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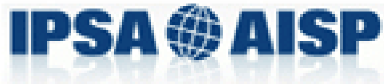

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Paths to Policy Coherence to Create Market Economies in Central and Eastern Europe

Romana Careja

Abstract

Policy coherence, understood as synergy between policies, has been found to facilitate development and economic growth. However, there is little research on the conditions in which it emerges. This article identifies different paths conducive to policy coherence in the process of transforming centralized economies of Central and Eastern Europe into market-driven ones. It shows that government characteristics with likely impact on the quality of policy-making, such as accountability and institutional constraints, are associated with coherent policies only in a limited number of cases. It also shows that governments that are not constrained and accountable, formulate coherent policies if they find themselves in contexts that do not pose constraints, or that offer strong incentives.

Keywords

post-socialist transformation, policy coherence, accountability, economic reforms, comparative analysis, Central and Eastern Europe

Travellers, there is no path, paths are made by walking.

Antonio Machado (2004)

Introduction

At the beginning of the 1990s, a large array of factors, from favorable initial conditions (de Melo et al., 2001; King, 2002) to international organizations (Nellis, 2002; Hanley et al., 2002), was used to predict the success of Central and Eastern European countries (CEECs) in creating market-driven economic systems. The optimism was soon tempered as it was understood that economic transformation was by no means easy and automatic. A great deal of fine tuning was required in order to find the right policy mix which would generate sustainable development.

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This fine tuning needs new explanatory frameworks. Relatively recently, policy coherence, understood as coordination of policies in order to produce positive spillovers between reform areas (di Francesco, 2001), has been proposed as a determinant of successful economic transformation (Stark and Bruszt, 1998). As policy coherence is a relatively new entry in the field of political science in general, and in the study of post-socialist transformation in particular, there are relatively few studies of its effects (de Macedo and Martins, 2006) and even less, if any, of its causes. It is this latter gap that this article investigates. Thirty-seven governments of ten CEECs over a fifteen-year time span (1990–2004) are compared, using a combination of statistical techniques and qualitative comparative analysis (QCA).

This article complements the existing literature in several ways. First, it shows that by exploring its causes, policy coherence can be used to understand economic transformation in CEECs. Second, it suggests that a promising approach to understand the post-socialist economic transformation is to focus on policies. After the creation of the main institutions, the continuous process of policy-making and adjustment takes place inside these institutions and cannot be captured with bird's eye view approaches. The argument for a narrower focus is also consistent with the observed diversity among the Eastern European countries, both in terms of speed of transformation and in terms of the types of emerging economic systems (Cernat, 2006). Third, it shows that there are several paths to policy coherence. Outside incentives (and pressure) seem to have been instrumental for some countries, while for others the most important factors seem to have been either a favorable context or a determined government. Fourth, it proposes new ways to measure complex concepts such as accountability, policy coherence and institutional constraints. In doing so, it explores and uses new data. In a nutshell, this article shows that understanding the conditions for policy coherence opens new perspectives in understanding the transformation of centralized economies into market ones.

The next section defines policy coherence and reviews the transformation literature in order to derive a set of conditions associated with it. The third section discusses the operationalization of these conditions and introduces QCA as a suitable method of analysis. The fourth section presents the results and the final section discusses them and presents the conclusions.

Theoretical Overview

Policy Coherence for Transformation

The right policy mix has often been seen as an important factor in explaining the success of economic transformation (Staehr, 2003), but most studies focused on types of policies, their sequence and speed (Hoen, 1996; Popov, 2000). Some authors argued that encompassing policy packages had to be implemented in one sweeping move, while others maintained that policies needed to be adopted gradually. When predicting or explaining the economic transformation, these divergent views implicitly upheld different visions of policy coherence. For the former, coherence was embedded in the design of reform packages, while for the latter, coherence emerged from policy calibration in time.

Only recently has coherence been explicitly used to explain transformation (Stark and Bruszt, 1998). Policies are coherent when they are logically and consistently related, either in terms of objectives or in terms of process management (di Francesco, 2001). Starting from the assumption that all post-socialist governments aim at creating functioning market-based economies while they differ in their management of the process to reach them, this article adopts the view that policies are coherent if the components of one policy generates positive spillovers in others.

Stark and Bruszt (1998) argued that critical to transforming the centralized economies was property system reform, by creating private property rights and changing the relationship between

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state, firms and banks. In centralized economies, although the state controlled production and financial resources, both firms and banks developed mechanisms to extract resources from the state (Stark and Bruszt, 1998; Kornai, 1988). In these conditions, the reformers' task was to eliminate the firms' reliance on the state, and to empower the financial sector to become the main source of capital. Achieving this double aim involved privatizing state-owned enterprises *and* reforming the banking sector (Blanchard, 1997; Kornai, 1994). Assessing the interplay of these reforms provides a reliable radiography of the economic transformation. This article rests on the assumption that if these reforms are to transform the centralized economies into market-driven ones, then they need to be so tuned as to reinforce each other, i.e. to be coherent.

In understanding how these policies are connected, a good starting point is to imagine the process of creating market economies as an intricate clockwork. It is then easy to see how reforms can create positive or negative spillovers. The early price liberalization produced inflation, which needed to be contained with stabilization measures. The success of these measures depended on whether they were supported with measures that simultaneously forced firms to restructure and liberated banks from the state. The profligate behaviors of firms were epitomized by the soft budget constraints (SBCs), which Kornai (1988, 1994) identified as the major cause of inefficiency chains in centralized economies. In the pre-1990 period the SBCs resulted from state intervention and in the post-1990 period they were perpetuated through direct or hidden subsidies and weak banking systems. The continuation of SBCs was associated with the absence of pro-restructuring pressure, which kept many firms dependent on state support. In order to enforce restructuring, firms needed to be privatized and removed from state subsidies, while the banking sector needed to be given an independent status through liberalization, increased creditor and bankruptcy powers and the creation of strong regulatory and supervisory systems. This overview shows that bank sector reform and privatization policies are connected in several areas: bankruptcy regulations, credit conditions, budget constraints and privatization program (Organisation for Economic Co-operation and Development (OECD), 2002). Therefore, I argue that in order to observe whether and to what extent the two policies are coherent, it is necessary to observe their interaction in these connected areas.

