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Children and the Transition to the Market Economy

Safety Nets and Social Policies in Central and Eastern Europe

Edited by
Giovanni Andrea Cornia
and Sándor Sipos

English Summary

Summary of:

Children and the Transition to the Market Economy:

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Giovanni Andrea Cornia and Sándor Sipos

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Children and the Transition to the Market Economy

Safety Nets and Social Policies in Central and Eastern Europe

Edited by
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THE CRISIS OF THE SOCIALIST MODEL

The fall of the socialist regimes of central and eastern Europe between early 1989 and the end of 1990 was preceded by the stagnation or decline of most social and economic indicators, warning signs which revealed weaknesses in the socialist experiment years before its definitive failure.

1. *Economic and Social Decline*

In all of the countries of the region, economic growth maintained a fast pace from 1950 until 1973 when the first oil shock caused terms-of-trade losses. From 1973, a decline in economic performance, recorded in the Gross Domestic Product (GDP), gradually intensified over time and reached unmanageable proportions towards the end of the 1980s (*Table 1*).

TABLE 1 - *GDP growth rates.*

	1950-73	1973-82	1982-88	1989	1990	1991
Soviet Union	5.0	2.1	1.9	2.5	−10.0 [1]	−20.0
Bulgaria	6.1	2.4	1.4	−0.2	−9.5	−5.7
Czechoslovakia	3.8	1.8	1.8	1.0	−1.3	−1.9
G.D.R.	4.6	2.6	2.1	—	—	—
Hungary	4.0	1.9	1.4	−1.2	−8.2	−5.0
Poland	4.8	0.5	4.2	−1.6	−18.4	−4.3
Romania	5.9	3.7	2.9	−3.1	−18.6	−3.6
Yugoslavia	5.7	5.0	0.9	−1.0	−9.1	−5.8

Source: For 1950-88, Maddison (1989); for 1989-91, Robinson (1991); IMF, *et al.*, (1990).
Note: [1] NMP growth rates.

While a detailed analysis is beyond the scope of this paper, two possible causes of this economic deterioration are worth mentioning. First of all, in the relatively simple economies of the 1950s and 1960s, the centralized command structure was able to achieve significant 'extensive growth' because of an abundant supply of labour (from rural areas, from the incorporation of women in the labour force and from population growth). When this supply began to dwindle, these same economies were unable to shift to an 'intensive growth' model, requiring innovation, technological progress and microeconomic efficiency. Secondly, the policy of full artificial employment, typical of countries in the region, created a large number of superfluous jobs which depressed productivity and hindered technological progress. As a result, the productivity of an average worker in eastern Europe has recently been half that of his or her counterpart in the West, while prior to World War II, Czechoslovakia, for example, could boast one of the highest levels of labour productivity in the world.

2. *The Social Crisis*

Because of the unreliability of statistics in the region, it is difficult to document the extent of the social crisis. However, some broad trends can be identified. For example, while the Infant Mortality Rate (IMR) improved very rapidly during the period 1950-1975, it had a much slower, less regular, rate of progress in subsequent years (see *Table 2*).

TABLE 2 - *IMR in Central and Eastern Europe, 1950-1989 (per 1000; selected years).*

	1950-55	1960-65	1970-75	1980-85	1985	1986	1987	1988	1989
Bulgaria	92	36	26	18	16	15	15	15	14
Czechoslovakia	54	23	21	16	15	14	13	12	11
Hungary	71	44	34	20	20	18	17	17	16
Poland	95	51	27	20	19	18	18	16	16
Romania	101	60	40	26	25	24	22	22	27
Soviet Union	73	32	26	25	24	23	25	25	25
Yugoslavia	128	80	45	30	23	27	25	25	24
Average E. Europe	79	38	28	24	23	22	23	23	23
Average OECD	42	37	19	11	9	9	9	8	8

Source: Compilation from United Nations (1989, pp. 192-95); World Bank (1990, p. 227); UNDP (1990, p. 147); UNICEF (1991, p. 103).

In some countries, notably Czechoslovakia, IMR continued to decline gradually; in others, values remained unchanged; and in a few, IMR actually began to increase. This uneven performance is reflected in the overall ranking of countries by level of IMR between 1960 and 1989. A significant loss of position was recorded for 5 out of 7 of the central and eastern European countries. The exceptions were Yugoslavia and Poland, which gained respectively 9 and 2 positions. In all seven countries, however, the gap between their achievements and "best practice" values had widened since 1960 (see *Table 3*).

A series of other trends can be used to underscore the stagnation or decline of living conditions in the region:

— Life expectancy at birth declined in many eastern and central European countries during the 20 years prior to the reforms.

— The percentage of the population living in poverty has increased in the past 10 years from 10 to 23 per cent in Poland, and from 17 to 25 per cent in Yugoslavia. Directly before the onset of the reforms in 1989, at least 10- 12 million children in the Soviet Union and 27 per cent of all families in Bulgaria lived below the poverty threshold.

— Environmental pollution has spread quickly during the past two decades. Czechoslovakia was (and still is) the most polluted country in the world in terms of toxic emission per capita. Some 17 per cent of the Soviet territory, which is home to 26 per cent of the population, has been declared an environmental disaster area. These conditions have led to a marked increase in the number of environmentally induced diseases among children, especially degenerative diseases (including cancer), respiratory diseases and allergies.

— Although the housing situation has slowly improved since the late 1950s, housing remains a source of frustration for a large part of the population. In the Soviet Union, where housing problems are especially severe, it was estimated in 1989 that about 15 per cent of all families live in premises shared with other individuals or families; 10 per cent of young couples can only afford to rent a room or part of a flat; and approximately 70 per cent of families with 3 or more children under 16 must wait an average of 6 to 7 years to have access

TABLE 3 - *IMR Ranking of Central and Eastern Europe and other selected countries in 1960 and 1988 and their distance from best levels (best IMR = 100).*

Country	Rank		Change	Distance	
	1960	1989		1960	1989
Bulgaria	26	28	− 2	306	350
Czechoslovakia	11	26	−15	169	275
Hungary	28	31	− 3	319	400
Poland	33	31	+ 2	387	400
Romania	37	48	−11	431	675
Soviet Union	22	44	−22	238	625
Yugoslavia	48	41	+ 9	575	600
Austria	20	16	+ 4	231	200
Chile	54	35	+19	713	500
Cuba	32	26	+ 6	387	275
Finland	7	3	+ 4	138	150
Greece	29	26	+ 3	331	275
Hong Kong	24	7	+17	275	175
Japan	16	1	+15	194	100
Portugal	42	27	+15	506	275
Spain	25	18	+ 7	294	225
United States	10	23	−13	163	250

Source: Calculated from data given by *The State of the World's Children 1991*, New York: UNICEF (1991, p. 103).

to adequate housing. In Yugoslavia, even though private construction has long been promoted, there is still a shortage of flats (640,000 units, or 10.5 per cent of total housing stock, of which 470,000 in cities) according to a late 1980s estimate. In Bulgaria, where 85 per cent of housing is privately owned, 1.5 million families do not have a separate room for their children.

— The development model and past social policies are clearly responsible for part of the erosion of the family and the social fabric. An increasing number of families migrate to cities where affordable housing is scarce. Fathers hold second jobs, work overtime or far from their homes. Mothers enter the work force even when child care services or pre-schools are inadequate.

These are some of the factors dividing families and generations in the region. The growing tendency of the State to take over the family's role in the socialization of children (with the exception, perhaps, of Poland) has further exacerbated the situation.

The following statistics reveal the devastating extent of the damage already done. The Soviet Union has the highest divorce rate in Europe (3.4 per thousand), while Hungary (2.8) and Czechoslovakia (2.5) are not far behind. In Hungary, the number of children 'at risk' (who live in a single-parent family or with alcoholic, delinquent or maladjusted parents) was estimated at 500,000 in 1990, or 17 per cent of the child population.

The steady increase in juvenile crime in the area is another consequence of the social crisis, and contrasts with the situation in Europe and the United States where juvenile crime stabilized, and in some countries even declined, during the 1980s. The number of criminal cases involving adolescents in Hungary grew from 2,500 cases in 1963 (equal to 83 per 10,000) to 6,741 in 1988 (218 per 10,000). Delinquency rates in Czechoslovakia rose from 109 per 10,000 in 1980 to 143 per 10,000 in 1987. Among gypsy youths, the incidence of delinquency is higher still. In the Soviet Union, more than 1 per cent of the child population of large urban centres like Moscow and Leningrad was arrested for delinquent behaviour in 1989.

ECONOMIC AND SOCIAL REFORMS

The foregoing seems to confirm the hypothesis that the overall standard of living of the population in general — and more specifically of vulnerable groups (children, adolescents, the elderly, single-parent families and ethnic minorities) — has not improved during the past 15-20 years and has, in fact, even deteriorated in certain specific sectors.

The development model, which successfully generated a degree of economic growth, satisfied essential needs and created a minimum of material well-being during the 20 years following World War II, disappointed expectations of continued progress in the ensuing two decades. Missed objectives were especially evident in sanitary and housing conditions, education, social welfare and environmental protection. The failure of social policies was compounded by the inability of central economic planning to stimulate the technological innovations, labour productivity and microeconomic efficiency needed to generate adequate resources for social development.

These trends, taken as a whole and considered in light of the region's push for immediate political liberty, are the framework for the political, economic and social reforms which began to take place in the second half of 1989.

