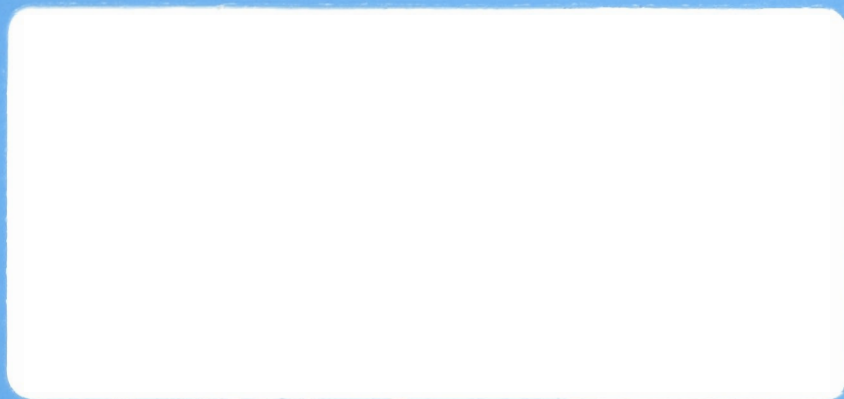




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**SPECIAL SUBSERIES
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**THE WINDING ROAD TO THE MARKET:
TRANSITION AND
THE SITUATION OF CHILDREN IN BULGARIA**

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CONTENTS

EXECUTIVE SUMMARY	v
I. THE WELFARE IMPACT OF RECENT ECONOMIC DEVELOPMENTS	1
II. THE NARROW FRAMEWORK OF FISCAL POLICY	3
III. PRICES AND WAGES: THE FAILURE OF LIBERALIZATION	6
IV. ACTIVE AND PASSIVE MEASURES ON THE LABOUR MARKET	10
V. THE SOCIAL SECURITY SYSTEM: A KEY TO INCOME PROTECTION	14
Pension Insurance	16
Sickness Benefits	18
Maternity and Family Benefits	19
Social Welfare Programmes	22
VI. DEVELOPING SOCIAL SERVICES AND SUPPORTING ACCESS	24
Education	25
Health Care	28
VII. THE IMPACT ON FAMILIES AND CHILDREN	30
VIII. POLICY PROPOSALS: PRIORITIES FOR SOCIAL DEVELOPMENT	34

TABLES

1. Key Economic Indicators	2
2. The Structure of Budget Expenditures by Type	4
3. Index of the Growth in Inflation	6
4. The Profile of the Registered Unemployed	12
5. Consolidated Expenditures for Social Transfers	15
6. The Structure of Family Benefits by Type	20
7. Access to Education	26
8. Annual per Capita Food Consumption	33
BIBLIOGRAPHY	36

EXECUTIVE SUMMARY

To understand the social policy reform in Bulgaria and its impact on children, the most vulnerable group in society, it is necessary to consider and assess the strict implementation of the country's economic stabilization programme.

The Bulgarian market-oriented reform was undertaken in the context of a sharp and steady decline in the production of major consumption goods that was causing shortages. A money surplus had already created higher rates of growth in inflation before the onset of the economic reform, which also involved price liberalization and a reduction in Government subsidies. For this reason, the Government focused on an anti-inflationary programme of stabilization that was aimed at restricting domestic demand. The basic instruments of the programme were money policy (high interest rates) and fiscal policy (cuts in Government budget expenditures).

Despite the unfavourable economic situation and the other evident dangers, the family has continued to be considered an essential resource for social development. Though the economic situation has been critical, the social prestige of the family has remained fairly high, and support for families has been a key target of social initiatives.

The welfare of families and of children has been closely linked to social policy during the transition. Two general types of social policy instruments having an influence on family welfare were employed during the 1989-94 period. The first type had an important positive impact in terms of income support for families. Among policy tools of this type were a significant unemployment insurance scheme, generous family benefits, a guaranteed minimum income and other "passive" measures.

The second type of policy instruments represented a burden rather than a boon. This included reductions in social programmes (such as free medicines or school meal programmes) and cost-cutting measures which had longer term negative effects (for example, the indirect burden on society of an early retirement plan).

Improved coordination is clearly needed in social sector initiatives, because it has become very difficult to respond to the challenges of a social-oriented market reform with the limited resources made available by a changing economy.

In a long-term perspective, the welfare policy of a transitional country should envisage integration within the trends in social development common to Europe, even when economic transition imposes the abolishment or restriction of some acquired social rights. A resolution of the problems and difficulties related to the crisis of transformation will shift the focus of welfare policy from risk alleviation to active support for a wide range of social rights and the promotion of the capabilities of the individual.

I. THE WELFARE IMPACT OF RECENT ECONOMIC DEVELOPMENTS

Radical economic and political changes over the past five years have forced Bulgaria to face a wide variety of challenges. Social policy reform which aims at social stability, human resource development and economic prosperity is the key to the resolution of many of these transitional challenges. A renewal in social legislation is also a precondition for the country's integration within European economic structures and social traditions. This must be the basis for a new harmony between social policy and human welfare.

In Bulgaria today it has proven difficult to determine the most adequate approach to these goals. The balance between economic risk and social justice is being put to the test. Bulgaria has a very high poverty rate as measured by the share of the population below the poverty line (UNICEF 1993). The destructive consequences of the unhealthy welfare environment—deprivation, rising crime, the growth of a "shadow" economy, the strains on the intellectual and physical potential of the population, emigration, and so on—represent a serious obstacle to successful economic development. To surmount this obstacle requires very active measures and more social resources. Social sector expenditures should be raised and should not depend on economic cycles during the transition crisis. This has not been the logic of policy during the last few years.

To understand the social policy reform in Bulgaria, it is necessary to consider and assess the strict implementation of the country's economic stabilization programme. The Bulgarian market-oriented reform was undertaken in the context of a steep and steady decline in the production of major consumption goods that was creating shortages. A money surplus had led to higher inflation growth rates by the beginning of the economic reform, which also involved price liberalization and a reduction in Government subsidies. For these reasons, the Government focused on an anti-inflationary programme of stabilization that was aimed at restricting domestic demand. The basic instruments of the programme were money policy (high interest rates) and fiscal policy (cuts in Government budget expenditures).

Unemployment was accepted in the stabilization programme as an unavoidable consequence of economic liberalization (Table 1). Investments in the creation of new jobs were not encouraged. This had the effect of favouring a drop in real incomes. Moreover, the slow, halting pace of privatization, the continued presence of state monopolies and the existence of structural imbalances among the various sectors of the economy blunted the anti-inflationary impact of the restrictive reform policies, and inflation remained fairly high.

Pushed mainly by the decline in industrial output, the gross domestic product has been sliding steadily downward since 1994.

Table 1: KEY ECONOMIC INDICATORS
(1990-4)

	1990	1991	1992	1993	1994
GDP (leva, billions)	45.4	138.4	195.0	298.8	550.0
GDP real growth rate	-9.1	-11.7	-7.7	-2.4	0.2
External debt (\$, billions)	10.0	11.3	12.5	13.8	13.0
Exchange rate (leva/\$)	2.1	18.6	23.0	28.0	63.5
Real investment rate	-25.1	-15.6	-10.0	-7.1	-8.3
Budget deficit (% GDP)	-8.5	-4.1	-5.0	-9.2	-6.7
Private sector share of GDP	2.0	15.0	21.8	25.7	27.0
Unemployment rate	1.6	10.8	15.5	16.0	12.8

Source: NSI (1990), (1991), (1992), (1993a), (1994).

The anticipated gains in economic stability have not been achieved, and poverty is spreading among the people. This has highlighted the ineffectiveness of social policy and the need to strengthen the social safety net. Likewise, it has become clear that privatization must be accelerated and that productive investments must be increased in order to promote the creation of jobs and help improve the economic situation of families. The more these actions are put off, the more costly will be the adjustment process and the more difficult it will be to secure social stability.

The various components of social policy—fiscal policy, price and wage policy, labour market policy, social transfers and public services—have been subordinated to the goal of prudent macroeconomic stabilization. They have been activated within the limits and constraints imposed by the desire to improve macroeconomic indicators. This has sometimes propagated the negative effects of the general economic downturn, thereby strongly influencing the social welfare of the population.

II. THE NARROW FRAMEWORK OF FISCAL POLICY

The transition has entailed systematic pressures on the Government budget from both the revenue and the expenditure sides. Reducing these pressures through adequate revenue measures and the restructuring of expenditures to maintain control over the budget deficit, while simultaneously altering the role of the state in the emerging market economy, are fundamental challenges for the fiscal system.

