Chapter forthcoming in Batory, Agnes, Andrew Cartwright Andrew and Diane Stone (2018): *Policy Experiments, Failures and Innovations Beyond Accession in Central and Eastern Europe*, Edward Elgar.
https://www.e-elgar.com/shop/policy-experiments-failures-and-innovations

<fresh page>
<cn>2.<em><ct>When does policy diffusion affect policy instability? Cases of excessive policy volatility in welfare policies in East Central Europe

<au>**Achim Kemmerling and Kristin Makszin**

<a>2.1 INTRODUCTION

The last 25 years have revealed a remarkable incongruence in Central and Eastern Europe (CEE) transition countries: while the region has seen a considerable and in many ways successful political and economic transformation, recent changes have often gone, in one way or another, ‘backward’. Such changes include renationalizing programmes and sectors that were privatized, or first introducing user fees for health care and then abolishing them. Numerous examples could be found for what in our view constitutes *excessive policy volatility*. By excessive we mean that these policy changes are too extreme or too frequent to allow the policies to mature and to reap public legitimacy.

We interpret these cases of excessive policy volatility as instances of policy failure. Reforms do not seem to deliver the public satisfaction among voters or the elites and are therefore reversed. For such an understanding of ‘excessive’ policy volatility, it does not matter how to define an optimal, non-excessive policy. Whether you start a reform-reversal episode with a big push towards nationalization or towards privatization, if the reforms are short lived the transition and implementation costs of each reform are likely to outweigh the perceived benefits. To give an example, one does not need to take a stance on the relative merits of public versus private pension or health care systems to see that swinging radically between the two options will not resolve fundamental policy problems, but exacerbate them.

Such an understanding of policy failure will mitigate an old problem of the policy failure literature (McConnell 2010; Howlett 2012): how to make non-normative claims about policy failure, given that the underlying policy problems are always collective, controversial, and value-laden issues. We narrow down policy failures to instances of repeated or extreme reforms and re-reforms. These can come in many sorts and shapes (depending on the temporal horizon). Examples include pendulum movements and classic policy cycles, as well as policy bubbles and boom–bust cycles. To make these types of volatility analytically traceable, we relate them to the recent discussion on disproportionate policy change (Maor 2012; Jones et al. 2014; Howlett and Kemmerling 2017).

While there are many reasons for disproportionate policy responses, we argue that one of the most important sources for this volatility is ‘external’ in the form of cross-border processes of policy diffusion and transfer. We elaborate how different forms of diffusion can contribute to excessive volatility by making governments in the region more likely to implement reforms without the necessary requirements, knowledge, or political support. Empirically, we illustrate these claims with cases of welfare state reforms in the region. We show instances of policy volatility and non-volatility and whether and how they are related to processes of diffusion. CEE is a particularly useful example, because of the rapid speed of economic and political transition, including EU accession, that made the region very vulnerable to instability (Bohle and Greskovits 2012).

Section 2.2 starts out explaining the link between policy failures and excessive policy volatility. We borrow from the literature of disproportionate policy responses to argue that excessive policy volatility comes in various shapes and forms, but that all can be seen as problems of too much rather than too little reform. This section also links instances of excessive volatility to policy diffusion and discusses different scenarios of how the two concepts relate. Section 2.3 gives illustrations for our different scenarios from three policy areas – pensions, health, and family policies – in CEE. Section 2.4, the final section, discusses the analytical and normative implications for the politics of policy transfer in the region. In it, we advance two sets of literature – analyses of policy failure as well as diffusion studies – through application of our concept of excessive policy volatility.

<a>2.2 POLICY FAILURE, DISPROPORTIONATE POLICY CHANGE AND EXCESSIVE VOLATILITY THROUGH DIFFUSION

The policy literature is full of examples of policy fiascos (Bovens and ‘t Hart 1996), policy disasters (Dunleavy 1995), or policy catastrophes (Moran 2001) as examples of large-scale policy failures. A key challenge for this literature is to give a non-normative definition of policy failure (Howlett 2012). McConnell (2010) defines failure as the opposite of policy success, that is, a policy achieving its previously established goals (see also Marsh and McConnell 2010). However, often the goals are multiple, value-laden, and the consequence of collective decisions which make a clear evaluation of success and failure difficult. Hence, failure has been defined in many ways: lack of goal attainment, undesirable outcomes, or lack of public support (Howlett 2012).

The literature shares this old underlying problem of policy valuation (Zuckerman 2012) with the re-emerging literature on disproportionate policy responses (Maor 2012; Jones et al. 2014). A disproportionate policy response is a case of 'over'- or 'under'-investment in a policy relative to the level of an 'adequate' response. In many policy areas, it is hard to define what the adequate level of response should be (Howlett and Kemmerling 2017). Below we outline the forms of disproportionate policy responses and utilize them to conceptualize excessive policy volatility.

The first, and perhaps classic, case of disproportionate policy reaction is an *under-reaction* in the sense that the political process cannot generate an adequate response to policy problems. One example is the case of climate change. The social choice literature has talked extensively about all forms of collective action problems (Mueller 2003), calling the result coordination failures, policy gridlock, or, less normatively, policy stability. However, the underlying reasons for under-reaction may well go beyond cases of rational choice. For instance, there is a large literature on cognitive failures to perceive risks and challenges (Slovic 1992; Kahneman 2003) showing that inertia is often the result of lack of awareness and cognitive biases.

