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WORKING PAPER

The Social Dimension of Enlargement:

Social Law and Policy in the Czech Republic, Estonia, Hungary, Poland and Slovenia

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Chapter 1 - ABRIDGED VERSION AND SUMMARY OF MAIN POINTS

The proposed accession of the five east European countries to the European Union confronts the Union with substantial challenges which require a broad policy consensus. The process of accession must be managed so as not to over-burden the resources of the Union and its Member States. Although the accession of the CEEC is a huge task, there is little alternative. The social, economic and political *status quo* cannot be preserved simply by isolating the Union from its European neighbours. Isolation might force the CEEC to reduce their levels of social protection in order to attract investment, thereby exposing the social systems of the Member States to dangerous pressures. The Member States bordering the CEEC have already been affected by diversion of investment and high unemployment. If these effects spread, standards of social protection throughout the Union might be endangered. Moreover, migration of the poor from the CEEC to western Europe would exacerbate the problems posed by the black economy and social security fraud. The prospect of accession to the European Union will give the citizens of the CEEC the hope of attaining higher living standards and economic prosperity. However, the process of accession will be costly and require the provision of considerable expertise.

1.1. The social aquis of the Community and its Member States

Community social policy is underpinned by the right of each Member State to formulate and to administer its own type of social legislation in accordance with the principle of subsidiarity; the Community's task is to support and to complement the activities of the Member States. Community social policy is concerned with the creation of a European Labour Market, the improvement of the working environment, consultation and participation of workers, employment protection, the integration of persons excluded from the labour market by means of improved education and vocational training and equality between men and women in employment.

The 1989 Charter of Fundamental Social Rights of Workers provides that "according to the arrangements applying in each country, every worker of the European Community shall have a right to adequate social protection and shall, whatever his status or whatever the size of the undertaking in which he is employed, enjoy an adequate level of social security benefits; persons who had been unable either to re-enter the labour market and have no means of subsistence must be able to receive sufficient resources and social assistance in keeping with their particular situation". However, Community social policy does not seek to harmonise the Member States' different social security systems but to ensure their co-ordination and convergence. For example, Regulation 1408/71 is intended solely to prevent discrimination against migrants and not to ensure that the Member States' social security systems reach any minimum standard. Nevertheless, Regulation 1408/71 has enabled millions to migrate without suffering excessive losses of social security protection. Although the Commission does not consider Regulation 1408/71 a priority, its extension to the CEEC will be difficult since there are often large differences in the CEEC between the benefits legally available and what can be obtained in practice. As often medical treatment is unavailable in the CEEC unless a patient is willing to provide a large "backhander", many people may be tempted to seek medical care in the current Member States even though they are not entitled to it.

The Commission's 1995 White Paper *Preparation of the Associated Countries of Central and Eastern Europe for Integration into the Internal Market of the Union*[1] and Agenda 2000[2] provide an overview of the legal and economic aspects of accession. The applicant countries must adjust to European Community standards in five areas, namely:

Co-ordination of social security schemes as provided for Regulation 1408/71 and Regulation 574/72. The extension of these Regulations is "not of immediate concern" for the Commission. However, after accession many CEEC citizens will wish to exercise their right to freedom of movement and to rely on these Regulations.

Health and safety at work; the relevant Directives are the first framework Directive 80/1107/EEC and its four supplementary Directives, and the second framework Directive 89/391/EEC and its thirteen supplementary Directives. The Commission suggested that priority should be given to Directive 89/391. Legislative approximation in this area will require effective enforcement, the establishment of the necessary infrastructure, proper training for workers and the creation of efficient labour inspectorates.

Equal opportunities for men and women: There are five Directives on equality (75/117/EEC, 76/207/EEC, 79/7/EEC, 86/378/EEC, 86/613/EEC) and one Directive relating to the protection at work of pregnant women and those who are breastfeeding (92/85/EEC). No specific infrastructure is required other than the existence of a legal system so that persons can enforce these rights by legal process. An administrative body of the national governments should be responsible for implementing and overseeing legislation on equality.

Labour law and working conditions: Directives in this field include Directive 75/129/EEC on collective redundancies, Directive 77/187/EEC on the transfer of undertakings, Directive 80/987/EEC on working time and Directive 94/45/EC on information and consultation. The application of these Directives requires the existence of monitoring tools, appeals procedures, workers' representatives and a competent public authority; the Commission appears to assume that all these exist in the CEEC.

Tobacco products: two Directives have been adopted concerning the tar yield of cigarettes and the labelling of tobacco products. The application of these Directives will depend on the technical capacity of the CEEC to measure the tar yield of cigarettes. The White Paper stresses that implementing this legislation should be a priority.

1.2. Social security law and practice before the economic transition

With the possible exception of Slovenia, the economic systems of the CEEC were command economies, closely based on the Soviet model. These systems shared the following characteristics:

* High degree of Communist Party influence and direct access to the State budget
* Absence of economic incentives
* National health services funded and administered by the state

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[1] COM(95)163

[2] Bulletin of the European Union, Supplements 5/97-15/97

* Social security payments for work-related accidents or illnesses where politically acceptable
* No link between the financial resources available for social security and the performance of the economy
* Large over capacity among providers
* The level of pensions was set by the Communist Party without regard to their actual purchasing power, as basic needs were met regardless of economic considerations
* Large differences in the quality of health care depending upon the region or sector
* Poverty existed but was less visible than today
* Unemployment was not officially admitted
* Existence of moderate "backhanders" and a black economy
* Inefficient administration during frequent financial shortages

There was no possibility of opposition to one-party rule; state-owned companies and trade unions operated in a fundamentally different way to their western counterparts and had to be radically reformed after the end of Communist rule. The environment was often sacrificed to permit the use of harmful methods of industrial production; widespread environmental degradation continues to endanger the health of workers.

Poverty existed but, given the limited purchasing power of the CEEC currencies and the limited number of goods available, it was less visible than today. With the exception of a small political elite, differences in income were negligible.

1.3. Social security law and practice today

The main problems are:

Since the collapse of Communist rule, social security systems can no longer rely on unlimited funding from central government resources, although substantial direct and indirect state subsidies remain. Social security systems are short of funds.

The pace of administrative reform has been very slow. The process of legislative reform has been prolonged and very prone to influence from interest groups. Reforms have also been hindered by disputes over responsibilities and competences.

Over-capacity in facilities and personnel in the medical sector have hindered efforts to increase efficiency and quality. It has become increasingly necessary for patients to pay "backhanders" to obtain treatment. Reducing staff and providing incentives for increased productivity are unusual.

The population is increasingly discontented with the low quality of administration in the social security institutions. Doctors' salaries have remained extremely low, while in other sectors of the economy large differences in salaries have developed. Doctors who rely on their official income find themselves at the bottom of the economic and social ladder.

Government austerity measures intended to fight inflation and to attract investment have damaged the social security system.

Foreign investment is vital to the CEEC and governments try to accommodate the interests of foreign investors. A considerable amount of heavy industry is in need of reform; these factories are unlikely to attract investors and substantial redundancies are likely. Moreover, these factories are unable to pay social insurance contributions or to implement new safety measures without going bankrupt.

Substantial environmental problems continue to endanger the health of workers. The CEEC governments have inadequate funds, expertise or technology to address environmental issues.

The economic transition has radically altered the structure of employment. More redundancies are expected in sectors where privatisation has not yet been completed. Heavy industry is most unlikely to attract investment.

Substantial income differentials have developed; many people live below the official poverty line. While the economic outlook is rosy for talented or entrepreneurial individuals, the poorly-educated, the unskilled and country-dwellers face a fairly bleak economic future. Social security benefits are inadequate, which encourages people to work in the black economy.

Perhaps the most important problem is the development of a large black economy, whose existence has become widely tolerated. A large black economy reduces the amount of social security insurance contributions and tax receipts, thereby limiting government income and undermining the State's ability to perform its functions, which endangers the future of the entire transition process. Figures on the black economy vary widely but it appears that in some countries the black economy is as large as the official one. Widespread corruption adds to the problem of inefficient administration.

1.4. Prospects

The table at Annex 2 sets out certain key figures. Statistical data on the CEEC must be treated with caution and taken only as a general indication of the true picture. Few statistics can be checked and their preparation may have been influenced by political interests. Moreover, statistical methods differ between countries. Nevertheless, some general conclusions can be drawn.

GDP rose at an increasing rate in 1994/1995 in all countries except Hungary. GDP growth reached a peak in 1995 and growth rates subsequently declined, as they had already done in Hungary.

There are notable differences in levels of GDP per capita. At the extremes, Slovenia's GDP per capita is three times that of Estonia. However, the average GDP per capita in the EU is 2.5 times higher than the average for Slovenia.

Fiscal and monetary policies have shown remarkable success in reducing inflation. Due to economic growth, some CEEC enjoy unemployment rates lower than the EU average, although official unemployment figures may not record all persons out of work. As in most EU Member States, the unemployment rate among the young in the CEEC is roughly twice the general rate of unemployment. The problem of youth unemployment is most acute in Slovenia, where the youth unemployment rate is 2.57 times the general unemployment rate. Slovenia is the only CEEC where youth unemployment exceeds the EU average.

The process of privatisation and economic restructuring will continue in the CEEC, often with positive results. The CEEC governments will implement austerity measures to ensure the stability of their currencies. Social policy will not become an important political issue; few of the problems mentioned in this study will be solved in the near future. The countries where large numbers work in agriculture, such as Poland, will encounter severe problems both in reducing reliance on subsistence agriculture and in coping with the social consequences of agricultural reform. The quality of public sector administration will not improve without the provision of foreign expertise. Inadequate and poorly-administered social security benefits may encourage emigration. All the CEEC economies are prone to short or medium-term problems, such as trade imbalances, inflation and monetary crises. Widespread environmental problems will persist. The poor quality of the civil service, clearly visible during the flooding of the River Oder in the Czech Republic and Poland, will exacerbate these problems. Environmental problems will have social effects, especially in the field of health and safety at work. The CEEC governments may have difficulty in implementing EC legislation in practice, especially in cases where enforcement would entail the closure of many factories. Even a gradual accession of the CEEC to the Union will require more EU money to be spent on eastern Europe. More EC money and expertise would help to improve living standards for the peoples of the CEEC.