On the revenue side the greatest problem affecting most of the economies in transition is the appearance of a transitional fiscal gap. While the state sector is shrinking, the tax base is firmly placed on traditional buttresses of revenue: the tax on profits and the turnover tax. Private firms, the number of which reached 300,000 in 1994, were not being reached by these tax instruments. The dramatic decline in state output and in tax collection, particularly the collection of taxes on profits, is evidence of the fiscal gap in Bulgaria.

To tackle this structural problem, the Government has initiated a significant tax reform aimed at establishing a tax system which is able to take advantage of the rising revenue potential of the private sector. The tax system has involved improvements in tax administration and the replacement of the turnover tax by a value-added tax.

The implementation of the VAT in 1994 had a rapid, positive and important impact on budget revenue. The immediacy of this impact was due to the high unified tax rate (18 percent) and the lack of exemptions for basic goods or social services. In 1995 the VAT is expected to account for 23 percent of budget revenue.

A law on profit taxes attempted to rationalize the tax structure by introducing uniform taxation and reducing exemptions. The personal income tax will be the focus of further tax reform. Three marginal rates—15 percent, 30 percent and 40 percent—have been proposed in a draft law, and this is clearly preferable to the present system, which has a top rate of 52 percent. However, it will take time for tax reform to generate the expected benefits, particularly in terms of budget revenue.

Progress has also been made on the expenditure side. The structure and function of expenditures have been altered (Table 2). A major "anti-welfare" component of fiscal policy is the restriction on investments. Public sector capital expenditure is severely constrained. Within the macroeconomic framework of the stabilization programme, it has represented only 2-3 percent of GNP in 1993-5. This is substantially below the levels in previous years and insufficient to maintain existing infrastructure, generate new jobs, or enhance social services.

Table 2: THE STRUCTURE OF BUDGET EXPENDITURES BY TYPE
(In Percentages Of Total Expenditure, 1989, 1994 And 1995)

	1989	1994	1995*
Investments	6.4	3.4	2.6
Subsidies	26.4	3.5	1.9
Social insurance and assistance	21.2	32.3	29.9
Education services	7.8	10.1	9.9
Health services	5.6	8.5	9.0
Other	26.4	19.6	18.2
Interest payments	6.0	22.6	28.5

Source: Ministry of Finance.

* Estimated.

Subsidies for the more inefficient state enterprises have been largely eliminated; this has been the key factor in the reduction of current expenditures in the Government budget. During the process of price liberalization, consumer subsidies were completely removed. The remaining producer subsidies are concentrated in specific sectors, notably energy production and railroad transport.

Changes were also engineered in the machinery of government. Expenditures for the maintenance of public administration fell by more than one-half in real terms between 1991 and 1994. In relative terms this meant a drop from 12 percent of GNP in 1990 to 8 percent in 1994. However, these changes occurred at the expense of a reduction in productivity and service quality.

Government wages and salaries have declined in real terms, roughly in line with the slump in GDP; they have remained fairly constant in relation to GDP, at around 10 percent.

The same dynamics have been evident in social insurance expenditures, which have continued to account for 12-13 percent of GDP over the last five years. Considering their importance for the alleviation of social problems, this is totally unsatisfactory.

Social sector responsibilities in areas such as health care, education, social welfare benefits, social services and water supply have been passed on to the municipalities. The Self-Government Law of September 1991 established a new division of functions between the central Government and local governments. Some power was shifted to municipalities, which were given the authority to manage budget expenditures. All social assistance programmes

and more than 60 percent of health care and education services are now administered by local authorities.

Since 1992 the central Government budget has covered only central Government expenditures and transfers to municipalities. Local government budgets are now part of the consolidated fiscal programme, which is coordinated by the Ministry of Finance, but not subject to a vote by Parliament. The local budgets are supported through municipal revenues (20 percent of the tax on profits, one-half of income tax revenue, and the income from fees for public transportation, water services, automobiles, kindergartens, other social sector institutions and so on), plus a subsidy supplied by the Ministry of Finance that represents an average of 60 percent of the local budget among all 280 municipalities.

Although significant progress toward fiscal decentralization has already been achieved, the local tax base is still rather small. Most poor municipalities rely heavily on central Government transfers to cover routine expenses. Thus, municipal services still hinge on central Government financing, and they tend to be underfunded. This creates an environment favouring certain injustices and irregularities in the provision of social services.

The rising importance of decentralized social expenditures argues for this approach, despite the problems. The main difficulty appears to revolve around the responsibility for certain expenditures and the development of a revenue system which can tap stable sources of revenue for municipalities.

The dynamics of the restructuring of revenue and expenditure are reflected in the deficit. During the first two years of the reform, 1991 and 1992, prudent fiscal policies succeeded in bringing budget expenditures into line with revenues and contained the budget deficit at under 5 percent of GNP. In 1993 the poor rate of tax collection and difficulties in coordinating monetary and income policies created an unfavourable environment, and the deficit rose to 8.4 percent of GDP. Over the last two years the budget deficit has remained high (7.7 percent of GDP in 1994 and an estimated 6 percent in 1995), despite improvements in tax policy.

Legitimate expenditure pressures will continue to influence the Government budget in the short to medium term. Factors such as the fiscal cost of bad loans and the direct budgetary costs of external debt will remain important. The restoration of a viable fiscal environment implies further decreases in more flexible and resilient expenditures such as wages and social allowances.

III. PRICES AND WAGES: THE FAILURE OF LIBERALIZATION

The liberalization of prices undertaken in February 1991 was the first and most severe measure of the reform that had a direct influence on the welfare of the population. The liberalization entailed the reduction of Government subsidies, especially consumer price subsidies. The declared goal of the price reform according to the Government was a 30-percent reduction in consumption. This goal was exceeded because the price liberalization was accompanied by limited price controls. The indexation procedure adopted did not alleviate the negative social impact of inflation in a satisfactory way (Table 3).

Table 3: INDEX OF THE GROWTH IN INFLATION*
(1991-4)

	1991	1992	1993	1994
Food	402	82.5	60.4	149.3
Other goods	320	71.6	55.9	72.0
Services	421	85.7	93.7	60.0
Total	386	91.0	64.0	122.0

Source: NSI (1991), (1992), (1993a), (1994).

* The preceding year = 100.

Since 1992 price controls on goods and services have been expanded. The price controls have been of two types: fixed prices, including a predetermined profit margin (for water, energy, rail transportation, television and so on), and limited price ceilings (on 23 basic items, including food products, medicines, bus transportation and coal for fuel).

Changes in prices during 1994 revealed the imbalances existing among free, subsidized and regulated prices. Regulated prices were an important factor in inflation. There was also a sharp increase in the dollar exchange rate that influenced the prices for imports and raw materials. The rise in prices for basic food items reached close to 150 percent in 1994, while the overall inflation rate was 122 percent.

A growing share of the population was being exposed to the risk of malnutrition. Limited price subsidies were advocated as a way to halt this negative trend. However, these subsidies came to be considered as an ineffective means of income redistribution, given the

difficulty in focusing them on the goods consumed exclusively or primarily by the poor. Nonetheless, when subsidies are provided only for a small number of goods, they become equivalent to income transfers. Such is the case, for example, of subsidies for clothes and food for children.

Together with the erosion in incomes, inflation has had an influence on the purchasing power of households. The high inflation rate reflected in the rising cost of electricity and heating has had a significant impact on the living conditions of the population. Following price adjustments in March 1995 (a 147-percent increase for electricity and a 180-percent increase for heating), new targeted subsidies have been provided for low-income families. These subsidies have replaced budget transfers to cover the cost of energy production. The narrow eligibility requirements for the subsidies—less than 10 percent of the population is eligible—represent a significant barrier to the effectiveness of the subsidies as protective measures. The absence of a universal compensatory mechanism has imposed serious financial difficulties on one-person households and on incomplete families. It has also aggravated the problem of the shortage in housing. The need for more generalized cross-subsidies for energy should be met. The experience of developed countries should be explored. An appropriate solution might involve a tariff schedule, with, for instance, electricity prices pegged to the level of consumption.

The income status of the population has changed appreciably during the last five years as a result of the rise in prices. As a rule, the impact of inflation is more significant among low-income groups, because essential goods, which are characterized by low elasticity in demand and comparatively greater sensitivity to price fluctuations, represent a larger share in the total consumption of these groups. Wage policy during the transition period has magnified this effect.

