

POLICY PAPER NO. 1

**LABOUR MARKET DEVELOPMENTS
IN EASTERN AND CENTRAL EUROPE**

by

Guy Standing*



39464

Note: *Director, Central and Eastern European Team, International Labour Organisation.
Budapest H-1066, Mozsár u. 14, Hungary

January 1993

Sp.4

LABOUR MARKET DEVELOPMENTS IN EASTERN AND CENTRAL EUROPE

1. Introduction

While the human suffering and deprivation in many parts of the so-called developing world defies sensible comparison with developments in other parts of the world, it is understandable that recent economic and social upheavals in the countries of eastern and central Europe should have attracted global attention. Nurturing and sustaining a climate of democracy and equitable growth in this region will be vital for the future global economy.

The economic reality in the ECE region since the late 1980s has been calamitous. One may quibble about the exact magnitude, yet nobody disputes that the economic decline has been tragic and frightening. And as of late 1992, it was continuing, bringing social discord, wars, ethnic and religious tensions and unhappy memories of things past.

This paper reviews the main labour market developments that have emerged from the economic chaos and the pursuit of "structural adjustment" strategies in the countries of the region, drawing in part on ILO studies in seven of the main countries. A basic premise is that without effective micro-level institutional restructuring, including adequate attention to the full range of human development policies, macro-economic stabilisation and adjustment strategies will fail by any decent yardstick.

The notion of eastern and central Europe is an expanding concept, in two senses. The number of countries that have moved into a process of "transition" has been growing, and the number of independent countries has been growing.¹ For our purposes, although each country is distinctive in structure, performance and potential, one should distinguish between them according to the extent and pace of change, between the "early starters" (Hungary, the Czech and Slovak Republics and Poland) and the "late starters" (primarily the countries of the former Soviet Union, as well as Bulgaria, Romania and Albania), as well as according to whether they have adopted what is euphemistically called a "shock therapy" approach to structural adjustment or what we might call an "institutional reformist" approach.

2. The Economic Context

Whatever the distinction, in 1990-92 all countries of the region were hit by a cruel combination of factors that plunged their fragile economies into deepening crises. The enormous declines in GDP in 1990 and 1991 owed much to the collapse of trade between the countries themselves, following the collapse of COMECON and the Soviet economy, the fall in export earnings and the associated inability to import, coupled with the

¹ If one includes those of the former Soviet Union, there are at least 25 ECE countries.

inflationary and recessionary impact of energy price rises due to the Gulf War and the effects of the recession in the industrialised market economies. The profound dislocation deserves a new name -- *hyper-stagflation* -- to describe circumstances in which there has been upward of 500% inflation in a year coupled with a fall in national income of one-third.²

At the end of the 1980s, GDP per capita in eastern and central Europe overall was probably no more than one-eighth of the average in western Europe. Yet in 1990, real GDP in the region fell by over 7%, and in 1991 it fell by well over 10%.³ In Bulgaria and Romania, industrial output fell 20% in 1990 alone, in Poland it fell by 23% and in the former east Germany it probably shrunk by over 25%. In the countries of the former Soviet Union, the fall was probably higher.⁴ In no country in the region did real GDP rise in 1991, and in 1992 there have been further declines, in some cases very steep declines. In Hungary, for instance, GDP fell by over 10% in 1991 and is expected to fall by about 8% in 1992.⁵ In Czechoslovakia, after falling by 16% in 1991, national income continued to fall in 1992, and by mid-year was 13% down on the same period a year earlier.⁶ But in 1992, differences in performance have been notable. Although industrial output in Czechoslovakia, Hungary and Poland fell on average by 11% in the first half of 1992 (compared with 12% in the first half of 1991), both Poland and Hungary are expected to have only small declines in GDP in 1993.⁷ In Russia, after shrinking by over 11% in 1991, national income shrunk by about 20% in the first nine months of 1992 and industrial output by nearly 18%, while in Ukraine industrial output fell by about 10% in the first nine months of 1992, twice as much as in 1991, during which time national income fell by about 11%.⁸

² One can quibble about definitions, omissions, etc., but although inflation has probably been underestimated, and the fall in national incomes probably slightly overestimated, the composite "misery index" has been pretty awful by any standards.

³ Industrial output in eastern and central Europe, according to the Vienna Institute for Comparative Economic Studies, was 13% lower at the end of the first quarter of 1991 than it had been in the corresponding period in 1990. Even more worrying, investment had fallen by about 20% in that time.

⁴ See, e.g., Ministries and Departments of the Government of the Russian Federation, *Draft Programme of Reform* (Moscow, June 1992).

⁵ *Figyelo*, Budapest, October 1, 1992.

⁶ Some observers mistakenly believe that the decline in GDP has been predominantly in the Slovak Republic, but although it was much greater there (declining by over 26% in 1991), most estimates suggest that there was a double-digit rate of decline in the Czech Republic as well.

⁷ Overall, the countries of Bulgaria, Czechoslovakia, Hungary, Poland and Romania are expected to experience a fall of 6% in GDP in 1992, after an average of 12% in 1991. According to the Vienna Institute, the fall is projected to continue, at a slower rate, in 1993.

⁸ Data kindly supplied by Goskomstat of the Russian Federation, Moscow, and Goskomstat of Ukraine, Kiev.

In ordinary industrialised market economies, such performances would have produced something like the Great Depression of the 1930s, and in some parts of the ECE region such comparisons are already apt. However, there have been various forms of inertia and "distortion" that have slowed the emergence of crisis in the fledgling labour markets of the region. In essence, unemployment has not risen by as much as might have been expected. Among the factors that explain that peculiar developments are the pre-existing structure of employment and the fact that "unemployment" had been banished from the official system for decades -- since the 1920s in the former Soviet Union. That created a psychological barrier to the admission and recording of unemployment.

There are three features of the employment structure that in eastern and central Europe have to be taken into account in considering labour market developments in the early 1990s. *First*, the economic restructuring had to start from a distorted industrial structure of output and employment. In some of the countries, that was not quite what many commentators believe. All agree that the tertiary sector, i.e., services, was small and inadequate for a modern economy, and it is generally recognised that new jobs and skills will have to be developed in that part of the economy, in consumer, producer and financial services. Yet it is not so much that the manufacturing sector ("material production") has been excessive -- although on average it has been by western European standards -- but that agriculture and the primary sector generally was artificially maintained as a large proportion of total employment, particularly in Poland and the countries of the former Soviet Union.

Since labour productivity in agriculture has been low, for the next few years a feature of many of these economies will be high labour mobility out of agriculture, hitherto perceived as something of a labour reservoir. That in itself will contribute to labour market problems of unemployment and segmentation.

Some sectoral restructuring of employment has started. In most countries there has been a shift from heavy industry to consumer goods and services, and within manufacturing away from the military-industrial complex towards light industry. Yet manufacturing is not expected to be the source of increased employment. That role is left for services. And one must note that, according to official statistics, service employment actually *declined* in 1991 in many countries of the region. It rose in Romania, but fell in Bulgaria, Czechoslovakia and Hungary. Admittedly, service sector employment held up *better* than manufacturing, agricultural or construction sector employment in those countries.

