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THE ROLE OF EMPLOYMENT POLICIES IN EASTERN EUROPEAN COUNTRIES IN THE PERIOD OF EUROPEAN INTEGRATION¹

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ABSTRACT

Unemployment is a major concern for the economies of Central and Eastern Europe, which are currently undergoing transition. During the period of transition of Eastern European countries, many changes concerning the labour market, the labour relations and the role of the state have occurred. All the changes in the labour market, as a consequence of liberalisation of their economy, caused violent effects on the population by increasing the unemployment rate and poverty rate and by deteriorating the living conditions. The purpose of this paper is to investigate the role of current employment policies in these countries.

KEYWORDS:

UNEMPLOYMENT, POVERTY AND ECONOMIES IN TRANSITION

I. INTRODUCTION

Unemployment is a major concern in the transition economies of Central and Eastern Europe. Furthermore, it is an important component of the transformation process and the labour market institutions that are currently being adopted and which are expected to influence the rate of unemployment in the long run. Today, Eastern European countries are dealing with the changes that the European integration process is bringing on. One of the effects of integration is the problem of unemployment.

During the period of transition of Eastern European countries, a major issue arises concerning the impact of integration on the market economy, more specifically, on the labour relations in these countries. This issue refers to the substance of the national-international relationship as well as to the conditions of co-operation and determination of their status in a world transforming to a global economic structure.

The role of the state has also changed. The state is interested, on one hand, in controlling the process of the centralised economy towards the market and on the other, in combating poverty arising from unemployment and social exclusion. It is obvious that the absence of a

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market obliges the state to intervene more and more in order to protect the population from the "social" problems created by the restructuring of the economy. It is true that even in western countries the market could not be the only protection mechanism against the social problems and the role of the state becomes more important and significant. Of course the nature of the government intervention has changed but this does not neglect the extent of government intervention.

The purpose of this paper is to investigate the role of current employment policies in these countries. The basic questions that arise concern the effects of the transformation process on the following: the formerly centrally planned economies into market economies and the impact of European integration on unemployment as well as on employment policies. In the first part of the paper, the structure of the labour market in these countries will be analysed. Following that, the employment policies will be discussed in the next section and finally in the fourth section the role of the employment policy in the period of European Integration will be analysed.

II. THE STRUCTURE OF THE LABOUR MARKET IN EASTERN EUROPEAN COUNTRIES

In Eastern European countries, 1990 was the year when the majority of the structural changes took place, not only in the labour market but also in the whole economy. In 1990-91, the central and eastern European economies were hit by a cruel combination of economic factors that made structural adjustment much harder to achieve (Standing and Fisher 1993). The enormous declines in the gross domestic product in 1990 and 1991 lead to the lessening of trade among these countries themselves. In addition, the inflationary and recessionary impact of energy price rises as a result of the Gulf war lead to adverse effects on the economy. Leading to a recession in the industrialised market.

Table 1: Real GDP in selected East-European countries (in constant 1987 mil US\$)

	1987	1988	1989	1990	1991	1992	1993	%
Bulgaria	28429	31523	30728	27691	27691	22495	21442	-24.6
Hungary	26110	26016	26034	25167	25167	22011	21289	-18.5
Poland	63905	66319	66750	59957	59957	56566	58610	-8.3
Russia	468602	48862	49608	47933	47933	33436	29424	-37.2
Romania	38068	37710	35500	33184	33184	24780	25085	-34.1

Source: World Bank World Tables 1995

At the end of the 1980s, GDP per capita in Central and Eastern Europe overall was probably no more than one eighth of the average in the rest Europe. Yet in 1990 real GDP in the whole region fell by 7%, and in 1991 it almost certainly fell by well over 10%. In Bulgaria, it fell by as much as 20% while in the ex-USSR the fall was probably much higher (37%). In Romania the decline of GDP was about 34%. In no country in the region did real GDP rise in 1991, and for much of 1992 the declines continued.

These stark realities would have caused severe labour market problems in any country, whatever the structural adjustment strategy. The first is the general increase in unemployment rates since 1990. The second is the heterogeneity of experiences.

As we can see from the table above, the employment level in all central and eastern European countries decreased throughout the years. The decrease of the employment rate is greater in Bulgaria, Hungary and Poland and smaller in other countries.

Table 2: Employment levels in selected countries.

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Bulgaria	4459	4473	4487	4468	4365	4097	3564	3273	3222	3158
Hungary	5121	5111	5093	5069	5052	4980	4712	4316	---	----
Poland	1853 1	1859 5	18596	1847 4	1822 0	1732 1	1628 5	1546 2	----	----
Romania	1058 6	1067 0	10719	1080 5	1094 6	1084 0	1078 6	1045 8	1006 2	----
Russia	7493 7	7521 0	75335 6	7548 0	7556 8	7532 5	7384 8	7207 1	----	----
Slovakia	2425	2464	2490	2510	2504	2459	2152	2175	2081	----
Croatia	1508	1550	1580	1576	1566	1513	1314	1159	1109	----
Lithuania	1859	1874	1893	1899	1903	1853	1897	1855	1778	1675

Source: ILO 1995 Yearbook of Labour Statistics

As far as the size of the unemployment rate is concerned, the highest is in Poland (16% in 1994). The table below depicts the unemployment rates. As one can observe, in 1990 the unemployment rate was low in many central and eastern European countries. However, there was a drastic increase in 1991.