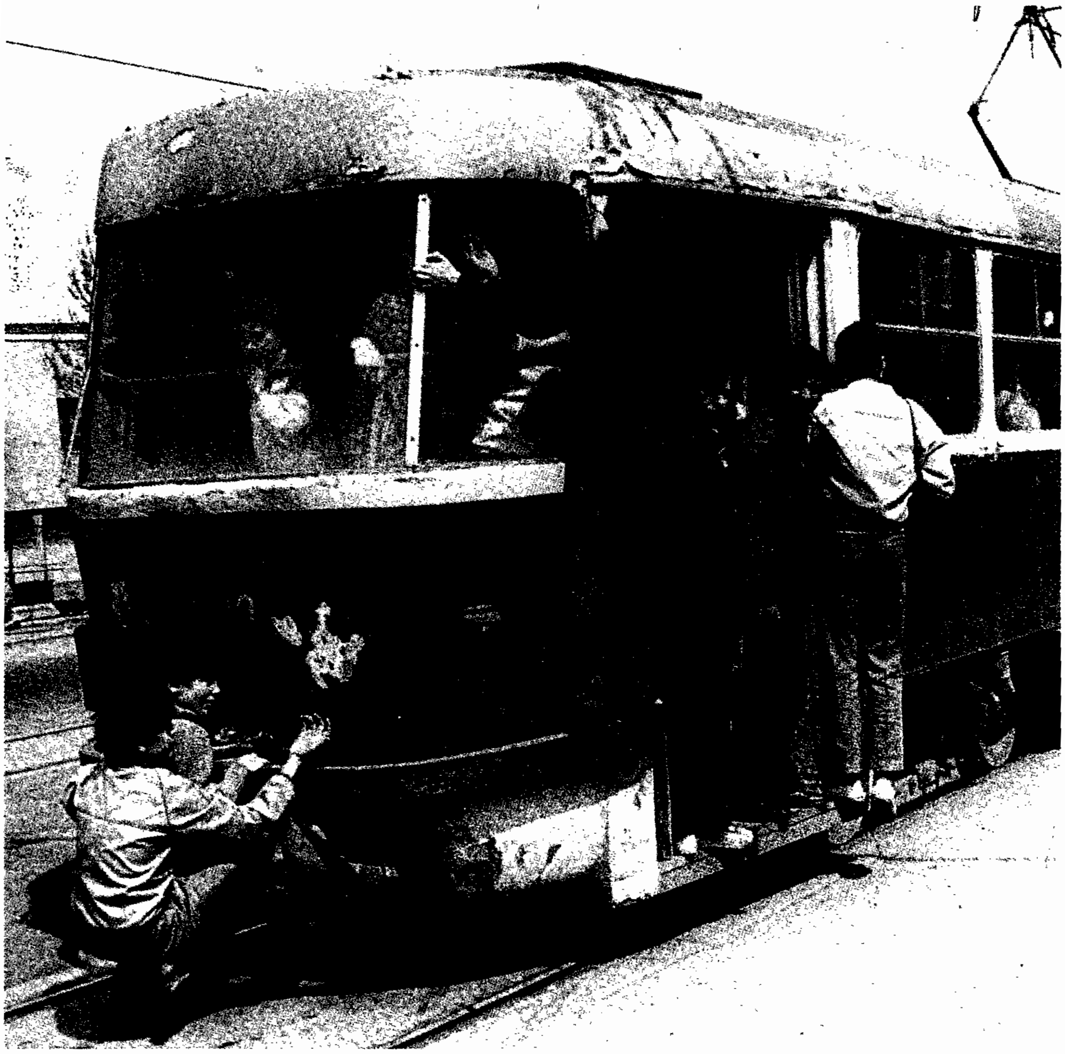
1. *Political Reforms*

Since 1989, political institutions have undergone reforms that were more rapid and radical than those in other institutional areas. Party-State socialism — characterized by a single dominant party which controls all the levers of power, owns almost all of the property and intervenes in nearly every aspect of life — is slowly giving way to pluralistic, parliamentary democracies, normally headed by a president.

Free elections have been held in most central and eastern European countries and have generally brought new political leaders to power, profoundly changing the composition of national parliaments. Especially significant in the current wave of political reform is the move towards political and administrative decentralization, evident in Poland and Czechoslovakia. In countries where federalism was accepted with difficulty, where ethnic or regional minorities were often discriminated against and where a centralized administration was the rule, a policy of decentralization should attenuate the many conflicting pressures and improve public administration, especially with regard to social services.

2. *Economic Reforms*

The economic measures adopted by the various eastern and central European countries are broadly similar and seem to have been inspired by the same economic principles. Nevertheless, differences in initial country conditions, factor endowment, the pace and



pervasiveness of the reforms, as well as their final objectives, give these measures a strong national identity.

The three types of reforms that have been introduced most frequently are macroeconomic stabilization, microeconomic and sectoral restructuring, and privatization.

2.1 *Macroeconomic stabilization*

Macroeconomic stabilization includes measures which tend to bring major economic aggregates into balance through restrictive monetary and fiscal policies, wage control, exchange rate devaluation, liberalization of foreign trade and the increase in real interest rates.

The principal objectives of this kind of policy are to reduce the government budget and balance of payment deficits, to control inflation and to restructure the production system by eliminating inefficient enterprises. With the exception of the Soviet Union and Albania, where the reform process is proceeding at a slower pace, stabilization policies have been introduced in all of the countries in the region. For example:

— In Bulgaria, after a first programme of stabilization introduced in January 1989 proved to be "too little, too late", the pace of reforms was quickened. Mandatory planning and state purchase orders that guided enterprise operation were abolished in early 1990. The Bulgarian leva was drastically devalued in May 1990. The government decided to cut most consumer and producer subsidies and to liberalize all prices (except those of 21 essential commodities) in January 1991. Salary increases have been kept below the rate of inflation which has increased dramatically since 1989 because of subsidy cuts.

— In Czechoslovakia, stabilization policies were introduced in 1990 and reinforced in 1991. The currency has been devalued on several occasions during this period (including 20 per cent in January 1991); consumer subsidies were cut by 50 per cent in 1990; total public expenditure declined by 4 per cent in 1990 and is expected to contract by an additional 17 per cent in 1991, even though the Gross Material Product (GMP) slipped 3 per cent in 1990 and may drop a further 2 per cent in 1991, according to recent studies.

— In Poland, a "shock-therapy-type" stabilization and structural adjustment programme was launched in January 1990. This programme was an extreme version of adjustment programmes calling for the almost simultaneous introduction of drastic cuts in public expenditure, restrictive monetary policies, the cut-back of subsidies, devaluation of currency and the liberalization of currency exchange and foreign trade.

— In Hungary, economic reform has a relatively long history with the first major economic reforms dating back to 1968. However, it was only between 1989 and 1990 that radical stabilization measures were adopted on a nation-wide scale. Domestic prices and foreign trade were rapidly liberalized while the National Bank continued to gradually devalue the florin, a policy it had initiated in the early 1980s. During 1990, producer and consumer subsidies began to be eliminated and the public deficit was reduced.

2.2 *Microeconomic and sectoral restructuring*

No longer propped up by state subsidies, many enterprises could not compete in a market economy. This phenomenon, as well as several other factors, made massive industrial restructuring unavoidable. For instance:

— During the socialist period, production was concentrated in large monopolies, one or two per sector, especially in the heavy industry sector (mining and metallurgy). In Bulgaria in March 1991, the 79 largest monopolies, having failed to respond to liberalization, were dismantled into smaller units in an effort to increase their competitiveness and efficiency.

— Resources were shifted from heavy industry (particularly steel-making, shipbuilding and machinery) to sectors with unsatisfied domestic demand, such as consumer durables.

— Recognizing the need to stop further environmental degradation, governments have closed outmoded factories as part of pollution abatement measures. New political balances of power and an international climate of peace have also led to reductions in industries producing armaments.

— New sectors, which are less energy-intensive and based on innovative technologies, have been created with potential for exports on the world market.

2.3 *Privatization*

A market economy requires a large proportion of privately-owned property to function properly. The privatization of state-owned property, which is thus a fundamental component of the overall reform, is also extremely complex and slow to implement. Political disagreements regarding the transfer of industries and public services to the private sector have delayed the process. One of the aims of privatization is to establish new forms of ownership (private enterprises, cooperatives, joint ventures and foreign companies) which assure economic efficiency and equity in production, avoid 'recycling' the former ruling class and stimulate the development of new managerial skills. The success of privatization also depends on the building of institutional and legal capacities to define the new 'rules of the game' in terms of price formation, bankruptcy, competition, credit, financial markets and so on.

Some first steps in this complicated process have already been taken:

— In Bulgaria, privatization in the tourism sector took place in April 1990, while a major law on the reprivatization of land was only passed by Parliament in February 1991. Privatization of industries and services may start in the second half of 1991, if work on the law is finished and the bill adopted. Financial and capital market reforms are underway, including an anti-trust law.

— In Czechoslovakia, 'small-scale Privatization' was to have started in the autumn of 1990 by the auctioning of state shops, restaurants and other small enterprises and service units. Due to a political stalemate, its implementation was postponed until January 1991. 'Large-scale Privatization' of land and industries has not yet begun, although various options are under consideration (including the transformation of enterprises into joint stock companies whose shares would be sold to all citizens at reduced prices). A Land Restitution Bill, which provides for the return to former owners of all property illegally nationalized between 1948 and 1989, was approved by Parliament in February 1991.

