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**Integration and The Well-Being
of Children in The
Transition Economies**

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Abstract

This paper looks at the well-being of children in transition economies in the light of greater economic integration. The different stages of integration of the transition economies into the world economy are marked by substantial variations in trade and capital flows. International labour mobility remains limited, and unemployment has been high since the beginning of transition. Because employment is the main determinant of household income, this has had a negative effect on the well-being of children. At the national level, a high degree of variation in regional unemployment rates has emerged which is symptomatic of the lack of integration of labour markets. High regional unemployment rates are further associated with increases in non-participation, while adjustments via wages and migration have been largely absent, or insufficient. Indicators of child well-being – such as infant mortality rates – are positively correlated with unemployment rates, suggesting that public service provision is, in general, not sufficient to offset the negative effect of unemployment on child well-being. A closer look at unemployment benefit schemes reveals not only large differences between countries but also scope for broader coverage and better targeting of programmes in order to reduce the risk of families falling into poverty when parents become unemployed.

1. Introduction

Emerging from communism, the CEE/CIS countries have over the last decade radically changed the composition of the goods and services they produce and the way they interact with the rest of the world. In particular, they have moved from excessive specialisation to being increasingly integrated into the world economy. Yet greater integration has occurred even as significant shares of these countries' populations have been caught in poverty. The costs associated with restructuring the economies of the CEE/CIS have not been trivial. Workers have lost employment while public spending programmes designed to mitigate risk and provide some measure of income security have come under stress. And with unemployment the risk of falling into poverty has grown. Further, it appears that children have suffered disproportionately. In a number of CEE countries the risk of falling into child poverty has increased substantially while in the CIS countries, children face a higher relative risk of poverty. More generally, the relative risk of poverty has been found, for a variety of reasons – including by reducing the ability of females to work - to increase with the number of children in the family. This tends to have adverse longer term consequences, including low educational attainment, nutritional status and emotional well-being (World Bank, 2000). In short, many of the substantive benefits that have flowed from greater integration into the world economy have not necessarily percolated down through society. The challenge remains to realise these benefits for larger constituencies in the CEE/CIS countries.

The first part of this chapter considers the extent to which these countries have become more integrated through trade, as well as through cross-border movements of capital and labour. It does not explicitly consider the political dimensions of integration. The chapter then extends the analysis to look at the impediments to integration in the CEE/CIS countries whether through explicit measures that, for example, limit trade or through barriers originating from the organisation and structure of key markets, including that for labour. The consequences for the well-being of children in these countries is then addressed, particularly through the lens of employment and income generating opportunities. It is argued that poorly functioning national labour markets have a strong and adverse impact on the level of employment. This in turn has adverse consequences for child well-being which tends to be largely dependent on the income earning abilities of parents. Although in principle such differences ought to be offset by the provision of public services and transfer programmes, the analysis then shows that this has not generally been the case.

The main mechanisms by which the CEE/CIS countries have become more integrated into the world economy have been through greater trade and mobility of capital, as also – but to a far lesser extent, through the mobility of labour. For example, in the eight CEE/CIS countries that acceded to the European Union in May 2004, total trade – measured as the sum of exports and imports – then exceeded 50 per cent of their gross domestic product. Indeed, total trade for these countries had almost doubled between 1995-2002 alone. This increased interaction with the rest of the world has been a feature of all the former planned economies, albeit with major variation across countries. Yet in contrast to the European Union Accession countries, in most of the CIS not only has a very significant share of trade remained with their former trading partners but there remain major hurdles to changing the direction of trade and to greater integration with the rest of the world economy in general. Many countries are landlocked which raises transportation costs significantly, while non-tariff barriers to trade also remain far from negligible. In short, the picture with respect to trade is a mixed one.

Turning to another prime mover of integration – cross-border flows of capital, and in particular of foreign direct investment – a similarly mixed picture emerges. While some countries – mainly in Central Europe – have attracted substantial inward investment, the majority have attracted little foreign direct investment. Further, the available evidence suggests that foreign direct investment has tended to be heavily concentrated in particular sectors and regions of countries. Experience suggests that when investment is concentrated in this way, the wider benefits to the economy – to productivity and employment – will tend to be curtailed.

While much attention has rightly been paid to the ways in which greater integration in the world economy can be achieved, a less well understood – but essential – component of integration has remained relatively neglected. This concerns the extent to which the absence of integration in key markets at a national level can not only impede wider integration on an international plane, but also have important and adverse consequences for individuals and for children at a national level. Employment from work constitutes the principal source of well-being for the vast majority of households. Further, child well-being depends mostly on parental employment and when lack of employment is combined with inadequate programmes of social assistance and public transfers – as in many CIS countries – this can have severe consequences for affected households.

A cursory glance at the employment data suggest that most transition economies remain characterised by very substantial differences in employment within their national borders (see, for example, the discussion in World Bank, 2000). Previous MONEE reports have focused on differences in poverty and inequality between countries but have not examined sub-regional differences within countries. This chapter extends the analysis to sub-national level. The better integration of national labour markets should permit the widening of employment opportunities and the better matching of skills to jobs, not least through enhanced mobility of labour. More generally, the freer movement of capital and labour across borders, as well as within countries, should enhance specialization and consequently contribute positively to employment.

2. Growth, Trade and Investment in the CEE/CIS Countries

This section considers in some detail the ways in which the CEE/CIS countries have become more integrated with the world economy. In particular, it focuses on the role of trade and investment.

Growth in incomes

The performance of the regions' economies has varied substantially, as has the extent of integration in the world economy through trade and investment. *Table 1* summarizes several indicators of performance and integration for all countries and the sub-regions. The most widely used indicator of the economic standing of a country is the sum of goods and services produced in a country (GDP) divided by the number of inhabitants, expressed in a common currency, here in US\$. A look at the first panel in *Table 1* reveals that the region is marked by substantial differences in per capita income. The richest country, Slovenia, has a GDP per capita that is almost 60 times higher than that of Tajikistan, the poorest country in the sample. Looking at the countries by sub-regions, the differences narrow but still remain high. With

an average per capita income¹ of 5,598 US\$, the countries in Central Europe are the richest, followed by the Baltic States. Croatia is an exception in the poorer region of South Eastern Europe, with a per capita income of over 5,000 US\$, which is more than double the region's average of 2,391 US\$. Bulgaria and Romania follow with an average income of 2,062 US\$. With the exception of the two oil producing countries Russia and Kazakhstan, the remaining CEE/CIS countries have very low levels of GDP per capita, at around 700 US\$.

The differences in per capita income are partly due to different conditions at the start of transition. However, performance since the early 1990s has also varied substantially as indicated by the figures in the second panel of *Table 1*. The numbers compare the level of real GDP in 1989 with the figure in 2002. The only region that has experienced growth during this period is Central Europe. All other countries, with the exception of Albania and Uzbekistan, remain below their levels of GDP at the start of transition and some – particularly in the CIS – report incomes over 60 per cent lower. These numbers suggest that for all the regions there is still a long way to go if convergence to the income levels existing in Western Europe is to be achieved.