1.5. Main problems for accession to the European Union

The following points are general observations which may not apply to every country.

Legal reforms are not always accompanied by actual changes in practice.

Macro-economic problems, such as an over-large agricultural sector, obsolete heavy industry, currency problems and high unemployment, persist.

Social and administrative problems, such as administrative inefficiency, insolvencies, shrinking social security benefits, dwindling government resources and the payment of "backhanders" for state-funded services, persist.

EC funds will have to be redistributed, with less given to the current Member States and more to the CEEC. This redistribution may cause tension among the current Member States.

Severe environmental problems continue to affect social policy and quality of life Organised crime is a major problem in the CEEC.

Migration to western European countries may occur due to continuing economic differences between western and eastern Europe or rising poverty in the CEEC.

1.6. Possible solutions

Greater efforts must be made to improve the performance of the social security systems in the CEEC and to prepare them for co-ordination with the systems of the current Member States; the citizens of the CEEC are unlikely to remain satisfied with their current economic and social prospects. A well-trained and professional civil service is essential to formulate and implement effective social and economic policy. Experts from the European Commission and the Member States should be integrated into the CEEC civil services to ensure better compliance with EC legislation and to supervise the disbursement of EC funds. A task force should be established to oversee the process of introducing EC legislation and to provide information and assistance to the CEEC. Permanent counterpart bodies should be established within all the European institutions, including the European Parliament, to assist in creating a policy consensus in this complex area. Task forces could be established in particular legislative areas, such as equal opportunities for men and women, labour law, working conditions and tobacco products. The disbursement of structural aid and the provision of expertise to the CEEC should be made conditional upon compliance with the EC's requirements.

The adoption of EC legislation must be accompanied by the general introduction of western European standards, which may be far more difficult to accomplish than the mere enactment of legislation. Steps must be taken to prevent mass emigration from the CEEC by persons fleeing chronic poverty, as mass emigration would endanger western European social security systems, public services and labour market stability. Mass emigration might also spread black economy practices from eastern to western Europe, so damaging western European social security systems. EC assistance to the CEEC must be well co-ordinated. It may be useful to establish Union-wide think tanks and institutions able to suggest solutions to the problems arising from different programmes. The EC must provide adequate funds to finance reform. Environmental problems are complex and in need of urgent attention. All of the CEEC will be able to overcome their problems if they are given generous, well-directed and properly implemented assistance.

The accession process is likely to take more than a decade; the difficulties of the process have been illustrated by the slow pace of change in eastern Germany, which in any case benefitted from being wholly absorbed into a Member State. Each country will have to meet the criteria for accession; consequently, programmes of assistance should be tailor-made for each country. The public in the Member States currently have only a limited understanding of the issues concerning the accession and must be better informed and prepared; although an information programme on this issue is perhaps the responsibility of the Member States, the European institutions have an important role to play, especially as the accession is a joint endeavour of the Member States, the Commission and the European Parliament. Care must be taken to ensure that the public debate does not become confined to the issue of redistributing EC funds. Nevertheless, it must be explained, especially to the public in countries currently receiving substantial amounts of EC funds, why it is necessary to divert funds to eastern Europe. The western European public are far more likely to welcome the accession if they are fully informed about it and understand all the issues. Moreover, providing assistance for reforms now rather than later is likely to reduce the costs to the EC in the long-run.

Chapter 2 - THE SOCIAL *ACQUIS* OF THE EUROPEAN COMMUNITY AND ITS MEMBER STATES

2.1. Overview

Community social policy is underpinned by the right of each Member State to formulate its own social legislation in accordance with the principle of subsidiarity; the Community's task is to support and complement the activities of the Member States. Moreover, the EC Treaty provides that Directives shall avoid imposing administrative, financial and legal constraints in a way which would hold back the creation and development of small and medium-sized undertakings. In Articles 117-118 of the EC Treaty, the Member States agree upon the need to promote improved working conditions and an improved standard of living for workers. Thus, the Commission shall promote co-operation between Member States concerning employment, labour law and working conditions, vocational training, social security, occupational accidents and diseases, occupational hygiene and the right of association and collective bargaining. Moreover, under Article 119, the Member States shall ensure that men and women receive equal pay for equal work.

2.1.1. The development of Community social policy

From 1958 to 1972, realising freedom of movement and freedom of establishment in accordance with Articles 48-51 and 52-58 of the EC Treaty was the primary objective of Community social policy. At the same time the Council outlined a vocational training policy. Between 1972 and 1974, reforms to the Social Fund came into force and the Council adopted a programme to improve living and working conditions, to increase workers' participation in the running of businesses and to achieve better and full employment. Between 1974 and 1986, most of the Directives now in force concerning employment protection, the working environment and equal treatment for men and women were adopted.

The 1986 Single European Act (SEA) confirmed the objective of completing the Single European Market by 1992. The SEA modified the Community legislative procedures by increasing the powers of the European Parliament and extending the use of qualified majority voting; for example, Article 118a authorised the adoption of Directives concerning health and safety of workers by qualified majority. Legislation on social policy can also be based on Article 100 and Article 235; for example, Directives 75/129/EEC, 77/187/EEC and 80/987/EEC concerning the protection of the rights of workers were based on Article 100.

While social policy is subject to the principle of subsidiarity, the Member States are not wholly free in this area. Article 130a of the EC Treaty provides that, in order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion. The Member States are required to co-ordinate their national policies accordingly. The Community may take action to support and supplement national policies; for example, the Council Conclusion of 24 July 1995 stressed that Article 127 confers responsibility on the Community for implementing a vocational training policy which supports and supplements national policies.

The aim of European Community social policy is not to harmonise national legislation and to transfer competence from the Member States to the Community but to complement and facilitate the willingness of the Member States to make collective progress in the field of social policy.

Both the Treaty of Amsterdam and the 1989 Community Charter of the Fundamental Social Rights of Workers make clear that the basic aim is the common promotion of employment, the improvement of living and working conditions, proper social protection, dialogue between management and labour, the development of human resources with a view to lasting high employment and the fight against exclusion. Article 117 of the EC Treaty and Article 1 of the Social Agreement are based on the principle of subsidiarity, as is the Treaty of Amsterdam, and there is thus no prospect of any harmonisation of national systems.

2.1.2. Social Standards in the Member States

Each Member State has a different social security and labour law system, with different levels of benefits, types of protection and means of funding. In general, these systems include contributory or non-contributory statutory old-age pensions, statutory health insurance or national health services, statutory or private insurance for occupational accidents and illnesses, statutory unemployment insurance, social security insurance for particular professional groups, protective legislation for workers and legislation ensuring non-discrimination, fair pay and reasonable working conditions. National laws may give workers more extensive rights than they enjoy under Community law.

Thus every citizen of the European Union is entitled to the protection of the relevant national laws plus the *aquis communautaire*. As the Community is not attempting to harmonise levels of social protection, inadequacies in the laws of the Member States cannot always be made good by Community legislation. For the CEEC, building up their own social infrastructure will be an important part of the process of integration into the European Union.

2.2. Community social policy

2.2.1. Employment

Employment and job creation have been on the European agenda for some time. Chapter 3 of the Treaty of Amsterdam amends Article B of the Treaty on European Union so that the Union shall "promote economic and social progress which is balanced and sustainable and a high level of employment" as an objective. Article 2 of the EC Treaty is amended so as to make the promotion of "a high level of employment and social protection" and "a high degree of competitiveness" objectives of the European Community. The Amsterdam Treaty provides for the insertion of a new Title on Employment, under Article 1 of which the Member States and the Community shall implement a co-ordinated strategy for employment, aimed in particular at promoting a skilled and adaptable workforce and labour markets responsive to economic change. The Member States are thus obliged to regard promoting employment as a matter of common concern. Under Article 3 of the Title, co-operation between the Member States shall be encouraged by the Community which shall respect the competences of the Member States. Article 4 provides that each year the European Council shall consider the employment situation in the Community and adopt conclusions thereon, on the basis of a joint annual report by the Council and the Commission. In addition, each Member State shall provide the Council and the Commission with an annual report on the principal measures taken in the field of employment. The Council, acting by a qualified majority on a recommendation from the Commission, may make recommendations to the Member States. Article 6 states that the Council, after consultation with the European Parliament, shall establish an Employment Committee with advisory status to foster co-ordination between Member States on employment and labour market policies. This Committee shall consult the social partners. These amendments in the field of employment mark a milestone on the way to a higher degree of co-ordination among the Member States on employment policy.

With more than eighteen million people out of work in the European Union, there is a clear need for effective measures to stimulate employment. The amendments in the Amsterdam Treaty had been preceded by the recommendations in the Commission's White Paper *Growth, Competitiveness and Employment* and by the 1994 Essen European Council which had identified five priority areas for action: improving employment opportunities for the labour force by promoting investment in vocational training; increasing the employment intensiveness of growth; reducing non-wage labour-costs; improving the effectiveness of labour market policy; and improving measures to help groups hardest hit by unemployment. A follow-up report on the measures taken by the Member States in response to the Essen Council was presented by the Commission and Council to the 1995 Madrid European Council.

The Employment Observatory monitors employment trends and labour market policies; its reports and studies provide useful information for comparative analysis. One of the most important tools in the fight against unemployment is the Structural Funds. With their huge budget of ECU 170 billion for 1994/1999, the Funds make a vital contribution to employment by supporting infrastructure projects, providing direct assistance to production sectors and encouraging the development of human resources. In their report to the Madrid European Council, the Commission and Council recommended a more systematic employment of these Funds as a means of job creation. Other measures include local employment and development initiatives, the Support Programme for Employment Creation (SPEC) and a number of measures related to the European Social Fund. Regulations 2052/88, 4253/88 and 4255/88 should be mentioned. The accession of poor countries to the European Union will necessitate a reorganisation of the allocation of EC funds. Moreover, the CEEC are likely to require substantial amounts of money from the EC's funds for a long time; the five new German Bundesländer, for example, still require large German and EU subsidies to prevent social friction.