Wages have maintained their significant role as a general source of income for the population, although there has been a trend toward a reduction in the share of wages in household incomes. At the end of 1994, 54 percent of household money income was wage related. This included social allowances such as the maternity leave benefit and sick pay.

Measures to protect wages against inflation were first undertaken in April 1991, two months after the liberalization of prices. Initially, compensations paid as wage supplements were the main instrument of income protection. Up to September 1991 the Government protected incomes through the provision of a fixed compensation—about 300 leva per

month—attached to each wage. Thus, the real drop in the minimum wage was less than the real drop in the average wage.

Collective bargaining, which was introduced at the end of 1991, has led to the reestablishment of income differentiation. Minimum hourly and monthly wage levels are guaranteed by the Labour Code and regulated by Government decree. Compensations became differentiated. Higher wages came to be accompanied by relatively higher compensations.

In 1993 the automatic quarterly indexation of wages was introduced, effectively terminating the practice of providing compensations. As a result, real average wages tended to rise or remain stable. However, between 1991 and 1994 the decline in the real minimum wage was sharp, falling by more than one-half. In June 1995 the minimum wage was the equivalent of about \$35 per month, which is close to the absolute poverty level.

At first the wage index was pegged to the prevailing inflation rate discounted by the percentage decline in production. In 1994 the anticipated inflation rate for that year was adopted as the basis of indexation. However, the wide gaps between the anticipated rate and the real current inflation rate represent a telling argument for basing the index on the estimated annual inflation rate year by year.

Different restrictive wage instruments are being used in Government administration, state enterprises and the private sector. The sharpest restrictions apply in public administration. The minimum wage for certain occupational positions is determined according to coefficients of the overall minimum wage. The Government also fixes the maximum annual average wage by administrative branch (management, public security, health care, education and so on). This mechanism is aimed at limiting the number of personnel in institutions financed through the Government budget. At the same time direct bargaining between the Ministry of Finance and representatives of these institutions has meant that the average wage levels differ from one group of institutions to another. Thus, the lowest (cultural affairs) and the highest (energy) average wage levels differ by a factor of 1.7.

Wage regulation is more flexible in state enterprises, in which about one-half of all wage-earners are employed. In this case, total wage expenditures, not the average wage, serve as the basis for regulation. The regulatory instrument is a progressive tax on wage expenditures above certain limits determined by the Government. As a consequence, the average wage in state enterprises is 1.4 times that in Government administration.

In the private sector only the minimum hourly and monthly wage is set by the Government. The private sector employs 945,000 persons, or 29.7 percent of all wage-earners. The private sector is not subject to any restrictive wage instruments. However, some indirect statistical data indicate that the nominal level of wages is lower in the private sector than it is in the state sector because of an oversupply of labour. In 1994 employment in the private sector rose by 150,000 persons, mainly because of expansion, but the share of wages in household money incomes continued to decline, falling by three percentage points between 1993 and 1994. The wage for many traditional occupations, such as shop-assistant, construction worker and engineer, is especially low in the private sector.

The various types of wage regulation and indexation have created important wage differentials. The rise in income stratification during the transition seems to have been inevitable, given the level of social equality under socialism. To a certain extent this has been a natural result of labour market liberalization. However, some income gaps represent disruptive features in the structure of employment. This is the case, for example, of those income differentials which spur skilled personnel to leave public administration.

Price and wage policy is inseparable from the context of the general income profile of the population. The slow process of the transfer of the ownership of property during the last few years (everything once belonged to the state) and the continuous economic decline have tended to limit income differentiation, which should otherwise have emerged as a normal consequence of economic liberalization. The relatively small values for the Gini coefficient recently—0.24 in 1991, 0.28 in 1993 and 0.30 in 1994—confirm this conclusion.

Lorenz curves reveal the specific nature of income differentiation during the transition. The income share of the poorest 10 percent of the population is still relatively high (4 percent of total income in 1991, 2.8 percent in 1993), but the clear upward tendency in the curves shows that income shares are rising among the richer segments of the population.

Income stratification is still at an initial stage, and poverty and marginalization can be expected to become more evident in the near future. Under these circumstances the direction and size of social transfers become more important, especially the need to target the limited social resources accurately at those who really require support.

IV. ACTIVE AND PASSIVE MEASURES ON THE LABOUR MARKET

Labour market policy is an important priority and an entirely new element in the social system. Its adaptation to the structural changes in the economy has been especially dynamic and responsive to the requirements of social protection.

The professional qualification fund, which had only a narrow function in the prereform period, has been restructured as the Professional Qualification and Unemployment Fund. The PQUF is organized as an extrabudgetary fund administered by the Council of Ministers. This component of social policy is therefore not so tightly linked to the Government budget. The PQUF was initially financed through employer contributions representing 5 percent of wage expenditures. In 1992 the level of contributions was raised from 5 percent to 7 percent because of the surge in unemployment and the implementation of new job-related programmes. However, the anticipated steady growth in unemployment has not materialized, and over the last two years PQUF revenues have exceeded the expenditures. On the other hand, the resources which have thus been freed up cannot be used for the development of active programmes and job-creation measures because of a restrictive policy in public investments. The surplus (representing approximately one-half of the revenues) has even been used through the Social Insurance Fund to supply interest-free state credit. Labour market activities have retained their passive orientation.

A social insurance scheme is an important part of labour market policy and accounts for more than 80 percent of PQUF expenditures (see later).

The fact that unemployment insurance is a new system has facilitated adaptation and reorganization. It has been the most dynamic type of social transfer. The original formula established in 1990 was fairly complex and has since been amended. In the most recent version benefits are equal to 60 percent of average earnings over the last six months, though they must be within a range of 90 percent to 140 percent of the minimum wage. The payment period is determined according to the duration of employment and varies from 6 to 12 months. An individual who has become unemployed has the right to receive all benefits as a lump sum in order to start his own business. In principle the benefits cease if the unemployed person rejects a reasonable job offer or takes a job, but in practice this is very difficult to monitor.

Some benefits which are not strictly insurance benefits are also covered through the PQUF. New graduates are eligible to receive, for three to six months, a benefit equal to the

minimum wage. Young specialists are eligible to receive a grant equal to 60 percent of the minimum wage for professional training and reorientation. Parents who are unemployed can receive a supplementary benefit equal to 10 percent of the minimum wage. Since 1994 the long-term unemployed have been eligible from the 12th to the 18th month of unemployment to receive a "social" benefit equal to 60 percent of the minimum wage. Social benefits accounted for 20 percent of all unemployment benefits in 1994.

Programmes to help the unemployed, such as job-exchange services, job counselling and training programmes, are also financed through the PQUF. However, the limited participation of employers and problems in the labour market have reduced the demand for and the effectiveness of these services. Such programmes account for only 2 percent of all PQUF expenditures.

Five percent of all PQUF expenditures are used for public works programmes. Through the Temporary Work Programme, which has the widest coverage among these programmes, an employer hiring someone who has been unemployed long term can receive a sum sufficient to pay this person the minimum wage for five months. The same subsidy is also available to companies hiring young specialists or the disabled. However, this programme has not turned out to be very attractive for either employers, or employees. The five-month period is not long enough for an employee to become eligible once more for the social insurance scheme. Only 20,000 unemployed persons took advantage of the programme in 1994. This was under 7 percent of those unemployed who were eligible and represented less than the 30,276 jobs which had been negotiated with employers through the programme.

Development programmes also exist for, among others, regions in which industries have undertaken restructuring and municipalities with large minority populations. Most of these programmes have not been implemented because of shortages in investment subsidies.

Statistics on unemployment can be used to determine the adequacy of policy measures and the welfare impact on the population over the five years since labour market liberalization (Table 4). The first wave of job eliminations created a certain amount of balance between supply and demand on the labour market. At that time the unemployment rate reached 16 percent. The rise in unemployment was significantly slower in 1993 than it had been in the previous two years. The monthly growth rate in unemployment was 0.7 percent in 1993, down from 17.1 percent in 1991 and 2.8 percent in 1992. In the second half of 1994 a decrease in the number of registered unemployed was reported for the first time since the beginning of the transition. Nonetheless, the prognosis is not very optimistic because of the

latent unemployment in state enterprises. The onset of mass privatization and the adoption of the Bankruptcy Law in 1995 are expected to lead to a new wave of unemployment.