Rising trade with the rest of the world

The integration of the transition economies into the world economy through the trade of goods and services has developed more rapidly. One commonly used measure of the extent to which an economy trades is the share of exports plus imports to GDP; a measure of trade openness. The third panel in *Table 1* reports the extent of trade openness for the countries of the region and, in addition, the change in openness between 1995 and 2002. The relatively small Baltic States are by far the most open economies in the region with an average share of trade to GDP in excess of 50 per cent. It is also the area that has experienced the largest increase in openness. Central Europe, with an average openness of 38 per cent follows closely and has also increased its share of trade in GDP by 12 percentage points since 1995. All other countries have remained relatively closed, even though most have experienced a slight increase in openness. For example, in Central Asia and the Caucasus the openness share averages just 12 per cent. While such low levels of openness might have been expected from larger countries such as Russia and Ukraine, smaller countries ought to benefit substantially from further opening their economy. Indeed, when put in a wider perspective, the whole region remains relatively closed as compared, say, to either the

¹ The figures for the sub-regions are averages weighted by the population in each sub region.

European Union or the ASEAN² countries (see EBRD, 2003, page 75 Chart 4.1), where the trade openness share now ranges between 65-75 per cent.

Table 1: Integration indicators at the macro level

	GDP per capita in 2002 in US\$, current exchange rate	Estimated level of real GDP in 2002 (1989=100)	Openness of the economy (import + export) / GDP (PPP), 2002	Change in openness (2002 - 1995)	Cumulative FDI inflows per capita 1989 - 2002, US\$
CENTRAL EUROPE	5598	121	0.38	0.12	1675
Czech Republic	6,742	105	0.53	0.21	3,554
Hungary	6,581	112	0.55	0.26	2,253
Poland	4,924	130	0.27	0.07	1,007
Slovakia	4,403	109	0.51	0.11	1,791
Slovenia	11,026	118	0.61	-0.08	1,702
BALTIC STATES	4023	80	0.50	0.19	1273
Estonia	4,795	93	0.80	0.35	1,846
Latvia	3,605	77	0.40	0.16	1,304
Lithuania	3,988	77	0.45	0.14	1,024
BULGARIA AND ROMANIA	2062	85	0.22	0.07	454
Bulgaria	1,984	80	0.26	0.03	560
Romania	2,091	87	0.20	0.08	415
OTHER SOUTH-EASTERN EUROPE	2391	71	0.23	0.06	490
Albania	1,565	121	0.14	0.05	303
Bosnia-Herzegovina	1,376	54	0.20	0.03	198
Croatia	5,053	87	0.43	-0.01	1,419
FYR Macedonia	1,866	76	0.37	0.02	467
Serbia and Montenegro	1,879	50	0.13	0.12	206
WESTERN CIS	1947	66	0.14	0.00	70
Belarus	1,437	93	0.21	0.02	181
Moldova	381	39	0.19	0.03	199
Russia	2,400	71	0.12	0.00	48
Ukraine	851	47	0.17	-0.01	99
CAUCASUS	750	59	0.12	0.03	429
Armenia	789	78	0.10	-0.05	243
Azerbaijan	743	64	0.14	0.05	625
Georgia	736	38	0.11	0.05	210
CENTRAL ASIA	687	91	0.12	-0.03	289
Kazakhstan	1,688	86	0.18	0.04	938
Kyrgyzstan	334	70	0.08	-0.01	85
Tajikistan	187	57	0.17	-0.08	30
Turkmenistan	648	91	0.14	-0.07	210
Uzbekistan	308	106	0.07	-0.05	33

Note: Sub regional averages are weighted by population.

Source: Transition Report 2003, EBRD (2003). Trade data: IMF DOTS (2003), GDP in PPP: CHELEM-CEPII database (2003).

² Association of South East Asian Nations.

Flows of capital and labour

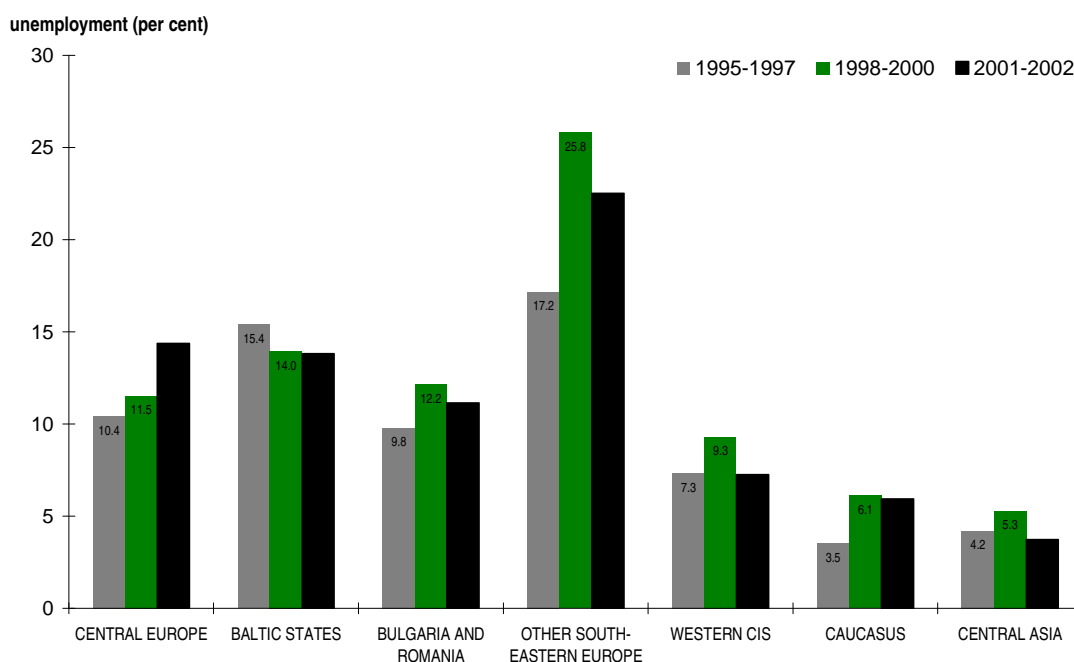
While trade is one obvious measure of integration, flows of capital and labour are other relevant indicators of the extent of integration. According to the EBRD (2003) between 1996 and 2002 the transition economies received cumulative gross inflows of Foreign Direct Investment of around US\$ 177.2 billion. The fourth panel of *Table 1* reports, for each country of the region, the cumulative inflow of FDI between 1989 and 2002, per capita in US\$. It is readily apparent that there are large differences across countries. More than 60 per cent of these inflows were received by countries in Central Europe and the Baltic states, with the Czech Republic, Hungary and Poland being by far the biggest countries of destination. Most of this investment has come from the EU and this is likely to increase further with Accession. In the CIS, the natural resource rich countries - principally Kazakhstan and Russia - have attracting the bulk of FDI. In short, FDI inflows remain quite concentrated in a limited number of countries in the region. Moreover, in those countries that have attracted relatively limited inflows, this has tended to be concentrated in a small number of sectors, mostly natural resources. Such concentration has limited the wider benefits that FDI could promote.

