work both in support or opposed to high cost reform assumes a relationship between the social cost and the political cost of reform, an assumption that serves as the basis of the social cost model which I outline later in this chapter.

Liberal Economist Justification for "Rapid Reform"

Liberal economists have a simple reason for promoting harsh stabilization policies in light of the social cost of reform: *the potential economic gains of rapid reform outweigh the political cost of that choice.* They recognize the social and political cost that will result from reform, but argue that the cost is worth the benefit of a reformed economy that will result. Liberal reform packages stress harsh monetary policies – subsidies and credits to firms are cut off. In this way, the national budget is balanced, but inefficient firms risk bankruptcy. To promote macroeconomic stabilization, the government cuts price subsidies and frees prices. Furthermore, to ensure that prices are based on the market rather than set monopolistically by firms in the country, free trade can be used to ensure a realistic price structure (Sachs and Lipton 1990, Lipton and Sachs 1990, Åslund 1994, Åslund 1995). Anders Åslund, advisor to the Russian government in 1992, argues that the most effective reform program combines macroeconomic stabilization and liberalization into one policy package and follows these policies from the beginning of the economic transition. He says "Successful macroeconomic stabilizations are typically done swiftly; this breeds confidence and breaks inflationary expectations" (1994: 68).

Liberal economists also stress the importance of institutional change, such as privatization and the development of a banking sector. But their first priority, both in terms of importance and sequencing of reforms, is a focus on macroeconomic stabilization combined with price and trade liberalization. In retrospect, Polish and Russian economic advisor Jeffrey Sachs has admitted that reformers should focus more on institutional change since countries like Poland have made less progress in this area than in stabilization (1997). However, Andrew Berg (1994) argues that despite the slow progress on institutional reform in Poland, its stabilization policies have brought about an economy based on market competition (a majority of workers are employed in the private sector in new firms) and economic growth. Thus, even though the Polish government failed to follow through and implement a major privatization program on the heels of its stabilization policies, it has had economic success nonetheless.

The short-run cost of such a stabilization program is high certainly compared to a gradual reform program. Consumer price inflation in Poland in 1990 was 585.8 percent but only about 70 percent in 1991 and 35 percent by 1993 (World Economic Outlook 1993: 58). The Polish government balanced the budget through cuts in subsidies and through cuts on expenditures in education and healthcare (Kozminski 1992). In contrast, Hungary gradually liberalized prices, eliminated subsidies, and established a convertible currency. Hungary did not have the problem of monetary overhang that Poland did and so as it liberalized prices gradually, inflation stayed under five percent each month, compared to a peak of nearly eighty percent monthly inflation in Poland. Furthermore, according to UNICEF statistics, by 1991 approximately forty percent of the Polish population was living in poverty, versus about twenty-one percent in Hungary ("Crisis..." 1995). The social cost of reform appears to be higher under conditions of harsh stabilization; the difference between the Polish and Hungarian cases is rather stark.

However, advocates of radical reform policies argue that this social cost is worth the price of economic development. In the end, the economic benefit should vindicate daring reformers. Anders Åslund argues that countries which pursued harsh stabilization policies have demonstrated the most growth and the most success in taming inflation. For instance, Åslund points out that by 1993, only eight of twenty-seven post-communist countries had inflation rates of under fifty percent in one year – seven of the eight implemented shock therapy style programs. In terms of GDP, Åslund argues that "a fast and comprehensive transition leads to the smallest decline in GDP, the fastest return to growth, and probably the highest level of growth as well" (Åslund 1995: 81). The economies created by radical reformers are among the most vibrant in the region. This economic outcome is compelling enough to risk the political cost of painful economic reform policies. But beyond the economic development that rapid reform may bring, scholars have also pointed to other reasons why strategic politicians would implement the same reform program that might ultimately lead to their political demise.

Strategic Politician Justification for "Rapid Reform"

The liberal economist argument for rapid reform (that the ultimate economic gains of the reform program outweigh the initial political cost) assumes that politicians have a time horizon that allows them to shoulder the initial cost in order to profit from the long-term benefits. However, even in Poland in 1992, which was the first country to experience positive economic growth, a horizon of over two years was too short for reformers. The parliamentary election in the fall of 1991 led to a decline in representation of the liberal reform coalition; the liberal government of Tadeusz Mazowiecki was replaced by a more conservative government under premier Olszewski. Joan Nelson points to the dilemma faced by strategic politicians: the costs of reform are "immediate, certain" while the benefits are "usually deferred, uncertain" (1993: 434). Anders Åslund (1995) describes in the Russian case that even though people knew that there was a need for reform, politicians were concerned about the social unrest that price liberalization would cause. From the point of view of the politician, the benefits of reform are too far in the future to make the initial cost worth the risk. However, politicians do make decisions to implement rapid reform, even though the decision may not appear rational.

Researchers have explained the rapid reform choice as rational primarily by pointing to the costs of *not* implementing reform. Rapid reform may be rational if the current economic situation is extremely grim. In this case, if the economy continues to worsen, politicians will pay for their lack of action (Armijo et al.: 236, Åslund 39 1995, Przeworski 1991: 162-80, Remmer 1993: 402-403; Nelson: 437). In addition, Larry Diamond argues that the "deeper the 'trough' of economic crisis, the more massively apparent will be the untenability of existing economic policies and structures and the readier the mass publics will be for serious structural reform" (Diamond 1995: 123).

Weyland argues, in fact, that leaders become more risk-acceptant when facing grim economic performance, as opposed to good economic prospects (1996).

In addition, if there is a broadly recognized need for major reform, people might support the program if they have confidence that they will benefit from it. Przeworski argues that with high confidence in the outcome of reform, if voters believe that they will be better off in the future than under the status quo, they will support radical reform (1991: 164). In the same vein, Weyland argues that it is only when people expect to receive benefits from economic growth that they would accept the high cost of the reform program (1996: 32). Indeed, the mass public may be more ready for change under dire economic circumstances. Drazen and Grilli (1993) argue that it may require an economic crisis to garner support for reform in the first place. They argue that a crisis situation may be the only situation to spur support for needed changes in economic policy. Under poor economic conditions, the public may support reform and, thus, make the radical reform choice feasible for political decision-makers.

Furthermore, if the reformer is market-oriented in the first place, he may choose a comprehensive reform program in order to implement as much of the reforms as possible before getting replaced by a less reform-oriented government. Åslund (1994) argues that it is more feasible politically to adopt a comprehensive reform package early in the transition than to rely on passing a series of reforms. At the beginning of the reform program, the actual costs associated with it are uncertain, compared to smaller packages in which the costs are more readily calculated. Indeed, Fernandez and Rodrik (1991) argue that there is a status quo bias in facing reform programs. When some of those who would gain from the reform cannot be identified, there will always be a bias against reform even if that reform would be to the advantage of large segments of society. As a result, with such a bias against support for reform in the first place, these arguments suggest that if reform-minded politicians have an opportunity to reform, they should implement far-reaching changes. One key goal of liberal politicians is to make enough changes in the economic system to make the cost of reversal very high for their successors.

Finally, if a politician recognizes the need for reform, she may also recognize that a gradual or incremental approach to reform lacks credibility from the viewpoint of potential participants. The notion is that gradual reforms can be halted before the entire package is fully implemented and, as a result, will discourage potential participants from participating in the first place. For a reform program to be successful, the state must convince potential economic participants that it will not renege on the reform program. For instance, industry needs investors. However, after acquiring investors, the state faces a strong incentive to renege by nationalizing industry. To have a successful reform program, the state must convince potential investors that it is committed to economic reform (Boetke 1995). Yet under gradual reform, potential participants recognize that reforms can be stopped and know that the initial pieces of the reform will generate opposition and, thus, may lead politicians to end the reform program (Armijo et al. 1995: 234). As a result, a primary way in which a state can convince potential participants that it is committed to reform is to choose a policy package that makes major changes in the economic structure of the country so that the cost of dismantling the reforms would be high. In addition, a liberal economic policy program will send a signal to potential participants that the reformer is ideologically committed to the market. Thus, if the politician recognizes that reform is necessary, she might also see that a radical approach is more likely to gain the necessary participation.

The time horizon for politicians may be shorter than the time that the reform program will require to succeed, but politicians may recognize that they have no choice but to implement rapid economic reform. First, the public may support the approach if they are certain of the outcome. Second, politicians may become risk-acceptant as they face poor economic prospects. Third, liberal market-oriented politicians may take advantage of the crisis situation to implement far-reaching policy changes. Finally, politicians may recognize the credibility problem they face under a low-cost approach to reform and, thus, choose a radical reform package.

All of this literature seeks to explain why politicians choose to reform in the face of certain political costs. Indeed, these works offer good explanations as to why a politician would select a policy that would lead to an almost certain demise of the reform government. Yet the only reason why the choice of rapid reform by strategic politicians is a dilemma for political research is precisely because we assume that the higher social cost under rapid reform will bring increased political cost. If the political cost of reform is similar under harsh stabilization policies and under less costly reform policies, then there is no dilemma to explain. Strategic politicians need only choose the policy that is more likely to be effective.

Thus, even among among supporters of rapid economic reform, people hold this assumption that differences in social cost will bring differences in political cost. The assumption is intuitive and serves as the basis of many of the arguments for lower cost reform.

Economic Justification for Lower Cost Reform

One group of opponents of radical economic reform focus on incremental changes in economic institutions. Peter Murrell, the most outspoken advocate of gradualism in the Central and East European context, argues that the programmatic, technocratic way in which rapid reform is implemented is tantamount to Karl Popper's "Utopian Social Engineering" (1993: 115) because reformers look to the goal of the reform program and develop a technocratic way to get to that end. He is doubtful that a comprehensive reform program will succeed because radical changes cannot produce a better outcome than a well-thought-out series of policies (1992: 5). Murrell argues that all reform contexts differ and that a successful reform program will be informed by the knowledge and experience available in that context. Personal knowledge can be used to keep good policies and throw out poor policies – if you use this knowledge to make small changes, much more can be accomplished in the reform program.

Murrell argues that there are "grave dangers in the utopian approach to social changes, for the 'use of knowledge' argument stresses that a radical move destroys much of the valuable knowledge in society" (1992: 8). In contrast, he outlines the reasons for a gradual reform program:

1. With many changes implemented simultaneously, it is increasingly difficult to design feasible economic solutions.
2. You can reverse policies if you are making changes slowly; bad policies can be stopped and changed.

3. As society has experience with the new set of arrangements, it can accumulate practical knowledge of them. There is also the possibility to experiment on a small scale and to use the feedback to develop larger policies (1992: 9-10).

To make his case against radical reform, Murrell points to Mongolia. Mongolia was under Soviet hegemony before the collapse of the USSR and had economic structures similar to Soviet republics. He argues that Mongolia implemented radical reform policies in an economic context that was extremely unfavorable to them. The institutions and culture of the old regime hindered any real reform from taking place. Had market institutions been developed with the specific context of Mongolia in mind, they might have been much more successful (Murrell 1995).

Unfortunately, Murrell does not give an example of a successful gradual reform program (as Åslund does with radical reform programs) because there really were no countries in Central and Eastern Europe that followed the evolutionary approach that Murrell advocates. Certainly, some countries like Romania gradually liberalized prices, but there is no indication that Romania based its policy choices on personal knowledge of people involved in the economy.

Another argument against a shock therapy style reform program comes from Przeworski and colleagues (1995) and Bresser Pereira, Maravall, and Przeworski (1995). They argue that shock therapy programs bring too much unnecessary social cost to the public while, at the same time, they do not focus on growth. Though the authors do not lay out a plan for reform, these works do point to the virtues of government spending to ensure material security and to increase education and healthcare. Spending on education, for instance, will ultimately lead to economic growth as people become educated. Thus, the government ought not make budget austerity a higher priority. Yet again, they do not have strong empirical evidence for their claim.

Even without strong economic evidence for a lower cost reform program, scholars have pointed to compelling political reasons for such a reform approach. Politicians have strong incentives to choose a lower social cost economic reform program.

Strategic Politician Justification for Lower Cost Reform

There is consensus in the academic literature that implementing economic reform can have dangerous political outcomes. The basic problem identified in this context is that the costs of reform are almost instant and the benefits are delayed. Groups who benefit from the reform are likely not to mobilize while those who pay more under the reform program are likely to mobilize and disrupt the economic changes (Nelson 1993).

Given the immediate social costs of reform, some have argued for a reform program that reduces social cost. Tadeusz Kowalik argues that the social cost of a "shock therapy" style reform program is too high and that politicians ought to opt for policies which will be less painful and lead to distrust of the government. Likewise, based on the East German case, Andreas Pickel argues that the social costs of unemployment and impoverishment will lead to a government legitimacy crisis. The implications of these arguments that a reformer can reduce the social cost of reform with different policies and that different social costs will lead to different political behavior, the basis of the social cost model which I outline below.

Worse yet for reformers is that while immediate social costs will lead to a decline in support among the losers of the reform program, those who benefit from the reform may not be mobilized (Nelson 1993) or may not even know that they are winners (Fernandez and Rodrik 1991). Costs will rise and bring widespread disaffection, benefits will eventually come about but will not bring about countermobilization to that disaffection.

Proponents of lower cost reform are also concerned about the political style with which a radical reform package might be carried out. Haggard and Kaufman recognize the problem of political elite use of discretionary power to push legislation through democratic legislative processes (1995: 8). Bresser Pereira, Maravall, and Przeworski (1993) have a clear opinion about such approaches to policy-making: "the autocratic policy style characteristic of Washington-style reforms tends to undermine representative institutions, to personalize politics .... Even if neo-liberal reform packages make good economics, they are likely to generate voodoo politics." Likewise, Armijo, Biersteker, and Lowenthal (1995) argue that the more important costs of a radical reform program may be political costs, because rapid reform is carried out "by means of stealth and deception" (229). Given the political problems in mobilizing support for major economic changes, political elites may find it necessary to implement them without seeking public or legislative support.

Furthermore, radical reform may have perverse social consequences, even if countries avoid the initial political fallout that many scholars predict. Joan Nelson argues that radical reforms may distort the representativeness of new democracies "by creating and enlarging an alienated underclass, impoverishing the middle class, and enriching the already wealthy" (1995: 52). Large increases in wealth, particularly if that wealth comes from connections of the nomenklatura or other questionable sources, may reduce the confidence in political institutions in the new democracy (Nelson 1995: 54-55).

Thus, a lower cost reform package may be the only politically tenable option for politicians seeking to reform the economy. First, they can reduce the short-term social cost of reform and avoid some of the disaffection brought by radical programs. Since winners may not be mobilized or may not know who they are, reducing the cost for losers may be very important. Second, lower cost reform packages seek input from groups in society and are not necessarily implemented as a technocratic blueprint and, thus, do not undermine democratic institutions. Finally, it may not result in a large, alienated, impoverished group in society. The high social cost of rapid reform suggests an alternative policy approach. With potentially fewer losers or losers who are less dissatisfied with the government and with the democratic regime itself, lower cost reform would appear to be an optimal choice for the long-term development of democratic political institutions.

The Costs of Reform

Proponents of each reform choice argue that their particular choice will be best for the long-term development of democracy and the market. They make references to the economic costs of particular choices and also the political costs that will follow. The primary argument against a rapid stabilization program is the high political costs that are bound to follow from the harsh reform policies; a key reason many proponents of a lower cost policy approach select incremental reform is for what it is not – it is not a rapid reform program with high political costs.[1] I outline the costs of reform in Table 2.1 below.

Table 2.1: The Costs of Reform

	Low-Cost Reform		Rapid Stabilization	
	Cost	**Benefit**	**Cost**	**Benefit**
Economic	•Continued inflation •Higher gov't debt •Appearance of piecemeal reforms •Less participation in economy	•Use knowledge in environment to develop context-specific policies (evolutionary) •Avoid unnec. social cost •Base budget priorities on growth	•Decline in output •Rise in inflation •Bankruptcy •Reduce subsidies •Poverty/ Underclass	•Inflation under control after rise •Balanced budget •Increased output after decline •Structural adjustment •Gov't appears credible
Political	•Gov't will not appear committed	• Gov't can reverse bad decisions (evolutionary) •Reform carried out by consensus (ensure legitimacy for democratic institutions	•Increased disaffection •Gov't ousted •New gov't ends reform program •Legitimacy crisis for demo. institutions if reform carried out w/o support	•Potential to improve economy more quickly

What links the economic costs of reform to political costs are the *social costs* of reform. This link between the social cost and political cost of reform is the basis of what I call the "social cost model," a relationship that many scholars assume in their work on this issue.

I display the basic premise of the social cost model in Figure 2.1. Under the model, policy packages such as rapid reform bring higher level of social cost than do more gradual approaches to reform. As the social cost of reform increases, poor economic assessments will generate poor political assessments and, in turn, will endanger the tenure of reform-minded politicians and, perhaps, of democracy itself. Increased social costs of reform can have disastrous political consequences.

Figure 2.1: The Social Cost Model

Reform Model	→	**Social Cost**	→	**Economic Disaffection**	→	**Political Disaffection**

This model is not a controversial one. Its logic underlies many of the arguments made for a lower cost reform program. Its logic is also addressed by many proponents of more radical reform policies. Indeed, we would expect some change in economic performance, or in economic cost, to impact society in the form of social costs. The social cost of reform then translates into political assessments and, ultimately, into aggregate political cost. Opponents of radical stabilization policies do not highlight *economic costs* simply because of their concern for the general operation of the economic system; they are concerned about how these economic costs will affect the citizens of the country undergoing reform. Inflation and bankruptcy, for instance, are social costs of reform that affect those living in the reform country. As I describe in Chapter III, these social costs of reform are not theoretical; they are real.

Of the outcomes I list in Table 1.1, I am concerned in this project with one important cluster of outcomes – the political cost associated with stabilization policies, the outcomes implied by the social cost model. In the rest of this chapter, I outline these political outcomes more explicitly.

The Link between Social and Political Costs

At the initial stage of the transition, arguments about the political or social cost of reform were framed as arguments about "gradual" or "rapid" reform. With time, many economists have come to view the distinction as a false dichotomy: major institutional reform, for instance, by nature cannot be implemented quickly. Furthermore, these different approaches to reform are not two ends of one continuum. They emphasize different policy areas as needing change immediately. Shock therapists emphasize macroeconomic stabilization and price and trade liberalization while gradualists emphasize incremental institutional change or social security. Different philosophies of the nature of people and societal change underlie these policy preferences and their distinctive plans for actions (Murrell 1992).

However, a key part of the debate for radical or lower cost policies is still relevant today: that increased social cost of reform leads to increased disaffection. The social cost model as displayed in Figure 2.1 is intuitive and drives much of the discussion of the political cost of various reform strategies. It is taken as a given in this debate that higher levels of social cost will increase the political fallout of the reform program. Perhaps all scholars argue that the political cost will take the form of increased disaffection; some take the argument a step further and claim that high social cost could lead to political extremism. As I list in Chapter I, the political cost of reform could include any or all of the following:

Political Costs of Reform

- Increased economic disaffection.
- Increases political disaffection and votes against incumbent reformers.
- Support for extremist parties.
- A return to authoritarianism.

Each of these outcomes represents an increased political cost of reform that could be brought on by an increase in the social cost of reform. It is unclear what processes lead a society from the first, most likely political cost – economic disaffection – to the most extreme cost – an end to democratic rule. However, some scholars do argue that the differing social costs of gradual and rapid reform might be enough to lead radical reformers to the ultimate political cost of authoritarianism and lower cost reformers only to increased disaffection or decline in support for incumbent reformers. In reality, all countries in the region have experienced the first three outcomes to some degree. In the best case, the Czech Republic, disaffection has increased but the decline in support for incumbents was not as rapid as in other countries. In most cases, reformers have been ousted and small anti-democratic parties have emerged. In a few cases, such as Russia and Romania, these extremist parties have made a relatively big splash on the political scene. In general, however, it is not contested that increased social cost will affect politics. Social cost brings a political cost. It is the nature of the impact that is disputed. Below I describe the nature of these possible outcomes in more detail and examine their implications for democracy and the market in Central Europe.

Social Cost and "Economic Voting"

On its face, the social cost model makes intuitive assumptions about political behavior: people living amidst stark economic circumstances will punish their incumbent reformers. They will observe the objective economic conditions in their country, become disaffected with economic performance and decrease their support for and vote against the incumbent. It is uncontroversial in political science that citizens punish incumbents in poor economic times. In fact, opposition to the government based on poor economic assessments is a political cost that is not too dangerous because we expect a healthy amount of opposition to the government in order to keep it accountable. Accountability also requires fluctuations in governments and, thus, viable and successful opposition parties.

In the economic voting literature, scholars tend to view voters as rational actors who evaluate the economy and then use these economic evaluations to make political evaluations. How precisely economic policy and perceptions translate into political support is less clear, however. Some researchers argue that voters' views of the past economic performance ("retrospective") is most important in determining their political (Downs 1957; Key 1966; Kramer 1971; Fiorina 1981), others that their view of future performance drives their behavior ("prospective") (Kuklinski and West 1981; Lewis-Beck 1988; Lockerbie 1991; Lanoue 1993). Furthermore, a voter's view of the national economy ("sociotropic") may drive behavior (Hibbing and Alford 1981; Lau and Sears 1981; Feldman 1982; Lewis-Beck 1988), as may her view of her own financial situation ("pocketbook") (Kinder and Kiewiet 1979; Feldman 1982; Lewis-Beck 1988). Despite this controversy, however, it appears to be a safe assumption that there is some link between objective economic conditions and political behavior, as the social cost model assumes.

If the mass public punishes incumbents in economic downturns in the West, we would certainly expect it under the extremely dreadful economic circumstances in Central Europe. In countries in which citizens faced triple- or quadruple-digit yearly inflation and double-digit unemployment, the prospects for government re-election are grim. Voters as rational information processors would certainly assess such an economic situation as unacceptable and act accordingly. But we also have reason to believe that there is an emotional dimension to economic voting. Conover and Feldman argue that anger served as a basis for voter blame of the U.S. President. If their title "I'm Mad as Hell and I'm Not Going to Take it Anymore" applies in the U.S. during the Reagan era, it certainly must set the context for public opinion in transitioning countries. As the social cost of reform increases, and people see their currency devalued or see family and friends losing jobs, we would expect their anger about their personal economic situation and about the national well-being to increase. If people view the economic situation as externally controllable (i.e., by the government), as Conover and Feldman argue, then they will react with anger toward the government. Higher social cost reform could produce angrier people who might punish the incumbent even more severely. Perhaps the reaction will be so severe that the mass public will select parties supporting a return to authoritarianism.

In the context of such poor economic performance, it does not seem controversial to assume that citizens under higher levels of social cost will punish reformers. In fact, the social cost model does not appear to demand anything exceptional of citizens: they observe the economy and act accordingly. Information about inflation, for instance, is readily available at food stores. Higher inflation leads to angier people which decreases support for the government. Opportunities for voting arise and allow voters to make their statement.

Indeed, the type of citizen that the social cost model demands appears to be much like the "peasant" in MacKuen, Erikson, and Stimson's "Peasants or Bankers?" The peasant depends on information he or she can easily collect in the environment to assess "what have you done for me lately?" (597). In contrast, the "banker" analyzes the government's ability to guide government economic policy and asks "what are your prospects?" (597). The banker requires much more information and analysis to assess the government's economic prospects; the peasant requires only basic information readily available in the environment to assess the economic impact on his or her life. The social cost model implies that citizens will observe harsh shock therapy policies and will readily observe that "what the government has done lately" is pretty grim indeed.

One counter-argument to the social cost model, then, is that people in transition countries are prospective and allow the government some room to reform in order to ensure a brighter future. Mishler and Rose (1997) argue that voters evaluate political institutions "more like bankers than like peasants." They are more concerned with future conditions than with present or past conditions and they judge the economy based on macroeconomic conditions rather than on personal economic conditions (442) (See also Rose, Mishler and Haerpfer 1998 and Mishler and Rose 1996). If people are "prospective" or "bankers" as Mishler and Rose suggest, we still might observe the dynamic displayed in the social cost model, but we might not observe it as quickly as some observers feared.

Another counter-argument is about the locus of control over the economic conditions. The flip side to Conover and Feldman's research is that if a voter does not believe that the economic conditions are controllable by the government, then they will not act with anger toward the government. If they do not believe that the poor economy is the fault of the government, they will not punish the government for the outcome. In the Central and East European context, Powers and Cox (1997) find support for this argument in Poland: supporters of the new regime behave differently than those of the old. Supporters blame the past system and, as a result, do not punish the current reformers for current economic problems. Duch (1993) also finds in Russia that support for the market is negatively related to views of the economy. Those who support the market see the current economy as more grim because, in fact, they blame the past regime for the problems.

However, this project is not about whether voters in transitional countries are prospective or retrospective, nor what voters perceive as the locus of control of the economy. The social cost model might or might not hold up under this scrutiny. Current research on prospective voting in the region and on the locus of control suggests that the social cost model as I have outlined here is tenuous in the context of regime transitions (Mishler and Rose 1996, 1997; Rose, Mishler, and Haerpfer 1998; Powers and Cox 1997; Duch 1993, 1995). Yet I do not believe that it takes closure on these arguments to shed light on the social cost model. I argue that for reasons independent of the prospective economic voting argument, the social cost model makes unrealistic assumptions about the abilities of citizens in a regime transition.

➢ High Cost Reform Does Not Have the Market on Poor Economic and Political Assessments

The argument for lower cost reform -- that different levels of social cost translate into different levels of support for the incumbent -- is compelling. In the social cost model it is intuitive that higher social cost will lead to poorer economic assessments which, in turn, will lead to lower support for the incumbent. Because people do not know the difference between low and high cost reform programs in transitional countries, and because of the role of opposition parties to produce conflict over policy in order to win elections, there will be no difference in the degree to which voters assess the economic situation in conditions of high and low social cost.

First, when we use the logic of the social cost model to make prescriptions about national-level policy (i.e., that a lower cost policy package will bring a lower political cost), this suggests that citizens have information to compare their own plight under the government's policy to some alternative. However, consider the context of the transitions: voters in these environments were used to zero unemployment and no open inflation under communist governments. Inflation increased to over five hundred percent in Poland by the end of 1990 but in Hungary inflation reached its peak in 1991 with only thirty-four percent. On the surface, the Polish voters may seem more apt to throw out their governments. However, for Hungarians, thirty-four percent inflation must certainly have been a shock compared to four percent in 1989. We would therefore expect Hungarians and Poles alike will be dissatisfied with their dismal economic situation.

Furthermore, Hungarians have no incentive to learn about how their reform program differs in cost from the Polish program and then to translate this knowledge into economic assessments and political behavior. If a voter is accustomed to no inflation and inflation skyrockets to fifty percent, she will be dissatisfied. If her government had chosen a different path and had inflation reached five hundred percent, she would be dissatisfied. The only way she would be less dissatisfied under the first scenario is if she somehow knew that the second scenario was a possible outcome for her. She would have to know some macroeconomic theory and listen closely to elite discussions about possible reform programs. In fact, she would have to be a well-trained "banker" who not only examines her future prospects under the current policy program, but could also examine her plight under alternative, counter-factual reform scenarios. We have no reason to expect voters to collect such information under any circumstances. And the fact is that research in post-communist Europe suggests that citizens in the beginning of the transition do not even have solid information about their country's objective economic performance, much less how they might have performed under alternative policies (Balcerwoicz 1995a; Anderson 1999).

As a result, voters across the region will be dissatisfied with the reform program because their lives have worsened compared to their situation at the beginning of the transition, even though their objective situation may not be as bleak as in other countries about which voters have little information. Although policy specifics may vary across these cases and though macro-economic indicators also may vary, all voters face a deteriorating economic situation at the beginning of the transition and they will all be likely to have poor assessments of the economy.

These countries share another common feature: opposition parties. Reform in general brings social cost and, as in any democratic system, an opposition party will emerge to convince the voters that the pain they are experiencing is too great, regardless of the objective level of pain in cross-national perspective. Unless all relevant forces in society are represented in the government by some sort of constitutional arrangement such as a consociational system, then there will be parties who are in government and parties who are out of government (Lijphart 1984). Those out of government seek to govern and, as a result, will highlight flaws in governmental policies. In pursuing their goal to win the next election, the opposition will not tell voters about how much worse their lives could have been had the incumbent selected a more painful path. Opposition parties will exploit the dissatisfaction with reform and claim that the costs of the reform program are too great. In radical reform countries, the opposition will claim that it will slow the reform process and will not transform the economy on the backs of the working class (or peasants or pensioners or the down-trodden in general). In low cost reform cases, opposition parties may emerge on the left or right of the incumbent. Opposition parties to the left (who want to slow reform further) will also argue that the costs of reform are too high, that reform should be slowed down. On the right (in support of a more rapid reform), the opposition will likely claim that the government is incompetent and wasting valuable time which should be spent reforming the economy. As reform progresses, opposition parties will emerge in both lower cost and higher cost cases to convince voters that there are better options. If opposition parties are strategic and highlight the flaws in governmental policy and if the voters do not calculate the social cost of alternative reform programs, economic assessments will be dismal across the region. Reform policies in general are unpopular regardless of the specific components of the reform package.

Luckily, then, there is little reason to believe that the first two political costs of reform, views of the economy and views of politics, vary with the reform path the government chooses. I argue in Chapters IV through VI that incumbents do pay for their policies, but voters do not discriminate between higher and lower cost reform. However, what we are ultimately concerned about are the more dangerous political costs. As a result, I discuss below the second group of political outcomes that may result from a reformer's choice of reform path – support for extremist parties and a return to authoritarianism.

Social Cost and Democratic Consolidation

A feared outcome of harsh stabilization policies is that support for the regime will decline, perhaps to such a level that the democratic regime will be dismantled. Regimes in Central and Eastern Europe are in the process of a dual transition in which both economic and political structures must be changed simultaneously. Before the wave of democratization in Latin America, Southern Europe, and Central and Eastern Europe, scholars argued that societies need certain characteristics in order to develop a consolidated democracy, most notably a high level of economic development and a democratic political culture. Since Central and Eastern Europe do not have those favorable initial conditions, implementing harsh economic reform policies could endanger the new democratic institutions. Countries in the region, then, are faced with consolidating a democratic regime under unfavorable conditions, conditions which are ripe for a return to authoritarian rule. Below I discuss three important bodies of literature which address this issue: the literature on favorable conditions on democratic development, the work from comparative politics on the challenges of a dual transition, and research from political behavior on regime support. All of these bodies of research address in some way the link between the economy and the stability of democratic institutions, a linkage that is important for the social cost model.

Unfavorable Initial Conditions

Historically democracy has been correlated with higher levels of economic development; development has been correlated with certain class structures and with a unique mass culture. With all of these variables inter-related in the empirical world, scholars have theorized about the necessity of these features for the long-term stability of democracies. Of course, most scholars would agree that countries in Central and Eastern Europe lack all of these characteristics which, as a result, provide Central and Eastern European reformers with greater challenges, at the very least.

Modernization theorists in the 1950s found that economic modernization leads to democracy (Lerner 1958; Lipset 1959 and 1960; Cutright 1963). Through cross-national statistical examinations political development variables such as literacy and communications and economic development indicators, these scholars argued that the more economically advanced a country, the more likely it would be to sustain democracy. Empirically, this linkage is questionable in the late twentieth century: despite lower levels of development (Malloy 1987), Latin American democracies have been able to survive for some years. And, indeed, Central and East European countries have more recently embarked on democratic transitions. Yet these new regimes are not widely considered to be consolidated, stable democracies, so their existence in themselves does not disprove the development hypothesis. Thus, an empirical challenge could be made to the development hypothesis, but the challenge would be extremely weak.