Table 4: THE PROFILE OF THE REGISTERED UNEMPLOYED
(In Totals And Percentages, 1990-4)

	1990		1991		1992		1993		1994	
	Total	%	Total	%	Total	%	Total	%	Total	%
Total unemployed	65,079	--	419,123	--	576,893	--	626,141	--	488,422	--
Receiving benefits	32,307	49.6	216,728	51.7	226,281	39.2	189,542	31.2	178,758	36.6
Women	42,421	65.2	228,400	54.2	302,392	52.4	331,228	52.9	265,430	54.3
Under 30	30,433	46.8	203,769	48.6	258,360	44.8	271,119	43.3	199,134	40.8
Higher education	10,529	16.2	34,158	8.1	34,926	6.1	38,477	6.1	22,340	4.5
Low skilled	5,857	9.0	135,796	32.4	283,831	49.8	314,323	50.2	258,386	52.9

Source: Ministry of Labour and Social Affairs.

The main challenge facing the unemployment insurance system is the relative rise in the number of registered people who are not eligible to receive benefits. These people represented 48.3 percent of all the unemployed in 1991 and 73 percent at the end of 1994. Some have left work voluntarily or have been fired; most are longer term unemployed whose eligibility to receive insurance benefits has elapsed. Thus, the rising trend in this category of the unemployed is indirect evidence of a steady climb in the duration of unemployment during the transition.

Passive measures of income support will be completely inadequate to alleviate the expected social costs of unemployment. The universal approach taken toward the specific social problems related to unemployment should be considered a crucial deficiency of Bulgarian labour market policy. This policy is confronted by concrete and durable risks, and the causes of unemployment are becoming more diverse.

There is a strong correlation between long-term unemployment and educational status. Seventy percent of the long-term unemployed have had eight years of schooling or less. Many of these people have never had a steady job. Both factors make the reintegration of these people into the labour market very difficult. Gypsies, for example, are a typical group with little education and few marketable skills.

Young people are another very vulnerable group among the unemployed. Their share among the total unemployed has remained relatively constant. However, their position on the labour market should be regarded with special attention.

The upper age-limit for this category used to be five years higher in Bulgaria (30) than it was in international statistics. In 1994 Bulgaria adopted the upper age-limit for this category, 25, applied by the International Labour Organization.

In 1994 around 200,000 unemployed people, or more than 40 percent of all the registered unemployed, were under 30 years of age. This represented 27 percent of all persons in this age group, a share which was two times higher than the proportion of unemployed among any other age group. These data show the dimensions of the barriers faced by young people on the job market. However, lack of compatibility renders it difficult to gauge the significance of these data in international terms.

The disabled are in an especially unfavourable position on the job market. Indirect subsidies and tax preferences linked to jobs performed by the disabled were removed in the course of the implementation of restrictive financial reform. The wage-earning potential of the disabled was thereby reduced, and an attitude of social dependency has been imposed upon them. The unemployment rate among disabled persons who are economically active (25 percent) is much higher than the average among other groups.

Unemployment among women was an important problem in 1990, when a majority of women were registered for employment insurance. Over the last four years gender has been a relatively weak factor in unemployment (15.3 percent unemployment among men and 16.8 percent among women).

On the other hand, in many cases unemployment is related to family status: single-parent families, families with more than three children, the presence of the sick or aged among family members and so on. The economically active in such families have specific job needs, including flexible working hours, or part-time work, and the possibility to work at home, which cannot be provided without organized social protection and appropriate assistance strategies.

These and other constant risks on the labour market mean that passive measures, such as guaranteed unemployment benefits and generous cash allowance schemes, should be supplemented by active measures to reintegrate the unemployed into the labour market, especially the most vulnerable groups, including those with few skills, the disabled and others who are being seriously affected by economic restructuring.

Active labour market policy should concentrate on the reduction of unemployment through the promotion of demand for labour and selective interventions to offset the unfavourable effects of structural reform on the economy. Specific social policies should be aimed at all the major actors on the labour market. Subsidies should be offered to employers to create jobs; an effort to forecast the professional skills which will be required on the labour market should be undertaken; job training and retraining should respond to technological change, and the unemployed should be encouraged to seek new skills by offering them credits, grants or appropriate opportunities to enhance their capabilities.

A necessary condition for the realization of a successful active labour policy programme is investments which are likely to favour job creation in priority areas of employment. The construction of housing and infrastructure would be a most suitable target for such interventions because of its doubly positive role of offering a source for new jobs and of favouring direct improvements in the living standards of the population.

Social risk has many faces. It can be reflected in any feature of the profile of the labour force, including skills, health or family status, and adaptability. To meet adequately the challenges of diversification and increasing complexity, the priorities of social policy should become more flexible. They should focus less on income support and more on reintegration into the job market and a reduction of the danger of becoming poor or marginalized that confronts those willing to work.

V. THE SOCIAL SECURITY SYSTEM: A KEY TO INCOME PROTECTION

A well-developed pension and short-term benefits system, as well as social assistance programmes administering benefits for low-income households and uninsured mothers (including institutions supplying indirect social transfers in the form of care for children, the elderly and the disabled), was already in existence in Bulgaria at the onset of the transition. The system offered modest, but secure, payments which were guaranteed through uncomplicated eligibility criteria.

Since 1990 a system of unemployment benefits has become established, and social assistance has been reformed and enhanced through the provision of means-tested regular monthly benefits. Cash transfers from the social security system accounted for over 20 percent of the total household income recorded in the national accounts in 1994.

However, the social insurance and social assistance schemes are now suffering from serious problems. As a result of economic trends (the decline in income and the rise in unemployment) and the responses of the Government to these trends (including lax eligibility criteria and an early retirement scheme), the financial foundations of these social systems are being washed away.

In 1991 the Government boosted the rate of social security contributions from 26 percent to 35 percent of wage expenditures and introduced "surplus" rates for enterprises which permit early retirement. These stopgap measures were insufficient to satisfy the mounting pressure on social benefits. The deficit in the Social Insurance Fund became chronic after 1990 and has reached more than 10 percent of expenditures over the last two years.

A consolidation of all social transfer expenditures shows that the share of these expenditures in GDP is climbing, but that the increase is caused entirely by the 40-percent drop in GDP (Table 5). The real level of benefits fell more rapidly than did the real wage rate (a 70-percent real decline in the average pension after 1991, a 75-percent plunge in the child allowance, and so on).

Table 5: CONSOLIDATED EXPENDITURES FOR SOCIAL TRANSFERS
(1990 And 1994)

	Value (leva, millions)		Distribution (% of total)		GDP Share (%)	
	1990	1994	1990	1994	1990	1994
<i>Benefits</i>						
Unemployment	0	4,054	0	6.2	0	0.8
Pensions	3,932	50,694	70.5	76.2	8.6	9.2
Sickness benefits	309	2,811	5.5	2.6	0.7	0.3
Family benefits	1,236	6,982	22.1	11.1	2.6	1.3
Social assistance	108	2,565	1.9	3.9	0.2	0.5
Total	5,585	67,106	100	100	12.1	12.9
<i>Financing</i>						
SIF ^a	5,004	51,843	89.7	78.3	11.1	10.3
PQUF ^b (including transfers)	8	6,922	0.1	9.8	0	1.2
State transfers	573	8,341	10.2	11.9	1.0	1.4
Total	5,585	67,106	100	100	12.1	12.9

Source: Ministry of Labour and Social Affairs.

^a SIF = Social Insurance Fund. ^b PQUF = Professional Qualification and Unemployment Fund.

The incongruity of rising expenditures and declining benefits represents a challenge in the design of a more well targeted social security system which will be constantly tested by the social needs created by the transition and the new pressures of the market economy.

It is very difficult to restrict social rights which have already been acquired and recognized. The case of Bulgaria offers a good example of the way costs can grow because of hesitation and the halting pace of the reform of a social security system.

Pension Insurance

Old age and disability pensions are not directly connected with child welfare, but they are the largest component of the social security system, accounting for 78 percent of system expenditures in 1994. All pensions are provided by the state social security fund; there are no enterprise-based funds. The official retirement age is 55 for women and 60 for men, although early retirement with full pension is available for those working under dangerous or stressful conditions. Depending on the occupation, early retirement can take place at the ages of 47 for women and 52 for men. In this case, the normal length of the required active work record (20 years for women and 25 for men) is also reduced. Eligibility for early retirement has been expanded since 1989, and today roughly 30 percent of the employees in the state sector have jobs which allow for early retirement. The aim of this policy is to free up workplaces for younger people, but in fact this has not happened.

Retirees can continue to work. The special tax for working retirees was fixed initially at 35 percent of the wages received. Since 1994, in order to reduce the burden on low-income groups, only retirees whose wage exceeds twice the minimum wage have had to pay this tax.