In the second case, in recent years scholars have 'imported' the notion of (financial) bubbles into the realm of politics as cases of policy *over-reaction* (Jones et al. 2014; Maor 2014). These are cases of political over-investment in a specific policy area. Examples could be exaggerated political responses to terrorist attacks or interventions against rare but headline-grabbing diseases, such as the 'bird flu'. In these cases a bubble can arise that for various reasons may be sustained for a while. First, political institutions may make it difficult to reverse the status quo and calibrate the response early (Jones and Baumgartner 2004). Second, public sentiment might strongly push politicians in a certain direction. Third, politicians jump on the bandwagon of what seems to be a popular policy in other instances. The important point is that eventually the bubble will burst, either because the policy is self-undermining (Jacobs and Weaver 2014) or because eventually public attention rapidly shifts away from the problem (Baumgartner and Jones 2002).

We add a third case of disproportionate policy response, *cyclical policies*. Again, this is a well-known phenomenon that has been discussed in various disciplines. Rational choice theorists (Riker 1982) see it as the classic problem of collectively incongruent preferences that lead to cyclical Condorcet instability. Public opinion scholars have long observed attention cycles (Downs 1972). Policy cycles can also be the product of neglect that accumulates problems over time (De Vries 2010) or it may be the result of political mobilization and eventual counter-mobilization by special interest groups and movements (McFarland 1991), ‘election-induced’ cycles, if you will.

We argue that both bubbles and cycles can be seen as instances of excessive policy volatility: bubbles are excessive in extension, the size of the change, and its eventual undoing; cycles are excessive in the sense of frequency and the instability they provoke. ‘Excessive’ hence has these two dimensions of *extension* and *frequency*, which can, of course, also occur at the same time. Compared to the traditional policy reform literature, in which reform has often a positive connotation, excessive policy volatility implies that there are too many rather than too few reforms. This is the flipside of the first form of disproportionate response, under-reaction, which in the normative literature often figures as policy gridlock, institutional sclerosis, or *reformstau* (Nickell 1997; Siebert 1997).

While excessive policy volatility still has to be ascertained in the specific cases, it nonetheless alleviates some of the underlying valuation problems. It is clear that large boom and bust movements (bubbles) often come at significant political and economic costs (McCarty et al. 2013). Equally, excessively frequent policy change, especially if it moves in the way of a pendulum, will generally create more costs than benefits for the underlying policy problem. In other words, while the problem of valuation still exists, as there will always be political disagreement about the utility of any single reform, the notion of excessive policy volatility appeals in a broader sense as an example of policy failure. It shrinks the range of undesired political outcomes to a subset to which more people and scholars can agree: excessive policy change that undermines the purpose of any type of reform.

We prime our intuitions with an example: CEE has seen a lot of pension reforms in the last few decades (Holzmann 2012), in the 1990s mainly in the form of privatization, and since the 2000s often as renationalization, that is, reversing the previous reforms (Orenstein 2013). However, no pension system reaches maturity in ten years. In this sense it is (relatively) safe to conclude that this type of frequent policy change constitutes excessive policy volatility. Regardless of whether your ideological predisposition leans towards privatized or public old-age security, there is too much change in the system.

<b>**2.2.1 Diffusion as a Driver of Excessive Policy Volatility**

Diffusion often plays a fundamental role in causing excessive policy volatility. There are several competing definitions and variations of policy diffusion (Elkins and Simmons 2004; Kemmerling 2007). In the broadest sense diffusion means situations in which a policy change in one country affects a policy change in another country. Compared to diffusion, policy transfer focuses more on the actual transfer of specific policies, and looks more at processes and agents (Dolowitz and Marsh 1996; Marsh and Sharman 2009), and, although we prefer to use the term ‘diffusion’, these differences should not be overstated. Today, both literatures overlap and, in varying degrees and with different explanations.

All types of transnational learning, and the socially or cognitively biased forms in particular, can accelerate reform processes in a distinctive non-linear fashion. This idea is ‘enshrined’ in the sometimes misleading notion of an S curve that shows how learning accelerates slowly until a critical mass is reached, and learning takes place tremendously fast (Kemmerling 2008). Heuristically speaking, this is a good illustration of why diffusion may be related to excessive policy volatility: once many countries adopt a certain policy, peer pressure takes over and countries start adopting a policy without fully anticipating the consequences of doing so. Hence diffusion often pushes the likelihood of a government joining the bandwagon and adds another dimension to the boom and bust cycle: it generates a dynamic in which even countries adopt certain policies that don’t meet the necessary requirements to make the reforms work in the long run.

This is very obvious in some forms of diffusion in which learning happens in a naïve way or is subject to severe cognitive biases (Weyland 2005). But specialized agents may also contribute to this (excessive) diffusion. Commercial lobbying groups, epistemic communities, and supranational actors can play a huge role in the promulgation of policy changes across countries. Obvious examples are the World Bank and the European Union (EU). Depending on the policy area, there may be other transnational agents of change such as epistemic communities (Haas 1992; Cross 2013), as suggested below in the case of health care user fees. Their presence is a valuable indication of diffusion processes.

Thus there are good reasons to believe that diffusion processes have the potential to catalyse excessive policy volatility. Diffusion makes countries adopt policies for which they barely have the prerequisites in terms of political support or socio-economic fundamentals. The gigantic push to privatize state owned assets in many emerging economies that did not have the social, economic, and political prerequisites to orchestrate such a privatization process, let alone design sophisticated auction models which could not be corrupted in one way or another (Brown et al. 2009), is a good example.