The *second* structural feature is that there has been what by international standards has been a distorted size structure of enterprises, with large proportions of the workforce concentrated in large-scale, old enterprises with obsolescent technology.⁹ There has also been a chronic lack of capacity to generate new enterprises, since there has been an inadequate incubator system of small firms with diverse forms of ownership and organisation. So, reformers have had to grapple with an urgent need to restructure

⁹ In a survey carried out by the ILO in Russia in 1992, the mean average age of factories was over 70 years.

enterprises, often having to break them up and encourage forms of labour mobility and reskilling with which neither the authorities nor workers have had any familiarity.

The *third* structural feature is, of course, the predominant role played by the State and the overwhelming emphasis given to "privatisation" as the means of economic regeneration. In most of the region, a majority of workers still work for state-owned enterprises, but the state sector has been shrinking fast, in terms of output, income and employment, while the "private" economy has everywhere been growing, in relative if not absolute terms.¹⁰

Privatisation has come in three main forms -- spontaneous, legislated and conversion. The latter refers to the transformation of state enterprises into joint ventures, which have been most common in Hungary and Poland.

Spontaneous privatisation includes the emergence of small-scale enterprises, many of which have been informal, if not illegal. This pre-dates the "transition" phase. Thus, in Hungary in 1987 there were already over 33,000 private retailers with 23,000 employees, and the number has merely grown since then. In Czechoslovakia, by 1991 there were about 400,000 registered private concerns, many of them being own-account activities or, in reality, wage employed workers classified as "self-employed", put in that status to avoid social security contributions. In Poland, by mid-1991 there were reported to be 1.3 million individual private businesses, 96% of which had fewer than five employees. By early 1992, over 40% of the whole employed workforce were in non-state employment, even though the shift from public to private was less than widely believed, since in 1991 cooperatives were reclassified as private and because the shift partly reflected the greater fall in public than in private sector employment rather than any growth in private sector jobs.

It is legislated privatisation that has received the bulk of attention, and since this has been sluggish, an impression has been given that overall privatisation has been limited. In any case, this form has begun to accelerate, notably with the radical voucher schemes in the Czech Republic and the more ambitious coupon scheme in the Russian Federation launched in October 1992.

On one point, all observers are agreed. Whatever the form of legislated privatisation, the immediate result will be a massive shedding of jobs in newly privatised firms. This will be even more rapid if "mass privatisation" coincides with the introduction of effective bankruptcy laws, the absence of which has been a key factor in slowing the decline in employment in the wake of the sharp falls in output and capacity utilisation.¹¹

¹⁰ In Hungary, which is probably not atypical in this respect, the relative size of the private sector has proved hard to estimate. One recent study suggested that about 15% of all wage earners were in the private sector by early 1992, another has suggested that the figure was 37%. *Magyar Hirlap*, Budapest, October 27, 1992, p.11.

¹¹ In Hungary, senior Ministers have expressed the fear that rapid implementation of an anticipated proper bankruptcy law will result in the loss of 40% of industrial jobs.

3. Labour Market Outcomes

a. Labour-market related poverty

The worst aspect of the restructuring is the appalling growth in the number of people living in poverty. In every country for which there are data, the proportion of the population living below some measure of a poverty line has grown, in most cases drastically. Thus, the number of households in poverty has risen sharply in Bulgaria, the CSFR, Poland and Romania, and it is widely believed that the actual number exceeds those recorded in official statistics.

In Bulgaria, according to such statistics, by early 1991, over 70% of all households had incomes below the official social minimum, which was up from 41% two years earlier. In Poland, in 1991 over 40% of all households were classified as living in poverty, again up sharply from two years earlier, and by mid 1992 official estimates, (GUS) indicated that over 50% had incomes below the poverty line. Worst of all, in the countries of the former Soviet Union, according to unofficial estimates by prominent economists, by the end of 1991 about 100 million people were living below the official poverty line, with average real family incomes in some areas being 26% below their levels at the beginning of the year.¹² In 1992, after price liberalisation and slackening of monetary policy that unleashed hyperinflation (consumer prices will have risen by over 1500% by the end of 1992), it was estimated by Goskomstat (the Russian Government's Department of Statistics) that over 80% of the Russian population had incomes that put them below the designated poverty line.¹³ In late 1992, commentators in Moscow were referring to living standards being in "free fall", with the *average* household spending over 75% of its income on food, twice as large a percentage as a few years ago.¹⁴

Whatever the criteria for measuring poverty, it seems to be increasingly related to labour market status and experience. Although many of those suffering declines in living standards have been those cut off from the labour force, such as pensioners, many more have been impoverished as a result of their changing labour force position. Many have been pushed into precarious, low-income jobs, others have suddenly found themselves unprotected by minimum wages, either because they have not been applied or because enterprises have been unable to pay them, as in Bulgaria, where the real value of the minimum wage was halved in 1991. Possibly worst of all, those cut off from the formal

¹² *Trud*, November 21, 1991.

¹³ One response has been to redefine the poverty line, but the fact that a very high and growing proportion of average family expenditure is spent on food supports a belief that the old measure was reasonable.

¹⁴ In mid 1992, the new official definition of poverty set the minimum amount of meat per capita per year at 27 kilos, whereas the poor were expected to need 64 kilos per year in 1991. Similarly, in late 1992 to be counted as poor one had to have an annual consumption of less than 70 litres of milk per year, whereas the minimum set in last year's consumption basket was 120 litres. The poor also apparently need much less sugar than in the past. *Trud*, October 16, 1992.

economy have typically lost access to many forms of social payments and welfare provided through the enterprise, on which the distribution of social welfare was traditionally bad.

As an example of the poverty explosion, Table 1 presents the percent of households of different types having incomes per capita below the official "low income" level in Poland.¹⁵ As can be seen, the sharpest deterioration occurred for worker households. Given the further cuts in social transfers in 1991 and 1992, and further cuts about to come into effect (November 1992), one can appreciate the gravity of social marginalisation highlighted in Table 2, which shows that nearly eight out of every ten households depending wholly on social transfers perceived their situation as bad or very bad.

Table 1:
Percent of Households with Income per Person
below the "Low-Income" Level, by Household Type
Poland, 1981-90

Year	-----Household Type-----				
	Total	Worker	Worker- Peasant	Peasant	Pensioner
1981	14.2	10.6	16.4	16.9	23.3
1989	16.3	13.7	12.3	22.3	26.4
1990	33.2	33.2	28.3	41.8	32.2

Source: Central Statistical Office, Warsaw; Kordos, 1992, op.cit., p.7.

¹⁵ Unfortunately, the data were not calculated on a per equivalent adult basis, which is being rectified in an ongoing survey. J.Kordos, "Poverty measurement in Poland", paper presented at Conference on Priorities of Social Policy in Poland in the Context of Foreign Assistance, Warsaw, March 11-13, 1992.

Table 2:
Percent of Households assessing their Economic Situation
as Bad or Very Bad, by Household Type,
Poland, 1989-90

Year	Total	-----Household Type-----						
		Wrkr	Wrkr- Peasant	Peasant	Pension	Only Benef	Priv*	Self- emp.
1989	22.5	19.6	12.6	14.2	36.6	76.6	18.5	5.4
1990	28.8	25.8	16.1	22.2	41.5	79.2	23.4	11.3

Source: As for Table 1.
 Note: * persons employed outside state sector; "Only benefits": those dependent on state transfers.