Any promotion of the development and structural adjustment of regions "whose development is lagging behind" (Objective 1), which are in the "process of conversion, frontier regions or parts of regions seriously affected by industrial decline" (Objective 2), which are "fighting long-term unemployment" (Objective 3), which want to "facilitate the occupational integration of young people"(Objective 4) or which are "promoting the development of rural areas" (Objective 5b) can receive support from the European Social Fund. This aid may take the form of support for employment, support for vocational training or part-financing of operational programmes, national aid schemes, general grants or support for technical assistance and studies in preparation for operations. Following its 1993 revision, the European Social Fund is to facilitate the integration into working life of the long-term unemployed, of the young and of persons exposed to exclusion or threatened with unemployment due to industrial or technological change. The ESF ensures that its projects contribute to achieving equality between men and women. To prevent national governments from transferring their obligations to the Community, the ESF does not fund structural public sector expenditure.

ADAPT is a Community programme to encourage the adaptation of the workforce to industrial change. Although ADAPT operates throughout the Community, it concentrates on depressed regions; the programme includes training measures, the transfer of know-how, and support for innovation, with an emphasis on financing projects with a trans-national dimension. The Community provides support for Small and Medium Enterprises (SME). Other Community measures aim to integrate particularly disadvantaged groups into the labour market. The three-strand programme *Employment-NOW- Horizon-Youthstart*, a follow-up to the White Paper *Growth, Competitiveness and Employment*, consists of active labour market measures to stimulate employment-intensive growth. The Commission has produced a Communication laying down guidelines for operational programmes and inviting the Member States to select certain measures within each strand. *Employment NOW* is intended to reduce unemployment among women and to improve their occupational status. *Employment-Horizon* concerns the disabled and other disadvantaged groups. *Employment-Youthstart* is intended to ensure that young people have access to education or training. The total budget for this programme from the Structural Fund for 1994/1999 is ECU 1.4 billion, of which ECU 0.8 billion will be allocated to Objective 1 regions. The budget is split between the three programmes as follows: *Employment NOW* ECU 370 million; *Employment-Horizon* ECU 730 million; and *Employment-Youthstart* ECU 300 million.

The Community also funds programmes such as RECHAR and RESIDER, which help coal mining and steel making regions cope with the social and economic problems of industrial decline. These programmes will be important for the CEEC, which have large and outdated steel and coal industries in urgent need of substantial reform.

2.2.2. Creation of a European Labour Market

Freedom of movement for workers is a cornerstone of the internal market and is essential to enabling workers to improve their living and working conditions. As Regulation 1612/68 notes, "mobility of labour within the Community must be one of the means by which the worker is guaranteed the possibility of improving his living and working conditions and promoting his social advancement". To ensure that freedom of movement is a practical and not merely a theoretical right for EU citizens, the Community has implemented a number of Regulations and practical measures to promote mobility of labour.

Practical measures to enhance labour mobility include the establishment in 1992 of the European Employment Services (EURES) network which, in co-operation with national labour exchanges, provides information on employment opportunities abroad and living and working conditions in other Member States. Regulation 1251/70 regulates a citizen‘s right to remain in a Member State after having worked and resided there for a certain period of time. Regulation 1251/70 mainly affects three categories of workers: those who have reached legal retirement age; those who have been permanently incapacitated after at least two years of employment; and those who after three years in a Member State other than their own move their place of employment to a third state while returning regularly to the second. Economic and Monetary Union is likely to stimulate further economic integration which will increase pressure to abolish the remaining barriers to freedom of movement posed by differences in employment and social security legislation. Political pressure may increase to improve mobility for non-working groups, especially students.

The most important measure concerning the social security aspect of freedom of movement is Regulation 1408/71. This Regulation, designed to co-ordinate what could not be harmonised, helps to bridge the gap between the different national systems of social security. Regulation 1408/71, together with twenty-three associated Regulations and Proposals, is supplemented by other Regulations targeting special groups of people such as migrant workers (Regulation 574/72 and around twenty-four follow-up Regulations and Proposals). Regulations 1408/71 and

574/72 form the basis for the Telematics for Social Security programme (TESS), which aims to modernise certain administrative procedures which are still performed manually.

Programmes such as TESS may perhaps represent the first steps towards more co-operation between national systems of social security. Although these programmes are highly technical and limited in scope, they may well set the parameters of future co-operation between Member States willing to participate. Future Member States will have to adapt to these technical developments, which will require a competent and efficient social security administration. However, as some aspects of labour market policy, such as the creation of supplementary social security schemes, are still under debate within the Union, the newcomers cannot be expected to produce perfect solutions at once.

2.2.3. Education and Vocational Training

Articles 126 and 127 of the EC Treaty, which were introduced by the Treaty on European Union, provide that the Community shall contribute to the development of quality education by encouraging co-operation between the Member States and, if necessary, supporting their action, while respecting the Member States' responsibility for the content of teaching, the organisation of educational systems and their cultural and linguistic diversity. In accordance with these principles, the Community has implemented an education and training policy which, although comparatively recent, has been described as a "cornerstone" of social policy. Recent White and Green Papers have amplified the Commission's policy in this area. The White Paper *Teaching and learning: towards a learning society* deals with the impact of the information society and the repercussions of internationalisation. The Green Paper *Living and working in the information society - putting people first* deals with the effects of information technology on the labour market.

One initiative in this area is the 1995-1999 SOCRATES programme, which is intended to improve the quality of education and training and to develop a European education area. The SOCRATES programme encourages student and teacher exchanges between different Member States, teacher training and language teaching in schools, higher education, adult education and distance learning institutions. The 1995-1999 YOUTH FOR EUROPE programme encourages youth exchanges and activities within the Community and with non-member countries, information for young people and youth research. Activities aimed at young people are of great importance as the Community's very future depends upon the commitment of the young to carrying on the process of European integration. It is, moreover, particularly important to convince the young, especially in the CEEC, that they will not be excluded from enjoying the benefits of the integration process.

The European Centre for the Development of Vocational Training (sometimes known by its French acronym Cedefop), established by Regulation 337/75 as amended, advises the Commission on various aspects of social policy concerned with training, such as comparability of training qualifications and the retraining of women wishing to return to work. The 1995-1999 Leonardo programme is concerned with vocational and linguistic training as a contribution to the promotion of employment. It is linked to the issue of the mutual recognition of qualifications; the Commission is currently devoting great attention to this issue.

As competence for education and training still rests mainly with the Member States, the Community has only taken limited measures in this field. However, the accession of the CEEC may require more activity by the Community. In the area of reforms to education and training, the CEEC will need to pass through a period of adjustment, during which they will require considerable foreign expertise and assistance. The establishment of mutual recognition of qualifications - with perhaps limited exceptions on the grounds of nationality for certain sensitive jobs - is essential to allow qualified persons to exercise their right to freedom of movement. The mutual recognition of qualifications has facilitated professional mobility within the European Union; mutual recognition of qualifications is clearly vital to persons in the CEEC who want to work in western Europe. The establishment of mutual recognition of qualifications with the CEEC may, however, affect the employment situation in the current Member States.

2.2.4. High labour standards and a competitive Europe

Ensuring good working conditions and high standards of health and safety at work are a key issue for European social policy.

2.2.4.1. Working conditions

Ensuring minimum labour standards has been one of the Community's main achievements in the social field. The Community has ensured that the creation of the single market led neither to a lowering of labour standards nor to a distortion of competition. Since the adoption of the Single European Act, the emphasis has shifted from harmonisation to defining minimum requirements. Throughout the Union, working conditions are regulated principally by national legislation and collective agreements. The European Commission has produced a proposal on the right of workers to an equitable wage. The principal Directives establishing minimum labour standards are as follows.

Directive 77/187/EEC as amended concerns the safeguarding of employees' rights during the transfer of an undertaking to a new owner. Although the Directive leaves certain matters to be determined by national law, such as the definition of a contract of employment or employment relationship, it provides that the rights and obligations arising from a contract or employment relationship existing on the date of transfer shall be transferred to the new employer.

Directive 96/71/EC on Posting of Workers gives employees temporarily posted to another Member State the protection of the host state's labour laws rather than those of the sending state. The controversy surrounding this Directive underlined complicated differences between Portugal and the United Kingdom on one side and Germany, with social problems in the construction sector, on the other.

Directive 80/987/EEC harmonises the laws of the Member States concerning the protection of workers' rights in the event of the insolvency of an employer.

Directive 93/104/EC dealt with certain aspects of the organisation of working time. It established a minimum daily rest period of eleven consecutive hours in every twenty-four hours, an average weekly working period of not more than forty-eight hours including overtime and an entitlement to at least four weeks' annual paid holiday.

Directive 91/533/EEC, which was adopted in response to an increase in the different types of employment relationship, sets out the employer's obligation to inform employees of the conditions applicable to the employment contract or relationship.

Directive 75/129/EEC and Directive 92/56/EEC provide greater protection for workers in the event of collective redundancies and approximate the Member States' legislation concerning the practical arrangements and procedures.

Regulation 3820/85 harmonised certain social legislation relating to road transport, while Regulation 3821/85 dealt with recording equipment in road transport. Directive 88/599/EEC concerned procedures to ensure the implementation of the two Regulations.

Directive 94/45/EC dealt with the establishment of a European Works Council or a procedure in Community-scale undertakings and Community-scale groups of undertakings for the purpose of informing and consulting employees. Community-scale is defined as an undertaking having at least 1000 employees within the Member States with at least 150 in each of at least two Member States.

Recommendation 92/443/EEC concerned the promotion of employee participation in the profits and results of a business, including equity participation.