Conditions for Policy Coherence

As the clockwork analogy suggests, the better different components fit together, the better functions the entire mechanism. But under which conditions do governments produce coherent policies? Although most political science literature touches this issue only indirectly, as it focuses mostly on conditions for reforms (Havrylyshyn, 2006; Ahrens and Meurens, 2002), the review of the existing research indicates that two broad categories of factors are likely to influence the policy-making process. I argue that the same factors ultimately influence the quality of policies.

First, as policy-making involves collecting information, evaluating and deliberating, the *characteristics of the government* that influence these processes have an impact on its ability to produce coherent policies. For example, May et al. (2006) have shown that policies in which congressional committees or lead federal agencies are more involved tend to be more coherent. Evans's (1995) study of developing countries has shown that bureaucracies with coherent internal organization and close links to society coordinate better the process of industrialization. Stark and Bruszt (1998) argued that governments which are constrained by and accountable to other institutions are more likely to produce coherent policies. Second, policy coherence is likely to be influenced by the *external context* (OECD, 1996). Current policies respond to the interaction between past policies and contexts (Dye and Gray, 1980) and can be the result of explicit external pressures, of policy advice or of cross-country learning (Ervik et al., 2009; Deacon and Hulse, 1997; Vreeland, 2003).

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Government characteristics. Governments are the main policy-making actors in CEE countries, especially in the case of overhauling reforms. Therefore, I argue that it is them and their interactions with other actors in the policy-making process that determine the coherent quality of policies. In this process, a government can isolate itself from societal pressure and from other institutions, or can cooperate with them. An isolated government is arguably more efficient in time of crisis, or when fast decisions are to be made (Shugart and Carey, 1992), but in times of normal politics, this insulation may bias policies, leading to crises, especially in political systems without proper checks and balances (Mainwaring and Shugart, 1997). Such situations are arguably avoided when policies need parliamentary control and approval, and when more actors are involved in policy-making. The bottom line is that the more constrained a government is (i.e. the more policy-making involves a collaboration with other institutions), the more likely it is to recognize the connections across policies. Moreover, with the help of other institutions, the government is more likely to bring about positive spillovers among reforms. In other words, a *constrained* government is more likely to produce coherent policies (Stark and Bruszt, 1998).

Parliaments are a first source of constraints. On the one hand, constitutions empower parliaments to check the policy proposals (Laver and Schepsle, 1999). This prevents the adoption of extreme policies, and thus negative spillovers between policies are arguably avoided. On the other hand, the composition of parliaments can affect policy-making. Governments enjoying parliamentary support and facing a scattered opposition are less constrained compared with those facing a united opposition (Stark and Bruszt, 1998). In this latter situation, the policy proposals have to be acceptable to opposition, which means that they include more constraints than they would do if opposition were easy to overcome. A third source of constraints is the structure of the government itself. Policies are the result of debates and negotiations between ministers. When the cabinet is formed of parties with different policy priorities, the need to reconcile these differences has a constraining effect upon policy-making. In contrast, a single-party cabinet is less restricted (Crepaz, 1996; Brusis and Dimitrov, 2001; Stark and Bruszt, 1998).

In addition to these political constraints, policy-making is influenced by constraints from non-state actors. These constraints are of a different quality. Non-state actors provide governments with information and feedback. It is assumed that a government receiving such input is likely to be able to better calibrate policies in response to concrete situations (Evans, 1995; Stark and Bruszt, 1998). However, for this input-receiving to produce such effects, it should be a long-term, ideally permanent, element of the relationship between government and society (Schedler, 1999). In the European context, such a relationship has been embedded in corporatist institutions. By law, the non-state actors recognized as social partners not only provide information and feedback, but also have the right to interpellate governments on their policy intentions. I argue that this interaction increases the coherence of policies of governments *accountable to social partners* as opposed to those of non-accountable governments.

Context characteristics. International Monetary Fund (IMF) conditionalities, European Union (EU) membership prospects, economic crises and self-imposed policy constraints are often used as explanatory factors for reforms (Dabrowski and Gortat, 2002), but their impact on reforms' quality is rarely explicitly formulated. The following brief discussion of their likely impact shows that these factors, which create different policy contexts, can have positive or negative consequences for policy coherence.

First, *IMF conditionality* implies that, following an agreement between the Fund and a government, financial aid is provided if specific measures agreed upon are implemented. Consequently,

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the IMF has a direct impact on policy-making (Conway, 2006; Bird and Willett, 2004). This impact is likely to improve policy coherence because IMF policy packages reflect a specific economic vision and benefit from long-term experience. IMF-supported measures aim not only at macroeconomic stabilization, but also at increasing economies' resistance to crises through enterprise restructuring, and at improving the health of the financial system (Kuczynski and Williamson, 2003). Thus, especially for inexperienced governments, such streamlined policy packages can be of help. On the other hand, IMF policy packages are often criticized for lacking context sensitivity (Stiglitz, 2002), which is likely to have negative consequences for policy coherence.

Second, CEE governments have also been subjected to *EU conditionalities*. EU membership prospects are powerful catalysts for policy and institutional changes (Schimmelfennig and Sedelmeier, 2004). By setting the creation of market economy as a goal of integration, the EU compelled the CEECs to adopt specific institutions, rules and policies. By providing a model for the final product of transformation, by advising, monitoring and keeping the governments under pressure, the EU contributed to the coherence of policies adopted to reach this goal.

Third, in order to control inflation, governments may decide to hand over monetary policies to independent central banks on condition that they cannot act as lenders of last resort. Insulated from political pressures, such *constrained monetary policies* have a major impact on the policy-making options of governments (Santiprabhob, 1997; Carlson and Valev, 2001; Alonso-Gamo et al., 2002; Knöbl et al., 2002). In this context, policy coherence stems from the coordination between governments and central banks, and from the fact that the governments cannot use monetary policy to serve political aims. The latter aspect becomes important especially when other mechanisms to control governments' policy-making are absent or underdeveloped, a situation very common in transition countries. However, it can also be argued that policy coherence is hindered because the governments give up a major policy instrument.