Across eastern and central Europe, millions of workers in the state sector have joined the "new working poor", whether through cuts in real wages, loss of social benefits traditionally provided by employing enterprises, shortened working time or periodic bouts of prolonged unpaid leave, the latter having been a very common response of managements in Bulgaria, Romania and Russia.

Meanwhile, youths have been drifting into poverty through prolonged non-access to jobs, or by being pushed into low incomes in the "informal", often illegal, economy. And very many older workers have been impoverished by having been dismissed from jobs that they desperately needed to enable them to survive on woefully inadequate state pensions. Yet beyond these stylised facts, there is much to be learned about the emerging links between the recent enormous labour market developments and the undoubted growth in poverty and inequality. It will be essential to identify those links if cost-effective and more equitable labour market and social policies are to be formulated and implemented. Many of the existing policies, and many of those being advocated or planned in the region, are based on very questionable presumptions.

b. The Arrival of Mass Unemployment

Besides the growth of poverty, the main labour market story of 1991-92 has been the growth of mass unemployment in the ECE region. The stark realities of the economic dislocation would have caused severe labour market problems whatever the structural adjustment strategy followed. Yet one senses that more could and should have been done to temper the worst effects.

The picture is certainly complex. First, despite the enormous declines in aggregate economic output, the overall decline in employment in 1990-91 was *relatively* modest. This implies that there was a very severe fall in productivity, precisely at a time when successful restructuring requires a rapid growth in productivity, to start closing the enormous gap between eastern and western European levels. Thus, for instance, in

Poland in 1990-91, a fall of 36% in industrial output coincided with a 14% cut in employment, implying nothing less than a 22% fall in labour productivity.¹⁶

In 1991, the fall in employment began to accelerate, and mass unemployment began to characterise most of the economies of the region. In 1992, the situation has deteriorated further, and taken overall -- i.e., including Russia -- the prospects for 1993 are bleaker still, although some believe Poland has begun a recovery.

It is probably accurate to identify *three phases of employment decline in eastern and central Europe*. In 1989 and 1990, in most of the countries, the rise in unemployment came mainly from a combination of traditionally high levels of labour turnover, a slow decline in employment and a continuing influx of new labour force entrants. This is the *first phase*. Thus, for example, in an ILO survey of over 400 Hungarian factories conducted in 1991, it was clear that among enterprise managements a perception of labour surplus had only become more common than a perception of labour shortage during 1990. In a comparable, somewhat larger survey in Bulgaria, the same sort of change was observed. Significantly, in a comparable, two-round survey of over 500 Russian factories in 1991-92, this turnaround was only found to have occurred in 1991. This reflected the "late starter" character of Russian labour market developments.

In most of the region, a *second phase* of gradual disemployment, reflecting a drying up of recruitment and a growth of individual redundancies, was soon replaced by the *third phase*, characterised by mass layoffs and plant closures, and a tightening of the "hard budget constraint". Thus, in Poland those who were classified as becoming unemployed in "mass layoffs" rose from about 17% of the total in 1990 to 23% in December 1991, and the percentage continued to rise in 1992. In Bulgaria, Czechoslovakia and Hungary similar trends have emerged, although as in most social and economic respects these have lagged behind Poland. In Bulgaria, our survey has shown that industrial employment fell by 31% in less than two years, most coming in 1991-2.

Throughout the region, although perhaps expected to rise even more, open unemployment began to rise very rapidly in 1991. The situation will surely become worse, intensified not just by the stabilisation and structural adjustment measures, which have been leading to labour shedding from moribund state enterprises, but by the desire for currency convertability and trade liberalisation, which in the short-term at least contribute to the rise in imports and a resultant loss of domestic market shares by local producers.

Although unemployment during most of 1991 remained moderate by the recent standards of western Europe, where overall the average rate was about 9.5% in late 1992, it was the rate of increase that was alarming, particularly in the "early starter" countries. Thus, in

¹⁶ Some claim that Hungary, which began its reform process earlier than elsewhere and which has taken a more gradualist approach to reform, experienced a slower decline in both wages and employment in the 1989-92 period. See, e.g., K.Dervis and T.Condon, "Hungary: An emerging gradualist success story?", paper presented to Conference on Transition in Eastern Europe, National Bureau of Economic Research, Cambridge, Mass., Feb.26-29, 1992. However, employment decline in Hungary has been considerable.

Bulgaria the unemployment rate rose from 1.5% at the end of 1990 to over 10% by the end of 1991, in Czechoslovakia it rose from 1% to nearly 6%, in Hungary from 1% to nearly 9%, and most spectacularly in Poland it rose from 6% at the end of 1990 to over 12% by the end of 1991.

In 1992, most of the countries of the region have been experiencing double-digit rates of unemployment, a situation for which they have been ill-prepared, psychologically, financially or administratively. In eastern Germany, by late 1991 the rate was over 14%, while a further 15% of the labour force were on short-time and nearly two million workers were kept out of unemployment through enforced early retirement, short-term job schemes and retraining programmes, costing over 20 billion D-marks (US\$12 billion), the sort of figure that would be impossible for other countries in the region to afford. Even so, unemployment went on rising, so that by January 1992 there were over 1.34 million unemployed, i.e. 16.5%. And the German Institute for Economic Research (DIW) in Berlin predicted that high unemployment will persist in eastern Germany for the rest of the century.¹⁷

East Germany was not alone in experiencing an early rapid growth of mass unemployment. In Poland, the official registered unemployment rate rose to over 12% by the end of 1991, and by February 1992 there were 2.2 million registered unemployed, representing 12.3% of the economically active population and about 80 registrants for every job vacancy. During 1992, the levels of unemployment in Bulgaria, Czechoslovakia and Hungary rose remorselessly towards the levels experienced in Poland. And the smaller countries were hit just as much as the larger ones that received most of the international attention. Thus, Slovenia's unemployment rate rose fivefold in two years, to over 10%.¹⁸ In Albania, there have been reports suggesting that an almost incredible 50% of urban workers were unemployed in 1992. In war-torn "Yugoslavia", one dare not speculate on the level.

Although the levels of official registered unemployment in Russia and other parts of the former Soviet Union have remained low, during 1992 the rate of increase has been unprecedented and there are ample reasons for believing that the registered figures chronically understate the real level of joblessness.¹⁹

In short, an era of mass unemployment has arrived in eastern and central Europe. Rates of over 15% may well last for years. There is no cogent reason for believing that the economic restructuring will be marked merely by a short period of high unemployment and labour market-related increases in poverty. If one recalls the adjustment policies

¹⁷ *Handelsblatt*, Feb.11, 1992, p.1.

¹⁸ I.Svetlisk, "Reform of social policy in Slovenia - A soft approach", paper presented to meeting of the Editorial Board of the Journal of European Social Policy, Prague, October 3, 1992.