Nevertheless, it is important not to conflate all types of policy volatility with diffusion. Excessive policy changes also happen when governments are notoriously unstable, for instance. There are cases in which volatility has primarily or predominantly domestic reasons. Table 2.1 helps to differentiate all possible combinations of reform outcomes and the role of diffusion.

<insert Table 2.1 about here>

Table 2.1 shows six different scenarios. We differentiate between three different outcomes: no (major) reforms, classic reforms, and excessive (policy) volatility. The first, *no (major) reforms*, still leaves room for policy dynamics, but these come mainly in the form of lower-order, smaller policy changes, possibly following an incrementalist logic. In some cases, 'no reforms' can be the consequence of trans-border policy learning. That is, if policy making elite in a country look at the 'negative' experience of other countries and decide not to follow the same reform option, this can result in not doing anything (or innovating and doing something different). The perhaps more common case is that inertia is due to national legacies, institutional stickiness, or simply the lack of need to react. In this case, no reform is the consequence of primarily domestic causes, and diffusion processes play a subordinate role.

The second set of scenarios relate to the *classic* type of reforms that require a substantial political and economic investment. In many cases we will see that cross-border learning has played an influential role in engendering the necessary reform pressure, policy ideas, and even political majorities to pass such reforms. But again, it is also possible that such events are merely the consequence of domestic processes such as shifting majorities or increasing pressure to react to some domestic problem (Collier and Messick 1975). The crucial difference from the third outcome, excessive policy volatility, is that classic reforms are stable and not easily reversible.

By contrast, *excessive policy volatility* means that either major reforms are substantively altered (and, if many countries follow this path, we might call this a diffusion bubble) or we observe a back-and-forth pattern in which countries first adopt a certain type of policy because it is pushed by some form of international learning in one direction, only to reverse it a short time later. When this happens on a recurrent basis, we may call these cyclical reforms. The following section demonstrates the occurrence of the different scenarios presented above.

<a>2.3 DIFFUSION AND POLICY VOLATILITY IN CEE WELFARE REFORMS

This section provides examples of reform reversal, cyclical reforms, classic reforms, and no (major) reform from CEE welfare states and summarizes the role of diffusion in the different reform outcomes. We investigate the role of diffusion for promoting reforms and also observe instances where policies did not spread. We focus on three policy areas: pension privatization, introduction of fees into national health care systems, and parental leave. We choose these policy areas as they include some of the most politically salient policy debates in the countries studied. Additionally, comparing these three policy areas provides interesting variation, since a priori not all three areas were equally susceptible to the influence of international policy diffusion, as discussed below: pension is a case of high financial stakes, in which international organizations – through persuasion and hard pressure – play a major role; compared to this case, financial stakes are much lower in family policy, where diffusion and, ultimately, excessive policy volatility should occur less; health policy should fall somewhere in between.

We draw empirical evidence from welfare states in CEE, primarily the Czech Republic, Hungary, Poland, and Slovakia. For each policy area we will choose clear cases of excessive policy volatility and then briefly compare them to cases of classic reforms or even no reforms. The empirical findings suggest that policy diffusion based on more naïve forms of learning tends to increase policy volatility, whereas reforms that were developed for or significantly adapted to the local context promoted greater policy stability, as the political and economic preconditions for reform are more likely to be met.

<b>2.3.1 Pension Privatization: A Case of Excessive Diffusion

The presence of diffusion and learning in the case of pension privatization is clear, as reforms in CEE were clearly based on the World Bank's model (World Bank 1994), were part of a global trend (Brooks 2005), and were clearly supported by the European Union (Orenstein 2013). Furthermore, the World Bank and the International Monetary Fund (IMF) actively promoted and assisted in the formation of pension privatization reforms (Müller 1999; Orenstein 2008). While the timing of the privatization reforms often depended on domestic political factors (Makszin 2013), adoption was undoubtedly a form of emulation with varying degrees of adaptation to national contexts. From 2008, in the context of the global financial crisis, when the privatized pension accounts did not perform well or seemed more insecure, many cases exhibited excessive volatility, such as Hungary, where the system was effectively disbanded, or Slovakia and Poland, where the share of contributions to the private pillar was reduced substantially. The World Bank model was not designed as a way of transitioning from a mature pensions system, and insufficient adaptation of the model implied that reforms were very costly, which certainly contributed to later reforms to reverse or curb the private pillar (Naczyk and Domonkos 2015).

In the case of Hungary and Poland, the first countries in the region to introduce pension privatization, in 1997 and 1998 respectively, reforms were largely designed under governments led by the former communist parties, which were extremely divided on this issue. The involvement of the international organizations tipped the scales in favour of privatization. The World Bank even financed reform teams and supplied members of those teams (Orenstein 2008). In Slovakia, pension privatization reforms took place in 2003 by a government closely aligned to the World Bank's agenda which was openly invited to be involved in the preparation for pension privatization (Lesay 2009). Slovakia seemed to learn from the pitfalls of the Hungarian and Polish reforms, as it introduced additional taxes to cover the transition costs of privatization (Drahokoupil and Domonkos 2012: 290), but even there partisan politics produced cyclical policy volatility.

