

Social policy in south-eastern Europe

Background

i. Definition

"Social policy" will be used here in a broad definition encompassing the activities of governments, quasi-governmental bodies like social security agencies (e.g. public pension funds) or labour offices, and non-governmental organisations like labour unions, trade associations, and self-help and charitable organisations. The common goal of all these institutions and activities is to improve the social well-being of the population by protecting people against the risks of sickness, poverty, old age and unemployment. Industrial relations between workers and employers will be included as they affect these factors in many ways: the determination of wages influences the levels of both poverty and unemployment; working conditions affect public health; private pension schemes (often run by employers) complement public policies.

ii. Lessons from advanced transition countries

The transition has also led to a transformation of social policy in the transition countries on two accounts, namely in social crisis and reform. Firstly, it has increased the risks to the population, which has suffered from higher unemployment and more widespread poverty as formerly subsidised prices soared and nominal incomes, in particular social transfer payments (pensions, benefits), did not catch up with inflation. Secondly, the old communist social policy institutions had to be reformed and/or new ones, e.g. for unemployment, established. Within the communist planned economy, some tasks had not been necessary and many social policies had been run by the state-owned enterprises. The scope and depth of reform varied from country to country. Some countries (Hungary, Czech Republic) introduced innovative schemes such as capital-based old age pension systems (also strongly sponsored by the World Bank). West European debates about the reform of the traditional welfare state also influenced the reform process in central and eastern Europe.

iii. Special conditions in south-eastern Europe (SEE)

Both factors (social crisis and reform) can be observed in south-eastern Europe on a worrying scale. Where the crisis was more profound, reforms were often delayed, thus prolonging and possibly reinforcing the crisis. Post-transition recovery, which has led to GDP in 1998 being close to or above the level of 1989 in most central European countries (Poland 117, Slovakia and Slovenia 98, and Hungary and the Czech Republic 95, where 1989 = 100), has been largely missing in SEE (Croatia 77, Romania 75, Macedonia 72, Bulgaria 68 and Yugoslavia 52, also where 1989 = 100). Bulgaria and Romania have experienced renewed recessions after 1995/96. Employment declined by 13.7% between 1989 and 1998 in central Europe and by 25.8% in SEE. Unemployment rates in 1998 averaged 10.2% in central Europe and 15.4% in SEE.¹

Reforms, notably pension reform, have made some progress in the two associated applicant countries, Bulgaria and Romania, as well as in Croatia, although there is little progress in the remaining countries.

iv. Social policy in the Stability Pact

Social policy or, more precisely, the reduction of social risks like poverty and unemployment, have a direct impact on all three of the Stability Pact's Working Tables.

WT1 Democratisation and Human Rights: Not only are social rights human rights, but the sustained violation of minimum social standards undermines any attempt to create a stable democracy. Social policy is part of the relevant segments of WT1 such as "Good governance – public administration", "Education and youth", "Promoting political support for strengthening local self-government".

WT2 Economic Reconstruction, Co-operation and Development: Social policy can reduce resistance to economic restructuring. Income support stabilises demand. Education and health care increase labour productivity.

WT3 Security Issues: Social security reduces the tendency towards crime in so far as this is economically motivated. Using entitlements to social transfer payments might induce refugees to return to their homes if payments were made available there.

2. Social policy reform – strategies for south-eastern Europe

i. General considerations

Social policy reform in SEE suffers from severe constraints. Without economic recovery, no social policy will achieve more than a somewhat more equal distribution of poverty. Thus, a sound economic policy is crucial (but will not be considered here). Even with recovery, it is necessary to strengthen the state's capacity to run an effective social policy. Public budgets have to be consolidated; meanwhile, the collection rate of taxes and other contributions is poor and public administration is often corrupt and unreliable. There is also discrimination in the provision of social services on ethnic grounds. Consequently, social policies have to be designed in an economic way in order to save scarce resources. Private and civic initiatives have to play as big a role as possible. Social policy has to support and flank both economic development (growth, employment) and political development (civic support for democracy, non-violent conflict resolution, inter-ethnic co-operation).

ii. Health care

The cheapest way to maintain health is probably preventive care through informing and advising people on how to avoid health risks through quantitatively and qualitatively adequate nutrition and a generally healthy way of life. Another important way to prevent sickness is to reduce public and occupational health risks (e.g. pollution).

In most countries, a mix of private and public entities provide therapeutic (as opposite to preventive) health care. All solutions have costs and benefits. Public hospi-

¹ Data taken from UNECE *Economic Survey of Europe* 1999/2.

tals and health services (e.g. as in Great Britain) tend to have lower costs, but they are often slow and customers hold them in low esteem. Additionally, in many post-communist countries, customers have to pay fees or bribes to get treatment. Introducing competition by private suppliers can increase costs and exclude poor people from access to proper treatment, although service will probably become better. Where proper supervision and management of public health services cannot be achieved, privatisation will be to the benefit of the majority of customers. Self-help and charitable organisations can complement state and market in supplying health care and potentially avoid the disadvantages of both systems.