Table 3: Unemployment rates in selected countries.

	1987	1988	1989	1990	1991	1992	1993	1994
Bulgaria	--	--	--	1.7	11.1	15.3	16.4	12.4
Croatia	6	7	7	8	15	17	17	--
Hungary	--	--	--	1.7	8.5	12.3	12.1	10.4
Poland	--	--	--	6.3	11.8	13.6	16.4	16
Slovenia	1.5	2.2	2.9	4.7	8.2	11.5	14.4	14.4

Source: ILO 1995 Yearbook of Labour Statistics

The high increase of the unemployment rate after 1990-1991 could probably be explained by the structural changes, which accelerated in 1991. The state sector, although still the overriding source of production, income and employment shrunk, while -however haltingly- the private economy continued to grow. Privatisation initially occurred more as a result of internal restructuring of industrial enterprises of small-scale enterprises, co-operatives (in some countries) or joint ventures than by explicit privatisation of state enterprises through direct legislation. The latter form accelerated in 1991, as evidenced by legislation in Romania, Czechoslovakia and elsewhere. Thus, for instance, over 900 state enterprises were privatised in Poland during the year (Standing and Fisher 1993). However, by the end of 1991 the shift from state to private sector production and employment had come primarily from new sources of jobs outside the economically stagnant or sharply declining state sectors. The employment cuts in the latter sphere had greatly outweighed the absolute growth of jobs in the former.

The following Table provides an estimation of the state and private sector employment over the period 1990-92. The broad picture is clear. There are large declines in all countries. Because of the slow progress on medium and large businesses aiming for privatisation, the numbers mostly represent true declines rather than title changes. The major exception was in Russia where reclassification explains most of the decline, and employment in state firms declined by fewer than 4 percent in 1992.

As can be seen it is shown from Table 4, the growth of the public sector remained strong. Further, much of this growth, with the exception of Russia, could be accounted for by the

growth in the new (as opposed to the privatised) private sector.

As far as unemployment was concerned, its evolution followed from our characterisation of state and private institutions. Focusing first on Hungary, Poland and the Czech Republic, one could see a change in the nature of unemployment over time. The initial employment adjustment in the state sector was largely accommodated by both direct flows to other jobs and by movements out of the labour force through early retirements and "disabilities" (Blanchard, O et al, 1995).

Table 4: Employment by Ownership Form

	In Thousands			Share of total employment		
	1990	1991	1992	1990	1991	1992
Hungary						
Total employed	4,699.0	4,334.0	4,120.0			
State	---	2,860.4	2,645.0	----	66.0	64.2
Private	---	1,473.6	1,475.0	----	34.0	35.8
Poland						
Total employed	16,511.0	15,601.0	15,379.0			
State	10,963.3	9,313.8	8,550.7	66.4	59.7	55.6
Private	5,547.7	6,287.2	6,828.3	33.6	40.3	44.4
Czech Republic						
Total employed	5,351.0	5,059.0	4,880.0			
State	4,917.0	4,052.0	----	91.9	80.1	----
Private	434.0	1,007.0	----	8.1	19.9	----
Slovak						
Total employed	2,478.0	2,281.0	2,160.0			
State	2,357.0	1,989.0	1,793.0	95.1	87.2	83.0
Private	121.0	292.0	367.0	4.9	12.8	17.0
Bulgaria						
Total employed	4,097.0	3,564.0	3,113.0			
State	4,097.0	3,204.0	2,673.0	100.0	89.9	85.9
Private	-----	360.0	440.0	----	10.1	14.1
Romania						
Total employed	10,840.0	10,786.0	10,205.0			
State	----	10,041.8	8,980.4	----	93.1	88.0
Private	----	744.2	1,224.6	----	6.9	12.0
Russia						
Total employed	75,400.0	73,800.0	72,300.0			
State	66,900	60,300	53,600	88.7	81.7	74.1
Private	8,300	13,500	18,700	11.0	18.3	25.9

Source: Employment Observatory, Russian Gomkomstat and World Bank estimates: Reference: Blanchard et al (1995) p.293

III. EMPLOYMENT POLICIES APPLIED IN EASTERN AND CENTRAL EUROPEAN COUNTRIES

The restructuring of the eastern European economies and their transition towards the market have affected the labour market policies (Boeri and Sziraczki 1993; Standing and Fischer 1993). The increase of unemployment and the decline of the economic activity led to the labour market segmentation and the deterioration of the standard of living (Scherer 1993) and the restructuring of the social policy - social insurance (Fischer 1993). More specifically, the increase of the unemployment rate affected the female workers, older workers, young people and labour migration. As far as the female sector is concerned, there was a fear that they would suffer as labour force participants by falling into the classification of "secondary

workers", suffering disproportionately from disemployment and unemployment. In the case of older workers, those in their fifties and sixties, faced the possibility of being pushed to the margins of the labour force because of discrimination in hiring and firing, for which there is no justification on efficiency grounds. A vast number of teenagers do not possess the skills and qualifications needed for economic restructuring and these young people were affected by the increase in the unemployment rate.