With respect to the mobility of labour, the picture that emerges is generally one of relatively limited flows of labour from the CEE/CIS countries to Western Europe and other higher income areas. However, there have been some striking exceptions, not least in the Balkans where civil strife, among other factors, has led to substantial out-migration. This has been reflected in increased flows of remittances from migrant workers. For example, in Albania and Bosnia remittances in recent years have accounted for between 10-15 per cent of GDP (World Bank, 2003; IMF Balance of Payments Yearbooks). Despite these instances, however, the overall impression that should be drawn from the available statistics is that cross-border migration has remained quite low throughout the last decade. While this is in some respects quite surprising – given the size of the income differentials between many transition and market economies – a combination of factors, including immigration controls, the costs of moving and lack of information about job opportunities lie behind this low level of cross-border mobility. Moreover, the absence of significant mobility within the CEE/CIS countries is likely to have had consequences for the extent of mobility between countries.

The relatively limited extent of mobility in the domestic labour markets of the CEE/CIS countries is itself an important factor when considering the evolution of employment in these countries. Since the start of transition, average unemployment has risen – often substantially – in all countries. While it could have been expected that unemployment would have to rise as part of the necessary structural transformation, the subsequent persistence of high unemployment rates – and their inverse - low employment rates - has been somewhat surprising.

Figure 1 provides three year average unemployment rates – weighted by population - for the different sub-regions for the period from 1995-2002. Not only has unemployment generally failed to decline, but in a number of sub-regions – including in Central Europe – it has actually continued to rise. This has tended to have negative consequences for households and individuals who have lost their work and whose chances of returning to employment have remained rather limited. While households with unemployed heads do not generally comprise the majority of the poor³, they are nevertheless at relatively high risk of being in poverty. Furthermore, such consequences have also had repercussions for child well-being. In CEE/CIS children account for around a third of the poor and a significant minority of these children live in households where the household head lacks employment.

Figure 1: Unemployment trends, 1995-2003 (per cent)



Note: Regional averages weighted by population.

Source: EBRD 2003.

2. Patterns of Regional Unemployment: Comparative Experience

This section looks at what has occurred in the labour markets of the CEE/CIS countries and, in particular, at the wide differences in employment and unemployment rates that have emerged at sub-national level. It then begins to explain why these differences have arisen and what can be done about them.

³ Poverty is mostly found among households of working age where at least one member of the household has work.

Aggregate unemployment has remained high in most transition economies and this has also gone alongside large variation in unemployment rates across regions. For example, in Poland, the unemployment rate for the city of Warsaw has remained at around 4-5 per cent throughout the 1990s. Yet, in the same period and only several hours away in Olzstyn – a largely rural region – the unemployment rate has been stuck at over 20 per cent. Such disparities are widely replicated throughout the CEE/CIS countries. Part of the reason for this disparity is that movement away from full employment associated with changes in relative prices and other reforms revealed different employment levels that could be sustained in the face of these changes or shocks. However, the persistence of these differences has to be traced not simply to the imbalance between the rates at which jobs have been destroyed and created but also to the barriers to labour mobility and the effective functioning of national labour markets.

To put this regional variation in context, it is also the case that advanced industrialised countries suffer from the same sort of variation. The ways in which such economies adapt turns out to be very different. In some, capital and labour tend to be more mobile, while in others mobility – particularly of labour – tends to be largely absent. A common contrast is drawn between the USA and Europe (See for Blanchard and Katz (1992) and Decressin and Fatas, 1995). In Europe, the evidence suggests that while wages in regions that have suffered shocks are responsive to unemployment – and hence changes to wages and unemployment move in opposite directions – mobility across regions remains quite limited. By contrast, in the USA the response at the level of a region or state to a negative shock to employment has not only been for wages and unemployment to move in opposite directions but for workers in adversely affected regions to start to move to other regions. This very mobility of labour in turn affects the incentives for new employment to be created, so that net employment growth in a region will depend on the speed at which workers leave and new jobs are created. Firms will then move into the depressed region, attracted by the low relative labour costs and the large pool of unemployed. If workers move out faster than firms move in, aggregate employment will not return to its original level in the region, and output in the depressed region will be permanently lower. Labour mobility reduces the extent to which unemployment persists in a region after an adverse shock. Hence, unemployment rates tend to return to the national average more rapidly than in countries where segmentation exists in the labour market and where the mechanisms for adjustment to shocks are correspondingly attenuated.

The differences between the USA and Europe can be traced to a variety of factors, of which the presence of transfer payments, including social assistance, has been widely argued to be an important explanatory factor. Put simply, in much of Western Europe relatively generous transfer payments to

the unemployed have reduced the incentives to move, particularly when an important component of transfers has been payment for housing. These impediments are likely to be magnified in cases where households with unemployed members also have children. Relocation decisions and costs will be materially affected by additional factors, such as education, childcare and other considerations.

Regional unemployment: high variation

The extent of the differences in regional unemployment rates can be seen in *Table 2* which mostly provides information for 1991 and 2000/2001 for selected CEE/CIS countries.

Table 2: Regional unemployment

Country	Regions (NUTS) ¹	Year	Average	SD ²	CV ³	Min	Max
Bulgaria	28 (III)	1991	7.4	1.7	23.0	4.9	11.6
		2001	19.9	9.3	46.9	4.2	43.0
Czech Republic	14 (III)	1991	4.3	1.5	35.1	1.2	6.2
		2001	8.0	3.5	44.0	3.0	14.6
Hungary	20 (III)	1991	4.1	2.6	63.2	1.2	10.7
		2001	8.5	5.1	60.4	2.6	19.0
Kazakhstan	16 (oblasts)	2001	10.8	1.8	16.4	7.3	13.9
Latvia	5(III)	1998	14.5	7.7	53.2	8.5	31.1
		2001	13.1	7.3	55.4	7.5	28.6
Poland	44 (III)	1998	9.9	4.1	41.6	1.7	22.6
		2001	18.4	5.4	29.6	6.2	30.7
Romania	42 (III)	1991	3.0	1.3	44.5	1.2	6.2
		2001	8.8	2.9	33.1	3.1	15.3
Russia	74 (oblasts)	1992	4.8	1.0	20.8	2.6	9.1
		2000	12.5	3.8	30.5	4.3	24.4
Comparator countries:							
France ⁴	96 (III)	1991	9.0	2.2	24.8	4.3	13.6
		2001	9.5	3.0	32.1	3.9	18.2
Spain	52 (III)	1991	16.0	5.7	35.4	6.3	38.1
		2001	14.2	5.9	41.4	4.7	29.8

Notes: 1 NUTS is the French acronym for Nomenclature of Territorial Units for Statistics. 2 Standard Deviation. 3 Coefficient of Variation, computed as the standard deviation divided by the mean multiplied by 100. 4 Continental France and Corsica.

Sources: Accesslab (2003), NewCronos Database and MONEE Project Database.

For those countries that have implemented the Eurostat NUTS classification system⁴ the level chosen is NUTS 3. For some countries this also dictates the choice of initial year: for example, 1998 for Poland. For Kazakhstan and Russia, where this has not happened, the data are reported at the *oblast* level. Aside from providing the national unemployment rate at both points in time, *Table 2* also reports the standard deviation, the coefficient of variation⁵ and the minimum and maximum levels of unemployment across the regions for each country and for several Western European comparators.