Commission Opinion COM(93)388 on fair pay arrangements reaffirms the right of all workers to an equitable wage, defined as payment for work done which is fair and sufficient to enable them to enjoy a decent standard of living. The Opinion, which seeks to give effect to the principles of the Social Charter, argues in favour of the pursuit of higher productivity and high-quality jobs, the elimination of discriminatory wage practices, the importance of achieving economic and social cohesion and a reassessment of attitudes towards traditionally low-paid groups.

These activities are intended to protect the rights of employees in certain key areas. Requiring all Member States to harmonise their legislation to meet a minimum standard will clearly affect the CEEC's ability to integrate into the Community, given their very different working conditions and labour markets. Nevertheless, all the applicant countries will have to prove that their national legislation and practices comply with the social *aquis* of the Community and its Member States.

Some Directives are intended to harmonise national legislation to prevent employers exploiting differences between national laws. The Directives on collective redundancies, for example, are designed to protect employees from the danger that a company which operates throughout the Community will seek to benefit from differences in standards of social protection or labour laws between Member States. Other Directives allow certain differences to remain. Directive 94/33/EC, for example, on the protection of young people at work prohibits the employment of children and strictly regulates the employment of persons between fifteen and eighteen. However, the Directive allows the Member States to permit certain exceptions, such as in the case of children working in a family business not considered "likely to harm". The Directive thus tries to take into account differing educational and employment traditions in the Member States where it is customary to let young persons work regularly in a family business. It may, however, be difficult to apply such exceptions to the CEEC, which have a different employment structure with few small family businesses. Children from poor families may be forced to work to survive. The growing numbers of "broken homes", abandoned children and public indifference in the CEEC have no counterpart even in the poorest regions of the Community.

2.2.4.2. Health and Safety at Work

Legislation on health and safety at work can be divided into four types.

1. Measures adopted under the Framework Directive 89/391/EEC concerning health and safety measures at work and the responsibility of employers and workers. Additional Directives deal with special substances, types of workplace or certain groups of workers.

2. Measures following the Framework Directive 80/1107/EEC concerning the protection of workers against the risks of exposure to chemical, physical and biological risks. Thirteen Directives have been adopted to deal with specific risks. For example, Directive 89/654/EEC lays down minimum health and safety requirements for the workplace, Directive 89/655/EEC prescribes minimum health and safety requirements for the use by workers of machines and equipment, Directive 89/656/EEC prescribes minimum health and safety requirements for the use by workers of personal protective equipment at the workplace and Directive 92/58/EEC provides for minimum requirements for the provision of health and safety signs at work. Other Directives cover certain types of industry. For example, Directive 92/91/EEC concerns minimum requirements for improving the health and safety protection of workers in the mineral-extracting industries, Directive 92/104/EEC concerns minimum requirements for improving the safety and health protection of workers in surface and underground mineral-extracting industries and Directive 93/103/EEC concerns the minimum safety and health requirements for work on board fishing vessels.

3. Additional measures cover certain occupations or risk groups.

4. Since 1978, the European Commission has adopted four action programmes on health and safety. Like its predecessors, the Fourth Community Programme concerning Safety, Hygiene and Health at Work (1996-2000) is intended to ensure that the competitive pressures of the Single European Market do not jeopardise the safety and health protection of workers, to ensure sufficient protection against the risk of accidents and occupational diseases and to stimulate further improvements in safety and health protection.

The European Agency for Safety and Health at Work at Bilbao, established by Regulation 2062/94 as amended, began work in June 1994. The Agency provides the Community institutions, the Member States and those involved in the field of social policy with technical, scientific and economic information concerning safety and health at work. The Agency promotes co-operation and the exchange of expertise between the Member States, helps to establish networks together with the Member States and provides technical, economic and scientific information on methods for implementing preventive activities with particular regard to small and medium-sized enterprises. The Agency also facilitates the exchange of information among the Member States; many Member States have established standards on health and safety at work which are stricter than those contained in the Directives. The Agency will play an important role once the CEEC join the Community.

2.2.5. Equality of opportunity for men and women

Article 119 of the EC Treaty provides that men and women should receive equal pay for equal work. A number of Directives have been adopted to give effect to this principle.

2.2.5.1. The Directives

Directive 75/117/EEC facilitates the practical application of Article 119 by requiring the elimination of all discrimination on grounds of sex with regard to all aspects and conditions of remuneration.

Directive 76/207/EEC defines the principle of equal treatment for men and women concerning access to employment, vocational training, promotion and working conditions.

Directive 79/7/EEC provides that the principle of equal treatment shall apply to statutory social security schemes providing protection against sickness, invalidity, old age, occupational accidents and unemployment. Certain exceptions and derogations are permitted.

Directive 86/378/EEC provides that the principle of equal treatment for men and women shall apply to occupational social security schemes.

Directive 86/613/EEC applies the principle of equal treatment to the self-employed and their spouses.

Other Directives deal with the right to parental leave and leave for family reasons and the protection of women who are breastfeeding (Directive 92/85/EEC).

2.2.5.2. Legislation and implementation

Once Article 119 had clearly defined the goal of eliminating all forms of discrimination, the way was open for positive action. European Community legislation has contributed to the general process of opinion-framing and policy making in this area. The European Parliament has always been concerned with the issue of equal opportunities and set up a Committee on Women's Rights in 1984. But legislation alone is insufficient to ensure equal opportunities. There have been four Community programmes on equal opportunities; the current programme, established by Decision 95/593/EC, will last until the year 2000. The programme has six objectives: to promote the integration of equal opportunities into all policies and actions; to mobilise those active in economic and social life to contribute to this goal; to promote equality in a changing economy affecting education, vocational training and the labour market; to reconcile family and working life for men and women; to promote balanced participation of men and women in decision-making; and to enable people to exercise their right to equal opportunities. These goals may be achieved by technical, financial and methodological support for projects, the observation and monitoring of relevant policies, the conducting of studies and other means. ECU 30 million have been committed to the programme.

How to achieve equality in the area of social security is an issue currently under debate in the Member States; reforms are also necessary in the CEEC, as a comparison of certain aspects of the CEEC's social security systems, such as widows' pensions, demonstrates. Directive 79/7/EEC and the Commission's proposal for a Directive (COM 87(494)) address this issue. Many Member States have exercised their right to derogate from certain rules in the light of the particular requirements of their own social security systems. Directive 86/378/EEC as amended sought to give effect to Article 119 in the field of occupational social security schemes. The European Court of Justice's interpretation of Article 9 on retirement age and survivor's pensions in *Barber*[3] and *Moroni*[4] has fundamentally affected the application of this Directive. Further legislation has dealt with the entitlement of workers to parental leave under uniform conditions.

Ensuring equality of treatment for men and women in the CEEC may be difficult. Although there are exceptions such as Slovenia, in most countries women have been hit especially hard by the breakdown of the former economic system and the transition process. As reforms to agriculture and obsolete industry come into effect, unemployment among women may rise still further. Restrictions on public expenditure are likely severely to limit the compensation and social security benefits available to the newly-unemployed. Recommendation 92/241/EEC endorses the gradual development of childcare measures to enable women and men to reconcile family life and obligations with uemployment as a key to equal opportunities. However, the state or employers in the CEEC are unlikely to fund the generous kindergarten and child-care facilities provided by the Communist system; it will thus be more difficult for mothers of young children to work.

The persistence of inequalities between men and women in eastern Germany, despite massive financial transfers from western Germany, illustrate the problems ahead in the CEEC. In the GDR, a very high proportion of women worked, while today unemployment among women in eastern Germany is high. Moreover, facilities such as childcare which were provided by companies in the GDR have often been eliminated by the new owners of businesses. The problems in the CEEC may be even worse as they will be less integrated into a functioning economic system, will receive less financial aid and will not automatically obtain a stable currency or an efficient social administration. The years of transition so far have mostly been characterised by businesses making use of cheap labour and governments interested in economic growth with little regard to social protection and justice.

2.2.6. Social policy, social protection and public health

Each Member State remains competent to establish its own social security system. However, the Social Charter provides:

"According to the arrangements applying in each country, every worker of the European Community shall have a right to adequate social protection and shall, whatever his status or whatever the size of the undertaking in which he is employed, enjoy an adequate level of social security benefits; persons who have been unable either to enter or re-enter the labour market and have no means of subsistence must be able to receive sufficient resources and social assistance in keeping with their particular situation".

In view of the differences between national social security systems and the impossibility of harmonisation, the most important Community measure in this field is Regulation 1408/71, which ensures that migrant workers and their families shall not be disadvantaged as a result of their migration to another Member State. As harmonisation is out of the question, a number of activities have been implemented to support the national systems efforts to contribute to the future of social security in a changing economic environment.

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3 Case C-262/88. (1990) ECR I-6457.
4 Case C-110/91. (1993) ECR I-6591.

Regulation 1408/71 has certain problems. It is intended solely to prevent discrimination against migrants and not to ensure any minimum standards of quality and may thus be insufficient to ensure true labour mobility. The claimant must still cope with a bureaucratic process, usually in a foreign language. The claimant is entitled only to the benefits of the host country; persons moving from a Member State with a high level of social security benefits to a Member State with a low level may feel obliged to make good the gap by taking out private insurance. Where possible, as in Germany, such an individual may find it most efficient to leave the statutory system permanently in favour of private insurance, which will weaken solidarity between employees. Moreover, private insurance is largely limited to younger people in good health who are able to pay the premiums.

To date, people moving from areas with poor health systems to states with better health systems in search of treatment - sometimes known as medical tourism - has not been a major problem. But the proposed accession will make neighbours of the CEEC, whose health systems leave something to be desired, and Germany and Austria, with health systems of high quality. People may move from the CEEC to Austria and Germany to avoid the inadequacies, long waiting lists or even unavailability of medical care in their home countries. Although the health insurance funds in the CEEC will be expected to provide reimbursement for this treatment to Austria and Germany, the costs will far exceed their financial capacities and non-payment by the CEEC insurance funds may bring Regulation 1408/71 into disrepute.