¹⁹ Guy Standing, "The Russian Labour Flexibility Survey: Background and Context", paper 1, presented at Conferences on Employment Restructuring in Russian Industry, Moscow and St.Petersburg, October 21-28, 1992.

pursued in the 1980s in some west European economies, where in spite of relatively well-developed labour market mechanisms, double-digit rates of unemployment have persisted for nearly a decade, then why should anyone expect anything less serious and prolonged in countries without such established mechanisms to facilitate labour mobility and employment regeneration ?

Furthermore, in tracking the growth of unemployment, account must be taken of the patchiness of the available statistical information and the dubious picture sometimes given by the registered totals. For instance, when Polish unemployment was over 12%, the Minister of Labour and Social Policy told a conference in Warsaw in March 1992 that hidden unemployment in induced early retirement (about 600,000 people) and in jobs without work (900,000) should probably be added, implying a rate of over 20%.

More generally, as unemployment was scarcely recognized as a legitimate activity under the old "full employment" systems, there was little perceived need to measure its level or incidence. As networks of employment exchanges did not exist, job-seekers could scarcely "register" as such, and it has taken time for both the jobless and statistical offices to come to terms with recognizing, conceptualising and measuring unemployment. Until household labour force surveys currently underway or planned in most countries of the region are reported, current unemployment estimates will remain based on numbers of registrants at local employment offices. Such figures can be expected to be more incomplete than they are in western Europe, for instance. One sample survey in Hungary in 1990 suggested that the number reporting themselves as unemployed was *four* times the number recorded by the registration data.

The differences may be much less than implied by such contrasts, because some of those reporting themselves as unemployed may have part-time, casual or "informal economy" work. However, there is no doubt about the enormity of the emerging unemployment or of its understatement in official data. Nowhere is this more true than in Russia, where official data indicated that in October 1992 there were only 367,000 unemployed when the declines in employment and growth in the working age population suggested that the real levels could be at least ten times as much.

Whatever the levels prevailing in 1992, the unemployment crisis is going to persist for some years and demands suitable human resource and labour market policies on an unprecedented scale and ingenuity.

c. Growing Labour Market Segmentation

In the context of the restructuring of the labour market and the growth of unemployment, various socio-economic disparities have been emerging. Among these have been sharp regional differences in employment decline and unemployment, often due to the collapse of heavy industries and the accelerating pace of industrial conversion. Already, in Hungary in 1991 unemployment rates in some regions were ten times higher than in others, as has been the case in Russia in 1992. In Poland, unemployment rates in September 1992 ranged from about 5% in some voivodships (counties) to over 30% in

others. Such disparities have stimulated internal migration and distress migration into western Europe, although so far less than many commentators believe.

This leads to consideration of one of the most worrying tendencies in the emerging labour markets, that is, the growth of labour market stratification and segmentation, whereby certain groups are threatened by social, economic and labour market marginalisation, pushed into low-income, precarious forms of work or out of the labour force altogether, often into the rapidly growing underworld of organised and disorganised criminality.

In many parts of eastern and central Europe, a fear is that ethnic minorities and non-local residents hit by restructuring are facing increasing difficulties linked to discrimination and persecution, a problem intensified by the resurgence of nationalism and political populism, both of which are fanned by the effects of the "shock therapy" and rising unemployment and poverty.

As far as the labour market is concerned, the levels of unemployment of minorities have mounted alarmingly. For instance, the official unemployment rate of Gypsies in Slovakia in 1992 was over 30%, over four times the rate for other groups in the population. In Bulgaria, there are reports that over 50% of the Turkish minority and over 80% of working-age Gypsies are jobless. Such minorities are often concentrated in declining sectors, or in jobs that are destined to be cut, and usually face direct discrimination in recruitment.²⁰ The special problems of such groups means that much more attention should be given to their plight than has been so far.

Second, there is mounting concern that *women* will be particularly adversely affected by labour market trends. Under the old systems, women were relatively integrated into the labour force, having attained high labour force participation rates by international standards, even if opportunities for occupational and social mobility may have been far from equitable, and even though there was concern about many women's onerous "double day" work, since typically full-time wage employment had to be combined with domestic work. Yet now a fear is that women will lose as labour force participants by being converted into "secondary workers", suffering disproportionately from dis-employment and unemployment, being pushed out of the labour force or experiencing a relative decline in their wages and benefits.

In east Germany, for instance, in 1991 women made up 62% of all the registered unemployed, and many other women were known to have been pushed out of the labour force. In Russia, the female share of registered unemployment has been even higher. In mid-1992, women made up a remarkable 78% of all the registered unemployed. Similarly, in Bulgaria nearly two-thirds of the registered unemployed in 1991 were women, though their share has been declining, perhaps because of the tightening measurement and registration conditions.

²⁰ See, for example, G.Sziraczki, "Redundancy and regional unemployment: A case study in Ozd," in C.Hann (ed.), *Market Economy and Civil Society in Hungary* (London, Frank Cass, 1990), pp.125-239.

However, although women have experienced a deteriorating labour market situation throughout the region, it has not always been worse than for men, as is suggested by the respective unemployment rates (Table 3). In Hungary, for instance, as it was heavy industry that shed most jobs, it was men who experienced the greater growth in unemployment in 1990-92. And in Poland, slightly less than half the registered unemployed have been women. One is even suspicious about the gender incidence of registered Russian unemployment, since our industrial survey actually showed a slight rise in the female share of employment over the two years covered by the survey.²¹

Table 3:
Registered Unemployment Rates, by Gender,
Eastern and Central Europe, First Quarter 1992

	-----Unemployment Rate-----		
	Women	Men	Total
Bulgaria	14.5	13.7	14.1
Czechoslovakia	6.8	6.2	6.5
Hungary	8.8	10.8	9.8
Poland	13.8	10.7	12.1
Romania	5.7	3.2	4.3

Source: National statistical offices.

One factor tending to push up female unemployment disproportionately is that throughout the region they accounted for many of the low-skilled, low-productivity jobs, including clerical "employee" or "specialist" positions. It is this type of post that has been most severely cut, as administrative strata have been slashed and as large state enterprises have been slowly dismantled, so removing the need for layers of bureaucratic staff.

For women, one reason for concern is that there is ample evidence of an erosion of social benefits, and one effect of those benefits (deliberate or otherwise) was that they enabled women to take and stay in paid employment.

Of course, a well-known difficulty with assessments of female unemployment is undermeasurement due to reliance on employment exchange registration data. As an example, information collected during the fieldwork for the ILO industrial enterprise survey in Bulgaria in 1992 indicated that while registered unemployment in one industrial

²¹ G.Standing, "Women's employment in Russian industry: Fears of marginalisation ?", Paper 6, presented to the Conferences on Employment Restructuring in Russian Industry, Moscow and St.Petersburg, October 21-28, 1992.

area, Pleven, went up *tenfold* in one year, the cut in employment was twice as much again, and the local statistical office "guesstimated" that total unemployment was twice the registrant count. Most of those not recorded were apparently women. There is little reason to think that this is an isolated or extreme case of the tendency to underestimate the labour market plight of women in the current circumstances.