Fourth, *economic crises* arguably stimulate governments to produce coherent policies. If a crisis erupts in one economic sector, it is often the result of mismanaged processes or policy failures in adjacent sectors (Rodrik, 1996). Therefore, an anti-crisis strategy must tackle issues in several policy fields and its success depends on the coherence of these solutions. However, Tommasi (2003) suggests that this optimistic argument only holds for one-shot policy responses. If policies are implemented in stages, their fine-tuning is likely to be influenced by unforeseen factors, and their coherence thus becomes problematic.

Possible Constellations of Conditions

Together, the six conditions cover a wide array of factors with influence on policy making. The two government characteristics account for governments' interaction with social partners, and several mechanisms through which policies are negotiated. The context characteristics capture explicit policy solutions imposed or suggested, difficulties generated by systemic crises or special self-binding strategies. To the best of my knowledge, a direct link between these elements and policy coherence is not specified in the political science literature on economic reforms in CEECs, except in the account of Stark and Bruszt (1998). Starting from their analysis, and from the observation that these factors are present in different combinations in different countries, two propositions are advanced.

The first proposition reflects the theory of Stark and Bruszt, namely that reformist Eastern European governments produce coherent reform policies when they are *institutionally constrained and accountable to societal interests*. This proposition suggests that policy coherence is only produced by governments with the right characteristics. Both conditions are seen as simultaneously

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necessary and sufficient for policy coherence, which implies that their presence leads to coherence in any context. However, as shown, the environment may inhibit or stimulate government policy choices, and affect policy coherence. Therefore, the second proposition complements the first one and posits that context characteristics help governments that are not accountable and constrained to formulate coherent policies. Various combinations of conditions can be seen as paths conducive to policy coherence. In sum, while proposition 1 maintains that policy coherence is achieved only by governments which are constrained and accountable, proposition 2 opens the possibility that in favorable contexts, policy coherence is produced even by governments whose characteristics are less auspicious, as would be the case with 'unconstrained' and/or 'unaccountable' governments.

Data and Method

The cases of this analysis are the governments of the ten CEECs that have become EU members in 2004 and 2007. These countries share similar recent historical experiences and an upward reform trend, as recorded by Freedom House or the European Bank for Reconstruction and Development. However, they differ in the pace of reforms and in terms of the presence or absence of policy coherence. The analysis covers roughly 15 years (1990–2004). In 2004, the countries of interest (except Romania and Bulgaria) were recognized as market economies in preparation for their EU accession. Although the end of transformation is debated, the market economy status confirms the existence and functioning of the essential market mechanisms. Although Romania and Bulgaria became EU members in 2007, for comparative reasons they are analysed until 2004.

The following paragraphs present the indexes that measure the degree of policy coherence and the levels of accountability and of constraints, as well as the context conditions. As the analysis aims at uncovering the conditions leading to policy coherence, each condition was dichotomized and coded 1 for presence or 0 for absence. While, in the case of context conditions, the coding is straightforward, in the case of indexes of policy coherence, accountability and constraints the cut-off points between 'presence' and 'absence' were decided on the basis of data examination. The decision rule is explained in the next section. Information was collected from reports issued by IMF, European Commission, OECD, governmental and non-governmental sources, and from academic scholarship. A detailed discussion of scoring is included in Careja (2010). The scores are summarized in Table A1 of the Appendix, where each government is designated by a number following the country name. For example, Bulgaria1 means the first government of Bulgaria.

Operationalization and Measurement

Outcome policy coherence. Section 2 showed that entry and exit of firms on the market, financial resources for firms, regulations for the banking sector, regulation for privatization and private enterprises are the interaction areas between privatization and banking sector reforms. I argued that to the extent that the measures concerning these areas are supportive of each other, the two policies are coherent. The interaction between the two policy areas is assessed against several criteria characterizing their ideal-case interactions, which were derived from expert analyses:[1] (1) comprehensive bankruptcy law; (2) enforced bankruptcy law; (3) clear entry conditions; (4) healthy banking sector; (5) privatized banking sector; (6) no subsidies to ailing firms; (7) no hidden subsidies; and (8) enforced privatization program (OECD, 2002). Consistent with the focus on governments' decisions, the assessment of policy coherence is based on the evaluation of policy output, i.e. reform legislation and regulations.

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Data from OECD Economic Outlooks and EU Country Assessments concerning the privatization and banking sector reform policies formulated by each government was compiled in ten country studies (Careja, 2010). These policies were evaluated against the eight criteria. The first criterion evaluates the adoption of a clear and encompassing bankruptcy law; the second evaluates the enforcement of bankruptcy by banks or courts; the third assesses the administrative and legal conditions that regulate market entry; the fourth assesses the measures to limit bad loans accumulation; the fifth assesses the measures to privatize the banking sector; the sixth assesses the cuts in direct subsidies; the seventh assesses the state aid policy; and the eighth assesses the privatization program. A ninth criterion, continuity, was added to assess the policy continuity between governments, capturing the longitudinal dimension of policy-making. One point was awarded for each fulfilled criterion, zero points for absence of reforms, and half a point for the case when some measures were adopted. This method of assessing reforms and coherence is consistent with the idea that cross-policy coherence depends on the extent to which different policies proceed with matching thrust. The criteria are weighted equally and the points are summed up. More points indicate a more coherent policy approach. The maximum value is 9. Based on case-descriptions, the cut-off point was set at 5.5: below 5.5 policies were considered incoherent (code 0), and above 5.5 they were considered coherent (code 1).[2] The use of case information to decide on the cut-off point is legitimate, when due to case distribution and to a lack of additional information other strategies cannot be applied (Rihoux and Ragin, 2008). Columns 3 and 6 of Table A1 present the raw values and the final codes, respectively.