What is immediately evident is that the dispersion in regional unemployment rates is large and, depending on the measure chosen, has also tended to grow over this period. In the case of the standard deviation, there is an increase in all cases. The picture is more nuanced when reporting the coefficient of variation. Although in Bulgaria, the coefficient of variation rose from 23 to 47 while the gap between the highest and lowest regional unemployment rates rose from 7 to over 30 percentage points, in other CEE countries the rise was either smaller or there was actually a decline. In Russia not only did national unemployment more than double but there was a very substantial increase in the measures of dispersion, while the gap between the region with the lowest and highest unemployment rates also expanded significantly. In short, there is little evidence in *Table 2* that there has been any major reduction in regional unemployment differences. Further, to put this in context, most CEE/CIS countries reported here display a degree of variation that is generally higher than most Western European countries, let alone the USA. Towards the end of the period, even in Spain where the maximum unemployment rate was comparable to that of Bulgaria, the dispersion measures were clearly lower than in the CEE/CIS countries. Furthermore, the ranking of regions according to unemployment rates in the CEE/CIS has remained virtually unchanged throughout the last decade. This shows the high degree of persistence in regional disparities over time. Regions that saw a rapid increase in unemployment at the beginning of transition are still the ones exhibiting high unemployment now (see Bornhorst and Commander, 2003). As to the characteristics of regions experiencing relatively high unemployment, evidence from a number of countries suggests that the pre-transition composition of output has exerted a powerful effect. Unemployment rates have tended to be higher in regions that were heavily industrialised or agricultural. Lack of initial diversification in the mix of output has been a major handicap (Scarpetta, 1995).

The persistence in unemployment has obviously gone alongside the emergence of long term – greater than one year – unemployment. For

⁴ NUTS is the French acronym for Nomenclature of Territorial Units for Statistics.

⁵ The coefficient of variation, defined as the standard deviation divided by the mean, is a measure of variation that is independent from the level of the series. The higher the coefficient of variation, the higher the variation of the underlying data.

example, in the ten CEE Accession countries, long term unemployment accounted for nearly 7 per cent of the labour force by 2002 or over half of total unemployment. This in turn has been associated with changes in labour force participation. Workers have become discouraged by long spells in unemployment and lack of local job opportunities and have left the labour force. Indeed, *Table 3* shows that by 2000 non-participation rates were generally high in the CEE/CIS countries.⁶ While the dispersion of non-participation rates across regions in most countries is significantly lower than for unemployment, non-participation rates by region were highly correlated with the level of unemployment in that region in all countries reported in *Table 3* with the exception of Romania. In Russia, where data are available for earlier in the transition, this correlation between unemployment and non-participation rose substantially between 1992 and 2000 from 0.39 to 0.66. Put differently, high unemployment rates have been associated with declining labour forces. As a consequence, high unemployment and the overall employment rate in a region have tended to move in opposite directions. While part of this may be explained by discrete changes in labour force participation rates – for example, by females wishing to work less than under communism – this is unlikely to explain the persistence over time. The principal mechanism appears to be through persistent unemployment discouraging workers from searching for jobs.

Table 3: Non participation rates

Country	Regions (NUTS) ¹	Year	Average	SD ²	CV ³	Min	Max	Correlation with unemployment rates
Bulgaria	28 (III)	2000	39.6	4.7	11.9	31.9	40.9	0.59
Czech Republic	14 (III)	2000	28.4	2.3	8.1	23.7	31.9	0.72
Hungary	20 (III)	1999	40.9	4.5	11.0	33.3	46.7	0.87
Latvia	5 (III)	1999	29.2	3.7	12.5	26.4	35.9	0.72
Poland	16 (II)	2000	34.8	9.2	26.5	21.0	52.8	0.47
Romania	42 (III)	2000	37.2	5.5	14.7	24.4	38.9	-0.04
Russia	74 (oblasts)	1992	11.4	6.7	58.4	2.5	34.3	0.39
		2001	18.1	3.8	20.8	10.2	32.9	0.66

Notes: 1 NUTS is the French acronym for Nomenclature of Territorial Units for Statistics
2 Standard Deviation. 3 Coefficient of Variation

Sources: Accesslab (2003), OECD (2000), NewCronos Database and MONEE Project Database.

⁶ For Poland, non participation data is only available at the NUTS 2 level.

Adjusting to unemployment

Experience from market economies – as already indicated above – suggests that following a negative shock to a regional labour market, a number of adjustment mechanisms come into play. For example, due to the excess in labour supply, wages in depressed regions will tend to be lower over time than in regions with higher employment. This factor - combined with a large pool of unemployed workers – should attract firms to start operations in such a region. Are such adjustment mechanisms at work in the CEE/CIS countries? Empirical evidence from the early 1990s suggested that in both Central Europe and Russia, relative wages were only weakly responsive to unemployment. However, this appears to have changed over time. The available evidence suggests that there is now a strong and negative association between a region's relative unemployment rate and the average rate at which that region's wage increased in relative terms in all countries, with the important exception of Russia. This can be seen in *Table 4* which reports the correlation of the average relative wage change in a country and the average relative unemployment rate.⁷ This shows unequivocally that regions that have experienced larger adverse shocks to employment have been characterised by lower rates of wage increase. However, in Russia this relationship has remained absent or very weak throughout the transition.

Table 4: Unemployment rates, wage growth and change in employment

Country	Regions (NUTS) ¹	relative wage change	employment growth
Bulgaria	28 (III)	-0.42	-0.62
Czech Republic	14 (III)	-0.78	-0.61
Hungary	20 (III)	-0.30	-0.67
Poland	16 (II)	na	0.10
Romania	42 (III)	-0.37	-0.16
Russia	74 (<i>oblasts</i>)	-0.04	-0.22

Notes: Table reports correlation of average unemployment rates with the average of the respective indicator. Sample years vary from country to country. 1 NUTS is the French acronym for Nomenclature of Territorial Units for Statistics.

Source: Accesslab (2003).

Changes to relative wages will have to be an important part of any adjustment. This is the case because without any adjustment the incentives for employers to create jobs in relatively high unemployment regions will be

⁷ The relative unemployment rate is the unemployment rate in each region minus the national average and divided by the standard deviation. Using relative unemployment rates corrects for overall macro trends and allows intertemporal comparisons.

largely absent. To get a sense of whether regions with high relative unemployment rates have indeed experienced lagged increases in employment, *Table 4* now reports the correlation between changes in employment and the unemployment rate over the period, 1990-2001. What is evident is that there is a clear negative association between a region's unemployment rate and the change in employment. As such, regions that have experienced relatively large unemployment over this period have *not* experienced relatively greater increases in employment. Indeed, the correlation between the change in the employment and unemployment rate is significantly negative in all cases except Poland. In short, jobs have not tended to move to regions that have earlier experienced relatively large increases in unemployment, despite the fact that wages – as documented above - have responded conventionally to unemployment.