Another group facing growing labour market difficulties consists of *youths*. Throughout the region, youth unemployment has been rising sharply as new "formal" wage employment opportunities have dried up. Again, a prominent example is Poland, where in early 1992 one third of all the unemployed were under the age of 24, most having completed secondary schooling. In Czechoslovakia, the teenage unemployment rate in early 1992 was over 30%, when the overall rate was a little over 5%, and in Slovakia the teenage rate was over 50%. In June 1992, no less than 47% of all the unemployed in Czechoslovakia were under the age of 30 and 31.5% were under the age of 24. In Hungary, age differences were less pronounced, but still the unemployment rate of 15-19 year olds was 25.5%, by when the overall rate was 11%.

Because those entering the labour force must possess the skills and aptitudes needed for the forthcoming period of attempted economic regeneration, it is worrying that a vast number of teenagers and those in their early twenties could drift into a debilitating period of long-term unemployment, making it hard for them to acquire the skills and attitudes that will be essential if the transition process is to be a success.

The link between educational levels and unemployment is not as clear as might be supposed, since the role and effect of education in the ECE region were distorted, as discussed later, and because there is usually a cohort effect, younger age groups typically having a higher average level of schooling than older generations. Even so, in most of the countries, the probability of unemployment has been inversely related to schooling attainment. Czechoslovakia is a case in point, where at the end of 1991 the unemployment rate of those with primary or lower-secondary schooling was 7.9%, compared with a rate of 3.8% for those with university education. A similar pattern can be observed in Hungary. One merely wonders at the underlying causal relationship, since access to jobs and to higher education may well have had similar causes.

As in western Europe, another group hard hit by the restructuring and rising unemployment consists of *older workers* in their fifties and sixties. The long-standing pattern was for the extensive employment of "pensioner workers", to compensate them for the dismally low state pensions. In Czechoslovakia, for example, 32.6% of men aged 65-69 were employed on average in the late 1980s, and 9.4% of women of that age, even though the official retirement age was 60 for men and 53-57 for women.²²

²² M.Potucek, "Current social policy developments in the Czech and Slovak Republics" (Prague, August 1992), p.9.

In most of the countries of the region, that pattern has given way gradually to the displacement of such workers and growing resort to earlier retirement schemes, although in the first phase of employment decline their share typically stabilised or rose.²³

In the ILO's enterprise surveys in Bulgaria, Hungary and Russia, it has been observed that this pattern of marginalisation takes time to emerge, but has consistently done so. Thus, nearly 86% of all industrial establishments in Hungary had responded to growing labour surplus by pushing workers into early retirement. And in Bulgaria, the pension-age worker share of total employment fell sharply to 2.6% by late 1991.

Perhaps the main labour market problem associated with this trend is that older, pre-pension age workers may also be pushed into the margins of the labour force, because of discrimination in hiring and firing and access to training and retraining opportunities, for which there would probably be no justification on efficiency grounds, let alone on grounds of social equity. As a result, such workers may find -- and have found -- it hard to remain in the economic mainstream or avoid severe declines in living standards.

4. Labour Market Policy Developments

Labour market policies will have to figure prominently in eastern and central Europe in the next few years, as they have in western Europe over the past decade. Already the rhetoric has run ahead of the reality, and there are few governments that have not pronounced themselves as intent on promoting an "active" labour market and social policy. Budgetary constraints and other factors have made the outcomes rather modest.

Labour market policies will be expected to cut unemployment, reduce labour market segmentation and the increasingly disadvantaged position of vulnerable groups in society, promote geographical, occupational and industrial labour mobility and raise productivity.

In the initial phases of the reform process in many countries of the region, the primary response of governments was to pass comprehensive "framework" employment laws. An early example was the USSR's *Fundamentals of Employment Legislation of the USSR and the Union Republics*, a cumbersome piece of legislation to match its name that after protracted drafting was formally adopted in January 1991 and came into effect in July 1991. Individual republics and the newly independent states soon introduced their own versions of an employment law. Since then, various components have been abandoned, and others seem to have been ignored. But these laws were a start in formally recognising unemployment and the responsibility of national and local governments for dealing with it and with human resource development within the context of labour markets.

²³ See, for instance, G. Standing, "Pension-age workers and other vulnerable groups", Paper 7, prepared for the Conferences on Employment Restructuring in Russian Industry, Moscow and St. Petersburg, October 21-28, 1992.

In the Czech and Slovak Republics, a *Law on Employment* was introduced in 1990, and in Hungary the strands of earlier partial reforms were integrated in a comprehensive law on employment introduced in February 1991. The Bulgarian equivalent followed in 1992, by when the Russian Government was attempting to introduce a new comprehensive employment law, in part to make up for the deficiencies of the earlier USSR law.²⁴

The importance of these laws is that they created a legal and administrative basis for the development of a wide array of labour market policies, making commitments on such diverse issues as the "right to freely chosen employment" and income transfers to public works and labour market training and retraining schemes. They represented the first steps on the road to the creation of a *regulated labour market*.

This development has led to unresolved tensions over the degree to which policy responsibility should be centralised or decentralised, and the degree to which the government alone should be responsible, relative to relying on some "tripartite" mechanism or the partial privatisation of social and labour policy. These are familiar debates in western Europe, but have a particular intensity and long future in central and eastern Europe.

It might be useful to conclude this review by briefly reviewing the emerging mix of labour market policies designed to respond to unemployment and the patterns of labour market restructuring, if only to highlight the considerable challenges that will have to be faced in the next few years.

(i) The Emergence of Employment Services

To function adequately in a modern industrial economy, all human resource policies must be backed by an adequate services network, which means in practice a network of employment exchanges and support services. Nowhere in eastern and central Europe has such a network existed. In the past two years, considerable effort -- and in several cases, considerable international financial assistance -- has been devoted to rectifying this. The most substantive programmes so far have been in the former east Germany and Poland. In the latter, a huge World Bank-funded employment services project was launched in 1992.

Throughout the region, the development of basic employment services should receive high priority for some years. Not only did the old employment offices fill a different role from what employment services are expected to play in a well-functioning labour market, but the number of offices and staff were minimal, if they existed at all. Thus, in Czechoslovakia, employment offices only started to operate in November 1990; in Poland, in 1991, there were only about 390 offices for a population of over 35 million, in Hungary there were only about 160 in a country with a population of over 10 million. At the end of 1991, Poland had 49 labour offices at the voivodship (county) level and 356 at the local (district) level, employing a total of 7,630 staff. As there were then 2.2 million

²⁴ At the time of writing, this was finding few friends in the legislative corridors of Moscow.

unemployed, that implied one official for every 321 unemployed.²⁵ By mid-1992 a typical employment bureau official in Bulgaria and Hungary had to be responsible for dealing with over 200 unemployed applicants. Currently, in western Europe there is probably an average of one employment service official for every 1,000 workers; in eastern Europe it is a little over one per 10,000. In Russia, in late-1992 there were 2,133 employment offices for a labour force of over 80 million.

These figures give some idea of the depth of the problem and point to the difficulty of operating an efficient or equitable set of policies. Moreover, it will take years for the employment services to overcome the stigma associated with having had, at best, a peripheral, directional role in the old "command" system. And it will be essential to develop them in tune with the more flexible and informal labour markets of the 1990s.