Poor people should get insurance coverage, possibly at subsidised rates. The real costs of treatment should be made known to customers under all systems, in order to avoid cost explosions.

Table 1 – Life expectancy in the region

Country	Male life expectancy at birth (years)		Female life expectancy at birth (years)	
	1990	1996	1990	1996
Albania	69.3	69.5 (1994)	75.4	75.6 (1994)
Bulgaria	68.1	67.1	74.8	74.6
Croatia	68.6 (1991)		76.0 (1991)	
Macedonia	70.1 (1991)	69.6 (1994)	74.4 (1991)	74.0 (1994)
Romania	66.6	65.3	72.7	73.1
Yugoslavia	69.1	69.9 (1995)	74.3	74.7 (1995)

Source: UNICEF: *Education for All ?* Regional Monitoring Report, No. 5, 1998, p. 102-103

iii. Education

Education is society's most important investment. It has a major long-term impact on both economic development and democratisation. It should, at the same time, train young people to obtain a basic functional education (reading, writing, maths) and marketable skills, and educate them in the civic virtues of respect for human rights, minorities and democratic rules. For the first aspect (employable skills), the German (dual) system of apprenticeships might be a model as it contributes to low rates of youth unemployment.

Training opportunities should also be provided in the context of an active labour market policy in order to enhance the matching of qualifications in supply and demand by, in particular, new enterprises.

Table 2 – Expenditure on education and basic education enrolment

Country	Public expenditure on education (% of GDP)		Basic education enrolment (% of 6/7-14/15 age group)	
	1990	1996	1990	1996
Albania	4.2	3.2	90.7	87.6 (1994)
Bulgaria	5.0	3.5	98.6	93.6
Croatia			94.0	88.0 (1995)
Macedonia	5.9	6.3	89.4	86.9
Romania	2.8	3.5	89.5	93.9
Yugoslavia			95.0	72.7

Source: UNICEF: *Education for All ?* Regional Monitoring Report, No. 5, 1998, p. 111-114

All planning has to take into account that the numbers of children have been declining rapidly in most countries. The age cohorts of 0-17 years have shrunk substantially between 1990 and 1997.

Table 3 – The quantitative weight of youth

Country	Child population 0-17 years (thousands)		Youth dependency ratio (0-17 to 18-59)	
	1990	1997	1990	1997
Albania	1295	1306	39.2	39.6
Bosnia	1244 (1991)	734		
Bulgaria	2188	1791	30.9	27.4
Croatia	1138 (1991)	995	28.9 (1991)	28.4
Macedonia	589 (1991)	577	32.5 (1991)	33.0
Romania	6635	5553	33.8	30.0
Yugoslavia	2916	2721	27.8	25.7
Region	16005	13677	32.2	30.7

Source: UNICEF: *Education for All ?* Regional Monitoring Report, No. 5, 1998, p. 111-114

iv. Housing

Except in war-torn areas where substantial (re-)construction is needed, housing policies should focus on the improvement and modernisation of existing housing (e.g. better insulation). Given the low- to medium- level of skill needed for many of the works involved, occupants (especially those who would otherwise be unemployed or who are under-employed) should be encouraged to repair and improve their houses themselves. This could save costs. They can also form co-operatives to mobilise sav-

ings (*Bausparkassen*), as has been customary in many developed countries, in particular at earlier stages of development.

Housing rents should be slowly adjusted to market rates covering costs. Rent controls can be an obstacle to investment in new or improved housing. When controls are abolished, benefits (*Wohngeld*) could be introduced. However, a long-term transfer from taxation to home-owners via housing benefits that permit higher rents should be avoided.

v. Employment

Creating employment is a task for economic rather than social policy. But social policy can certainly help. In particular, responsible behaviour by labour unions can substantially improve the demand for labour. Wages should not increase by more than the increase in productivity plus inflation. For some time, even smaller increases might be sensible in order to lower or stop inflation and to increase the profitability of potential investments. Such a long-term policy, against the immediate interests of employed workers, is probably only feasible when a competent labour union can enter into deals with employers and the government that ensure an equitable distribution of the long-term benefits. Greater participation of employees in company decision-making is also a possible compensation for wage restraint.

Active labour market policies can improve the matching between demand and supply on the labour market.

Unemployment benefits should not exceed wages in order to avoid "poverty traps" that discourage unemployed people from taking up low-wage jobs.