Labour mobility: the missing dimension

An additional factor of adjustment that has been documented – particularly in the USA - is that of labour mobility. If national labour markets are integrated, workers will tend to move to regions where jobs can be found. Yet, a closer look at the internal migration data for the CEE/CIS countries suggests that labour mobility has indeed been a small part of the overall picture and that the movement of labour across regions in response to economic signals has been very limited. In this respect – and as mentioned above – the CEE/CIS countries look far more like Western Europe than North America in their limited degree of mobility. As such, migration rates – a measure of the amount of people that move across regions within a country – have remained low in the CEE/CIS countries (see Bornhorst and Commander, 2003). However, there are some indications that despite low internal migration, the motivation for mobility can be traced to standard labour market signals. For instance, regions with relatively low unemployment rates and/or regions with relatively high income levels have experienced higher net inflows of migrants than regions with high unemployment and relatively low incomes. A recent analysis for Russia has found that while internal migration is indeed low, when it does occur it seems to be motivated by differences in income, employment rates and other social indicators, such as the incidence of poverty (Andrienko and Guriev, 2004). However, people located in relatively poor regions lack adequate income and other resources to finance their migration and this group may account for up to a third of the Russian population. Indeed, the more general point to be made is that many of the people potentially most likely to benefit from migration still tend to be those that face serious problems in financing their mobility. Further – although clear evidence on this point is lacking – it seems likely that people without children will find it easier to move relative to those with children. The costs of immobility may, as such, fall harder on households with children.

Why has internal migration been so limited in the face of such large differences in employment across regions? The answers lie in a variety of causes. Not only was there a limited history of voluntary migration in the Former Soviet Union but there was also little institutional support for those wishing to move, such as information about vacancies in other regions. Furthermore, in a deliberate attempt to retain workers, firms throughout the region in the communist era tended to provide non-monetary components of compensation, such as housing and other benefits, to workers (see Commander and Schankerman, 1997). Although many of these benefits have been whittled away over time, access to housing has remained an important factor. Further, in Russia, Ukraine and other CIS countries, initially firms tried to limit the amount of employment reduction by adjusting wages, including through wage arrears and involuntary leave. This had the consequence of actually raising the share of non-monetary compensation, such as housing benefits, in total compensation. A corollary of this was that the incentives for individuals and households to move became even weaker (Commander, Lee and Tolstopiatenko, 1996). In much of Central and Eastern Europe, the prevalence of owner-occupied housing may have been an additional factor limiting mobility. Even where owner-occupation has been less widespread – as in Russia – lack of clarity over property rights and mechanisms for handling common expenditures for multi-occupancy housing have also lowered mobility. The absence of long term housing finance throughout the region has been a further contributing factor.

To conclude this section: not only has unemployment tended to stay high but this has been associated with declining labour force participation rates. Further, the variation in unemployment across regions has also been persistent. Despite evidence that changes to wages and unemployment have begun to move in opposite directions, there is little, if any, evidence that regions with high relative unemployment have ultimately been able to attract in new jobs and employers. Further, there is little evidence of migration from hard hit to better off regions being a major part of the story. One consequence has been that households and individuals in badly affected regions have tended to suffer major and negative consequences for their incomes and their employability. Low income levels can then easily become associated with households being locked into poverty through lack of adequate resources or liquidity to finance mobility and which can mean exclusion from work and income opportunities. One recent estimate suggests that as much as a third of the Russian population may be so affected (see Andrienko and Guriev, 2003).

3. The Labour Market and the Well-Being of Children

This section looks at the links from the labour market status of adults to the well-being of children. Not only does unemployment tend to be associated with high relative incidence of poverty but there appears also to be a strong association between the number of children in a household and poverty.

Labour market outcomes – such as unemployment or non-participation – are one set of indicators that can provide a sense of how a population is faring economically. For example, unemployment generally tends to be associated with loss of income and, depending on the extent to which public programmes offset such loss, it can be associated with higher incidences of poverty and income deprivation. For example, household data indicate that the incidence of poverty is high among the unemployed (World Bank, 2000). In Albania, for example, every third unemployed person in 2002 was poor (World Bank, 2003). Further, in Bosnia-Herzegovina, poverty rates have recently been found to increase very sharply with the number of children in the household, while households without work or with only a single earner tend to have high incidences of poverty (World Bank, 2003a). However, the extent of this link varies across countries, not least because of the variation in the existence and generosity of welfare programmes – such as unemployment insurance and social assistance – that are designed to deal with such contingencies. Moreover, in countries, such as Russia, the incidence of poverty may actually be higher among the employed than the unemployed, given the widespread phenomenon of low pay and – particularly in the 1990s – the associated phenomenon of arrears in wage payments.

Labour market status and income

As already noted, child well-being will substantially depend on how their parents are faring in the labour market. A very simple indicator of the possible scale of the problem can be gauged by the fact that, for example, in the Czech Republic and Poland between 40-55 per cent of the child population is located in regions with unemployment above the national mean.⁸ While there is robust evidence at a national level that unemployment exerts a predictably negative effect on incomes, in most CEE/CIS countries, there are insufficient data that can allow a precise understanding at regional level of the relationship between employment status and income. However, it is clear that in both CEE and CIS the relative risk of being in poverty is relatively high for households where the head is unemployed. For Poland, where some data are available, the correlation of income per capita at the regional level and unemployment rates is -0.51 in 1999, confirming the negative association between income and lack of employment. Moreover,

⁸ Share of 0-14 year olds living in regions (NUTS3) where unemployment is higher than national average.

regional poverty indicators are positively correlated with unemployment. In Poland, the proportion of children living in expenditure poverty is positively correlated (0.63) with regional unemployment rates. As expected, the correlation of the share of people living in poverty – as measured by expenditure – and regional per capita income is negative (-0.64). These relationships are hardly surprising but they do help drive home the point that the persistence of high unemployment in many regions in the CEE/CIS countries will have been associated with significant income loss and, possibly, poverty. This is likely to have been accentuated in countries where income support programmes have been very restrictive, mostly the countries of the Former Soviet Union.

Turning directly to the issue of child well-being, the circumstances under which children are brought up in each household will vary and are beyond the reach of this article. However, the obvious presumption must be that measures of child well-being – such as poverty and infant mortality rates – will co-vary with income measures. Indeed, relating infant mortality rates at a regional level to measures of regional income for seven CEE/CIS countries, it is clear – with the exception of Poland – that there is a robust negative relationship over the 1990s.⁹ This means that regions with relatively low incomes tend to have relatively high infant mortality rates. Given the discussion of the relationship between income and labour market conditions, the next step is to see how labour market outcomes at a regional level correlate with indicators of child well-being. Obviously, the indicators will be influenced by a variety of factors. While the economic situation of the parents will generally be the main determinant, the provision of services and existing transfer schemes by public institutions will also influence the outcome.

Infant mortality, schooling and the labour market

The first indicator that is used is infant mortality rates. Although it is not immediately evident that there should be a strong association between infant mortality and unemployment, some research in the transition context has found that differences in infant mortality can be traced to differences in socio-economic conditions (Koupilova, 1998). For those countries where regional information on infant mortality is available, *Table 5* provides the basic information. Average infant mortality rates have clearly decreased over time, although regional variation remains substantial and has actually increased in almost all countries. For example, in Poland the national average dropped from 19.4 to 7.7 between 1990 and 2001. However, the variation across region, as measured by the coefficient of variation, jumped from 9.7 to 13.1. Similarly in Russia the coefficient of variation rose from 17.2 to 19.1 in only

⁹ This was done for Bulgaria, Czech Republic, Hungary, Latvia, Poland and Romania using NUTS 3 regional data for average incomes (1995-2000) in per capita Purchasing Power Parity values against infant mortality rates. For Russia, the data were for oblasts and real incomes.

three years, 1998-2001. Infant mortality rates in the worst affected regions were over three times higher than in the least affected region. These numbers suggest that while there has been progress in reducing infant mortality – and mortality rates remain relatively low in the CEE/CIS countries compared to other countries with similar levels of income¹⁰ – there is much more progress to be made in reducing existing regional disparities.