The Missoc programme, launched in 1990, provides trans-border information on the details of national systems of social security. Convergence of these systems has been considered in a number of recommendations and reports. In October 1995, the Commission adopted a Communication on social protection in which it defined its role as supporting and promoting co-operation and joint action between the Member States. National social security institutions have presented comments on the report and opened an exchange of ideas on convergence. Certain schemes have been put forward concerning the integration of migrants who are nationals of non-Member States, which will be relevant to CEEC with large ethnic minorities, such as Estonia with her Russian minority. The Communication argues that social security, defined as "all the collective transfer systems designed to protect a country s inhabitants against social risks" is a "fundamental component of the European model of society". The Communication underlines the responsibility of the Member States for organising and financing their own social system. The Communication stresses that indirect labour charges to finance transfers to persons not in employment hinder job creation and undermine competitiveness and economic growth, but also draws attention to the role of social security systems in ensuring social cohesion and stability.

The Communication analysed a number of general problems facing social security systems in the Member States, which are also relevant to the CEEC; these included the shrinking labour force and increasing numbers of pensioners; how to make social protection more employment-friendly; the financing of social protection; an assessment of co-ordination of social security schemes for people moving within the Union; changes in health care systems; and co-ordination of statutory and supplementary insurance schemes. The Communication considered the impact of new forms of labour on traditional forms of employment, international mobility and international purchases of goods and services.

In the field of social protection, particular attention must be paid to provision for the disabled. The Community, in co-operation with the Member States and non-governmental organisations, has established the HELIOS and Handynet programmes and several special measures for workers with reduced mobility, including relevant technology initiatives. Measures taken include standardised parking cards, projects to integrate the disabled into the labour market and measures to make public buildings more accessible to wheel-chair users. Although there is still far to go within the Community, these measures far exceed anything attempted in the CEEC, where measures for the disabled are limited to isolated projects funded by foreign aid.

Public health is dealt with in Articles 3(o) and 129 of the EC Treaty and in the Amsterdam treaty. The Community has implemented measures concerning health promotion and monitoring and established programmes covering a number of priority areas, such as cancer, drug addiction, AIDS and other communicable diseases, pollution-related diseases, rare diseases and the protection of consumers from health risks such as BSE. Action programmes on health promotion include health education, the training of professionals, prevention programmes for the disadvantaged or vulnerable groups concerning nutrition, AIDS, cardio-vascular diseases and smoking-related diseases. The Commission's White Paper *Developing the international dimension* drew attention to the tar yield of cigarettes by stressing the importance of Directives 90/239/EEC and 89/622/EEC on the labelling of tobacco products. Given the multitude of social problems in the CEEC, this priority is quite remarkable.

2.2.7. The development of the international dimension

The White Paper *Developing the International Dimension* set out the legislative measures the CEEC would need to put in place to integrate into the Single European Market. The White Paper set out the relevant Community legislation and described in detail the administrative and technical structures necessary to ensure that the legislation is effectively implemented and complied with. It indicated which measures should be adopted as a priority.

Co-ordination of social security schemes:

Regulations 1408/71 and 574/72 deal with cross-border problems arising in the field of social security. Since no harmonisation is envisaged, only some technical adaptation of legislation is required, taking into consideration the particular characteristics of each country's national social security scheme. The extension of the Regulations to the countries of central and eastern Europe is "not of immediate concern".

Health and safety at work:

Community legislation comprises the first Framework Directive 80/1107/EEC and its four individual Directives, and the second Framework Directive 89/391/EEC and its thirteen individual Directives. Legislative approximation requires an effective enforcement, infrastructure, encompassing proper management of undertakings, appropriate training of workers and efficient labour inspectorates. Priority shall be given to the Framework Directive 89/391/EEC.

Equal opportunities for men and women:

There are five Directives on equality (75/117/EEC, 76/207/EEC, 79/7/EEC, 86/378/EEC, 86/613/EEC) and one Directive relating to the protection at work of pregnant women and those who are breastfeeding (92/85/EEC). No specific infrastructure is required other than the existence of a legal system so that persons can enforce these rights by legal process. An administrative body of the national governments should be responsible for implementing and overseeing legislation on equality.

Labour law and working conditions:

Directives in the field of labour law include Directive 75/129/EEC on collective redundancies, Directive 77/187/EEC on the transfer of undertakings, Directive 80/987/EEC on working time and Directive 94/45/EC on information and consultation. The application of these Directives requires the existence of monitoring tools, appeal procedures, workers' representatives and a competent public authority. Priority should be given to Directives 75/129/EEC, 77/187/EEC and 80/987/EEC because of their impact on the operation of the internal market and the Directive on the protection of the young because it contains recognised international standards.

Tobacco products:

Directive 90/239/EEC on the tar yield of cigarettes and Directive 89/622/EEC as amended on the labelling of tobacco products lay down common rules for public health protection. The application of these Directives will depend on the technical capacity of the countries of central and eastern Europe to measure the tar yield of cigarettes. The White Paper stresses that implementing this legislation should be a priority. It may, however, be difficult to convince the eastern European governments that this area deserves the same priority as, for example, extending Regulation 1408/71.

Chapter 3 - SOCIAL POLICY AND PRACTICE BEFORE THE ECONOMIC TRANSITION

Seven years after the end of Communist rule, the CEEC have undergone enormous changes; with assistance from the West, the social security systems, along with much else, have been radically transformed. Nevertheless, the former structures of the social security systems continue to exert some influence even today.

Under Communism, differences between the CEEC largely depended on how closely they were controlled by Moscow. Slovenia enjoyed the greatest independence from the Soviet model; Slovenian workers, for example, were able to work abroad. Consequently Slovenia has perhaps found it easiest to adapt its social security system to operate in a free market system. Estonia, on the other hand, as an integral part of the Soviet Union, has had much further to go.

3.1. Labour market policies

In planned economies, unemployment was usually officially denied and employment was severed from productivity; "full employment" was seen as evidence of the economic success of the Communist system. Nationalised industries had to meet planned production targets, which frequently bore no relation to reality. The service sector was very rudimentary, purchasing power was extremely low and regulated prices and wages made it possible to house and feed the workers. Without markets or competition, there was little innovation or marketing. A huge black market helped to prop up the system. Labour-intensive production and the difficulty of providing for a household on a man's income alone ensured that the level of employment among women was high, although women did not necessarily enjoy the same pay or opportunities as men. Generous child-care and kindergarten arrangements enabled mothers to work. Single parenthood was common and single parents usually worked.

The structure of employment reflected the needs of a planned society. An education system accessible to all provided the east European countries with large numbers of well-educated persons who were, however, not automatically entitled to any privileges at work. Privileges were instead granted to Party activists, who were entitled to a range of special benefits, such as access to special schools and hospitals, better health care and higher pensions. Medicine and engineering were popular careers, as doctors and engineers could make an agreeable living without having to become Party activists. Doctors enjoyed considerable social standing and were able to supplement their income by requiring "backhanders" for treatment.

3.2. Industrial relations

The western European system of industrial relations, whereby trade unions and employers negotiate on wages and working conditions and contribute to the development of labour legislation, was unknown in eastern Europe. Trade unions were dominated by the Communist Party and operated as a means of social organisation. The official trade unions were responsible for the distribution of social security benefits and, sometimes, for allocating workers to businesses as there were no Labour Exchanges. Collective dismissals for economic reasons were unknown. Individuals were dismissed in two situations; in the case of social drop-outs unwilling to integrate into society or in the case of political dissidents who were thereby deprived of their income.

3.3. Labour market legislation

As employment was guaranteed, labour was cheap and wages were not open to negotiation, there was very little role for labour legislation in the eastern European countries. Political claims could be advanced only through the Communist Party or the Party-influenced trade unions. Communist governments were hostile to criticism and excessive criticism was considered tantamount to opposition. Thus, even when legislation and rights existed on paper, it was generally recognised that a worker could enforce his rights only through Party channels and not by recourse to the law.

Distrust of the law and the government thus became entrenched in eastern European societies and this distrust persists today. Citizens' wariness of the government was reinforced by the Communists' insistence on obedience, the repressive measures used against dissidents and seclusion behind the Iron Curtain. The breakdown of Communist societies, the collapse of the former moral system, rapid and traumatic social and economic change, widespread corruption and the development of poverty undermined trust in government still further. The governments which came to power following the collapse of Communism did little to restore citizens' faith in government; their ill-advised attempts to rekindle pre-Communist nationalism, nepotism and corruption combined with failure to improve the general quality of life made the public still more sceptical.

3.4. Health and safety at work

In many large undertakings, health and safety at work was the joint responsibility of the employer and the regional public authorities. There were few reliable statistics on occupational accidents and illnesses, as embarrassing incidents were usually concealed. With the injured entitled to free medical care, it was quite easy to suppress information about failures in occupational safety. Whether an undertaking with an especially high number of accidents was reprimanded depended upon politics. Moreover, entire sectors of industry, such as nuclear energy or arms production, were wholly excluded from public scrutiny. The Chernobyl catastrophe illustrated the Communist Party's ability and determination to restrict the dissemination of information about accidents.

Technology was often very backward and dangerous both to man and to the environment. The terrible environmental heritage of Communist rule is beyond the scope of this study, yet the nuclear power plants in eastern Europe continue to pose a grisly threat despite western attempts to improve them. The industrial methods used under Communist rule, and which are sometimes still in use today, have created widespread and serious environmental problems which the CEEC lack the financial resources to tackle. Moreover, little has been done to investigate the extent of latent occupational diseases among workers, as even if they have been harmed they can expect little in terms of disability pensions.

Many dangerous and outdated facilities are kept operational for social reasons. The closure of these facilities, the provision of alternative employment or satisfactory unemployment benefits for those thrown out of work and the improvement of the environment are beyond the financial capacity of CEEC governments. Moreover, there is popular pressure to keep these factories open. Workers at these factories, fearful of poverty and unemployment, are often willing to endure harmful working conditions. Many east Europeans already feel that the process of economic transition has harmed too many people. Any government willing to make more people redundant may lose office. Popular dissatisfaction with his government's neglect of social policy issues contributed to the downfall of Vaclav Klaus, who had championed a rapid transition to a market economy.

