

copy + 1

## Social Policy in Transition: Central and Eastern Europe

Michael Hay and Julia Szalai

Draft contribution for Welfare in a Civil Society

23/2/93

Michael

Really interesting and thought provoking. I have made a few comments en passant: I would like another clear copy. All the best.

Jan

## 1. INTRODUCTION

The purpose of this chapter is threefold. First, to consider the role of social policy as the countries of Central and Eastern Europe make the transition to a market economy. Second, to summarise the main social problems with which social policy is having to deal during this process. Third, to formulate a set of key principles which might govern the response of those responsible for social welfare in formulating policies designed to tackle the exceptionally complex social problems now confronting the countries of the region; problems which, in large part, are deeply rooted in the long term economic decline prevalent throughout it.

It should be stated at the outset that no attempt is made here to prescribe the specific form or content of detailed social policy measures. That task, for reasons which will be made clear below, must remain the preserve of individual governments.

Two further caveats should be noted at this stage. First, the scope of this chapter is broad, encompassing all the countries of Central and Eastern Europe, including Russia. We believe, however, that although these countries are already evolving in different ways from different starting points, two key elements continue to unite them. First, all the countries of the region share the common heritage of totalitarian rule. (The impact of this legacy in the realm of social policy is to be discussed in Section 3.) Second, all now share a common commitment to the market based transformation of their societies.

|| In spite of the many striking differences between them, therefore, it can still be argued that there are certain social problems common to all of these societies, particularly during the transition phase, and that it is both feasible and useful to develop an overall framework within which to consider them. Moreover, as we shall argue in Section 6, it is possible to formulate a set of core principles underpinning social policy in these circumstances; principles which may be read, in effect, as a set of 'tests' of social policy.

Do any of these diversities impact particularly on social policy? My guess is that one is crucial i.e. whether the nation state existed at all pre-reform - the contrast between say Hungary and Slovakia; Russia and Ukraine.

The second caveat follows directly from this. No new empirical data will be presented in this chapter. The data used is drawn from authoritative secondary sources. This again reflects our decision to focus here on the general issues at stake and to outline a set of approaches to problem-solving, rather than present ready-made 'solutions'. We start by considering the reform of social policy itself.

## 2. REFORMING SOCIAL POLICY

What then is the role of social policy in the reform process? Two meanings are implied by the title of this section, and both have to be considered. First, there is the role played by social policy in reforming society as it makes the transition to a market economy. Second, there is the reform of social policy itself as an integral part of this process.

### 2:1 Social Policy's Reforming Role

As the pace of economic reform in Eastern and Central Europe has quickened, the social costs and consequences of reform have become more visible. To varying degrees, economic transition has been accompanied by inflation, unemployment, declining GDP, widening income differentials, declining real wages, increasing poverty and a widespread fall in living standards. These problems are not altogether new, but the process of market reform has intensified these difficulties, accelerated the pace of change and fully exposed the depths of an historically deep seated economic and social crisis.

Although the impact of reform has not been identical in each country one feature unites them: the human costs of reform are unevenly spread, with some social groups, including those who historically were comparatively well off, being much harder hit than others; for example the elderly (particularly single pensioners), young children, families with a large number of dependants, single mothers, and the unemployed with

*The best reference  
here is the  
Atkinson!  
Nick Bwnght  
book (1992)*

little prospect of re-employment, at least in the short or medium term. Similarly, those on fixed incomes will be particularly hard hit by inflation and price liberalization, as will individuals whose assets consist principally of cash savings. This poses an immediate challenge for social policy. In these circumstances there is a danger that the association of reform with increased social hardship may threaten the reform process itself, alienating support and testing to its limits the patience of those whose initial hopes and expectations have not been fulfilled.

*This does depend on how you value i) access to goods for the first time  
ii) the previous cost of queuing.*

Social policy has a key role to play in ensuring that the political acceptability of reform does not simply drain away. In doing so it has to address a defining feature of the transition period: the simultaneous decline in living standards of large groups of the population coupled with the highly visible and dramatic improvement in the wealth and quality of life of a minority. Inevitably, the move to a market economy, a process which will take years if not decades to accomplish, will be marked by a redistribution of incomes and, in consequence, widening differentials in terms of both wealth (for example property) and income. The costs of transforming historically planned economies into genuine market economies will be both visible and widespread; the benefits will be equally visible, but more narrowly distributed.

*It may be that for most, living standards have risen!*

To date the role of social policy, particularly during this process of transformation or transition, has largely been ignored. Social policy has played second fiddle to economic reform. Little has been said, particularly by Western economic advisers, about the complementary social changes which will determine a country's ability to put the right sort of economic structure in place. The role of social policy in generating and sustaining social consensus essential to sustaining the reform process has been neglected.

*Cheap and wrong  
Not true of World Bank or I think EBRD*

In the current climate there is a danger that the market economy comes to be seen as an end in itself, rather than part of a social and political framework designed to ensure that

*1.9  
includes Gorbachev  
the W-13 "text"  
make social  
policy as at  
the 4 planks  
of reform.  
Maybe true for  
IMF!*



individuals should be left to make their own decisions about the allocation of their resources and skills and resolve conflicts of interest without recourse to economic exploitation and/or force. Ideally, the market economy stimulates competition and creates choice. But moving towards a market economy and creating choice where previously none existed entails striking a delicate balance between the competing imperatives of economic liberalisation and social welfare if support for the reform process is to be sustained.

Is there any possibility that existing forms of social policy can simply be adapted to changing social needs? In our view, the answer, ultimately, is 'no'. Hence the other meaning implicit in the phrase 'reforming social policy' - as part of the transition to a market economy, social policy itself must go through reform. Why is this necessary? In Section 3 we shall summarise the most salient, specific features of social policy under state socialism and its historical legacy. At this stage we shall focus on the reform of social policy in broad terms.

## 2.2 The Reform of Social Policy

A central paradox of state socialism is that - strictly speaking - it had no social policy as such. What need is there for social policy *per se* when all the activities of the state in effect constituted a 'social policy' in the service of universal needs? In circumstances in which social policy is synonymous with the policies and activities of the state *tout court*, distinguishing an autonomous social policy is not merely difficult, it is unnecessary. Similarly, what need is there for the traditional institutions of social welfare if social considerations are designated an integral element of all areas of economic policy? What need is there for a social policy when the problems with which it traditionally deals, for example poverty or unemployment, are deemed not to exist?

Under state socialism social policy was, in a sense, 'everywhere and nowhere'; everywhere in that social policy was in effect injected into the entire system, permeating all areas of both public and private life; and nowhere, in that there was therefore no clearly definable and autonomous sphere of social policy. Hence the challenge is not so much one of modifying or 'fixing' existing forms of social policy, as the creation of new social policy principles.

The fundamental principle governing social welfare provision under state socialism was the distribution by the state of residual resources that remained after the fulfilment of politically determined economic imperatives. This re-distributive system is now in crisis. It has failed those whom it was intended to serve. The results are clear. What social policy today gives to its recipients are the many irritating, humiliating and painful experiences of unfairness, defencelessness and chronic shortage. Social policy has become inextricably associated with widely unsatisfied needs, endless bureaucratic regulations and haphazard or arbitrary distribution of deteriorating services.

Under state socialism, social policy, to the extent that it existed, was hostage to political and economic imperatives. The determination of welfare needs and welfare provision was a direct function of politically governed economic requirements. Moreover, the actual distribution of welfare benefits was inextricably bound up with political position and influence. Welfare was, in a fundamental sense, in the gift of the State which assumed complete responsibility for - and discretion over - all aspects of its provision. With employment constituting the key to gaining access to welfare, it was inevitable that no framework of individual rights and entitlements developed.

This historical legacy thus defines the reform agenda in two main ways. First, the dis-establishment of the welfare institutions of totalitarianism, many of which are in any case in a parlous state of decay and decomposition. Second, the creation of new institutions of social policy fully compatible with the move to a market economy.

Correct but  
general.  
Make it  
more  
specific.  
Give  
examples in law  
or  
education.

The move to a market economy necessarily entails the separation of the state and the market, with the state at most able to influence rather than control the market. The corollary of this in the sphere of social policy is the separation of the state and civil society. Indeed, central to the very notion of 'civil society' is the principle that society itself should define and articulate its interests independently of the state. Achieving such separation entails completely re-thinking the rationale and goals of social policy, as well as the institutions and mechanisms through which it should operate. However, a note of caution should be struck here.

For decades social policy in Central and Eastern Europe has been politically subordinated, wholly subservient to political imperatives and their translation into economic requirements. In the move to a market economy there is both the danger, already noted, that the market economy emerges as an end in its own right and, moreover, that social needs will once again be secondary to - newly defined - economic needs. Exchanging one form of subordination for another will not serve to create a new approach to social policy commensurate with the social needs and problems now emerging.