Table 5: Regional infant mortality rates

Country	Regions (NUTS) ¹	Year	Average	SD ²	CV ³	Min	Max	Correlation with unemployment rate ⁴
Bulgaria	28 (III)	1995	14.8	3.9	26.4	9.1	24.8	0.49
		1999	14.6	3.9	26.6	7.4	27.1	
Czech Republic	14 (III)	1993	8.5	1.5	17.5	5.7	11.5	0.70
		2001	4.0	1.2	29.0	2.2	7.0	
Hungary	20 (III)	1992	14.1	2.0	14.0	10.1	18.7	0.53
		2001	8.1	1.8	22.5	4.1	12.9	
Kazakhstan	6 (regions)	1990-2000	54.9	14.9	27.2	27.8	77.2	0.56
		1999	11.3	1.5	13.3	8.2	12.6	
Latvia	5(III)	2001	11.0	1.8	16.5	9.1	13.9	0.78
		1995	13.6	1.9	14.3	8.5	17.6	
Poland	44 (III)	2001	7.7	1.6	20.7	4.8	12.0	0.12
		1997	22.0	5.1	23.4	13.9	34.2	
Romania	42 (III)	2001	18.4	4.2	22.8	11.1	29.5	0.66
		1998	16.0	2.8	17.2	9.9	28.9	
Russia	74 (oblasts)	2001	14.4	2.8	19.1	8.1	28.0	0.43

Notes: 1 NUTS is the French acronym for Nomenclature of Territorial Units for Statistics. 2 Standard Deviation. 3 Coefficient of Variation. Computed as the standard deviation divided by the mean multiplied by 100. 4 Correlation of average unemployment rate with average infant mortality rates.

Source: MONEE Project Database.

What is the association between infant mortality and labour market conditions at regional level? The last column of *Table 5* reports the correlation of average regional unemployment rates with the corresponding average of infant mortality rates. There is a clear and positive association between unemployment and infant mortality. In some countries the correlation is higher than 0.70.

A second – and widely applied – indicator of child well-being concerns educational enrolment. Here, an indicator of secondary school enrolment is used. Empirical studies have widely documented the gains to lifetime income for people who attend secondary school relative to those with only primary education. However, secondary school attendance comes at a cost for the

¹⁰ However, there are some measurement problems as survey based infant mortality rates often exceed officially published figures, see chapter 6 of UNICEF (2003).

household. Children that go to school cannot contribute to household income – be it through domestic activities or through formal labour income. In addition, even if education itself is free – a feature that is increasingly more notional than real – school attendance is often associated with additional costs for transportation and school materials, such as books, let alone additional, unregulated charges. In the trade off between future and current income poor households are often forced to decide against secondary school attendance for their children. Again making the assumption that income and employment status are highly correlated, it appears that regional secondary school enrolment ratios are indeed negatively correlated with regional unemployment rates in all the five countries for which there is information. While in Latvia and Kazakhstan, the correlation was little different from zero, in the Czech Republic and Hungary it was -0.5 and -0.2 respectively and in Romania it was as high as -0.9¹¹.

In conclusion, the disparities in employment conditions across regions that have been documented in this article appear to be associated with clear outcomes in terms of well-being indicators, such as infant mortality and secondary school enrolment. While these are no more than raw correlations, they do suggest that labour market outcomes play through to welfare outcomes and that, perhaps predictably, regions with higher unemployment tend to do poorly in terms of these indicators. These can have long term adverse consequences: falling enrolment rates among low income groups will tend to perpetuate poverty over generations.

4. Public Provision of Benefits and Social Programmes

This section examines the available evidence on transfer programmes and their consequences. It suggests that there are important efficiency gains that can be made through better targeting. In addition, many benefit programmes suffer from inadequate funding.

The income and distributional outcomes associated with loss of employment and the duration of unemployment should, of course, be materially affected by the presence of publicly financed and provided transfer programmes. Yet evidence, for example, from Russia for the first half of the 1990s found that not only did the size of average transfers decline but so did the effectiveness of targeting such transfers toward needy groups. In fact, transfers began to contribute positively to inequality (Commander and Lee, 2000). Indeed, the share of social spending that reaches the poorest quintile of the population in a range of CEE/CIS countries in the mid-1990s was under 30 per cent (Milanovic, 1998).

¹¹ Calculated using gross enrolment rates at NUTS 3 level.

Unemployment insurance

In the context of this article with its emphasis on employment outcomes, the most obvious example is that of unemployment insurance, but other spending items, such as unemployment or social assistance and programmes targeted at specific groups – including children – can have significant consequences for the well-being of households or individuals. In addition, this section examines the question of whether such benefits help compensate for regional differences.

Unemployment insurance benefits are payments made to the unemployed under a range of qualifying criteria that seek to smooth the income loss associated with unemployment without providing adverse incentives for the unemployed. The aim is generally to provide a basic fallback income without reducing the incentives for the unemployed to search for work again. Yet, as *Table 6* clearly illustrates such benefits vary widely in terms of their generosity – as measured by the replacement ratio – and by their coverage – the share of the unemployed eligible or in receipt of such payments. *Table 6* shows that in most of the Accession countries of Central Europe replacement rates are lower than the European Union average but not by a very substantial margin. Further, on expiry of benefits workers are generally entitled to social assistance. This has effectively placed a floor on the income drop associated with loss of employment. By contrast, in most of the CIS, replacement rates have been very low. In the cases of Estonia and Russia, they do not exceed 10 per cent of the average wage while social assistance has been yet more limited. Moreover, coverage has been poor, even in some of the more advanced CEE reformers. In Hungary, for example, around half the unemployed were not in receipt of either unemployment insurance or social assistance. In sum, publicly provided income support for job losers has been very varied and, in some cases – particularly in the CIS – minimal. Aggregate spending on both passive (for example, unemployment benefits) and active (for example, training or employment subsidies) labour market programmes – with the exception of Poland – remains very substantially below the EU average and has been particularly small in the former Soviet countries. Although the evidence indicates that transfers to the unemployed have not on average been particularly generous, it is the case that for some low wage groups – as in Hungary – that benefits have exerted a negative effect on the willingness to search for work and hence have contributed to lengthening the duration of unemployment (Kollo, 2001). This, however, is not the case in most countries, particularly in the CIS. As to the effectiveness of unemployment benefits in reaching poor households and individuals, a World Bank study found that where comparable data exist, the targeting efficiency of such transfers was actually quite high but that the overall impact was ultimately quite small given the generally small size of such transfers (World Bank, 2000).