Condition 1: Constraints. This condition captures the constraints that shape the powers of government. Constitutional, parliamentary and structural sources of constraints in the policy-making process were identified and measured separately and then an overall index of constraints was created.[3]

Constitutional constraints refer to the distribution of power between executive and legislative. To evaluate the constitutional balance of power, I use a composite index constructed from three indices: ParlGov – (HosGov + GovParl), where ParlGov is the extent to which parliament dominates the government, HosGov is the extent to which the head of state dominates the parliament and GovParl is the extent to which government is dominant over parliament (Krouwel, 2003). Data comes from constitutions. A negative score indicates the executive dominance. According to this measure, in four countries the executive dominates the legislative (Estonia, Hungary, Romania and Latvia), in three countries the legislative dominates (Lithuania, Poland and Slovenia), and in three countries the power balance is equilibrated (Czech Republic, Bulgaria and Slovakia). A dominating executive is unconstrained and coded 0. When the parliament dominates, the executive is constrained and coded 1. Balanced situations are considered as executive-dominated and coded 0.[4]

Strength of opposition is captured by an index of opposition fragmentation, which follows the rationale of Rae's index of party system fragmentation. A value of 1 indicates extreme fractionalization. The index is calculated on the basis of the share of seats of parliamentary parties, which are not part of the government (Armingeon and Careja, 2007). Code 0 is given when opposition is fragmented and unable to constrain the government. Code 1 is given to those cases where there is a unitary opposition. The threshold between fragmented and unitary opposition is set at 0.76, as the analysis of cases shows that with a fragmentation index of 0.76, the opposition in Hungary after 2002 succeeded in forming a relatively unitary front and constrained the government. *Cabinet complexion* refers to the structure of the cabinet, single party or coalition. A coalition government is considered constrained and coded 1, while single-party cabinets are coded 0. Data is retrieved from Armingeon and Careja (2007).

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The values of the three dimensions have been summed up for each year and then a simple average was calculated for each government-period. This value is given in the fourth column of Table A1. The higher the value, the more constrained the government. In a second step, all values below 2 were coded 0, meaning low and very low levels of constraints, and all values above were coded 1, meaning medium and high levels of constraints. The rationale of the cut-off point is that for qualifying as 'medium to strongly constrained', a government should be constrained on at least two of the three dimensions for most of the period in power. Column 7 of Table A1 presents the codes.

Condition 2: Accountability. Accountability describes a relationship in which one actor is obliged to inform another about its '(past or future) actions and decisions, to justify them and to suffer punishment in the case of eventual misconduct' (Schedler, 1999: 17). From this definition, several conditions for accountability can be inferred: the two actors are *independent* of each other; there is a *formal setting* in which the account is given, such as an institution and a set of rules of interaction; the *information* exchange is meaningful and complete; the accounting actor is able to inflict a *punishment*; and the accounting and accountable actors are roughly *equal* and accept each other as *legitimate* parties (Schedler, 1999).

For the purpose of this analysis, and following Stark and Bruszt (1998), the accountability relationship between governments and trade unions is observed. The trade unions are the only organized interest groups that systematically interact with the governments. All CEE countries have national-level institutions for social dialogue that allow unions to express opinions on, and cooperate in the making of, a broad range of policies, including economic ones (Casale, 1999). In the context of this relationship, the *formal setting* refers to the existence and powers of tripartite institutions as loci of organized exchange between unions and government, and *information* refers to the exchange taking place between government and unions within these institutions. *Independence* refers to the distance between unions and the government. Roughly, there are three possible situations: unions are independent from the party in power, unions are close to it or unions form the government. In the first case, the roles of unions and government are clearly delimited, while in the latter cases the boundaries are blurred or disappear completely. Therefore, in the first case, unions have more room to check on the government, while this possibility disappears in the latter cases. The issue of *legitimacy* and *balance of power* is more complex. Although unions' legitimacy as social partners is settled through law, they start in a weak position and the balance of power is biased *ab initio* in favor of the government (Crowley and Ost, 2001). Therefore, the unions' ability to adopt a unitary stance is used as a proxy for power balance. Last, but not least, unions can *punish* the government by organizing strikes, boycotting tripartite institutions or publicly exposing the government's wrongdoings.

On each of the five conditions, the intensity of the government–unions relationship is evaluated in terms of 'high', 'low' and 'medium'. The more of these conditions that are fulfilled, and the higher the intensity, the more accountable government is. An accountability index is calculated as a sum of scores received on each dimension, where 'high' is coded 1, 'low' is coded 0 and 'medium' is coded 0.5. The scores have been assigned on the basis of data from ILO and European Foundation for the Improvement of Living and Working Conditions (Eurofound) reports and expert analyses. Based on case-descriptions, 2.5 was selected as the cut-off point: scores of 2.5 and higher indicate presence of accountability, while scores of 2 and lower indicate absence of accountability (see Careja, 2010). Columns 5 and 8 of Table A1 present the raw scores and codes.

Condition 3: IMF conditionality. A country is under IMF conditionality when it has signed a contract with the IMF and has withdrawn money from the funds provided (code 1). The existence of an

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agreement without withdrawal of funds involves minimal pressure from the Fund (code 0).[5] The scores are presented in Table A1, column 9.

Condition 4: EU membership. As EU membership becomes attainable as soon as the European Commission opens the negotiations, the 'Luxembourg countries' are coded 1 as of 1998, and the 'Helsinki countries' are coded 1 as of 2000. For the remaining period, code 0 is given. The codes are presented in Table A1, column 10.

Condition 5: Crisis. In this analysis, the transformational recession and/or a large-scale breakdown in the banking sector are considered economic crises (Schmieding 1993). A government experiencing either one of them, or both simultaneously, is coded 1, otherwise it is coded 0. The codes are presented in Table A1, column 11.

Condition 6: Binding monetary policy. The typical binding monetary policy measures are currency boards or pegs. Estonia and Latvia adopted currency boards in 1993 and 1994, respectively, and Bulgaria in 1996. Lithuania adopted a strict currency peg in 1994. All the other countries float their currencies. The governments with constrained monetary policies are coded 1, and the others 0. The codes are presented in Table A1, column 12.