(ii) Unemployment benefits as labour market policy

In legitimising unemployment at the end of the 1980s, governments in eastern and central Europe all introduced some form of unemployment benefits, Hungary being the first, in 1986 with "reemployment benefits". Often they did so initially by adopting a system believed to operate effectively in some specific industrialised market economy, as was the case in Romania.

Although developments in unemployment benefits will be considered later in discussing social protection trends, it is worth noting several tensions that have arisen. There has been an ongoing, familiar debate between those who believe unemployment benefits should be primarily a right and those who regard them as conditional entitlements and draw distinctions between "active" and "passive" labour market policy. The latter argue that as transfers are "passive" they should be replaced as far as possible by "active" measures, such as labour market training and public works' jobs. This debate has been strong in Czechoslovakia and is emerging in a number of other countries, including Hungary.

A second debate has raged over the desirable degree of selectivity. This has strengthened as macro-economic stabilisation policies have run up against the fact that attempts to curb public expenditure and government deficits push up unemployment, which in turn increases public expenditure in the form of unemployment benefits and related social transfers. Faced with this familiar contradiction, few governments have resisted the pressure to make unemployment benefits more "targeted". Whereas, in the initial phase of reform, such benefits were made relatively generous and provided as an entitlement for a reasonably long period, that has changed.

²⁵ Anatol Szurmak, "Infrastructure of the labour market", paper presented at Conference on Priorities of Social Policy in Poland in the Context of Foreign Assistance, Warsaw, March 11-13, 1992.

(iii) Vocational, Labour market and On-the-job Training

In eastern and central Europe, there is currently an enormous emphasis placed on "training". Undoubtedly, there is a need for three forms of training and retraining, although some politicians and analysts surely place too much faith in their capacity to reduce unemployment, increase labour mobility, raise productivity and reintegrate disadvantaged groups into the labour force.

First, as far as general and *vocational education* is concerned, it is widely argued that in most of the region levels were respectable and in some cases even high by international standards, although not in Poland, where only about 12% of its student-age population was enrolled in higher education. Perhaps that picture is deceptive. Some observers question the quality of vocational education, and in the late 1980s there were clear signs of falls in the numbers covered.²⁶

The prevailing systems were also criticised for being excessively rigidly oriented to available jobs, whereas what is required for the restructuring period and for the international labour market of the 1990s is a broadly-based and flexible educational structure.

Most fundamentally of all, recent empirical assessments have questioned the effectiveness of the past forty years of educational policy. It has been cogently argued that there was a long process of economic and cultural devaluation of education, and a perverse distributive system whereby the economic and social returns to education were systematically reduced.²⁷ Even more than in market-based industrialised countries, career success and economic returns were more related to social position than to education and vocational training. One consequence was a disintegration of the concept of success, whereby technical competence and higher education became primarily perceived as the means of avoiding hard work.²⁸

Over many years, the economic benefits to education had declined. There developed a perversely negative attitude to formal education and a belief that success in the labour market comes primarily from connections, self-sufficiency and participation in informal

²⁶ Most strikingly, there was a steady decline in Russia. In 1980, there were 219 students in universities per 10,000 student-age population; in 1991, the figure was 186 per 10,000. In 1980, there were 190 students in special technical schools per 10,000 population; in 1991, the figure was 148. Source: *Indicators of Social Development of the Russian Federation* (Moscow, Russian Goskomstat, 1992), pp.391-393. One explanation of this deterioration was the declining status of education and the declining return to higher education in the 1980s.

²⁷ Jiri Vecernik, *Role of education in the differentiation of earnings, family income and consumption in Czechoslovakia* (Prague, Institute of Sociology, Czechoslovak Academy of Sciences, 1990). [I am grateful for a lengthy discussion with Jiri Vecernik on issues covered in this paragraph.]

²⁸ Petr Mateju, "Beyond educational inequality in Czechoslovakia", *Czechoslovak Sociological Review* (Special Issue), Vol.28, August 1992, p.56.

activities; technical competence and higher education became rather neglected. Thus, in Poland in 1964 the average wage of someone with higher education was 1.78 times the national average, in 1968 it was 1.77, in 1980 only 1.11 and then it fell to 0.9, where it remained throughout the 1980s.²⁹ Clearly, by the early 1990s there was a major task in merely raising the status and desirability of formal education.

Table 4:
Numbers Receiving Training and Vocational Education in Russia, 1981-89
(average per year, in thousands)

	Period	
	1981-85	1986-89
Graduated from universities	474	445
Graduated from "middle" technical schools	689	657
Graduated from "lower" technical schools	1,481	1,383
Enterprise-related training:		
Training for new occupations	4,230	3,858
Training for upgrading	22,084	23,454
Collective-farm training:		
Training for new occupations	189	168
Training for upgrading	1,231	1,348

Source: Labour in Russia (in Russian)(Moscow, Goskomstat, 1990), p.159.

Second, *enterprise-based training*, including retraining, will have to be boosted throughout the region, since it may enable many workers to shift out of moribund industries and enterprises into new avenues of employment. However, the reality in eastern and central Europe in 1991 and 1992 was that many large industrial enterprises cut back on such training, as a relatively easy way of responding to the growing financial pressures they were facing. In Russia, this pattern of cuts has accentuated a long-standing decline in training generally (Table 4). Many enterprises have cut the funds allocated to such training, and many have shut the training institutes that they traditionally operated. Thus, in the ILO survey, one in five enterprises that had operated a training institute in

²⁹ J.Gorniak, "Economy and education in the socialist corporate system", *Innovation*, Nos.1-2, 1989.

1990 had closed it by mid 1992.³⁰ The comparable surveys in Bulgaria in 1992 and Hungary in 1991 also showed that training in enterprises was being cut back drastically.

In such circumstances, it is vital that governments should intervene more directly, *perhaps* by detaching training institutes from industrial enterprises and running them directly, or by encouraging local groups of enterprises to fund them, jointly with government authorities, perhaps on a tripartite basis, so that the views and capacities of workers are adequately taken into account. In 1991, the German authorities began to do that through their privatisation agency, the Treuhandanstalt. Other countries would be advised to follow this route, since huge centralised training institutions are out of tune with the more flexible labour market needs of the 1990s.

Third, *labour market training*, i.e., schemes for providing training and retraining for those out of employment, are seriously undeveloped. Although data are scarce, it has been estimated that in 1990 only 1% of the registered unemployed in Poland participated in training schemes; in Hungary the corresponding figure was more impressive, but still low, 8.7%; in Czechoslovakia in early 1991, such schemes covered a mere 0.4% of the registered unemployed, in Bulgaria the corresponding figure was 3.9%. Little seems to be known about drop-out rates or the placement record of trainees. But the neglect of such training has been pervasive.

There is no evidence of any rapid growth of labour market training in 1991 or 1992, despite a rhetorical commitment to its expansion. In 1991, as well as in 1990, in most countries less than 1% of the registered unemployed participated in training courses, the exception being Hungary, but even there the percent enrolled in state-sponsored training courses fell from 8.7% in December 1990 to 2.9% in June 1992, when about 17% of unemployed schoolleavers were participants.

There are many reasons for the minor role attained by such schemes. Perhaps most importantly, the uncertainty about the economic restructuring has made it hard to determine what workers should be retrained for, a point often made by observers in Poland, but elsewhere as well.