The system also provides disability pensions, including pensions for those disabled because of hazardous conditions in the workplace. In the case of the death of a pensioner or of an employee with a minimum of five years of service, the pension is paid to survivors.

These generous eligibility criteria have added to the social burden resulting from the ageing of the population, which is a common problem in Europe. However, the economic situation means that Bulgaria does not possess the ability to offer the social protection available in the developed countries. This affects the living standards both of pensioners and of the economically active population.

During the period of higher inflation, pensioners tended to join the ranks of those at lower levels of income. This trend was accelerated by the Government policy of adjusting pensions according to a fixed schedule of "compensations".

The Government tried to improve the structure of pensions in 1992 through the introduction of a new pension formula. The formula involves the application of a basic "social pension" which is raised by 1 percent for each year of service and then by 5-7 percent for each year of service above 20 years for women and 25 years for men. The financial qualifications and maximum pension ceiling (three times the social pension, excluding the "compensations") have reduced the differentiations in the pensions paid out. In practical terms, the average pension cannot exceed 70 percent of the final wage, plus benefits. The most recent changes in the indexation mechanism undertaken in 1995 have provided for the gradual elimination of compensations, but enough time has not yet elapsed for the prereform level of pension differentiation to become reestablished.

Although the relative level of pensions fell by 70 percent from 1991 to 1994, expenditures on pensions declined by only 20 percent in real terms, due to the significant growth in the number of pensions. The pension-dependency ratio—the proportion between the number of pensioners and the number of people in economically active age groups (16 to 55 for women and 16 to 60 for men)—was already high (0.56) in 1989; it has since climbed to 0.9. This demonstrates the need for reform in pension eligibility criteria, especially a rise in the retirement age and the elimination of early retirement, which is a major financial burden on the social insurance system.

The achievement of this reform objective is very important for the entire social insurance system. The considerable share of pension expenditures in total social transfers renders it more and more difficult to maintain the effectiveness of short-term insurance and other services. The pension system has absorbed the limited social resources available during the transition and multiplied the negative effects of restrictive financial policies. If the number of pensioners continues to move up at the rate of the past two years, even if the level of benefits remains constant in real terms expenditure on pensions will consume 1 percent more of GDP in 1995. The implication is clear: benefits will have to be cut in real terms, or the number of beneficiaries will have to decline, or some combination of these two alternatives will have to be implemented.

A reduction in the number of pensioners has become a prerequisite for financial stability in the social sphere. The only solution seems to be to raise the retirement age. The

average pensioner in Bulgaria receives a pension for 16.7 years. This is not a short length of time according to European standards.

Nonetheless, the minimum age of retirement with pension should not be raised too rapidly. Otherwise, some difficulties in the adaptation of the labour market and some special problems among certain families could emerge. For instance, due to the low age requirements for pensions, most families are dependent on the help of grandparents to perform household chores and care for children. The minimum retirement age should be increased gradually, over five to ten years, to 63 years of age for men and women.

Likewise, the minimum years of employment for pension eligibility should be boosted, and early retirement should be abolished. Moreover, complementary insurance schemes should be enhanced, especially in those enterprises where early retirement is possible. Voluntary insurance schemes providing supplementary pension payments in addition to the obligatory state system have also been proposed. Such schemes could become useful tools for the redistribution of the risks, including the erosion caused by inflation on long-term insurance, among the state, employers and employees.

Sickness Benefits

During the transition the scheme of sickness benefits has shown a contradiction similar to that in pension insurance between generous eligibility criteria and the necessity to support income replacement.

Good health and risks to health influence the income, social and psychological status of families.

In Bulgaria sickness benefits are regulated by the Labour Code. They compensate individuals and their families in case of short-term episodes of ill-health. They also provide paid leave and 100-percent earnings replacement for up to 60 days per year for the care of a sick child. The system covers employees and the self-employed. Eligibility is established after three months of registered employment and continues for 45 days following the termination of employment. The level of benefits depends on the length of service and varies from 70 to 90 percent of the earnings replaced.

The frequency of cases is relatively high because the insurance period begins immediately on the first day of illness. During 1991 frequency fell from 85 to 75 cases per 100 insured persons due to massive job cuts and more strict workplace regulations. Thereafter

the number of cases grew, so that, by 1994, frequency had reached 88 per 100. The practice of submitting false insurance claims has helped employers save wage expenditures during the transition crisis.

Initial recommendations to economize focused on a reduction of the yearly number of days of paid sick leave permitted (especially sick-child leave) and the application of stricter insurance procedures. However, experience over the last five years has shown that a more effective solution would be the creation of incentives for employers to halt abuses and to support a healthy environment. For this reason, legislative changes will concentrate on employer liability. Three days of paid sick leave can be covered through the Social Insurance Fund, thereby obligating employers to provide paid leave for the first three days of an illness. In principle, indirect measures are more likely to restrict expenditures so as to minimize the negative social effects.

Maternity and Family Benefits

The level of family income protection provided in Bulgaria exceeds minimum international standards. To care for infants, mothers are entitled to three years of leave from their jobs, which are guaranteed. During the first phase of this period (pregnancy and birth leave), the leave benefit equals 100 percent of earnings. The leave at this stage covers the last 45 days prior to delivery and up to 180 days after the birth of the child depending on the number of children. During the second phase (maternity leave), the paid allowance is equal to the minimum wage and is available for the first two years of the life of the infant. A working father or one of the mother's parents can take advantage of this leave in place of the mother. During the third phase (up to the infant's third year), the mother is entitled only to leave without pay.

Lump-sum birth grants are offered for each child. These grants are 100, 200 and 250 percent of the minimum wage for the first, second and third child, respectively.

The schedule of family allowances has been influenced by the system existing before the reforms, when, as the instrument of a pronatalist policy, per-child payments were relatively high. The payments then amounted to 15 leva per month for a family with one child, 60 leva for a family with two children and 115 leva for a family with three children. Parents are eligible to receive the payments until the child reaches the age of 18, on condition

that the child continues in school. Unmarried mothers and the parents of disabled children receive double allowances.

Anti-inflation measures have distorted this scheme through the application of "compensations" linked to each allowance. The differences among the allowances were reduced, so that the ratio of the allowance for a third child and that for a first child decreased from 3.67 in 1989 to 1.12 in 1994.

A parallel scheme for uninsured mothers has been in force since 1986. The scheme covers the full range of family benefits, including pregnancy, birth and maternity leave benefits, birth grants and family allowances (only compensation benefits until 1993 and, since 1994, total allowances). It was established as a pronatalist policy initiative. The initiative has not been so effective in achieving the intended aim, but it has represented a stable foundation for the provision of income support for unemployed parents during the transition (Table 6). The programme is financed and managed by municipalities. The way it functions does not quite fit into a legal framework of family benefits as a basic social right in that it depends on municipal budgetary priorities and resources.

Table 6: THE STRUCTURE OF FAMILY BENEFITS BY TYPE
(1989-94)

	1989	1990	1991	1992	1993	1994
<i>Family Allowance</i>						
Cases (000s)						
Insurance	1,807	1,833	1,818	1,516	1,369	1,355
Assistance	0	0	39	64	147	174
Expenditure (leva, millions)						
Insurance	641	734	3,008	3,275	4,906	5,170
Assistance	0	0	19	95	24	301
<i>Maternity Leave Benefit</i>						
Cases (000s)						
Insurance	325	320	279	233	204	159
Assistance	10	10	69	44	61	94
Expenditure (leva, millions)						
Insurance	436	585	1,376	1,657	2,945	2,017
Assistance	30	45	259	463	935	1,428

Source: Ministry of Labour and Social Affairs.

The parents not included in any of the family benefit systems are relatively small in number and usually do not belong to a low-income group. Thus, in practice, the family benefit systems represent effective income-transfer schemes. In contrast, the fact that the parallel scheme for uninsured mothers also serves as a procedure to supply income support for unemployed parents is raising problems in financing and eligibility.

The system of maternity and family benefits should therefore be reorganized on sturdier financial foundations and made to reflect more clearly a recognition of the social rights of families with children. Such a goal cannot be reached without appropriate resources and closer coordination among the various family support programmes. This will require pertinent legislative measures and financial restructuring. The consolidation of assistance programmes and social insurance should be carried out through a unified scheme of family allowances and parental leave benefits. This scheme should be backed by a public fund separate from the social security fund. It would be designed to limit the "social" risks connected to the current system and create a more stable environment for family policy as an important Government priority.