3.5. Social protection schemes

All five countries had a national health service under public administration providing free treatment. There were numerous polyclinics, doctors and hospitals, although they were not always evenly distributed across the country. The standard of professional training for doctors was good. Private medicine did not exist officially. While the quality of equipment and commitment of medical staff varied, most eastern Europeans had access to reasonable health care. However, there were frequent shortages of material and medicines, and equipment was often outdated. "Backhander" payments for treatment were common, though at a modest level acceptable to everybody.

Child care was generally available. There were numerous pension schemes; the level of the pension varied considerably according to the political importance of the recipient's job. Many of these job-related supplements are still paid today. Although the level of pensions appears ridiculous in monetary terms, basic necessities such as health care, food - sometimes of dubious quality - and flats at low rents were provided by the state. Care was available for all pensioners, as the government controlled public services and any "backhander" payments were within a pensioner's financial capacity. Although most persons only had access to small amounts of money, only a tiny elite had more; as the domestic currency bought only a limited range of products, the class distinctions marked by differences in purchasing power were not obvious.

Social security benefits were funded from the resources of central government. Thus the government could choose to be generous to certain groups. Workers in "strategically important" industries often had access to better health care, higher pensions and better facilities for the young and the old. The social security systems had no effective forms of financial control, productivity-related remuneration or quality assurance. Once denied bottomless support from state funds, these system could not survive in their old forms.

3.6. Poverty and income distribution

As unemployment did not officially exist, those without work -who included political dissidents - were normally considered to be anti-social elements. Poverty existed in many of the less industrialised regions, and especially among those dependent on inefficient agriculture. With the exception of a small political elite, the distribution of income was very even; income differences between professional and manual jobs were small. As only a few goods and services were available, purchasing power was limited; all basic needs were met at controlled prices. As there was little point in having a higher salary, wage controls eliminating any form of bargaining were accepted.

Chapter 4 - SOCIAL SECURITY LAW AND PRACTICE TODAY

Although at the start of the 1990's all five CEEC had similar social security systems and faced similar problems, each country has tackled these problems in a different way. Descriptions of each country's policies are given in the following chapters but certain common themes will be outlined here.

The Communist governments of eastern Europe planned their social security systems without consulting the people the systems were supposed to benefit. Consequently, the sudden introduction of democracy found an electorate entirely unused to and unprepared for public debate on the future of the social security system. The inexperience of both electorate and politicians has ensured that the debate on social security reforms has been prolonged and is still far from over.

Moreover, while Western aid has been vital to the countries in transition, political factions within the CEEC have been able to seize on the often contradictory recommendations of a plethora of Western consultants to fuel an almost endless debate which has produced little action and even fewer results for the public. One of the first reform measures was to sever the health care systems from direct support from central government resources, which dramatically reduced their financial resources without forcing them to reduce their facilities or to ration their services by, for example, the introduction of waiting lists. The legislative process, with different interest groups jostling for influence, has been drawn out and ineffective. Trying to deal with a rapid decline in economic growth rates, rising unemployment and reduced productivity at the same time as reforming the social security systems proved too much for many of these countries. With more and more help pouring in from western countries, the pressure to produce tangible results started to mount. Legislation speeded up in 1992/1993 and the Commission's 1995 White Paper provided a further impetus to reform.

A glance at a few basic problems of law-making may be helpful. The process of social legislation is similar in all CEEC. In accordance with the Constitution, the national parliaments have created a variety of social security laws covering the basic fields such as health care, retirement and occupational accidents and illnesses. Although these laws differ fundamentally in scope, details and allocation of duties, responsibilities and competencies, there is a common legislative history. At the start of the transition process, there was a general distrust of the state as a responsible entity and a preference for general privatisation in line with the privatisation of business. With rising poverty and dwindling resources, the expectations of the voters changed; voters sought to slow down the process of transition to a free market economy. This trend was demonstrated by the downfall of Vaclav Klaus in the Czech Republic, who had ben a champion of the free market and Thatcherite government.

With these changing political priorities, there have been frequent and continuing changes in legislation. However, legislative reform has been less difficult than altering administrative practices, especially in those areas where immediate political opposition or dramatic social consequences are certain. Legislation on health and safety at work will affect obsolete heavy industry, which is still operating and provides employment for many. Old-fashioned enterprises are experiencing considerable difficulty in paying their social security contributions and taxes. Enforcing European Community standards of occupational safety might put an end to thousands of jobs without creating new employment or ensuring a sufficient level of benefits for those made redundant. Health insurance funds and pension schemes might add to the problems by trying to force outdated industrial employers to pay the social insurance contributions which are currently often evaded.

Money is particularly scare at the municipal level. There is a likelihood of migration from poorer regions to richer ones, which may create or exacerbate social problems in the richer regions. Because of the widespread lack of funds and expertise among the social security institutions, social security benefits actually available vary considerably from country to country and even from region to region. Legislation is frequently designed to serve temporary political goals rather than to improve the basic structural shortcomings of the social security institutions. Many institutions inherited from the Communist system linger on, reluctant to make their employees redundant; there are, for example, hospitals which do not perform any serious treatment of patients. As doctors have proved to be one of the strongest political pressure groups, it has been difficult to introduce reforms which affect them negatively. Many polyclinics have closed down or admitted private doctors as competitors. Some countries no longer guarantee free medical treatment to all and have instead made medical treatment dependent on social insurance. On the other hand, today most pharmaceuticals and technical equipment are imported from western countries at western prices. The huge technical improvements necessary in many hospitals and doctors' practices far exceed the financial resources available. Salaries of even the most highly skilled doctors are derisory compared to other jobs. As a result "backhanders" have become common and undermine the confidence of the population in both the social security system and the legislative reforms, which seem to have created fresh problems instead of solving difficulties.

4.1. Labour market policies

In the short or medium term, measures to assist the unemployed to find work are extremely expensive, especially in countries where the cost to the government of unemployment is small due to very low unemployment benefits and where the black economy enables the unemployed to survive with little social disruption. Some government measures to combat unemployment and their impact on public expenditure will be outlined here.

A government can stimulate employment in two ways. First, it may increase employment within the public sector. This course of action requires ample public funds and does not necessarily lead to an increase in economic production. Employment in the public sector was popular with the Communist governments as it disguised real unemployment. Unless public employment programmes include training for the unemployed so that they can later be employed in the private sector, they are no more than a temporary solution. Moreover, CEEC governments are trying to reduce expenditure on the public sector and are not willing to engage large numbers of new employees.

Second, a government may try to stimulate employment in the private sector, by changing employment conditions, stimulating public demand and giving tax incentives to employers or consumers. Economic growth and increased demand will lead to more employment unless production can be raised by increases in efficiency, leading to higher productivity with the same number of or even fewer workers. Given the choice between engaging new workers or buying new machinery, many investors may either opt for the latter or choose to move their business to a country with cheaper labour.

These grossly simplified summaries show the difficulties governments face in creating productive long-term employment. Faced with the challenges of new technology and cheaper foreign labour, even west European governments have been unable to prevent a rise in unemployment. The employment challenges faced by the CEEC governments are more dramatic than anything experienced in western Europe. All CEEC governments have pursued privatisation programmes, with varying degrees of success; labour-intensive industries with obsolete equipment have proved especially difficult to sell. As capital was scarce in eastern Europe, the CEEC governments had to encourage foreign investors to provide money and expertise and to open up export markets. Foreign investors, however, have been interested only in certain parts of east European industry, namely those showing a quick profit or promising better long-term returns than equivalent investments within the EU. Governments have made concessions to investors on taxes, labour laws and other incentives. In the light of these difficulties it is remarkable that the CEEC have managed to keep unemployment at roughly the same level as in the European Union.

Low salaries and poverty are widespread in eastern Europe; labour market policies must take account of the very different conditions in western and eastern Europe. Persons who work in the black economy are generally considered fortunate compared to those who rely solely on social security benefits. The black economy is of central importance to the CEEC economies; it provides income for many and it will be politically difficult to bring the black economy under control without providing an alternative income for those working in it.

4.2. Industrial relations and labour market legislation

The initial process of forming independent trade unions out of the remnants of the Party-controlled unions was difficult but organisation among both workers and employers has now improved considerably. Collective bargaining has been weakened by dramatic changes in the labour market. Trade unions are not able to exert pressure to improve production standards or wages in obsolete enterprises which have no economic future. Attracting foreign investors has been considered more important than ensuring higher wages or better working conditions. All trade unions have difficulty in reconciling the demands of their unemployed members for employment with those of their employed colleagues for better salaries and working conditions; this tension is acute in the CEEC where the former sense of solidarity between workers has been replaced by intense competition. The economic weakness of the CEEC governments limits their ability to advocate employees' interests, even if they had the political will to do so.

Labour market legislation is not always implemented in practice. The enormous influence of investors in the CEEC has limited governments' ability to improve the social lot of the population. Major investors are often able to avoid bureaucracy but small and medium sized enterprises have to contend with a jungle of highly bureaucratic regulations which suffocate the creation of new jobs. Law-abiding SMEs have to obtain complicated registration documents, pay excessive fees and endure lengthy administrative procedures at the hands of the tax inspectorate, health insurance funds and pension funds. Consequently many SMEs are tempted to avoid contact with the bureaucracy as far as possible and to pay bribes and engage workers clandestinely. As SMEs are vital to economic growth, attention must be paid to this problem.

4.3. Social protection schemes and health and safety at work

There are substantial shortcomings in the administration and efficiency of the social security institutions. Legislation reforming the social security system has often been drawn up without the benefit of even basic advice on sound administrative practices in social insurance. The pre-transition social security institutions - particularly in the field of pension insurance - have been reorganised into a number of often over-staffed units, whose employees are mainly drawn from the old institutions. Some entirely new institutions, such as those administering health insurance, have also been created; these are staffed mainly by economists, doctors or lawyers unable to find employment in the commercial sector. While some staff in the social security institutions are highly capable and efficient, these institutions are bedevilled by bureaucratic rivalries, refusal to accept responsibility, status seeking and greed for prestige and competences. Reform of administrative practice is very low on the domestic political agenda, despite generous financial aid for this purpose from PHARE, some Member States and the World Bank. Frequent changes of senior employees hinders lasting improvement of the quality of the administration and undermines the effectiveness of foreign aid, as newly-trained employees often promptly leave for other jobs.