— In Hungary, a three- to five-year privatization process is underway and anti-trust measures are being studied. As in the case of Czechoslovakia, public auctions have been organized to effect the transfer to private ownership of shops, small-scale industries, restaurants, and so on. Mainly because of high interest rates and the lack of private capital, however, only 10 per cent of the property put up for auction was bought by private citizens.

— In Poland, a large-scale privatization of industrial enterprises was started in 1990 with a view to reducing the role of the State in the manufacturing, energy, mining and construction sectors. However, the privatization process has been delayed by the inadequacy of the institutional framework, the scarcity of indigenous venture capital, the lack of a real domestic capital market, the unavailability of credit and the cautious mood of foreign investors.

3. *The Social Reforms*

Coming after 40 years of State monopoly in service provision, the current reforms reflect the spread of neo-liberal views which assign a greater role to market forces and charities in the field of health, education and social insurance. At the same time, the reforms try to reduce the reliance of the individual on the State, and to introduce social policies (such as unemployment benefits and indexation of wages) intrinsic to a well-functioning market economy.

The social reforms underway are also the concrete expression of the popular backlash against State intervention in any sphere of life. As many have noted, 'socialist' is a discredited word, therefore 'social' is also suspect, while even 'public' sounds dubious.

In comparison to political and economic reforms, social reforms have received only marginal attention in ongoing national debates. While radical changes have yet to occur, some identifiable trends have emerged:

— All countries in the region have drastically cut, or are about to withdraw, subsidies on essential consumer goods that have, up until now, acted as indirect wage-supports.

— Wages are no longer set centrally, but are determined through tripartite negotiations between labour unions, the government and the single enterprises. In keeping with this policy, most governments have introduced minimum wages which are calculated in relation to an absolute poverty line and which represented, in 1991, 35 per cent of the average wage in Poland and about 40-45 per cent in Czechoslovakia. Unemployment subsidies (based on last earnings and the minimum wage) have also been introduced.

— All countries in the region have adopted some form of partial indexation of wages, pensions and cash benefits (family and other allowances) to offset price increases. These mechanisms are obviously crucial in a region affected by runaway inflation.

— The system of social security has yet to undergo major changes, even though the actual value of cash benefits (such as pensions and family allowances) has been greatly eroded by inflation. The reforms foreseen during the next two to three years seem to be moving towards a model based on compulsory employment- and income-related social insurance, financed by contributions of employees and employers or, in the case of the self-employed, by voluntary contributions. In this model, the principle of equivalence (benefits according to individual contributions) prevails over the principle of solidarity (equal benefits for all). This new system, administered by an independent insurance fund, will guarantee the payment of old age, invalidity and survival pensions, sick pay, unemployment and, in some cases, maternity benefits.

— There have not yet been major structural changes in public services in the areas of health, education and child care, although central government funding has declined and substantial user-fees have been introduced for school meals, textbooks, medicines and so forth. Legal obstacles to the private provision of services (particularly important in the case of education) have been removed, while, in keeping with decentralization policies, local authorities have been delegated financial and administrative responsibility for delivering an increasing number of these services. It should also be noted that the large companies which, in the past, provided child allowances and health insurance to employees and their families, are cutting back on these benefits to improve their earnings.

— Other reforms envisaged in the health sector include the shift from a National Health Service-type of health system to compulsory employment- and income-related health insurance (similar to the German and Austrian models).

— All countries have introduced social 'safety nets' — a series of measures which aim at ensuring minimum family income (adjusted by family size and structure) in order to prevent families from falling below the absolute poverty line. These measures include the establishment of minimum wages and pension benefits, unemployment compensation and means-tested social-assistance benefits. Religious and private charitable organizations have been encouraged to set up private assistance networks, while many local authorities have opened soup-kitchens and overnight shelters for the homeless.

PROBLEMS ASSOCIATED WITH THE ECONOMIC REFORMS

The reforms currently underway or planned by the ex-socialist nations are extremely ambitious, difficult to implement and without historic precedent. At the same time, it is only through macroeconomic stabilization, privatization and sectoral restructuring that these countries will be able to reverse the socio-economic stagnation or decline which has affected them for the past two decades. While the reforms are inevitable, the problems they leave in their wake may not be. Policy-makers should address, and seek solutions to, these problems in an attempt to avoid the high social costs they threaten to exact. Especially important is the strengthening of existing safety nets to prevent the massive impoverishment of the population.

1. *Conceptual Problems*

Two fundamental problems need to be resolved. First, the measures of macroeconomic stabilization and structural adjustment, which almost all the countries of central and eastern Europe have adopted, continue to be the subject of theoretical debate among experts. Past experience shows that these policies can control inflation and reduce budget and balance of payment deficits, but, except in the rare cases when abundant external resources are made available, at the cost of sharply curtailing investment, growth and welfare. This has held true in the many developing countries which have experienced shock therapies of this sort and is also substantiated by the first analyses of the current eastern and central European situation.

In stabilization policies, macroeconomic balance is achieved by restrictive monetary, fiscal and budgetary policies, and by wage and balance-of-payment controls. The objective is to reduce domestic aggregate demand and, simultaneously, encourage an increase in the supply of tradeable goods while re-establishing a more realistic relationship between prices and scarcities. In situations of this sort — excluding theoretical cases in which all factors are perfectly mobile and substitutable, there are no institutional barriers and enterprises operate under full information — the curtailing of aggregate demand is usually accomplished much faster than supply increases. The down-risks of this approach are:

— the collapse of output, rather than its reduction;

— an under-utilization of capital and labour resources;

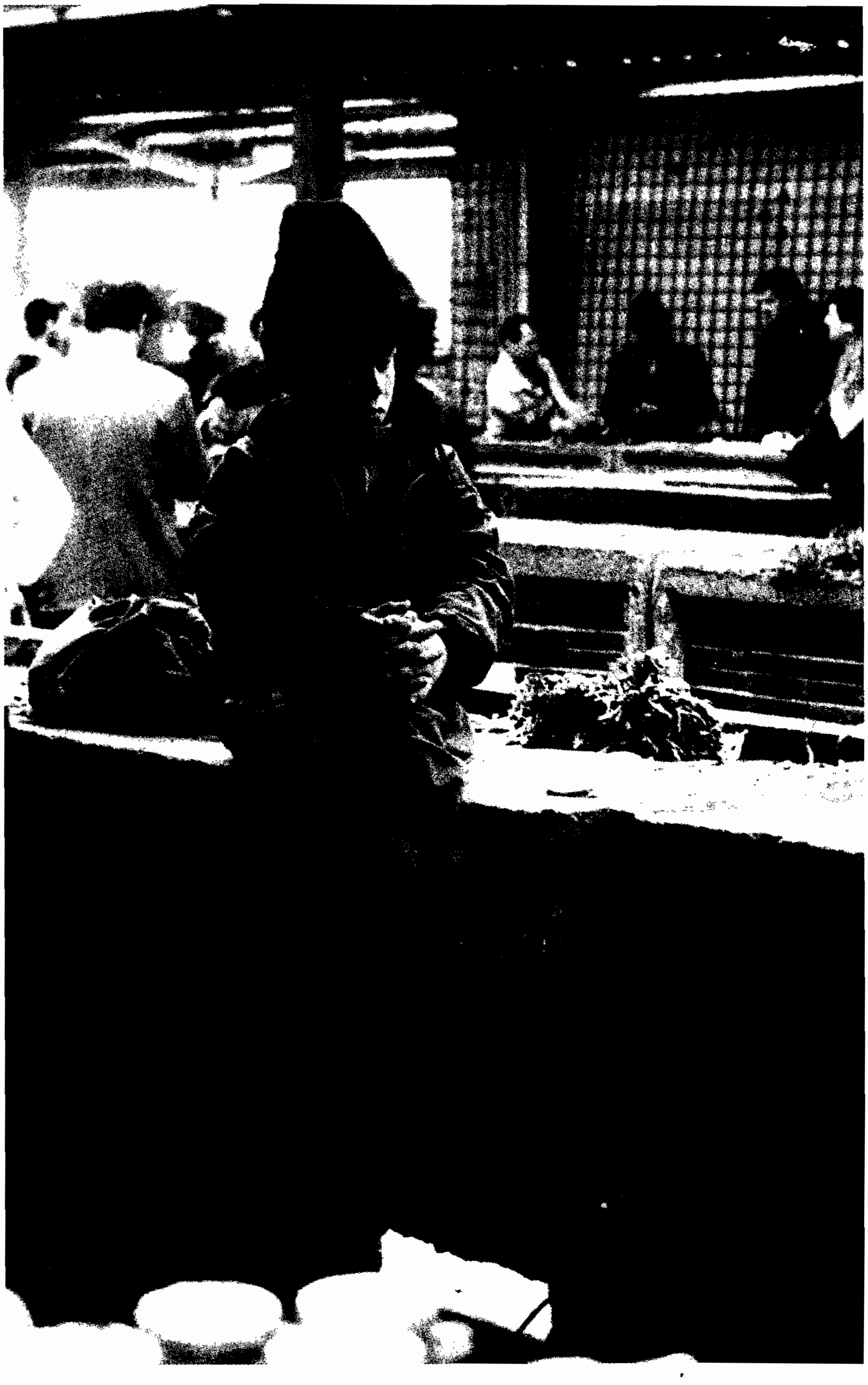
— unnecessary and unforeseen surpluses in the balance of payments;

— excessive contractions in household income and consumption, with a consequent collapse in effective demand.

Unfortunately, the recent experience in the countries under scrutiny replicates the above situation. The most dramatic example is in Poland. The stabilization programme has obtained notable results as far as the macroeconomic balance is concerned:

— Hyperinflation has been curbed.