Table 6: Characteristics of Unemployment Insurance Systems

Country	Benefit Replacement Rate ¹ (%)	Benefit Duration ² (Months)	Coverage Rate ³ (%) (1998)	Spending on Passive Policies ⁴ (% of GDP)	Spending on Active Policies ⁴ (% of GDP)
Czech Republic	50	6	49	0.31	0.19
Estonia	10	3-6	55	0.08	0.08
Hungary	64	12	74	0.56	0.4
Poland	40	12-24	23	1.71	0.49
Russia	8	12	na	na	na
Slovakia	60	6-12	28	0.54	0.56
Slovenia	63	3-24	33	0.89	0.83
Europe Union (average)	60	-	-	1.73	1.16

Notes: 1 Benefit Replacement Rate: initial level of unemployment benefits divided by previously earned income. 2 Benefit Duration: maximum duration in months of unemployment benefit. 3 Coverage: percentage of unemployed receiving unemployment benefits. 4 Spending on Passive and Active Labour Market Policies between 1997 - 1999: Passive Labour Market spending includes unemployment insurance benefits, Active Labour Market spending includes, job assistance, training, public works, wage subsidies and other items.

Source: Riboud et al (2001).

What options exist to improve the way unemployment insurance programmes work in the CEE/CIS countries? Here, the options ultimately depend on the ability to finance and the trade-off between providing payments to job losers without seriously diminishing their willingness to work. Simple prescriptions, such as raising benefits to some consumption minimum, generally make little sense in either incentive or implementation terms. However, it is clear that in many of the CIS countries there is some fiscal latitude – notably in Russia – to increase the level of such payments and the effectiveness with which they reach desired recipients. Realistically, in many of the high unemployment regions large shares of the previously unemployed have shifted onto social assistance or into non-participation.

In most CEE/CIS countries financing and administration of unemployment insurance and social assistance are different. In particular, the former tends to be nationally administered and financed through a combination of payroll taxes and contributions while the latter tends to be devolved to local level. Thus, in Hungary, unemployment or social assistance is run by local governments with only half of total expenditures being reclaimable from central government. As such, in those cases where payments at the local level are drawn from local taxation – rather than transfers from the national budget – the financing problem looms large. For example, in Kazakhstan, there is no national unemployment benefit system; everything has been devolved to local government in a completely discretionary way. Yet, regions worst affected by

unemployment are those likely to be the worst fiscal shape. The variation in payments and coverage that then arises threatens the principle of equity. In Russia, experience over the last decade suggests that attempts to equalise regional fiscal resources and programmes – such as for social assistance – have failed. The variation in the level of benefits offered by regions has as a result varied enormously. The unemployed in poorer regions have been severely disadvantaged.

One way of dealing with this variation in coverage and generosity of unemployment assistance would be to move away from systems of local finance and decision making towards more nationally mandated and supervised systems. This could, in principle, help secure greater equity. Certainly, in the low income countries such transfers can best be financed from general revenues. A possible format might be the Hungarian system, which although locally administered and part funded also has national guidelines and financing and has worked reasonably effectively. Further, in large – and diverse – countries, such as Russia and Ukraine, a social assistance programme with a larger federal or national funding and direction could undoubtedly help limit the variation that is currently observed. This would not be inconsistent with having different levels of support, given the very different price levels existing across the regions of a country like Russia. Indeed, if one objective is to help spur greater mobility in the labour market, such differences could help provide appropriate incentives for workers to move to higher employment, higher wage areas. A number of further possibilities exist for stimulating mobility. For example, one option would be to offer unemployed people in high unemployment areas part of their social assistance payment in lump-sum form or as a grant to facilitate movement to another, low unemployment region. This would be clearly yet more effective if the national employment service was also able to help match workers to jobs once they moved. (See the discussion in Klugman, Micklewright and Redmond, 2001).

Shifting towards the use of more targeted transfer programmes – including social assistance – has to be a central part of the response, although in contexts of institutional weakness, this is difficult to achieve and often costly. For example, experimental social protection schemes using means-testing in three Russian oblasts in the late 1990s registered administration costs of between 6-13 per cent of the total value of disbursed benefits (Klugman, Micklewright and Redmond, 2001). Even so, the move to greater targeting is likely to be desirable over the longer run.

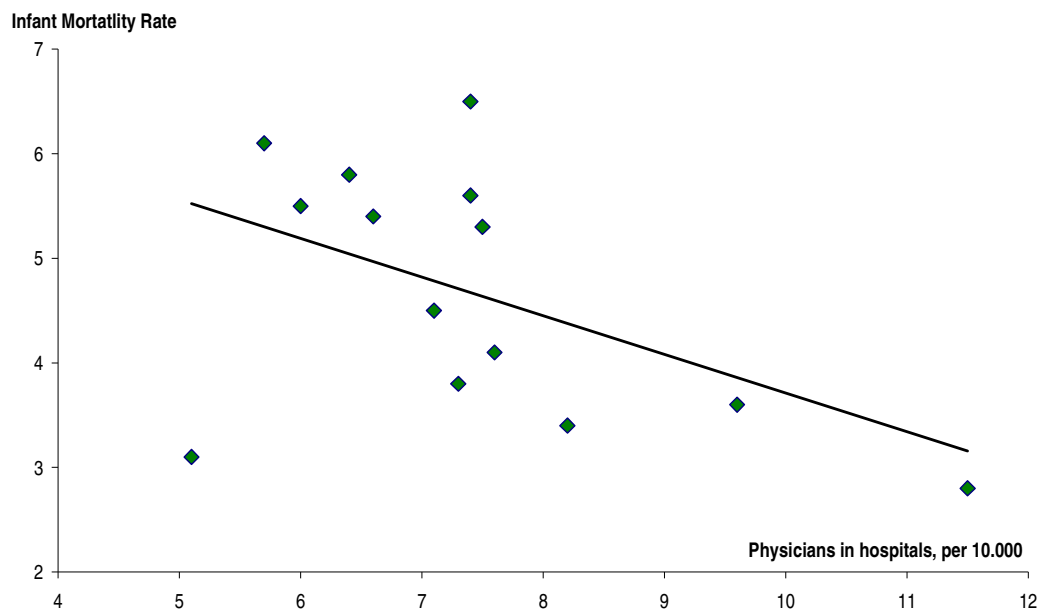
Child allowances

With particular regard to the well-being of children, governments have used a variety of instruments – including child allowances – for trying to ensure that children do not become disadvantaged. Yet, there has been considerable variation in both the type of instrument and the relative efficiency of the selected instruments across the CEE/CIS countries. What emerges, however, is that while child allowance programmes have achieved reasonable coverage they have not necessarily achieved efficiency in targeting. Moreover, the effectiveness of child allowances remains predictably weak given the small size of such transfers on average. For instance, in Russia the system of child allowances that was introduced in 1991 has not been properly funded while many families that should have been in receipt of benefits have not. Regional variations have been large, not least because of differences in financing abilities. Yet, moving towards a nationally funded, universal scheme in Russia aimed at reducing regional disparities and reaching more eligible households should not be prohibitively expensive with relatively small increments to marginal income tax rates. There would be a positive impact on the income of poor households as well as reducing inequality.¹²

In principle, the provision of public services should aim to offset regional disparities or at the least try and offer the same quality of service across all regions. However, deterioration in the level and quality of public services has been quite widespread in the CEE/CIS countries. Further, there have been large variations in the level and quality of services provided at a regional level. For example, in Bosnia-Herzegovina the variation across cantons in the provision of social assistance and other public services has been very marked and poorly targeted at those most in need. This is also true in some of the more advanced reform countries, such as the Czech Republic. *Figure 2* plots the association between infant mortality rates and the number of hospital physicians per 10,000 population for regions disaggregated to NUTS 3 level. There is a clear negative correlation (-0.49) between the two variables. This is likely to hold for a variety of service indicators. Using data for Romania, a similar negative correlation exists between hospital beds and infant mortality rates. In similar vein, regional data for Kazakhstan show that infant mortality is higher in regions where the share of households without water supply is greater. Obviously, the latter variable may proxy income, but it does appear that the availability of public or basic services is correlated with infant mortality outcomes.