Method

This analysis is a first exploration of the comparative study of determinants of policy coherence by playing the strengths of both QCA (Ragin, 2008) and statistical analysis. The two methods reflect different ontologies (Grofman and Schneider, 2009; Ragin 2008): while the former assumes that the same outcome can appear due to different combinations of conditions and strives to identify these combinations, thereby dividing the cases into *groups*, the latter, while not explicitly rejecting the idea of equifinality, strives to find explanations that fit *all* cases. In addition, the two methods have different aims: QCA belongs more to the exploratory arsenal, while statistical techniques belong more to the confirmatory arsenal. In spite of these differences, the two methods can be combined, subject to the requirements of the research question. As shown in the next section, statistical techniques prove to be an insufficient tool for examining the propositions put forward in this article, which are better answered by QCA. However, the statistical analysis complements and nuances the QCA findings.

Analysis

Building on Evans (1995), Stark and Bruszt (1998) have argued that being simultaneously institutionally constrained and accountable to organized interests provides governments with mechanisms, means and incentives to produce coherent policies. By implication, governments lacking one of these characteristics, or both, are less likely, if at all, to produce coherent policies. Table 1 shows the distribution of cases based on governments' characteristics (constraints and accountability). It displays a mixed picture with a surprisingly high number of less-than-prepared governments producing coherent policies.

Proposition 1 states that Eastern European governments produce coherent reform policies if they are institutionally constrained and accountable to societal interests. The correlation analysis of the two factors with policy coherence shows that constraints might have a stronger impact than accountability (Pearson's r equals 0.30 and 0.06 respectively). However, taken together, their association

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Table 1. Distribution of cases according to presence/absence of accountability and constraints and presence/absence of coherent policy

Constraints	Accountability	Policy coherence	
		Yes	No
High	High	Slovenia1 Slovenia2 Slovenia3	No case
High	Low	Hungary4 Latvia4 Lithuania3 Poland2	Lithuania2 Poland1
Low	High	Bulgaria3 Bulgaria4 Czech3 Czech4 Czech5 Estonia3 Slovakia3 Slovakia4	Bularia2 Czech1 Slovakia1
Low	Low	Estonia1 Estonia2 Hungary2 Hungary3 Latvia2 Latvia3 Poland3 Poland4 Romania3	Bulgaria1 Czech2 Hungary1 Latvia1 Lithuania1 Romania1 Romania2 Slovakia2

with policy coherence is also rather weak (multiple correlation r = 0.33). Proposition 2 suggests that where the governments do not have the auspicious characteristics for producing coherent policies, they manage to do so under the influence of the context. The context characteristics show stronger associations with policy coherence, but in different directions: while EU conditionality and binding monetary policy are positively associated with coherent policies (Pearson's r equals 0.68 and 0.32, respectively), presence of IMF conditionality and economic crises are negatively associated with policy coherence (Pearson's r equals –0.58 and –0.64, respectively). While these measures suggest which might be the relevant determinants of policy coherence, they do not answer the research question, which asks for the combinations of factors leading to policy coherence.

Table 2 summarizes the main findings. The first column refers to the cases that present the combination of conditions suggested by Stark and Bruszt, accountability and constraints (Path 1). All cases that display simultaneously the two conditions also display coherence. However, since these are only 3 cases out of 37 belonging to the same country, this evidence cannot be presented as strongly supporting Proposition 1. All that can be said with the data at hand is that there are indications that Stark and Bruszt's thesis is true.

Columns 2 to 5 refer to governments that did not display the auspicious combination of accountability-cum-constraints, some of which produced coherent policies and some of which did not. If governments' own characteristics are not auspicious, then it is likely that policy coherence is

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Table 2. Pathways and deadends to policy coherence

Policy type	Coherent policies (outcome)					Total n = 37
	Yes (n=37)	Yes (n=20)			No (n + 11)	
	Path 1	Path 2	Path 3	Path 4	Path 5	
Conditions	Accountable AND constrained	EU membership prospects	No crisis AND no monetary policy constraints	No IMF conditionality AND monetary constraints	Presence of crisis AND no monetary policy constraints	
Governments	Slovenia1 Slovenia2 Slovenia3	Bulgaria4 Czech4 Czech5 Estonia2 Estonia3 Latvia3 Latvia4 Lithuania3 Hungary3 Hungary4 Poland3 Poland4 Romania3 Slovakia3 Slovakia4	Czech4 Czech5 Hungary2 Hungary3 Hungary4 Poland2 Poland3 Poland4 Romania3 Slovakia3 Slovakia4	Estonia2 Estonia3 Latvia2 Latvia3 Latvia4 Lithuania2 Lithuania3	Bulgaria1 Bulgaria2 Czech1 Czech2 Hungary1 Poland1 Romania1 Romania2 Slovakia1 Slovakia2	All governments
Cases displaying conditions	3	15	11	7	11	24
Cases displaying conditions and outcome	3	15	11	7	10	37
Consistency	100.00%	100.00%	100.00%	100.00%	100%	64.90%
Constraints (1)	—	0.4	0.41	–0.05	0.54*	0.3
Accountability (2)	—	–0.34	–0.35	0.49	0.1	0.07
Coherence (3)	6.83	7.17	6.5	7.92	2.77	5.43

Notes: (1) Correlation of coherence and constraints index within path. (2) Correlation of coherence and accountability index within path. (3) Mean coherence index (all path-specific means significantly different from overall mean).

produced by combinations of other factors, which were introduced earlier as context characteristics. Unfortunately, standard statistical techniques are able to indicate which factors influence a certain outcome, but are not able to find different combinations of these factors conducive to the same outcome. Therefore, another methodology which assumes that '[c]auses may combine in different and sometimes contradictory ways to generate the same outcome' (Ragin, 2000: 14) is needed. This different way of analyzing data is provided by qualitative comparative analysis (QCA). QCA is an appropriate instrument because it has been designed to deal with causal complexity in small-N situations and is able to identify different combinations of conditions conducive to a certain outcome (Ragin, 2008). Moreover, QCA assumes asymmetric causality, namely that the non-occurrence of an event is not caused by the absence of the conditions that lead to its occurrence. Therefore, separate analyses are conducted for the occurrence (columns 2 to 4) and non-occurrence (column 5) of the outcome.