Finally and most conspicuously, an insignificant number of the rapidly growing number of Russians becoming registered as unemployed are being directed to such training schemes, and the financial squeeze there as elsewhere is making growth in labour market training increasingly harder.

In short, there is a worrying gap between the rhetoric about training and the realities, in spite of overwhelming emphasis placed on it by foreign donors.

³⁰ G.Standing, "Recruitment, training and human resource developments in Russian industry", paper 5, presented to Conferences on Employment Restructuring in Russian Industry, Moscow and St.Petersburg, October 21-28, 1992.

(iv) *Public Works*

Another labour market policy on which perhaps excessive hopes are placed in eastern and central Europe is direct job creation through short-term public works. A commitment to public works has figured prominently in legislative reforms, as in the USSR's Employment Law of 1991 and in the Polish Employment Acts of 1989 and 1991.

However, there has been a failure to develop major public works programmes in the past two years, which is ironic, given the long tradition of community work and non-production work by workers in the region.

Certainly, there is ample scope for social and infrastructural improvements in all the countries of the region, especially in the ecological sphere, and public works' schemes might be a useful form of regional adjustment policy. Yet as labour market policy, and as a means of dealing with unemployment, there are grounds for scepticism about their effectiveness or economic rationale, and there has been little use of them in practice in most of the countries, partly because of underdeveloped institutional procedures and shortage of public finance.

(v) *Other Demand-side Measures*

Among other measures attempted or considered in eastern and central Europe to boost employment in response to the labour market restructuring crises have been the usual batch of subsidies and credit for the establishment of small-scale enterprises, including self-employment. Certainly, among the obstacles to the growth of new enterprises have been the lack of credit, marketing skills and entrepreneurial experience. But it would be wrong to claim that there has been a lack of entrepreneurial flair, especially as there was a flourishing "second economy" in most of the countries of the region for many years under the old systems.

Since 1989, most governments have provided aid and basic technical assistance to the development of new businesses, and there has been a large growth of small-scale enterprises. A problem is that much of those seem to be in low-productivity services, in work of dubious legality or in insecure forms of work that result in a high rate of business mortality. The "mafioso" economy is spreading rather easily.

Another popular policy has been the use of *wage subsidies*, primarily to keep workers in jobs to slow the pace of employment dislocation. Thus, in 1991 the Polish Government introduced an incomes policy that, inter alia, encouraged the preservation of low-paid employment, and in Bulgaria in 1992 the authorities proposed giving subsidies to state enterprises as long as they maintained the previous level of employment. In some of the countries, workers have reluctantly accepted pay cuts or paid or unpaid leave in return for keeping jobs in their enterprise, which the State has subsidised. This has paradoxically boosted the extent of hidden unemployment, as has been the case in Poland and Bulgaria. For workers, that option has been quite attractive, since at least they have retained entitlement to enterprise-level benefits.

As a transitional measure, wage subsidies may slow the spate of redundancies required by restructuring and perhaps slow the predicted growth of mass emigration. The cost to the government is less than it seems, to the extent that unemployment benefits would be paid to many of those who would otherwise be displaced and to the extent that by earning higher income at least some of the employed would pay income tax and social insurance contributions. Particularly promising are schemes that combine subsidies with retraining or enterprise-creating measures.

Yet all employment and wage subsidy schemes have drawbacks, most notably "deadweight" effects (subsidising jobs that would have existed in any case) and "substitution" effects (resulting in the displacement of those in regular jobs by those in subsidised positions). Critics would say they are a market distortion, impeding essential changes in the labour market, and that they weaken discipline in wage bargaining. In short, they are no panacea.

(vi) Supply-reducing Measures

Across the region, as in western Europe during its restructuring crises of the 1970s and 1980s, among the most popular responses to the labour market difficulties of the "transition" have been measures to cut aggregate labour supply or at least that of particular groups. Thus, there have been schemes to increase youth enrollment in educational institutions, to persuade women to extend maternity leave and to induce workers in their fifties to take earlier retirement.

Among *women*, the effective labour force participation rate has been reduced by various indirect means, such as by the closure of enterprise-based or funded childcare facilities.³¹ Or they have been induced to withdraw from the labour force by the closure of state-run amenities due to cuts in public expenditure to reduce the budget deficit. Women have also been encouraged to take longer maternity leave, thereby reducing the measured unemployment rate, as has been the case in Czechoslovakia.³²

As for older workers, *early retirement schemes* have long been established in eastern and central Europe, and have accounted for a high share of expenditure on pensions -- one-third in the case of Poland, for example. As such, there has been relatively little scope for resorting much more to that policy.

The average age of retirement in central and eastern Europe has been very low by international standards, on average for men nearly five years lower than in western Europe (60 compared with 64.4) and for women up to eight years (55 compared to 63). In Poland, in 1991 the average age of those beginning to receive a pension of some sort

³¹ M.Lado, "Women in the transition to a market economy: The case of Hungary", paper presented to Regional Seminar, Vienna, April 1991.

³² Igor Tomes, "Social reform: A cornerstone in Czechoslovakia's new economic structure", *International Labour Review*, Vol.130, No.2, 1991, pp.191-98.

was 57. And in eastern and central Europe generally, "early retirement" for special categories of worker meant aged 50-55 for men and 50 for women. In some countries, up to 20% of the working-age population have been in early retirement for "hardship" reasons.

Even so, as noted earlier, to compensate for very low pensions, many older workers traditionally stayed in jobs until a fairly old age. As unemployment has risen, governments and enterprises have been inclined to displace employed pensioners. For instance, in Bulgaria state enterprises have been very heavily taxed if they employed any pensioners, and as a consequence in 1991-92 most industrial enterprises dismissed them or phased them out, as was shown in the ILO's enterprise survey in 1992. An objection to such measures is that they legitimise discrimination against workers in their fifties and even forties, worsening their already fragile standard of living and discouraging any policy of retraining for such workers.

By contrast, policy makers could usefully consider measures to increase older workers' labour supply and employment prospects, as an anti-poverty measure and as a rational long-term policy. As in other industrialised countries outside the region, in the longer-term raising the labour force participation of older workers will be essential, given the "greying" of the population and the fiscal imperative of reducing the rise in the dependency ratio.

Policies to reintegrate older workers displaced or threatened by industrial restructuring might include reserving certain jobs for older workers, special retraining schemes, subsidies to enterprises prepared to hire additional older workers and, most promisingly, the encouragement of work-sharing and part-time employment, which have been underdeveloped in eastern and central Europe, where in primary employment at least, standard full-time workweeks have been the overwhelming norm. In short, older workers should not be seen as the easy option for labour market displacement in the 1990s, but as active participants in the transition process.

(v) Human Resource Development and Social Protection

Human resource development and redevelopment strategies cannot be divorced from the overall structure of social security provision. In this regard, the legacy in eastern and central Europe is distinctive. Essentially, social policy was comprehensive, centralised and linked firmly to employment in state enterprises, which were the primary distributor of social benefits, from childcare and health to training and pensions. Benefits were distributed as worker rights and, formally at least, not linked to labour market performance.