### 2.3 Summary

The phrase 'reforming social policy' has a double meaning. Social policy has a pivotal role to play in the reform process itself, by tempering the consequences of economic transformation and creating social consensus. To accomplish this, however, entails the creation of a new approach to social policy, one that serves the interests of society as a whole and is predicated upon legally enshrined and universally respected individual rights. This need for this will become clearer as we consider in more detail the most salient, specific features of welfare provision under state socialism, for it is against the background of this historical legacy that any new approach to social policy has to be constructed.

### 3. SOCIAL POLICY AND STATE SOCIALISM: THE HISTORICAL LEGACY.

As mentioned above, the central paradox of state socialism is that it had no social policy. However, there developed under state socialism a distinctive system of social welfare provision, the essential features of which were common throughout Central and Eastern Europe.

#### 3.1 Social policy and state socialism: key features

1. **State provision.** Historically planned economies fostered the development of the hyper-active state, in control of and responsible for all activities in society, including the welfare of its citizens. As both the owner and distributor of all resources the State assumed responsibility both for defining appropriate levels of social welfare and distributing *all* social goods.

In these circumstances, the central objective of welfare legislation was to provide a "comprehensive mass facility", which it did by focussing exclusively on the development of what have been called 'big systems', (ie. pensions and health) which paid little heed to specific individual needs. In reality chronic shortages coupled with the burgeoning demand for welfare services guaranteed that while the welfare systems were 'big', the distribution of benefits was partial. Social policy became, in effect, the distribution of scarce privileges by the state, engendering competition between social groups for their slice of an inadequate and shrinking welfare pie.

See my own Chapter - really everything, subordinated to needs of plan. not very interested in welfare per se.

Two key consequences immediately flow from this. First, a pre-requisite of a new approach to social policy must be a clear definition of those social needs for which the State is responsible. Second, an imperative of social policy must be the creation of the conditions, including an appropriate legal framework, in which individuals and families are able to help themselves. Both of these tasks have to be accomplished against a background in which the State has been the principal provider of social welfare, a role which many continue to expect it to play.

2. **Subsidies.** These constituted the principal mechanism by which social protection was provided, particularly in areas such as food, energy and housing. The provision of artificially low priced essential goods was complemented by a set of freely available services, such as health and child care, schooling and so forth. Living standards of both wage earners and those wholly reliant on benefits were to a considerable extent underpinned by subsidised or free goods and services. Adjusting these benefits in line with inflation was, moreover, not an issue since State controlled prices remained relatively stable. However, welfare provision via either subsidies of so-called necessities or granting free access to essential services was characterised by inequitable distribution (which took little account of individual needs) and the inefficient and haphazard distribution of deteriorating services.

But secondary market ??

repetition yet not clear why & what you mean.

3. **Employment provision.** The creation - and maintenance - of a full employment economy and the associated provision of a job for all able bodied people was a fundamental policy objective, frequently embodied in the constitution. Typically this constitutionally enshrined right took the form of guaranteeing an individual's *unconditional* right to work and education, and his *conditional* right to health and child care, the condition being participation in work.

Work was both a right and an obligation. The State guaranteed a job for each individual; acceptance of that job, irrespective of its nature or location, was obligatory. Failure to work, at least without a valid reason, disqualified an individual from any right to receive social benefits; indeed, 'voluntary' unemployment or the refusal of 'honest work' was penalised. Thus the ideological commitment to providing work for all citizens found expression in compulsory employment.

*Very rare indeed after Stalin's death. Even before*

Employment constituted a basic condition of membership of society and, with it, entitlement to social welfare. Welfare entitlement did not exist independently of employment; one could not be had without the other. The equation was simple: no work, no entitlement, no welfare. Reinforcing this core principle was an administrative infrastructure which accorded a key role to state enterprises in the administration of welfare.

4. **Enterprise involvement.** To a considerable extent, the financing, administration and distribution and delivery of welfare benefits was the responsibility of state enterprises. Typically, it was the enterprise which provided its workers with many of their social and welfare facilities: housing, food supplies, child care, medical facilities, sports and leisure. In this the trades unions were accorded a key role, working in conjunction with the wages and salaries departments of state enterprises and with relevant state ministries, particularly in areas such as pensions and family allowances where unions fulfilled a monitoring and supervisory role.

In fulfilling this role, the trades unions were effectively acting as a transmission mechanism for the state, to which they were subordinated. With some exceptions, notably Poland, unions represented the needs not of the workers for

whom they professed to speak, but of the Party and, typically, its more hard line elements. This pattern of enterprise and union involvement was most pronounced in the CIS, being rather less important in some other countries, notably ~~Hungary~~ Poland (Solidarity !)

5. **Centralisation:** Centralisation is a defining factor of historically planned economies. This applies just as much in the area of welfare as in all other aspects of economic and social life. Thus, the state socialist approach to welfare exhibited an explicit bias in favour of centralisation, particularly in terms both of the formulation of the rules governing social protection and the definition of categories of entitlement. Authority over such issues resided firmly at the centre.

Local communities were wholly dependent therefore on the re-distribution of goods and services by the State. But the pattern of distribution was uneven, with a pronounced bias in favour of major industrial centres and large defence complexes, thereby creating marked inequalities both between communities of different types and between different geographic regions.

6. **Limited Local Discretion:** The corollary of this bias towards a centralised, administrative command approach to welfare was the virtual elimination of any scope for discretion on the part of local officials. With power concentrated at the centre there was neither the latitude nor the incentive for local officials to exercise discretion over the way in which policies were implemented. The consequence of this is clear: this approach to welfare was not accompanied by the creation of a cadre of officials at the local level with either the experience or the expertise to operate effectively.

- Note - pay for this type of work also v. low!



7. **Unintended consequences:** The interaction of these different elements had, moreover, adverse consequences. Pursuit of the goal of full employment was broadly successful, albeit as a direct result of the compulsory nature of employment and the strict enforcement of the universal obligation to work. With no unemployment to speak of, and with employment constituting the condition of entitlement or access to welfare, the consequence was inevitable: welfare entitlement became *de facto* universal. All those in work qualified for welfare; all but a tiny minority were in work; all but this minority were therefore entitled to receive welfare benefits. Paradoxically, perhaps, the accomplishment of full employment resulted directly in the burgeoning demand for social services, particularly those directly linked to employment such as child care. But with investment constrained by the need to finance industrial projects, the demand for social services rapidly outstripped available supply; for instance, child care facilities were universally provided but at the expense of the space available to each child.

except in countries with large non-agricultural sectors.

These systems relied on increasing employment for growth. Here they had over-full employment, especially by pushing women into L. force.

All true but true of all investments in the countries, not just social. Also note that conventional I. criteria of the Sekt were not applied.

The problem was exacerbated by another key feature of the system: subsidies. The 'price' of subsidised goods and services is by definition artificial. In the absence of a transparent price the cost of providing services becomes unclear. Without reliable prices or costs to guide investment such investment that was made was frequently misplaced. Hence the spiral of decline witnessed in so many countries of the region: escalating demand for services fuelled by employment practices, inadequate or ill-directed investment and an accelerating decline in the quality if not the quantity of social services available.

### 3.2 Summary:

Welfare provision under state socialism contained a number of key features common to all the countries of Central and Eastern Europe: state provision; subsidies; employment

provision; enterprise involvement; centralisation; limited local discretion. The system, characterised as it was by a highly centralised administrative infrastructure and by an administrative command approach, resulted in a dearth of experience or expertise at the local level; a tiny or non-existent voluntary sector; little or no development of intermediate, non-governmental organizations; and a poorly developed legal framework governing the administration of welfare. The institutions of welfare lack moreover credibility and legitimacy, being regarded as remote, sclerotic and arbitrary.

The welfare rhetoric of state socialism extolled the virtues of universal provision by the state designed to meet basic human needs such as housing, health and pensions. This resulted in a strong bias in favour of 'big systems' coupled with a deeply ingrained preference for universal systems of distribution. In reality access to welfare was anchored in the principle of earnings related allocations, a function partly of employment and, more divisively, of political position. In place of the development of a transparent framework of guaranteed rights and individual entitlements, social policy effectively took the form of the distribution of privileges. ✓

✓ ✓ Beneath the rhetoric of universal welfare lay the reality of discretionary, politically controlled provision of scarce social goods. Individual social rights, enshrined in law, never developed. Social atomisation and the erosion of any notion of citizenship were the inevitable results. Welfare provision was, moreover, residual in a double sense. First, it was financed by the money and resources that remained *after* economic and industrial requirements had been met. Second, it was assumed that basic social problems or needs would be resolved through the economy, for instance via the system of subsidies or the provision of full employment. Social policy was in a fundamental sense therefore residual, politically and economically subordinated. To a considerable extent the social services provided by the state reflected the dominance of politically determined economic priorities; for example, providing child care so as to increase

female participation in the labour force and, by way of reinforcing this, restricting any extension of child allowances.