The development hypothesis has been challenged more strongly on theoretical grounds. Mancur Olson (1993) recognizes the relationship between democracy and capitalism, but argues that the conditions necessary for sustaining a democratic system are the same as those necessary for economic liberalization. Individual rights are not only necessary (in fact definitional) elements of democracy, they are necessary for economic development. For instance, economic development requires property rights which, in turn, require contracts enforceable by an impartial body. An impartial judiciary could not emerge in an authoritarian regime. As a result, the historical relationship between democracy and economic development could suggest that it is democracy which is necessary for economic development to proceed. Olson recognizes the historical correlation but calls into question the direction of causality. It is possible that democracy and development reinforce each other and, as a result, could be implemented simultaneously.

However, other work from the development tradition raises further problems for transitions in Central and Eastern Europe. Scholars have also focused on the relationship between democracy and the presence of certain class structures in society (Moore, Luebbert 1991, Rueschemeyer, Stephens and Stephens 1991). Economic development is necessary because it leads to the emergence of class structures and coalitions which gain their strength from the capitalist system and come to benefit from a more plural political system. A middle class emerges out of economic development and, as it gains more economic power, seeks out more political power in the form of a plural political system. The middle class is a natural ally of democracy and the market: it gains its material wealth from the institutions of the market and insures that material wealth through the institutions of plural politics. Through economic development, this natural ally of democratic institutions emerges and provides a basis of support for that new regime.

The focus on the middle class as a cornerstone of democratic transitions is problematic in the post-communist context: the class structure (or lack thereof) in post-communist states may not lend itself to the development of democracy and the market. When such a society faces a dual transition, it is left without a natural ally of the dual transition — the class that would benefit most from both democracy and the market. Market reform itself will create a middle class but the question is whether the lack of a middle class at the beginning of the transition will impede the reform process. The problem in transitional states without a class structure is that political parties cannot be based on economic class interests (Ost 1993; Staniszkis 1991) and the development of class-based attachments to parties could further be hindered by attachments based on symbolic and moral issues (Bielasiak 1992). The concern of this literature is that the absence of class-based politics in the short-run has perverse consequences for politics: parties rely on traditional images and symbols which come to be translated into non-liberal politics (Bielasiak 1992; Ost 1993). Prejudice and intolerance become the basis for action in a transition that is supposed to implement liberal political institutions. Thus, the lack of development and the nature of the old regime in Central and Eastern Europe has led to the absence of a middle class, a class necessary for democratic stability.

In addition, Central and East European states may also lack cultural characteristics which have been associated with democracy. In the classic work *Civic Culture*, Almond and Verba (1963) show that there are differences across democracies in the way citizens perceive their states and their role in their states. Views about the citizen's role in the government and regime and support for democratic principles may be necessary for long-term democratic stability. If advanced industrial democracies are the benchmark for political culture oriented toward democracy and the market, we do know that political culture in Central and Eastern Europe varies from the benchmark. In a study of East and West German political elites, Rohrschneider (1996) finds that East German elites are less likely to view the market economy favorably and are more likely to base their support upon their personal economic situation and their economic expectations. Likewise, in Soviet political culture Lapidus (1989) suggests that people tend to equate egalitarianism with social justice and will not be able to accept the idea that economic rewards should be the result of performance at work. In the Polish context as well, Kennedy and Gianoplus (1994) argue that a key obstacle to the transition is the absence of a market orientation among the general population. The evidence is more positive in terms of political rather than economic values. Several studies have found high levels of support for democratic values (Gibson and Duch 1993b; Gibson, Duch, and Tedin 1992; Reisinger et al. 1994), however intolerance seems too common in the former USSR (Gibson and Duch 1993a). Like the concerns over economic development in the region, we have reason to be concerned that post-communist societies may not possess the cultural attributes to sustain the transition to democracy and the market.

With unfavorable initial conditions such as low levels of economic development, the lack of a middle class, and the absence of a democratic political culture, it will not be easy to consolidate democracy in this region. In fact, the trick is that both economic and political reform must be carried out simultaneously, which increases the chance of political instability. Without a base of support for democracy and the market in a middle class and without a reservoir of regime support among democrats with long-standing ties to the system, we have all the more reason to expect a strong link between economic performance, political assessments, and regime satisfaction.

Social Cost Under a Dual Transition

The tension in this transition is that both political and economic reform must be done simultaneously and, under the social cost model, economic reform can dismantle political reform. Indeed, Linz and Stepan (1996) argue that for democratic consolidation a regime needs an "economic society" with a legal framework enforced by the state as well as a "political society" with free and inclusive elections (in addition to three other ingredients[2]) (Linz and Stepan 1996: Chapter 1). Most researchers would point to the importance of both political and economic aspects of the reform program for democratic consolidation. However, the challenge for reformers lies in the fact that politics and economics interact and, because of this interaction, the chances of democratic consolidation under particular reform choices are difficult to predict. As a result, research that links particular policy choices to chances for democratic consolidation can be very important.

For instance, Przeworski and colleagues (1995) identify material security and equality as necessary for a "sustainable democracy" and argue that a social safety net is a necessary part of reform if democracy is to become consolidated or sustained. They argue that if transitions generate a sharp decline in material security and the government institutions will not respond to those grievances, this could lead to a legitimacy crisis for those democratic institutions. In fact, democratic institutions are supposed to provide an arena for handling demands of political players. If consumption is in decline, as it is under a reform program, it is unclear whether political actors will continue to use political avenues for conflict resolution (Przeworski et al. 1995: 70). If demands cannot be handled by democratic institutions, players face only extra-constitutional means of changing their plight and, thus, jeopardize the democratic system.

However, consolidation of the new political system may not simply be jeopardized by economic policy. The process of democratization may undermine marketization which, in its own right is necessary for democratic consolidation (Linz and Stepan 1996). Democratic institutions can jeopardize reforms because open political processes allow for groups disaffected with economic reform to call for an end to that reform program. Democratic governments face a larger problem in extracting resources from the population when it must be approved by the public in the next election. Reform requires belt-tightening and, thus, extraction from the population. Without a change in economic performance, people will become disillusioned with the regime. In the short-run they may choose not to participate in the democratic system (Glinski 1993; McAllister and White 1994) or, perhaps, they will come to participate in destabilizing ways (Kowalik 1991; Pickel 1992; Mason 1995). Participation by disaffected groups in society appears to be the most common concern among scholars, compared to under-participation, because it can have the most direct effect on undermining the political and economic regime. For instance, in a study of the Hungarian privatization program, Barlett (1992) suggests that democratization is an important obstacle to privatization because it allows for the mobilization of labor. The same workers who are free to participate in the political process are those being laid off by the new economic program.[3] A combination of widespread economic hardship and widespread participation could jeopardize government policies and may jeopardize the regime itself.[4] If people see democracy simply as a vehicle for economic development and are satisfied only as long as the political system is producing tangible benefits, than a major economic reform program could cause a crisis in regime support.

Social Cost and Regime Support

If, in fact, people only support democracy as long as it is producing goods, we have reason to be concerned. In a new democracy, we have no reason to expect that citizens will have strong loyalty to the new democratic system. People are not likely to have "diffuse" support for the political system, as David Easton labels it in his classic *A Framework for Political Analysis.* Easton states that with diffuse support "regardless of what happens the members will continue to be bound to it [the system] by strong ties of loyalty and affection. This is a type of support that continues independently of the specific rewards he obtains from belonging to the system" (125). However, Easton recognizes that political systems face rough times and that diffuse support could decline. In that event, he argues that governments can increase their "specific" support. Voters might demand a policy change and feel satisfied once that change is implemented. Satisfaction in this case builds specific support – support because the person realizes she can get something out of the system. The problem in a democratic transition, particularly one in which the revolution was against the previous regime rather than for the new regime, is that the new government will not have a deep reserve of diffuse support. And certainly, as the government implements painful economic policies, it will not engender specific support either.

In Chapter I, I quoted a Russian woman who was reflecting on the grim economic conditions in Russia; she could not see what tangible outcomes the system was providing her. Furthermore, she suggested that life was better under Brezhnev. Her loyalty to the new regime was not so strong that current economic conditions could not shake it. Current conditions could and did shake her loyalty to the new political system, as much as even she hated to admit it.

In line with this Russian woman somewhat nostalgic for the Brezhnev era, research from the region suggests a link between views of the economy and support for democracy. Waldron-Moore (1999) argues that satisfaction with democracy, what she refers to as a measure of "specific support," is based on economic performance. However, support for democracy, rather than satisfaction with it, is actually more common and represents diffuse support in the Easton framework. While it is puzzling that there would be more diffuse support for democracy in this context, other research has confirmed the link between economic performance and satisfaction with democracy. Gabor Toka (1995) finds that evaluations of the economy can affect satisfaction with the functioning of democracy, both at the aggregate and individual level. He argues that "the readiness of citizens to express dissatisfaction with the functioning of the political system suggests that professional political actors may expect to gain increased support from campaigns aimed at revising the rules of the game" (378).

Though we certainly do not know precisely the mechanism by which economic assessments translate into regime support, we do have evidence that economic assessments are related to *specific* support. If a new regime lacks a large reservoir of *diffuse* support, then under dreadful economic conditions, the regime could be left with no support. We have seen some voters in Central and Eastern European countries turn away from governing and mainstream opposition parties to political parties which offer more extremist proposals – proposals for major economic changes or opposition to minorities who are allegedly pilfering resources. These movements probably do take advantage of economic turmoil. Whether these parties would actually return to an authoritarian system if given the chance is unclear, but some state that goal in no uncertain terms (e.g. the Party of Romanian National Unity).

Harsh economic reforms, as a result, could lead to such dire economic conditions that we would observe increased support for parties with extremist platforms. If they garner enough support, they could demand major changes or reversals in economic policy and they could even demand changes in political institutions. At the very least, as their support increases, they may serve as a threat to widespread acceptance of democratic values and to the development of a democratic political culture. But it is also possible, though we have not observed it in Central Europe, that they could garner enough support to change the political system fundamentally – the final and most important of the four potential political costs of economic reform.

➢ High Cost Reform Does Not Have the Market on Extremism

In Chapter VII, I address the link between the reform path and support for extremist parties. I argue that harsh stabilization policies do not lead to this political cost. The arguments linking harsh stabilization and extremism have intuitive appeal. However, I argue that both arguments overlook an important political variable in the link between reform choices and extremism – the nature of the incumbent voter, or the "spatial context of reform" as I refer to it in Chapter VII.

Key issues for the future of the democratic regime are what parties emerge from the founding elections and what reform policies they choose. If a social democratic party emerges in the founding election and implements incremental reform policies, it will be more likely to generate defections to anti-reform parties. Just as voters do not have the incentive to collect information on hypothetical economic reform choices of their government, they will not collect information on subtle differences between parties. When people become dissatisfied with low-cost reform and want to slow the reform program down, they will likely support a party that wants to end reform altogether. And though extremists may not lead a revolution against the new regime, under certain reform contexts the presence of extremist opposition parties and the existence of anti-market attitudes among government constituents undermines the government's reform credibility. Reform paths are related to political costs, but not in the sense that the social cost model implies.

Conclusion

Politicians will pay for the social cost of their reform program. But from the point of view of the democratic political system, we can tolerate some of these costs. People will become dissatisfied with the economy, just as people in democratic societies across the globe become dissatisfied with government policy. This dissatisfaction will even lead to the ouster of the government. However, if we believe that changes in governments are necessary to keep them accountable, then we should certainly view these political costs as tolerable as well. Yet, if the political cost of reform is the rise of parties that promote hatred toward ethnic groups or the dissolution of the market economy, then this is a political cost that democrats should monitor. Indeed, scholars have argued that open-mindedness toward others and an environment of trust is an important characteristic of a democratic political culture (Inglehart 1990; Putnam 1993) and that the market is necessary for democracy (Olson 1993). If politicians choose an economic reform path that leads them to these extremist political costs, then we ought to advise them against that path. As I show in this project, we have no reason to think that the choice of the reform path will increase dissatisfaction toward the economy and government in the short run. However, the choice of a lower cost reform could lead to the rise of extremist parties, parties which promote dismantling the system itself.

1. The major exception, of course, is Peter Murrell. He certainly recognizes the cost of rapid reform but is concerned more about the disruption it causes to the economic environment.

2. Three other factors identified by Linz and Stepan are civil societies with free association, rule of law with guarantees of freedoms, and a state bureaucracy usable by the regime (1996, Chapter 1).

3. Bartlett also recognizes that democracy is necessary for privatization in this context since it is only with the removal of the communist regime that you can remove state ownership.

4. However, Comisso (1991) suggests that because of the free-rider problem, hindrances to mobilization may make reform possible.

Chapter III. Research Design

Under the social cost model, extraordinary behavior is required of citizens: they must somehow gather information on the specific cost of their reform program and compare it to the cost of some alternative economic reform program. It is not likely that citizens behave in this way; indeed, they do not have the incentive to do so. If we could observe in an experimental fashion a similar group of citizens under both shock therapy and under a lower cost reform program we might conclude that Poles, for example, under shock therapy would behave in a similar manner to Poles under a lower-cost program. There might be many differences we observe, but we probably would not observe one authoritarian-style government stemming from shock therapy and one consolidating democracy stemming from lower cost reform. Certainly, even without an experiment such as this, history to date suggests that would not observe such a major difference under the two programs. Yet clearly, what makes this research question a difficult one is that we do not have such data to analyze.

Researchers have gotten some leverage on the problem by examining differences in behavior within and across countries. For example, in his work, Raymond Duch examines whether in the face of "economic chaos" people abandon support for democratic institutions or simply blame incumbents. He argues that the ability to make this distinction is an important democratic attribute. He examines a survey conducted in the European portion of the USSR in 1990 and finds that economic hardship does cause citizens to punish incumbents, but not to abandon support for democracy. Further, he argues that this attribute is distributed across the country -- there are not particular segments that cannot make the distinction between punishing incumbents and punishing the democratic institutions. Thus, he uses social structural variation within the USSR to show that this attribute holds regardless of a person's place in the social structure. Many researchers use single country data sets in a similar fashion (see Gibson, Duch, and Tedin 1992; McAllister and White 1994; Duch 1994; Powers and Cox 1997).

In this project, I could rely on the variation-within-borders approach to examine the link between social cost and political behavior. Certainly, reform policies affect sectors of society differently. The social cost is higher for groups in society which live on a fixed income, who are shielded less from inflation, for instance. Kitschelt suggests that behavior for such sectors will be different since they are not as readily able to transfer their skills to the new economy (1992). While within-country comparisons bring up important questions, I am interested in whether differences in policy yield differences in political behavior. Within a country, reformers make a national policy. The choice of harsh stabilization policies over less costly reform policies varies across countries rather than within them and suggests a cross-national analysis.

Researchers also rely on cross-national data. Richard Rose and William Mishler rely on the New Democracies Barometer, a data set of five countries in Central and Eastern Europe, which allows researchers to generalize their findings across post-communist Europe. For instance, Rose and Mishler (1994) study five of those countries and examine the gap in approval between the new economic and political systems across those cases. They find a much lower approval rating for the economic than for the political system, suggesting that, to some degree, current costs of reform do not translate into political costs. However, researchers have also used cross-national analyses to generalize across time. Duch (1995), in the work I cite above, adds an analysis of Times Mirror data from Central European countries to his work on Russia to show that his finding generalizes across national borders and across time (his Central European cases were further along in their transitions).

However, researchers have also done cross-national analyses in which they select countries based on certain national characteristics. Reisinger, Miller, Hesli, and Maher (1994) examine whether Ukrainians, particularly eastern Ukrainians, are more authoritarian than Lithuanians, an assumption we make about cultural differences between these countries. As a result, they select a case associated with an authoritarian political culture (Ukraine) and one associated with a democratic political culture (Lithuania) and compare behavior across those borders. With this paired comparison approach, their findings have implications for other countries, but are not necessarily generalizable beyond their two countries.

The paired comparison approach to cross-national analysis allows researchers to use differences between countries to leverage more information about political behavior.

However, with only two countries in the study, they give up the advantage of generalizability. On the other hand, a larger cross-national analysis might increase the generalizability of the study but, if the cases are not carefully selected, the study may not take advantage of important attributes of the countries. In this project, my goal is to compromise between these two approaches. I use a paired comparison approach and select cases based on the reform choices of politicians, but I also select a number of countries from different regions in Central and Eastern Europe in order to increase the generalizability of the findings.

Paired Comparisons -- A Most Similar Systems Design

In this study, I am concerned with whether there are differences in political behavior between countries which have chosen different economic reform paths. I have a large number of cases at the individual level (approximately 1,000 per country each year for about 6 years), but very few countries to compare (about 20 from which to choose). Researchers are not in agreement over the best design for small N studies. Lijphart (1975) argues that a smaller number of carefully matched cases is the best approach to a small N study, yet Przeworski and Teune (1970) argue that such an approach does not allow the researcher to eliminate rival explanations for the behavior they are studying. Przeworski and Teune prefer that researchers choose a highly diverse group of cases (most different) and to trace similar processes across those cases. This project by nature is a most-similar case project: I am not comparing economic reform and democratization across the globe, I am simply examining former communist cases. Yet, it is necessary to refine case selection further.

To test the model, I could divide these 20+ post-communist countries into higher- and lower-cost reform categories and examine differences in behavior. However even within Central and Eastern Europe, reform paths tend to be clustered: Central European countries which had the best chances of a successful transition have tended to choose a higher-cost reform path. To compare the Czech Republic and Poland to Belarus would confound reform paths and initial economic conditions. If I were to compare two countries with different initial conditions, it would be impossible to compare the effect of the cost of the transition across cases. For instance, Poland should have (and did) have a much easier time reorienting trade away from former Soviet Bloc countries than Belarus. This difference may make the cost of the transition in Belarus greater than in Poland regardless of the country's choice of reform paths. As a result, I use a most-similar systems design within Central and Eastern Europe to select cases which are most similar across initial economic conditions (to the extent that it is possible), but that differ on the key independent variable: the reform path.[1]

Definitions: High Cost and Lower Cost Policies

Ideally, rapid economic reform (a high cost reform program) is characterized by macroeconomic stabilization policies, rapid price liberalization, *and* rapid privatization (Sachs 1993; Balcerowicz 1995). However, the theoretical literature and observations from Central and Eastern Europe suggest that some policies necessary for a developing a market take time, particularly structural changes such as privatization (Van Brabant 1993; Slay 1994a).[2] In descriptions of economic reform programs throughout the region, countries identified as "rapid" or cases of "shock therapy" are cases which have implemented austere macroeconomic stabilization policies accompanied by price and trade liberalization. These are high cost reform programs. Stabilization policies come at a high cost to the population in the short-run. A balanced budget means cuts in subsidies and an increase in the cost of goods. For enterprises this means that they must adjust their production or prices to levels determined by the market. In some cases this may mean shutting down, in others it may mean letting workers go. Both increase unemployment (see Murphy; Shleifer and Vishny 1992; Wolf 1991; Van Babrant 1993; Bogetic and Fox; Winiecki; Adam 1993; Slay 1994a).

Under lower cost reform, on the other hand, prices may be liberalized gradually as in the Romanian sequenced process of liberalization. Subsidies, then, are reduced over time and, as a result, budget deficits continue. From the point of view of the consumer, prices will rise only gradually and the policies may, therefore, preserve some of his purchasing power. From the point of view of the producer, the goernment will continue to subsidize her activity. In each of these cases, the social cost of reform will be lower. Furthermore, with continued subsidies, governments can avoid a breakdown of state enterprises and fewer workers will enter the unemployment line. In the next section I describe why Hungary and Romania will serve as examples of lower cost reform.

Case Selection

In Central Europe, I compare Poland (higher cost reform) and the Czech Republic[3] (higher cost) to Hungary (lower cost).[4] Poland and the Czech Republic implemented their high cost reform programs in 1990 and 1991, respectively. The Poles freed most prices, devalued and expanded the convertibility of the złoty, tightened monetary policy, passed privatization legislation, and opened the Warsaw stock market (see Winiecki 1994, Slay 1994c).[5] The Czechoslovak government liberalized most prices, broadened the koruna's convertibility, and planned for a budget surplus (Adam 1993, Slay 1994a). In Poland, this brought a 14 percent decline in GDP between 1990 and 1993 and an increase in unemployment from 0 percent to about 16 percent by the end of 1993. And though unemployment remained relatively low in the Czech Republic, in Czechoslovakia reform brought sharp decreases in GDP in both republics (GDP decreased by 23 percent in 1991 and 1992), (Slay 1994a).

The cost of reform was certainly high in both of these states. In Hungary, on the other hand, some institutional reform and price liberalization was carried out in the 1980s. In 1990, Prime Minister Jozsef Antall stated in his inaugural speech that the transition would be gradual and that no shock therapy program would be implemented (Okolicsanyi 1992: 35). The government liberalized prices gradually and, as a result, decreased subsidies over time. Convertibility of the forint and liberalization of foreign trade were implemented gradually. I list these cases in Figure 3.1 below.

Figure 3.1: Case Selection

Central Europe:	**Balkans:**
Higher Cost • Poland • Czech Republic	*Higher Cost* • Bulgaria
Lower Cost • Hungary	*Lower Cost* • Romania

✦ Task ✦
To compare countries with different reform paths within each region and to generalize across regions.

In the Balkans, I compare Bulgaria (higher cost) to Romania (lower cost). Bulgaria embarked on a rapid transition in February of 1991; the government liberalized most prices, eliminated subsidies, and implemented structural reforms such as demonopolization, privatization, and land reform (see Bogetic and Fox; Wyzan 1992; Slay 1994a). Though the Bulgarian reform program did not last long before the collapse of the Union of Democratic Forces - Movement for Rights and Freedom coalition, economists consider it a case of high cost reform nonetheless (Balcerowicz 1992; Slay 1994a; Bogetic and Fox; Wyzan 1992). Romania, however, implemented a three-stage price liberalization in November 1990, April 1991, and July 1991. Subsidies were reduced in May 1992, September 1992, and May 1993 (Bogetic and Fox: 56; Van

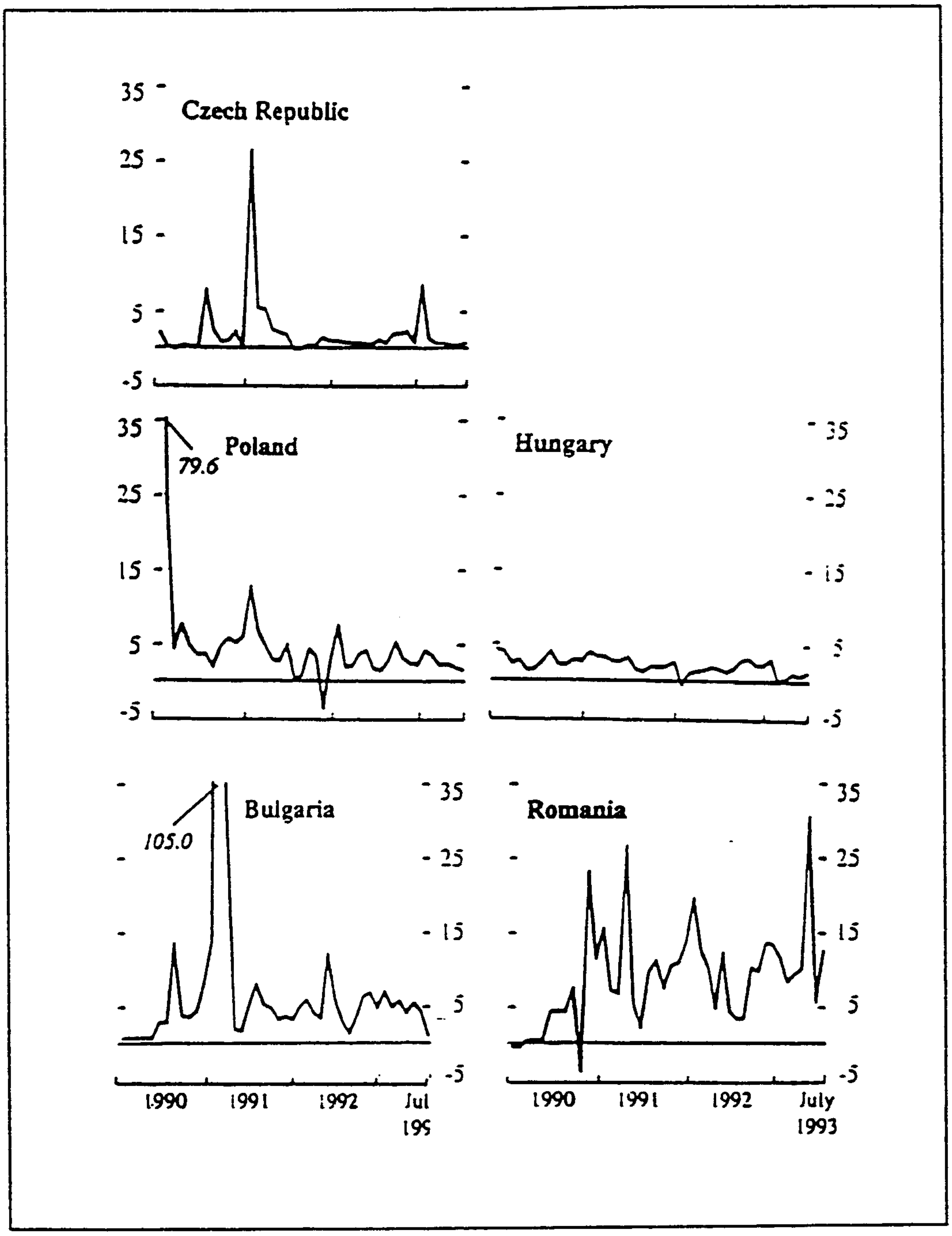
Frausman et al 1994: 737). After the 1992 elections and the fragmentation of the National Salvation Front, the new government dominated by the Democratic National Salvation Front slowed down the reform process even further.

Thus, as I display in Figure 3.1 above, I compare Poland and the Czech Republic to Hungary (Central Europe) and Bulgaria to Romania (Balkans). Within each cluster of cases, these countries differ in social cost but they are geographically proximate, which reduces historical and cultural background factors. In my analyses, I examine pairings of cases and make generalizations beyond those cases.

Differences in Social Cost

The countries in this study implemented different economic reform packages, but these reform models also brought with them differences in social cost. Stabilization policies, the foundation of a high cost reform program, bring high social cost. The primary social cost that characterizes stabilization programs is high inflation in the initial reform period. Most observers have pointed to inflation as a primary social cost at the beginning of high cost reform programs. As a result, I display inflation data in Figure 3.2 below. First note the left-hand column. The three countries on the left side of the table are those I have selected because they imposed harsh stabilization policies at the beginning of their economic transition: Czech Republic, Poland, and Bulgaria. Not all continued those policies: the Bulgarian policies did not last one year. However, the initial rise in inflation is clear from the figures in Bulgaria as well as in the other "rapid" reform countries. Compare the countries in the left-hand column with those on the right. These countries are neighboring states with similar initial economic conditions, but without harsh stabilization policies. Inflation is certainly higher in the short-run in countries with stabilization policies.

Figure 3.2: Monthly Consumer Prices
In Central Europe and the Balkans



In addition, I list UNICEF poverty statistics in Table 3.2 below to show the same linkage between countries with harsh stabilization policies and high social cost of reform. In countries which I defined above as higher social cost, we observe higher levels of poverty compared to their lower social cost counterpart. For instance, in Poland in 1991, about 39 percent of the population and 55 percent of children were living in poverty, compared to about 21 percent of the population and 29 percent of children in Hungary. Certainly, Hungary also had a large proportion of the population living in poverty, but objectively, Hungarian poverty statistics are much less grim than the Polish. (Comparable data for the Czech Republic is not available in this study.) The Balkan cases are less clearly distinct in their levels of poverty than are the Central European cases. Romanian poverty levels are only slightly below the Bulgarian. These statistics, like Romanian inflation which was up and down throughout the transition, reflect to some degree the Romanian government's stop-and-go approach to reform.

Table 3.2: High Cost Reform and the Percentage Living in Poverty

Poland (higher cost reform) 1991: 39.3% of the population in poverty 54.7% of children in poverty	**Bulgaria** (higher cost reform) 1992: 53.6% of the population in poverty
Hungary (lower cost reform)1991: 21.3% of the population in poverty 29.1% of children in poverty	**Romania** (lower cost reform)1992: 51.1% of the population in poverty
▪ Poverty line: 45% of 1989 real wage. ▪ Data is included for those countries available in the UNICEF study and for population groups that are comparable. See Crisis in Mortality, Health, and Nutrition, 1995.	

In general, countries with stabilization policies also tend to have more people impoverished -- perhaps the most important social cost. However, inflation is the social cost of reform which most clearly follows from stabilization programs. As a result, I have selected countries that differ in their reform choice and the social cost which follows from that choice. However, it is always problematic to examine differences across countries, even if one can identify those important differences correctly. I discuss some of those issues below.

Problems of Inference Across Cases

This is a study of public opinion and voting behavior from five post-communist countries. The problem with cross-national analyses is that many national-level differences can intervene to make comparison questionable. From studies of voting behavior in Western democracies, it is clear that political institutions affect both vote choice and voter turnout. Electoral institutions vary across all countries in Central and Eastern Europe and, thus, there is no way to control for electoral institutions across cases.

For instance, under some circumstances, voters may select a party not because it is their top choice for ideological reasons, but for strategic reasons. We do not know much about voting patterns in post-communist states but, at a basic level, we can control for strategic voting if we can control for electoral laws. For instance, comparing patterns of voter disaffection in a plurality and proportional representation (PR) system would be difficult because we expect voters to act differently in each case -- only in the PR case might we expect new authoritarian parties to emerge to capture these voters, for instance. The "psychological effect" of Duverger's law is that in a plurality system, third parties will not win because voters will not "waste" their votes on the smaller parties (Duverger; see also Taagepera and Shugart; Lijphart 1994; and Rae). Thus, when an interviewer in such a system asks potential voters whom they support, their answer could be based as much on strategy as on ideology. However, fortunately for this project, democratic reformers across Central and Eastern Europe tended to implement proportional representation systems in various forms. Of the countries included in this study, most have fairly straight-forward versions of proportional representation; all cases have institutional environments which would allow for a multi-party system, though all favor large parties nonetheless. The rules governing elections vary, but they should have a similar effect on voting behavior across cases.

Data and Methods

For most of my analyses, I examine assessments of the economy using Central and Eastern Eurobarometer data collected yearly. The Central and Eastern Eurobarometer focuses on questions about the European Union. However, it also asks respondents about their views of the economy, their views of democracy, their support for the government, whom they would support in an election, and their demographic characteristics. I use this data to examine three of the four political costs of reform that I outline in Chapter II. I do not examine the fourth outcome, a return to authoritarian rule, because we are fortunate enough not to have any empirical cases of this outcome in the region. To examine the other three outcomes (economic disaffection, political disaffection and votes against reformers, and support for extremist parties) I use the Eurobarometer data and some additional supporting data in the following ways:

1. Economic Disaffection: Chapter IV.

I use data from the Central and Eastern Eurobarometer to examine the relationship between the reform path and aggregate economic assessments. The Eurobarometer provides retrospective, prospective, sociotropic, and pocketbook economic voting variables for 1991 and 1992, and pocketbook variables for 1993 through 1996, all of which I use in the analyses.