Following the introduction of the mandatory private pension accounts in Hungary and Slovakia, when the opposition came to power the governments provided opportunities to opt out of private pension contributions. In Slovakia, after a change in power following the privatization reform, the left-wing government brought a partial backlash against the reform in 2006 by making participation optional to new entrants and offered a six-month window for any current participant to opt out. The right-wing government that returned to power in 2010 voted to make participation in the private pension system mandatory again, but the government fell even before the reform was implemented. The left-wing party returned to government and reduced the scale of contributions to the private accounts from 8 per cent to 4 per cent in 2012.

The Slovak case illustrates a cyclical form of policy volatility almost perfectly: whenever a government of a different partisan composition was elected, this government tried to undo whatever had been done by its predecessor. While conservative governments tried to strengthen the conditions for entering and staying in the new private pillar, the left-wing governments tried to persuade employees to opt out of the new system. The result was a policy cycle which greatly undermines the trust people put into the system.

The Hungarian case initially demonstrates elements of a policy cycle, only to be followed by a drastic reform reversal. Following the first change in power after the privatization, the conservative government also offered individuals the option to exit the second pillar, reduced the guarantees on the private pension pay-out, and did not follow the originally scheduled increase to the contribution rates, from 6 per cent to 8 per cent (Augusztinovics et al. 2002; Simonovits 2011). The opt-out option was then removed and the contribution rate increased to 8 per cent after the left-wing government returned to power in 2002 (but the pension guarantee was not reinstated). After the national conservative government returned to power, the mandatory private pension accounts were *de facto* renationalized in 2011, representing the most dramatic reform reversal in the region.

The decision to renationalize private pension accounts was made amidst severe pressure to reduce the fiscal deficit, which was magnified due to conditionality of the IMF bailout package that Hungary received during the crisis. It was a quick one-time relief for the existing deficit. The financial crisis emboldened the Hungarian national conservative government's opposition to the privatized pension pillar, as the performance of the mandatory private pension accounts was extremely disappointing. All in all, the Hungarian 1997 pension reform and its complete reversal in 2011 constitute one of the best examples of excessive policy volatility. Not only did the initial reforms not solve the underlying fiscal problem, but they arguably exacerbated the problems and created new difficulties of oversight, low private returns, and inequity among pensioners.

Though less drastic, in Poland the scope of the private pension contributions was significantly reduced following Hungary's reform. The extent of contributions to the private pillar was decreased from 7.3 per cent to 2.3 per cent in 2011 (Naczyk and Domonkos 2015). Another reform in 2014 transferred assets from the private to the public pension system. Unlike Slovakia and Hungary, where the opposition weakened the reform, in Poland a party that previously supported privatized pensions oversaw the partial reversal and framed it as an attempt to stabilize the private pillar (Rae 2011). This move occurred under great fiscal pressure, as debt levels approached the constitutionally mandated ceiling that triggers automatic spending cuts.

The Slovene and the Czech cases (the latter until 2013) were notable in the region for their persistence in *not* adopting mandatory private pension accounts when other countries did. Czech governments from both the left and the right openly rejected pension privatization and concluded, perhaps from 'negative lesson drawing', that the model was not appropriate for their country, even while reforms were taking place in most neighbouring countries. The introduction of a much more limited second pillar pension system in the Czech Republic in 2013 was reversed after a change in government in 2014. The reform in the Czech case came very late and, possibly as a reaction to other countries' experiences (see Adascalitei and Domonkos in this volume, Chapter 3), was relatively modest and quickly reversed after the financial crisis.

<b>2.3.2 User Fees in Health Care: Some Diffusion, Some Volatility

Compared to pension politics, a priori there is reason to believe that international policy diffusion plays less of a role in health care. Not only do national health care systems differ massively, but they are also much more complex, bestowing organizations with powerful vested interests that are not easy to change (Immergut 1992). Furthermore international organizations were much less assertive in health care compared to pensions (Nelson 2001: 259). An alternative explanatory factor is that like-minded actors from the CEE region formed an epistemic community in which a right-wing think tank based in Slovakia, called Health Policy Institute (HPI), played a visible role in diffusion reform ideas, in particular the introduction of user fees for health services (Löblová 2015).<n>[1]</n> This epistemic community was composed of academics, journalists, and politicians, who advocated market-based reforms to health care systems, including user fees. HPI advisors claimed greater understanding of the current CEE health care systems and needed reforms based on similarities between Slovakia and other CEE countries. After directly advising (or working within) the Slovak government during a major health care reform, HPI advisors gained direct access to ministers of health and other governmental officials in other CEE countries who viewed their approach as modern and had a shared understanding of the need for market principles in health care (Löblová 2016).

Representatives from HPI were active in preparing the major health care reform in Slovakia between 2002 and 2004. Later, advisors from HPI served as consultants in Croatia, Hungary, and the Czech Republic before the introduction of user fees into the health care system.<n>[2]</n> Sometimes they worked under the auspices of the World Bank and at other times independently. Following consultations with HPI, Hungary (in 2007) and the Czech Republic (in 2008) introduced user fees into their health care systems. Both of these reforms were reversed. HPI also served as a consultant to the Polish government on its hospital privatization reform, but Poland did not introduce user fees. In this section, we demonstrate how the user fee model actively promoted by HPI was not politically sustainable.