It is against this backdrop that a new approach to social policy, geared both to the immediate needs of transition and to longer term social problems, has to be framed. A new social policy adequate to contemporary needs cannot be based on the wholesale rejection of the past. The past sets limits to what is achievable, at least in the short term; it also engenders expectations as to the form that social policy should take and the role of the state as the provider of social welfare. A further social and cultural legacy of state socialism is a universal assumption that it is the State's prime responsibility to provide social protection and to ensure citizens' welfare; an assumption which promoted an abdication of responsibility on the part of individuals for key aspects of their social welfare and the creation of a culture of dependency.

Thus any new approach to social policy has to be part of the process of re-defining civil society, of separating individual and social interests from the state. The corollary of this is that it also has to define those areas of social welfare for which the state should take responsibility. Moreover, it has to do so at a time when the countries of Central and Eastern Europe are in a sense defining themselves. In this process of self-definition social policy has a key role to play. What then are the principal problems with which it must deal?

#### **4. THE TRANSITION PROCESS: COMMON SOCIAL PROBLEMS.**

The countries of Central and Eastern Europe have not evolved in a uniform manner. There are profound differences, the nature of which are considered below (Section 5). But irrespective of historic differences, and despite the alternative routes that have been adopted in the transition process, there are certain social problems common to all.

The exact nature and scale of these problems will vary between countries, but the essential ingredients remain the same. More specifically, three common problems can be distinguished: poverty, unemployment and social disintegration. In part these problems result directly from the transition process. But it is equally clear that they will persist post-transition and it is precisely because of their potential to turn into long term, intractable problems that priority is accorded to them.

Most of Central Europe has not in place Labor Force Surveys (LFS) now.

#### 4.1 Unemployment

In assessing the magnitude of any social problem in Central and Eastern Europe the absence of reliable data is a major obstacle. This is particularly problematic in the sphere of unemployment. In Russia for example the director of the Institute of Employment, R.V. Rakitsky, has argued that reliable statistics simply do not exist and that those which are available almost certainly underestimate the size of the problem. Much the same applies throughout the region since unemployment estimates are almost invariably based upon the number of registered job seekers at labour offices. Reported levels of unemployment will therefore be a function, at least in part, of the laws relating to receipt of unemployment benefits and registration requirements associated with these, as well as the number, geographic distribution and efficiency of unemployment offices.

Exaggerated

Not clear black market / private sector works the other way!

not in LFS!

Further compounding the measurement problem is the problem of definition, in two respects. First, the definition of unemployment varies between countries and, second, these definitions themselves do not match internationally agreed definitions of unemployment. These difficulties notwithstanding, it is nonetheless possible to distil salient trends, to identify the pressures fuelling the growth in unemployment and to capture the essential features of the unemployed which pose the greatest challenge to social policy.

## 1. Background

For decades unemployment did not exist, other than short term frictional unemployment which was largely ignored and unreported; indeed in some countries, notably Hungary, there was substantial excess demand for labour. This is not surprising since a central ideological tenet of historically planned economies was the commitment to full employment, embodied in the unconditional right of each individual to a job. The effective criminalization of 'voluntary' unemployment - or idleness - combined with the link between work and welfare entitlement, ensured that those in work remained so. In this sense the right to work and explicit policies of full employment constituted a highly effective form of social control.

However, full employment is a thing of the past, being rapidly replaced by high levels of open unemployment, the onset of which has usually coincided with the start of market reform. In Poland for example the number of registered unemployed rose from virtually zero to just over 2.2 million between 1989 and the first quarter of 1992. In the former Czechoslovakia after 40 years of full employment open unemployment began to emerge in 1990, with the number of those officially registered as unemployed reaching 500,000 by March 1992; in Hungary, for years afflicted by a shortage of labour, the official unemployment rate in early 1993 had reached 13%. Much the same pattern is to be found throughout Central and Eastern Europe, although in some countries - for example Russia - the rate has so far remained relatively low, thanks in large part to the continuous flow of credits to enterprises.

As to future levels of unemployment forecasting is hazardous, although three things are clear. First, policy analysts have been almost unanimous in forecasting increasing unemployment. Indeed some have argued that it is a necessary by-product of the transformation of centrally planned economies and that one measure of the effectiveness of this transformation is the level of unemployment itself; for example experts in

Czechoslovakia estimated that, *ceteris paribus*, an unemployment rate of 8 to 10% would be required for fundamental structural economic adjustments to take place. Second, the rate at which unemployment would increase has - almost invariably - been underestimated. Third, after a relatively slow and late start in some countries, for example Russia and Romania, unemployment rates are now accelerating. Throughout Central and Eastern Europe as a whole between 1990 and the first quarter of 1992 there was a 40 fold increase in unemployment, albeit from a relatively low base. With over 4 million unemployed in the region as a whole by the beginning of 1992 what are the prospects in the immediate future?

John E. Gerny  $\approx 20\%$  ↑

With rates in many countries already above 10% (Poland, Bulgaria and Hungary), there is every reason to believe that for the foreseeable future average rates will range between 10-20%. As Feodor Prokopov, the head of the Russian employment service, observed when commenting on the fact that high rates of unemployment had not emerged in 1992. "I fear that this time our forecasts will become reality: the problem of unemployment might emerge as the most serious facing Russia. In 1993 we predict that there will be five million unemployed".

Leaving forecasts aside, what can be said with certainty is that unemployment is already an important issue, its rate of increase is accelerating and projected rates give no cause for comfort, particularly if full account is taken of the latent unemployment endemic in the system. What lends credence to these assertions are the pressures already at work which will further fuel the rate at which people lose their jobs. Three pressure points in particular merit attention: the transition from hidden under-employment to open unemployment; the impact of privatisation; and the problem of private sector time lags.

#### 4.2 Unemployment: key pressures

1. From hidden under-employment to open unemployment.

Formally unemployment did not exist under state socialism. Everyone able to work, apart from a tiny minority refusing 'honest work', was in work. However, full employment was only achieved at a price: widespread, systematic and chronic overmanning which served, in effect, to devalue labour. Indeed the entire economic system under communism was predicated upon the utilisation of cheap labour on a massive scale without which little of the industrialisation accomplished would have been possible. Thus the direct consequence of economic policies pursued was the highly inefficient allocation of labour, much of which was underutilised. Estimating precisely the scale of underutilisation is difficult although some attempts have been made. In Czechoslovakia for example it has been estimated that the level of hidden unemployment is of the order of 6-10% of the labour force; rather more reliably, perhaps, individual estimates of specific enterprises put the figure at 25%. There no reason to believe that Czechoslovakia is alone in this respect.

*Concealable economic work has been done - I have under what it should be - I have under could suggest 25% plus.*

The issue therefore is this. Formerly unemployment did exist, on a large scale. But it was hidden, concealed within enterprises carrying labour surplus to their real requirements. There was widespread 'unemployment', on the job. There is a further policy consequence of importance. State socialism guaranteed was the right to work. But the reward for that work bore little or no relation to actual output or productivity. What was guaranteed in effect was the right to a low, but stable and certain wage, irrespective of output. The move to a market economy, of necessity, abolishes this guarantee - of both work and wage - establishing in its place clear linkage between the (a) productive requirements of a firm and the number of people it employs and (b) labour output and payment. An inevitable consequence of market reform is therefore the translation of historically hidden, under-employment - or unemployment within the factory walls - into open unemployment.



## 2. Privatisation

Privatisation carries downside risks, not the least of which is its impact on employment. Fully privatised enterprises will simply be unable to operate on a commercial basis unless labour is carefully matched to requirements. But here there is a dilemma. Recognising the consequences for employment of rapid, mass privatisation - such as that embarked upon in Russia - the authorities may be tempted to ameliorate these difficulties by insisting on some form of protection of existing jobs. At a stroke, newly enfranchised managers would be denied a major instrument for improving efficiency -ie. eliminating overmaning. But the move to a market economy also implies another transition: that from soft to hard budget constraints. That is, placing firms in a position in which the finances available to them are a direct function of their own revenues, rather than affording them credits, tax concessions or other forms of soft finance irrespective of financial viability.

## 3. Private sector time lags.

Some state enterprises will be privatised; others will be beyond privatisation, and will have to be liquidated. Either way the burden of generating new jobs for those no longer needed by privatised firms or those laid off following liquidation will fall upon the private sector. As yet it is too early to say with any degree of confidence just how rapidly the private sector is creating employment and promoting a shift in employment from the public to the private sector.