— The zloty (the local currency) has become convertible and has been maintained at a fixed exchange rate in relation to the dollar.



— Queues have disappeared.

— The budget has been balanced.

— Privatization is underway (though more slowly than expected).

The other side of the coin is that:

— Industrial production declined in 1990 by 25 per cent instead of the predicted 5 per cent.

— GDP fell by 18 per cent instead of the targeted 3.1 per cent.

— The unemployment rate reached 8.1 per cent instead of the 2 to 3 per cent assumed.

— The trade balance recorded in 1990 a surplus of $4.4 billion instead of a projected deficit of $0.8 billion.

— Inflation, which in the second half of 1990 rose at a rate of 4 to 5 per cent monthly, accelerated in January 1991 to 12.7 per cent.

— Due to the recession, production has declined not only in sectors being phased out (such as heavy industry) but also in lead industries.

The situation in Poland (which is repeated in Hungary and Yugoslavia) exemplifies the risks of over-stabilization of the economy, that is, a 'free fall' in economic activity, an increase in unemployment and, in the absence of social safety nets, a measurable decline in the welfare of the population as a whole.

Secondly, there is little consensus among experts on the optimal pace and sequencing of the reforms. Each fledgling democracy is following a different path, sometimes quite empirically. A few commentators maintain that privatization, institutional reforms, stabilization, liberalization of foreign trade and industrial restructuring should be introduced simultaneously. Initial experiences in Hungary, Poland and Yugoslavia, however, provide evidence that this approach may generate dangerous side effects (in terms of inflation, production declines, the creation of monopolies, inefficiency, and so on). Consequently, a growing number of experts sustain that domestic stabilization should come first, followed by the establishment of an appropriate institutional framework and new rules for a market economy (including credit, bankruptcy and so on). Only after these key structural and institutional reforms have been carried out should privatization and trade liberalization be introduced fully.

2. *Implementation Difficulties*

Because of their unprecedented complexity, economic reforms face major difficulties which may slow their implementation.

2.1 *The difficult international situation*

Reforms in the region are being negatively affected by a number of external factors, notably: the recession or stagnation which is hitting most western economies, the increase in petrol prices, the limited availability of foreign venture capital, the uncertainty characterizing capital markets, the instability of prices on international markets and, finally, the dismantling of COMECON which, inter alia, permitted members to receive raw materials and petrol at preferential prices. In this connection, the World Bank estimated in a very recent study (May 1991) that by purchasing petrol at international market prices, Bulgaria will have to spend an additional 12.1 per cent of its GDP; Czechoslovakia, 7 per cent; Hungary, 5.9 per cent; Poland, 5 per cent; and Romania, 0.8 per cent.

2.2 *The lengthy process of institutional reform*

Privatization efforts undertaken in the 1980s by many industrial market economies and developing countries have shown that the numerous steps in this process (such as some industrial restructuring, the evaluation of assets, the flotation and placement of shares, and so on) require considerable time and resources. Even in the United Kingdom, the country which pursued this policy the most actively, only a relatively modest share of state-owned industrial assets was effectively privatized in the 1980s.

Privatization also involves the creation of a new institutional, administrative and legal framework, which is also a lengthy process, as eastern and central European countries are finding out. It takes much longer to make major amendments to the legal system, including the revision or abrogation of existing laws and regulations and the approval of new ones than, for example, to remove subsidies, liberalize prices or devalue exchange rates. The excessive "cooling off" of the economy in the region may, in fact, be the result of the different speeds of these two broad sets of reforms. In other words, an excessive emphasis on radical economic stabilization and price liberalization measures, while the reform of the institutional and legal framework was still in an embryonic state, may have contributed to the disappointing results of economic reforms in the region.

PROBLEMS AND LIMITS TO SOCIAL REFORM

Even if the changes already introduced are relatively limited, the influence of neo-liberal ideology is clear. While neo-liberalism is on the rise everywhere, it is probably more popular in eastern and central Europe than in any other part of the world. The merits of this system are exalted, the sacrifices it demands are considered inevitable (or at any rate bearable) and the possibility of its failure considered highly unlikely. Besides being an obvious reaction to the failure of the socialist model, the spread of neo-liberal thinking can be traced to the implicit association made between political liberty and free markets on the one side, and the privatization of social services on the other.

The current reforms either involve the modification of pre-existent measures or, more frequently, require the introduction of new measures:

— Unemployment benefit schemes of various sorts have been adopted by most eastern and central European nations, even though the subsidies are proportionally less generous and granted for a shorter duration than those offered by western nations. The schemes also tend to exclude large categories, for example, young people seeking their first employment, the self-employed, farmers, and so on.

— Measures to facilitate labour mobility are seriously inadequate, although it is evident that the current restructuring will involve the transfer of hundreds of thousands of workers from one sector to another. There are training and retraining programmes everywhere, but because of uncertainties about future openings, they may appear absolutely irrelevant and attract very little interest. Vocational training, in particular, has to be radically improved and adjusted to new conditions.

— Wages are being established more and more frequently through tripartite negotiations between the state, employers' associations and trade unions. However, wage bargaining is viewed with suspicion not only because of fears of spiralling inflation, but also because salary negotiations are associated with the "old system" and thus politically suspect. Trade unions are still weak and lack legitimization.

— Mechanisms to compensate for price increases have been introduced to differing degrees by all ex-Socialist countries. However, the current methods of indexation (not automatic, infrequent, carried out on an *ex-post* basis) are not capable of guaranteeing the purchasing power of households in periods of high inflation. Only Poland and Bulgaria have established automatic adjustments *ex-ante*, carried out every three months and based on the average rate of inflation projected over the period chosen. Even in this case, while minimum wages were adjusted upwards in line with the increased cost of a minimum subsistence basket of goods and services, the indexation of other wages was only 60/70 per cent.

— Health, education and welfare services, as already noted, have not yet been the subject of reforms, but the tendency is to opt for a greater privatization of these services. Moreover, the austerity policies and the new role attributed to the free market have led to substantial cuts in public spending in these sectors.

— Social security policies and benefits currently being considered may, according to experts, result in a weakening of social solidarity and the exclusion of individuals considered ineligible for one reason or another (the unemployed, farm workers, those unable to pay voluntary contributions, for instance). If these predictions hold true, the income of some social groups could fall below the absolute poverty line.

To avoid this problem, some countries, such as Czechoslovakia, are exploring the possibility of creating a three-tiered system of social security. Under this new system, the state would guarantee the first component, namely, universal minimum pensions, child allowances and other social minimums. The second component would be represented by compulsory employment-related insurance, the benefits of which are determined by wage level, the premium paid and the number of years of employment. The third component would be formed by compulsory insurance, paid for by enterprises where continuous exposure to health risks occurs or by additional voluntary private insurance.

— Social assistance (which would comprise central and local governments, the church and private agencies) will take care of people who are ineligible for obligatory social insurance (the disabled, homeless, unemployed, and so on) in countries where universal social assistance has not been introduced (for example, in Poland). Social assistance will provide means-tested benefits and personal support to people with incomes below the poverty line.

This solution, which is attractive from a theoretical point of view, is difficult to implement for several reasons:

a) There are substantial administrative costs involved in providing means-tested social assistance benefits on a major scale.

b) There is a risk of reaching only a portion of the poor because of the stigma associated with a close inspection of their family's finances. In the United Kingdom, for instance, it has been estimated that, in 1983-84, little more than half of those entitled to means-tested assistance, payable to employed family heads on low income, claimed their entitlement.

c) The system engenders work disincentives, since an increase in income (above the line of poverty) results in the loss of the means-tested benefit.

d) Targeted subsidies are pointless and too costly to administer when a large proportion of the total population is eligible for them — for example, in situations where the majority of families with three or more children, a significant number of families with two children, and even many families with only one child, would be entitled to child allowances.

In the case of child allowances, the change from a system of universal to targeted subsidies is further complicated by the negative effects this would have on the income of most families. In central and eastern Europe, child and family allowances represent around 15-25 per cent of average one-earner household income (as opposed to a 1985 average of 7.5 per cent in OECD countries. See *Table 4*).

TABLE 4 - *Family allowances as a percentage of average wages in manufacturing for families in selected countries, 1985 (Basic System Only).*

	Two Children	Four Children
Czechoslovakia	22.6	59.7
Hungary	16.8	39.5
United States	0.0 [1]	0.0
Germany	4.3	14.2 (or more)
Sweden	9.4	25.9
France	9.5	64.3
Greece	5.1	13.1

Source: Gordon (1988), Table 13.1.
Note: [1] In the United States, in 1985, there was no universal child allowance.

When considering the shift from a universal to a targeted benefit system, the countries in the region should bear in mind two recommendations. First, they should carry out cost/benefit analyses to determine the feasibility of such a shift (especially with regard to child allowances, but also in the case of other subsidies in cash or kind). Secondly, if a country does choose to eliminate or reduce child allowances, it should compensate this by broadly commensurate increases in wage levels.

— Reforms in the region have been severely curtailed because of severe budgetary constraints. Reductions in public social expenditures have been caused both by the fiscal crisis and trends which favour a reduced role of the State, even in the social area. The need to achieve fiscal balance and reduce the role of the government in the economy, and the difficulties caused by a decreasing and uncertain tax revenue (as the tax reform has not yet been finalized) are some of the elements which have forced eastern and central European countries to undertake difficult budgetary juggling. However, whatever the obstacles, macroeconomic balance should not be achieved by reducing expenditures on health, education, and child and social welfare.