Furthermore, pronatalist incentives should be cut back. The value of per-child maternity leave benefits, birth grants and family allowances should not be raised according to the number of children in a family. The increase in the value of per-child benefits according to the number of children may be a popular approach, but it is costly and not realistic given current social conditions.

A balance must be found between the stability of families and fiscal constraints. To some extent, risk and insecurity are the price of the transition from the planned economy to the market. However, the most vulnerable group in the population, children, should be protected not only out of altruism, but also because the capacity of the country's human resources will be enhanced if all children are offered an equal chance at the outset. This is the reason the advantages of the current system, such as gender equality, universal allowances and the right of mothers to secure incomes and jobs while caring for their children at home, should be maintained.

The present level of family protection can be preserved during the transition without additional resources in two ways. Following the example of the approach in the Czech Republic, benefits can be targeted at families with average or low incomes. However, the public tends to disapprove of the strict targeting of benefits during the transition, and it is difficult to identify the optimum cutoff point among incomes in order to assure equitable

income distribution in favour of children. Means-testing and monitoring represent another problem area.

Alternatively, when resources are limited, erosion in the level of real benefits can be allowed to take place. This has been the case in Bulgaria during the last five years. As a compensation mechanism to offset the effects of inflation, a 75-percent decline in the real value of child allowances has been permitted. This has been larger than the fall in any other general source of income. The ratio between the average child allowance and the average wage dropped from 10.9 in 1989 to 7.1 in 1994.

During the transition, any family policy instrument will have disadvantages. The most important criteria in the search for balance between the pluses and the minuses revolve around the development of social strategies in a long-term perspective. As time goes on, the need for efficient income distribution must take the place of the need to comply with financial constraints. The overall goal of family policy should be to offer all children the opportunity to develop their capacities.

A mixture of different types of income support is usually more conducive to continuity and smooth progression in family policy. A combination of universal benefits and targeted assistance will possess the advantages of relatively broad eligibility and some income redistribution in favour of children. Implemented in parallel with universal benefits, targeted measures can lessen particular risks. Such measures would include special childcare services, such as kindergartens, daycare centres and school meal programmes, and a system of supplementary allowances aimed, for example, at poor families, single parents and the parents of sick or disabled children. During the transition, family support through targeted income transfers has represented an accessible means to alleviate poverty.

Social Welfare Programmes

The social welfare system has undergone significant changes since 1991, when responsibility for the sector was transferred from the Ministry of Health to the Ministry of Labour and Social Affairs. A network of local social assistance offices has been built up since then to meet the increased risks associated with long-term unemployment and the declines in real income.

Before the transition, the Ministry of Health administered social welfare institutions and social services for the elderly and disabled and disbursed cash benefits on an occasional

basis. The system of occasional benefits was adequate under central planning, because employment was guaranteed, and this was a sufficient social safety net.

However, occasional benefits cannot meet the needs of the transition, because incomes have lost stability and are more likely to fluctuate. Recognizing this limitation, the Government developed a new social assistance scheme providing for guaranteed monthly benefits. In 1991 these benefits were fixed at 65 percent of the minimum wage.

The "basic minimum income" was adopted by the Council of Ministers in 1992 as a marker for limiting guaranteed monthly benefits, but not as a measure of poverty. It is based on the cost of a basket of 22 food and energy products which medical experts have identified as essential. Trade unions are not in agreement; they consider the BMI to be below a minimum poverty line.

According to the most recent regulations, all households with monthly incomes below a specified minimum are entitled to cash benefits. The minimum is adjusted according to household size and composition in line with a set of formulas: 100 percent of the BMI for a single person, 180 percent for a couple and 40 percent for a child. All adults in the household must be either working, or registered as unemployed at a regional labour office. Eligibility also depends on the financial assets of the household. In order to encourage labour force participation, a portion of wage income is excluded from the eligibility calculation, although the portion—20 percent—is rather small for this purpose.

This strictly targeted programme reaches almost 90 percent of those who are eligible. The high take-up rate is an indicator of the magnitude of the efforts to respond to people's needs and alleviate poverty.

Social assistance programmes also provide other benefits, including specific lump-sum and fixed-term benefits and subsidies for transportation and medicine for the disabled.

All social assistance programmes are financed through municipal budget revenues. The flexibility of decentralized administration permitted a tenfold increase in expenditures and a threefold increase in the number of people receiving monthly household cash benefits from 1991 to 1994. However, this tendency was counterbalanced by a reduction in the expenditures on certain assistance measures—such as occasional benefits, subsidies, benefits in kind, home care for the aged and free meal programmes—that are more effective in the alleviation of many other social problems.

At the onset of the transition almost everybody was affected by the risk of unemployment. Then, longer term risks gradually emerged among, for example, low-skilled

workers, minorities and problem families. Cash benefits are usually not capable of resolving these longer term risks. In many cases they discourage reintegration in the labour market. The poor, including young unemployed people, the disabled and the long-term unemployed, are deprived of incentives to accept underpaid jobs. They usually prefer to take advantage of the guaranteed minimum income scheme, thereby sacrificing opportunities to work and running the risk of getting caught in the so-called "poverty trap". This is a common current problem in almost all industrialized countries.

Given the contradictions, it seems clear that guaranteed means-tested benefits should be regarded as an emergency measure only. While such a measure is necessary, it is insufficient to assure the adaptation of social assistance to the challenges of the transition. Social services and specific-risk programmes must be pursued more energetically.

The state might have withdrawn from social policy management and encouraged various forms of private initiative, including the activity of NGOs and bilateral and multilateral agencies. While legislation exists permitting private-sector social services, only public-sector institutions can receive Government subsidies. In principle, the potential for privatization has been limited because the social sector is not profitable. Thus, a key measure might be the establishment of a regulatory framework for private-sector social services and the relevant subsidies and incentives for services which conform to Government standards.

Decentralization and pluralism are not considered as substitutes for Government social policy in the area of poverty alleviation, but as factors in development and in the collaboration between the Government and the emerging service sector.

VI. DEVELOPING SOCIAL SERVICES AND SUPPORTING ACCESS

Health care and primary and secondary education are largely administered by the municipalities, and most of the funding (63 percent) for these basic public services is channelled through local budgets. However, decisionmaking for public services is centralized. Local authorities play an administrative rather than a management or a policy role.

Education

Education is provided by a large network of primary and secondary schools and universities that covers the needs of all types of communities.

The central Government influences the demand for public educational services through a regulatory framework established for private education and through decisions regarding user fees. Over the last four years the Government has licensed several private universities and nine private schools. The relatively small size of the private sector in education is a result of the vast public education system.

The existence of kindergarten fees has had a most important impact on family welfare. Daycare services are not very accessible. Staffs are substantial, and coverage limited. The cost per child is significantly higher than the minimum wage. Initially, user fees were adjusted to benefit low-income families; they met less than 10 percent of expenditures. The Government introduced a higher uniform fee in 1993. The considerable social repercussions of childcare and the public's awareness of the special child-related risks of the transition process have led to a reexamination of the new scheme and the reintroduction of preferential measures for some families, such as single-parent families. However, the number of families targeted by these measures has been too small to halt the declining trend in enrolments.

An additional argument for the maintenance of Government support for childcare is represented by the near parity between male and female labour force participation rates. The ratio between these two rates has not changed during the transition. The female labour force participation rate was 86 percent in 1994. The extent of coverage of daycare services therefore has an effect on both professional and family life.

Another problem in the current phase of reform in the education system revolves around the low level of support supplied to cover scholarships and the indirect costs of education. Scholarships are offered by the Ministry of Education, Science and Technology. They account for less than 4 percent of all public education expenditures. School meal programmes and other programmes to lower the indirect costs to parents of primary and secondary education are paid for by municipal governments. They were sharply reduced after the decentralization of financial planning. Only 10 percent of all pupils participate in school meal programmes. The average cost to parents for school meals and course materials is two to three times higher than the average child allowance.

The burden of the indirect costs to parents of education has been reflected in enrolment rates in recent years (Table 7). Education from the first to the eighth grades is compulsory. Secondary education is not compulsory, but it is free, and entry is not competitive. Because the law prohibits the employment of under-16-year-olds and provides special protection for 16-to-18-year-old workers, until 1989 almost all under-18-year-olds of primary or secondary school age were enrolled in school. By 1994 the number of those enrolled was 83,000 less than the number of individuals in the relevant age groups. This meant that 7 percent of children of school age were excluded from the system. According to some teachers, children are avoiding not only secondary education, but compulsory primary schooling as well (MEST 1995).