→ Private sector now > 50%  
output & 40% industrial  
employment

The number of new private enterprises has increased dramatically; in Hungary for example approximately 37,000 new firms were created between 1989-1991, while in the former Czechoslovakia the number of registered entrepreneurs increased by more than 1 million in the same period. But despite this, and the evidence that many of these new firms have performed relatively well notwithstanding, it is clear that the private

in Poland

Seems against  
your view!

sector - buoyant though it is - is unlikely to be able to absorb an increasing number of those thrown out of work. Inevitably, the rate at which old jobs are abolished will outstrip the rate at which new ones can be generated.

The pressures already at work strongly point therefore to an escalating unemployment problem. But what of the likely future pattern of unemployment? What is known about its probable duration, composition and geographical distribution? It is to these issues that we now turn.

### 4.3 The Pattern of Unemployment

Although the numbers may be uncertain the make up of these numbers is already becoming clear. As the profile of the unemployed population gradually takes shape a number of salient features are emerging: average periods of unemployment are lengthening; the risk of unemployment varies, both between social groups and between generations; regional variations are becoming more marked, fuelled by a diverse array of migration pressures which are examined elsewhere in this Report. These salient features will be briefly elaborated upon.

#### 1. Duration.

Here again the evidence is somewhat scanty. Existing statistics are largely based on benefit records and almost certainly under-state the situation. But all the available evidence points in one direction: those without work are remaining so for longer. To illustrate. For example, an OECD study of one Warsaw district with the lowest unemployment rates revealed that in the year from September 1990 those with unemployment spells of more than six months increased from approximately 8% to more than 55%. Comparable data from elsewhere, including changes in the duration of unemployment in a number of OECD countries, has prompted the OECD itself to

conclude that the incidence of long term unemployed is already high, and is being driven by large inflows of displaced workers and only small outflows from unemployment.

— I have the OECD report on Polish Labour Markets (to be released next month) with lots more data here. Want to see it?

## 2. Vulnerable Groups

It is quite clear that the risks of becoming unemployed are unevenly distributed with three groups being most at risk. First, young people and new entrants to the labour force. As pressure on employment levels of enterprises intensifies priority is likely to be given to protecting the jobs of those already in place, not taking on new staff. ✓

Moreover, as is clear from evidence in Western economies, a distinctive characteristic of youth unemployment is its relatively long term duration. Second, the evidence clearly points to the fact that in many Central and East European countries more women are out of work than men, fuelled in part by the tendency of industry to shed first administrative rather than production jobs; typically the former are predominantly filled by women. ✓  
D/-lorod: return not a problem. ✓  
Much the same situation prevails in respect of 'elderly' workers who by age of 45 or so are being effectively written off. ✓  
Third, the rate of unemployment is higher among those with vocational training and among unskilled workers. With poorly developed labour markets there is therefore a real danger of whole groups of workers being crowded out - young people, the elderly (or not so elderly), women, and those lacking portable skills or appropriate training. Thus the varying incidence of long term unemployment may well become most pronounced along generational lines.

## 3. Regional Variation

The industrial landscape of historically planned economies is marked by two features: the concentration of a significant proportion of the working population in a relatively small number of large enterprises and, second, the geographical concentration of key industries. For example, taking the former Soviet Union as a whole it has been estimated that in 1990, 73.4% of the total workforce was employed in enterprises ✓

employing more than 1000 people, and yet these large enterprises accounted for 16.4% of the total number of enterprises of the former Soviet economy. Much the same situation prevailed in Poland where the 115 largest enterprises, each with more than 5,000 workers, accounted for 20% of industrial employment and production; the average number of employees per plant (excluding the co-operative sector) is 378 compared with about 80 workers in a sample of Western economies. The comparison with West European economies is stark. In Western Germany for example 2.6 percent of enterprises employ more than 1000 people - these enterprises account for 39.7 percent of the workforce. In Central and Eastern Europe many of the larger enterprises are in industries most threatened, particularly in employment terms, by the move to a market economy. Moreover, these industries themselves are typically geographically concentrated.

The concurrence of these twin features has clear consequences for the future pattern of unemployment. There will be sharp regional variations in unemployment levels, with areas where there is an historically strong specialisation in mining or heavy industry particularly hard hit; the relocation of labour from declining to expanding regions will be required, but there will be many obstacles to the free movement of labour, such as housing shortages. In general it is probable that agricultural areas will experience relatively high levels of unemployment - for instance, areas such as Polocno Wschodni in North West Poland, north-east Hungary and the south-east of Slovakia.

#### Unemployment: Summary

The essential issues arising out of this discussion of unemployment may be summarised as follows:

- \* against an historical background of nominal rates of short-term frictional unemployment the transformation of historically planned economies will be marked by high (not less than 10%), rates of structural unemployment; → surely much higher than this!
- \* much of this unemployment will be of long duration; ✓
- \* the composition of the unemployed will be skewed towards women, men with low levels of skill or education, those working in certain industrial sectors and, finally, young people coming onto the labour market; these groups are likely to account for a significant proportion of the total number unemployed and, more particularly, of those who remain unemployed on a long term basis; ✓
- \* regional variations will be severe, with the burden falling particularly heavily on underdeveloped agricultural regions and those areas historically dependent upon a single industry. ✓
- \* the large scale, geographically localised industrial concentrations of the past are likely to be superseded by equally large scale and geographically localised concentrations of long term unemployment. ✓

Unemployment is a problem for which the societies of Central and Eastern Europe are ill prepared, having for forty years or more become accustomed to the security of full, stable employment. At the most immediate level there is little expertise or experience among agencies of welfare in dealing with unemployment. But the problem extends much deeper than this. These economies are characterised by extreme labour immobility. Obstacles to the free movement of labour abound, notably the acute shortage of housing in those areas where job opportunities are likely to be greatest. This is the direct result of an economic system predicated upon the controlled, centrally directed distribution of labour. Labour was allocated to enterprises; labour had no right

to move voluntarily in search of alternative forms of employment. In the move to a market economy it is likely that a premium will come to be placed upon the mobility and flexibility of labour and the emergence of fully functioning labour markets. But this is diametrically opposed to the way in which labour - seen as something of a commodity - has hitherto been controlled.

Unemployment has, furthermore, a consequence of profound significance for those whom it effects. State socialism guaranteed to each individual the unconditional right to work. Work in turn was the passport into society, bringing with it entitlement to a range of welfare benefits. Employment was, in a fundamental sense therefore, *the principle* of citizenship and social membership. But work can no longer be guaranteed; millions will be out of work and will have little or no prospect, at least in the short to medium term, of re-employment. On what basis do they belong to society? At this stage it is impossible to answer, since no new principle of social membership has yet been developed. No framework of institutionalised, individual social rights has been created to fill the vacuum created. Thus unemployment is likely to seriously erode the social consensus necessary to sustain the reform process. Pressures on social cohesion will be further intensified by a further social problem of profound significance: poverty.

#### 4:2 Poverty

For the governments of pre-reform Central and Eastern Europe poverty was a highly sensitive issue. Regarded as one of the distinguishing features of capitalist market economies, it was not a subject of public debate. Nevertheless, preoccupation with poverty was not absent in Central and Eastern European countries as shown by the abundant (but usually confidential) research on social and subsistence minima and associated attempts to define a poverty line or, as in the former USSR, a minimum material standard budget.

Similar to the experience in the Western welfare states, even a fairly wide-ranging social protection system such as the one that existed in much of Central and Eastern Europe could not do away with problems of poverty. One of the reasons was that, unlike many Western schemes, the system was limited to a type of social protection geared primarily to employment. As there little open unemployment, the system made no provision for unemployment benefits and allowed only discretionary and small-scale social assistance to those without any resources, usually locally financed.

According to official minimum levels of living, in the 1980s around 7.5 per cent of the population of the CSFR, 10 to 15 per cent of that of Hungary and 10 to 25 per cent of that of Poland were impoverished. According to the Economic Commission of the United Nations, in the former USSR, families whose per capita income was less than two thirds of the national average were considered poor. Since the average per capita household income was around 150 rubles a month in 1989, this put the incomes of 28 per cent of families below the poverty line.

The Office of Labour statistics claims that nearly half of the poor are families with numerous children. However, many children in a family is only one cause of poverty. The other factors are lower levels of wages and of pensions. Thus, just less than one half of all old-age pensioners received amounts below 80 rubles (the subsistence minimum, that is the poverty line, in 1988 was 78 rubles; virtually all pensions of collective farm workers were below that amount).