THE SOCIAL COSTS OF THE TRANSITION

In the short period of time since the beginning of the democratization process, the growing difficulties encountered by the economic reforms and the relatively modest extension of 'safety nets' have already caused considerable social costs. It must be stressed, however, that it is not always easy to distinguish between problems inherited from the socialist regimes and those caused by the current reform programmes. Some of the social costs that are emerging now are possibly (and sometimes obviously) the results of problems accumulated during the past 20 years. However, there is no doubt that, had more than just token attention been paid to the social impact of the actual reforms, the impoverishment now afflicting large strata of the population could have been avoided.

1. *The Erosion of the Resource Base of Families*

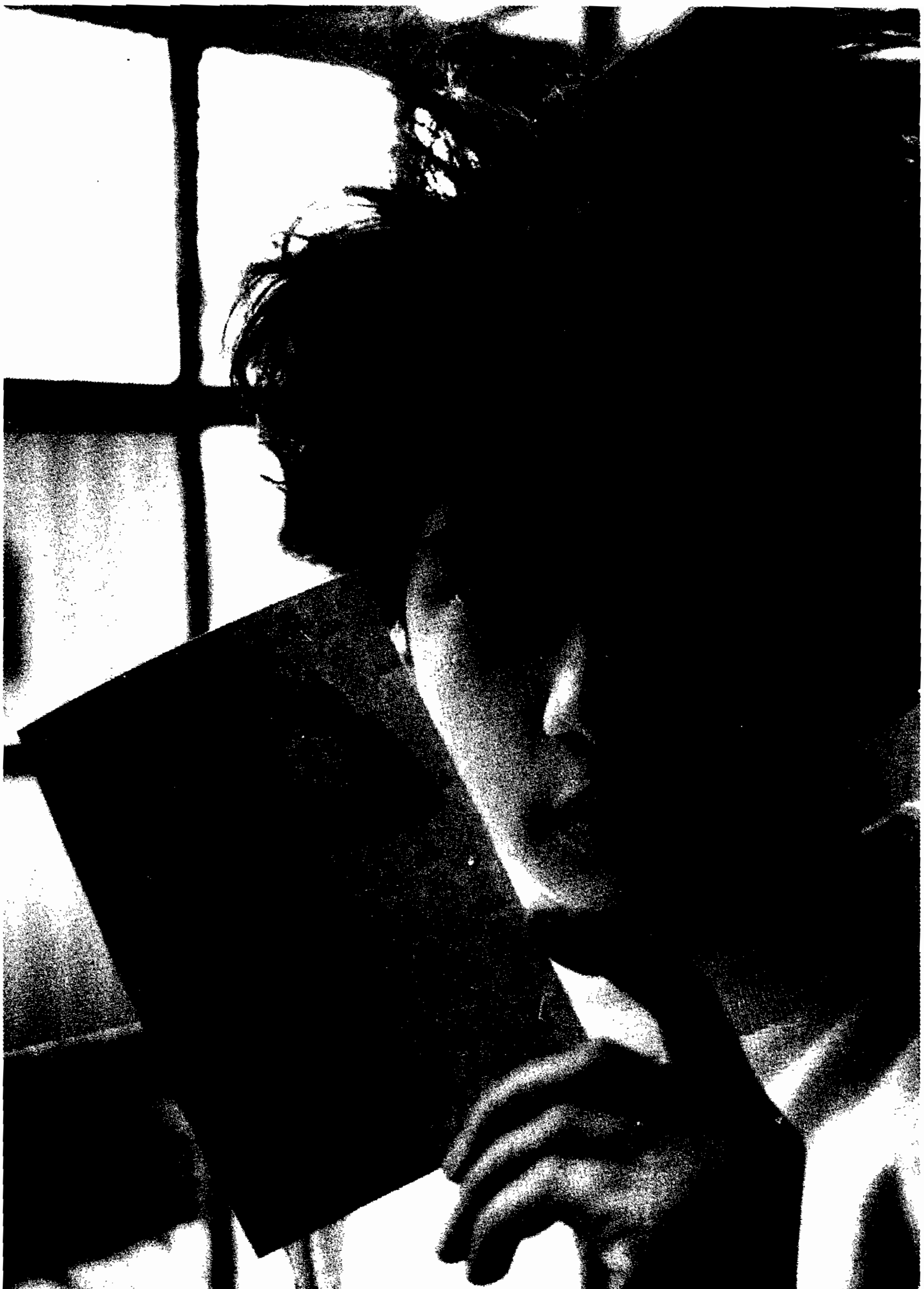
Some of the factors responsible for the decline in the standard of living of the population as a whole and, in particular, of individuals or families who lived near or below the absolute poverty line prior to the reform are:

1.1 *The drop in real household income and savings*

The average decline in real household income and savings, recorded in all countries of the region in 1990, is unprecedented in post-World War II Europe and is uncommon even in developing countries. The immediate and principal causes of these losses can be traced to the rise of unemployment and the inability of the existing compensatory mechanisms to protect family incomes from the debilitating effects of inflation. In this connection, it should be noted that:

— Open unemployment, unknown in central and eastern Europe until a short while ago, is rapidly (and, for the most part, inevitably) increasing. Underlying this phenomenon are: the introduction of criteria of efficiency in the management of enterprises; the privatization of state enterprises; the restructuring and the change of strategic direction in the industrial, mining and energy sectors; and the difficulties that young people encounter finding first employment.

The number of people officially unemployed in Poland reached 1.4 million, or 8-10 per cent of the labour force, in December 1990. By the end of 1991, this figure is expected to increase to 2 million. In Hungary, the unemployed increased tenfold from late 1989 to May 1991, from 15,000 to 150,000, equal to 3 per cent of the labour force. In Czechoslovakia, the unemployed increased from 20,000 at the end of June 1990 to 80,000 in February 1991, while the forecast is 200,000 unemployed by mid-1991 and about 500,000 unemployed by the end of 1992. A situation which is both paradoxical and symbolic occurred in Bulgaria where, between December 1990 and March 1991, approximately 600,000 people (15 percent of the



labour force) withdrew from the labour force, for the most part on early retirement. In the former East Germany, where the restructuring process is proceeding very quickly, one out of two people is unemployed or under-employed.

The closure of inefficient or pollution-causing factories inherited from the socialist regimes, while necessary and desirable from many points of view, has to be counterbalanced by social programmes that generate the transfer of manpower towards new sectors. In the absence of such programmes, it will be impossible to avoid the uncontrolled growth of unemployment and high social costs. To facilitate manpower redeployment, jobs in new sectors must be created, technical training courses offered and adequate compensatory mechanisms set up.

But, up until now, these urgently needed measures have not been taken. The number of new jobs is growing slowly (due to the decline in domestic investment and the wait-and-see attitude of potential foreign investors); the number of training and retraining courses remains insufficient; and unemployment subsidies — which offer too little to too few — are unable to carry out their traditional role of social "shock absorbers". First entrants in the labour market, workers near pension age and unskilled workers are the ones most affected.

— Social "shock absorbers" are also unable to halt the decline in household purchasing power. In Poland during the first nine months of 1990, average family income declined 27 per cent, while in Czechoslovakia, the GDP per capita slipped 3 per cent in 1990 and is expected to drop a further 2 per cent in 1991. The most pronounced declines in real family income were verified in Romania, Yugoslavia and the Soviet Union. In Bulgaria, because of the harsher measures of stabilization adopted in February 1991, which caused increases in the price of bread, milk and milk products, the real family income dropped 50 per cent compared to the preceding year, despite an ad hoc salary compensation equivalent to 70 per cent of the price increases. The combined effect of the above factors also produced an unprecedented decrease in family savings. For example, in less than one year, savings in Poland decreased to one fourth of the previous year's real value.

1.2 *Erosion in the value of social transfers to families*

During the socialist regime, data concerning family poverty were not systematically collected. Nevertheless, reliable sources estimate that the number of poor as a percentage of the total population was 14 per cent in Hungary, 20-25 per cent in Poland and Yugoslavia, and between 18 and 32 per cent in the Soviet Union. Furthermore, a large portion of the population hovered only slightly above the poverty line. This included, in particular, pensioners (especially if their pension was their only income), large families, single-income households and other families 'at risk'. For these groups, social transfers represented between 30 to 50 per cent of their total income.

Prior to the reforms, social transfers constituted between 48 and 72 per cent of the incomes of the bottom 20 per cent of the population in Hungary, while, for families with more than two children, social transfers represented, on an average, 40 per cent of the family income. During the first four months of 1991, the total cost for social transfers declined more than 10 per cent in real terms, causing notable problems to these social groups.

In 1990, social transfers in Bulgaria declined by 37 per cent; in Poland, the decrease was 11 per cent; while in Czechoslovakia, the country in the region with the most cautious reform programme, the transfers declined by between 6-7 per cent.

1.3 *The decline in public spending for health, education, child welfare and other social services*

Macroeconomic stabilization involving harsher fiscal policies has led to substantial cuts in public spending. This tendency has been further aggravated by the decline in tax revenue which, for various reasons and to different degrees, has been typical of all central and east European countries.