The Slovak reform model was developed by HPI and was a part of a broader reform process. The user fees were introduced in 2003 and were generally unpopular among the public. They were challenged in the constitutional court in 2004, but the court upheld the fees as legitimate. The user fees were then abolished in 2006 after the change in government, along with many other reform reversals. The left-wing government removed most of the co-payments, but left the fee for emergency services. Despite the reversal in Slovakia, HPI functioned as a consultant to neighbouring countries and continued to advocate the introduction of user fees.

In Hungary, the introduction of user fees was part of a broader health care reform package aimed at curbing costs and restricting perceived overuse of health services (and timed together with other reforms aimed at fiscal consolidation). The reform was reversed after the opposition organized a referendum in April 2008, which motivated half of eligible voters to vote, and over 84 per cent of those who voted opposed the user fees (Baji et al. 2010). The parliament subsequently abolished the user fees for doctor visits and hospitalization. Simultaneously to the policy instability in user fees, excessive volatility characterized a reform to introduce competing health funds into the state insurance system, which was passed by the parliament in December 2007 and thereafter vetoed by the president; the veto was then overturned by the parliament three months later. Following the referendum on user fees, the opposition planned another referendum on the competition reform, but the parliament repealed its own law before the referendum took place, as the same outcome was expected (Gaál et al. 2011: 168). The debates about health care following this decision and social policy reform more broadly led the liberal coalition partner to withdraw from the government (Palonen 2009), which created greater uncertainty about the future of health care reform.

Similarly, in the Czech Republic, the reform created significant controversy and public outcry, and contributed to a sweeping victory for the social democratic opposition in the regional elections in 2009 (van Ginneken et al. 2010). While the opposition was unable to reverse the reform in the parliament or by appeals to the constitutional court in 2008, most regional governments introduced reimbursement schemes for user fees, shifting the burden from individuals to regional administrations. As a result, it was difficult to determine the effect of user fees on individual use of health care services. After the government lost a vote of no confidence, the subsequent caretaker government reduced the ceiling for the fees, but left the system intact. In 2013, when the case was again brought before the constitutional court, the user fees for hospital stays were ruled unconstitutional on the basis that they unfairly affected vulnerable groups (Alexa et al. 2015: 65). Most of the remaining fees were abolished by the new government in 2015. This is a clear example of excessive policy volatility, as between 2008 and 2015 the reform was implemented, undermined by regional governments, partially restricted by a caretaker government, partially reversed by the constitutional court, and finally reversed when the social democratic party led the government. Both the Hungarian and the Czech cases serve as examples of how introducing a reform without the political prerequisites can lead to excessive policy volatility.

In Poland, no user fees were introduced, even though HPI did serve as a consultant in Poland in 2008. At first glance, this is a case of no reform and policy stability. However, the introduction of user fees was discussed in consultations with stakeholders in 2008, but then was postponed while the liberal-conservative government focused on a hospital privatization reform (Watson 2011: 70). The hospital privatization reform was passed in 2008, but then was vetoed by the president. Given the president's clear opposition to the marketization of health care, no other major reforms were passed in parliament. Rather the government tried to find alternative methods that did not require a change of law, referred to as 'Plan B: Save Polish Hospitals'. Accordingly, Poland also experienced excessive volatility following consultations with the HPI think tank, even if not specifically in the area of user fees.

In Slovakia, Hungary, and the Czech Republic, user fees were introduced with inspiration from reformers from neighbouring countries who prioritized efficiency in health care provision, but without sufficient public and political support, leading to reversal by oppositions. The instability of user fees makes it difficult even to assess the effectiveness of these tools for generating revenue and curbing unnecessary use of medical services.

<b>**2.3.3 Parental Leave: Little Diffusion, Minor Changes**

Compared to the two other policy areas we expect diffusion to matter least in the field of parental leave, as expenditure is relatively low and there are strong historical legacies behind these policies (Szikra and Tomka 2009). There are also strong ideological arguments for family leave that are hard to overturn by foreign proposals and interventions that are mainly framed in terms of 'efficiency', 'cost-effectiveness', or 'deficit reduction'. The basic structures of parental leave schemes in each of the countries have remained intact over the last 25 years. Pressure from the EU did lead to anti-discrimination measures and increased flexibility for working parents, but on the whole these policies are less susceptible to reversal, as will be explored below.

There have been two major reforms. The first, in Hungary, was part of a larger austerity package supported by the IMF and World Bank in 1995, the government removed a two-year insurance-based maternity leave, leaving a six-month generous insurance-based leave and a much less generous universal leave until the child is three years old. Even this removal of one of the three forms of parental leave generated significant public opposition, including protests, and the reform was reversed by the same government. This is another example of a reform that was backed by the IMF and World Bank, but lacked sufficient public and political support, as even the government was divided on the austerity package. This parental leave reform and quick reversal even seemed to create a precedent, and no subsequent governments have since attempted to reduce the generosity of parental leave in Hungary.

The second major reform was in the Czech Republic in 2006–2007, which doubled the level of parental leave and introduced a three-track system where parents choose to take between two and four years of leave and have financial incentives to shorten their leave. This reform was quite unique in the region. It seems a clear example of a mainly domestic process, in which diffusion played no visible role, and which has produced – so far – no evidence for future reversals. Part of the reason for its stability may lie in the fact that this reform seemed to produce minimal change in the action of parents, as most mothers still opt for the pre-existing three-year leave (Saxonberg et al. 2013).