There was - and still is - considerable variation in the incidence of low incomes across the Republics of the former USSR. Russia, with half the population of the Union, has somewhat less than a quarter of the poor. The five Central Asian Republics (Uzbekistan, Kirghizia, Tadzhikistan, Turkmenia and Kasakhstan) contain just over



half of the poor, but these republics make up only 17 per cent of the former USSR population. These figures relate to the middle - late 1980s. Since then the situation has worsened. While poverty in the West is basically sectoral, it has become near universal in the Central and East European countries 'in transition'. These countries therefore run the risk of mass pauperisation of potentially economically active populations.

While the position of old-age pensioners and of large families has remained highly precarious - aggravated by inflation and inadequate indexation - the worst affected areas are regions of chronic underdevelopment, particularly rural areas which for decades have been starved of investment. The decline of state farms and subsidiary agro-industrial enterprises reduces employment opportunities for unskilled and semi-skilled workers. At the same time, the internal restructuring of industrial enterprises to improve efficiency, competitiveness and labour utilisation leads to redundancies, as does the collapse of obsolete branches of industry.

With the end of state guaranteed employment, and delays in re-employment, entire sections of the population are likely to suffer impoverishment. Poverty will not only affect those on low incomes but it also threatens to marginalize other social groups such as older workers, the unskilled or those whose skills have become redundant . It also threatens workers who, as in Western countries during the 1980s, are likely to lose their jobs through restructuring, and for whom retraining and re-employment opportunities are limited - a relatively large component of the population.

Impoverishment will also affect the middle classes, in particular secondary and higher education graduates. The significant decline of living standards for this section of the population is demonstrated by the changes in the structure of consumption. Thus in the Russian Federation as well as in most other countries, expenditure on food and the most urgent necessities ranges from about half to almost one hundred per cent of a family's income. Thus many families can no longer afford the basic necessities.

Soaring prices and an almost totally worthless currency have, in the republics of the former Soviet Union, reduced their way of life to a bare minimum. In Romania, for example, over half the city dwellers (in contrast to the rural population) claim not to be able to live on regular work.

As in many Western countries, women - in spite of their high labour force participation rates - outdistance men when it comes to unemployment and poverty. Risks to women are higher as a result of both their lower levels of qualifications and because many are employed in unprofitable enterprises which are the first to be closed. In both the former USSR and Bulgaria, women account for 60 per cent of all registered unemployed while in Hungary in 1990 women made up 40 per cent of all benefit recipients. The poverty trap is most difficult to escape for single women with responsibility for young children. In most Central and Eastern European countries, enterprises are gradually discontinuing their day care services for employees. Private facilities, where they exist, tend to be beyond the means of low paid or unemployed women.

#### Poverty: Summary

- \* the official denial of poverty and its representation as an affliction peculiar to capitalist societies did nothing to diminish its pervasive reality under communism;
- \* the industrialisation of Central and Eastern Europe was largely founded upon the large scale employment of poorly paid workers; a practice which made poverty virtually endemic in the industrial system;
- \* the transformation of these societies into market based economies shatters the low wage/low inflation circle; escalating inflation coupled with declining industrial output intensifies the pressure on those who are already poor, while at the same time adding considerably to their number;

\* unemployment and poverty will be defining features of the transition to a market economy and both will persist over time.

The conjunction of these two phenomena - increasing, long term unemployment and pervasive poverty - gives rise to a third issue which, in effect, frames all other social problems: social disintegration.

### **3. Social Disintegration.**

The process of societal transformation and the increasing degree of openness or transparency accompanying it has the immediate result of bringing out into the open previously hidden social inequities. In all the countries of the region, the move to a market economy will be accompanied by widening income differentials which will persist over time. These developments are occurring against a backdrop of a comparatively fragile social consensus and tenuous bonds of social integration. This in turn presents a particular challenge for social policy in the specific areas of social security, social assistance and social services. We now consider these issues in turn.

#### **1. Income inequality and transition**

Income inequality and, specifically the comparison between Eastern and Western Europe in terms of income differentials, has been the subject of a massive research effort to which we could not possibly do justice here. Suffice to say that limitations of data and measurement notwithstanding, it is clear (a) that at least until the mid-1980s income inequality in Central and Eastern Europe was substantially less than that in many Western economies and (b) there were considerable differences within Eastern Europe. In the move to a market economy it is probable that existing income inequalities will widen, for a variety of reasons:

*Wage differentials will widen* - to the extent that wages come to be set by the market, rather than controlled by the state, wage differentials will inevitably widen. - yes, the point is that wages did not reflect training / skill differences.

*Income opportunities will vary* - historically income differentials of course existed under state socialism - although they were to some extent hidden - and they were grounded largely in differential access to alternative sources of income (such as private agriculture in Poland, the second economy in Hungary, alternative uses of an enterprise's resources in Russia.) In some countries this will remain the case, favouring those with access to the second economy and those for whom income from the second economy is a real option; but such access will be uneven with active participation in the second economy being patchy.

Surely this will disappear. You mean the Private Sector

For some of those working in the second economy there will be great risks, such as the fragility of the businesses established and the scope for wage exploitation. Many working in the second economy will do so for low pay, while being denied either social protection or insurance. But at the same time there will be every incentive for both employers and employees to engage in non-declared employment;

*Windfall profits will be available* - for some, there will be opportunities to earn windfall profits by virtue of access to resources or commodities in short supply and the capacity to trade them. In incomplete markets profiteering, although not a new phenomenon, will become more widespread,

*Privatisation benefits will be skewed* - typically, privatisation will involve some but not all families; again privatisation, particularly of property, will bring with it unevenly distributed opportunities for income generation. - depend, if MAS!

*Inflation effects will be uneven* - inflation has an impact upon all members of society, but some are hit harder than others. Those worst affected will be on fixed incomes,

with little scope to supplementing them, such as those wholly dependent on social security benefits.

Taken together, these factors will inevitably result in widening income differentials and inequalities, particularly in comparison with the measurable income differentials prevalent under Communism. But the operative word here is *measurable*. Measured nominal money income differentials do not necessarily capture the full range of real inequality. To say that income inequality in Central and Eastern has historically been less than that of many Western countries is not to say that inequality as a whole was also less marked. Hence the other component of the problem of social disintegration: the emergence of old inequalities.

## 2. Inequality and social disintegration

Beneath the veneer of evenly distributed income the reality of Communist society was profound, deep seated inequality rooted in the political structure. As noted earlier, the defining feature of social welfare as a whole and the provision of social services in particular was chronic excess demand and increasing scarcity. In these circumstances receipt of welfare often bore little relation to real need since it was, as has been mentioned above, directly connected to political position and influence. The narrow distribution of scarce welfare privileges was a distinguishing characteristic of the communist era.

To a considerable extent the reality of politically governed welfare distribution was hidden from everyday view. That the system operated in this way was universally known; that it created acute social distortions on the scale it did was not. This is now changing. Inevitably, the move to a market economy and the accompanying process of democratisation entails a profound shift in the structure of power. As the balance of power shifts so the previously hidden underpinnings of 'the system' are being exposed. But this exposure and greater openness has a price; increased social tension.

Throughout Central and Eastern Europe the disclosure of past practices (and the belief that the *nomenklatura* continue to exploit their past positions) has proved socially divisive. Moreover, these new social tensions and divisions are developing in something of a vacuum, at least in terms of any established degree of social consensus or tradition of civil society.

Decades of communist rule have left a striking social legacy: atomistic societies lacking social cohesion or solidarity. Superficially at least such societies appeared, at least to outsiders, to be relatively cohesive and integrated. But beneath the surface communist societies were deeply fissured and fragmented. In atomising society and breaking the bonds of community, replacing trust with mistrust, communism created a vacuum in terms of any shared set of norms or values, particularly in relation to ideas of minimum social standards or equity. When it comes to questions of minimally acceptable levels of social welfare there is no social consensus. In these circumstances the societies of Central and Eastern Europe are particularly vulnerable to the pressures of social disintegration; pressures which are sharply intensifying as the move to a market economy gathers pace and with it the differentiated distribution of material benefits becomes more manifest.

The situation may therefore be summarised in stark terms. Under communism social inequality was rife, the veneer of equality notwithstanding. Communist rule deepened the fissures producing an aptly described 'desertification' of society. With the creation of a market economy it is difficult to say whether or not inequality will become more or less pronounced than under communism. But what can be said with certainty is that social inequality, broadly defined, will become more visible as both the hidden inequalities of the past are exposed and as income based differentials widen. The threat of social disintegration is therefore real, particularly given the fact that in the process of transformation there will be whole sectors of society ill-equipped to deal with

consequences of reform. There may, moreover, be an ethnic dimension to this process of social decomposition.