Public expenditure on social services has also been affected by this process. In Czechoslovakia, in 1990, public expenditures for education declined by 10 per cent and spending for sports, housing and the environment, by 35 per cent. As a result, the cost to families of text books and school meals has increased notably. Further cuts in the public financing of health and education (20 per cent and 10 per cent, respectively) are foreseen for 1991. In Hungary, the government has based its 1991 budget on an expected rate of inflation of 16 per cent, while even the most cautious estimates place inflation in the area of 35-40 per cent. If these forecasts are correct, most of the social services will be crippled by the lack of adequate financing. Cuts in government spending for child welfare have forced local administrations in Poland to increase enrollment fees and charges for school meals in both nurseries and kindergartens. In 1990, a family with two pre-school-age children spent the equivalent of 15 to 20 per cent of its monthly income on school meals alone.

1.4 *The effects of variations in relative prices*

The liberalization of prices and the removal of consumer subsidies on essential goods have changed the structure of relative prices to the detriment of the most vulnerable social groups. The prices of basic goods and services are, in fact, increasing more rapidly than prices of non-essential goods. In other words, the relation between, say, the price of a television and that of a litre of milk is more unfavourable than in the past, which means that you need fewer litres of milk to 'buy' a television. This trend could contribute to a further reduction in the consumption of essential basic goods. For instance, because of the liberalization of the price of paper, the price of books (including textbooks) has risen substantially. In Poland in 1990, the annual cost of buying school books was equivalent to one month's average salary.

Therefore, besides having psychological effects (a poverty-stricken person would be even more aware of his or her own poverty than before) and despite the low price elasticity of the demand for food, the contraction in food consumption could be greater than what the fall of real income would lead one to believe.

2. *Initial Indications of Child Welfare*

The decrease in real incomes, the change in relative prices, the erosion of cash transfers

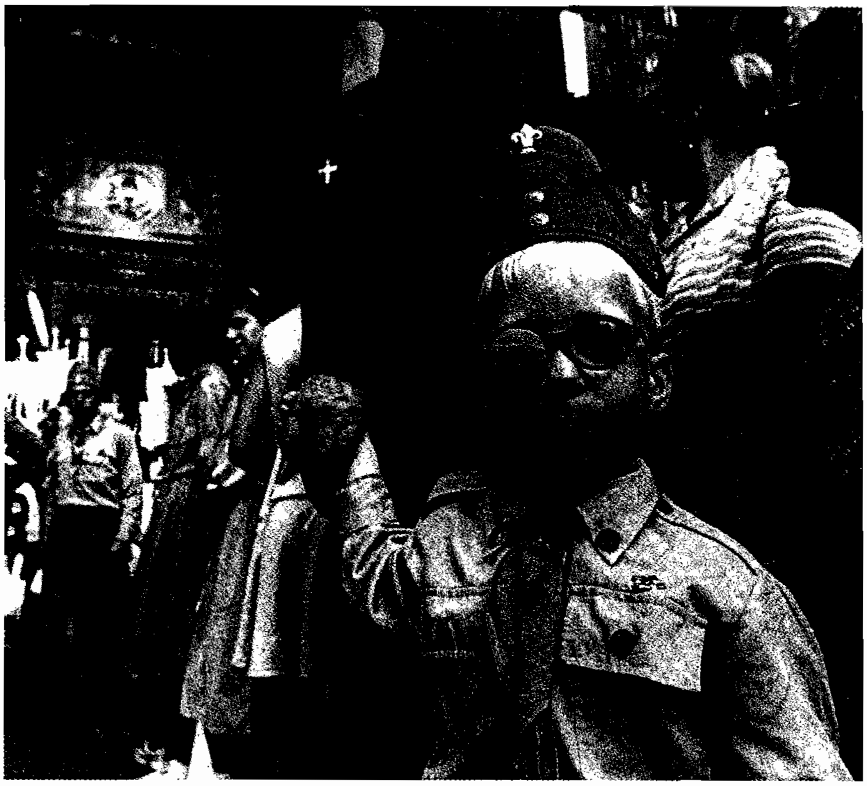
to families and the decline in real government spending on health and education have had a noticeable negative effect on the welfare of the populations of the countries of central and eastern Europe. Even if the situation has not yet reached emergency proportions, there are already clear indications that social conditions are worsening — at times drastically — in all of the countries in the region. While data permitting a thorough evaluation of the phenomenon are not yet available, the following "warning signs" can already be recorded:

— Since 1989, the number of children who live in poor families has increased throughout the region. In Poland, a survey of household income shows that poverty is increasing constantly, affecting, in the first nine months of 1990, about 40 per cent of the population. The elderly, families with three or more children, and single-parent families have the highest incidence of poverty. No signs of a significant inversion in this tendency were apparent during the first six months of 1991. In the Soviet Union, spiralling inflation (in May 1991, estimated at between 70 per cent and 150 per cent and compensated only marginally by wage increases) plunged a growing proportion of the population below the poverty threshold. According to some estimates, no less than 40 per cent of the Soviet population is forced to subsist on insufficient incomes. Even in Czechoslovakia, the country in eastern Europe with the most extensive welfare system and the lowest incidence of poverty, it is estimated that, by the end of 1991, the number of poor children will be three to four times higher than it was at the beginning of the year.

— The percentage of family income spent on food is increasing at an alarming rate. In Poland, families of workers and pensioners spend, on average, 50 and 60 per cent, respectively, of their income on food. In the West, the allocation of 35-40 percent of family income for food is considered a sign of poverty. The consumption of bread, milk and other basic food has decreased in Hungary, Poland, Bulgaria, Yugoslavia and the Soviet Union because of the declines in family income (e.g., by 30 per cent in Poland), and, at times, as a result of hoarding of food stocks.

— In Poland and Hungary, soup-kitchens and shelters for the homeless, run by religious and private charitable organizations, have been established, but are unable to meet current needs.

— The increase in charges for school meals and enrollment fees has forced many families to withdraw their children from nursery schools, leaving empty places in classrooms for the first time in many years. Many nursery schools have been closed or converted to other uses. The majority of nursery schools run by industries have been closed for lack of funds. In Poland, the number of applications to kindergartens has declined from more than a million in May 1990 to 880,000 in May 1991. The drop is even sharper if compared to data from 1989. According to a recent report from Lodz, one of the most densely populated Polish cities, out of 210 nursery schools registered in 1989/90, only 100 are still open in 1991. During the same



period, the unemployment rate among nursery- and grade-school teachers in Hungary rose notably.

— Throughout the region, summer camps, which during the socialist regimes were organized and financed by youth organizations, serve a declining number of children. This will have long-term effects on the health of children living in highly polluted cities in the area. In Hungary and Romania, some summer camps have remained completely empty, while in Poland and Yugoslavia, fewer children attended camps.

— Imported medicines — which were never sufficient under the socialist regime — are more difficult to purchase now. In Hungary, there was a scarcity of medicines during the first quarter of 1991; in Poland, in 1990, it was difficult to find insulin and, often, even syringes. In Bulgaria, formula milk for allergic babies is scarce and the only factory producing it is on the verge of closing owing to technical problems. Because of the lack of equipment, operating rooms have had to be closed.

— The housing situation is deteriorating noticeably in many countries in the region because private contractors have not yet taken up the activities relinquished by the government. Moreover, there have been increases in interest rates on mortgages, rents and the cost of utilities (water, electricity, gas and so on). Furthermore, the sale of state-owned property (which is necessary to cover the maintenance costs on public buildings for which there is no longer a budget allocation) has led to the eviction of a small, but growing, number of families. The visible, even though modest, increase in the homeless, particularly in Hungary and in the Soviet Union (where the phenomenon is wide-spread and its origins go back further in history) attests to the precariousness of the housing situation.

SOCIAL POLICIES AIMED AT PREVENTING FURTHER POPULATION IMPOVERISHMENT

1. *Western Welfare State Models and their Possible Relevance in Central and Eastern European Countries*

The social reforms underway in virtually all of the countries in central and eastern Europe seem to draw inspiration from the capitalist model. However, it would be extremely difficult to isolate one welfare state model on which ex-Socialist countries could base their future social policies. Indeed, there is no such thing as a "typical" welfare state. Rather, there are various models each quite different from the other. Moreover, each particular form of welfare state involves widely diverse degrees of public expenditure, while producing different results in terms of economic efficiency and impact on the poor.

The different Welfare State models make use of policy instruments which are basically the same, even if their relative importance varies considerably from one model to another. The main social policy instruments are:

a) Social insurance benefits (for example, sick pay and disability benefits, old age and survivor pensions, and so on) which are based on an individual's previous employment history and financed from the combined contributions of dependent workers, employers and the State.