One aspect of parental leave where diffusion played a visible role is anti-discrimination. We see that the EU played an active role in promoting formal gender equalization, and the extension of rights for parental leave to fathers occurred around the time of EU accession. However, the 'devil lies in the details' of the reform. Parental leave was made available to fathers without offering incentives for fathers to take the leave instead of mothers. Consequently, the uptake of paternity leave was negligible and made the reforms ineffective on the implementation level. In this case, diffusion (in the form of EU pressure) produced negligible change in that there was little incentive to reverse. In more recent years, further supporting gender equalization, the EU encouraged flexibilizing reforms to increase opportunities for parents to work while receiving parental leave benefits, which has brought about reforms in the region since 2010. These reforms have generally been popular and have minimal fiscal impact. Given that these also address the demographic crisis by supporting young parents, they have significant public support and their reversal seems less likely than for other reforms by diffusion.

<b>**2.3.4 Summary**

Table 2.2 summarizes the case study evidence along the lines of Table 2.1. Looking at Table 2.2 we see some interesting (stylized) patterns. First of all, some policy areas really seem more prone to policy volatility, as expected. Pension policy is clearly more vulnerable than the other two areas. This comes as no great surprise given the stakes involved. But it is also important to note that diffusion pressures seemed nowhere more obvious than in this policy area. (See also Chapter 3 by Adascalitei and Domonkos in this volume.) Perhaps more interestingly, some countries are also more prone to volatility than other countries. Hungary seems to be a particularly notable case of short-lived reform attempts, whereas reforms in the Czech Republic were generally more stable.

<insert Table 2.2 about here>

In many of these cases diffusion has played a clear role, pushing governments to the adoption of policies they could not sustain in the long run. This finding needs to be qualified in several respects. First, there are also a few, but clear, cases in which the main source of instability seemed to be more domestic than international. Second, arguably not all forms of diffusion seem equally likely to push countries to excessive volatility. Especially if a government ‘keeps its cool’, waits, and looks at the mid- to long-term consequences of a reform, it arguably will make a more informed decision than simply jumping on the bandwagon (e.g. the Czech Republic’s pension reform compared to the Hungarian case). Finally, too much diffusion may be related to certain domestic constellations. It is well known that policy failures do not occur everywhere with equal frequency, which may be related to fundamental political stability or state capacity (Howlett and Ramesh 2016). Hence, while our empirics do not provide a clear test, the patterns corroborate the idea that very often diffusion is behind a lot of empirically discernible policy volatility.

<a>2.4 CONCLUSIONS

This chapter first introduced the term ‘excessive policy volatility’ and related it to the concepts of policy failure and disproportionate policy responses. While the literature often concedes too little change and the risk of rigidities or even institutional sclerosis, the case for too much change is conceptualized less frequently or effectively. By investigating some dimensions of welfare policy in CEE, including some with higher and some with lower volatility, we were able to illustrate different scenarios in which diffusion may or may not play a role in the presence or absence of policy volatility. While we find empirical evidence for all scenarios, the most significant cases nourish our suspicion that international diffusion exacerbates policy volatility in the region.

Again, our findings do not provide a hard empirical test. Our goal was rather to use the cases to illustrate the problem and the importance of excessive policy volatility. While we have an idea about why and when certain types of diffusion lead to more volatility, much more will have to be done on this analytical front. What types of diffusion lead to volatility? What types of learning end up being short-term? What types of domestic structures facilitate this type of learning? We also saw that some policy areas are more prone to major shifts than others.

There are also important normative implications of our argument. In a general sense, international diffusion may create instances of rather too much attention than too little learning. It may prompt actions for which there is insufficient public or political support. Policy learning is not necessarily negative or perverse, but if fused with power and informational asymmetries, such as the advisory hold of an epistemic community, learning can lead down troublesome paths. It can also produce problematic outcomes if cognitive biases among change agents do not allow them to make well-informed choices about policy proposals. This is very clear in the role of specific agents such as the World Bank or the European Union that dispose of both soft and hard power. These organizations sometimes push for very complicated policy designs which require an extraordinary level of state capacity in managing both the reform process and its implementation in the long run. In this sense, accession and other forms of international policy diffusion seem to exacerbate each other, a phenomenon which is well known to scholars in other areas of policy diffusion such as tax competition (e.g. Genschel et al. 2011).

In conclusion, we find that excessive policy volatility is a serious problem in the region, and international diffusion often exacerbates the problem. While we only looked at three specific areas of welfare state policies, we think our argument has larger traction also, for instance for the privatization of utility companies or even for the reform of political institutions. From the cases where we actually see policy stability (either no reforms or classic reforms) we can also observe that broad-scale institutional transformations or policy reforms need to be done with a country-specific speed and direction. Foreign blueprints may be helpful, but only if substantively adapted and translated into the national context. This argument should hold not only for transition economies in CEE, but for different regions and contexts as well.

<a>NOTES

<notetxt>

1.<em>For a list of the countries and times of HPI's consultancy, see http://www.hpi.sk/en/2011/05/references/.

2.<em>HPI also advised before a similar Croatian reform. Policy advice in the Hungarian case from 2005 can be found at http://www.hpi.sk/cdata/Documents/Hungary_-_Fiscal_Study.pdf, p.<ts>9 and for the Czech case from 2005 at http://www.hpi.sk/cdata/Documents/Czech_Republic_-_Fiscal_Study.pdf, p.<ts>13.