### 3. Social disintegration and the challenge for social policy:

Against this background the broader challenge to social policy becomes clear. Social policy has to deal with the immediate, tangible consequences of reform, ameliorating wherever possible its adverse social costs. Common though these problems are, it is already clear that their magnitude and intensity will vary between countries, as will the policy responses to them - responses which must moreover be specifically adapted to the needs of the situation in which a country finds itself. Irrespective of the precise measures adopted, however, it is clear that any new formulation of social policy will have to focus on reform of three core areas: social security; social assistance and social services.

The first of these - social security - perhaps best exemplifies the challenge ahead. Under communism social security was an integral element of the centralised system of state re-distribution, distinguished as it was by the complete imbalance between expenditure and revenue, by the absence of any notion of individual contribution and the loss of control over demand. The task here is clear. It consists of nothing less than the creation of self-regulated and democratically controlled systems, underpinned by strong state guarantees operating on a largely decentralised basis. But at the same time the reform of social security can only be accomplished in tandem with the simultaneous reform of taxation, prices and wages.

In the area of social assistance, which historically occupied a marginal role, a pre-requisite of reform is the formulation of basic principles of entitlement and minimal thresholds of support. Much the same applies to social services, whose current deterioration springs directly from decades of underfunding resulting in chronic shortages, inequality of access and distorted distribution. Again the elaboration of new



welfare principles will have to strike a delicate balance between the competing and often conflicting requirements of efficiency, individual need and equity.

In reforming all these areas consideration needs to be given to the twin principles of (a) decentralisation and (b) the creation of intermediate, non-governmental organisations. Both principles run directly counter to past policy and practice, based as it was on the twin objectives of tight central control and the elimination all forms of non-governmental activity. But the increasing problems of poverty and unemployment will require the genuine devolution of responsibility (and resources) to the local level and the active promotion of economic interest groups (for example self-governing business associations) and other voluntary organisations.

More generally, social policy has a central role to play in matching the development of political rights with the commensurate definition and articulation of social rights and values. In the absence of any real degree of social consensus on basic social values the reform process underway in the economic sphere will lack legitimacy and, in consequence, widespread acceptance. Hence the central argument made earlier. Namely, that social policy is the necessary complement of economic reform. One cannot be considered without the other. The fragile social structures bequeathed by communism and the intensifying pressures upon an emerging social consensus lend this argument greater force and urgency.

## **Summary**

Throughout Central and Eastern Europe the transformation of historically planned economies, and the associated social transformation that is entailed, is proceeding - albeit at varying speeds, along somewhat different paths and on the basis of country specific policies and distinctive sequencing of reform. But irrespective of these differences in the trajectory of reform there are, we believe, three core social problems

which all the countries of the region will have to address: unemployment; poverty; social disintegration. It would be mistaken to see these problems as simply the direct result of the move to a market economy. On the contrary, their roots go much deeper and their severity is being magnified by an economic recession of unparalleled severity in the post-war era. Long term economic decline set in during the latter stages of communist rule; economic recession has accelerated the rate of economic decline; the market based transformation of these societies has added a further dimension of dislocation. The problems of unemployment, poverty and social disintegration cannot therefore be explained away as the unavoidable 'costs' of transition.

Before considering approaches to tackling these issues in Section 6, we should place this discussion of common social problems and reform priorities in the context of the key dimensions of difference between the countries of Central and Eastern Europe.

## **5. CENTRAL AND EASTERN EUROPE: DIMENSIONS of DIFFERENCE**

So far, we have attempted to describe those features which characterise the present phase of transition in a similar way in all the post-Communist societies of Central and Eastern Europe. The clear parallels between the current social and economic problems of these countries (and also their difficulties in solving them) follow above all from their shared recent history. As members of the so-called Eastern Bloc, they were strictly regulated by continuous Soviet intervention and control. Belonging to the Bloc not only resulted in serious political and military constraints on economic, social and political development, but also left a deep imprint on nearly all important aspects of social life.

A shared historical legacy has therefore resulted in similar institutions of the interventionist state, as well as parallel difficulties and conflicts in attempts to get rid of

its excessive power. It has also created striking similarities in the functioning - and malfunctioning - of the most important economic and social institutions, in prevailing property relations, in the everyday working of the economies and in the main features of social stratification.

However, it is equally important to emphasise the deep differences between these societies. During the decades of Communism, the outside world saw principally their surface affinities, and was to some extent misled by them - one reason why it reacted with some surprise to the differences and divergences between these societies which suddenly came to the light after the domino collapse of the old regimes. However, such diversity did not begin in 1989; it has had a continuous history in spite of forty years of unifying totalitarianism, albeit in a covert form.

The importance of this hidden play of historically determined factors needs to be analysed from various angles. Any attempt to mitigate serious social disintegration and other social problems can only be effective if they are taken into account, and by refining decision-making and political action accordingly. The development of complex solutions requires long term co-operation between scholars, politicians, and public and civil agencies, both at a local and international level.

What follows is a modest contribution to this task, in the form of an outline of some of the key dimensions of difference between former Eastern Bloc countries, emphasising those aspects which could have direct short-term implications for transforming social policy systems.

The most important dimensions of difference can be defined as

- a) the degree of modernisation
- b) experience of the market before and under state-socialism
- c) development of the embourgeoisement processes

d) evolution of related civil formations.

Without becoming too involved in a debate about "clusters" of the societies in question, marked historical differences between these societies in the inter-war period should be noted. So should the relatively developed form of capitalism in the Central part of the region, as opposed to the dominance of traditional agrarian communities and feudal social structures to the East and South.

Though the approach to modernisation (such as massive concentration of all resources, forced industrialisation, and radical changes in the means of agricultural production) followed very much the same patterns during the years of Communism, closer analysis reveals differences of degree in "suspension" of pre-war relationships, which then had a direct impact on attempts at market oriented reforms from the late 1980s onwards.

These diverse attempts to reform the various economies, even before the end of the old era, resulted in some countries in the relatively successful continuation of an interrupted embourgeoisement process at the level of informal economic activity (Hungary has gone the farthest down this route due mainly to the indirect impact of the 1956 revolution); in the maintenance and transmission of market-friendly behaviour and cultures of production within the family; and in the functioning of civil forms of opposition - it is impossible to make sense of the Prague spring or the Solidarity-movement without reference to these. In short, in some countries there has been an essentially covert 'preparation' for the current tasks of transformation.

Though the present deep economic crisis and the conflicts of restructuring have generated massive unemployment and serious poverty in all the post-Communist societies, the feasibility of developing market-congruent forms of effective social policy will differ significantly according to the historical experience of the country in question. The pace of privatisation, the dismantling of the massive role of the state in the

economy, methods of job-creation, the patterns of central - as opposed to local- forms of income redistribution, and the creation of modern, integrative systems of social security will also differ significantly. Both the potential and the obstacles resulting from historical factors, which we simply wish to point to here, are a further argument against misguided attempts at 'model-implanting'.

*This section is not very satisfying and should be taken further by specific examples, perhaps with the aid of a Table*

## 6. FROM POLICY TO ACTION: KEY PRINCIPLES.

The countries of Central and Eastern Europe face a diverse array of problems, the solutions to which must of necessity be adapted specifically to the situation prevailing within a particular country. This applies in the realms of both economic and social policy. Nonetheless, despite the manifest diversity that exists, there are a set of social problems and dilemmas common to all of the countries in the region. In tackling these problems, all the countries also face a common challenge: the creation of a new principles of social policy. But the question this immediately raises is this. What would new principles of social policy look like?

The detailed answer to this question must remain the legitimate preserve of each of the governments concerned. Prescribing specific policy measures from the outside is both unhelpful and inappropriate. However, it is possible to define a set of core policy principles of general applicability. These principles are designed to provide a framework within which the detailed elaboration of social policy may take place. What follows therefore is a set of principles which may at one level be read as a set of tests of social policy measures, or questions to ask of any new measure. Clearly each country will give a particular bias to each of these principles, with some being of greater importance than others given different economic and social circumstances.

## Recognising Constraints

1. *Social policy has to be framed within the real constraints that exist.*

The prevailing economic situation within a country, and its impact upon available financial resources, constitutes a key constraint. Moreover, predicating social policy measures upon optimistic assumptions about the extent to which a government will be able to collect the tax revenues due to it, or to generate new sources of revenue for instance via privatisation, international aid, public sector debt or voluntary donations, would be foolhardy. Social policy programmes must take full account therefore of the seemingly inescapable fact that government revenues are fragile during the early stages of the transition; a time when government revenues must be especially secure.

There is a further consideration of fundamental importance. An integral element in the transformation of an historically planned economy into a fully functioning market economy is the application of 'hard' budget constraints in place of the 'soft' constraints which prevailed under state socialism. In the context of a firm, a soft budget constraint takes the form of not tightly constraining a firm's financial position, and the credits or subsidies due to it, on the basis of performance. Soft budget constraints allow for the continuing bailing out of inefficient, loss making enterprises, shored up by centrally administered state credits or other benefits, such as deferral of tax payments. The process of marketisation entails the progressive hardening of these budget constraints. The rate at which this is done, and the rigour with which hard budget constraints are applied, varies between countries. But the necessity of such constraints is inescapable.