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Columns 2 to 4 present the results of the QCA analysis conducted on 20 governments that produce coherent policies.[6] Three combinations of conditions associated with the presence of the outcome 'coherent policies' have been found. Path 2, 'presence of EU membership prospects', covers a relatively high number of cases (75 percent), while Path 3 'absence of crisis AND absence of binding monetary policy', and Path 4 'absence of IMF conditionality AND presence of binding monetary policy' cover fewer cases, 55 percent and 35 percent, respectively. These numbers represent a measure of the relative importance of each path, termed coverage in QCA terminology. They need to be interpreted together with the so-called consistency scores, a measure of the success of each path to explain as many cases as possible showing the outcome from all the cases that belong to a particular path (display a certain combination of conditions). The consistency scores indicate that each combination of conditions in Paths 2 to 4 explains all the possible cases in that particular path.

The cases listed in Table 2 indicate that a considerable overlap among the three paths exists. Under QCA, this is not uncommon, and a closer look at the cases illuminates how the different paths lead to policy coherence. Two distinct clusters can be observed. The first is made up of the last governments of Poland, Hungary, Czech Republic, Slovakia and Romania and is covered simultaneously by Paths 2 and 3. The second is made up of the last governments of the Baltic countries and is covered simultaneously by Paths 2 and 4. The fact that EU membership prospects are associated with policy coherence suggests that all these governments used EU integration as a roadmap for their policy-making. In addition, the Central European governments used the good environment, namely the absence of crises and of IMF pressures, to produce coherent policies (Path 3), while the ones of the Baltic countries maintained themselves on the path to coherence by using currency boards and pegs, which obliged them to cooperate with domestic financial institutions, while the absence of IMF constraints gave them the liberty of 'doing it their way' (Path 4).

Column 5 of Table 2 presents the path conducive to policy incoherence. Most cases (10 out of 11) are covered by a combination of presence of crisis and absence of constrained monetary policy. It indicates that the presence of transformational recession (crisis) strained the policy-making capacities of governments, and this effect was likely increased by the governments' lack of experience in dealing with such situations, as they were the first post-socialist governments (Bulgaria1, Bulgaria2, Czech1, Czech2, Hungary1, Poland1, Romania1, Romania2, Slovakia1, Slovakia2). Policy incoherence is the result of this pressure combined with absence of measures, such as binding monetary policy, expected to prevent governments from making grave policy mistakes.

The second and third last rows of Table 2 bring back into focus the Stark and Bruszt argument and look at how strongly the government characteristics deemed auspicious for policy coherence (constraints and accountability) are correlated with the policy coherence index within each path. The only significant coefficient is the one for constraints in Path 5, indicating an influence on the level of policy coherence. The next paragraphs show how much this lack of significance in all other paths indicates that accountability and constraints are trumped by other conditions. The case of Slovenia, where constrained and accountable governments produced coherent policies, will be briefly elaborated upon in the discussion section.

The last row of Table 2 presents the mean policy coherence value for each path and compares it with the overall average. Policy coherence for all governments has a medium level of 5.4 index points. The four paths to policy coherence result in much higher coherence levels (between 6.5 index points for Path 3 and 7.9 index points for Path 4), while the one deadend (Path 5) results in a coherence level of only 2.8 index points. Statistical tests (not reported here) indicate that the path-specific averages are all significantly different from the overall mean coherence.

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Table 3. Forecasts of the coherence index (regression coefficients)

	Model A		Model B	
	Estimate	Std error	Estimate	Std error
Path 1: accountable AND constrained	0.86	0.93	0.37	0.94
Path 2: EU membership prospects			1.72	0.36
Path 3: no crisis AND no monetary policy constraints	1.08	0.42		
Path 4: no IMF conditionality AND monetary constraints	2.48	0.58		
Path 5: presence of crisis AND no monetary policy constraints	–2.50	0.89	–2.46	0.90
Constraints * Path 5	1.90	0.83	2.05	0.84
Constant	5.43		5.43	
R2	0.69		0.67	

N = 31

Notes: The regression constant has been constrained to the overall mean policy coherence (5.43, see Table 1) to ease the interpretation of the other effects. Since the constant is constrained (and not estimated), no standard is computed. The variable *constraints* has been centered around its mean.

Obviously, the different paths and deadends to policy coherence found in this analysis really make a difference. That raises the question of how well this solution describes the whole sample. How much of the variance of policy coherence is explained and how much is not? To answer this question, I distinguish between two kinds of models that control for the partial overlap among Paths 2 to 4. Model A in Table 3 excludes Path 2 and estimates the effects of Paths 3 and 4, while model B tests the alternative (including Path 2 and ignoring Paths 3 and 4). In addition, both models include the effects of Paths 1 and 5 and the positive effects of constrained governments in the case of Path 5 (modeled by an interaction between Path 5 and the constraints index). The two regression models in Table 3 show that the solution explains between 67 and 69 percent of the observed variance of policy coherence. This is an extremely good fit to the data. The regression coefficients for the Paths 1 to 5 again show how much the corresponding paths differ on average from the overall mean coherence score 5.43. In the cases of Paths 1 to 4, they are positive (hence, increase policy coherence); in the case of Path 5 (the deadend), they are negative (hence, decrease policy coherence). All of them (except Path 1) are larger than twice their standard error, indicating that they are significantly different from having no effect. The insignificant estimate for Path 1 is due to the fact that this path is only followed by three governments. Finally, the interaction effect shows that within the fifth path, constrained governments fare better. One additional point on the constraints index increases policy coherence between 1.9 (model A) and 2.1 (model B) index points. In other words, in an unfavorable context, a constrained government produces more coherent policies compared with an unconstrained government. The fact that constraints do not seem to have an impact in the other paths, as neither does accountability, can be interpreted as indicating that the contexts that are favorable to policy-making, such as absence of crisis and of external pressures, trump these two government characteristics.