Table 7: ACCESS TO EDUCATION
(1989 And 1994)

	1989	1994
Children in kindergarten (000s)	304	220
Enrolment rate (%)	64	48
Children in primary or secondary school (000s)	1,147.4	988.0
Enrolment rate (%)	99.2	93
Vocational school students (000s)	241.6	224.1
Students in tertiary education (000s)	153	182
Students paying tuition for tertiary education (000s)	0	57

Source: Ministry of Education, Science and Technology.

Special policy measures are necessary in tertiary education. Bulgaria has a large network of institutions of higher education. These institutions fulfil various functions. They transmit knowledge, provide professional and vocational training and carry out research and other scientific activities. These multiple roles complicate the response to a key question: How should the cost of institutions of higher education be shared between users and the Government (and therefore taxpayers)?

The present system has been developed during the transition. It offers services which are free of charge and services for payment. A student must pass an entrance examination to be accepted at university. Most students are not required to pay tuition; the cost of

education of about 30,000 fresh entrants is covered through Government subsidies each year. This is the normal number of free places planned for by the Ministry of Education, Science and Technology. Additional students are required to pay either at state universities, or at the new private universities. Despite the high fees, the number of students paying tuition is climbing. Because of the significant demand for educational services, the Government has limited the maximum fee, but at a relatively high level (43 percent of the average annual wage in 1994).

This rising demand for educational services has become a motive for several policy changes in favour of a "market" orientation in tertiary education. In 1994 the Government undertook to encourage paid education at state universities by reducing university subsidies and enhancing the ability of universities to charge fees. This reform is based on an "individualist" understanding of investment in human resources. According to this understanding, society benefits from higher education, but there are also personal advantages for individuals, because, by virtue of a university education, an individual acquires extra earning potential. Budget expenditures for tertiary education therefore represent a cost imposed on the people (taxpayers), all of whom are not involved in the production or consumption of the services or do not otherwise personally benefit from the services.

The question "Who should pay for tertiary education?" can be answered in several ways. Tertiary education represents an investment in the intellectual potential of "human capital". Wider access to free tertiary education can enhance and expand this potential. On the other hand, the level of participation of users and of the state in the financing of tertiary education affects not only all taxpayers, but also the quality of education services. When Government expenditures have been restricted, the salaries of professors at state universities have fallen below the average wage.

A balance between the need to remain within limited state education budgets and the need to preserve free access to tertiary education should be sought through a more active reliance on indirect measures, such as low-interest student loans, tax incentives for employers who support education in particular fields, or other instruments likely to lessen the "conflict" between the individual advantages and the social benefits generated by tertiary education.

Health Care

A network of clinics, hospitals and other health care facilities covers the villages and towns of Bulgaria and provides free health care services for the people. In relative terms, the number of health care facilities and health care personnel in Bulgaria meets or exceeds the European averages: 120 hospital beds per 10,000 population, 19 admissions each year per 100 population and 1,300 medical professionals per 100,000 population.

Unfortunately, these figures are not adequately reflected in health care indicators. The supply of health services has somehow boosted demand. For example, as a consequence of the large number of hospital beds, a tendency has emerged to provide care in hospitals although less expensive and equally good ambulatory care is a viable alternative. Nineteen percent of the population is admitted to hospitals each year, while the average for developed countries is about 10 percent. On the other hand, a significant portion of hospitalization results from the higher rates of illness that are due mainly to unhealthy individual lifestyles (lack of exercise, poor nourishment and alcohol abuse) and problems in "social hygiene" (pollution, poor sanitation and the limited coverage of preventive medical care).

The number of health care workers is relatively higher in Bulgaria than it is in Western countries. Nonetheless, the potential to raise productivity by downsizing staffs and increasing the incomes of health care professionals is significant. Moreover, there is a shortage of qualified nurses providing home care for patients who are recovering or for the chronically ill. Thus, the scant resources available for health services could be distributed more efficiently, and financing could be allocated more rationally between in-patient and ambulatory care.

The demand for private health services is relatively limited because of the restricted purchasing power among patients. Some clinics and hospitals offer supplementary services for a fee (for example, nonemergency diagnostic medical examinations and some rehabilitation treatments), but these are not widespread enough to influence the organization and financing of the public health care system.

An objective of reform is to modernize the provision of health care by improving efficiency and implementing a social insurance scheme to finance a mixed public and private health care system. A draft law on the new structure of health services has been under consideration since 1992, but debates on the potential disadvantages of health insurance and the expected high cost of administration have delayed passage.

Another problem revolves around the supply of medicines. The cost of drugs is financed separately from health services. User fees cover 18 percent of the consolidated expenditures for health services and drugs. This shows the degree of liberalization of the market for medicines in Bulgaria.

The high prices of drugs are due to drug shortages and the lack of Government subsidies. Until 1993 medicines were distributed free of charge for the handicapped, pensioners, pregnant women and children. This service was the first major victim of expenditure cuts in health care. The cuts in this area should be regarded as a poor policy initiative because the most vulnerable groups have been affected and the negative social costs have been considerably greater than the amount of expenditures saved.

The subsidies for the free distribution of drugs were replaced by an allowance for the purchase of drugs that was targeted at those with incomes below 130 percent of the basic minimum income. Otherwise, the only people eligible to receive drugs free of charge are those who have a disease included on an official list of major chronic diseases. This list was expanded to 143 diseases in 1994.

In 1995 the prices of drugs and the regulation of the market for medicines have been the object of special attention, and a new law on drugs has been adopted that provides for more stringent market regulation.

Most of the problems of the current social service system are closely linked to the severe financial constraints on Government expenditures and the hesitant pace and cautious nature of the reform measures, which, after all, are aimed at the maintenance of a significant amount of income redistribution and a high level of service access.

In a similar context, social insurance for health care must be reintroduced in several Central and Eastern European countries. The health insurance schemes should be transparent and offer an element of choice among physicians and medical facilities. Choice is a vital stimulus for competition and the improvement of service quality. Health insurance systems have changed significantly since 1945. Many involve constantly growing costs for health providers and for administration. The expectation of higher expenditures motivates numerous opponents of health care reform. Nonetheless, the combination of severe spending restrictions and inefficient financial policies over the last four years has made health insurance appear the only attractive alternative.

A draft law on health care reform is now being debated in Bulgaria. It is based on the German health insurance model. Medical services would be financed through payroll levies.

Participation in a health insurance plan would be compulsory for all Bulgarians and most other residents. In addition to changes in the mechanisms for allocating health care resources, changes are planned in the way health care institutions are financed and health professionals are paid.

Compulsory health insurance would probably be offered by 28 regional nonprofit companies. These companies would establish contracts with health service providers; they would not supply services themselves. Insurees would have a free choice among health care providers licensed by their insurance companies. People without insurance would be expected to pay for care.

Some health care services with important impacts on overall social welfare, such as immunization, mother and child health, and health education and training, would remain the responsibility of the state, although health insurance would cover most types of disease prevention and health promotion activities.

VII. THE IMPACT ON FAMILIES AND CHILDREN

Children are a vulnerable group in any society. Their opportunities for integration are limited because of their age. The rising cost of caring for ageing populations is restricting the scope for adequate policies focused on children. At the same time children are not especially adaptable to radical social change. For these reasons their social status should be an object of special attention during the transition, and child welfare should be *the* ultimate measure of the adequacy of social policy.

There are 1.6 million under-16-year-olds and 300,000 16-to-18-year-olds in Bulgaria. A factor in the demographic transition which began in the 1960s has been the increasing responsibility of society for the upbringing, education and socialization of every child. The perception of a need for more extensive care has presupposed that children, as a target of social policy, are highly dependent and vulnerable.

As a rule, lower birth rates are characteristic of developed countries. They are also more common among highly educated people and people with large incomes. The demographic transition in Bulgaria has featured these same linkages. Moreover, social instability and economic insecurity have favoured narrower boundaries on the reproductive attitudes of Bulgarian families. Economic problems have become an additional significant

factor in the decrease in the number of children desired by most parents. Since the beginning of the 1990s the number of abortions has surpassed the number of births each year. For example, in 1994 there were 150,000 abortions, or 1.9 abortions for every birth. Between 1989 and 1994 the crude birth rate fell from 12.7 to 9.3 per 1,000 population. The decline in the number of children in both relative and absolute terms has become alarming and is a major social issue.