Few, if any, of the social security systems in the CEEC are adequately staffed, equipped or trained to cope with the enormous challenges of an ever-changing economic environment, many legal and administrative uncertainties and, in the case of the health insurance funds, hospitals and doctors which are beyond their control. Frequent concessions by governments to the institutions allow competences and responsibilities to remain unclear; for example, the relationship between the Hungarian health insurance fund and municipal public administration has been left in limbo. After many years of debate, a new law on health insurance in Poland has been introduced, but its implementation may lead to severe problems. Reforms to the social security systems have not satisfied public expectations.

It has proved difficult for health insurance institutions to prevent doctors requiring "backhanders". The growth of "backhanders" has undermined the authority of the health institutions to effect changes in the overall structure of health care systems, which often serve doctors' interests more than patients'. Little progress will be made until competent doctors are better paid and incompetent ones dismissed.

Similar considerations apply to the pension system and protection against occupational accidents or illnesses. Early retirement, limited rehabilitation programmes and a plethora of different types of pension drain funds from these systems, which have a poor reputation. Pay-as-you-go systems throughout the world have been affected by high long-term unemployment, falling wages and the demands of an aging population. The main problems of east European schemes are clear. Poor collection of social insurance contributions, widespread black labour and tax evasion, an early retirement age, high unemployment and, in some cases, negative demographic trends all pose problems for the CEEC pension and occupational health systems. These factors have led to growing popular distrust of the statutory pension funds and increased willingness among workers to evade their financial obligations. A vicious circle may develop: the evasion of insurance contributions and taxes will lead to shrinking insurance funds, rising contribution rates for those still paying honestly, dwindling benefits and a further loss of confidence among the public.

The systems of occupational health and safety in the CEEC differ widely. Workers may be covered by a special type of insurance or standard health and pension insurance and labour law may be relevant. In some countries, the pre-transition system remains largely intact. Obsolete enterprises on the brink of bankruptcy can hardly be forced to implement health and safety legislation. Foreign investors who have been attracted to eastern Europe by comparatively low health and safety standards must realise that these standards will rise. However, administrative assistance from western European countries will be essential to assist the CEEC in improving standards. Accession to the European Union will enable disgruntled workers to challenge inadequate health and safety at work standards before the European Court of Justice. Accession may thus lead to improvements in this sector which would not have occurred otherwise.

4.4. Poverty and social opportunities for men and women

There is widespread poverty in all the CEEC except Slovenia. Large parts of the population live on an income below the national poverty line. Certain groups are particularly affected. Persons - usually women - dependent on a survivor's pensions, which may be based on a very low income level, often live in poverty. Women have also suffered particularly from changes in employment; once well integrated into the workforce, women were frequently the first to lose their jobs during the transition. As public child care facilities have been closed, many women formerly in employment have been forced to care for their children at home and to rely on their husband's income. Younger women, and especially those without children, have been better able to adapt to these changes. For unskilled or poorly-educated women, the future looks bleak. Social programmes aimed at women are likely to be insufficient.

Governments have done little to provide support for students or persons undergoing retraining. For example, a Hungarian student's grant does not buy much more than a monthly season ticket for public transport and the occasional meal at the cheapest university refectories. Students have little choice but to work part-time, so damaging their education. Parents, reluctant or unable to support a child at university, are more likely to encourage their children to take up work after finishing school. Higher education is likely to become the preserve of the affluent. Western investment may lead to an improvement in educational standards, but such changes will be geared to the interests of the employer. The emergence of a middle class may, however, gradually improve the position of the education sector.

4.5. Accession to the European Union

The CEEC have no realistic economic alternative to acceding to the European Union. It is most unlikely that they could emulate the economic policies and success of those European countries - Iceland, Norway and Switzerland - which have chosen to remain outside the Union. Outside the European Union, the CEEC could only hope to attract foreign investment by encouraging social dumping; competition between the CEEC would lead to a relentless decline in levels of social protection. Reductions in the standards of social protection, environmental protection and quality of life in the CEEC are already evident. Foreign capital would be likely to continue to take advantage of the CEEC's low levels of social protection so long as poverty did not reach a level where social stability was threatened. Falling standards of social protection in the CEEC would pose problems for the neighbouring EU Member States, which have generous social security systems, which could expect to lose investment and to attract illegal immigration from the CEEC.

The problem of organised crime could worsen. Excluded from the EU, weak CEEC governments would be unable to resist organised crime. If their economic future were to depend upon maintaining low wages and low social standards, the societies of the CEEC might become dangerously unstable and vulnerable to undemocratic forms of government. It is doubtful whether current standards of social protection within the EU can be maintained. Consequently the accession of the CEEC will affect not only those countries bordering the CEEC but every Member State.

Chapter 5 - PROSPECTS FOR THE FUTURE

The opening of accession negotiations with the European Union has been welcomed in the CEEC, although it is unclear how long it will take for the CEEC to become Member States of the Union. Other eastern European countries are also likely to press their claims for accession during the negotiations with the CEEC. Whether the opening of negotiations will provide a further impetus to reform in the CEEC remains to be seen.

In the world of social security, most things can be achieved with sufficient money and expertise; as these are in short supply in the CEEC, the Union is likely to face increased demands for both. All the CEEC will continue to employ austerity policies of varying severity against inflation, which will limit the amount of money available for social security. The CEEC will be eager to enact whatever legislation the Community requires so long as it does not deter foreign investment. Implementation of this legislation in practice, however, will depend largely on the willingness of eastern European citizens to accept reforms. Social security systems in the CEEC require foreign advice and expertise to improve their performance. Although Regulation 1408/71 was once considered a low priority by the European Commission, the issue of migrant workers from the CEEC must be addressed. It is unclear what the effect of freedom of movement for workers from the CEEC will be on labour markets in the Member States, but there are obvious repercussions for manual and semi-skilled workers and agricultural labourers.

All five CEEC have laid emphasis on controlling inflation and transforming the structures of a command economy into those of a market economy. The CEEC have experienced differing levels of economic success and the transition process - except perhaps in Slovenia - is by no means complete. The transition process has had far-reaching consequences. Economic progress has been accompanied by failings in the social sector, reduced public services, an uneven distribution of wealth and gloomy economic prospects for many east Europeans. The fight against inflation has not yet been won; inflation rates are still fairy high compared to inflation in the Member States. As a consequence the CEEC governments will continue to restrict public expenditure, which will exacerbate problems in the social sector. Environmental degradation is severe in many CEEC, but the CEEC government do not have the financial resources to fund improvements.

Chapter 6 - MAIN PROBLEMS FOR ACCESSION TO THE EUROPEAN UNION

6.1. Legislative reform on paper and in practice

In its 1995 White Paper, the European Commission set out the measures the CEEC will have to take to prepare themselves for membership of the European Union. Every effort will be made to satisfy the Commission's requirements. The CEEC governments, believing that accession to the European Union is essential for their future stability and prosperity, have vigorously pursued this goal, often at considerable political cost. To many in the CEEC, disillusioned by frequent political changes, corruption, and persistent social and economic problems, the European Union may appear as a sort of "super-government", which will be able to redress the deficiencies of the CEEC governments.

Although the CEEC governments will enact legislation in accordance with the Commission's requirements, it is questionable whether it will actually be implemented when it conflicts with domestic needs. For example, legislation on health and safety at work may reduce employment or deter investment if rigorously implemented. On the other hand, if legislation is not actually implemented, the general credibility of European Community legislation will be undermined and current Member States may also be tempted to relax their own enforcement of Community norms. Moreover, the low standard of government administration in the CEEC will hinder enforcement of legislation.

The Commission's agenda has already been called into question as there are many other problems in the CEEC which require attention. For many CEEC citizens, EU membership means only freedom of movement and generous financial aid to stabilise their countries internally, while NATO membership will stabilise their countries internationally. Dividing the accession process into stages may be seen as discriminatory by the CEEC and may increase illegal activities. Placing too much reliance on legislative reforms without checking whether they have been implemented in practice is dangerous; it is essential to improve the quality of public sector administration and public finances in the CEEC.

6.2. Macro-economic structure

The economies of most CEEC are still seriously handicapped by their inheritance of the problems of a command economy, which threatens social harmony and economic performance. With ever-increasing unemployment, much depends on the future volume of western investment.

6.2.1. Over production, competition for investment and currency problems

Salaries in the CEEC are generally low and consequently domestic demand for CEEC-produced goods is limited; exporting is vital to the CEEC economies. The export markets to the east are developing very slowly. Hopes that the former East Germany would be able to open up export markets to the east proved unduly optimistic, and while Russia has huge potential as an importer, economic and political developments there are highly unpredictable.

Within the European Union, a shift of investment from the current Member States to the CEEC after their accession will add to the economic difficulties of the current Member States and create new competitive pressures within the Union. Given the structure of the CEEC markets, the absence of Small and Medium-Sized Enterprises is a matter of concern.

The public infrastructure essential for economic growth, which is taken for granted in western Europe, does not always exist in the CEEC. The smaller CEEC face less difficulty in developing a modern infrastructure than the larger states, where comprehensive improvements require the investment of sums well beyond the governments' capacity.

Although the new stock exchanges in eastern Europe have seen considerable speculation, most local businesses suffer from a lack of capital because of high nominal inflation or foreign distrust of the stability of the currency. The currency problems are far from solved. Regular devaluation, as in Hungary, volatile exchange rates, as in the Czech Republic, and an artificially stabilised exchange rate pegged to the Deutschmark, as in Estonia, are hardly signs of stability. With an inflation rate of 24.7% in 1996, it is only a matter of time before Estonia revalues its currency vis-a-vis the Deutschmark, which may create havoc in the Estonian money market. Nobody is currently willing to buy substantial amounts of Estonian currency, which depresses the Estonian bond market and makes it difficult to finance loans in local currency. Currency issues are highly relevant to the performance of the social security system, which relies on stability and predictability.