</notetxt>

<a>REFERENCES

<ref>

Alexa, J., L. Rečka, J. Votápková, E. van Ginneken, A. Spranger and F. Wittenbecher (2015), 'Czech Republic: Health system review', *Health Systems in Transition*, 17 (1),

http://www.euro.who.int/en/about-us/partners/observatory/publications/health-system-reviews-hits.
Augusztinovics, M., R. Gál, Á. Matits, L. Máté, A. Simonovits and J. Stahl (2002), ‘The Hungarian pension system before and after the 1998 reform’, in E. Fultz (ed.), *Pension Reform in Central and Eastern Europe*, Budapest: ILO, pp.<ts>25–93.
Baji, P., I. Boncz, G. Jenei and L. Gulácsi (2010), ‘The short story of co-payments for health care services in Hungary – lessons for neighbouring countries’, *Zdrowie Publiczne i Zarządzanie – Zeszyty Naukowe Ochrony Zdrowia*, 8 (1).
Baumgartner, F. and B. Jones (2002), *Policy Dynamics*, Chicago, IL: University of Chicago Press.
Bohle, D. and B. Greskovits (2012), *Capitalist Diversity on Europe’s Periphery*, Ithaca, NY: Cornell University Press.
Bovens, M. and P. ‘t Hart (1996), *Understanding Policy Fiascoes*, New Brunswick, NJ: Transaction.
Brooks, S.M. (2005), ‘Interdependent and domestic foundations of policy change: The diffusion of pension privatization around the world’, *International Studies Quarterly*, 49 (2), 273–94.
Brown, J., J. Earle and S. Gehlbach (2009), ‘Helping hand or grabbing hand? State bureaucracy and privatization effectiveness’, *American Political Science Review*, 103 (2), 264–83.
Collier, D. and R. Messick (1975), ‘Prerequisites versus diffusion: Testing alternative explanations of social security adoption’, *American Political Science Review*, 69 (4), 1299–1315.
Cross, M. (2013), ‘Rethinking epistemic communities twenty years later’, *Review of International Studies*, 39 (01), 137–60.
De Vries, M.S. (2010), *The Importance of Neglect in Policy-Making*, Basingstoke: Palgrave Macmillan.
Dolowitz, D. and D. Marsh (1996), ‘Who learns what from whom: A review of the policy transfer literature’, *Political Studies*, 44 (2), 343–57.
Downs, A. (1972), ‘The issue–attention cycle’, *Public Interest*, 28, 38–50.
Drahokoupil, J. and S. Domonkos (2012), ‘Averting the funding-gap crisis: East European pension reforms since 2008’, *Global Social Policy*, 12 (3), 283–99.
Dunleavy, P. (1995), ‘Policy disasters: Explaining the UK’s record’, *Public Policy and Administration*, 10 (2), 52–70.

Elkins, Z. and B. Simmons (2004), ‘On waves, cluster, and diffusion: A conceptual framework’, *Annals of the American Academy*, 598 (1), 1–19.

Gaál, P., S. Szigeti, M. Csere, M. Gaskins and D. Panteli (2011), ‘Hungary: Health system review 2011’, *Health Systems in Transition*, 13 (5), http://www.euro.who.int/en/about-us/partners/observatory/publications/health-system-reviews-hits.

Genschel, P., A. Kemmerling and E. Seil (2011), ‘Accelerating downhill: How the EU shapes corporate tax competition in the Single Market’, *Journal of Common Market Studies*, 49 (3), 1–22.

Ginneken, E. van, A. Ottichova and M. Gaskins (2010), ‘User fees in the Czech Republic: The continuing story of a divisive tool’, *Eurohealth*, 16 (3), 1–3.

Haas, P. (1992), ‘Introduction: Epistemic communities and international policy coordination’, *International Organization*, 46 (1), 1–35.

Holzmann, R. (2012), *Global Pension Systems and Their Reform: Worldwide Drivers, Trends, and Challenges*, IZA Discussion Papers No. 6800, Bonn: Forschungsinstitut zur Zukunft der Arbeit.

Howlett, M. (2012), ‘The lessons of failure: Learning and blame avoidance in public policy-making’, *International Political Science Review*, 33 (5), 539–55.

Howlett, M. and A. Kemmerling (2017), ‘Calibrating climate change policies: The causes and consequences of sustained under-reaction’, *Journal of Environmental Policy and Planning*, online first.

Howlett, M. and M. Ramesh (2016), ‘Achilles’ heels of governance: Critical capacity deficits and their role in governance failures’, *Regulation and Governance*, 10 (4), 301–13.

Immergut, E. (1992), *Health Politics: Interests and Institutions in Western Europe*, Cambridge: Cambridge University Press.

Jacobs, A. and K. Weaver (2014), ‘When policies undo themselves: Self-undermining feedback as a source of policy change’, *Governance*, 28 (4), 441–57.

Jones, B. and F. Baumgartner (2004), ‘A model of choice for public policy’, *Journal of Public Administration Research and Theory*, 15 (3), 325–51.

Jones, B., H. Thomas and M. Wolfe (2014), ‘Policy bubbles’, *Policy Studies Journal*, 42 (1), 146–71.

Kahneman, D. (2003), ‘Maps of bounded rationality: Psychology for behavioral economics’, *American Economic Review*, 93 (5), 1449–75.