An important element in this tendency is the infant mortality rate, which has risen considerably in the last few years, back to the level of the 1980s, to 16.3 per 1,000 live births. The infant mortality rate due to congenital and perinatal causes is 9.3 per 1,000, while that due to respiratory infections is 3.5 per 1,000. The data clearly indicate the influence of the social and economic crisis on the health and life chances of this most vulnerable group among children.

The economic and social status of children is inseparable from the environment of the family. The special risks experienced by families can be identified through a statistical analysis of incomes, expenditures and consumption in household budgets. The trend in total household income reflects the general trend toward a real decline noticed for all types of incomes (wages, pensions, benefits and so on), although the relative drop in total household incomes is considerably larger. Taking the situation in January 1991 as a base of 100, incomes had fallen to 44 by the end of 1994, or 30 points lower than the drop in the real index of average wages and 6 points lower than that in pensions. The differences could have been due to the fact that these indicators reflect the systematic influence of both inflation and unemployment, which also reduces the nominal incomes of families.

The growth of poverty is another obvious trend, although it cannot be easily measured in Bulgaria because there is no consensus on the relevant indicators. The question "How many poor families and children are there?" will have a different answer depending on the poverty line employed. The so-called "social minimum", the official poverty line negotiated with trade unions in 1989, is determined on the basis of the cost of a basket of 600 staple goods and essential services. At the time this indicator was established, its value surpassed the average income level, and in 1994 approximately 80 percent of the population was living below it. The extent of real poverty was therefore masked by the use of the "social minimum" poverty line.

Poverty can also be measured quantitatively by determining the share of families with incomes below one-half the average income. This indicator is employed widely in European

statistics, but in Bulgaria it has only an illustrative character. Data on this sort of "relative poverty" reveal more clearly the tendency in Bulgaria toward rapid growth in the size of the most deprived groups in the population, increasing from 11.7 percent of families in 1989 to 21.8 percent in 1994.

The share of children under this relative poverty line was 12 percent of the relevant age group in 1989. However, the transition opened a new "child poverty gap", because of the concentration of minority groups—especially gypsies—with traditionally high birth rates among the people with low incomes. By 1994 the share of children living below the relative poverty line had reached 38 percent.

Household budget data make it possible not only to count the people with low income and the poor, but also to identify specific groups at risk of poverty. Families with three or more children are the most at risk. In 1994 the yearly per capita income among this group was 21,000 leva (\$330), or two times less than the average income. With a yearly per capita income of 26,000 leva, families headed by two unemployed members are also at significant risk. The share of expenditures on food in total expenditures among these families at risk was 52.2 percent in 1994, which was considerably higher than the share viewed as indicating an average standard of living.

The economic situation of families and children can also be illustrated by the amount of food they consume. Since 1991 the general decline in living standards among the population has been accompanied by a sharp reduction in the consumption of basic food products (Table 8). At the same time, the profile of food consumption has been changing in favour of relatively cheap, lower quality foods instead of meat, fruits and vegetables. Average daily per capita intake in 1994 was 2,700 calories, down from 4,080 calories in 1989.

The increasing consumption of poorer quality foods has been observed among families with three or more children, the same families which are most at risk of poverty. Only 4 percent of the calories consumed by these large families are provided by meat. These families eat more potatoes and beans, but their per capita intake of foods of higher nutritional value for children, such as eggs, milk, fruits and vegetables, is two times less than the average. The rate of poverty among these families threatens the health and development of the children. While these families account for only 3.2 percent of all Bulgarian families, their situation demonstrates the limitations in the distribution of household incomes in favour of the younger generations.

Table 8: ANNUAL PER CAPITA FOOD CONSUMPTION
(1989 And 1994)

	Quantity	1989	1994
Bread	kilogrammes	154.8	156.1
Meat	kilogrammes	33.9	25.8
Sausages	kilogrammes	16.4	15.0
Milk	litres	110.8	69.7
Cheese	kilogrammes	14.6	11.7
Eggs	number	161	146.3
Oil	litres	14.7	11.0
Fruits	kilogrammes	57.2	49.8
Vegetables	kilogrammes	80.9	62.7
Potatoes	kilogrammes	25.2	25.6
Sugar	kilogrammes	12.5	8.0

Source: National Statistical Institute.

"Nonstandard" families also represent a group at risk. The income structure in Bulgaria makes it almost obligatory for a family to receive two wages, but single parents have relatively more difficulty finding jobs allowing them enough time to spare for their children and the management of their households.

Despite the unfavourable economic environment and the risk of poverty, the family remains a key to social development. Although families live in crisis, there has been no particular crisis linked to the family during the transition. Compared to the situation at the end of the 1980s, the family as an institution is not being affected negatively. The marriage rate (5 per 1,000 population) and the divorce rate (1.5 per 1,000) have stabilized. The opportunities for mutual support within the family have been preserved, and the social prestige of the family has remained fairly high.

The data suggest that social protection for young families with children is oriented toward the most vulnerable. Nonetheless, the family should become an even more important target of social policy during the transition. To have the maximum effect, family policy must take into account not only the right of parents to combine a job and a family, but also the welfare of children.

VIII. POLICY PROPOSALS: PRIORITIES FOR SOCIAL DEVELOPMENT

The welfare of families and children has been closely related to social policy during the transition. All aspects of the reforms have influenced the characteristics of welfare. Among the social instruments implemented during the 1989-94 period, two general types should be highlighted because of their relevance to the effectiveness of policy.

The first group had a major positive impact in terms of income support for the population during the transition. This group included the significant unemployment insurance scheme, generous family benefits, a guaranteed minimum income and other "passive" measures.

The second group of policy tools represented a burden rather than a boon. It included a reduction in programmes (such as free medicines and school meal programmes) and other cost-cutting measures (for example, the indirect burden of the early retirement plan).

The next stage of the transition requires improved coordination among all social sector initiatives because it has become more and more difficult to respond to the challenges of a social-oriented market reform with the limited resources furnished by a changing economy.

Welfare is a social phenomenon with diverse features. This implies that a wide range of political and economic measures is needed to support it.

Policies aiming at relieving the negative social consequences of the transition process can be effectively carried out only if they are based on social and economic initiatives which are well coordinated.

Most of the failures of social policy in Bulgaria have been related, directly or indirectly, to an imprecise understanding of the economic underpinning of social development. Privatization, investment, land reform and interest rates which are advantageous for private enterprise are all important to the success of social development. Thus, for example, an important deficiency of the reforms has been the slow pace of privatization because of political considerations and because of the exclusion of Government property of so-called "strategic importance" from the process. Private initiative has been limited mainly to the trade sector, where the need for capital is relatively small, but where privatization can have little meaningful effect on overall economic growth.

Three years after the onset of agrarian reform, only 52 percent of all farmland is privately owned. Access to credit is practically nonexistent due to the interest rates of 60-70 percent over the last four years.

These factors represent a very unstable foundation for social policy of any type, especially in a context of structural change and transition to a market-oriented economy. For this reason, the first priority of reform should be the enhancement of access to credit and other assets, with special emphasis on the acceleration of the privatization process and encouragement for foreign investment. On this basis, several changes must be implemented as key steps in the reform in various areas of social policy.

In the area of protection for incomes, price regulation should involve an appropriate level of income redistribution. The radical reform of the social insurance system should be carried out at the risk of applying unpopular measures aimed at financial stability and a reduction of people's dependency on social security. This reform should include an increase in the age of eligibility for pensions, an active policy orientation in favour of the unemployed and incentives for the reintegration of the unemployed into the job market. The rights which have already been won by families, including universal allowances and parental leave benefits, should be preserved as fully as possible. A system of targeted benefits that fosters the socialization of children should be established for families at risk.

Access to services should be recognized as an important social resource. This segment of the social safety net has proven very important during the transition, particularly because, through services, social resources can be targeted at those who really need support, thereby alleviating the risk of poverty among the population in general. The relatively lower maintenance costs represent another good reason to emphasize social services as an effective arm of social policy. Support for free access to social services should include not only the regulation of fees, but also subsidies for special services, such as school meal programmes, student dormitories, free schoolbooks and free medicines. The development of social services should also involve the promotion of other services aimed at children, the elderly and the handicapped.

In a long-term perspective, the welfare policy of a transitional country should envisage integration within the social development trends common to Europe, even when economic transition imposes the abolishment or restriction of some acquired social rights. A resolution of the problems and difficulties related to the crisis of transformation will shift the focus of welfare policy from risk alleviation to active support for a wide range of social rights and the promotion of the capabilities of the individual.

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