2. Political Disaffection and Votes Against the Incumbents: Chapters V and VI.

In this analysis, I examine aggregate levels of support for the government and I predict support for government parties with economic assessments at the individual level, as the social cost model implies.

One critical problem in this analysis is that the cases in this study have different election cycles. In one country, the initial reformer might be replaced early in the transition as in both Poland (Fall 1991) and Bulgaria (Fall 1992). In addition, unpopular governments may continue to govern only because they have not yet faced the voters. Given the pairwise comparisons in this study, then, it is difficult to examine pairs in these clusters after an incumbent is voted out. Even so, I examine these critical initial years of the transition before the incumbent was voted out (1991 and 1992) as well as two years later in the transition process (1994 and 1995). I exclude 1993 because the vote choice question was only available in Hungary; I exclude 1996 because some of the vote intention coding lacks face validity. By 1997, most of the explanatory variables are not included in the survey at all.

A second problem in analyzing political disaffection with Eurobarometer data is that the data is only collected yearly. We do not observe a strong relationship between views of the economy and support for governments in these early years, yet economic assessments have been crucial in other studies in the region (Mishler and Rose 1996, 1997; Rose, Mishler, and Haerpfer 1998; Duch 1994, 1995; Powers and Cox 1997). To examine in more detail this relationship between economic and political assessments, I use a richer data set from one of the cases in this project – Poland. The data is a monthly time series that allows me to explore the question in more detail. A problem with this data, of course, is that it is limited to Poland. As I describe in Chapter VI, Poland is an excellent case for the research question, however it does not allow for a comparison of high and low cost reform programs. Considering this weakness, the analyses do provide us with important information about the critical initial years of a regime transition.

3. Rise of Extremist Parties: Chapter VII.

In this section, I examine the rise of extremist parties in the five countries in this project. To supplement my review of party systems, I use the Central and Eastern Eurobarometer data to analyze attitudes toward the market, satisfaction with democracy, and support for incumbents in the political contexts of these countries.

In the following chapters I examine the link between the social cost and political cost of reform. In the next three chapters, I show that higher cost reform programs do not generate more economic and political disaffection than lower cost programs. However, in Chapter VII I suggest that it is lower cost reform programs that, under some circumstances, lead to the rise of extremist parties.

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1. An additional problem with most-similar systems studies is sample selection bias. The selection of cases could lead to biased estimates of the relationship between the independent and dependent variables if the selection criteria lead to truncation on the dependent variable. That is, in post-communist countries, there may be more or less disaffection than in Latin American transitions to democracy. Since disaffection is the dependent variable in this study, excluding cases from Latin America could lead to biased estimates of the relationship between the reform path and political disaffection. However, if Latin American cases were included in this study and they were different from Central and East European cases, it would be impossible to determine the source of the difference -- it would as likely be the lack of comparable survey data as a case of sample selection bias. See King, Keohane, and Verba as well as the response by David Collier (1995) for more on this issue.

2. All transitions employ an element of gradualism. Though the terms “shock therapy,” “big bang,” or “rapid reform” may be misnomers, some countries have chosen paths which decrease the initial cost of the transition; others have chosen paths which are intended to increase the initial cost in order to reform the economy as quickly as possible. So while no reform may be entirely “rapid” or “gradual,” and while some elements of the government’s policy program may create high social cost while some create low social

cost, it is nonetheless instructive to distinguish between the paths that countries have chosen.

3. I will examine the Czech Republic and the Czech portion of the survey before 1993. Slovakia is also a case of high cost reform, yet the initial economic conditions are less similar to the Czech Republic, Hungary, and Poland.

4. There are key economic differences in these countries: economic reform began in Hungary in 1968 and the Antall government elected in 1990 after the transition had only to continue reform. Poland, too, entered the transition with some experience with economic reform. The extent of the reforms in Hungary in 1990 is probably the reason it did not adopt a rapid reform program. However, this difference should make it easier for the social cost model to hold. The social cost of reform should certainly be lower in Hungary than in Poland and the Czech Republic because part of the price of reform was paid during the communist era.

5. Before the transition, the Rakowski government initiated some reforms in Poland including legalizing black market currency transactions and liberalizing food prices (Slay 1994c).

Chapter IV. Social Cost and Economic Disaffection

Economic disaffection is the first manifestation of political discontent in the chain of disaffection represented by the social cost model. The prospect of high levels of economic disaffection and the resulting political disaffection, raises an important question for politicians implementing reform: Should reform-minded politicians choose an economic program which reduces the cost of the economic transition in order to stay in power longer? Can reformers actually lengthen their stay in office by choosing a lower-cost reform program? The social cost model as introduced in Chapters I and II suggests that politicians can increase their tenure by implementing less painful economic reform policies. Proponents of lower-cost reform argue that a less costly reform path will lead to less popular disaffection in the short run, a longer term in office, and, thus, more continuity in reform policy.

In this chapter I test the link between the social cost of reform and economic assessments as outlined in the social cost model. The social cost model suggests that views of the economy will be more positive under conditions of lower social cost. I find no evidence to support this argument. Politicians implementing lower-cost economic reform cannot temper economic disaffection through their reform choice; they are as likely to generate economic disaffection as are higher-cost reform incumbents, even though their reform policies come under conditions of lower social cost.

Public Opinion and the Cost of Reform

With the founding democratic elections in Central and Eastern Europe in 1989 and 1990 came a mandate against communist political and economic systems. Democratic reformers began to implement new political institutions and to introduce market reform. And while these reformers certainly had a mandate to change the political and economic systems, reformers were not typically selected for their specific policy proposals. Reformers in Central Europe were chosen for who they were not: Solidarity in Poland, the Civic Forum in the Czech Republic, and the Democratic Forum in Hungary were not the Communist Party (Berglund and Dellenbrandt 1994; Banac 1992; Szajkowski 1991). In the Balkans, a break from the communist past was less clear: the Romanian National Salvation Front and the Bulgarian Socialist Party, affiliated with the communist past in their countries, were elected to lead the political and economic transition (Moser 1994). But regardless of why certain groups led the reform process and regardless of the policies they selected, reform was a political loser. With economic reform came strikes, protests, and the rise of post-communist opposition parties.

As soon as the economic transitions were launched across the region, workers declared strikes, students protested, farmers blocked roads all in opposition to government policies. Disaffection was evident however in all countries, not just in countries which selected higher-cost economic reform. For instance, in Poland under harsh stabilization policies and in Hungary under a lower-cost reform program, governments were challenged by domestic unrest in 1990. Polish farmers in March blocked roads, transport workers in Katowice in March and in Krakow in November organized strikes, and miners in November went on a warning strike. Likewise, Hungarian miners in October went on strike, taxi and truck drivers in October blocked roads, and teachers went on strike in December even though Hungarian reformers had only implemented a lower-cost reform program. Balkan politicians faced similar problems. Workers, butchers, bus and taxi drivers, and teachers in Romania went on strike and many others protested government policies at rallies and demonstrations. The Bulgarian government faced workers strikes as well. In November of 1990, after weeks of protests, strikes, and sit-ins, the Lukanov government resigned. Certainly reform comes at a cost, but it seems that reform in general, as opposed to higher-cost reform, breeds disaffection.

The cost of reform became apparent as successors to communist-era parties began to replace the democratic opposition parties which had been elected in 1989-90.[1] In Poland in 1991, the Social Democracy for the Republic of Poland (SDRP) and the Polish

Peasant Party (PSL) came in second and fourth respectively (12 and 8.7 percent of the vote). In 1993, new Polish elections to the assembly brought in a government of the PSL and the Democratic Left Alliance (SLD — a coalition which includes the SDRP). Hungarians followed suit in 1994 by electing the Hungarian Socialist Party. In Bulgaria in late 1994, voters elected the Bulgarian Socialist Party (BSP) over the Union of Democratic Forces (UDF), though the UDF had lost its place as head of government in 1992 with a shift in coalitions. In Romania as well, politics has gradually shifted to less market-oriented parties: the National Salvation Front splintered and the more conservative faction was supported in government by parties which glorify the days of Ceausescu. Higher-cost reformers have been ousted (Poland 1993, Bulgaria 1992) just as lower-cost reformers have been replaced (Hungary 1994). Both reform choices seem not only to breed disaffection, but also to lead to the ouster of reformers. In this chapter I show that reform brings disaffection toward the economy, regardless of the aggregate social cost associated with that policy.

Distribution of Public Opinion about the Economy

In this chapter I test the primary assumption of the social cost model which suggests that increased social cost leads to increased economic disaffection. I test the following:

> **Hypothesis 4.1: Assessments of the economy under higher social cost are more likely to be bleak than assessments under lower social cost.**

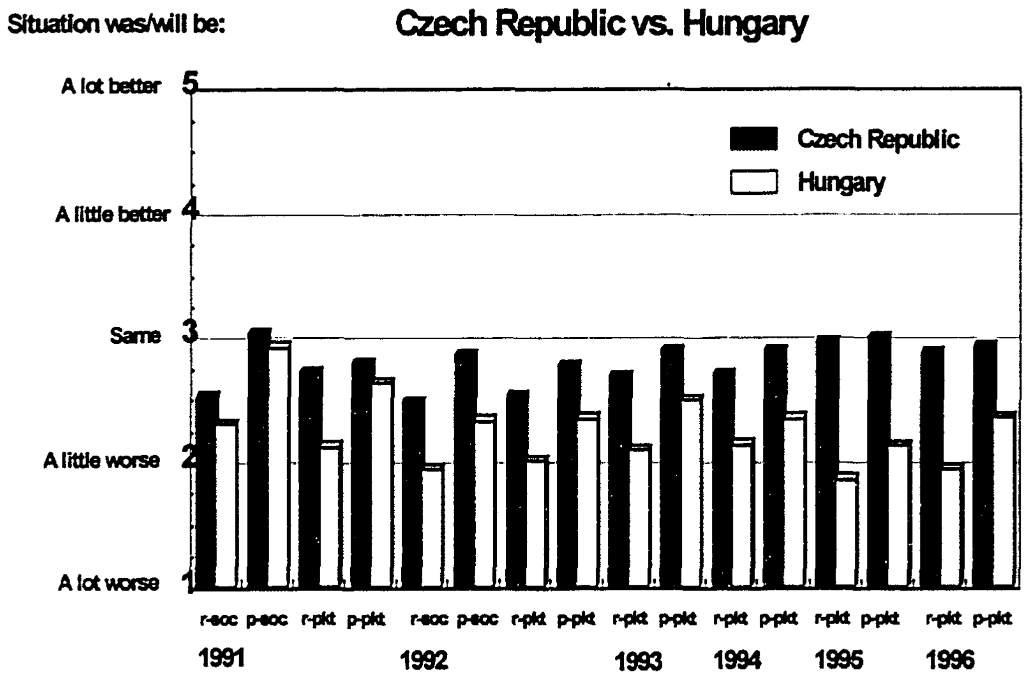
I examine assessments of the economy using Central and Eastern Eurobarometer data collected yearly. The Central and Eastern Eurobarometer asks a battery of economic assessment questions including the traditional retrospective and prospective pocketbook and sociotropic questions (see Appendix for questions) from 1991 to 1996. It asks respondents about the economic situation in the country in the past year (retrospective sociotropic), the economic prospects for the country in the year to come (prospective sociotropic), their personal financial situation in the past year (retrospective pocketbook), and their personal financial prospects for the year to come (prospective pocketbook).

For the social cost model to hold, views of the economy should be more bleak as the social cost of reform increases. As the reform progresses and people have paid the cost of reform, retrospective evaluations should be worse under conditions of higher social cost. However, if people are cognizant of the cost of their reform program compared to some alternative and they anticipate future costs of reform, then we would also expect prospective assessments to be more bleak under higher-cost reform.

Basic evidence to support the social cost model would be that aggregate views of the economy are more positive under conditions of lower social cost. However, in the evidence that follows, I do not observe this relationship. The Eurobarometer data are presented in Figures 4.1 through 4.3. All questions presented in these figures are coded from negative (low values) to positive (high values). In Figures 4.1 a-c I graph assessments in lower and higher-cost reform cases. Each bar in Figure 4.1 represents the mean assessment on a particular variable for that country. Higher social cost reform countries are represented by black bars, lower social cost reform countries by white bars.

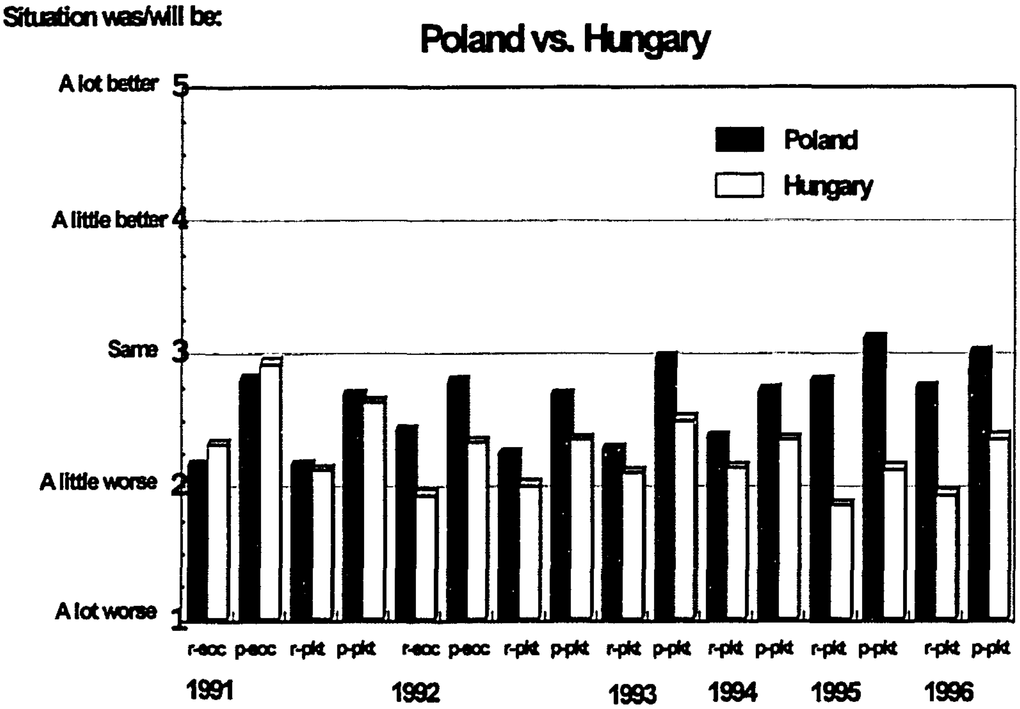
So the first two bars in the in Hungarian-Czech comparison of Figure 4.1a represent the mean assessments of the Czechs and Hungarians respectively, on the retrospective voting variable in 1991. Under the social cost model, opinion in lower-cost countries should be better than in higher-cost countries. Thus, the white bars should be taller than the black bars.[2]

Figure 4.1a: Economic Assessments In Central Europe



Note: "r-soc" = retrospective sociotropic; "p-soc" = prospective sociotropic "r-pkt" = retrspective pocketbook; "p-pkt" = prospective pocketbook. Sociotropic variables were not included in the 1993-96 CentralEurobarometers.

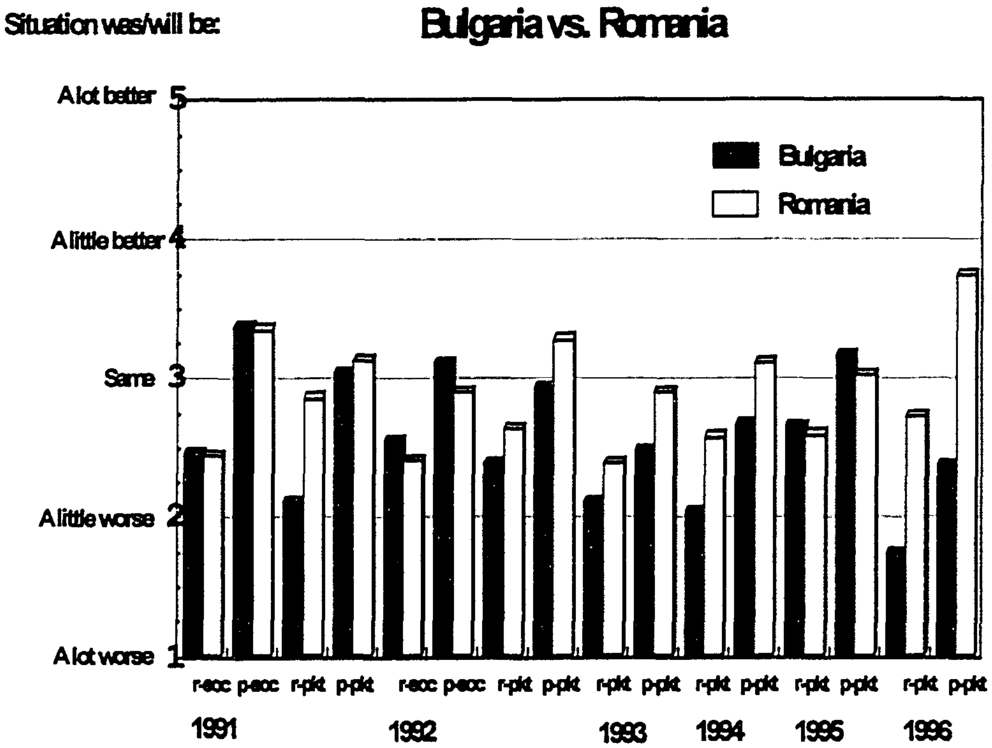
Figure 4.1b: Economic Assessments In Central Europe



Note: "r-soc" = retrospective sociotropic, "p-soc" = prospective sociotropic "r-pkt" = retrospective pocketbook; "p-pkt" = prospective pocketbook. Sociotropic variables were not included in the 1993-96 CentralEurobarometers.

In Figure 4.1a-b, I compare economic views in the Czech Republic (higher-cost) and Poland (higher-cost) to views in Hungary (lower-cost). In the Hungary-Czech comparison in Figure 4.1a, the mean levels of the economic variables are higher in the Czech sample (black bars) in every instance, indicating more positive assessments in higher-cost reform Czech Republic. This relationship is similar in the Hungary-Poland comparison: in most instances (14/16) assessments are better in higher-cost reform Poland (black bars). Thus, in Central Europe, opinion is actually better under conditions of higher social cost. I discuss this evidence against the social cost model in more detail in the discussion below.

Figure 4.1c: Economic Assessments in the Balkans



Note: "r-soc" = retrospective sociotropic; "p-soc" = prospective sociotropic
"r-pkt" = retrospective pocketbook; "p-pkt" = prospective pocketbook.
Sociotropic variables were not included in the 1993-96 Central Eurobarometers.

In the Balkan cases in Figure 4.1c, there is some evidence that economic assessments are more positive under conditions of lower social cost. Romanians have more positive assessments than Bulgarians across ten of the sixteen economic variables from 1991 to 1996. In the Balkan cluster, then, there is more evidence for the social cost model. But as I address further in the discussion below, this may be due to discontinuities in the Bulgarian reform policy rather than the social cost of reform. The Bulgarian government started harsh stabilization policies which were stopped just over a year after they had begun. It becomes problematic in this cluster of countries to attribute poor assessments to the cost of the economic policies themselves, independent of the fact that there was disruption in the reform program.

Changes in Economic Assessments

The data in Figure 4.1a-c suggest that aggregate levels of dissatisfaction are no worse in higher-cost than in lower-cost reform cases. However, it is possible that we should look at *changes* in economic assessments rather than in *levels* of dissatisfaction. As reform progresses and people pay the social cost of reform, they may come to associate that social cost with their assessments of the economy. People under conditions of higher social cost, then, increasingly could come to view their economic situation as grim, compared to people under a lower social cost of reform. Under the social cost model, we would expect to observe:

> **Hypothesis 4.2: Assessments of the economy under higher social cost are more likely to be *increasingly worse* than assessments under lower social cost.**

Examining changes in economic assessments allows us to control for the initial economic assessments in each country. To do so, I subtract aggregate economic assessments of 1991 from 1992, 1992 from 1993, and so on. Thus, I subtract out the initial assessments (1991 for instance) and compare only the remainder (the change in opinion). Positive values mean that assessments improved from one year to the next. For instance in Poland in 1992, the mean value of the retrospective sociotropic variable was 2.42 while in 1991 it was 2.16. Respondents in 1992 had more positive assessments of the economic situation in the past year than they did in 1991; the difference between 1992 and 1991 is positive (0.26). To support the social cost model, changes in opinion in lower-cost reform cases should be less negative than in higher-cost reform cases. As social costs increase, poor assessments of the economy will increase as well. Yet again, these data provide little support for Hypothesis 4.2.

Figure 4.2a: Change in Economic Assessments in Central Europe

Czech Republic vs. Hungary

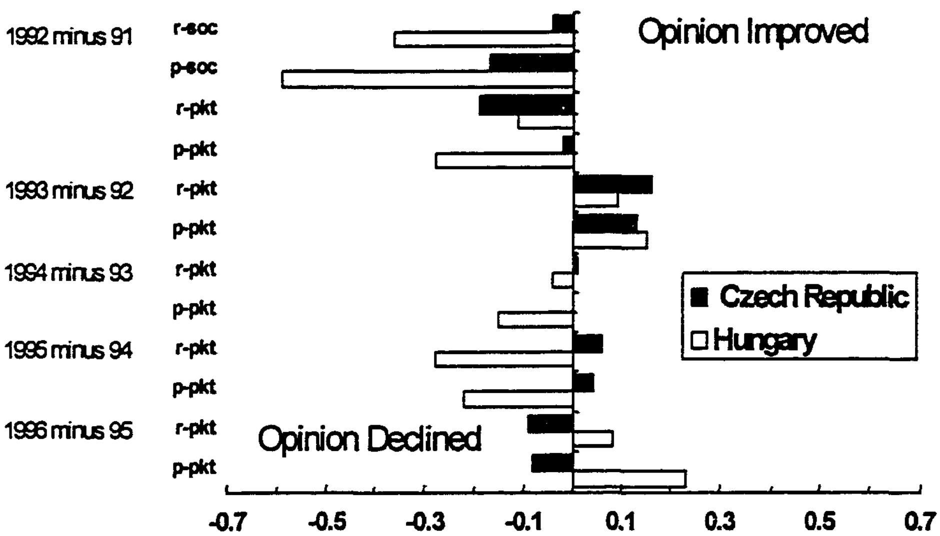


Figure 4.2b: Change in Economic Assessments in Central Europe

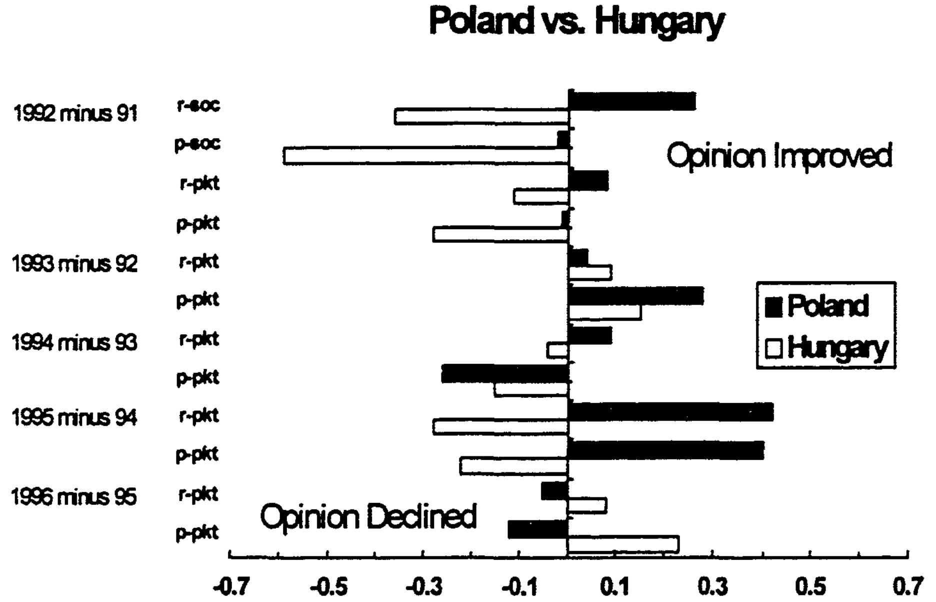
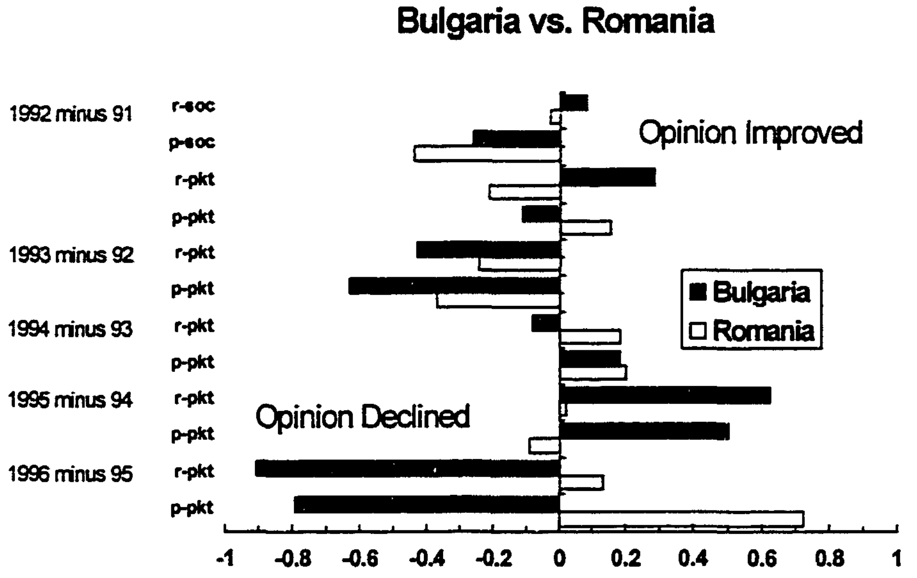


Figure 4.2c: Change in Economic Assessments in Central Europe



In the horizontal bar graphs in Figure 4.2, a decline in opinion from one year to the next is represented by bars to the left of the center. Improved public opinion is represented by bars to the right of the center. Black bars symbolize changes in higher social cost countries; white bars denote changes in lower social cost countries. What we expect to observe under the social cost model is that opinion declines less under lower social cost (smaller white bars to the left of the center) or that opinion improves more (larger white bars to the right of the center).

In the Central European cases in Figure 4.2a-b, there is more support for an argument that views worsen under conditions of lower social cost. Of the twelve variables displayed in Figure 4.2a, values are more negative in Hungary than in the Czech Republic in eight of those variables. In the Hungary-Poland comparison values are also more negative in the Hungarian case in eight of the twelve variables. In the Balkan cluster there is some evidence for the social cost model: in five out of twelve variables, assessments are worse in lower-cost-reform Romania than in Bulgaria. However, most of this evidence for the social cost model emerges in 1993 and 1994 -- opinion in Bulgaria declines more so in those years. In the years of the Bulgarian shock therapy program (1991-1992), assessments of the economy in general[3] were better in Bulgaria than in Romania.

In general, after controlling for the initial level of opinion in a country, there is little evidence to support the proposition that higher social cost is linked to poor economic assessments. There is no evidence that an increase in the social cost of reform will lead to poorer assessments of the economy. In fact, there is more evidence for the opposite: in Central Europe opinion tends to be better under conditions of higher social cost.

Economic Performance versus Reform Choices

As time has passed since the onset of these reform programs, it has become clear that countries which implemented harsh stabilization programs have out-performed lower-cost reform countries. As a result, it may be difficult to disentangle cross-national differences in social cost with differences in economic performance. However, we can gain more insight on this research question if we can get leverage on the linkage between social cost and public opinion, controlling for economic performance. To do so, I will examine two countries whose economic performance was similar, but which chose different reform paths (which come with differing degrees of social cost). I examine opinion in Hungary and the Czech Republic in 1991. In 1991, both countries faced a decline in GDP: Hungarian GDP declined 12% in 1991 while Czech GDP declined 14%. In addition, both countries faced a peak in inflation that same year. In Hungary, consumer price inflation was 32% and in the Czech Republic consumer price inflation was 52%. Unemployment was higher than it had been in both countries up to that point (about four percent in the Czech Republic and about eight percent in Hungary).[4] (EBRD 1994). They both faced a numbers of "bads" on the performance front: a decline in output, high inflation, and high unemployment.

The Central European cases are also good cases for this test because it is clear that the social cost of reform in Hungary was lower than in the Czech Republic. By 1989

Hungary had implemented a number of institutional reforms and had begun price liberalization and other policies; the Czech economy remained unreformed. Furthermore, Hungary implemented lower-cost economic reform -- the Antall government liberalized prices gradually and, thus, withdrew subsidies over time. The government liberalized foreign trade gradually and, as a result, convertibility of the currency and exposure of Hungarian industry to competition beyond its borders was also gradual. Therefore, with some reform under its belt entering the transition and lower-cost economic reform policies, the social cost of the Hungarian reform program in the 1990s should certainly be less than in higher-cost reform Czech Republic. And with fairly comparable economic performance in 1991, these cases serve as a good test of the link between the social cost of reform and economic assessments. Under the social cost model we would expect assessments to be better under programs with a lower social cost, controlling for economic performance:

> **Hypothesis 4.3: Controlling for economic performance, assessments of the economy under higher social cost are more likely to be bleak than assessments under lower social cost.**

Note the data in Figure 4.1a for Hungary and the Czech Republic in 1991. On each economic assessment variable in 1991, assessments are actually *better* in the Czech Republic than in Hungary. Controlling for economic performance, it is the rapid reform country, whose reform came at a higher social cost, in which assessments are better. There is no evidence here that a higher social cost of reform leads to more negative assessments of the economy. The output in these countries in 1991 was similar: they both reached a peak-to-date in unemployment and inflation. However, as I described in Chapter III, 1991 was the first year of the Czech stabilization program and, as a result, the public faced higher levels of inflation in this period as a result of their stabilization policies. Even under these conditions, we find no support for the social cost model.

In these two cases in which the social cost of reform is clearly different and economic performance is comparable, there is no evidence that higher social cost reform leads to more dismal economic assessments. Politicians seeking to reform the economy in similar contexts can benefit from this information: a politician should not seek to reduce the social cost of reform in order to increase her chances of re-election, or to temper public opinion about the economic situation. The Czechs in 1991 and the Poles in 1990 would have been dissatisfied with 20% inflation and 100% inflation respectively, figures which are less than half of the actual macroeconomic indicators for the Czech Republic and Poland in those years. The Czechs and Poles probably would have been dissatisfied under these conditions of a lower social cost because they were used to little or no inflation prior to the economic transition. Reducing the social cost of the reform program is not an effective strategy in these contexts to temper economic disaffection.

In general, the data presented in this analysis find no support for the social cost model that opinion will be more bleak under higher social cost. However, this analysis has uncovered some important cross-national patterns which I discuss below.