Thus social policy has to take account of budget constraints in the following ways. First, by recognising that expenditure available for social protection measures is strictly limited. Second, by taking into account the social impact, for instance in terms of increased unemployment, of the necessary application of hard budget constraints to

enterprises. In developing social policy the existence and nature of economic and financial constraints will be of necessity be debated and challenged. Recognising tight budgetary constraints is not the same thing as passively accepting them; but the reality of certain constraints cannot simply be ignored or denied where these conflict with desired social policy objectives.

## **Containing Inflation**

2. *Careful consideration must be given to the inflationary effects of all forms of social protection.*

For all the countries of Central and Eastern Europe this is a key consideration, even where rates of inflation have, to date, been relatively contained. In some countries, for instance Russia, inflation has increased dramatically, bringing with it the very real threat of hyper-inflation. In this as in other areas, history has left people ill-prepared to deal with the immediate consequences of the move to a market economy, used as they have become to relatively stable prices, particularly for essential goods and services.


In these circumstance, a key question to be asked of any social policy proposal is this: What impact will it have on inflation? This question is not simply one of economics. Inflation is both an economic and a social problem, having profound consequences for the way in which social problems both develop and manifest themselves. Inflation erodes social benefits paid in cash, it severely effects those on fixed incomes, it destroys the value of savings denominated in cash and places at risk major social groups, for example pensioners.

In tackling social problems, throwing money at the situation is neither feasible nor advisable. Moreover, the absolute priority needs to be given, albeit in some countries more than others, to averting the real threat of hyper-inflation. This applies to both



economic and social programmes alike. A balance has to be struck therefore between protecting people against the consequences of inflation and fuelling inflation itself.

### **Promoting Civil Economy**

3. *A central objective of social policy should be to impede the further growth of the hidden or black economy and to create incentives to re-integrate the underground economy into the civil economy.*
- 

State socialism spawned multiple economies: the formal economy administered by the state; the informal, private economy typically based around the family's participation in a range of both paid and unpaid second economy activities, working either alone or with others; thirdly, the illegal, black economy operating on the basis of force and coercion. As a result, resort to illegal or quasi-legal forms of self-help is widespread. Resources that could be used to provide social protection are being diverted elsewhere, further exacerbating already severe financial constraints.

Integral to the success of the market economy is the creation of a civil economy, predicated upon legally enshrined and observed rights and obligations relating to property, taxation, contracts and so forth. There is no guarantee whatsoever that the transition to a market economy leads automatically to a civil economy; it does not. Social policy has a key role to play therefore in promoting the emergence of a civil economy; it does so by providing incentives for individuals to forego recourse to the uncivil, black economy by legitimating and legalising activities wherever possible.

### **Acknowledging History**

4. *In framing social policy proper account must be taken of the historical legacy.*

No social policy starts with a blank sheet of paper. The historical legacy manifest in particular institutions, policy approaches, attitudes towards welfare and the role of the State in providing social protection constitutes a set of constraints which should be given due consideration in formulating a forward looking and innovative social policy. Wholesale rejection of the past is not an option. The institutional legacy of the past provides some basis upon which new forms of welfare delivery can be built. A new model social policy has to be based, at least in part, on the institutional legacy of the past; new institutions cannot be created *ab initio*. But in working with the past careful attention must be given to the manner in which institutions are controlled, the recourse that individuals have and the way in which accountability is defined.

### **Reinforcing and embedding reform**

5. *Social policy has a key role to play in reinforcing the process of political and economic reform and promoting the creation of institutions in harmony with a market economy with well developed social services and forms of social protection.*

The extent to which the reinforcement of reform is a critical task varies considerably between countries, but the principle is nonetheless generally applicable. The reverse of this principle is also important; namely, that economic reform itself should in part be judged by the extent to which it gives rise to the creation of new social and political structures and consistent with the requirements of a stable political democracy.

Social policy has a role to play in promoting a change of habits and attitude characterised by an assumption of personal rights and responsibility for welfare; creating the conditions and infrastructure in which individuals and families are able to provide some degree of their own social protection; promoting the creation of voluntary, non-governmental organisations which will occupy a pivotal position in

welfare provision and delivery; fostering the development of a plural system of services combining those provided by the state as a civil right, those based upon contributions made by individuals or their employers and those available for direct purchase on the market. Underpinning such a plural system must be the right of each individual to choose between alternative forms of receiving welfare benefits. It is in this sense that social policy can be said to have a key role to play as a 'guarantor of irreversible progress'.

### **Protecting the most vulnerable**

6. *Protection of those most immediately and adversely affected by reform is a fundamental requirement of social policy.*

It is unrealistic to expect that all social groups will be able to adapt rapidly to new market forces. Both during and after the transition process there will be some groups of the population who are more exposed than others and for whom self-help in whatever form is simple not an option; for example the sick, the elderly, young children, families with a large number of dependants, minority groups, the homeless and the unemployed with little prospect of re-employment. The impact of reform, being uneven in its effects, inevitably hits some groups harder than others.

A prerequisite therefore of an effective social policy is that it should match social protection to those elements of the population whose needs are most urgent and whose ability to meet these needs themselves is most limited. In doing this care must be taken to ensure that social protection measures are not delivered in a way that is socially divisive. Indeed, a key task of social policy is to promote trust, social integration and cohesiveness.

## Sequencing programmes

7. *In developing a social policy particular attention should be given to the sequencing of programmes.*

The pace at which reform is introduced is typically a matter of intense debate. But the issue of sequencing is equally if not more important. Failure to address the sequencing issue is likely to lead to a situation in which too many things are tried simultaneously and where the necessary choices and trade-offs are not properly made. Sequencing is, moreover, an essential element in developing a social policy which can be communicated with clarity to those for whom it is designed.

*I think it's a bit more than you have done.*

This is not the place to propose a specific sequence of social policy measures and reforms. However, one point should be emphasised. Unemployment, combined with large scale movements of the population which may well accompany it, constitutes perhaps the most important and intractable problem, having profound long term consequences for future generations. This is true for most of the countries of Central and Eastern Europe, although in some - notably Russia - the problem is likely to escalate sharply. Protecting the unemployed, for the majority of whom there will be little prospect of rapid re-employment, is therefore of paramount importance.

As noted earlier, this is likely to remain a major problem in both the short and long term. But in determining other social priorities, and the sequence in which they are to be tackled, the adoption of a long term view is essential; without it, social policy is likely to fall prey to short term political exigencies and thereby fail to fulfil its proper function.

## **Building intermediate institutions**

8. *The role of intermediate institutions should be an essential policy consideration for governments and international organisations so that the emerging civil society can play its role in the development of social policy and services.*

If intermediate institutions are neglected or ignored the efficiency of aid programmes may be compromised and social/economic development jeopardised. Economic and social interest groups (employers' associations, labour unions and other special interest groups) should be strengthened and the role of firms in providing social services examined. Delivery of social services should be decentralised to local government and involve voluntary organisations to the maximum extent possible. International non-governmental organisations should support and help to launch national groups working within their field.

## **Promoting Social Integration**

9. *Social policy has a pivotal role to play in defining social rights and values upon which bonds of community and social solidarity can be founded.*

Communist rule was predicated upon the threat or use of force; this provided the glue which held society together. But this form of rule served to atomise society, destroying the institutions which bring people together. It also destroyed any social consensus in relation to basic rules of individual welfare or equity. In creating a market economy these fissiporous, atomising tendencies will intensify since neither the benefits nor the costs of transformation will be evenly spread. With a dramatically weakened centre the danger is of things pulling apart. In this context the challenge for social policy is nothing less than the promotion of social integration and cohesion by simultaneously

tackling immediate social problems while at the same time defining individual social rights around which the necessary degree of social consensus can be built.

### **Summary**

These core principles have necessarily been defined in broad terms. Underpinning them is an assumption that what is now urgently required throughout Central and Eastern Europe is the development of a long term, strategic approach to social policy so as to ensure that social protection measures are developed and deployed in an orderly and coherent manner rather than simply representing a one-off, *ad hoc* response to immediate problems.

## **7. SOCIAL POLICY AND INTERNATIONAL CO-OPERATION: KEY PRINCIPLES**

The governments of Central and Eastern Europe are being inundated with advice. Coming from many different quarters and an array of different agencies there is a danger that this surfeit of advice may seem, at least to its recipients, to be characterised by a number of adverse features; for instance, highly prescriptive, contradictory, embodying ideological (as well as territorial) conflicts between international agencies and unbalanced, particularly in terms of the relative weight accorded to detailed economic prescription as compared with the attention given to the human costs of transition to a market economy.