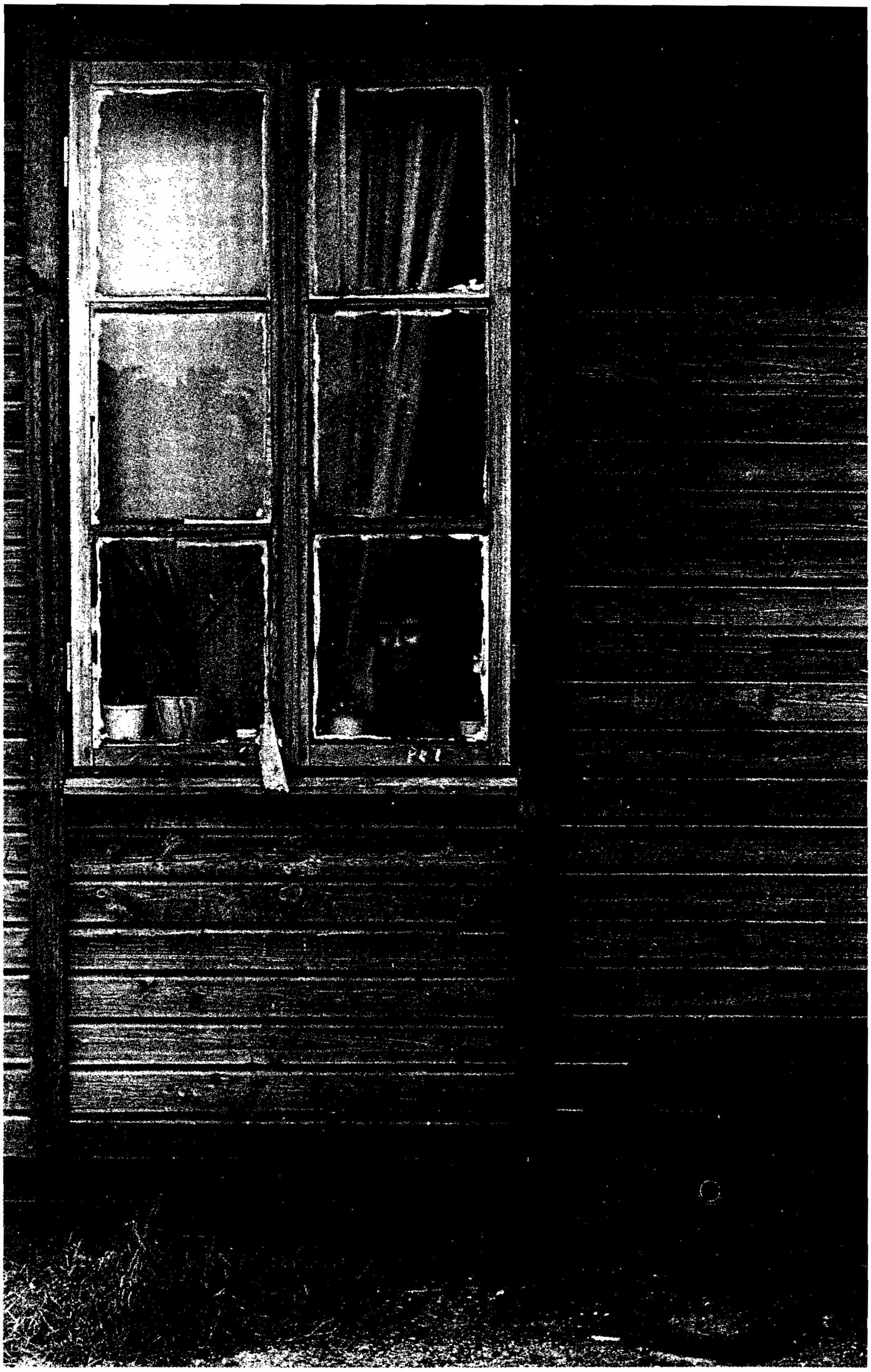
b) Social transfers financed by public revenues which can be (1) targeted or means-tested benefits paid to individuals on the basis of their income and needs (see above) and (2) universal benefits made available to people independent of their employment record or income. These transfers can be in cash, such as family allowance, or in kind, as with the provision of 'free' health care.

c) tax reductions of various types (for dependents, for example), which can increase the post-tax income of some types of families;

d) private sector provisions, including individual insurance contracts (such as life insurance or private health plans) and group and occupational insurance plans (such as company health plans and occupational pensions). These private sector arrangements supplement state or insurance benefits. Tax systems often encourage private sector provision by granting tax relief to private health and pension contributions. Since this is, in effect, a subsidy, it is usually labeled a 'tax expenditure'. A wide-spread use of tax expenditures is usually indicative of a government's intention to become less directly involved in social security provision.

A comparison of three very different Welfare State models (see below) will illustrate some of the options available to ex-Socialist countries: the Modern Liberal model in the United States; the Social Democratic model in Sweden and the Modern Conservative model in West Germany (see *Table 5*).

The Swedish Model is characterized by universalism, egalitarianism, comprehensiveness and an active commitment to full, if not maximum employment, including employment supports such as professional training, direct job creation, and government employment



agencies. Citizenship constitutes the criterion of eligibility for various benefits (which are for the most part universal) and social solidarity is the principle on which distribution is based.

The United States Model includes a limited core of social security (lacking health care, sickness and family programmes), coupled with an emphasis on means-tested targeted benefits to the poor (e.g., Medicaid and Aid to Families with Dependent Children (AFDC). There is a strong reliance on private market provision (for health care, pensions, and health insurance) as well as substantial tax expenditures. In the United States, it is mainly need or ability to pay that constitutes the criterion of eligibility; targeting and market position, the criteria of distribution. The U.S. approach to active labour market measures has been very limited.

TABLE 5 - *Principal characteristics of three Welfare State models.*

	Modern liberal (United States)	Conservative (Germany)	Social democratic (Sweden)
Basis of right	need/work	work	citizenship
Distribution principle	targeting	occupation/ status	universalism
Organization principle	assistance/ insurance	social insurance insurance	citizen guarantee and insurance
Role of market	major	limited	minor
Role of means-test	major	limited	minor
Commitment to services	limited	limited	major
Commitment to full employment	limited	limited	major
Re-distribution	limited	medium	high
Poverty	high	moderate	low

Source: Esping-Andersen and Micklewright (1991) in Cornia and Sipos, Avebury (1991).

The German Model is based on a compulsory social insurance system and, as a result, tends towards dualism in the treatment of active and inactive participants in the labour force. Entitlement for unemployment insurance depends on past employment. For individuals without unemployment insurance (60 per cent of the unemployed in December 1988), there is a means-tested safety net or *Sozialhilfe* (social assistance). Unlike Sweden, Germany relies on both early retirement schemes and social transfers to cope with increasing unemployment.

The above considerations are merely descriptive and do not attempt to draw conclusions about the cost, efficiency and effectiveness of the three models. The cost of social programmes (in relation to the GDP), which can serve as an approximation of the cost of the welfare state concerned, varies significantly (see Table 6). In 1983, one third of the Swedish GDP, one fourth of the German GDP and only about one seventh of the U.S. GDP was spent on social programmes.

TABLE 6 - *Social security expenditure as a percentage of GDP.*

	1960	1970	1980	1983
Sweden	10.9	18.8	32.0	33.3
West Germany	15.4	17.0	23.8	24.3
United States	6.8	9.6	12.7	13.8

Source: ILO, *The Cost of Social Security*, Table 2, 1985 (figures for 1960-80), 1988 (1983). Social security expenditure taken to include medical care, sickness, invalidity, employment injury, unemployment, old-age and survivors, family, and maternity benefits, and public assistance.

Even if symptomatic from many points of view, these data should be adjusted for differences in age structure. Private expenditure must be added to public expenditure in all sectors. A realignment of this sort shows that the social expenditure (above all, for pensions and health) as a percentage of GDP is actually not so dissimilar in the three different models. In other words, despite differences in the welfare system of the three countries, the total (public and private) social expenditure does not vary significantly. On the other hand, differences in each model's impact on poverty are quite significant (see *Table 7*). Table 7 shows the proportion of persons living in families in poverty in the United States, Sweden and West Germany *after* social security transfers have been effected.

TABLE 7 - *The extent of absolute poverty (percentage of people in poor families).*

	Children	Adults	Elderly	Overall
Sweden (1981)	5.1	6.7	2.1	5.6
West Germay (1981)	8.2	6.5	15.4	8.3
United States (1979)	17.1	10.1	16.1	12.7

Source: Smeeding, *et al.*, (1988).

As can be seen, despite similar levels of GDP per capita, the incidence of absolute poverty varies notably among the three countries for all age groups involved. Moreover, the three welfare state systems not only have different ways of responding to the problems of poverty as a whole, but their abilities to protect the more vulnerable social groups, such as children and the elderly, vary significantly. In the United States, for instance, while one adult in ten lives in a poor family, every sixth child or elderly person (for whom social transfers are of fundamental importance) is poor. In Sweden, in contrast, the elderly are favoured by the system.

2. *Constraints to the introduction of western-style social policies in central and eastern Europe*

The above discussion of welfare state models underscores a number of factors which should be taken into account by central and eastern European countries when choosing their social policies. As a basic premise, it should be stated that the choice of one welfare model over another depends on the conditions in each country: the composition of its labour force, its demographic profile, its level of economic development, its culture and its political will.

It is also important to recognize the very significant differences between the economies of the welfare state models examined and those in central and eastern Europe. For instance, per capita GDP in the eastern European countries (including the Soviet Union) was estimated, in

1990, to be little more than a quarter of GDP in market economies. In addition, the employment structure in the welfare state models differs significantly from that found in the East. Employment in agriculture in Sweden, the United States and Germany is less than 5 per cent of the population, compared with a share which ranges in the eastern region as a whole from 12 per cent, in Czechoslovakia, to 30 per cent, in Romania. The demographic structures also differ significantly. It is estimated that by the year 2025, in the East, the elderly will represent over 16.6 per cent of the population as compared to 19.1 per cent in the European Economic Community.