Lessons for Reformers

In this analysis, there is more evidence in these data that opinion is more bleak under conditions of lower social cost, contrary to the social cost model. Consider the evidence in Figures 2.1-2.2 on aggregate public opinion. In Central Europe, opinion has declined more in Hungary, the country with the lower social cost. Indeed, from the perspective of the social cost model, opinion in Hungary is surprising: Hungary entered the transition with some market reforms in place *and* chose a reform program with lower social costs. Certainly the cost of the Hungarian transition was lower than in Poland and in the Czech Republic.[5] As a result, it is in this cluster of cases in which we would expect the proposition to have the best chance of being supported -- Hungarian opinion should be more positive and voters should be more forgiving of their government. Yet as reforms in Central Europe have progressed, opinion about the economy has become more bleak in the Hungarian case. This is evidence for a classic rapid reform argument: rapid reform should be carried out because voters will reap the benefits of reform more quickly. Voters may tolerate pain in the present, but they want to see a quick pay-off. In this period in which all voters must be prospective and hope that the reform program will improve their own economic situation, the speed at which their situation improves may be more important than the initial cost of the reform program at the beginning of the transition. Indeed, the reform program builds support for reform as workers move into private industry, as women spend less time shopping, etc. (Balcerowicz 1995; Gibson and Cielecka 1995).

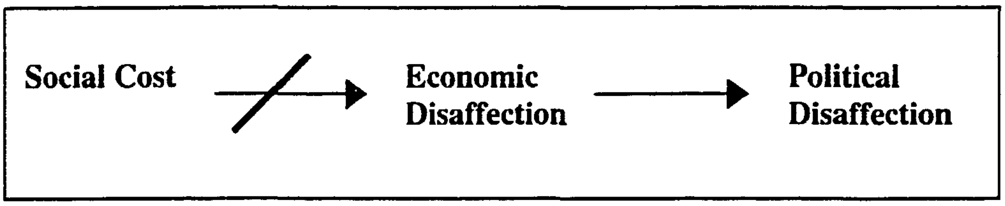
The Balkan cases illustrate another lesson for reformers. The Union of Democratic Forces in Bulgaria implemented harsh stabilization policies in early 1991 as part of a grand coalition government[6] and continued the reforms after the November 1991 elections. However, the government collapsed in November 1992 because the Turkish minority party (Movement for Rights and Freedom (MRF)) defected from the coalition. The Bulgarian Socialist Party and the MRF then formed a government and slowed the reform program down. The Bulgarian case, then, is a case in which higher-cost reform policies were implemented but were not in place long enough to make much progress. In this way, the Bulgarian case is similar to Russian. This is perhaps the worst path to reform: switching reform programs so quickly is a disastrous public relations ploy. Stop-and-go policies which characterize the Bulgarian case (and are certainly not limited to cases of higher-cost reform) are probably the root of Bulgarian views of the economy. Jeffrey Sachs argues that political consensus is critical to reform in post-communist Europe. He argues, "if this consensus is not sustained...the chance of chronic political instability, an absence of sustained economic policies, and vested interests blocking basic market reform ... could be the economic future of Eastern Europe" (1995:8-9).

Bulgaria may be different, then, from most cases in the region because there never has been a clear political consensus for reform. The Union of Democratic Forces (UDF) and the post-communist Bulgarian Socialist Party (BSP) both received just over thirty percent in the 1990 and 1991 elections and, thus, it was not long before reform coalitions collapsed. Ironically, at the time of the collapse of the UDF-MRF coalition in Bulgaria, slowing the reform program probably seemed like the best strategy for the BSP and the period of recovery rather than a time of continued tough economic choices and deteriorating public opinion that seems to follow.

Is Social Cost Important?

The social cost model – that higher social cost brings worse economic assessments – does not hold. What this means is that if the reform government in Poland had selected policies which were less harsh, their fortunes may not have changed at all. To Poles, reform would have been painful regardless of the policies the government had selected. The general population of Poland is not trained in economics and cannot discern differences between their government's policies and possible alternative. The social cost model links social cost to economic assessments, but there is no evidence for this linkage. Thus the first half of the social cost model is broken:

Figure 4.3



As a result, we would not expect differing levels of social cost to be linked to political behavior. Unless stabilization policies change people in some fundamental way and the mechanism that links social cost to political behavior works differently than the social cost model suggests, we have no reason to expect politicians implementing higher-cost policies to be punished any more for those policies than for lower-cost policies.

mechanism that links social cost to political behavior works differently than the social cost model suggests, we have no reason to expect politicians implementing higher-cost policies to be punished any more for those policies than for lower-cost policies.

In a sense, then, the social cost of reform may be less important than much of the literature suggests ‾ pain is pain and is best to part with quickly. However, these findings do not suggest that the economy does not matter: a person does gain knowledge about the economy through experience and makes political decisions with that economic information (Anderson 1999). In fact, this chapter addresses only the link between the objective social cost of reform and economic assessments. People do not have information about the objective cost of reform (in the sense that they cannot make comparisons with alternatives), but they ought to have information about the cost of their own reform program as it progresses. In the United States, people are pleased with five percent unemployment because many have experienced higher levels and know that five percent is not bad. Without this reference point, the link between social cost and political behavior is difficult to make. As a result, in the context of a transitional state we might expect to observe a relationship between economic and political assessments as the transition progresses, a relationship I revisit in Chapter VI.

These results, however, do not suggest that the economy does not matter. Economic assessments are bleak across the region – the average respondent in Central European countries rated the economy as bad and getting worse. A score of a "three" on the scales in Figures 4.1a-c means that respondents think the economy has stayed the same (retrospective) and will stay the same (prospective). A score below a three indicates that the economy has gotten and will get worse. Most nations average in this disgruntled range. And while these assessments do not differ systematically across higher and lower-cost reform cases, economic assessments are important in predicting support for reformers, as I describe in the next chapter. Support for government parties does suffer from economic disaffection, but not in the fashion predicted by the social cost model.

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1. There is a large and growing literature on the success of post-communist parties. Economic conditions have certainly created an environment in which opposition parties promoting lower-cost reform would be popular in the eyes of voters. But a poor economy is no guarantee that post-communist parties (as opposed to some other party advocating lower-cost reform) would be the successful contenders.

2. The economic variable means that I compare in Figures 2.2 are statistically different from one another in almost every case.

3. The questions are: "Compared to 12 months ago, do you think the general economic situation in (our country) has..." (range of responses from "Got a lot worse" to "Got a lot better"). "And over the next 12 months, do you think the general economic situation in (our country) will..." ("Get a lot worse" to "Get a lot better")

4. Unemployment in the Czech Republic would decline after 1991 and it would increase

in Hungary. However, opinion in 1991 certainly was not based on these future indicators.

5. Poland also experienced some reform in the communist era, though not to the extent of the Hungarian reforms. In addition, both Poland and the Czech Republic chose rapid reform programs, thus the social cost of the economic transitions in Poland and the Czech Republic certainly should have been higher than in Hungary.

6. Though the coalition was a grand coalition that included the Bulgarian Socialist Party, the Union of Democratic Forces (UDF) held key economic portfolios and was associated with the reform policies.

Chapter V. Social Cost and Political Disaffection I:

Support for Incumbent Reformers

The notion of "social cost" can be both an aggregate concept (if a national level reform program brings a higher social cost than an alternative program) and an individual level one (if individuals are affected differently by a reform program). The social cost model that I present in Chapter II is primarily an aggregate model which suggests that political costs for a national political system generate from national-level economic reform programs. Under this model, differences in aggregate social cost should translate into differences in aggregate economic assessments. As I describe in Chapter IV, there is no evidence in the aggregate for this assumption. However, the model ultimately implies an individual-level process -- when a person pays a social cost, he comes to view the economy and politics more grimly. Since the aggregate model does not hold based on the evidence in the last chapter, it is unlikely that the model will hold at the individual level. Even so, in this chapter, I examine the linkage between economic assessments and political assessments at the individual level. As the aggregate data suggest, people in general could have a bleak view of the economy. But at the same time, they may have less patience for a government that implemented a harsh economic reform program. If they view the harsh policies as a poor policy decision and blame the current government for the outcome, people may more readily translate economic assessments into incumbent support (or lack thereof) in cases of higher-cost reform than in cases of lower-cost reform. As a result, I analyze the relationship between views of the economy and support for government parties in the five countries in this study.

Economic Voting in Central and Eastern Europe

In all democracies the relationship between economic performance and support for government parties is well documented (MacKuen, Erikson, and Stimson 1992; Lewis-Beck 1988; Kiewiet 1983; Fiorina 1981). This work generally assumes that voters behave as rational actors and use information that is readily available about the economy to cast judgment about the incumbent. Most research, particularly early work, assumes that voters would use retrospective evaluations of the economy (Downs 1957; Key 1966; Kramer 1971; Fiorina 1981). Information about past economic performance is easier to access and, if voters use evaluations of the past, they are holding the government accountable for its actions by punishing them for economic policy outcomes. Prospective evaluations, or projections about future economic performance, are more difficult to make but, in fact, may be more relevant to vote choice. Furthermore, if voters make their decisions based on projections about the future, they are revealing preferences for future policy and, through their vote, may shape future economic policy (Chappell and Keech, 1985). In the context of new democracies, it is critical that voters look to future economic performance. In a new regime, the government is not entirely responsible for the current economic situation. Yet on the margins the government is responsible for economic performance since its reform policies are shaping the current economic context. If voters only look to current performance in an economic context which is in crisis, the government and regime could pay a high price. However, recent research on voters in Central and Eastern Europe finds that voters tend to be prospective and concern themselves with future economic output (Mishler and Rose 1996, 1997; Rose, Mishler, and Haerpfer 1998).

Research is also divided on whether voters judge the government based on their personal economic circumstances (pocketbook) or on the conditions of the country as a whole (sociotropic). Pocketbook voting suggests that as a voter's own situation worsens, he will blame the government (Kinder and Kiewet 1979; Feldman 1982; Lewis-Beck 1988). While the notion of pocketbook voting has appeal, voters do not necessarily blame political leaders if their own circumstances worsen (Hibbing and Alford 1981; Feldman 1982). Voters may assess the economy as a whole to gauge government performance (Lau and Sears 1981; Lewis-Beck 1988), however this task requires more information than judging one's personal circumstances. In Central and Eastern Europe, researchers have found more support for sociotropic voting (Mishler and Rose 1996, 1997; Rose, Mishler, and Haerpfer 1998).

The social cost model does not necessarily imply pocketbook over sociotropic voting. People may judge the social cost of reform that they are paying (pocketbook) as too high and vote accordingly. Or perhaps they will evaluation the overall social cost of reform (sociotropic) as too high and vote accordingly. Likewise, we might observe either retrospective or prospective voting under the social cost model. Perhaps voters will use information about the social cost of reform from the last year (retrospective) to assess whether the cost is too high. Voters may use information about their current situation to look toward the future and determine whether the future cost of reform (prospective) will be too high. In any case, if the social cost model holds, we should observe a stronger relationship between the economic assessment and incumbent support under conditions of higher social cost. Under the social cost model we would expect to observe:

> **Hypothesis 5.1: Compared to lower-cost-reform cases, government parties which implemented higher-cost reform policies are more likely to be punished by voters based on their assessments of the economy.**

As views of the economy (past or future, personal or national) deteriorate, voters should punish incumbents. However, as economic assessments decline, voters should punish governments even more under conditions of higher-cost reform. In this chapter I test this relationship. I turn to a traditional economic voting analysis, but consider political behavior in the larger economic context of Poland, the Czech Republic, Hungary, Bulgaria, and Romania.

Observing Economic Voting Crossnationally

Observing voting behavior across five different countries is not straight-forward. How quickly incumbents will pay for their reform choices will depend on the election cycle in the country. To stay in power, unpopular governments simply need to maintain the support of the majority in the lower house of the legislature. They will be ousted only if their coalition collapses or if they have completed their term of office and elections must be called. To test the hypothesis by examining aggregate voting data from recent elections would be misleading -- an unpopular government could remain in power at a given time only because they have not had to face the angry electorate in the recent past.

However, a better option is to examine public opinion and to compare government support in two countries until the incumbent is voted out (if the initial elections are at approximately the same time). Since the revolutions in Central and Eastern Europe took place at approximately the same time and elections were held shortly thereafter (or shortly before in the Polish case), we are fortunate that all of these countries elected new government in the same general time period. As a result, I use public opinion data to examine the relationship between views of the economic reform program and support for the governing coalition, data collected yearly for the Central and Eastern Eurobarometer.

I include two general discussions in the analyses to follow. First, I examine support for the initial reformers in 1991 and 1992. By 1994, when the Central and Eastern Eurobarometer includes a vote intention question for all of these countries again,[1] these reformers had been replaced in Poland (1993), Hungary (1994), and Bulgaria (late 1992). This analysis serves as the most direct test of the social cost model since it estimates the relationship between economic assessments and support for the initial reformer. Second, I examine support for incumbents over the 1991-1995 period, the full period for which relevant data is available as of this writing.[2]

Controlling for the usual demographic variables, I compare the relationship between the views of the economy and support for the reform government in a lower-cost reform case to that in a higher-cost reform case. If higher-cost reform incumbents pay a higher price for their economic reform programs, the relationship between views of the economy and support for the incumbent should be stronger (i.e., more positive) in the higher-cost than in the lower-cost reform case. Each year the relationship between views of the economy and government support should become stronger in both lower-cost and higher-cost cases. However, until the lower-cost or higher-cost reform incumbent is voted out, the relationship between views of the economy and incumbent support should be more positive in the higher-cost case in order for the social cost hypothesis to hold. Examining the relationship between economic assessments and incumbent support through 1995 will also provide evidence of any medium-term consequences of these reform choices.

Economic Evaluations and Support for the Initial Reform Incumbent

To examine how economic assessments are related to incumbent support, I use a logit model to predict the vote for the incumbent using economic voting variables. I group government parties together as a government bloc and include all other respondents as the base category. In addition to the economic variables, I include a market support variable, respondents' satisfaction with the development of democracy, and their demographic characteristics.[3]

In Table 5.1a-c below I present the results of the logit model for each cluster of countries in 1991 and 1992. In the ten models in Table 5.1, no micro-level variable is consistently significant; they all suffer from collinearity problems.[4] Even so, they give use important information to test the social cost argument. To ease in the comparison of these models, I tested whether the economic voting variables in the higher-cost cases are statistically different from those in the lower-cost cases. If the point estimates are statistically distinct ($p \leq .05$), I include a check mark in the final column of the table. While the estimates presented in the table are generated by treating the samples separately, the difference tests were made possible combining the data.[5]

In Table 5.1a below, I present the results from the Czech Republic and Hungary. Note that of the four economic voting variables presented in both 1991 and 1992 in the tale below, in only one instance are the point estimates statistically different across these countries. In 1991, the prospective sociotropic variable is positively related to incumbent support in Hungary and is not statistically different from zero in the Czech case. Hungarians relate their expectations of the national economy to their support for the government. In the Czech Republic in 1991, past views of the country's economy is an important predictor of incumbent support. By 1992, expectations of the national economy are important predictors of incumbent support in both countries. To provide evidence for the social cost model, we need to observe stronger relationships between economic voting variables and support for incumbent reformers under conditions of higher social cost. In both countries there is evidence of economic voting. However, we have some evidence that this relationship is stronger in the lower cost case (based on the prospective sociotropic indicator in 1991). In this analysis of the initial reformers, there is no evidence in the two countries for the social cost model.

Table 5.1a: Modeling the Vote for the Incumbent Party Czech Republic and Hungary

	Czech Republic Higher Cost	Hungary Lower Cost	Statistical Difference
1991			
Economic Variables			
Retrospective Sociotropic	0.28 (.10)***	0.05 (.11)	
Prospective Sociotropic	0.04 (.12)	0.51 (.12)***	✓
Retrospective Pocketbook	-0.05 (.10)	-0.25 (.13)*	
Prospective Pocketbook	0.01 (.12)	-0.01 (.12)	
Controls			
Market reform "right"	0.59 (.28)*	0.29 (.31)	
Satisfaction w/ democracy	0.72 (.16)***	0.34 (.14)*	
Urban dweller	0.01 (.06)	-0.04 (.05)	
Age (in years)	0.01 (.01)	0.01 (.01)*	
Female	-0.18 (.19)	-0.10 (.20)	
Education	0.11 (.11)	-0.15 (.10)	
Intercept	-3.81 (.63)***	-3.29 (.64)***	
N	542	616	
log likelihood	-325.87	-319.12	
1992			
Economic Variables			
Retrospective Sociotropic	0.20 (.09)**	0.24 (.15)	
Prospective Sociotropic	0.29 (.09)***	0.33 (.15)*	
Retrospective Pocketbook	0.03 (.09)	-0.26 (.16)	
Prospective Pocketbook	0.21 (.10)*	0.37 (.15)**	
Controls			
Market reform "right"	0.71 (.19)***	-0.48 (.31)	
Satisfaction w/ democracy	0.51 (.14)***	0.72 (.18)***	
Urban dweller	0.05 (.04)	0.12 (.05)*	
Age (in years)	0.01 (.01)	0.04 (.01)***	
Female	0.27 (.17)	0.33 (.26)	
Education	0.17 (.08)	0.12 (.12)	
Intercept	-4.81 (.54)***	-6.74 (.74)	
N	755	637	
log likelihood	-438.32	-205.98	

* p < .05; ** p < .025; *** p < .01
Entries are logit coefficients with standard errors in parentheses. Statistical differences displayed for economic voting variables only. See endnote 5 in this chapter for discussion.

In Table 5.1b below, I present the results from the Polish and Hungarian voting models. Of the four economic voting variables from 1991 presented in Table 5.1b, the estimates from each country are different in one instance: For Poles, past views of their own financial situation (retrospective pocketbook) is an important predictor of their support for the government parties. In Hungary, the voters' past financial situation is *negatively* related to incumbent support – a statistically significant difference from the Polish indicator. Poor performance in the past leads Hungarians to support the government and its reform efforts, perhaps as they anticipate future improvements (as the prospective sociotropic measure in Hungary indicates). On the other hand, Poles hurt by the shock therapy style reform have begun to punish their incumbent reformers by late 1991 when this survey was administered. This provides some evidence for the social cost model, however, the 1992 data provide no confirming evidence.

In the 1992 data, the Polish and Hungarian models differ in the relationship between incumbent support and the citizens' expectations of personal financial gain in the future. In Hungary, government supporters are those who believe that their personal financial situation will improve in the next twelve months. In Poland, there is no relationship between these variables. Further, Hungarians relate their views of the future economic situation in the country (prospective sociotropic) to government support while in the Polish case this relationship is not significant. In general, we observe no systematic evidence to support the social cost model – we have not observed stronger relationships between economic voting variables and support for incumbent reformers under conditions of higher social cost in these Central European cases.

Table 5.1b: Modeling the Vote for the Incumbent Party
Poland and Hungary

	Poland Higher Cost	Hungary Lower Cost	Statistical Difference
<u>**1991**</u>			
Economic Variables			
Retrospective Sociotropic	-0.07 (.12)	0.05 (.11)	
Prospective Sociotropic	0.33 (.15)*	0.51 (.12)***	
Retrospective Pocketbook	0.31 (.13)**	-0.25 (.13)*	✓
Prospective Pocketbook	-0.04 (.15)	-0.01 (.12)	
Controls			
Market reform "right"	0.42 (.36)	0.29 (.31)	
Satisfaction w/ democracy	0.51 (.18)***	0.34 (.14)*	
Urban dweller	0.12 (.08)	-0.04 (.05)	
Age (in years)	0.03 (.01)***	0.01 (.01)*	
Female	-0.34 (.25)	-0.10 (.20)	
Education	0.39 (.14)***	-0.15 (.10)	
Intercept	-6.52 (.79)***	-3.29 (.64)***	
N	458	616	
-2 log likelihood	-214.44	-319.12	
<u>**1992**</u>			
Economic Variables			
Retrospective Sociotropic	0.20 (.11)	0.24 (.15)	
Prospective Sociotropic	0.24 (.13)	0.33 (.15)*	
Retrospective Pocketbook	0.10 (.11)	-0.26 (.16)	
Prospective Pocketbook	-0.01 (.13)	0.37 (.15)**	✓
Controls			
Market reform "right"	0.59 (.27)*	-0.48 (.31)	
Satisfaction w/ democracy	0.32 (.15)*	0.72 (.18)***	
Urban dweller	0.14 (.05)***	0.12 (.05)*	
Age (in years)	0.02 (.01)***	0.04 (.01)***	
Female	0.20 (.20)	0.33 (.26)	
Education	0.31 (.11)***	0.12 (.12)	
Intercept	-4.73 (.64)***	-6.74 (.74)	
N	595	637	
log likelihood	-305.00	-205.98	

* p < .05; ** p < .025; *** p < .01
Entries are logit coefficients with standard errors in parentheses. Statistical differences displayed for economic voting variables only. See endnote 5 in this chapter for discussion.

With no evidence from Central Europe for the social cost model, I turn to an examination of government support in the Balkans. I present the results from the models in Table 5.1c below. In 1991, Bulgarian and Romanian voters differ in how they relate their views of their future financial situation (prospective pocketbook) to incumbent support. Romanians make this link, while there is no evidence that Bulgarian voters do so. Bulgarian voters do relate the future situation in the country to government support (though it does not differ statistically from the Romanian point estimate). As a result, these 1991 data provide us with little, if no support for the social cost model.

By 1992, Bulgarian voters more strongly relate economic views to incumbent support. Bulgarian voters are much more likely to relate their past financial situation (retrospective pocketbook) to government support than are Romanian. In addition, their views of the country's past and future economic situation are also positively related to support for the incumbent Union of Democratic Forces (though these estimates do not differ statistically from the Romanian). Romanian views of their future financial situation, however, are more likely to be positively related to incumbent support than are the Bulgarian. These data provide mixed, if any, support for the social cost model: in two instances the economic voting variables differ across these countries, in one instance the difference supports the model (retrospective pocketbook is strongly related in the Bulgarian case), in one instance it does not support the social cost model (prospective pocketbook is more strongly related in the Romanian case.

Table 5.1c: Modeling the Vote for the Incumbent Party
Bulgaria and Romania

	Bulgaria Higher Cost	Romania Lower Cost	Statistical Difference
1991			
Economic Variables			
Retrospective Sociotropic	0.06 (.09)	0.20 (.12)	
Prospective Sociotropic	0.38 (.11)**	0.10 (.14)	
Retrospective Pocketbook	-0.02 (.10)	0.14 (.11)	
Prospective Pocketbook	0.01 (.11)	0.35 (.13)***	✓
Controls			
Market reform "right"	1.05 (.29)***	-0.44 (.21)*	
Satisfaction w/ democracy	0.29 (.12)***	1.02 (.17)***	
Urban dweller	0.11 (.05)*	-0.04 (.05)	
Age (in years)	-0.01 (.01)	0.01 (.01)	
Female	0.02 (.18)	0.22 (.20)	
Education	0.14 (.10)	0.24 (.11)	
Intercept	-3.82 (.62)***	-5.71 (.82)***	
N	609	502	
log likelihood	-373.43	-295.62	
1992			
Economic Variables			
Retrospective Sociotropic	0.30 (.09)***	0.15 (.09)	
Prospective Sociotropic	0.41 (.10)***	0.20 (.09)*	
Retrospective Pocketbook	0.24 (.09)**	-0.01 (.09)	✓
Prospective Pocketbook	-0.13 (.10)	0.18 (.10)	✓
Controls			
Market reform "right"	0.45 (.23)	-0.31 (.21)	
Satisfaction w/ democracy	0.40 (.12)***	0.27 (.12)*	
Urban dweller	-0.01 (.04)	-0.04 (.04)	
Age (in years)	0.01 (.01)	0.02 (.01)***	
Female	0.15 (.17)	0.17 (.18)	
Education	-0.23 (.09)**	-0.33 (.09)***	
Intercept	-3.82 (.53)***	-3.14 (.56)***	
N	790	723	
log likelihood	-437.98	-374.41	

* $p < .05$; ** $p < .025$; *** $p < .01$
Entries are logit coefficients with standard errors in parentheses. Statistical differences displayed for economic voting variables only. See endnote 5 in this chapter for discussion.

We have little evidence in these data supporting the social cost model. The initial market reformers were not punished more for their policies if they implemented harsher, higher-cost economic reform programs. However, it is possible that we might observe some differences over time, beyond the lifespan of those initial reformers. As a result, I examine Eurobarometer data from 1991 through 1995 in the next section.

Economic Voting from 1991 to 1995

In the short-term, higher-cost reform incumbents do not pay more for their policies. But as time passes, higher-cost policies could have ultimately have detrimental effects on political behavior. In Table 5.2a below, I present the results for the Czech and Hungarian models from 1991 to 1995. For the ease of comparison, I list only the economic voting variables. Unfortunately, the survey does not include the sociotropic measures in the later years and, as a result, I present only the pocketbook variables. Furthermore, the survey only asked the vote intention question in Hungary in 1993 and, consequently, 1993 is not included in the table.

The 1991 and 1992 results, as presented above, provide no evidence for the social cost model. However, as we move to 1994 and 1995 and the Hungarian reformers were replaced by a coalition led by the Hungarian Socialist Party. Though the new government in Hungary had only been in office above four months before this survey was given in September of 1994, supporters of the Hungarian Socialist Party and its partner, the Alliance of Free Democrats, tended to view their past financial situation in good terms, as did Czech government supporters. Supporters of the Czech government, however, were more likely to believe that their personal economic situation would improve. In 1995, Czech government supporters had positive views of their past and future economic situations, as did the Hungarian government supporters (though in the Hungarian case, the coefficients do not reach statistical significance). Again, we find no evidence in support of the social cost model. In fact, it is the lower-cost reformer who is actually removed from office in this pair, not the higher-cost reformer.

Table 5.2a: Incumbent Support 1991-1996
Czech Republic and Hungary

	Czech Republic Higher Cost	Hungary Lower Cost	Statistical Difference
1991			
Retrospective Sociotropic	0.28 (.10)***	0.05 (.11)	
Prospective Sociotropic	0.04 (.12)	0.51 (.12)***	✓
Retrospective Pocketbook	-0.05 (.10)	-0.25 (.13)*	
Prospective Pocketbook	0.01 (.12)	-0.01 (.12)	
1992			
Retrospective Sociotropic	0.20 (.09)**	0.24 (.15)	
Prospective Sociotropic	0.29 (.09)***	0.33 (.15)*	
Retrospective Pocketbook	0.03 (.09)	-0.26 (.16)	
Prospective Pocketbook	0.21 (.10)*	0.37 (.15)**	
		Gov't Change *(Lib to Social Dem)*	
1994			
Retrospective Pocketbook	0.22 (.09)**	0.19 (.09)*	
Prospective Pocketbook	0.39 (.11)***	0.11 (.09)	✓
1995			
Retrospective Pocketbook	0.24 (.10)***	0.23 (.12)	
Prospective Pocketbook	0.22 (.10)*	0.20 (.11)	

* p < .05; ** p < .025; *** p < .01
Entries are logit coefficients with standard errors in parentheses. Statistical differences displayed for economic voting variables only. See endnote 5 in this chapter for discussion.

Table 5.2b: Incumbent Support 1991-1996
Poland and Hungary

	Poland Higher Cost	Hungary Lower Cost	Statistical Difference
1991			
Retrospective Sociotropic	-0.07 (.12)	0.05 (.11)	
Prospective Sociotropic	0.33 (.15)*	0.51 (.12)***	
Retrospective Pocketbook	0.31 (.13)**	-0.25 (.13)*	✓
Prospective Pocketbook	-0.04 (.15)	-0.01 (.12)	
1992			
Retrospective Sociotropic	0.20 (.11)	0.24 (.15)	
Prospective Sociotropic	0.24 (.13)	0.33 (.15)*	
Retrospective Pocketbook	0.10 (.11)	-0.26 (.16)	
Prospective Pocketbook	-0.01 (.13)	0.37 (.15)**	
	Gov't Change ***(Lib to Social Dem)***	**Gov't Change** ***(Lib to Social Dem)***	
1994			
Retrospective Pocketbook	-0.02 (.12)	0.19 (.09)*	
Prospective Pocketbook	0.25 (.12)*	0.11 (.09)	
1995			
Retrospective Pocketbook	0.15 (.09)	0.23 (.12)	
Prospective Pocketbook	0.25 (.11)**	0.20 (.11)	

* $p < .05$; ** $p < .025$; *** $p < .01$
Entries are logit coefficients with standard errors in parentheses. Statistical differences displayed for economic voting variables only. See endnote 5 in this chapter for discussion.

In Table 5.2b above, I present the results of the logit models from Poland and Hungary. In this pair, both governments are replaced by coalitions led by social democratic parties, the Hungarian Socialist Party in Hungary and the Democratic Left Alliance in Poland. In neither 1994 nor 1995 do the pocketbook variables relate differently to incumbent support in Poland than in Hungary and, as a result, provide no evidence for the social cost model. Voters generally tend to be prospective in both of these countries.

The results from the Balkans presented in Table 5.2c below tell a similar story. The economic voting coefficients do not differ from one another across these countries. However, in the Romanian case, we have more evidence that respondents' views of their past financial situation are related to incumbent support – in both years the coefficients are statistically different from zero. This provides evidence that is contrary to the social cost model.

Table 5.2b: Incumbent Support 1991-1996
Bulgaria and Romania

	Bulgaria Higher Cost	Romania Lower Cost	Statistical Difference
1991			
Retrospective Sociotropic	0.06 (.09)	0.20 (.12)	
Prospective Sociotropic	0.38 (.11)**	0.10 (.14)	
Retrospective Pocketbook	-0.02 (.10)	0.14 (.11)	
Prospective Pocketbook	0.01 (.11)	0.35 (.13)***	✓
1992			
Retrospective Sociotropic	0.30 (.09)***	0.15 (.09)	
Prospective Sociotropic	0.41 (.10)***	0.20 (.09)*	
Retrospective Pocketbook	0.24 (.09)**	-0.01 (.09)	✓
Prospective Pocketbook	-0.13 (.10)	0.18 (.10)	✓
1994	**Gov't Change** ***(Lib to Social Dem)***		
Retrospective Pocketbook	0.02 (.10)	0.19 (.08)**	
Prospective Pocketbook	-0.08 (.08)	-0.05 (.08)	
1995			
Retrospective Pocketbook	-0.03 (.09)	0.20 (.08)**	
Prospective Pocketbook	0.21 (.10)*	0.11 (.08)	

* p < .05; ** p < .025; *** p < .01
Entries are logit coefficients with standard errors in parentheses. Statistical differences displayed for economic voting variables only. See endnote 5 in this chapter for discussion.

In general, the data presented in this analysis find no support for the social cost hypothesis that opinion will be more bleak in higher-cost cases and that views of the economy will translate more so into support for higher-cost reformers than for lower-cost reformers. However, this analysis has uncovered some important cross-national patterns: voters across the region are concerned with their country's future economic situation and their support for their government continues to decline over the course of the reform program. I discuss both of these patterns below.

The Future Economy Matters

It is not a surprise that economic assessments have such an impact on incumbent support in transitional countries. In line with current research in the region (Mishler and Rose 1996, 1997; Rose, Mishler, and Haerpfer 1998), voters tend to relate their support for the incumbent to their assessments of the economic prospects for the country as a whole (prospective sociotropic). In Central Europe in 1991, both Polish and Hungarian voters relate their support of the incumbent parties to their country's economic prospects. In 1992, the Czechs and Hungarians also made this link. By 1994 and 1995, the retrospective pocketbook indicator became more important in the Czech case, but prospective indicators continue to be important predictors in the Czech Republic and Poland. Likewise, in the Balkans, Bulgarians relate their country's prospects to incumbent support in both 1991 and 1992. In Romania, expected household budgets are a significant predictor of support in 1991; in 1992 the country's economic situation is key. By 1994 and 1995, Romanians tend to relate their past economic situation to government support.