From the point of view of international agencies themselves the danger is that the sheer volume of advice induces confusion, that the duplication of effort between agencies results in unproductive re-invention of the wheel and, most damagingly of all, that the comparative neglect of the social dimension of reform undermines the efficacy of economic measures. In our view the contribution of international agencies will be enhanced if the process of advice giving embodies certain key principles:

1. **Self-determination:**

It is not for Western agencies, of any description, to prescribe or attempt to impose solutions upon any country in Central and Eastern Europe. The Government and administration of each country must choose and select for itself the methods best suited to resolving the difficulties it faces.

2. **Local adaptation:**

Western models of social protection in areas such as pensions, health care, employment retraining and so forth have been shaped by the context in which they have been developed. There is no single model or combination of methods that could be deemed "right". What works in one social context may be wholly inappropriate in another. Transition to a social market economy does not eliminate fundamental social and cultural differences. Social protection policies, methods and forms of delivery developed in the West must therefore be adapted and changed to meet local requirements. Their straightforward transfer or transposition is neither feasible nor desirable. Furthermore, in looking at alternative welfare approaches it is likely that countries will have most to learn from those countries with whom they have some degree of social, cultural or historical affinity.

3. **Technical support:**

Translating Western welfare methods into terms appropriate for Central and East European countries will require two things. First, technical support on a continuous regular basis, and at an adequate level of detail. Secondly, genuine receptivity on the part of those individuals and institutions providing such support to adapting and where necessary fundamentally changing their methods to meet local needs. A delicate balance must therefore be struck between the competing demands of technical transfer and local adaptation. Genuinely useful technical



advice is based not upon the imposition of external models but upon one country *learning* from experience elsewhere and adapting that learning to particular circumstances. 'Miracle' cures prescribed by outside agencies typically rest on a naive view about what governments are capable of achieving in trying to improve the welfare of their citizens and, in consequences, invariably fail.

4. **Self sufficiency:**

The sharing of technical expertise and know-how should have a single long term objective. To create systems that can be effectively administered by local people without recourse to outside advice. A key element in matching Western ideas on social policy with their adaptation to local circumstances should be the large scale, first hand exposure to Western methods by government officials and voluntary bodies. But the objective should be to create independence not dependence; an objective neatly encapsulated in the maxim: "See for yourself and then do it yourself".

In translating these core principles into reality the UN and its specialist agencies has a key role to play and one which, moreover, is likely to expand. A central component of this role should be the co-ordination of international activity and the promotion of long term technical support. Co-ordination is critical. Without it already hard pressed officials of the governments of Central and Eastern Europe will waste time receiving delegations, 'educating' the members of these delegations and receiving in return yet more advice on what to do. As should be clear by now, the priority is for the detailed transfer of relevant technical know-how and expertise. This in turn requires that outside advisers should be able to work alongside local officials on a continuous, long term basis. Such prolonged exposure is essential if the twin requirements of technical transfer and local adaptation are to be met fully.

## REFERENCES

Angresano, J (1992) *Political and Economic Obstacles Inhibiting Comprehensive Reform in Hungary*, East European Quarterly, XXVI, No. 1, 55-76.

Atkinson, A B (1991), *The Social Safety Net*, Welfare State Programme discussion paper number WSP/66.

Atkinson, A B (1992), *Towards a European Social Safety Net?*, Welfare State Programme discussion paper WSP/78.

Atkinson, A B and Micklewright, J (1992), *The Distribution of Income in Eastern Europe*, Welfare State Programme discussion paper number WSP/72.

Atkinson, AB (1991), *Social Insurance*, Welfare State Programme discussion paper number WSP/65.

Budnikowski, A (1992) *Transition from a Centrally Planned Economy to a Market Economy: The Case of Poland*, Technological Forecasting and Social Change 41, 257-270.

Deacon, B (1992) *The Impact of Supranational and Global Agencies on Central European National Social Policy*, presented at First European Conference of Sociology, Vienna, August.

Deacon, B and Szalai, J, Ed. (1990) *Social Policy in the New Eastern Europe: What Future for Socialist Welfare*, Studies in the Social Policy of Eastern Europe and the Soviet Union, Avebury.

Deacon, B, Ed. (1992), *Social Policy, Social Justice and Citizenship in Eastern Europe*, Studies in the Social Policy of Eastern Europe and the Soviet Union, Avebury.

Economic and Social Council (1990) *Supplement to the 1989 Report on the World Social Situation*, United Nations Publication

Ferge, Z (1992), *Social Change in Eastern Europe - Social Citizenship in the New Democracies*, paper prepared for the First European Conference of Sociology, Sociological Perspectives on a Changing Europe, Vienna.

Gillion, C (1991), *Social Protection in East and Central European Countries, Before, During and After Their Transition from a Centrally Planned Economy*, presented at the Labour market and Social Policy

Implications of Structural change in Central and Eastern Europe  
Conference, Paris.

Granville, B (1993) *Russian Economic Reform in 1992: The Threat to Stabilization*, Business Strategy Review, Vol. 4, No. 1, 29-44.

Hardy, D C (1992) *Soft Budget Constraints, Firm Commitments, and the Social Safety Net*, IMF Staff Papers, Vol. 39, No. 2, June, 310-329.

Hare, R P and Revesz, T (1991) *Hungary's Transition to the market: the case against a 'bing-bang'*, 228-264.

Hars, A, Kovari, G & Nagy, G (1991), *Hungary Faces Unemployment*, International Labour Review, Vol. 130, No. 2, 165-175.

Hay, M and Peacock, A (1992) *Giving Advice to Government: The Case of Russia*, Business Strategy Review, Summer, 59-77.

Hay, M and Peacock, A (1992) *Social Policies in the Transition to a Market Economy*, Report of a Mission to the Russian Federation Organised by The United Nations: January 1992, The David Hume Institute.

Jones, D C (1991) *The Bulgarian Labour Market in Transition*, International Labour Review, Vol. 130, No. 2, 211-226.

Kornai, J, (1992), *The Postsocialist Transition and the State: Reflections in the Light of Hungarian Fiscal Problems*, AEA Papers and Proceedings, May

*Labour Market Reforms in Central and Eastern Europe and the Rise of Unemployment*, OECD Employment Outlook, July 1992

Lado, M, Szalai, J and Sziraczki G (1991) *Recent Labour Market and Social Policy Developments in Hungary*, paper presented at Labour Market and Social Policy Implications of Structural Change in Central and Eastern Europe, Paris.

Malinowski, T (1991), *Unemployment, Family Policy and Social Assistance*, background paper for Social Costs of the Political and Economic Transformation of the CSFR, Hungary, and Poland, Vienna.

Marody, Mira (1992), *Building a Competitive Society: Challenges for Social Policy*, a background document prepared for Towards a Competitive Society in Central and Eastern Europe: Social Dimensions, Finland.

McAuley, A (1991) *The Economic Transition in Eastern Europe: Employment, Income Distribution, and the Social Security Net*, Oxford Review of Economic Policy, Vol. 7, No. 4, 93-105.

Micklewright, J (1991), *The reform of unemployment compensation, Choices for East and West*, European Economic Review 35, 419-429.

Nesporova, A (1991) *Recent Labour Market and Social Policy Developments in the Czech and Slovak Federal Republic*, paper presented at Labour Market Trends and Labour Market Policy for Transition, Paris.

Newbery, D (1991), *The Safety Net during Transformation: Hungary*, paper presented at the conference The dynamics of policy and institutional reform in emerging democracies, Prague.

Paull, G (1991), *Poverty Alleviation and Social Safety Net Scheme for Economies in Transition*, IMF working paper, published by the International Monetary Fund Research Department.

Rose, R (1992) *Toward a Civil Economy?*, Studies in Public Policy No. 200.

Rose, R (1992), *Who Needs Social Protection in Eastern Europe?, A Constrained Empirical Analysis of Romania*, Studies in Public Policy 202.

Schopflin, G (1991) *Post-communism: Constructing New Democracies in Central Europe*, International Affairs 67, 2, 235-250.

Shcherbakov, V I (1991) *Remuneration of labour in the USSR: Problems and Prospects*, International Labour Review, Vol. 130, No. 2., 227-253.

Szalai, J (1991) *Some Aspects of the Changing Situation of Women in Hungary*, Signs: Journal of Women in Culture and Society, Vol. 17, No. 1, 152-170.

Tomes, I (1991), *Social reform: A cornerstone in Czechoslovakia's new economic structure*, International Labour Review, Vol. 130, No. 2, 191-210.

Van Zon, H (1992) *Alternative Scenarios for Central Europe*, Futures, Junem 471-482.