The biggest change in the past three years has been the widespread adoption of a policy to curtail such benefits and their replacement by a so-called "social safety net", promoted by the concerted advocacy by the Bretton Woods' financial institutions. This has affected social and human resource development policies in numerous and far-reaching ways. The idea is that, in order to cut public expenditure and to reduce the budget deficit, social

benefits should be "targetted" on the poor, essentially providing benefits only to those deemed to be deserving and needing them. Unfortunately, it is not as simple as it seems.

Essentially, the safety net approach involves increased selectivity in social protection and greater reliance on means tests. The approach has been adopted for most forms of social protection, but here we will focus on the application of that principle to unemployment benefits and other labour market policies connected with human resource development. The basic fear is that a highly targeted approach to income transfers, based on complex conditions and systematic means tests, may not be consistent with the establishment of an effective social safety net. In addition, it is not clear that targeting is feasible in circumstances of high and unpredictable inflation, at least not without serious administrative difficulties and adverse consequences for social equity.

As far as unemployment benefits are concerned, at the outset of the reform process, most new Governments introduced fairly generous schemes, although in some cases there was a too-hasty adoption of some western scheme that was malfunctioning in its parent country and was demonstratively inappropriate for a country undergoing a major restructuring process. In any case, pressures from foreign advisers and imposed fiscal constraints led successive authorities to reshape their schemes, mostly through a tightening of conditions that had to be satisfied for benefit receipt. The resultant problems are familiar. As more conditions, means tests, behavioural tests and limits on entitlement have been imposed, so the numbers of unemployed failing to receive benefits have grown and the number needing (though not necessarily receiving) social *assistance* has grown.

As in so many respects, Poland has been the harbinger in this respect, and recent changes will surely result in further intensification of poverty associated with unemployment. Even in 1991, before the first of major changes were introduced, about 93% of all families affected by unemployment had incomes below the social minimum, or poverty, level.³³ Yet at the time a justification for advocating a reduction in the level of benefits and a tightening of conditions for receipt was that they were acting as a disincentive to work. In August 1991 the average unemployment benefit was 53% of the average wage, and according to official estimates only about two-thirds of the registered unemployed received benefits.³⁴

Then, under the Employment Act introduced in December 1991, entitlements were severely restricted. The registered unemployed could only receive benefits for up to 12 months and could only receive benefits at all if they had been employed for at least 180 days during the previous year, except in the case of schoolleavers, for whom a three month waiting period was introduced, those leaving military service and women

³³ M.Kabaj, "Elements of the programmes for counteracting unemployment", *Rynek Pracy* (Monthly Bulletin of the Ministry of Labour and Social Policy), No.1, Jan.1992, p.30.

³⁴ Under the previous scheme, an unemployed received 70% of previous earnings for up to three months, 50% for the next six months and 40% thereafter.

returning from maternity leave. The level of benefits was cut to 36% of the average wage in the previous quarter of the year, which in an inflationary climate means less than a third of the current average wage. Henceforth, if workers leave jobs voluntarily or are dismissed for disciplinary reasons, they are denied benefits for three months, as are those unemployed who refuse any job offered. As a result of these measures, particularly the one placing a limit of one year on receipt of benefit, it is officially expected that the share of the registered unemployed eligible for the meagre benefits will fall to about 40% in November 1992.³⁵

Besides the dire implications for the unemployed in Poland, it is worth noting that in late 1992 the Russian authorities are attracted by the new Polish system of unemployment benefits, while all countries of the region have been moving in a similar direction.

In Bulgaria, for example, about half the registered unemployed have been receiving benefits, and there has been a tendency for the level to fall relative to the average wage; individuals could receive benefits for between six and twelve months, conditional on past employment record and their age.

In Czechoslovakia, under the Employment Act of 1991 unemployment benefits were 60% of the last monthly wage for the first six months and 50% for the second six months, ending there. Duration and level were restricted in January 1992, being paid at 60% of the last monthly wage for only three months and then 50% for the next three months. About two-thirds of the registered unemployed receive benefits, although this is likely to fall. Among those excluded are those who have not been employed for at least a year in the past three years.

In Hungary, a form of unemployment benefit began in 1986, but was extensively amended in 1989, with an impressive array of conditions that had to be satisfied to obtain benefit. Under that scheme less than 50% of the registered unemployed received benefits.³⁶ A modified system was introduced in the February 1991 Employment Law, which is rather complex. The level of benefit is low, and those not entitled to benefit for the first three months of their unemployment include schoolleavers, those who quit jobs "voluntarily" and those who are dismissed for disciplinary reasons. In late 1992, the Government was considering further restrictions.

In Romania, the level of benefits is low and the eligibility conditions somewhat restrictive. Benefits are means tested and are paid for up to six months only, after which

³⁵ Mirosław Ksiezopolski, "Social policy in Poland in the period of political and economic transition: Challenges and Dilemmas" (draft, October 1992), p.17. Recently, the Minister of State confirmed these predictions and was considering remedial measures, such as waiving the 12 month rule in high-unemployment areas.

³⁶ M.Zam, "Economic reforms and safety nets in Hungary: Limits to protection", in G.A.Cornia and S.Sipos (eds.), *Children and the transition to the market economy: Safety nets and social policies in Central and Eastern Europe* (Avebury, Aldershot, UNICEF, 1991).

only the handicapped are eligible. With the rapid growth of long-term unemployment, a declining proportion of the unemployed are likely to receive benefits.

This last point highlights the approaching crisis. Demands on the funds allocated for unemployment benefits have been growing, leading governments to tighten conditions and raise contributions' rates, which has encouraged employers and workers to find ways of avoiding and evading payments. At the same time, a rapidly growing number of unemployed are not being entitled to benefits and those who are have been receiving an increasingly inadequate amount. The rhetorical commitment to "active" labour market policies to replace "passive" income transfers has fallen foul of the contradiction that scarce financial resources have had to be allocated to transfers, and even those are inadequate.

Thus, in 1990 about a third of total expenditure devoted to unemployment in Poland consisted of funds for labour market training, public works and other such measures; by 1991 and 1992 that share had dropped to one-fifth, a common perspective being that they had "crowded out" by the need to pay unemployment benefits. Thus, in Bulgaria in mid 1992 transfer payments comprised 91% of all expenditure in the "vocational training and unemployment" fund, and so-called "active" measures only 1.5%.

It is part of the problem that the authorities and many advisers to Ministries of the countries in the region seem to see training and related measures for the unemployed as competitive with the provision of adequate income protection. Human resource development policies should be treated separately, as the essential complement to social security. Unless that perspective is recognised, the contradictions and resultant underdevelopment of labour market policies will surely intensify.

TABLE OF CONTENTS

1. Introduction	3
2. The Economic Context.....	3
3. Labour Market Outcomes.....	7
a. Labour-market related poverty	7
b. The Arrival of Mass Unemployment.....	9
c. Growing Labour Market Segmentation	12
4. Labour Market Policy Developments	16
(i) The Emergence of Employment Services	17
(ii) Unemployment benefits as labour market policy.....	18
(iii) Vocational, Labour market and On-the-job Training	19
(iv) Public Works.....	22
(v) Other Demand-side Measures	22
(vi) Supply-reducing Measures	23
(v) Human Resource Development and Social Protection	24