Kemmerling, A. (2007), ‘Diffusion und Interaktion in der Arbeitsmarktpolitik? Positive und negative Ansteckungseffekte am Beispiel zweier Reformdiskussionen’, *Sonderheft der Politischen Vierteljahresschrift*, 1/2007, 153–79.
Kemmerling, A. (2008), ‘The weights you choose, the odds you get: Using different spatial weights. The example of labor market policies’, *Concepts and Methods*, 4 (2), 10–13.
Lesay, I. (2009), *Reforming Pensions in Central Europe: Path Dependence and Path Departure in the Pension Systems of Former Czechoslovakia*, Saarbrücken: VDM Verlag Dr. Müller.
Löblová, O. (2015), ‘Three worlds of health technology assessment: Explaining patterns of diffusion of HTA agencies in Europe’, *Health Economics, Policy and Law*, 11 (3), 253–73.
Löblová, O. (2016), ‘Halted diffusion: Epistemic communities and the non-adoption of health technology assessment agencies in Central and Eastern Europe’, Dissertation, Central European University, Budapest.
Makszin, K. (2013), ‘Reforming East Central European welfare states: Governments, technocrats, and the patterns of quiet retrenchment’, Dissertation, Central European University, Budapest.
Maor, M. (2012), ‘Policy overreaction’, *Journal of Public Policy*, 32 (3), 231–59.
Maor, M. (2014), ‘Policy bubbles: Policy overreaction and positive feedback’, *Governance*, 27 (3), 469–87.
Marsh, D. and A. McConnell (2010), ‘Towards a framework for establishing policy success’, *Public Administration*, 88 (2), 564–83.
Marsh, D. and J. Sharman (2009), ‘Policy diffusion and policy transfer’, *Policy Studies*, 30 (3), 269–88.
McCarty, N., K. Poole and H. Rosenthal (2013), *Political Bubbles*, Princeton, NJ: Princeton University Press.
McConnell, A. (2010), ‘Policy success, policy failure and grey areas in-between’, *Journal of Public Policy*, 30 (3), 345–62.
McFarland, A. (1991), ‘Interest groups and political time: Cycles in America’, *British Journal of Political Science*, 21 (3), 257–84.
Moran, M. (2001), ‘Not steering but drowning: Policy catastrophes and the regulatory state’, *Political Quarterly*, 72 (4), 414–27.
Mueller, D. (2003), *Public Choice III*, Cambridge: Cambridge University Press.
Müller, K. (1999), *The Political Economy of Pension Reform in Central-Eastern Europe*, Cheltenham, UK and Northampton, MA, USA: Edward Elgar Publishing.

Naczyk, M. and S. Domonkos (2015), ‘The financial crisis and varieties of pension privatization reversals in Eastern Europe’, *Governance*, 29 (2), 167–84.

Nelson, J. (2001), ‘The politics of pension and health-care reforms in Hungary and Poland’, in J. Kornai, S. Haggard and R. Kaufman (eds), *Reforming the State: Fiscal and Welfare Reform in Post-Socialist Countries*, New York: Cambridge University Press, pp.<ts>235–66.

Nickell, S. (1997), ‘Unemployment and labor market rigidities: Europe versus North America’, *Journal of Economic Perspectives*, 11 (3), 55–74.

Orenstein, M. (2008), ‘Out-liberalizing the EU: Pension privatization in Central and Eastern Europe’, *Journal of European Public Policy*, 15 (6), 899–917.

Orenstein, M. (2013), ‘Pension privatization: Evolution of a paradigm’, *Governance: An International Journal of Policy, Administration, and Institutions*, 26 (2), 259–81.

Palonen, E. (2009), ‘Political polarisation and populism in contemporary Hungary’, *Parliamentary Affairs*, 62 (2), 318–34.

Rae, G. (2011), ‘Poland’s stalled pension reform’, 9th Annual ESPAnet Conference, Valencia.

Riker, W. (1982), *Liberalism against Populism: A Confrontation between the Theory of Democracy and the Theory of Social Choice*, Prospect Heights, IL: Waveland Press.

Saxonberg, S., T. Sirovátka and M. Janoušková (2013), ‘When do policies become path dependent? The Czech example’, *Journal of European Social Policy*, 23 (4), 437–50.

Siebert, H. (1997), ‘Labor market rigidities: At the root of unemployment in Europe’, *Journal of Economic Perspectives*, 11 (3), 37–54.

Simonovits, A. (2011), ‘The mandatory private pension pillar in Hungary: An obituary’, *International Social Security Review*, 64 (3), 81–98.

Slovic, P. (1992), ‘Perception of risk: Reflections on the psychometric paradigm’, in S. Krimsky and D. Golding (eds), *Social Theories of Risk*, Westport, CT: Praeger, pp.<ts>117–52.

Szikra, D. and B. Tomka (2009), ‘Social policy in East Central Europe: Major trends in the twentieth century’, in A. Cerami and P. Vanhuysse (eds), *Post-Communist Welfare Pathways*, Basingstoke: Palgrave Macmillan, pp.<ts>17–34.

Watson, P. (2011), ‘Fighting for life: Health care and democracy in capitalist Poland’, *Critical Social Policy*, 31 (1), 53–76.

Weyland, K. (2005), ‘Theories of policy diffusion: Lessons from Latin American pension reform’, *World Politics*, 57 (2), 262–95.

World Bank (1994), *Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth*, Oxford: World Bank.
Zuckerman, E. (2012), 'Construction, concentration, and (dis)continuities in social valuations', *Annual Review of Sociology*, 38, 223–45.
</ref>