Discussion and Conclusion

This article starts from the view that policy coherence is essential for successfully transforming centralized economies into market ones. However, policy coherence is notoriously elusive when it

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comes to understanding the conditions under which it occurs. Several conditions likely to lead to policy coherence were identified. Two stem from Stark and Bruszt's (1998) argument, which explicitly connected coherent policies with constrained-cum-accountable governments. As previous research showed that contextual conditions influence the policy-making process, and therefore arguably also the quality of policies, this model is complemented by adding other conditions, such as IMF conditionality, crisis, binding monetary policy and EU membership prospects. Using an original dataset, which covers a 15-year time span, the article explores whether constrained-cum-accountable governments produce coherent policies and whether other constellations of conditions produce policy coherence, and if so, which ones.

The analysis shows that accountability and constraints are neither individually nor collectively sufficient conditions for policy coherence. Coherent policies have been produced not only by constrained-cum-accountable governments, but also by governments that fulfilled only one or none of these conditions. Only 3 out of 37 governments conform to Stark and Bruszt's theoretical model. However, as these cases belong to the same country, Slovenia, they can be considered at best as an indication that Stark and Bruszt's model *might* function.

Due to space limitations, the details of the Slovenian governments' approach to reforms are not included here. Pleskovic and Sachs (1994), Bleber (2002) and Careja (2010) offer comprehensive overviews. At this point, it suffices to mention that the constrained-cum-accountable Slovenian governments adopted moderate policies and successfully faced the transformation challenges, as Stark and Bruszt's theory expected. However, the aforementioned case analyses show that it was not only the interaction with social partners or with the parliament that contributed to this success. Equally important was the fact that these governments followed the same policy direction, consistently implemented the reforms and cooperated well with the domestic financial institutions, formulating equilibrated macroeconomic policies. Overall, the Slovenian governments closely managed the economic transformation process, 'not just steering, but weaving' (Parsons, 2004: 43) the reforms by taking an active control over the banking system, by developing a privatization program and by adopting a steady approach to reforms. These case studies suggest other conditions that might play a role for policy coherence, in addition to accountability and constraints: the government's determination in pursuing the transformation goal, its stability or its cooperation with domestic financial institutions.[7] Stark and Bruszt's (1998) intuition that the characteristics of the government matter is confirmed. However, the analysis suggests that an additional set of government characteristics to the ones proposed by the two authors might need to be taken into account. Further research will be needed to explore how these conditions combine to enable governments to produce coherent policies.

For the remaining governments, QCA was used to uncover the possible constellations of conditions conducive to policy coherence. The analysis shows that policy coherence can also be attained by three partly overlapping paths (Paths 2, 3 and 4): in the case of Central European governments, Path 2 (EU membership prospects) and Path 3 (absence of crisis and absence of binding monetary policy) were at work, while in the case of the Baltic States' governments, Path 2 (EU membership prospects) and Path 4 (absence of IMF conditionality and presence of binding monetary policy) were at work. These results provide a new argument in favor of differentiating among the CEE governments. Not only do they have different histories, but they also have different approaches to policy-making: while some maintain all their policy instruments, others bind their own hands by giving policy-making powers to independent institutions such as banks. Therefore, I argue that analyzing CEECs in different subgroups will allow future research to

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understand better the process of creating market-driven economies. The statistical analysis indicates that the QCA solution explains almost 70 percent of the variance of the policy coherence index (Table 3, last row). A significant finding is also that in unpropitious contexts for policy coherence, a constrained government produces policies that are more coherent than the ones produced by an unconstrained government. The implication of this finding is that embedding institutional constraints in the policy-making process can correct for the negative influences of the context. The fact that the level of constraints and of accountability do not have an impact in Paths 2, 3 and 4, which are supportive of policy coherence, indicates that the contexts favorable to policy-making, characterized by absence of crisis or of external pressures, trump these two government characteristics.

This article belongs to a stream of literature that argues in favor of bringing the state back in (Evans, 1995; Amsden et al., 1998), and places this argument in the context of the transformation of centralized economies into market-driven ones. Acknowledging that policy coherence can be the result of factors such as the interplay of agencies at different levels (May et al., 2006), this article starts from the view that where the entire economic system needs to be overhauled,the state remains the dominant actor which creates the rules of the game, gives the first impulse to the new economic actors and ultimately provides the coherent framework of the new economic system. Therefore, the focus of this analysis is on the governments in Eastern Europe, and their policies concerning privatization and banking sector reforms.

The article does not explore the effects of policy coherence, but rather the conditions in which it occurs. Exploiting the strength of statistical methods and of qualitative analysis, this article shows that there are multiple paths to policy coherence and that policy incoherence is the likely result of a combination between difficult context conditions and inexperienced governments lacking mechanisms that streamline their policy-making. It has also shown that the subtleties of economic transformation can be better captured by systematically surveying the policy-making process in specific fields. It is this author's conviction that economic transformation in Eastern European countries is better understood if policies, not only institutions or highly aggregated numbers such as the inflation rate, GDP or unemployment rates, are analyzed. The approach taken in this article complements the research exploring the differences between Eastern European countries, not only in terms of the speed of transformation, but also in terms of the type of capitalism that they build (Cernat, 2006).

The article brings into focus policy coherence as a factor in explaining the economic transformation in the CEECs, and shows that understanding the conditions in which policy coherence emerges gives new perspectives on solving the puzzle of centralized economies becoming market ones. It reflects the view that while Western governments encouraged liberalization, recommended stabilization packages and depicted desirable outcomes, the Eastern European governments, by trial and error, learning from mistakes and successes alike, exploiting good contexts and devising policy instruments, created their own paths.