The continuous decline of the real wages, the marginalisation of certain social groups, the growth of atypical forms of work, and the structural changes in the labour market touch upon the issues of the social protection and the social insurance system in these countries. Thus the intervention of the state in the labour market in these countries focuses on the employment policy and on the reform of the social protection system.

As far as the employment policy is concerned, it has already been established but there is a tendency of it being formed on the basis of the following objectives: cut unemployment, reduce labour market segmentation, promote geographical occupational and industrial mobility and raise labour productivity (Standing and Fischer 1993). Labour market policies in the Eastern European countries were classified as passive and active².

It is worth noting that the speed with which most of the economies in transition have introduced new labour market regulations is quite striking. New laws have been enacted that helped OECD countries to develop (Boeri and Sziraczki 1993).

The labour market policies that were developed for Eastern European Countries are the following: policies to reduce labour supply, employment services, training policies, subsidized employment and regional policies. The policies to reduce labour supply are concentrated mainly in older workers. In the second case there was an effort in all Eastern European countries to build up and extend a network of local employment services. This was needed for facilitating labour mobility and for registering the unemployed and paying benefits. Training programs have as an objective the promotion of employment of disadvantaged groups, such as young people, the long-term unemployed, ethnic minorities, and disabled persons. In the case of subsidized employment, there has been a significant increase in the last period. These policies attempt to stabilize or raise employment through subsidies such as subsidized short time working or paid leave to prevent lay-off and subsidized public work programs to create temporary job opportunities for the unemployed. The last form of labour market policy is related to the growing need for a decentralization of labour market policies to the meeting of the needs of highly differentiated local labour markets.

The social protection system was transformed not only because of the unemployment problem but also because of the changes in the organization in the production process and in labour market. Under the old regimes, social policy was highly centralized, closely linked to employment in state enterprises and with little or no "incentive" function. In 1990-91, there was a consensus that the old system was inappropriate for the new challenges (Standing and Fischer 1993).

There are three contextual issues, which concern the transformation of the social protection system in the Eastern European countries (Standing and Fischer 1993). The first is that, under the old regimes, total expenditure on social policy relative to GDP per capita was excessive and social policy was actually less redistributed than in many industrialized market economies. The second concerns the role that the various levels of government (state administration, local government and so on) should pay. The third issue is tantalizing and concerns the distinction between income protection policy during a presumably short period

² Passive labour market policy implies income transfers, while active labour market policy is orientated to training, job creation, increase labour flexibility and so on.

of transition and the system of social protection desirable for the longer term.

Thus, the social protection system in Eastern European countries was faced with serious economic problems (concerning its finances), social problems (the increase of the rate of marginalisation and the increase of the early retirement ratio) and efficiency and equity problems (it was transformed to be adaptable to the new structure of the economy).

CONCLUSION

The transition of the planned economies to market economies has caused serious economic and social problems affecting the working people. The changes in the labour market alter the quality of life of the working population. The structural changes in the labour market are not only due to economic crises and to transition from a planned economy to a market economy, but they are also due to the specific regime of accumulation.

In the Eastern European economies, we remark characteristics of a fordist model and characteristics of a post-fordist model while the market is not yet able to fit with new needs. The effort of Eastern European governments to establish policies applied by the Western European governments is not at all times successful.

In the Western European countries the applied employment policies are planned on the basis of the existence of a post-fordist model in the labour market. This is characterised by the deregulation in the labour market, by the increase of labour flexibility in wages and quantity of labour supply, by the reduced role of institutions such as unions and by the gradual substitution of state involvement by the market. Thus, the distinction between passive and active employment policies and the significant role of the active policies during the last years could be explained by the structural changes in the labour market.

In the East-European countries the situation was quite different. Before 1990 the production and reproduction processes were directly organised by the state. Thus the state was the only one responsible for the support and provision of the necessary goods and services to people in order to assure their reproduction. During the transition period we remark some efforts to incorporate basic elements of the fordist model along with post-fordist elements such as labour flexibility, a typical forms of working and the role of the market. All these changes in the labour market, as a consequence of the liberalisation of their economy, caused violent effects on the population by increasing the unemployment rate, the poverty ratio and by deteriorating the living conditions. Another important point that we have to take into account is the incapacity of the market to function in these countries because the market, as an institution, is a recent phenomenon.

Thus, the role of the state in Eastern European countries is more important than ever. Government intervention should be oriented to three basic fields. The first is to promote economic growth facilitating the restructuring of the firms and supporting the market. The second is to control the labour market in order to avoid serious socio-economic problems. The last refers to the necessity to link production and reproduction by supporting the reproduction of the working population and its labour force. The emergence of a new social protection system is required in order to not only assure the reproduction but also the production process. In the short run period the application of an income protection policy is required, while in long run period the establishment of a social protection system, adjusted to new conditions, is a necessity.

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