¹² Klugman, Micklewright and Redmond (2001) who estimate that a scheme paying 5% of the national median wage to the first child and 10% to subsequent children would cost around 0.7% of GDP. If funded by personal income tax, this would imply a marginal tax rise of around 8%.

Figure 2: Infant mortality rates and physicians in hospitals, Czech Republic.



Source: MONEE Project Database.

Health and education: fiscal and efficiency issues

It is beyond the scope of this article to examine in detail the content of the reforms to both health and education services that are necessary in these countries. However, a few general points can usefully be made. It appears that worsening health outcomes may not necessarily be a function of falling expenditures. Both health and education spending in the CEE/CIS countries generally falls significantly below OECD levels – especially in some of the CIS countries – but the effectiveness of that spending remains yet lower. The evidence suggests that the quality of both educational and health services has been undermined by a number of factors, including the combination of over-staffing and low wages; non-transparent pricing and inadequate investment in infrastructure (World Bank, 2000). These problems are magnified in poorer regions where fiscal resources tend to be fewer. Indeed, in some of the larger federal countries – particular Russia – where provision of health and education services is normally at region or oblast level, the quality of those services has significantly depended on the extent of redistribution of resources achieved through the federal fiscal system. For much of the 1990s, the trend was for the resources allocated to poorer regions – including those with higher than average incidences of unemployment – to fall, accentuating the problem of service delivery in poorer regions.

Moreover, these features have been compounded in much of the CIS where the problem of ‘the one-company town’ has remained a major challenge. In these contexts, employment has tended to be highly

concentrated and the economic base has in effect been little different from that of the firm itself. In the most extreme cases, this has meant that the level of provision of social benefits will tend to be very similar whether financed by the firm or local government. Many of the same issues have also arisen in regions or towns with a high concentration of output from one sector (See Rein et al., 1997). When the provision of local public services has primarily depended on the profitability of one firm or one industry, adverse market conditions for that firm or industry have commonly led to a decline in the level and quality of public services with adverse consequences for households and children.

5. Conclusion

The CEE/CIS countries have become increasingly integrated with the world economy. Trade with the rest of the world has grown significantly and the direction of trade has generally shifted substantially away from the former CMEA countries. In Central Europe this has meant a massive redirection of trade towards the European Union: a feature that will be further accentuated with Accession. However, the smaller and landlocked countries in the region – particularly in the CIS – have faced major hurdles in raising their levels of trade and in diversification away from their historical trading partners. In short, while integration through trade has grown almost everywhere, there has been large variation in the degree to which this has been the case. This is also true for capital flows – particularly of foreign direct investment – to the region. Important to the renewal of the capital stock, upgrading of technology and working practices, FDI to the region has grown very substantially. However, it has remained quite concentrated in its direction. Most FDI has flowed into the EU Accession countries or to countries rich in natural resources. This has led to considerable concentration in terms of countries, sectors and regions. Many CEE/CIS countries have effectively failed to attract outside resources, in part a consequence of policy and institutional failures at home but also to location and other factors that are often beyond the control of individual governments or companies. Experience from both this region and from other countries suggests that specific attempts to attract FDI to disadvantaged regions through measures such as tax breaks, discounts or customs duty exemptions have been of limited benefit. Either the costs of inducing the investment have been too high or the type of investment that has resulted has been of limited use in raising income levels in the affected region. Further, many of the measures historically used by governments to attract or structure an investment are now incompatible with World Trade Organisation agreements or – in the case of the Accession countries – with European Union rules. Finally, over the longer term raising levels of

education and health – and hence in providing a healthy and skilled workforce – will be important for stimulating incoming investment to a region.

While trade and capital flows have increased, flows of labour within countries and across borders has remained quite restricted. Indeed, projections suggest that even after European Union Accession flows from the CEE/CIS countries to EU member states may not increase that dramatically (see EBRD 2003). That this may be the case can be attributed to a variety of factors, including immigration controls, migration costs and information shortcomings. However, it must also be related to a further feature: the extent of segmentation in the national labour markets and the resulting low levels of internal migration within the CEE/CIS countries themselves. This feature of national labour markets has had a number of undesirable consequences. In the first place, as aggregate unemployment has grown, the variation in unemployment rates across regions has also grown. This has meant that in many cases, workers who have found themselves out of work have had little chance of getting back into employment. There has, in sum, been persistence not only in aggregate unemployment but also in relative unemployment rates across regions. This has gone together with long run unemployment and declining labour force participation. For the Accession countries, the availability of structural funds from the European Union may help reduce some of the regional differences. Policy measures to address these failings need to concentrate not only on improving access to labour market information and local labour market institutions – such as employment placement agencies – but also to addressing the income constraints on greater mobility. Evidence – particularly from the CIS – suggests that lack of mobility often results from a combined lack of information about the location of job opportunities and lack of adequate resources to finance mobility. The latter are likely to be particularly important in the case of households with children, where education and other access to services will be a factor.

The plight of the unemployed has in turn depended on the extent to which governments have put in operation programmes and income support mechanisms designed to deal with loss of employment and income. In the majority of countries – mainly in the CIS – such supports have either been derisory or absent. In the larger CIS countries there is clear scope for improving the coverage and the generosity of unemployment benefits and social assistance programmes. This is because at current levels the creation of adverse incentives for the unemployed to search for work is not a major risk. Further, in many of the regions worst affected by unemployment non-participation is already a dominant feature. In this case, providing adequate fallbacks to keep individuals and households out of poverty remains the principal consideration.

The rather bleak picture of unemployment that emerges in this article has also had implications for children in the region. Although, given data limitations, there are problems in getting a very sharply focussed picture of how labour market outcomes can translate into child well-being outcomes, some simple correlations between infant mortality and secondary school enrolment do suggest that regions which have had relatively high unemployment have also reported worse well-being indicators. In other words, high unemployment through income and other channels has been associated with relatively high infant mortality and lower secondary school enrolments. That this has been the case must, of course, be related to a variety of factors, including differences in policy with respect to social programmes and expenditures. The available evidence indicates that there are clear improvements in the design of such programmes and their efficiency that can be made. In short, improving the extent of domestic labour market integration and thereby reducing regional disparities can play an important role not only in raising employment levels but also in improving measures of well-being, including of children.

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