That voters tend to be prospective is a problem for the social cost model. One counter-argument to the social cost model, as I described in Chapter II, is that if voters look to future benefits rather than focus solely on current costs, we will not observe current social costs translating directly into current political costs. The data support this claim. The data are also consistent with the "locus of control" counter-argument to the social cost model: voters will not blame the current government for economic woes if they do not believe that the current government caused the problem. While both of these arguments suggest that voters will wait before exercising judgment, neither address how these voters may exercise judgment once they have reached their tolerance level and are ready to punish reformers. Nor do these theories suggest *when* voters will do so. How quickly a government will lose support and how long it has to reform the economy before being replaced are important for strategic politicians seeking to reform the economy.

Government Life-Span

It is no surprise that the economy matters in Central and Eastern Europe. Voters are willing to wait for economic gains, but it is not the case that they are more anxious in higher-cost reform countries than under conditions of lower cost. However, while government supporters are willing to wait for economic improvement, voters as a group are not willing to give incumbents much time to produce results. Enough people defect from the governing coalition to lead to a turn-over of every reform government in the region by 1997. In three of five cases, we observed a major government change between 1990 and 1995. And even though Romanians did not face a major change until 1996, the government coalition faced internal changes in the early years of the transition.

Governments became increasingly unpopular regardless of their economic policies and that unpopularity is due in a large part to the economy.

But the critical question is, how long does the public grant the government room to reform? Does the government have any room to reform? Researchers have argued that reformers benefit from a "honeymoon" or a period of "extraordinary politics," periods in which the government is granted time to reform the economy. Governments begin their tenure with unusually high levels of support, garnered from the successful revolution. This support declines as voters come to associate policy failures with the current government rather than with the past regime.

Proponents of higher-cost reform strategies such as Leszek Balcerowicz, architect of the Polish shock therapy program, argue that politicians ought to implement higher-cost reform policies, otherwise they are wasting this period in history (what he calls a time of "extraordinary politics") on piecemeal reform policies. If they do not implement a higher-cost, thorough reform program, they are not being strategic reformers. Indeed, they may ultimately have less reform progress to show voters who are just as angry over a lower-cost reform program. If the reformer gets ousted anyway, perhaps the reformer would have carried out enough of the reform program to make the cost of reversing the policies very high. Balcerowicz's argument was developed in the context of a regime transition and, as a result, he is explicit about the implications of his argument for the politician's choice of economic reform programs. If politicians do enjoy a period of extraordinary politics and we can observe its length, that could give us some insight into how long a reform government can count on staying in office.

The data in this chapter do not contradict Balcerowicz or others who suggest that new regimes have some sort of a "honeymoon," however we do not have enough data to observe any trends in support. We could look at data from more current years in Central Europe, but considering how quickly reformers got ousted, it is not likely that these governments enjoy periods of "extraordinary politics" which last for *years*. A weakness of the Central and Eastern Eurobarometer data is that it is only collected yearly and does not allow for an examination of a dynamic argument about political support. To examine an argument like Balcerowicz's, we need data collected more often than annually so that we could model the dynamic of political support over the course of a transition. In the next chapter, I turn to a country study of Poland, the case most widely known for its harsh stabilization policies. I examine the dynamics of support for the government and views of politics and find evidence for Balcerowicz's "extraordinary politics."

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1. The 1993 data includes a vote intention question solely for Hungary.

2. In 1996, there appears to be some problem with the vote intention variable – the survey data in some cases has no face validity. In 1997 the economic voting questions were not asked.

3. The 1991 and 1992 surveys also ask respondents for their left-right self-placement and how often they discuss politics. In many cases, these variables are related to incumbent support but because they are not included in later surveys, I exclude them from these analyses.

4. The correlation among the retrospective and prospective variables tends to be at least .4; retrospective and prospective variables tend to correlate with the market support variable at about .25. Thus, simply examining the significance level of these variables would be misleading.

5. To test the differences in effect, I used a series of interaction terms in which I multiplied country dummies by economic voting variables.

Chapter VI. Social Cost and Political Disaffection II:

Dynamic Political and Economic Assessments

Reform governments do pay for their reform policies – economic reform worsens economic conditions in the short-run, economic assessments decline, and the incumbent reformer is blamed for the economic performance. Economic reform does bring the political cost of decreased government support, but it appears that all reformers pay that cost. Politicians do not pay a higher political cost if they implement policies with a higher social cost. The fate of all reformers in the short-run is to take a seat among the opposition. In fact, only in the Czech Republic was the government able to hold on to support for more than four years.

However, changes in government coalitions are natural and, indeed, necessary in democratic systems. Changes in governments provide accountability in public policy to voters. It is only if these changes happen *too often* that we become concerned about the democratic system. Furthermore, in cases such as Italy, well-known for extreme multipartism and frequent changes in government, is associated with less government accountability (Powell 1989; Shugart and Carey 1992). If frequent change is associated with a particular type of economic reform, then we should be concerned about a politician's choice. However, it is unlikely that there is such a link -- in Chapters IV and V I show that higher levels of disaffection are not associated with cross-national differences in social cost.

Moreover, new political institutions may be shielded from this instability, at least for a time. Some researchers have argued that support for the regime and for its new institutions is bolstered by the fact that they are *new*. Regimes have an unprecedented amount of support to reform the economy and the political system, support which guards against the dismantling of the regime in the short run, even under grim economic conditions.

Researchers have speculated about a period at the beginning of the transition in which support for the regime is unprecedented (Toka 1994), in which political preferences have not formed (Balcerowicz 1995), or in which people are waiting to see what the new regime will produce (Rose and Mishler 1994). The data in the previous chapter show that government support declined in the 1991-1992 period in all five countries, but it could not give us a glimpse into the early stages of the transition in 1989 and 1990 when governments may have benefited from such a period of widespread support. We know that if governments did benefit from such a period, they probably did not benefit differentially based on the social cost of their reform programs. After all, by

1991 we do not observe systematic differences between these cases in support for governments, nor in how economic assessments translate into political assessments.

If governments benefit from a "honeymoon" or period of "extraordinary politics," this has important implications for strategic politicians and for the social cost model. First, if such a period exists, it indicates that people will not immediately punish incumbent reformers as the social cost model suggests. Second, if politicians cannot increase the length of this period through their choice of reform programs, then a honeymoon suggests that a politician should implement far-reaching policy changes in order to accomplish as much as possible in this period of time. However, the only way we can verify the existence of such a period is through dynamic data collected over the course of the transition. In this chapter, I examine a monthly time series in Poland and find evidence for this unique period in history.

Dynamic Assessments and "Extraordinary Politics"

The idea of a honeymoon period or a period of extraordinary politics is important in all regime transitions, but it has special significance in the Polish case because Polish reformers used the concept as an argument for their harsh economic reform program. The Polish finance minister under the first non-communist government, Leszek Balcerowicz, argued that regime transitions are defined by a period of "extraordinary politics" in which preferences about new economic policies have not formed and in which support for reform is high. It is a unique period in history in which politicians ought to seek as much policy change as possible. Balcerowicz assumes that after liberation from external powers or internal liberalization, there is a "special state of mass psychology" which creates more political capital — a higher level of support for reform. This period will end gradually and, he argues, is "probably a non-renewable resource granted by history" (1996: 265). If reformers do not reform at all or do not reform quickly during this period, they are not taking advantage of the period of extraordinary politics.

Balcerowicz is not explicit about the mechanism that drives extraordinary politics. However, he does argue that extraordinary politics is a period in which preferences have not formed. And, conversely, that as preferences form, the period of extraordinary politics gives way to normal politics. For instance, in the initial stages of the transition preferences about economic reform programs have not formed. If people agree generally on the need for economic reform but do not know what their place in the new economic environment will be, there will be high levels of uncertainty about economic reform. People may be uncertain about their own place in the new economy (whether they will join unemployment rosters) as well as the reform program's effect on the economic context that surrounds them. That is, an unemployed person may still have some uncertainty about the reform program (if the larger context of economic changes appears positive), as will someone in a fairly stable job (if the economic context that surrounds her appears negative). Without information on the reform's effect on your own job stability and the larger context that surrounds you, it will be difficult to form preferences about the economic reform program under these conditions of uncertainty.

This uncertainty does not mean lack of support for reform, however. To the contrary, the uncertainty reduces the ability of the public to evaluate the specifics of the reform package and make an assessment of that package compared to some alternative. If they support reform in general, this uncertainty will make it difficult to compare the government's proposed plan to some alternative reform program. The public may even be less likely to punish the government for its policy choices under such conditions of uncertainty. Balcerowicz's work, then, does have important political implications – the government may be able to avoid punishment to some degree in this period when support for reform is widespread and preferences about specifics of the reform package have not formed.

The notion of extraordinary politics stands in contrast to the logic behind the social cost model. If a period of extraordinary politics exists, it suggests that social costs do not translate directly into political costs. If politicians implement harsh economic reform policies at the beginning of the transition and if the social cost of reform is high and, at the same time, there is widespread support for the reform program and for the government, then social costs do not translate into political costs. The Polish reform program was harsh and immediate and, in the pages that follow, I show that under conditions of high social costs, support for the government remained high and views of politics were positive.

Modeling "Extraordinary Politics" in Poland

Poland is a fitting case for this research question. Reform in Poland was harsh and immediate. Because of the harshness of the reform program, we would expect that euphoria about the transition would have declined precipitously in the early stages of the reform. In Poland, economic reform was launched nearly simultaneously with the installation of the Mazowiecki government. Under these circumstances, if we observe what looks like a period of extraordinary politics (i.e., high levels of support for the government), it is unlikely that we are observing excitement alone.

In addition, the information environment was probably as rich as in other countries. If information helps preferences form and information is limited, we might expect to observe a long period of extraordinary politics. In Poland, we have every reason to believe that information was as abundant as in other countries since a key source of information is elections. It is the job of opposition parties in elections to publicize negative information about the government, and it is the government's job to respond. Poland had national elections in 1989, 1990, 1991, 1993, 1995, and 1997. If elections bring information to the public, and if information helps preferences form and, thereby, brings extraordinary politics to an end, we would not expect Poland to have a period of extraordinary politics longer than those of other countries in the region. Thus, if we observe a period of extraordinary politics in Poland, we can be more confident that politicians in other contexts will also benefit from a period of extraordinary politics at the beginning of the transition.

Finally, Poland provides a rich source of public opinion data that can complement cross-national surveys such as the Central and Eastern Eurobarometer. A monthly data series is available from the Polish Government's Center for Public Opinion Research (*Centrum Badanie Opinii Spolecznej* — CBOS). The data series starts before the inauguration of the first non-communist government in Poland and continues through the summer of 1995.[1] In about half of their monthly surveys, CBOS researchers have asked respondents to rate the performance of political institutions such as the president, the government, and the Sejm and Senate, and to assess the political and economic situation more generally.

If Balcerowicz is correct, that politicians benefit from a period of extraordinary politics, we might expect to observe high ratings for the government in this initial period of liberalization (as we observe in U.S. presidential honeymoons, see Mueller 1970, Stimson 1976, Norpoth 1984). We would observe:

> **Hypothesis 6.1: Politicians in a period of liberalization will get a high positive rating in the polls (even in light of grim economic conditions) which will gradually decrease over time.**

However, in the cases of political and economic liberalization, we can also expect a dynamic between popular economic and political assessments. If politicians benefit from high positive ratings at the same time as inflation is soaring and consumption is dropping, we should not see a relationship between assessments of the economy and assessments of politics. Economic conditions are harsh, but assessments of politics should not be grim. Even at the height of a "shock-therapy" style program, economic assessments should not predict political assessments:

> **Hypothesis 6.2: At the beginning of the transition, views of the current economic situation will not predict views of politics; this non-relationship will decrease over time.**

The second hypothesis is a critical one because we can use it to verify the existence of such a rare event as extraordinary politics. In long-standing democracies, we can observe a government honeymoon over and over again. A period of extraordinary politics is unique in that it only happens as a result of a rare event — a regime change. Furthermore, if we do not have in-depth cross-national survey data similar to the CBOS data from Poland to verify that all states benefit from unusually high levels of support, then we cannot be confident that new regimes should expect this advantage. But if we can observe further evidence that high ratings in Poland are due to extraordinary politics and not to some other intervening factor, then we can be more confident that politicians leading a regime change may be shielded from the economic fall-out brought by economic reform, at least for a time. Thus the second hypothesis, which follows from the logic of Balcerowicz's argument, provides us with a test to gather that additional evidence.

Economic Context of Polish Opinion

It is the economic context of Polish public opinion which makes this study all the more interesting. I argue that in the face of stark economic times, assessments of the government are high and views of the economy do not affect views of politics. In the Polish transition Poles faced triple-digit inflation and double-digit unemployment. In Figure 6.1 below I have plotted monthly increases in prices of consumer goods and services. Each observation represents the increase in prices over the previous month. Throughout 1989 prices of consumer goods and services increased about 10% each month. In August 1989, prices began to increase over 30% each month and the increase reached a peak in January 1990 (the first month of the shock therapy program) of nearly

80%. In 1990, inflation was nearly *600%.* News on the employment front was as bleak as on the price front: note from Figure 6.2 that unemployment increased from .03 % in January 1990 to a peak of 16.9 % in July of 1994. In the first year of the transition, unemployment increased from .03 % in January 1990 to 6.6 % in January 1991 — *a 2,200 % increase in only one year.* By the beginning of 1992, unemployment had increased 4,033 % (12.1 % unemployed) from its base of .03% in January of 1990. Unemployment would continue to rise from 1992 through 1994 and Poles may have looked back on the unemployment rate of nine percent in the summer of 1991 with nostalgia. However, at the time the increase of about 3,000 percent in the unemployment rate must have been a shock.

Rising unemployment combined with high inflation should have been the recipe for a public opinion disaster. But I show that, in fact, approval of the president and government was quite high under harsh economic circumstances. In addition, I present evidence that under such conditions popular assessments of the economy only weakly affect assessments of the political situation.

Figure 6.1: Prices of Consumer Goods & Services
(percentage increase from previous month)

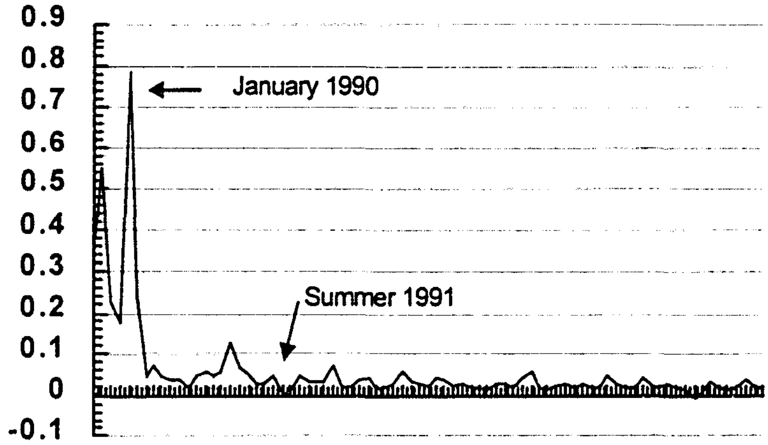
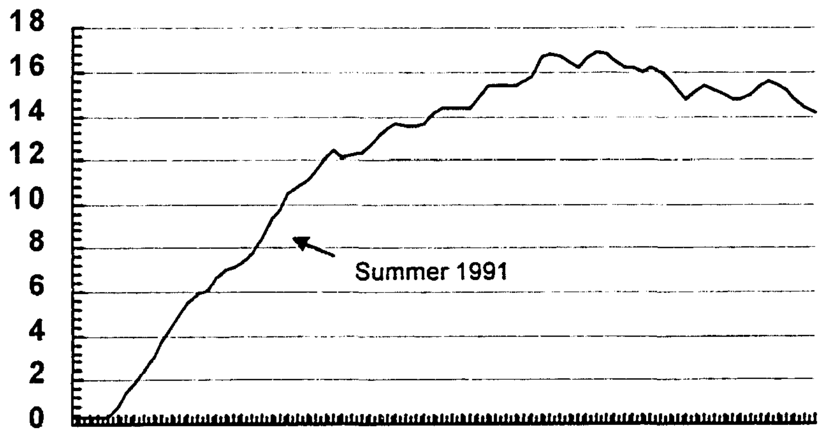


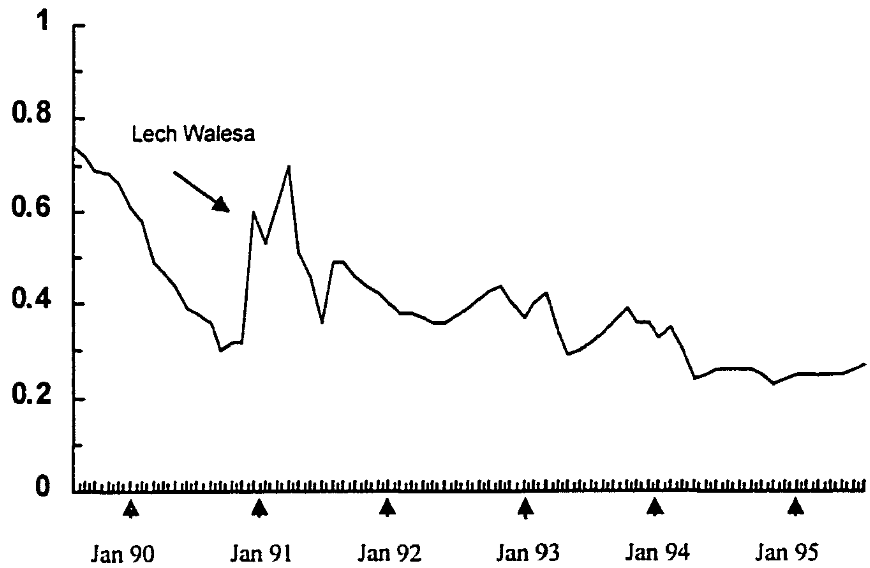
Figure 6.2: Percent Unemployed
September 1989- March 1996



Approval of Polish Political Institutions

On the Polish national political scene, there are two important institutions — the president and the government. Poland has a mixed presidential-parliamentary system in which the president and parliament are elected independently, in non-simultaneous elections. The president selects the prime minister and the prime minister tries to form a government. I examine support for each of these institutions in this project. Under Hypothesis 6.1 I expect to observe high levels of approval for these bodies at the beginning of the transition which taper off over time.

Figure 6.3: Presidential Approval-- September 1989 - July 1995

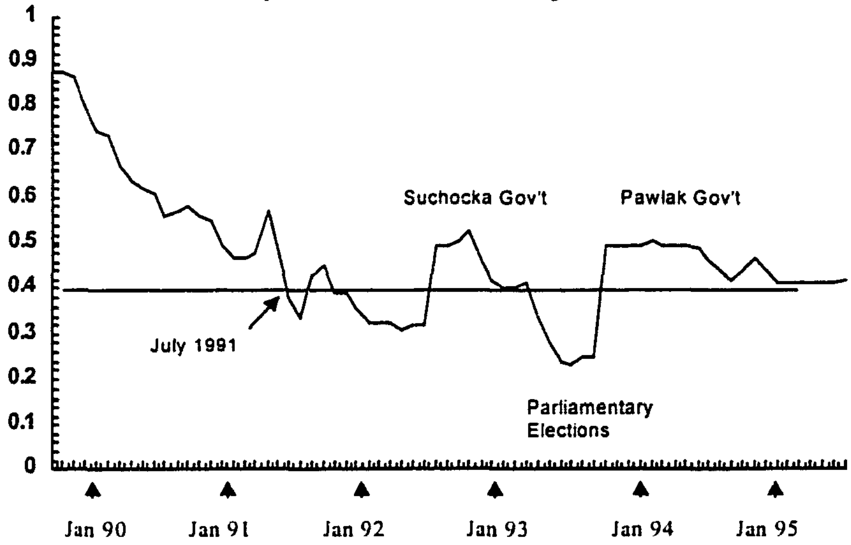


In Figure 6.3 above I present presidential approval ratings from September 1989 through July 1995. Support for the president, indeed, starts off quite high: in September of 1989, the percentage of the public that approved of the presidency of General

Wojciech Jaruzelski was nearly seventy-five percent. Jaruzelski's approval rating dropped to 30% by October 1990 — just before he was replaced by Lech Wałęsa. With the election of Lech Wałęsa, approval jumped to 60%. It reached a peak of 70% in April of 1991 (with a post-election visit to the U.S.) but tapered off during his tenure.

Just from the evidence in this series, it is difficult to pronounce that there is a period of extraordinary politics at all – public approval starts off high, plummets, and sky-rockets again. However, the history of the transition also makes this a problematic series to examine. The presidency was created for General Jaruzelski as a compromise with Solidarity during the Roundtable negotiations: the opposition gained a freely elected Senate and a lower house of parliament that was only partially freely elected, and the communist government and its allies gained a presidency to be filled by the man who declared martial law on Poland in 1981. The communist government was convinced that the presidency would give them the leverage to control the pace of the transition. The 1989 parliamentary elections were a huge victory for the Citizens' Committees (Solidarity) — the democratic opposition won every seat in the lower house that they were allowed to win and they won all but one seat in the upper house (Gross 1992; Castle 1996). What the communist party did not count on, however, was that its allies would defect and support the democratic opposition. President Jaruzelski was elected president only with the support of some of the Solidarity parliamentarians.[2] However, Jaruzelski eventually had to agree to accept a Solidarity government. It was in this context that Jaruzelski's approval ratings were high and it was not long before many pressed for a free and direct presidential election to replace him. As other countries across the region began transitions from communism in late 1989, the Jaruzelski presidency came to be seen as an embarrassment to the Poles. So almost as soon as he was installed, the Poles were figuring out how to carry out a free election for president. In this context, presidential approval is not the best place to look for evidence of extraordinary politics. As a result, I turn to public approval of the government.

Figure 6.4: Government Approval-- September 1989 - July 1995



In Figure 6.4 above I present popular approval of the government from September 1989 through July 1995. The first non-communist government was installed in Poland in September of 1989 under Tadeusz Mazowiecki. Support for the government was 88% when it was installed in 1989 and its support declined gradually through mid-1991.[3] Support for the government dropped during the campaigns in the summers of 1991 and 1993 preceding the 1991 and 1993 parliamentary elections in the fall of those years. Support dropped as well in early 1992 as Prime Minister Jan Olszewski tried for several months to create a government and maintain a minority government while negotiating all along with potential coalition partners. The Olszewski government collapsed, Waldemar Pawlak tried for over a month to establish a government, then Hanna Suchocka entered the scene in the summer of 1992 to form a broad coalition government and to enjoy a sharp increase in government approval ratings (see Vinton 1992a, 1992b, 1992c).

More generally, however, from the fall of 1989 through the middle of 1991, opinion progressively declined from its height of 87%. From the middle of 1991, approval of the government has waxed and waned, but on average it has been about 40%. Assume that 40% is about the average approval rating the Polish government could expect in the post-transition, "normal politics" period. If forty percent is about the average support a government can expect, the Mazowiecki and Bielecki governments were quite fortunate -- they enjoyed much higher levels of support during their terms in office. Support for the Mazowiecki government ranged from nearly 90 percent to about 50 percent; approval of the Bielecki government started out at about 50 percent in January of 1991 and fell to 38 percent in June of 1991. If high approval ratings are evidence of extraordinary politics, the Polish government probably did enjoy such a period for over a year -- for more than one year approval was well over 40 percent. In fact, the period of extraordinary politics would be nearly two years long counting the entire life of the governments (Fall 1989 through mid-summer 1991), and about one year and one-half beginning with the onset of the shock therapy program (from January 1990). Such a long period of high approval ratings is certainly impressive, however it requires a bit more investigation.

A problem with examining approval ratings in a single country to find evidence of extraordinary politics is that we only expect it to occur once. If we observe high positive ratings in 1990, this does not necessary indicate a period of extraordinary politics. Tadeusz Mazowiecki may have just been popular. Furthermore, we have no reason to believe that 40 percent is some sort of equilibrium point for approval of post-communist-era governments in Poland. A government may just be unpopular for personality, policy, or governing style differences between itself and its predecessors. In the American politics case, researchers have identified presidential honeymoons by observing higher approval ratings at the beginning of many presidential terms than later on. In the context of extraordinary politics, we cannot verify its existence by observing it again and again -- it is a rare event. As a result, in the next section I test another relationship we would expect to observe if, in fact, these high approval ratings are evidence of extraordinary politics.

Views of the Economic and Political Situation in Poland

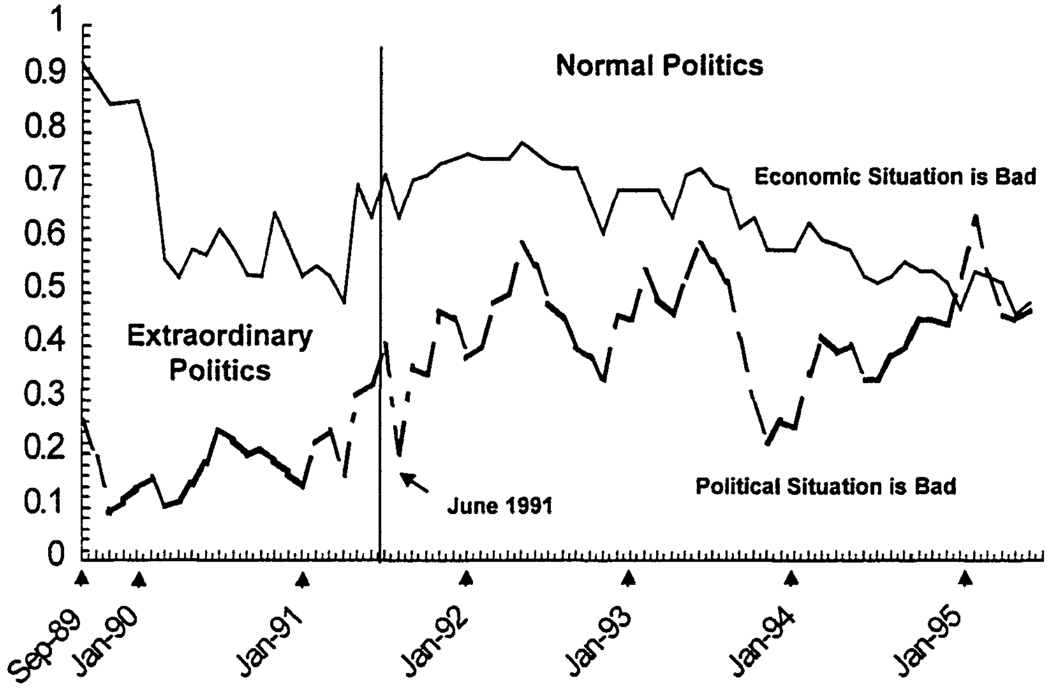
In addition to institutional support variables, the CBOS research team has asked two questions nearly every month[4] which are relevant to this study[5]:

1) *In general, how do you rate the current political situation?*

2) *In general, how do you rate the current economic situation?*

I use these questions to test the second hypothesis — that at the beginning of the transition views of the current economic situation will not predict views of politics and that this non-relationship will erode over time. Even in the face of tough economic times at the beginning of the transition, politicians will not be punished for assessments of the economy in this initial phase of the transition.

Figure 6.5: Views of Economics & Politics
September 1989 - July 1995

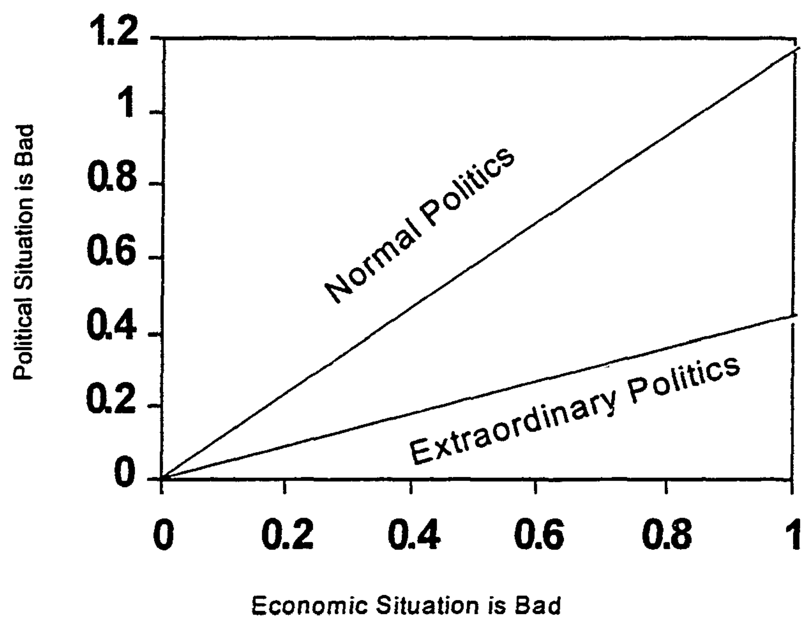


Note the two series in Figure 6.5. The line graphs indicate the proportion of the Polish population that indicated that the economic or political situation was *bad*.[6] I have included a vertical line on the figure at June of 1991 — the month after which approval of the government drops to 38 percent. Note that prior to July 1991, the series do not tend to trend together. After the summer of 1991, when views of the economy improve, views of the political situation also tend to improve.

Figure 6.5 is compelling: aggregate views of the economy do not appear to predict aggregate views of politics before the summer of 1991 in Poland. However, in Figure 6.6 I also present the results of a first difference time series model predicting views of the political situation with views of the economic situation. In this model, I difference the data to rid it of trends which could lead to a relationship between the variables which appears stronger than it actually is – a relationship that is a result of *time* rather than of extraordinary politics. Next, I use the differenced data to predict views of politics with views of economics. Explanatory variables in the model include changes in views of the economy and an interaction term measuring the extraordinary politics effect. The interaction term is a dummy variable that equals zero for every month from July 1991 on. and equals one prior to July 1991 multiplied by changes in economic assessments. The interaction term provides the difference in effect of views of the economy under extraordinary politics and normal politics.

Note from Figure 6.6 below that when the dummy equals one (i.e., during extraordinary politics), the effect of economic assessments on political assessments is .44 (p = .003).[7] During the period of extraordinary politics, a ten percent increase in the proportion of the population that thought the economic situation was bad would yield an additional 4.4 percent who would state that the political situation was bad. This effect is not negligible, however it pales in comparison to the effect during "normal politics." In the months following the period of extraordinary politics, the effect of views of the economy on politics is 1.17 ($p < .0001$).[8] During normal politics, with a ten percent increase in the proportion of the population that thought the economic situation was bad, an additional 11.7 percent would respond that the political situation is bad. The difference in effect during extraordinary politics and normal politics is strong: .73 ($p = .003$). This difference means that extraordinary politics and normal politics are distinct eras in Polish public opinion: during each of these periods, views of the economy translate differently into views of politics. This model is robust to the addition of other explanatory variables[9] and the errors are random.[10]

Figure 6.6: Predicting Views of Politics with Views of the Economy During Extraordinary and Normal Politics



	Extraordinary Politics	Normal Politics	Difference
Coefficients:	.44	1.17	.73
Standard Error	.14	.19	.24
Significance level	.003	<.0001	.003

This evidence for a period of extraordinary politics indicates that in the initial stages of the transition, politicians are shielded from the wrath of the public. In Poland, economic indicators plummeted, but assessments of the economic situation only weakly translated into assessments of politics. The social cost of reform in its early phase does not translate into a high political cost. Ultimately, the Polish government did pay for its policies – the link between economic and political assessments increased dramatically in 1991 and the reform government was ousted in late 1991 and replaced by a more economically conservative grouping. However, the Polish government was protected in this initial period against major challenges to the government and the regime, good fortune indeed considering the grim projections of opponents to the economic reform program.