Minimum wages do not necessarily harm employment creation.

vi. Income support

Poverty and inequality have risen substantially in the region (as they have in all transition societies). In some cases, specific groups (e.g. Roma) have been particularly affected. Generally, income support is needed by families who have lost their regular source of income through death, accident, disease or other causes, or who did not in the first place have a sufficient income and who do not have one now. Income support should be combined with measures that redirect the recipients towards gainful employment where possible.

vii. Old age

With life expectancy relatively constant in the region (see Table 3 above), the problems of caring for the elderly result from the declining birth rate rather than from ageing as such. A further increase in the dependency ratio, which has already grown through the 90s (see Table 4 below), is thus to be expected. In most countries, pensions have declined in real terms when inflation has increased and nominal transfers have remained constant or grown much more slowly.

As in the west (and partially initiated by western donors, notably the World Bank), a debate has started about the respective costs and benefits of pay as you go (PAYG) versus fully-funded (FF) pension schemes. Often, the true problems are not openly

discussed. Both schemes will not solve the problem of inter-generational transfers, but will give them different forms. Under PAYG, either contributions have to increase (i.e. the active must lower their rate of consumption) or payments must decrease (either per head or through reduced entitlement periods, or in other ways). Under FF, the elderly have to sell assets (the product of years of accumulated savings), which will either reduce their prices (thus reducing the real income of the elderly) or which, at constant prices, will require higher demand thanks to the higher savings of the active population (i.e. again reducing their consumption).

Table 4: The elderly dependency ratio in the region

Country	Elderly dependency ratio (60+ to 18-59)	
Year	1990	1997
Albania	12.8	14.9
Bulgaria	25.5	27.4
Croatia	23.4 (1991)	27.3
Macedonia	17.4 (1991)	19.0
Romania	21.7	23.7
Yugoslavia	21.1	24.6

Source: UNICEF: *Education for All ?* Regional Monitoring Report, No. 5, 1998, p. 92

3. The process of social policy reform

The tasks of social policy in south-eastern Europe are gigantic. The reform process is quite advanced in some countries (e.g. Bulgaria, Croatia), but it has virtually to begin in others (Bosnia, Kosovo), where the very structure of statehood, let alone specific policies, are still in a state of emergence (if not emergency). In all countries, strategic decisions based, optimally, on a broad consensus have to be taken. As the experience of the west and the more advanced transition countries in central Europe shows, very different structures of welfare states are possible: the liberal Anglo-Saxon system; the conservative-corporatist system; or the more encompassing Scandinavian system.² And this choice might well not exhaust all possibilities.

Under the specific conditions of conflict-ridden, multi-ethnic societies, the design and management of social policies is a highly contentious issue. Ethnic groups dominating parts of the policy-making and state apparatus will try to channel benefits to their clients either through direct patronage or the clever design of apparently impartial rules (with real partial effects). The more politicised certain social policy arrangements are, the more open they are to that kind of ethnic-clientelist tinkering. Unfortunately, even pure market-based systems are not immune to that kind of power.

² See Gösta Esping-Andersen (1990): *The three worlds of welfare capitalism*, Oxford.

Different stages or phases of policy reform can be discerned, although they might not always all take place in the logical sequence of the following list:

- A starting point is a *diagnosis* of the needs which assess the social problems individual countries are facing now and in the future. That includes statistics and forecasts of population, employment, income etc., and the resulting needs for health, education, housing and income transfers
- On the basis of such an assessment, which will often include sets of scenarios rather than indisputable facts, the population and the policy-making apparatus will have to take a *strategic decision* on certain basic types of systems (scope, tax-based or contributions, state or market etc.). That choice will be strongly influenced by values and interests as politically expressed by competing parties
- That strategic choice provides the fundamentals for the *design of concrete policies* in different areas. Obviously, a housing policy that relies basically on the market will look very different from one relying on public construction projects with a subsequent political-administrative allocation of housing to target groups
- The *implementation* of any policy needs an efficient administration, though to a varying degree. But even market-oriented approaches need public regulation and political supervision
- Eventually, *evaluation* (by comparing targets and achievements) will be a useful corrective factor in further policy development.

4. The tasks for international co-operation

International organisations seeking co-operation can enter the cycle of social policy reform at all stages. Their main partners will be the institutions and organisations involved in the design and implementation of social policy.

These institutions have to be strengthened on various levels:

- *Governments* Effective government is a central pre-condition for all policies. On the central government level, all branches of government – executive, legislative and judiciary – have to be improved
- *Governmental agencies* Public institutions play a major role in the provision of core social services such as schools, hospitals, medical centres, local administration for welfare, labour offices, etc.
- *Societal organisations* Trade unions, self-help organisations and other civic organisations need to be developed and strengthened. This is predominantly a task for similar institutions in advanced countries.

For each institution, supporting measures can try to improve different stages and aspects of their activities, in particular in the following three dimensions:

- *Internal efficiency* can be strengthened by management consulting and training (e.g. budgeting, personnel, planning ...)
- *Policy development* benefits from consulting and dialogue with similar institutions in more advanced countries (information visits)
- *External efficiency*, i.e. the implementation of policies, should be improved through management consulting and training.