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Appendix

Table A1. Raw and dichotomous scores

Case	Period	Policy coherence	Constraints	Accountability	Policy coherence	Constraints	Accountability	IMF conditionality	EU membership	Economic crisis	Monetary constraints
Estonia1	Oct 1992–April 1995	8.5	1	1.5	1	0	0	1	0	1	1
Latvia1	July 1993–Dec 1995	4.5	0.67	1.5	0	0	0	1	0	1	1
Lithuania1	Oct 1992–Nov 1996	2.5	1	1	0	0	0	1	0	1	1
Bulgaria1	Dec 1990–Jan 1995	0.5	0.75	1	0	0	0	1	0	1	0
Bulgaria2	Jan 1995–May 1997	0.5	0	3	0	0	1	1	0	1	0
Czech1	June 1990–July 1992	3	0.67	3	0	0	1	0	0	1	0
Czech2	July 1992–July 1996	4	0.8	2	0	0	0	1	0	1	0
Hungary1	May 1990–July 1994	5	1	0.5	0	0	0	1	0	1	0
Lithuania2	Nov 1996–Nov 2000	2.5	2	1	0	1	0	1	0	0	1
Poland1	Aug 1989–Oct 1993	4	2	0.5	0	1	0	1	0	1	0
Romania1	June 90–Dec 1996	1	0.67	1	0	0	0	1	0	1	0
Romania2	Dec 1996–Dec 2000	2	1	2	0	0	0	1	0	1	0
Slovakia1	June 1990–July 1992	3	1	3	0	0	1	0	0	1	0
Slovakia2	Jan 1993–Oct 1998	2	0.86	1	0	0	0	1	0	1	0
Bulgaria3	May 1997–July 2001	6	0	2.5	1	0	1	1	0	1	1

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Table A1. (Continued)

Case	Period	Policy coherence	Constraints	Accountability	Policy coherence	Constraints	Accountability	IMF conditionality	EU membership	Economic crisis	Monetary constraints
Bulgaria4	July 2001–May 2004	7	0.75	2.5	1	0	1	1	1	0	1
Czech3	July 1996–July 1998	5.5	1	3.5	1	0	1	0	0	1	0
Czech4	July 1998–July 2002	5.5	0.25	2.5	1	0	1	0	1	0	0
Czech5	July 2002–July 2004	7	0.67	2.5	1	0	1	0	1	0	0
Estonia2	April 1995–March 1999	8.5	0.5	1.5	1	0	0	0	1	0	1
Estonia3	Mar 1999–Apr 2002	9	1	2.5	1	0	1	0	1	0	1
Hungary2	July 1994–July 1998	6	1	1	1	0	0	0	0	0	0
Hungary3	July 1998–May 2002	8	1.25	0.5	1	0	0	0	1	0	0
Hungary4	May 2002–Aug 2004	8	2	0.5	1	1	0	0	1	0	0
Latvia2	Dec 1995–Nov 1998	6.5	1	1.5	1	0	0	0	0	1	1
Latvia3	Nov 1998–Nov 2002	7.5	1	1.5	1	0	0	0	1	0	1
Latvia4	Nov 2002–Feb 2004	8	2	1.5	1	1	0	0	1	0	1
Lithuania3	Nov 2000–Dec 2004	8	2	1	1	1	0	0	1	0	1
Poland2	Oct 1993–Oct 1997	6	2	1.5	1	1	0	1	0	0	0
Poland3	Oct 1997–Oct 2001	6	1.5	1.5	1	0	0	0	1	0	0
Poland4	Oct 2001–May 2004	6	1.33	1.5	1	0	0	0	1	0	0

(Continued)

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Table A1. (Continued)

Case	Period	Policy coherence	Constraints	Accountability	Policy coherence	Constraints	Accountability	IMF conditionality	EU membership	Economic crisis	Monetary constraints
Romania3	Dec 2000– Dec 2004	5.5	0.25	2	1	0	0	1	1	0	0
Sovakia3	Oct 1998– Oct 2002	6	1	3	1	0	1	0	1	0	0
Slovakia4	Oct 2002– May 2004	7.5	1	3	1	0	1	0	1	0	0
Slovenia1	Jan 1993– Feb 1997	5.5	2	3	1	1	1	0	0	1	0
Slovenia2	Feb 1997– Nov 2000	7	2	3	1	1	1	0	1	0	0
Slovenia3	Nov 2000– Dec 2003	8	2	3	1	1	1	0	1	0	0

Notes: The numbers following the name of a country indicate the sequence of government. For example, Bulgaria1 means the first government of Bulgaria. The table distinguishes between contradictory cases (first block of rows), cases with less than favorable government characteristics (second and third blocks), and cases with favorable government characteristics (fourth block).

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Notes

1. For an extensive discussion of these interactions, see OECD (2002).
2. Details regarding the assignment of scores and the decisions concerning the cut-off points were not included in this article, due to length constraints. They are documented in Careja (2010).
3. This index builds upon the dimensions discussed and presented as constraints on governments by Stark and Bruszt (1998).
4. The rationale is that the government controls parliamentary majorities and, therefore, has more control over parliament as such.
5. Most lending agreements for CEE countries were short-term (three years). Data was retrieved from the IMF *History of Lending Arrangements* from 1 May 1984 to 31 December 2007 at http://www.imf.org/external/np/fin/tad/exfin1.aspx (last accessed January 2008).
6. The analysis excludes the three Slovenian governments, which were discussed previously and reported in column 1 (Path 1), and three contradictory governments (Estonia1, Latvia1 and Lithuania1). It is good QCA practice to exclude cases that display the same set of conditions but different outcomes (contradictory) cases, and eventually analyze them separately (Rihoux and Ragin, 2008). This elimination gives 20 cases with outcome coherence and 11 cases with outcome incoherence. The truth table was solved for the most parsimonious solution, setting the value for reminders at 'do not care' and for all others at 'false'. The measures of fit were calculated for the QCA solutions, and reported as percentages in the text. *Consistency* designates the percentage of cases which display both the condition of interest and the outcome out of the number of cases that display the condition, while *coverage* designates the percentage of cases that display both the condition of interest and the outcome out of the number of cases that display the outcome of interest. Consistency assesses the degree to which a subset relationship has been approximated, whereas coverage assesses the empirical relevance of a consistent subset (Ragin, 2008).
7. Similar conclusions can be derived from studying the three contradictory cases, Estonia, Latvia and Lithuania. Due to length constraints, these are not reported. A detailed account can be found in Careja (2010).

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