The Length of "Extraordinary Politics"

These findings suggest that the social cost model is problematic in the early stages of a transition. Government approval was unusually high in the months preceding July 1991 and views of the economy predict views of politics, but their effect is weak relative to the period of normal politics beginning in the summer of 1991. However June 1991 is a rather arbitrary date for the end of extraordinary politics, a date which I chose because of the high approval ratings in the government approval series. To verify that this date is an appropriate one, I examine the political and economic situation series for alternative dates of the end of extraordinary politics.

Table 6.1: Determining the Length of Extraordinary Politics

Extraordinary Politics Ends:	Normal Politics (effect of economic on political views)	Difference in Effect (between Normal and Extraordinary Politics)
July 1990	.82 (.14)***	-.45 (.27)
October 1990	.83 (.14)***	-.45 (.27)
November 1990	.93 (.15)***	-.66 (.24)**
February 1991	.94 (.15)***	-.64 (.24)**
April 1991	.94 (.15)***	-.60 (.24)**
June 1991	1.17 (.19)***	-.73 (.24)**
July 1991	1.21 (.20)***	-.75 (.25)**
August 1991	1.07 (.22)***	-.52 (.26)
October 1991	.98 (.23)***	-.38 (.27)
December 1991	.96 (.24)***	-.35 (.27)
February 1992	.98 (.24)***	-.37 (.27)

Entries are unstandardized regression coefficients from first difference time series models. Standard errors are in parentheses. Months excluded from this table produce results nearly identical to months presented in this table which precede or follow them.

* $p < .05$, two-tailed test

** $p < .025$

*** $p < .001$

In Table 6.1 above I present models of several alternative dates; in each of these, the cut-off point for extraordinary politics differs. The important column in Table 6.1 is the right-hand column which displays the difference in effect between the period of extraordinary politics and the period of normal politics. What we expect to observe is that if the cut-off point is set too early or too late, the difference between these two eras in public opinion will not be distinct. That is, extraordinary politics and normal politics will become less distinct statistically. In Table 6.1, no one model is particularly striking as the correct model. However, prior to November 1990, the difference in the way economics predicts politics during the two periods is not statistically significant. The difference becomes less significant further back in time and the magnitude of the difference diminishes greatly. Likewise, if we coded the end of extraordinary politics as late as September or October of 1991,[11] there would be no statistical difference between extraordinary and normal politics. Just from the evidence in Table 6.1, it appears that the period of extraordinary politics ends from early to mid-1991. This is nearly two years after the inauguration of the first non-communist government in the region under Tadeusz Mazowiecki.

Extraordinary Politics and Economic Voting

The evidence from Poland on extraordinary politics and that from Chapter V on government support in the five countries in the region work together to provide a larger picture of economic voting in transitional countries. The cross-national data from the Central and Eastern Eurobarometer suggest that voters do punish their governments based on their prospective sociotropic views of the economy. The Polish data provide an earlier and longer picture of government support and suggest that voters are prospective: in the initial stages of reform, voters are forgiving of their government and associate economics and politics relatively weakly.

One problem with comparing these two data sources, however, is that the Polish data do not include a prospective economic measure in the early stages of the transition. With a measure of the *current* economic situation in Poland, voters do come to associate economics and politics after about eighteen months of reform. A question these data raise is whether Poles in the summer of 1991 began to be retrospective voters, using recent economic performance to shape their views of politics, a relationship which seems to contradict the cross-national findings. However, these results are probably not contradictory, but complementary. As extraordinary politics gives way to normal politics, people begin to use information about recent economic performance to shape their views of the government's capacity to make economic change in the future. As Fiorina (1981) argues in the American case, voters use retrospective information to make prospective judgments. The Polish data tells us that during extraordinary politics, voters relax judgment on their reformers. The Polish series also tells us that during normal politics, voters use current information to assess the government. With the information from the Central and Eastern Eurobarometer in Chapter V, we can speculate further that voters use this current information to calculate future economic gains under the current government. As a result, the picture these data give us of voters in a transitional setting is that they will relax judgment initially and will then make voting decisions based on economic prospects for the government.

Extraordinary Politics and the Social Cost Model

Extraordinary politics provides an important counter-argument to the social cost model. The idea that citizens are willing to wait before passing judgment on politicians suggests that, in the initial stages of reform, we should not observe widespread challenges to the political system. The basic social cost model suggests a link between views of the economy and views of politics and implies that politicians ought to hedge their bets and choose a reform program with a lower social cost. Even if politicians could tinker with policies and increase economic assessments (and from Chapter IV we have some evidence that they cannot), those economic assessments would not translate into political assessments in the initial reform period. Politicians could hedge their bets but, in some sense, they do not need to do so if they benefit from a period of extraordinary politics. And certainly once this period is over they will pay for their policies anyway. The analyses from Chapters IV and V suggest that voters do not discriminate between their gradual reform government and a hypothetical costly alternative. Thus, we have no evidence that voters under harsh stabilization policies act in fundamentally different ways than under lower cost reform programs.

However, some argue that the means by which stabilization policies are carried out do change the context of politics. Technocratic-style policy-making, characteristic of the way in which stabilization programs are implemented, can have perverse consequences. In fact, even though the social cost model does not hold, this does not preclude politicians from paying the ultimate price for stabilization policies – their reform policies could lead to the demise of the regime itself. The next chapter examines whether there is a link between stabilization policies and political extremism.

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1. These data are available through CBOS, the Roper Center, and in a CBOS monthly publication *Serwis Informacyjny*.

2. Citizens' Committee delegates to the Sejm cast invalid ballots to allow Jaruzelski to win by one vote. In the summer of 1989, the opposition was still concerned about a possible crack-down on the liberalization process.

3. Mazowiecki was replaced in January of 1991 by Jan Krzysztof Bielecki with the election of Lech Wałęsa to the presidency. However, there was little discontinuity in economic policy between these two prime ministers: Leszek Balcerowicz was Deputy Prime Minister and Finance Minister under both Mazowiecki and Bielecki (see Vinton 1991a, 1991b).

4. In the few months in which these questions were not asked (usually in August and December), I impute the value for that month taking a mean between the value for the month preceding it and the value for the month following it. There are fourteen out of eighty-four values which fall into this category. Besides August and December of most years, there are a number of missing values in 1989 and 1992.

5. No retrospective or prospective variables are available in this time series data for the first critical years of the Polish transition.

6. I include the proportion which responded that the situation was bad because at many points in the "good" series, the proportion approaches zero and, thus, is more truncated. The proportion of the population indicating that the political and economic situations were bad includes all gradations of "bad" (i.e., "very bad").

7. The effect equals the main effect (1.17) plus the coefficient for the extraordinary politics interaction term (-.73).

8. The effect equals the main effect (1.17) plus zero times the coefficient for the interaction term.

9. I included measures of changes in unemployment, consumer prices, government approval, and presidential approval. In this full model, the coefficient for views of the economy under normal politics is 1.1 with a standard error of .19, the coefficient for extraordinary politics is .44 with a standard error of .14, and the difference is -.73 with a standard error of .24.

10. I tested whether the residuals were white noise using the Q statistic. The Q statistic is 9.8 while under the null of white noise it is 17 ($p = .09$).

11. In August of 1991, the difference almost reaches statistical significance ($p = .051$).

Chapter VII. Social Cost and Political Extremism:

Parties and Opinion under the Spatial Context of Reform

Perhaps the most important potential political cost of economic reform is the collapse of the democratic regime. Certainly, new democracies are potentially unstable political environments. The collapse of new democracies across Latin America inspired a body of scholarly work. If reformers can make policy choices that increase the chance of the consolidation of their new democratic state, they clearly ought to do so. And, as the results in Chapters IV and V show, reformers are probably not increasing the chance of their own re-election by reducing the social cost of reform and, likewise, are probably not increasing the life of the regime. The choice of a particular economic policy is unlikely to be related to regime stability in a straight-forward manner as outlined by the social cost model. Indeed, under one of the harsher reform programs in the region, Polish democratic institutions did not come unraveled – the Polish government benefited from a period of extraordinary politics in which the public relatively weakly related their assessments of the economy with politics. The Polish government and regime survived with as much (or as little) ease as it would have under policies that come at a lower social cost. Certainly, the Polish government was punished because of its reform policies, but no more than it would have been punished under alternative reform policies, and by no means did the regime come unraveled. The notion that reform choices might be linked to political extremism through higher social cost of reform does not seem likely to hold empirically.

However, scholars have been concerned that economic reform choices could undermine democracy. Lower-cost reform proponents such as Andreas Pickel and Tadeusz Kowalik have warned that rapid economic reform in particular would undermine governmental policies (Pickel 1992; Kowalik 1991). David Mason (1995) claimed that the rapid economic reform program could undermine the legitimacy of the democratic government. Bresser Pereira, Maravall, and Przeworski (1993) were more specific in their claim that higher-cost reform or "neo-liberal" economic policies will generate a particularly dangerous type of disaffection: populism. Specifically, they argue that the technocratic style with which rapid (or neo-liberal) reform is implemented has perverse political consequences. Because these programs tend not to be the result of a consensual political process, voters and politicians learn that they cannot affect the policy-making process and thus, "Even if neo-liberal reform packages make good economics, they are likely to generate voodoo politics" (1993,10).

Under one type of argument for lower-cost reform, then, the high social cost of reform would lead to extreme disaffection and dismantling of reform institutions. We have reason to be skeptical of this linkage. But under the Bresser Pereira, Maravall, Przeworski argument, the context of political behavior changes with the implementation of harsh stabilization policies. People are disconnected from their technocratic-style government and become more susceptible to populist appeals. It is not the social cost of reform that makes reform untenable; but the high social cost of these policies make it necessary to avoid a public mandate on the policy since it will surely be unpopular. Politicians push through unpopular policies and generate populist movements as a result.

Proponents of lower-cost reform have had good reason to think that extremism and higher-cost reform are related: transitions from communism have been marred by the emergence of xenophobic nationalist movements and left-wing restorationist extremist parties. These parties have gained political ammunition as politicians from mainstream government parties implement painful market reforms. The success of Vladimir Zhirinovsky in Russia and Stanisław Tymiński in Poland and their anti-system messages gave scholars evidence of the perverse consequences of market reform: the high social cost of introducing market mechanisms would create a base of support for extremist political parties. Thus, scholars had a compelling reason to advocate more tempered market reform policies. A lower-cost transition from a planned economy would reduce the likelihood that the transition would be derailed by movements opposed to democratization and market reform. These arguments suggest the following hypothesis:

Hypothesis 7.1 (Social Cost Hypothesis): Extremist parties are more likely to appear and influence governmental policies in cases of higher-cost reform with harsh stabilization policies.

The arguments linking harsh stabilization and extremism have intuitive appeal. However, I argue that both arguments overlook an important variable in the link between reform choices and extremism – the spatial context of reform. Key issues for the future of the democratic regime are what parties emerge to initiate reform and what reform policies they choose. If a social democratic party emerges in the founding election and implements incremental reform policies, it will be more likely to generate defections to anti-reform parties. Just as voters do not have the incentive to collect information on hypothetical economic reform choices of their government, they will not collect information on subtle differences between parties. When people become dissatisfied with lower-cost reform and want to slow the reform program down, they will likely support a party that wants to end reform altogether. And though extremists may not lead a revolution against the new regime, under certain reform contexts the presence of extremist opposition parties and the existence of anti-market attitudes among government constituents undermines the government's reform credibility. What is important for the spatial context argument, is the emergence of economic extremist parties:

Hypothesis 7.2 (Spatial Context Hypothesis): As policies shift to the left in cases of lower-cost reform implemented by parties associated with the country's communist past, extremist parties are more likely to emerge in and influence governmental policies.[1]

I discuss this hypothesis in the following sections.

Founding Elections and the Spatial Context of Reform

The focus of founding elections in the East Central European literature cannot be overstated. Scholars have argued that the structure of those elections is the outcome of the transition process itself (Karl and Schmitter 1991). The rules that result from the transition shape who wins initially and, thus, the configuration of parties that emerge (Lijphart 1994; Riker 1982; Taagepera and Shugart 1989; Gabel 1995; Kukorelli 1991). The relative strength of various actors during the transition and the choices that they make affect the initial election outcome and the development of the party system in general.

Once these parties are elected in the founding elections, they may be able to tinker with not only election laws and other constitutional features, but also with economic reform (see Przeworski 1991; Åslund 1994, 1995a, 1995b; Slay 1994a; Balcerowicz 1995a; Sachs 1993). It is clear that the results of the founding elections are critical because they determine who will be in power to make these important choices. But in addition to determining who wins and establishes the rules for the democratic process, I argue in this chapter that the characteristics of the winners and the choices that they make interact to create differing contexts for political behavior. Whether the winners were considered liberal or conservative and whether they chose harsh stabilization policies or more incremental reform policies condition the success of extremist parties and the nature of public opinion. Research in Western Europe has found that people do behave differently with different governments in place: Powell and Whitten (1993) find that left-wing governments are punished more under high unemployment and right-wing governments under high inflation, because voters have different expectations of economic performance under different types of governments.

The Reformers and Their Choices

The key political players in the founding elections across the region were the communist parties and the democratic opposition. In most countries democratic opposition parties were selected to head the first freely elected governments in the region. Some of these governments implemented higher-cost reform (Poland, Czechoslovakia), others lower-cost reform (Hungary). Yet because these governments were associated with the democratic opposition, they tended to be associated with economic liberalism as well, though their policy choices varied. Compared to their opponents in the founding elections -- the (former) communist parties -- they were perceived as more liberal regardless of the specifics of their policies. Thus, in Hungary for instance, the Hungarian Democratic Forum (HDF) was associated with the liberal grouping of democratic opposition parties, though FIDESZ was more economically liberal (Grzybowski 1994). The reformist HDF was not the most economically liberal party but it was associated with the liberal party bloc because it was not a communist successor party. In most higher and lower-cost reform cases, then, democratic opposition parties led "liberal" governments and post-communist parties remained in the opposition and tended to be associated with economic conservatism. As reform has progressed, it is typically these post-communist parties which have emerged as strong opposition parties and called for lower-cost reform.[2] Post-communist parties have called for slower reform, but in separating themselves from their Communist Party roots, they did not call for ending reform altogether. In these cases, then, pro-reform opposition parties (post-communist parties) were waiting in the wings to challenge the government. As the pain of the transition increased, these parties provided a clear alternative to voters disaffected with the government's economic reform program in both higher and lower-cost reform countries. As a result, the victory of the democratic opposition in founding elections gave these countries an advantage if only because a clear alternative party would emerge to take advantage of voter disaffection: a post-communist party or other lower-cost reform party.

However, as I present in Table 7.1 below, in countries where conservative economic parties (typically post-communist parties) were the initial reformers and, in turn, implemented a lower-cost reform program, voters' opposition party choices are more constrained as they become disaffected with the incumbent reformers. Certainly, some voters may support the more liberal democratic opposition parties. Yet the democratic opposition will not be able to win over the most disaffected voters. As the pain of the transition increases, disaffected voters will not select the democratic opposition that intends to proceed with economic reform (and probably to proceed more rapidly with reform). In this context, these disaffected voters will likely vote for a party that promotes more extreme egalitarianism. Furthermore, this spatial context of reform will have consequences for public opinion as well. Specifically, in cases where parties with roots in communism select lower-cost reform programs, government supporters will have anti-market tendencies. I examine each of these consequences below.

Table 7.1: The Nature of Opposition Parties Given Reform Choices of Incumbents		
Reformers	Choice: Higher-cost Reform	Choice: Lower-cost Reform
Democratic Reformers – from Pro-Democracy Opposition Movements	Opposition is a pro-reform, "gradual" reform party.	Opposition is pro-reform – "gradual" reform party appealing to a different constituency than incumbent (e.g. peasants or workers).
Non-Democratic Reformers – associated with the old regime	Opposition is a pro-reform, "gradual" reform party. Incumbent would be considered liberal.	Main opposition is liberal democratic, but tendency for anti-reform parties to emerge.

Vote Choice in Different Spatial Contexts of Reform

As the pain of the transition increases, voters could choose to support a party that promotes more extreme egalitarianism. An important issue in this context is whether it is possible for a viable party to emerge which at the same time is able to distinguish itself from the conservative, lower-cost reform incumbent yet not promote anti-reform policies. It is possible that such a party could appear in this context, but it is unlikely. New parties must always distinguish themselves from existing parties in order to carve out a piece of the electorate for themselves. A "more-gradual reform" party would have to convince the voters that its platform was both different from the government's and also a pro-reform program. To argue that they are gradual, yet more gradual, would probably be a "hard issue" for voters to comprehend -- they would have to distinguish party platforms on more technical grounds (Carmines and Stimson 1980). Opposition parties would probably not be successful in communicating such a platform to the electorate.

I argue that in cases in which the initial economic reformers are associated with *conservative forces*, as the pain of the transition increases, citizens will express their disaffection through the potentially destabilizing option of support for extremist parties. There will be pressure on politicians in all cases to slow down reform. But when the incumbent is considered *liberal* (as the blocs of democratic opposition parties are in these cases), opposition parties will advocate slowing reform. *They will not support ending reform altogether.* In a lower-cost reform case in which incumbents are not considered liberal (typically because they have a more liberal democratic opposition bloc with which to compete), the ways in which voters will channel their disaffection will tend to be more extremist. That is, politics will shift to the left in these cases as well, and opposition parties will have a more difficult time winning over these disaffected voters without campaigning on anti-reform platforms.

My argument, then, suggests a much different pattern of behavior than would the social cost model, which links extremism to higher-cost stabilization policies. Likewise, Pereira, Maravall, and Przeworski (1993) relate extremism to stabilization but for reasons other than social cost. They argue that the technocratic style with which stabilization policies are implemented undermine democratic institutions. If there is an empirical basis for this anti-stabilization argument, further tests could distinguish between the mechanisms which drive these arguments. However, for the purposes here I test the general relationship between harsh stabilization policies and extremism against the spatial context argument. I argue that in cases of lower-cost reform implemented by reformers not associated with the democratic opposition, as politics shifts to the left, extremist parties may gain more support and may play more of a role in government as the conservative reformers feel the pressure to move to the left to slow down reform.

Public Opinion in Different Spatial Contexts of Reform

The spatial context of reform has implications for public opinion as well which could, in turn, affect the success of the reform program. If the nature of governments and their economic choices differ cross-nationally, assessments by government supporters may also vary cross-nationally. In the years since the transition in Central and Eastern Europe, there has been a fair amount of work on the relationship between political and economic variables. Support for the market and for democracy appears to be positively related (Evans and Whitefield 1995). Perceptions of economic performance are positively related to economic values such as support for the market or attitudes toward welfare (Evans and Whitefield 1995, Rohrschneider 1996); an exception is perhaps at the beginning of the transition in which voters blame their economic woes on the past regime and negative assessments of the economy are related to market and government support (Duch 1993). Actual economic performance is also related to support for government parties (Pacek 1994). As a result, there is evidence that support for democracy, the market, the government, and the economy (perceived or real) are positively related.

Yet we also know that the relationship between political and economic variables is not always straight-forward. For instance, all government constituents may be satisfied, but if the nature of governments differ, so will the contexts which condition the attitudes of their constituents. Anderson and Guillory (1997) argue, for instance, that while government supporters are more satisfied with democracy in general than are opposition supporters, the electoral winners most satisfied (and the losers least satisfied) are those in majoritarian systems. In a system in which losers are least likely to influence government decisions, they are also the least satisfied. Institutional differences also affect the degree to which people blame the government for economic performance. Powell and Whitten (1993) find that under institutional arrangements such as the presence of a minority government or an inclusive committee system, it will be less clear to voters whom to blame for economic woes. Thus, the relationship between economic perceptions and government support will be weaker under these circumstances. In addition, as I noted earlier, they argue that left-wing governments are punished more under high unemployment and right-wing governments under high inflation, because voters have different expectations of economic performance under different types of governments. In Western Europe, then, we have further refined out knowledge of the relationship between these political and economic variables.

In the Central and East European context we need to know more about who is satisfied with the development of democracy beyond whether the respondents are government supporters or whether they view economic performance positively. Imagine, for example, that 70 percent of the sample in a hypothetical country was satisfied with the development of democracy and with economic performance. If we looked more closely, we might find that the government is not implementing reform policies at all and that people are satisfied because the government is not reforming. This would be critical information to have in the study of new democracies in a transition to a market economy. And under these circumstances, we should be concerned even though the vast majority of the public is satisfied with the development of democracy in their country.

I argue that we can use the framework I developed above to understand further the relationship between political and economic variables in the Central and East European region. For instance, in cases in which a party with roots in the communist era won the founding elections and implemented lower-cost reform, we will not only be more likely to observe extremist parties, but we will also find government supporters who oppose the reform process itself. A government with roots in the communist past will not likely win over supporters who want a clean break from the past, but will be appealing to those who do not want to leave the past behind so quickly. More liberal constituents are likely to support new democratic parties, which would leave post-communist parties with their traditional working class or rural constituents who are likely to be more economically conservative and, in this context, less market-oriented. If the post-communist party (or economically conservative party) wins the founding election and seeks to reform the economy, it will be in an awkward position. The reform government will advocate some degree of reform with a constituency that may want less, an opposition that may want more, and onlookers who are concerned about the credibility of the reform program in general. If post-communist governments do appeal to their more traditional constituents, we would expect these government supporters to be satisfied with the development of democracy and the economy because they are the electoral winners, but to oppose market reform -- a key element of the democratic revolutions in Central and Eastern Europe. I test the following:

> **Hypothesis 7.3 (Spatial Context Hypothesis 2) : In countries where parties with roots in communism won the founding election and implemented lower-cost reform, the constituents will tend to be anti-market even if they are generally positive about the economy and the new regime.**

While it is fairly obvious that conservative governments in Central and Eastern Europe will have more conservative followers (and thus, opposed to the change represented by market reform), it is important to note that all reformers and their constituencies are not alike. We often examine variables such as support for democracy and views of the economic situation, however, even if assessments are positive, support for the market may be a scarcity. When support for reform is lacking among the constituents of the reform government, that government faces some critical problems which I discuss in more detail below.

Test 1: Emergence of Extreme Opposition Parties

Definitions: Extremist Parties

Extremism comes in many forms: extremist nationalist parties have emerged which promote expelling ethnic Russians from the Baltics or limiting the rights of Hungarians in Romania. Some parties may have extremist foreign policies that call for closed borders. In my discussion below, I include parties that are right-wing, xenophobic parties, but the more important type of extremist party for the spatial context argument is that which is opposed to market reform. I examine parties that attempt to mobilize voters disaffected with economic reform by promising to undo reform or use visions of security under the communist system to win over voters.

Evidence: Economic Extremist Parties and Reform Paths

In this section I test the social cost argument (that extremist parties are more likely to emerge under conditions of higher social cost) against my hypothesis that they will emerge in cases in which conservative forces won the founding election. Among the cases in this study, the social cost model would predict that there will be more extremist parties in Poland, the Czech Republic, and Bulgaria. I list my expectations in Table 7.2 below. The classification of Bulgaria causes some conceptual problems because the BSP won the founding election. However, it faced strikes and sit-ins and was paralyzed in implementing reform policy under these circumstances. The BSP handed over the reigns of economic reform to the liberal UDF who proceeded to implement a "shock-therapy" style program. As a result, I classify this case as higher cost reform implemented by democratic reformers. The UDF, not the BSP, ultimately chose the policy and paid the political cost soon after by being removed from the coalition. I argue that in all but one of these five cases, pro-reform opposition parties will emerge to replace incumbents. Extremist parties are more likely to emerge in Romania in which more conservative forces led the economic reform process. In the following sections I discuss the emergence of extremist parties in the clusters of cases under study.

Table 7.2: The Nature of Opposition Parties
Expectations in Each Case

<u>Reformers</u>	Choice: Higher-cost Reform	Choice: Lower-cost Reform
Democratic Founders – from Pro-Democracy Opposition Movements	Opposition is a pro-reform, "gradual" reform party. <u>Cases</u>: Poland, Czech Republic, Bulgaria	Opposition is pro-reform – "gradual" reform party appealing to a different constituency than incumbent (e.g. peasants or workers). <u>Cases</u>: Hungary
Non-Democratic Founders – associated with old regime	Opposition is a pro-reform, "gradual" reform party. Incumbent would be considered liberal. <u>No empirical cases</u>.	Main opposition is liberal democratic, but tendency for anti-reform parties to emerge. <u>Cases</u>: Romania

As parties have emerged to oppose government reform policies, the most successful opposition parties have not been economic extremist parties; rather they have just promised to slow reform. For instance, during the 1993 Polish election period, the Polish newspaper *Rzeczpospolita* wrote about the reform policies of the Democratic Left Alliance (among the coalition is the main post-communist successor party); among quotations from the article reads "the people from the SLD are the biggest capitalists I know" (Lewis 1993, 29-30). Promises to slow reform by these opposition parties have not been accompanied by references to the glories of the communist economic system nor by promises to reverse the reform program.

The region has had some notable exceptions, however. For instance, in Hungary both the Labor Party (LP) and the Hungarian Socialist Workers' Party (HSWP) seek to restore the economic security of the communist regime (Oltay 1994). LP leader Gyula Thurmer said that the LP did not intend to dismantle the democratic regime, but that it is a shame that "current international power relations do not make a left-wing turnabout possible" (Oltay 1994). Neither the LP nor the smaller HSWP won seats in the 1994 parliamentary elections.

Poland, too, has seen economic extremist parties emerge. The most clearly anti-reform party has probably been "Self-Defense." Self-Defense leader Andrej Lepper stated that "Fascism and Stalinism collapsed. The market economy is the third imperialist political system that enslaves all the countries that are nothing more than markets for the surplus of the [European Union's] 'twelve' and the USA." (Vinton 1994, 66). In the 1993 parliamentary election, however, Self-Defense garnered only 2.78 percent of the vote and, thus, did not meet the 5 percent threshold for representation in parliament.

The more well-known extremist party in Poland was Party X led by Stanisław Tymiński. Tymiński's party, however, defies clear classification. While he made his fortune in a capitalist system and included among his campaign credentials that he knew how capitalism worked, some of his promises were anti-reform. He argued that privatization was not important — that workers have good wages is the important issue (Vinton 1990b, 17). In addition, he claimed that the problems facing Poland are the result of Western exploitation, not the result of the communist economic system (Vinton 1990a, 11). In the electoral arena, Tymiński surprised the world by besting Prime Minister Tadeusz Mazowiecki in the first round of the 1990 presidential election and finished second behind Lech Wałęsa with 23 percent of the vote. In the second round, Tymiński won only 25.75 percent of the vote (Vinton 1990c). Party X under Tymiński's leadership received less than one percent of the vote and three seats in the 1991 elections and 2.74 percent of the vote and no seats in the 1993 parliamentary elections (in which a five percent threshold was used). So Tymiński made a splash in Polish politics in 1990, but was unsuccessful in maintaining support in the parliamentary elections.

In the Czech Republic, the most successful extremist party, the Republicans, is akin to the German Republican Party. It seeks to expel foreign workers and to limit foreign investment. In the 1992 parliamentary election, the Czech Republican Party gained nearly six percent of the popular vote. The Czech Republic has not had a problem with extremist parties proposing to return to a communist economic system. And like other countries in the Central European cluster, Czech extremists have had limited electoral success.

In Table 7.3a below I list predictions about the emergence of extremist parties under competing hypotheses; I also list where those parties actually emerged in the Central European cluster of countries. The first row lists expectations of the social cost argument; the second lists the spatial context expectation; the third row lists the electoral support of all extremist parties – both xenophobic and economic extremist; the fourth row lists the electoral support of economic extremist parties. All of these countries have extremist social movements such as neo-Nazi groups, however I list only *political parties* that garnered at least one percent of the vote in a parliamentary election.

Table 7.3a suggests that all countries in this cluster have had problems with extremist parties in one form or another. Such a showing for extremists in Poland and the Czech Republic with higher-cost economic reform programs does provide some evidence for the social cost hypothesis. Hungary has had less successful extremist parties, if we compare the vote shares across these countries. However, in all of these cases, the success of these parties has been limited. Only in the Czech Republic did the Republicans gain seats in the lower house. In no cases did these parties have a hand in policy-making.

Table 7.3a: Support for Hypothesis On the Emergence of Extremist Parties in Central Europe

	Poland Higher-cost Reform	Czech Republic Higher-cost Reform	Hungary Lower-cost Reform
H 7.1: Social Cost Hypothesis Predicts Extremist Party	Yes	Yes	No
H 7.2: Spatial Context Hypothesis Predicts Economic Extremist Party	No strong parties	No strong parties	No strong parties
Did Extremist Parties Emerge? (Left & Right-wing)	♦ Party X 2.3% vote 1993 ♦ Self Defense 2.8% vote 1993	♦ Republican Party 5.8 % vote 1992	♦ HSWP 3.2% vote in 1994
Did Economic Extremist Party Emerge?	♦ Party X 2.3% vote 1993 (though the platform is less clear) ♦ Self Defense 2.8% vote 1993	No notable parties	♦ HSWP 3.2% vote in 1994

In the Balkans, the story is different, as the spatial context hypothesis suggests. In Romania, extremist parties have been quite successful while in higher cost reform Bulgaria, extremist parties have had relatively limited success. Perhaps the party with the most potential to influence government policy in Bulgaria was a small ally of the Bulgarian Socialist Party (a government party after 1992), the Fatherland Party of Labor

(FPL), a xenophobic party promoting a return of surrounding territories to Bulgaria (Engelbrekt 1994c: 76). With a similar platform, the Bulgarian National Radical Party (BNRP) won just over one percent of the vote in the 1991 parliamentary election (1.28%) and the smaller Liberal Democratic Party (LDP) has ties with Zhirinovsky's Russian party of the same name (Engelbrekt 1994c: 76-77). In addition, the Committee for the Defense of National Interests has promoted renewed policies of assimilation against the Bulgarian Turks (Engelbrekt 1994c: 77-78). Bulgaria has a number of extremist groups promoting nationalist agendas, but these groups have had only a marginal influence, if any, in governing.

However, there is an important exception to this trend in the Balkans. The Party of Romanian National Unity (PRNU), the Greater Romanian Party (GRP), and the Socialist Labor Party (SLP) of Romania use restorationist rhetoric and celebrate the virtues of the Ceausescu era. As Michael Shafir writes, these parties "share a clear nostalgia for the regime of executed President Nicolae Ceausescu as well as a pronounced extreme nationalist posture that is an extension of Ceausescu's 'national communism'" (Shafir 1995, 42). In the 1992 elections, for instance, PRNU promised to restore state coordination of the economy (Shafir 1992) and gain competitiveness in Third World markets rather than in Western markets. The Socialist Labor Party argued that Romania should regain its traditional ties with former communist states and with the Third World and that these relationships should be "always based on equality, equity, and mutual advantage" ("PSM Favors...," 36). These parties are probably better known for their xenophobic nationalist policies rather than their extremely conservative economic policies, but nonetheless these parties are making appeals that are clearly opposed to the economic reform process. The Romanian extremists have been much more successful than their extremist cousins in other countries. In the 1992 parliamentary election, the PRNU garnered 7.71 percent of the vote, while the GRP and the SLP gained 3.89 and 3.03 percent of the vote, respectively (Shafir 1992c). Together they won 59 seats in a 341 seat lower house and they won 25 seats in the 143-seat upper house. The PRNU presidential candidate Gheorghe Funar got 10.87 percent of the vote. Their electoral success is certainly related to their xenophobic platforms. But nationalist platforms do not have to be accompanied by conservative economic policies. For instance, the Estonian National Independence Party opposes citizenship for Russians in Estonia but is a free- market party (Fitzmaurice 1993). If conservative economic policies do not have support in society, the Romanian parties probably would not have such platforms.