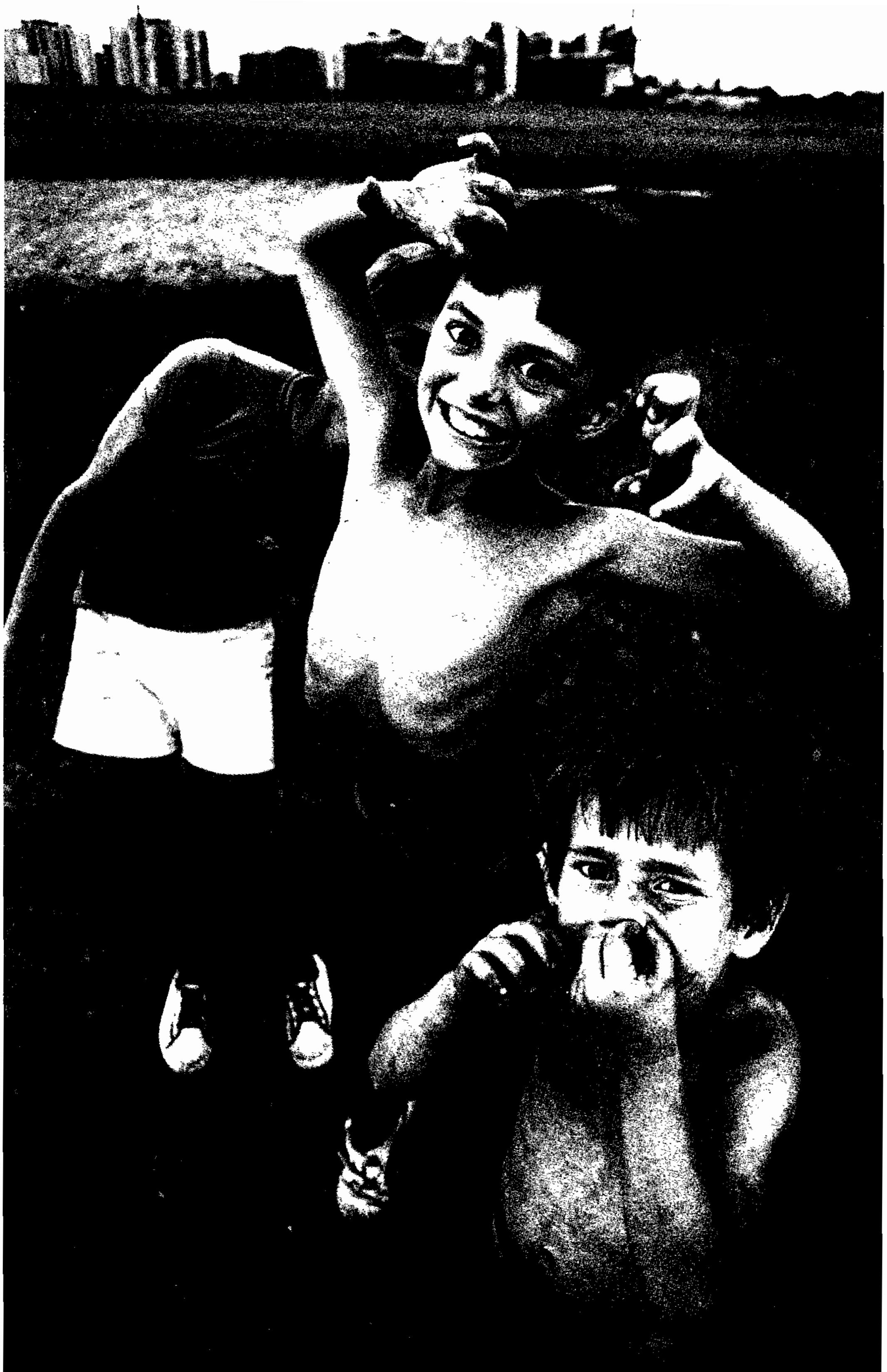
Besides these structural differences, the new democracies must also consider more general budgetary, administrative, political and economic issues when deciding on the relative merits of one or another model. One of the most serious constraints is the rigorous fiscal policy aiming at a balanced budget adopted by these countries.

There is also a need to reduce government intervention in some sectors and to complete the process of democratization, including the very difficult task of decentralization and the related reconstruction of local government bodies. Finally, economic policies must be redirected, a process which involves a series of choices with evident social implications, such as the elimination of consumer subsidies, the tax reform, privatization, and so on.

3. *Measures at the national level*

As has been noted, the economic reforms have proved to be more difficult to implement and to cause greater social costs than foreseen. The major problem facing the new democracies is the substantial impoverishment of large sections of society, with a growing number of people just hovering above, or already fallen below, the absolute poverty line. The most vulnerable groups — the homeless, the unemployed, youth in search of first employment, the elderly and families with three or more children — are the most seriously affected. To deal with these rising social costs, safety nets have been put into place, but, because of underfunding and their limited extent, they are seriously inadequate, both politically and economically, in the present circumstances. This does not mean that the current economic and political reforms are anything less than desirable and essential. They are, in fact, fundamental, because, without them, the countries in the region would remain prisoners of the economic, social and political decline which began about 20 years ago.

Nevertheless, the high social cost of these reforms can endanger the entire transition process, rip apart the social fabric and undermine the popular consensus on which these new, and still weak, democracies are based. The strengthening of social policies is, therefore, not only an ethical and moral imperative, but also a useful intervention for ensuring political stability. Moreover, experience in many western countries shows that investments in human capital stimulate microeconomic efficiency and overall growth. There are thus purely econo-



mic reasons for more vigorous policy action in the field of distributive issues, social policy and safety nets.

3.1 *Income Maintenance*

In order to ensure a minimum (though adequate) income to all families, adjusted by size and structure, the following measures would need to be implemented:

— Current salaries, pensions and unemployment benefits should be increased to more realistic levels and in line with changes in absolute and relative prices.

— More active labour market policies should be adopted, including greater emphasis on retraining and ensuring labour mobility from declining industries to new ones. Specific measures are required for youth in search of first-time employment, for the unskilled and the long-term unemployed. Public works and apprenticeship programmes, remunerated at around the minimum wage level, could be a viable means of assisting these groups.

— Universal child and family benefits should be retained and extended to children of parents who are unemployed or not part of the labour force. To avoid the use of transfers in unintended ways, part of these benefits could be issued in the form of vouchers (food stamps, for instance), valid for the purchase of food, children's clothing and other necessities and redeemable in private or public stores.

— Targeted transfers should be provided for individuals or groups of people who have no means of support and are not entitled to other provisions. The effectiveness of targeting would be greatly enhanced if it were carried out according to objective criteria, such as geography (the poorest regions) or easily identifiable population groups (pregnant women or small children). As mentioned previously, there is clear evidence that targeting by means-testing should be avoided to the extent possible because of its cost and stigmatizing effect.

3.2 *Indexation*

As already noted, the current indexation mechanisms are inadequate because they compensate for price increases only partially, and with notable delays. As a result, household income has been excessively eroded, thus making *ad hoc* additional payments necessary.

A more appropriate indexation would require automatic adjustments carried out periodically and *ex-ante*, and equivalent to 80 per cent of the average rate of projected inflation. Family benefits for groups at risk, such as large or single-parent families, or pensioners on minimum benefits, should be fully indexed.

3.3 *Direct Provision of Essential Services*

Free access to health, education and child welfare services should be retained in all countries, although nominal fees, equal to 5-10 per cent of the actual costs of services at the most, could be introduced to improve efficiency.

At least during the initial years of the transition to a market economy, public policy may have to include measures for the free provision of school meals (including in kindergartens). Providing milk and meals at schools is a highly efficient and cost-effective way of ensuring that standards of nutrition and child growth are maintained.

Measures are also necessary in the housing sector in order to avoid the further spread of homelessness. As an emergency step, abandoned public buildings or vacated barracks could be converted into shelters for the homeless. Measures should also be taken to safeguard the

rights of low-income groups, particularly large families, pensioners and health impaired persons, to remain in the flats or houses they occupy at rent-controlled prices.

3.4 *Monitoring child welfare during the transition*

Appropriate mechanisms should be set up to monitor the development of social policy and to assess the comparative efficiency of alternative social policies. More importantly, simple and timely mechanisms are required to monitor changes in the well-being of children and other vulnerable groups during this transition period.

It would be useful to include in such a monitoring system not only information on income, prices, benefits and demographic characteristics of the populations, but also data on effective access to health, child-care, education and housing, on a population-wide basis as well as focused specifically on vulnerable groups. Each monitoring system should be suited to the particular social situation in which it operates and keep under surveillance the pressing problems each country must seek to resolve (for example, homelessness in Hungary, the drop in preschool enrollment in Poland, the deterioration in the health sector in Bulgaria). Results of monitoring, possibly in the form of a simple 'social monitoring report' should be submitted regularly to the government and to the public at large.

4. *The support of the international community*

The transformation in progress in central and eastern Europe is one of the major events of the second half of this century. Its repercussions on international relations will be enormous. The international community has already accorded political recognition and initial economic assistance to these new governments.

The difficulties encountered by the current reform programmes, and the increasingly alarming reports of their high social costs, cannot be ignored by the international community. There are, at present, five areas in which the international community's support is envisaged: the reduction of the cost of international debt; direct investments; new loans; access to western markets; and the creation of an infrastructure favouring East-West trade. International support in these sectors will certainly facilitate the success of social reform programmes.

The international community should also make additional efforts to sustain social policies, food aid and safety nets. These measures, as already discussed, can guarantee public support of the reform programmes; favour the long-term development of the human capital needed for economic growth; and moderate East-West migrations caused by the social, political and economic tensions in the central and eastern European countries. Apart from a number of initial interventions, international aid to social sector activities has been limited. The international community — and especially the EEC, the World Bank, and to a much lesser degree UNICEF and other UN agencies — has already given some assistance to safety nets. Their continued support is especially needed to provide additional technical and financial assistance and social know-how to the countries in the region who request assistance. Finally, the West can intervene by an intelligent regulation of the migrations expected from central and eastern Europe and by assuring the smooth integration of new immigrants.

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