The electoral success of the Romanian extremists was then followed by their participation in government. Before the election, a large portion of the incumbent National Salvation Front (NSF) split off from the party and formed the Democratic National Salvation Front (DNSF). In 1992, the DNSF was most successful with 27.71 percent of the votes and 117 seats out of 341. However, with only 34.3 percent of the seats in the lower house, the DNSF would seek out coalition members and support parties. The extremist parties acted as support parties for a minority DNSF government, but continued to apply pressure to enter government. By January 1995, each of these extremist parties joined the coalition officially. However their influence seems to have been tempered. The government is concerned about its international image and, as a result, would rather appear to be moderating the extremists than appear to be influenced by those extremists. Thus, with the IMF looming large over governments in Central and Eastern Europe, governments are constrained in the policies they implement, if they want to continue to seek the favor of the international community.

In Table 7.3b below I list predictions about the emergence of extremist parties under the social cost and spatial context hypotheses as I did for the Central European cluster of countries. The evidence in Table 7.3 shows less support for the social cost hypothesis. In Bulgaria, the extremist parties that did emerge were extremely weak electorally even though the government initially implemented a higher-cost reform model. In Romania, in contrast, three economically and socially extremist parties garnered nearly 15 percent of the vote in 1992. Thus, not only is Romania one of the few places in the region in which extremist parties have emerged, they have also been the most successful (if the goal of a party is to enter government in order to influence policy).

In this region with a lack of anti-reform parties, economic extremist parties have appeared under conditions of varied social cost in this study, contrary to the social cost model. Indeed, at the beginning of the transition, it appeared as if higher-cost reform would generate mass disaffection and extremist attitudes, but there is no evidence to support this fear. Extremists have been most successful in a lower-cost reform case. And the success of those extremist parties is due to the fact that the spatial context of politics was such that voters disaffected with the government over of the pain of the transition would be more likely to support no reform than a "more gradual" reform program. The emergence and success of extremist parties in these cases supports the spatial context model. But the spatial context argument also suggests that there will be cross-national differences in public opinion as well. I turn to an examination of public opinion in the next section.

Table 7.3b: Support for Hypothesis
On the Emergence of Extremist Parties in the Balkans

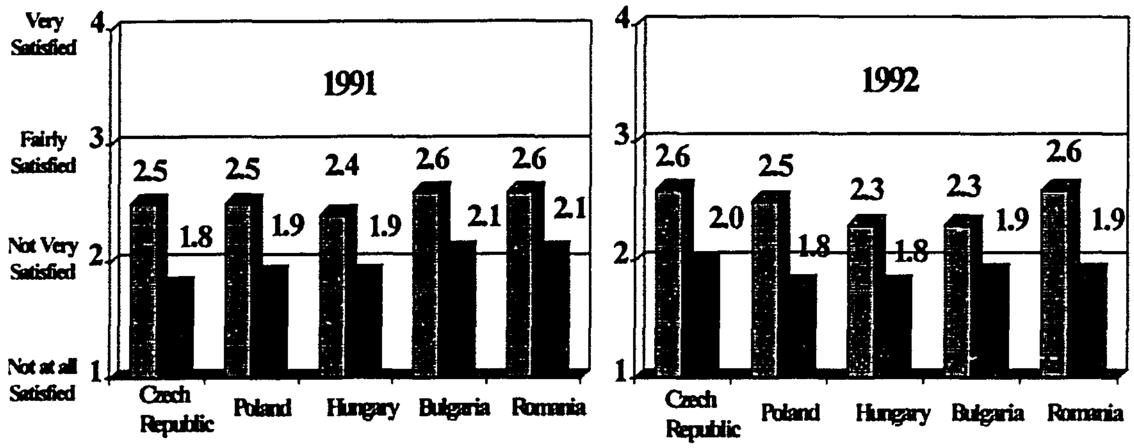
	Bulgaria Higher-cost Reform	Romania Lower-cost Reform
H 7.1: Social Cost Hypothesis Predicts Extremist Party	Yes	No
H 7.2: Spatial Context Hypothesis Predicts Economic Extremist Party	No strong parties	Yes
Did Extremist Parties Emerge? (Left & Right-wing)	♦ BNRP 1.13% vote 1991	♦ PRNU 7.7% vote 1992 ♦ GRP 3.9% vote 1992 ♦ SLP 3.0 % vote 1992
Did Economic Extremist Party Emerge?	No notable parties	♦ PRNU 7.7% vote 1992 ♦ GRP 3.9% vote 1992 ♦ SLP 3.0 % vote 1992

Test 2: The Spatial Context of Opinion

Lower-cost reform led by parties with roots in the country's communist past can lead not only to more extremist parties, but it also gives way to a context of public opinion which could be adverse to democratic consolidation. Whereas under higher-cost reform, or under lower-cost reform led by liberal parties, government supporters will advocate the government's aim of market reform; government supporters under conservative reformers will not. This poses severe credibility problems for conservative reformers when the constituency that espouses market reform is also the constituency that opposes it.

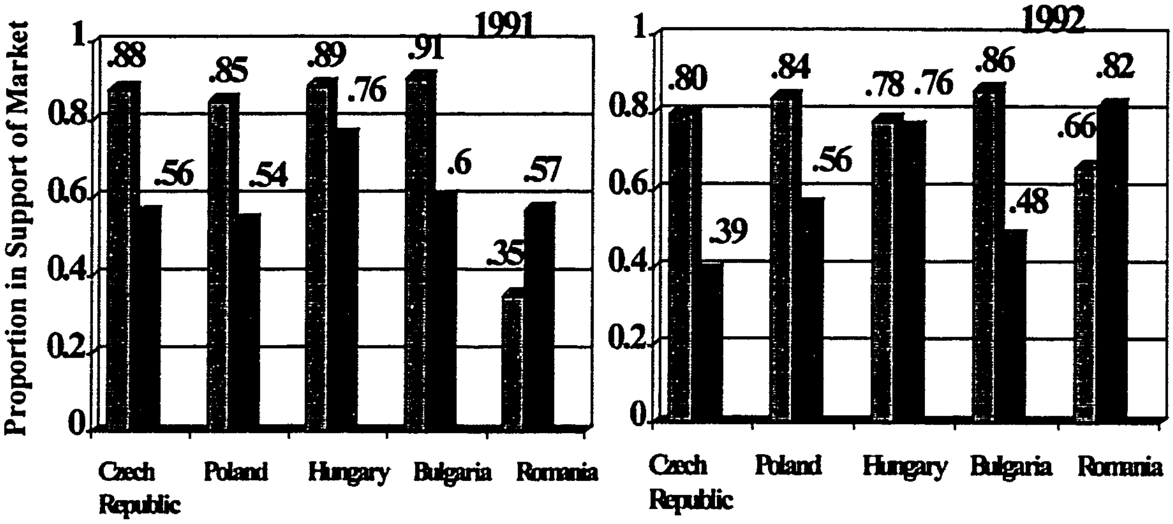
In Figure 7.1 I present the mean level of satisfaction with democracy in the Czech Republic, Poland, Hungary, Bulgaria, and Romania for incumbent and opposition party supporters. On the surface it does not appear that there is a difference in behavior between countries with conservative governments and those with other reform governments. In each case, incumbent supporters are more satisfied with the way democracy is developing in their country. And if we were viewing these data in a vacuum we might be most impressed with the Romanians -- the Romanian incumbent supporters are among the most satisfied with the way democracy is developing in their country in 1991 and in 1992. However, Romania made less progress towards democratic consolidation through 1991 than did the Central European countries.

Figure 7.1: Satisfaction with the Development of Democracy, 1991 & 1992



Thus, we cannot understand levels of satisfaction with democracy by comparing cross-national averages, nor can we understand what that satisfaction means by simply looking at cross-tabulations. If people are satisfied with democracy because their party won the election and if the government coalition has a large amount of support in society, we would expect a high mean level of satisfaction with democracy in the aggregate. But, at the same time, we should not necessarily expect a relationship between satisfaction with democracy and support for the market even though we often think of these as a package in the context of new democracies. If electoral winners are satisfied with democracy by virtue of winning, their views of market reform could still vary.

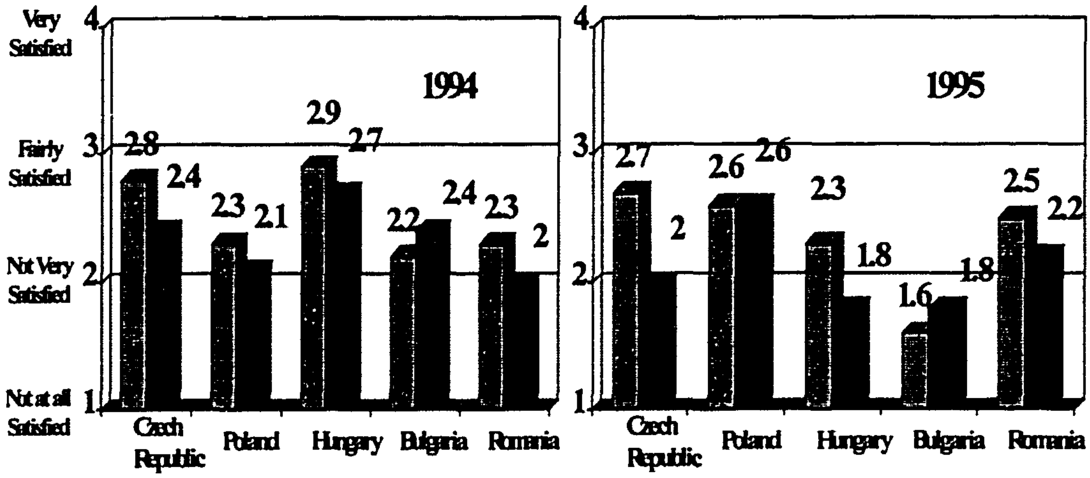
Figure 7.2: Market Reform is "Right", 1991 & 1992



In Figure 7.2 above I present data on support for market reform in all five countries for both incumbent and opposition supporters. The survey team asked respondents whether market reform is right or wrong. The proportion of those who responded that market reform is right is listed in the figures.[3] In four of the five countries in 1991, approximately eighty to ninety percent of incumbent supporters claimed that market reform is right. In Romania, only about 35 percent of the incumbent National Salvation Front supporters responded that market reform was right in 1991. This proportion is lower than incumbent and opposition parties in all five countries in both years. That is, Romanian incumbent supporters as a group in 1991 were the most opposed to market reform even though it was their party's task to lead such a reform program. In 1992, the proportion of market reform supporters increased, but the overall pattern remained unchanged: government supporters in Romania were less market-oriented than were the opposition party supporters in the Democratic Convention. When reformers have a credibility problem to begin with, by virtue of their association with the old regime, their problems are intensified when the opposition can more convincingly claim to be the bastion of reform. It is difficult under these circumstances for a government to appear to be a sincere reformer, even if it is one.

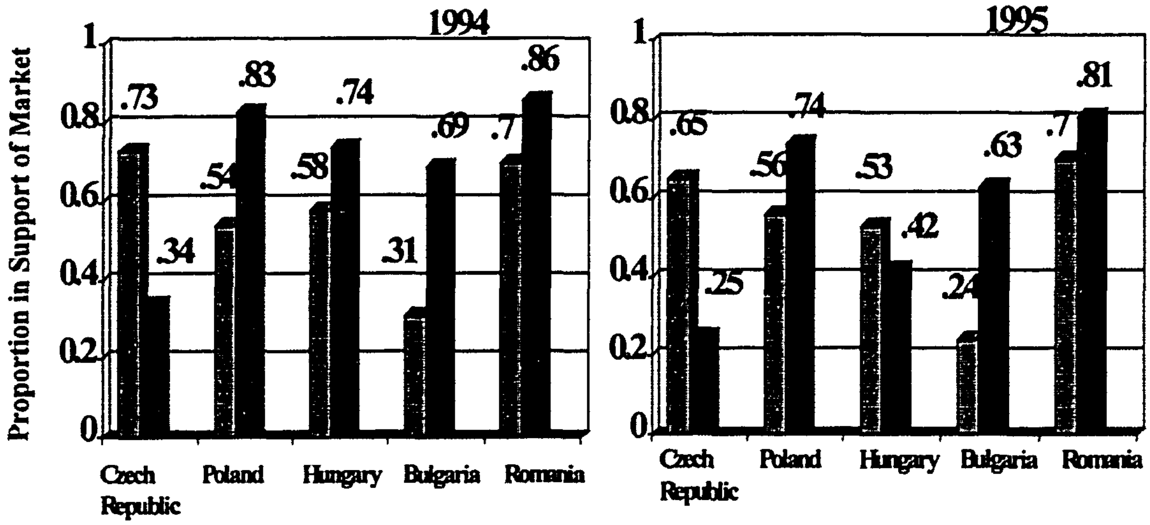
As the transitions progressed and liberal reformers were voted out across the region and were replaced by social democratic parties, the aggregate-level picture of public opinion began to change. Note Figure 7.3 below which presents satisfaction with the development of democracy in 1994 and 1995. In many instances here, the incumbent and opposition blocs are the inverse of what they were in the 1991 and 1992 figures: liberals made up incumbent parties in Central Europe in the earlier data, for instance, and those same liberals make up the opposition parties later. The Czech case is the exception since the same government remained in power throughout this period. This aggregate public opinion data indicates that we tend to have opposition party supporters who are more satisfied with the development of democracy, in fact, as satisfied as when they supported the government in 1991 and 1992. Certainly, there is still a relationship between incumbent support and satisfaction with democracy but one which will, perhaps, decline. This finding suggests that, over time, satisfaction with democracy should not be as highly related to government support as in the early years of the transition, a good sign for regime consolidation. An exception is Bulgaria where, by 1995, we observe a decline in satisfaction with the development of democracy. With reform policies that started out quite harsh and then slowed nearly to a standstill, it is difficult to maintain support for the process.

Figure 7.3: Satisfaction with the Development of Democracy, 1994 & 1995



As social democrats replaced liberals in Poland, Hungary, and Bulgaria we see patterns in support for market reform that are similar to that in Romania in 1991 and 1992. It is the opposition party supporters – supporters of liberal opposition groups – who tend to support market reform more so than do government party supporters. Certainly this pattern is to be expected. However, the pattern is more problematic in the earlier years of the transition when it is particularly important to build support for and participation in reform efforts, participation that was more established in Central Europe, for instance, by the time the social democratic parties were voted in. In Figure 7.4 below we also see declining support in Bulgaria for market reform, in line with the decline in satisfaction with the development of democracy.

Figure 7.4: Market Reform is "Right", 1994 & 1995



In general, in the initial reform period, the period in which the initial reformer implemented their reforms, we see that that Romanian government supporters in the aggregate are less market-oriented than are opposition supporters even though they are satisfied with the development of democracy. These results support the spatial context hypothesis. However, I test this argument at the individual level below to allow for demographic and behavioral variables to be included in the model.

Individual Level Analysis

To examine the link between party support and satisfaction with democracy and the market at the individual level, I predict support for incumbents versus opposition parties using the Central and Eastern Eurobarometer. I examine how government supporters and their primary opposition bloc supporters differ in attitudes towards the market and democracy. In cases of reform implemented by democratic opposition parties, their primary opponents are those parties advocating slower reform programs (as I discussed in the previous section). In the Romanian case, the opposition is the more liberal Democratic Convention.

The Eurobarometer survey asks respondents whom they would support if an election were held this Sunday (or the earliest possible day given election laws). I am particularly interested in the choice of the incumbent coalition versus the opposition, however I include other choices as well in a multinomial logit model.[4]

The two primary explanatory variables are satisfaction with the development of democracy and support for market reform. In addition, I include the four economic assessment indicators: retrospective sociotropic, retrospective pocketbook, prospective sociotropic, and prospective pocketbook indicators.[5]

In Tables 7.4a-c, I present the results of the multinomial logit models for the five countries in this study from the 1991, 1992, 1994, and 1995 Eurobarometer surveys. I do not include 1993 data because the vote choice question was only asked in Hungary that year. In Table 7.4a, I present the results of the analyses for the Czech Republic and Hungary. For the ease of presentation, I include only the key variables of interests, though the models also include the control variables used in Chapter V. In this pair of countries, we have one in which higher cost reform was implemented by liberals (Czech Republic) and one in which lower cost reform was implemented by parties considered liberal as well (Hungary). In the initial reform period in both countries, support for incumbents is positively related to satisfaction with the development of democracy. In the Czech case, however, government supporters are more clearly oriented toward market reform, perhaps a key reason for the differences in reform choices across these countries. Yet Hungarian government supporters are by no means anti-market.

Table 7.4a: Modeling the Vote for the Incumbent Party
Czech Republic and Hungary

	Czech Republic Higher Cost	Hungary Lower Cost	Statistical Difference
1991			
Retrospective Sociotropic	0.32 (.24)	0.14 (.22)	
Prospective Sociotropic	0.22 (.24)	0.72 (.22)***	
Retrospective Pocketbook	0.25 (.24)	-0.03 (.24)	
Prospective Pocketbook	-0.23 (.24)	-0.26 (.22)	
Market reform "right"	0.66 (.49)***	0.76 (.46)	
Satisfaction w/ democracy	1.20 (.33)***	0.63 (.25)**	
1992			
Retrospective Sociotropic	0.33 (.14)**	0.65 (.29)*	
Prospective Sociotropic	0.25 (.13)	0.19 (.24)	
Retrospective Pocketbook	0.05 (.13)	-0.16 (.29)	
Prospective Pocketbook	0.22 (.15)	0.58 (.26)**	
Market reform "right"	0.82 (.28)***	-0.03 (.44)	
Satisfaction w/ democracy	0.77 (.21)***	0.59 (.28)*	
1994			
Retrospective Pocketbook	0.28 (.13)*	0.26 (.13)*	
Prospective Pocketbook	0.65 (.15)***	0.17 (.11)	✔
Market reform "right"	1.18 (.26)***	-0.99 (.25)***	✔
Satisfaction w/ democracy	0.68 (.18)***	0.19 (.16)	
1995			
Retrospective Pocketbook	0.21 (.13)	0.18 (.13)	
Prospective Pocketbook	0.44 (.14)***	0.21 (.12)	
Market reform "right"	0.99 (.24)***	0.25 (.22)	
Satisfaction w/ democracy	1.06 (.17)***	0.62 (.14)***	✔
* p <.05; ** p <.025; *** p <.01			

Likewise, in Poland in the initial reform period (listed in Table 7.4b below), government supporters are not anti-market and they tend to be satisfied with the development of democracy in their country, though this variable is not quite statistically significant in 1991. As social democrats replace liberals in both of these cases, government supporters tend to be less oriented toward the market and, in the case of Poland, they even tend to be a little less satisfied with the development of democracy. In the Polish case, the change in governments did not bring a major shift in economic policy. The new opposition bloc is not as dissatisfied as it might be and, as a result, it is more difficult to distinguish between these groups based on their satisfaction with democracy.

Table 7.4b: Modeling the Vote for the Incumbent Party
Poland and Hungary

	Poland Higher Cost	Hungary Lower Cost	Statistical Difference
1991			
Retrospective Sociotropic	0.35 (.27)	0.14 (.22)	
Prospective Sociotropic	0.44 (.25)	0.72 (.22)***	
Retrospective Pocketbook	-0.04 (.25)	-0.03 (.24)	
Prospective Pocketbook	-0.10 (.25)	-0.26 (.22)	
Market reform "right"	0.93 (.53)	0.76 (.46)	
Satisfaction w/ democracy	0.62 (.33)	0.63 (.25)**	
1992			
Retrospective Sociotropic	0.43 (.19)*	0.65 (.29)*	
Prospective Sociotropic	0.24 (.19)	0.19 (.24)	
Retrospective Pocketbook	0.09 (.19)	-0.16 (.29)	
Prospective Pocketbook	0.03 (.20)	0.58 (.26)**	
Market reform "right"	0.50 (.40)	-0.03 (.44)	
Satisfaction w/ democracy	0.86 (.24)***	0.59 (.28)*	

	Poland Higher Cost	Hungary Lower Cost	Statistical Difference
1994			
Retrospective Pocketbook	-0.13 (.14)	0.26 (.13)*	
Prospective Pocketbook	0.25 (.15)	0.17 (.11)	
Market reform "right"	-1.16 (.28)***	-0.99 (.25)***	
Satisfaction w/ democracy	-0.30 (.17)	0.19 (.16)	✔
1995			
Retrospective Pocketbook	0.12 (.10)	0.18 (.13)	
Prospective Pocketbook	0.29 (.12)**	0.21 (.12)	
Market reform "right"	-0.88 (.22)***	0.25 (.22)	✔
Satisfaction w/ democracy	-0.18 (.14)	0.62 (.14)***	✔
*** p < .05; ** p < .025; *** p < .01**			

In the Balkans presented in Table 7.4c below, government supporters are much more likely to be satisfied with democracy. In addition, support for market reform strongly divides opposition and government supporters. In Bulgaria, Union of Democratic Forces supporters are more likely to favor market reform than are supporters of the Bulgarian Socialist Party. In Romania, however, the supporters of the incumbent National Salvation Front (or the Democratic National Salvation Front in 1992) are more likely to oppose market reform than are supporters of the Democratic Convention, even after controlling for satisfaction with democracy and views of the economy. So, an NSF and a Democratic Convention supporter, like-minded in their views of the economy and equally satisfied with democracy, are likely to have different views of market reform. By 1994 with the Bulgarian Socialist Party in the Bulgarian government, both countries have less reform-oriented constituencies supporting the government that is charged with reforming the economy.

Table 7.4c: Modeling the Vote for the Incumbent Party
Bulgaria and Romania

	Bulgaria Higher Cost	Romania Lower Cost	Statistical Difference
1991			
Retrospective Sociotropic	0.09 (.12)	0.35 (.15)**	
Prospective Sociotropic	0.60 (.14)***	0.13 (.16)	✔
Retrospective Pocketbook	0.03 (.14)	0.14 (.13)	
Prospective Pocketbook	-0.08 (.14)	0.20 (.15)	
Market reform "right"	1.25 (.34)***	-0.73 (.25)***	✔
Satisfaction w/ democracy	0.37 (.17)*	1.39 (.21)***	✔
1992			
Retrospective Sociotropic	0.38 (.12)***	0.13 (.10)	
Prospective Sociotropic	0.48 (.13)***	0.33 (.11)***	
Retrospective Pocketbook	0.21 (.13)	-0.11 (.11)	✔
Prospective Pocketbook	-0.02 (.13)	0.16 (.11)	
Market reform "right"	0.80 (.28)***	-0.75 (.25)***	✔
Satisfaction w/ democracy	0.73 (.16)***	0.38 (.14)***	
1994			
Retrospective Pocketbook	0.32 (.14)*	0.17 (.09)	
Prospective Pocketbook	-0.31 (.12)**	-0.10 (.09)	
Market reform "right"	-1.67 (.30)***	-0.84 (.21)***	✔
Satisfaction w/ democracy	0.14 (.16)	0.59 (.11)***	✔
1995			
Retrospective Pocketbook	0.24 (.09)**	-0.01 (.09)	✔
Prospective Pocketbook	-0.13 (.10)	0.18 (.10)	✔
Market reform "right"	0.45 (.23)	-0.31 (.21)	✔
Satisfaction w/ democracy	0.40 (.12)***	0.27 (.12)*	
*** p < .05; ** p < .025; *** p < .01**			

In general, in the cases of higher-cost reform implemented by liberal reformers (Poland, Czech Republic, and Bulgaria) and in lower-cost reform implemented by liberals (Hungary) incumbent supporters are also more likely to say that market reform is right. In the Poland and Hungary, however, the relationship is not statistically significant which suggests that after controlling for other satisfaction and demographic measures, incumbent and opposition party supporters are about equally inclined to say that market reform is good. In Bulgaria and Romania, issues of market reform are much more divisive, a cleavage that is problematic for the continuation of economic reform. In Romania, the situation was worse initially because those people who were less oriented toward market reform were also the reform government's own constituency. However, just selecting a higher cost reform program does not guarantee success and, in the case of Bulgaria, the coalition for the higher cost program was fragile and unraveled even faster than it did in Central Europe. Reforms were slowed and the country continued in a downward spiral and faced increasing political untenable options. In neither case were conditions good for reform, with a public divided over the idea of the market and, regardless of the reform choice, politicians have had difficulty sustaining the reform programs. One problem in sustaining the reform programs came in this initial reform period as reformers sought to gain support for their policies and, equally important, participation in the new economy. It is on the second issue in which it is particularly problematic to take the lower cost reform path.

Credible Commitment

In this chapter, I have assumed that it is important for reform governments to have a constituency that supports reform and that the presence of extremist parties can be detrimental to the success of the transition. It is certainly critical for politicians seeking to reform the economy to avoid both of these outcomes.

In terms of public opinion towards the market, if a reform government does not have a pro-market constituency, it creates problems on two fronts. First, the reform government cannot for long implement reform without the support of its constituents. Opposition parties will not support the government in its reform effort -- it is their job to oppose the speed of reform, to point out what policies are implemented at the expense of others, and to highlight what sector is subsidized over others, and so on. Opposition party constituents are not going to provide support for the reform government. If the government's constituents oppose the reform program, the government will feel the pressure to slow or end the implementation of those policies. A government may set out to reform, but if its own constituents do not support it, it will probably bow to the pressure they place on it. A reform government without a reform constituency cannot remain a reform government for long.

But let us assume that a government could be steadfast in its market reform efforts even with constituents opposed to those policies. The government has a second problem: it does not look like a sincere reformer. Parties viewed as conservative in the first place are going to have to work harder to convince citizens that they are sincere in their pronouncements of reform and that the citizens (or outside investors) should participate in the economy. The government has an incentive to initiate reform, gain participation, and renege through taxes, regulation, nationalization, etc. Potential participants would use cues to deduce whether the government is sincere. If the citizen observes a conservative (perhaps post-communist) government promising to reform, he will be more leery than if he observes a new democratic reform party at the helm. If the citizen observes that the conservative government implemented gradual rather than rapid reform polices, he might also be more leery. But if on top of this, he observes that the government's own constituency opposes the policies it is implementing, he should be leery indeed. The government would have a severe credibility problem under these circumstances. It is important for a reform government to have pro-reform constituents.

In this chapter I have presented evidence that the constituency of Romanian reformers did not even support the idea of market reform (a case of lower-cost reform implemented by conservatives). The government's own constituents were not its allies in the reform process. Its possible allies could be found in the liberal opposition Democratic Convention. The question, then, is whether the National Salvation Front had a chance at winning over the support of the pro-market segment of the population. Had the reformers implemented a rapid reform program, they may have been able to undercut the economic platform of the Democratic Convention and could have been viewed as liberal reformers by the population as a whole. Certainly, the NSF would have made new enemies under these circumstances, but it could have also gained a constituency in favor of reform. By choosing rapid reform policies alone, the government would have looked more sincere. But this act may have also brought it some pro-reform constituents that would have increased its reformist image even more. This is critical if one's goal is to reform the economy (which may or may not have been the government's goal in the Romanian case). Clearly, the Romanian NSF may have lost the initial election on a rapid reform platform, but this only highlights the dilemma that post-communist parties will face if they can succeed in winning the founding election. If they bow to their constituency, they may end up reforming very little. In the end, they may be ousted because they have reformed so little (as opposed to getting voted out for reforming too much).

I also argue that lower-cost reform initiated by conservative governments is more likely to generate extremism than higher-cost reform. Certainly extremist parties have not replaced lower-cost reformers from 1989 through 1999, but even so, their presence in the early stages of the transition can be harmful to the consolidation of democracy. The emergence of relatively influential extremist parties could also cast doubt on the sincerity of the reform program. If politics shifts to the left and if economic extremist parties come to play a role in government (as support parties or as formal coalition members), this sends yet another signal to potential participants in the economy that the government is not a credible reformer. It is important under these circumstances that the reform path not breed opposition which could stop or reverse the reform program altogether. But even if we could assume that no reform program is threatened by take-over from hostile forces, the presence of extremists can mar the appearance of the reform policies in general.

Endogeneity: Policy Preferences and Choices

Certainly there is a relationship between the policy preferences of the National Salvation Front in Romania and its choice of a lower-cost reform program. Furthermore, assume that a relationship exists between Romanians and the party bloc they selected to lead the reform process – the National Salvation Front. Perhaps, then, there is a relationship between conservatism in Romania and the emergence of extremist parties. Extremist parties emerged because Romanians, in general, are more conservative than are citizens of other countries. Romanians elected conservatives who opted for conservative economic policies and were challenged by more conservative forces, independent of the "spatial context" of economic reform. While it is impossible to say what would have happened if the Romanian Democratic Convention had won the founding election, we can speculate as to what opposition would have emerged had they been victorious. The most likely scenario is that the National Salvation Front would have continued to be active in politics and to appeal to disgruntled voters by advocating lower-cost economic policies. The NSF under this scenario would have appealed to the most disgruntled voters, it would have ultimately won the election, and continued with economic reform, perhaps with more social guarantees or subsidies to key constituencies.

Under this hypothetical scenario it is instructive as well to ask whether, during the rule of the NSF, extremist parties would have emerged. That is, if the Democratic Convention won the founding election and the NSF won the following election, it is unclear whether more conservative parties would have challenged the NSF at this later date. Simply observing Central and East European transitions suggests that politics does not continue to shift to the left. Perhaps the initial reform period is more likely to generate widespread disaffection and, as reform progresses, we are less likely to observe extremist parties (in countries that have made it to that point in the transition). If this is the case, it suggests that it may be critical to choose policies in the initial reform program that will not evoke such extremist disaffection.

Does Reform Continue to Slow?

After the founders of a new regime introduce their reform programs and as the social cost of reform increases, a critical mass of the public will push for slowing down reforms. Incumbents implement reform, challengers promise to slow it, challengers replace incumbents, and the new government slows down reform. If this dynamic continues, then reform would be stopped altogether after several elections. We are fortunate that we do not observe this dynamic in these countries. However, given the five cases presented here, it is not a surprise that reform has not ended altogether. These are countries that entered the transition with a fairly large base of support for economic and political reform, particularly compared to some countries in the Former Soviet Union. Even in the Balkans where post-communist forces had a large measure of support in the founding elections and where governments have struggled to maintain a consensus for reform, democratic opposition parties also enjoyed fairly broad support. So while support for the democratic opposition could have been stronger, these parties remained important political forces representing support in society for fundamental economic and political change. With broad support for change, we would not expect that the drive for change would slow to a stop.

In fact, in this chapter, I present one-half of the Romanian story – there was pressure from a large portion of society to slow reform, yet Romania lacked a clear pro-market alternative that made such a promise. With its choice of a lower-cost reform program, the government created this context which fostered strong anti-market parties by providing them with the opportunity to appeal exclusively to voters who wanted to slow reform. The other half of the story is that Romanian politics is not overrun with anti-market voters and, as a result, the future of market reform has remained an important political issue. This is evidenced by the 1996 elections in which the Democratic Convention won the presidential and parliamentary races. Enough citizens were disaffected by policies of the post-communist government and probably by the country's poor economic performance, that voters looked to liberal parties, not extremists, for this change. Such a change is certainly a better outcome for Romania than continued governing by the post-communist bloc, but better still would have been a strong economic program early in the transition, when citizens were probably more willing to shoulder the cost of the economic reform program.

Conclusion

In this chapter, I have argued that even though we should be skeptical about the link between the social cost of reform and economic and political assessments, at some point in the transition process people vote out their political leaders. Proponents of more tempered economic reform policies suggest that extremist parties will replace governments that implement harsh stabilization policies. Not only have we little reason to expect to observe this relationship, it does not have an empirical basis. As the cost of reform increases in their own country and preferences about the economic reform program form, people are likely to select a party which promises to cut the cost of reform. Such a promise is likely to gain much support regardless of the ideology of the reform government.

The key issue, however, is that cutting the cost of a radical, shock-therapy style reform program and of a more incremental economic reform program means something different. When high-cost reformers are replaced by opposition parties promising to cut the cost of reform, those opposition parties will slow reform. However, when opposition arises to lower-cost reform governments and promises to cut the cost of reform, those opposition parties might have a difficult time distinguishing their own proposals from the government's and, at the same time, remaining pro-reform. In fact, opposition parties in contexts in which the government is considered conservative will not be able to promise slower reform without espousing anti-market sentiments. As a result, the policies governments choose do affect whether a lower-cost reform or more extremist party will emerge to replace them. Policy choices will shape the nature of the reformer's electoral competition.

Furthermore, policy choices and the spatial context in which they are made shape the nature of public opinion. In most cases, government supporters will support that government's market orientation. Yet, if the government is a conservative one with conservative followers, the government supporters will be less oriented toward market reform than are supporters of the opposition. A conservative government with a conservative constituency will have a difficult time guiding a reform program that requires participation. The government will not appear committed to reform if it and its supporters are relatively conservative and opposed to the market. Market reform will be difficult, if not impossible, under these circumstances.

1. All countries have fringe groups. What I am concerned about in this study is how strong extremist parties are, not whether they got a handful of votes in an election. Stronger fringe parties will influence governmental policies either through conventional means (coalition participation or support) or unconventional (protest of a government policy) means.

2. There is a large and growing literature on the success of post-communist parties. Economic conditions have certainly created a context in which opposition parties that promote lower-cost reform would be popular in the eyes of the voters, but a poor economy has not guaranteed that post-communist parties (as opposed to some other lower-cost reform party) would be the successful contenders.

3. The proportion who say it is wrong is not the inverse since many respondents claimed it was hard to say.

4. Research in econometrics and recent work in political science has highlighted the independence of irrelevant alternative (IIA) assumption of the multinomial logit model. Under IIA, if a new party (Party E) enters the electoral arena, the ratio of the probabilities of selecting the original parties in the choice set (A/B, B/D, etc.) would remain unchanged. Multinomial probit, on the other hand, allows errors among the choices to

correlate and, as a result, does not assume IIA. The multinomial probit model is too computationally intense for models with more than three or four choices, but recently econometricians have developed simulation methods to reduce computation time. Consequently, it is possible to use the multinomial probit in the social sciences. But as with any statistical model, the multinomial probit model requires additional information (compared to the multinomial logit model) because the IIA assumption is relaxed. Specifically, to avoid "fragile identification" as Keane describes, the multinomial probit model requires explanatory variables that vary across the choices rather than across respondents (as is the case with most survey data). The data in this project lack choice-specific variables and, as a result, fall into some of the problems Keane identifies: a singular covariance matrix and convergence problems. Furthermore, it is unclear in this context what choice-specific variables might be collected to describe the groupings of parties used in this study -- opposition and government party groupings. In their work, Alvarez and Nagler use the ideological distance between the respondent and the party as a choice-specific variable. However, when parties are grouped together according to their coalition behavior, it becomes less clear how to characterize the choice of the coalition as a whole. Because of these problems, I use a multinomial logit model in this study.

5. There is a precedent to use such questions in studies of political behavior in Central and Eastern Europe. Political behavioral research suggests that economic disaffection is

an important factor in electoral behavior in post-communist states in general. In analyses of cross-national survey data, Raymond Duch (1995) finds that retrospective evaluations of the economy are determinants of support for the president in Russia, Czechoslovakia, Hungary, and Poland. Likewise, Hibbing and Patterson (1994) argue that economic evaluations determine trust in the parliaments of Central and Eastern Europe. Much work has been done on the 1993 Polish elections to the Sejm in which the former communist party (SLD) and a former ally of the communist party (PSL) defeated the incumbent parties who had implemented rapid economic reform policies. All studies find evidence for an economic explanation of the rise of these former communist parties (Wnuk-Lipinski 1993; Millard 1994; Gibson and Cielecka 1995; Mason 1995).

Chapter VIII. Conclusion

Politicians in Central and Eastern Europe have faced the monumentous task of leading the transition to new political systems and of restructuring their economies. Parliaments across the region have forged new constitutions which outline the political power structure in the country, have developed laws for political parties and interest groups, and have mapped out the relationship between the state and society. Because of the political resources that it requires to build new political institutions, and because of the possible instability that comes with it, it would appear that politicians are at a huge disadvantage if they must implement major economic reform along with political reform. According to some scholars, given these tasks (if done simultaneously), it is too much to hope that the new regime will succeed: economic reform may be incompatible with a democratic transition and political reform with an economic transition.

As I outline in Chapters I and II, higher-cost economic reform may lead to a series of political costs:

Political Costs of Reform

- Increased economic disaffection.
- Increases political disaffection and votes against incumbent reformers.
- Support for extremist parties.
- A return to authoritarianism.

We have less reason to be concerned about the first two costs above -- economic and political disaffection -- because they do not necessarily damage new democratic political institutions. In fact, we expect these costs to be present in any democracy and, to some degree, they are desirable. Changes in governments as a result of an election lead to government accountability to the electorate. If this disaffection leads to anti-democratic behavior, then we ought to be concerned about those costs of reform. The emergence of anti-reform parties that seek to undo market reforms or the popularity of xenophobic parties that foster an atmosphere of distrust could destabilize the political system.

However, what this project shows is that economic and political disaffection are prevalent in a new democracy and, in fact, exist regardless of cross-national differences in social cost. A higher-cost reform model does not lead to higher levels of economic and political disaffection during the tenure of incumbent reformers. The more dangerous political costs (support for extremists or a return to authoritarianism) are much less likely to be paid by these new regimes. Extremist parties have emerged and gained support, but these parties have largely played a marginal role in the politics of these countries. The key exception to this assertion is in Romania, a country which selected a gradual, piecemeal type of reform program -- ironically, a program that stopped short of inflicting the social cost of reform on the public swiftly in order to avoid the political costs of widespread disaffection. In this chapter, I will review why cross-national differences in social cost do not translate into differential political costs, what political costs reformers pay, what these costs suggest for the choice of an economic reform program, and what these findings such for future research.

A Review of Social Cost and Political Cost

The most general lesson from this study is that politicians who intend to reform the economy in a democratic state should not think of the relationship between social cost and political behavior as a simple one. The social cost model suggests a straight-forward, intuitive relationship between social and political costs:

<u>The Social Cost Model</u>

Reform Model → **Social Cost** → **Economic Disaffection** → **Political Disaffection**

The social cost model appears uncontroversial because we have evidence from public opinion in democratic societies that economic and political assessments are linked (Lewis-Beck 1998; MacKuen, Erikson, and Stimson 1992). In the United States, in periods of high inflation, we observe a decline in presidential approval ratings (Fair 1988; Monroe and Langlan 1983). Changes in policy and in economic performance impact political assessments. The social cost model is intuitive because, on its face, it is supported by much research in western democracies.

In this project, I do not dispute a link between economic and political assessments, nor do I dispute a link between social costs and economic or political assessments at the individual level or over time in one country. In this project, I argue that we cannot use the logic of the social cost model at the beginning of a transition to make policy prescriptions. When the social cost model is used to suggest a policy path, we tend to assume that if we implement an economic reform program with a lower social cost, politicians will be able to temper political costs as well. The problem is that people in a transitional country are acting without full information about the objective cost of their economic transition.

Cross-national differences in social cost will translate into differences in political cost only if the public has information about the differential social cost of its own reform path and some alternative path. Otherwise, people will just compare current economic performance to past performance. In every case of economic reform, economic performance declines at such a rate that people will view the reform as costly, regardless of how economists might measure the objective cost of the reform program. Given a similar political context (liberal democratic governments are the key reformers, for instance), we expect voters to behave basically the same way regardless of whether the government chose a higher- or lower-cost reform program. A critical mass will become disaffected and will support an opposition party that promises to slow reform and to make the reform process more bearable. Higher-cost reform countries will not suffer from more political fallout; they will not revert to authoritarianism. Disaffection over the economic and political situation will not differ systematically across higher- and lower-cost reform countries.

Disaffection over the Economic and Political Situation

Economic reform brings economic and political disaffection. The empirical evidence in this project suggests that politicians cannot temper that disaffection by implementing a lower-cost reform model. In Chapter IV, I examined cross-national differences in economic assessments and found no evidence that higher-cost reform programs generate grimmer views of the economy. In lower-cost Hungary and Romania, views of the economy were no more likely to be worse than in higher-cost Poland, Czech Republic, and Bulgaria.

Voters in lower-cost reform countries will not be thankful that their government did not implement a Polish-style shock therapy program and, thus, assess their economic situation more positively. Simply put, citizens do not have the incentive to collect information about the lower-cost reform choice and the harsh stabilization program alternative in order to consider what their lives may have been like under higher-cost economic reform. Further, if a person's economic situation has gotten worse and if there are opposition parties reminding her of this fact (which there certainly are), she will have negative assessments of the economy and will probably punish the incumbents. She will punish the incumbents regardless of how the objective cost of the reform program compares to the cost of reform in a neighboring country.

Indeed, the evidence from Chapter V suggests that economic assessments do not translate differently into support for incumbents under cases of higher and lower-cost reform. All governments get punished regardless of the specifics of their reform program. Governments face declining levels of support in the early years of the transition, though their remaining supporters believe that the country's economic situation will get better in the next twelve months.

Although governments face declining support and pay a political cost for their reform programs, they do receive one benefit in this initial reform period. Evidence from Poland provided in Chapter VI suggests that reformers benefit from a period of "extraordinary politics" at the beginning of the transition. In line with evidence from East Germany that objective economic indicators do not predict economic assessments in the first few years of reform, in Poland, economic assessments do not affect political assessments in the first two years of the transition. In general, under the harsh economic circumstances in Poland and the unfavorable political climate, Poland experienced a period of extraordinary politics of about eighteen months after the onset of its economic reform program. Through the implementation of the well-known shock therapy program and through a presidential election, the Polish public associated its assessment of the economy with its assessment of politics relatively weakly. After extraordinary politics passed, poor views of the economy translated directly into poor views of politics.

Given this reprieve that Polish reformers gained at the beginning of the transition, it is instructive to ask whether reformers could have increased the length of this period and how they may have done so. Perhaps reformers would have had a longer period of extraordinary politics with a less painful reform program. Under a lower-cost reform program, less pain in the economic front would have translated into a more forgiving public. Thus, more tempered economic policies could bring a longer period of extraordinary politics. This is not likely. First, in the Polish case it was *months* after shock therapy was initiated that the Poles as a whole started to associate their views of the economy with their views of politics. If the high cost of reform translates into low public assessments, then we should have observed higher negative ratings in Poland much earlier. Second, the data in Chapters IV and V suggest that we should not expect to observe such a dynamic. The only way that differing costs of reform would translate into different assessments of politics is if the public has experienced both higher- and lower-cost reform alternatives and knows the cost of both from experience, or if the public was made up of economists who could calculate the costs of reform under various reform options and punish the higher-cost reformers accordingly. A lower-cost reform program would not lengthen the period of extraordinary politics because the public does not know the difference between reform alternatives and, as a result, does not act accordingly. It is unlikely that Polish politicians could have increased their period of extraordinary politics with a less painful economic reform program.

It is possible, however, that the Poles could have increased their period of extraordinary politics if they had not had election after election. Leszek Balcerowicz argues that extraordinary politics is made possible because political preferences have not been formed. Certainly elections force people to think more critically of the politicians, their policies, and how these policies will affect their lives. Through an election people may more quickly form opinions about those policies and may then link policy outcomes to government policies. If Balcerowicz is correct about the reason for extraordinary politics, we would probably observe a strong relationship between views of politics and economics in countries with many elections. So it is possible that Polish politicians may have enjoyed a longer period of extraordinary politics had they been able to put off their elections to the presidency and parliament. Indeed, it is probably not a coincidence that the end of extraordinary politics in Poland came during the campaign for the 1991 parliamentary elections. It is unlikely that they could have enjoyed a period of extraordinary politics for *years* longer in the absence of the elections, but this is certainly an empirical question that should be explored in other contexts.

This evidence from a single democratizing country has general implications for other countries facing an economic and political transition. However, these findings may also suggest a broader research agenda, one which would extend the concept of extraordinary politics beyond cases of regime change perhaps to major changes in coalitions or leaders. This project provides evidence for one clear case of extraordinary politics which stands in contrast to the period of normal politics in Poland and to the years of normal politics in the American case. If the Clinton administration in the United States represents a clear case of normal politics and Poland from late 1989 through the summer of 1991 represents a clear case of extraordinary politics, what we need is a theory of extraordinary politics which would help us identify cases of extraordinary politics which lie between the United States and Poland. A theory of extraordinary politics would allow us to identify circumstances in which politicians will benefit from extraordinary politics which, in turn, will help politicians determine the degree of risk to take in implementing major policy change.

In addition, a theory of extraordinary politics could describe more systematically the type of information voters have (or lack) that make the period possible and, at the same time, that might bring the period to an end. We know that information is less accessible to voters in a transition since they do not have experience with the new political or economic institutions (experience which would otherwise give them a base of knowledge about what to expect of those new institutions). Indeed, this lack of information is what casts such serious doubt on the social cost model. Yet, we know little about the dynamic of opinion formation in such a changing political environment that such a question should also serve as the basis for future research. If we can learn more about opinion formation in this important period, it will also tell us about what political costs will be associated with reform and when politicians will pay those costs.

Beyond extraordinary politics, further study of this initial reform period will give us more insight into the political psychology of participants in a regime transition context. We have evidence that voters are prospective and I have argued that they lack the amount of information necessary to compare reform options in a rigorous way. I suggest as well that opposition parties emerge to provide people with information that is critical of government policy. However, the dynamic between information, opinion formation, and political parties in this context is certainly an important area for further research.

Rise of Extremist Parties

If the political cost of reform is limited to declining economic and political assessments, we have less reason for concern than if extremist parties emerge to join government coalitions and adversely affect the future of the democratic system. Since poor economic and political assessments are no more likely to be present in higher-cost than in lower-cost reform programs, we would not necessarily expect extremist parties to be more likely to appear in these contexts. And certainly, the evidence in Chapter VII suggests that higher-cost reform countries are no more likely to have xenophobic or economically extremist parties emerge to destabilize the political scene than are lower-cost reform countries. All countries have their share of extremist parties and movements and none are so influential that we should be concerned for the political system.

The one important exception to this statement, however, is Romania. In Romania, economic extremist parties gained nearly 15 percent of the vote in the 1992 election and became government support parties. In Chapter VII I argue that the emergence of extremist parties in this case was the result of the economic reform path of the government. The conservative government with roots in the communist era selected a conservative economic reform plan and, as the pain of the transition increased, people supported parties which sought to slow reform down even further -- to slow it down to a stop. These parties sought to return to the days of a communist economic system. Had the government selected a shock therapy style reform program, it would have been associated with liberal policies and left room in the political space for a "gradual reform" party to emerge as its chief electoral opponent.

After some years on the reform path, the Romanian political system has not unraveled and the liberal opposition did best the conservative government parties in the 1996 presidential and parliamentary elections. However, the Romanian government lost critical opportunities to reform the economy early during the initial transition period, during the period of extraordinary politics. Its anti-market constituency probably did not help the government overcome its credibility problem and attract more foreign investment. While even Romania has not paid the ultimate political cost a new democracy faces, its reform decisions led to a spatial context of reform that fostered extremism and jeopardized its prospects for economic and political consolidation. The reform choice that the Romanian government made in 1990 was critical and the findings in this project suggest that the choice that it did make was sub-optimal for economic reform.

Yet what was beyond the scope of this project was an investigation of the relationship between the context of public opinion and participation in the emerging market economy. We would expect that observing government supporters who do not support the free market would keep potential participants from entering the economy. Future research could consider the problem of credible commitment of the Romanian and Bulgarian governments in 1991 – what signals the government sent about its commitment to the free market and how potential participants responded. Through all of the governmental changes in Romania and Bulgaria, including the use of extremist parties as support parties in Romania, it is unclear how that affected the behavior of potential participants. The choices governments make create a context of opinion about market reform and also a context of participation in the new economic institutions, participation which should also affect the social cost of reform. It is possible that lower-cost reform creates a higher social cost of reform because it sends to wrong signal to potential participants about the government's commitment to reform and, as a result, fewer people invest in the economy.

Optimal Reform Choices

Taken together, the evidence in this project – that higher-cost reform programs do not increase the political cost a reformer faces – suggests that if a politician chooses to reform and if he cannot lengthen his tenure in office by selecting a lower-cost reform program (or if he will face an even angrier public in the lower-cost reform future), the reformer ought to choose policies which promise the most far-reaching changes. Reformers whose terms are not cut short by the collapse of a coalition may have several years to reform the economy before the next election. These reformers can probably count on being replaced by the opposition parties, but perhaps their reform programs would have been thorough enough that the cost of reversing those policies by the opposition would be too great. Indeed, these reformers may be able to reform the economy to an extent that the discussion of how to implement reform policies would cease to be a salient political issue. As a result, politicians should consider first what economic policies will be most effective in the context of their country rather than how they might stay in office longer. After all, they probably cannot extend their time in office by making a different policy choice.

Given the problems with the social cost model and the empirical results in this project, politicians have little reason to reject harsh reform programs outright. In many cases, politicians may be free to choose policies that come at a high social cost without fearing immediate retribution. They will be granted a reprieve in the period of extraordinary politics and, at the same time, cannot expect their supporters to calculate the social cost of some reform program they could have selected (and punish them accordingly). As a result, politicians cannot expect to make any political gains by choosing a lower-cost-reform program and, in fact, have little incentive to do so if they are simply putting off the inevitable reform policy in order to secure their political future.

However, under some circumstances, harsh reform policies may be the *only choice* for politicians seeking to reform the economy. In particular, in those cases in which a conservative party wins the founding election, higher-cost reform will send a signal to potential participants that the government is sincere in its policy proposals and will virtually guarantee that the government will have pro-reform constituents. In addition, the natural opposition under higher-cost reform will be a lower-cost reformer. In higher-cost reform countries (and in lower-cost cases when the incumbent reformer is considered "liberal" by the public), the winning position for the opposition appears to be a lower-cost reform position, *not an anti-reform platform.* What these findings suggest is that conservative parties, particularly communist successor parties, should choose higher-cost reform because *consolidation of democracy and market reforms could be much more tenuous if they select lower-cost reform.* This would certainly be unconventional given the ideology of such parties, but it may also be necessary for a successful transition to democracy and a free market economy.

Certainly, the primary implications for strategic politicians from this project address what politicians should have done in the early 1990s. This work sheds light on dilemmas politicians face when embarking on a new transition, but speaks less directly to those countries in Eastern Europe which, to this point, have made little progress in their transition. Yet, this project does have implications for countries such as Russia and those implications are fairly grim. Russian reformers implemented a shock-therapy-style program that it ultimately backed down on because of increased opposition. Russia had a window of opportunity to reform during its period of extraordinary politics. We have no reason to believe that Russia will benefit from another such period in the future. To make matters worse, Russians do have experience with market reform now and ought to be better able to assess objective economic performance that results from their reform program. Ironically, the social cost model may hold in Russia today. Jack Kemp's concern about the link between social cost and authoritarianism may be more real today than if he had stated it in 1991. Politicians avoiding the public's wrath in the early 1990s may have created a real dilemma for themselves by the end of the decade: they have turned a public that may have been more forgiving of them initially into that same public they feared in the first place.

Appendix A: Independent Variable Coding for Chapters V and VII

Retrospective Sociotropic:	*Compared to 12 months ago, do you think the general economic situation in (our country) has...* 1 = Got a lot worse 2 = Got a little worse 3 = Stayed the same 4 = Got a little better 5 = Got a lot better
Prospective Sociotropic:	*And over the next 12 months, do you think the general economic situation in (our country) will...* 1 = Get a lot worse 2 = Get a little worse 3 = Stay the same 4 = Get a little better 5 = Get a lot better
Retrospective Pocketbook:	*Compared to 12 months ago, do you think the financial situation of your household has...* 1 = Got a lot worse 2 = Got a little worse 3 = Stayed the same 4 = Got a little better 5 = Got a lot better
Prospective Pocketbook:	*And over the next 12 months, do you think the financial situation of your household will...* 1 = Get a lot worse 2 = Get a little worse 3 = Stay the same 4 = Get a little better 5 = Get a lot better
Market reform "right"	*Do you personally feel that the creation of a free market economy, that is one largely free from state control, is right or wrong for (our country's) future?* 1 = Right 0 = not right

Satisfaction with Democracy	*On the whole, are you very satisfied, fairly satisfied, not very satisfied or not at all satisfied with the way democracy is developing in (our country)?* 1 = Not at all satisfied 2 = Not very satisfied 3 = Fairly satisfied 4 = Very satisfied
Urban Dweller	1 = Village 2 = population less than 20,000 3 = population 20,000 - 50,000 4 = population 50,000 - 100,000 5 = population 100,000 - 500,000 6 = population 500,000 - 1,000,000 7 = population greater than 1,000,000 8 = Capital city

Note: the precise population breakdown varies from survey to survey, but they include 6 to 8 categories from village to capital city dwellers.

Age	*Respondent's age in years*	
Female	1 = respondent is female 0 = respondent is male	
Education	R*espondent education level:* 1 = elementary 3 = secondary graduate	 2 = some secondary 4 = higher education

Appendix B: Dependent Variable Coding for Chapter V

Dependent Variable:	1= respondent supports incumbent parties 0 = respondent will not support incumbent or has not made a vote choice

The lists below show which parties are coded "1"

Poland 1991	**1992**
Congress of Liberal Democrats	Congress of Liberal Democrats
Democratic Union	Democratic Union
Solidarity	Solidarity
Catholic Electoral Action	Catholic Electoral Action
Peasants Alliance	Peasants Alliance
Center Alliance	Center Alliance
	Beer Lovers Party
1994	**1995**
Democratic Left Alliance	Democratic Left Alliance
Polish Peasant Party	Polish Peasant Party
Czech Republic 1991	**1992**
Civic Democratic Party	Civic Democratic Party
Civic Democratic Alliance	Civic Democratic Alliance
Christian Democratic Union	Christian Democratic Union
	Civic Movement
1994	**1995**
Civic Democratic Party	Civic Democratic Party
Civic Democratic Alliance	Civic Democratic Alliance
Christian Democratic Union	Christian Democratic Union
Christian and Democratic Party	Christian and Democratic Party
Hungary 1991	**1992**
Hungarian Democratic Forum	Hungarian Democratic Forum
Smallholders Party	Smallholders Party
Christian Democratic Party	Christian Democratic Party
1994	**1995**
Hungarian Socialist Party	Hungarian Socialist Party
Alliance of Free Democrats	Alliance of Free Democrats

Romania 1991	**1992**
National Salvation Front	Democratic Front of National Salvation
Liberal Party Young Wing	
Democratic Agrarian Party	
1994	**1995**
Party of Social Democracy	Party of Social Democracy
Democratic Agrarian Party	Democratic Agrarian Party
Greater Romanian Party	Greater Romanian Party
Romanian Socialist Labor Party	Romanian Socialist Labor Party
Socialist Party	Party of Romanian National Unity
Party of Romanian National Unity	
Bulgaria 1991	**1992**
Union of Democratic Forces	Union of Democratic Forces
Movement for Rights and Freedom	Movement for Rights and Freedom
1994	**1995**
Bulgarian Socialist Party	Bulgarian Socialist Party
New Choice	

Appendix C: Dependent Variable Coding for Chapter VII

Dependent Variable: A categorical variable with categories for "incumbent" (defined in Appendix B), "opposition" (defined below), non-voters, and a residual category of "other."

Poland 1991	**1992**
Democratic Left Alliance	Democratic Left Alliance
Polish Peasant Party	Polish Peasant Party
1994	**1995**
Non-Party Bloc for Reform	Non-Party Bloc for Reform
Solidarity	Solidarity
Center Alliance	Center Alliance
Union of Labor	Union of Labor
Freedom Union	Freedom Union
Christian National Union	Christian National Union
Czech Republic 1991	**1992**
Communist Party of Bohemia and Moravia	Communist Party of Bohemia and Moravia
Czech Social Democratic Party	Czech Social Democratic Party
Czech Socialist Party	Left Bloc
1994	**1995**
Communist Party of Bohemia and Moravia	Communist Party of Bohemia and Moravia
Czech Social Democratic Party	Czech Social Democratic Party
Left Bloc	Left Bloc
Hungary 1991	**1992**
Hungarian Socialist Party	Hungarian Socialist Party
1994	**1995**
Hungarian Democratic Forum	Hungarian Democratic Forum
Smallholders Party	Smallholders Party
Christian Democratic Party	Christian Democratic Party
Alliance of Young Democrats	Alliance of Young Democrats

Romania 1991	**1992**
National Peasant Party	Christian and Democratic Peasant Party
Civic Alliance	Civic Alliance
Ecological Movement	Democratic Coalition
Ecological Party	Hungarian Democratic Union
Social Democratic Party	
Hungarian Democratic Union	
1994	**1995**
Civic Alliance	Civic Alliance
Ecological Movement, Party	Ecological Movement, Party
Democratic Party, Democratic Union	Democratic Party, 93 Liberal Party
93 Liberal Party, National Peasant Party	National Liberal Party, National-Liberal P
National Liberal Party, National-Liberal P	Social Democratic Party
Bulgaria 1991	**1992**
Bulgarian Socialist Party	Bulgarian Socialist Party
1994	**1995**
Union of Democratic Forces	Union of Democratic Forces

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EDUCATION

INDIANA UNIVERSITY
Department of Political Science
Doctor of Philosophy, 1999
Fields: Comparative Politics, American Politics, minor in Statistical Research Methods
Dissertation: "The Political Cost of Economic Reform in Central and Eastern Europe"
Committee: Robert Rohrschneider, John T. Williams, Edward Carmines, J. Scott Long, Jack Bielasiak

SANTA CLARA UNIVERSITY
Department of Political Science
Bachelor of Science, June 1992
Graduated *summa cum laude*; member Phi Beta Kappa

EXPERIENCE

SOCIETAS, INC.
Research Director, Education Policy Division, Spring 1998 – present.
Work with California public schools at each stage of the policy analysis process, particularly at the evaluation stage. In the 1999 calendar year, we have helped public schools gain over $2 million in state and federal grant funds.

INDIANA UNIVERSITY
Associate Instructor, Department of Political Science, Fall 1995 and Fall 1996. Taught "Introduction to American Politics" and "Building Democracies" (on institutional choices for new democracies).
Teaching Assistant, Department of Political Science, Fall 1993 – Spring 1997. Assisted with Introduction to American Politics, West European Politics, and Contemporary Revolutions.

PROFESSIONAL PAPERS

PUBLICATIONS
Amanda Rose, 1999. "Extraordinary Politics in the Polish Transition." *Communist and Post-Communist Studies*. June 1999.

UNDER REVIEW

Burt L. Monroe and Amanda G. Rose, "Electoral Systems and Unimagined Consequences: Partisan Effects of Proportional Representation."

"Retrospective Evaluations in a Polarized Society: Social Context and the Rise of Post-Communist Parties."

INVITED PRESENTATIONS

"Extraordinary Politics: Modeling the 'Honeymoon' in the Polish Transition." Presented at the University of Rochester Political Science Department, co-sponsored with the University of Rochester Center for the Study of Poland and Central and Eastern Europe. February 20, 1998.

CONFERENCE PAPERS

Burt L. Monroe and Amanda G. Rose, "Electoral Systems and Unimagined Consequences: Partisan Effects of Proportional Representation." Presented at the Annual Meeting of the *American Political Science Association*, September 1999, Atlanta, Georgia.

"Continuity in Polish Voting in 1921 and 1993: A Test of the Lipset and Rokkan 'Frozen Party Cleavage Hypothesis." Presented at the Annual Meeting of the *Western Political Science Association*, March 1999, Seattle, Washington.

"Modeling the 'Honeymoon' in Polish Politics." Presented at the Annual Meeting of the *American Political Science Association*, August 1997, Washington, D.C.

"Sachs Was Right: Economic Assessments Under Gradual and Rapid Economic Reform." Presented at the Annual Meeting of the *American Political Science Association*, September 1996, San Francisco, California.

"The Political Cost of Reform." Presented at the *Woodrow Wilson Junior Scholars' Training Seminar*, August 1996, Washington, D.C.

"Incumbents and the Cost of Reform in Central and Eastern Europe." Poster presentation at the annual *Political Methodology Conference*, July 1996 Ann Arbor, Michigan.

"The Political Cost of Economic Reform in Post-Communist States: A Case for Rapid Economic Reform." Presented at the 54th Annual Meeting of the *Midwest Political Science Association*, April 1996, Chicago, Illinois.

William Morgan and Amanda Rose, "Specification Tests for Logit Models." Presented at the *IU Political Research Conference*, September 1995.

"Economics and Party Resources: The Rise of the Left in Poland." Presented at the Annual Meeting of the *American Political Science Association*, August 1995, Chicago, Illinois.

OTHER PROFESSIONAL ACTIVITIES

INDIANA UNIVERSITY DEPARTMENTAL SERVICE

1995-96: IU Political Science Graduate Student Association President
1995: Coordinator of the Indiana University Graduate Student Political Research Conference

REVIEWER

American Journal of Political Science, International Studies Quarterly

MEMBER

American Political Science Association, Midwest Political Science Association, Western Political Science Association, American Association for the Advancement of Slavic Studies, American Evaluation Association, American Educational Research Association.

FOREIGN TRAVEL

Poland, Hungary, Czech Republic, May-July 1994.
Poland, Hungary, Czechoslovakia, East and West Germany, Denmark, Sweden, Norway, June-August 1990.

CONSULTANT

Reader, Educational Testing Service's Advanced Placement Exam in American Politics. June 1997-98.
Research Associate, Market Strategies, Inc., September 1997 to April 1998. Data Analysis projects including discrete choice models (vote choice, brand choice) and Partial Least Squares structural equation models. Worked on models of vote choice for the Political Consulting Division.

RESEARCH INTERESTS

COMPARATIVE POLITICS

My primary research area has been in political behavior in Central and Eastern Europe. I will continue my dissertation research on voting and public opinion under different contexts of economic policy as well as research on contextual effects on vote choice and research on Polish elections in the 1920s and 1990s. With contacts at the National Endowment for Democracy and their focus on Civic Education in Central and Eastern Europe, I may also bridge my education policy work with my interest in the post-communist world.

POLICY

In my work in education policy analysis, we have a number of projects that are likely to yield important findings on educational reform programs. With my partner and clients, I will continue to pursue this line of research. In addition, I am interested in introducing better research techniques into the field of policy analysis, particularly in the education area. I am currently working on a project with John Williams and Patrick Brandt at Indiana University that applies new time series techniques to well-known policy evaluation questions.

REFERENCES

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