6.2.2. Agriculture and mining

The agricultural sector, which is still important in most CEEC, presents grave problems. In Poland, for example, about 30% of the work force are employed on two million agricultural smallholdings. With an average size of about eight hectares, these smallholdings are too small to be viable. Huge government subsidies and protective duties are used to support them. Any major changes to agriculture will create mass unemployment and stimulate migration from the countryside to the cities, where unskilled agricultural labourers may simply swell the ranks of the unemployed. The social security system would have difficulty in accommodating a sudden leap in unemployment.

The mining industry in the Czech Republic, Hungary and Poland is also in grave difficulties. Once an important employer, the mines are now dependent on large subsidies, lack capital and expertise and suffer from low demand.

6.3. Administrative and Political Problems

6.3.1. Administrative inefficiency

Widespread administrative inefficiency in the public sector means that many legislative reforms are not implemented in practice. Although PHARE, the World Bank, the SIGMA programme and other Western initiatives have invested much time and money in training civil servants and public sector employees, well-trained staff are frequently lured away from the public sector by the far higher salaries and benefits in the private sector. Even the best training programmes are unlikely to have much effect unless the salaries for civil servants are increased to a level competitive with salaries in the private sector. This problem is exacerbated by the custom that incoming governments replace some civil servants with political appointees from their own party, regardless of their suitability for the job.

Poor administration affects all areas of government activity in the CEEC and not merely the social security sector. The weakness of administration has hampered the implementation of reforms to the health insurance system, pensions, occupational sickness insurance and labour law. Moreover, some attempts at reform have led to fresh problems by creating rivalries and disputes over power between different social security institutions.

6.3.2. Medical tourism and special difficulties for countries bordering the CEEC

The poor quality of medical treatment and problems in the health insurance system in the CEEC may encourage eastern Europeans to seek medical treatment in current Member States rather than at home. This is a new problem for the European Union, as never before have rich and poor member States been so close geographically; in the case of Germany and Poland, for example, it will be easy for Poles to cross the border to seek medical treatment in one of the richest Member States.

Problems may arise in applying Regulation 1408/71. The Polish health insurance fund is unlikely to be able to pay the costs of medical treatment and pharmaceuticals in Germany or Austria. If problems arise in the system of reimbursement of the costs of treatment, Regulation 1408/71 will be brought into disrepute.

Freedom of movement may lead to other problems for Member States bordering the CEEC. Workers may emigrate from the CEEC to Germany and Austria, so depressing salary levels in those countries. The black economy practices so prevalent in the CEEC may seep across the border into Germany and Austria, so damaging their social security systems. In the Austrian and German construction industries, migrants from the CEEC, claiming to be self-employed, are already competing with Austrian and German builders for work. Unemployment is already high in the regions of Germany which border Poland; any increase in unemployment here as a result of an influx of eastern European workers would create resentment amongst Germans towards the accession of the CEEC and towards the European Union in general. Austria, with its border with the Czech Republic, Hungary and Slovenia faces similar problems. Moreover, while the CEEC do not have a properly-functioning social security system, they may attract investment and employment away from the border regions of Austria and Germany, so adding to pressures on the social protection systems in these regions.

6.3.3. Poverty and the European social model

Widespread poverty and high unemployment has led to social divisions and popular disillusionment in the CEEC. Although the possibility of accession to the European Union has raised hopes of a better future among the peoples of the CEEC and is sometimes seen as a political and economic panacea, optimism may be replaced with cynicism if the accession process is drawn out. However, cynicism may not be tantamount to opposition to joining the European Union. Opposition in the CEEC to accession comes principally from the extreme right and left but these critics have failed to advance a convincing alternative. Compared to the US model sometimes advocated by the World Bank, the European Union model of a socially balanced market economy is the only solution which combines economic growth with a degree of social justice.

Whichever government makes essential reforms to Polish agricultural smallholdings or the Hungarian mining industry is unlikely to reap much popularity. The degree of public discontent with these reforms will depend in large part on how well the social security systems are able to provide for those thrown out of work or into poverty. To date, the social security systems in the CEEC have failed to deal satisfactorily with the challenges of poverty and social division but more transfers of expertise and funds from the European Union might well help them to improve their performance. It is essential that the European Union, the CEEC governments and the social partners explain to the electorate that accession to the European Union is not the cause of poverty and unemployment, which are the legacies of the command economies; the electorate must be convinced that in spite of all the difficulties the European Union is committed to growth and social justice and is the only feasible solution in a period of transition.

6.3.4. The black economy and social fraud

Black labour, tax evasion and social fraud are widespread in the CEEC. Many workers are unwilling to pay high taxes and mounting social security contributions when they see little benefit in return for their contributions. Outdated enterprises and agricultural smallholders are particularly reluctant to pay. Weak administration, and sometimes even corruption, hinder the efficient collection of taxes and social insurance contributions and encourage the development of the black economy. A vicious circle has developed which endangers the future of the social security institutions; as their revenues shrink, their services decline, which further discourages workers from complying with their obligations. Many small businesses in the service sector operate on the basis of a tacit agreement between employer and employees to conceal part of their incomes from the authorities and to avoid official registration as far as possible. As many people could not survive without income from the black economy, its existence has become widely accepted. The black economy has become so deeply rooted into eastern European societies that it will be a major problem for the integration of the CEEC into the Union.

6.4. Allocation of European Union funds

European Community funding has been vital to regions throughout the Community, but the accession of the five new countries, with exceptionally high levels of poverty, will force the Community to review the distribution of its funds. Although some of the current Member States have called for reductions in their contribution to the Community budget, it seems likely that considerable sums will have to be spent on integrating the CEEC into the Community and the contributions of the current Member States may have to rise.

The Member States may differ on how Community funds are to be redistributed. Changes in certain policies, such as the Common Agricultural Policy, will affect some States more severely than others and may colour their views on the entire accession process. There is also a danger that reductions in Community spending in the current Member States may provoke popular hostility towards the accession of the CEEC. Moreover, the process of enlargement is unlikely to stop with the accession of the five CEEC and the success of future accessions will largely depend on how well the accession of the CEEC is handled.

6.5. The environment

The environmental problems of the CEEC are so huge that they may have a significant social impact. As knowledge of environmental issues increases in the CEEC, many people may try to migrate to countries which offer a healthier environment for raising children. The CEEC will require foreign assistance to be able to close down obsolete power stations and factories without throwing their employees into poverty. Rigorous enforcement of European Community environmental legislation will have social repercussions for which the social security systems are poorly prepared. Enforcing European Community food standards will affect the agricultural sector, which is already in crisis.

6.6. Migration

As the right to free movement is largely restricted to those in work, the European Union has not so far experienced substantial migration from the poorer Member States to the richer. However, the accession of the CEEC will bring within the Union very large numbers of workers who live in comparative poverty who might be tempted to migrate to western Europe in search of a better life.

Hundreds of thousands of eastern European workers, dissatisfied with their working conditions, their salaries or the scope of social benefits, might take advantage of freedom of movement to move to western Europe. The extent of migration will depend on employment and social conditions in the CEEC and, unless major changes occur in the CEEC, is likely to be extensive. Unskilled or semi-skilled workers are the most likely to want to move. Local administrative bodies in western European countries will have difficulty in controlling or regulating the influx of migrants. Mass migration to countries with high wages or social benefits is likely to drive down wages in western Europe, to add to unemployment in western Europe and to impose a heavy burden on the social security systems. Immigration from the CEEC is thus likely to create resentment and discontent among western European workers and to stimulate calls for protectionism.

One solution might be to integrate the CEEC into the European Union in stages, so that eastern European workers did not acquire the right to freedom of movement until the end of a transitional period. This transitional period should be used to reduce the economic and social differences between the CEEC and the current Member States and would require a new approach to the use of European Union funds. European Union resources should be used both to improve social conditions in the CEEC with a view, in the long term, to maintaining social standards within the current Member States.

6.7. Further reforms in the CEEC

6.7.1. Reform of the health care sector

All the CEEC have moved away from the former system of state-managed national health services. With the exception of Poland, all the CEEC have established separate health insurance institutions, financed mainly by insurance contributions but with supplementary support from central government resources. Certain problems remain, such as insufficient financial resources, inadequate collection of insurance contributions, over-capacity and poor productivity. Changes in government and the loss of trained personnel have hampered the reforms. Further foreign assistance is required to bring about durable changes.

6.7.2. Reform of the pension system

Substantial effort has been put into reforming pension systems, which nevertheless still suffer from the burden of obligations inherited from their predecessors and from excessively high contribution rates, as in Slovenia. The future health of the pension systems depends upon continued success in controlling inflation, further structural reforms, more staff training and further legislative reforms.

6.7.3. Reform of occupational health and safety

Some countries have chosen to establish a separate occupational sickness insurance fund while others have not. The pace of reform must be maintained. It is essential that legislation is actually put into practice in order to protect eastern European workers from the intolerable risks to which many are currently exposed. Reforms can best be carried out though co-operation between employers, trade unions and experts. Incentives should be provided for firms willing to introduce reforms.

6.7.4. Other reforms

Issues such as poverty and equal rights for men and women have not been high on the political agenda in the CEEC and far-reaching reforms are necessary. However, some measures to help the unemployed find work have been implemented, although at considerable expense. Provided that incentives are offered, the CEEC governments should be willing to implement reforms even concerning issues which have not traditionally been considered important in the CEEC.

Chapter 7 - POSSIBLE SOLUTIONS TO THE PROBLEMS

Accession to the European Union is of overriding importance to the CEEC which will make every effort to meet the Union's requirements. It is clear to the CEEC, despite the vagueness of the Commission's 1995 White Paper, that the road to membership will not be easy. The adoption of European Community legislation will be far more difficult than generally expected. It is essential that the European Parliament, the Commission, the Member States and their national social security institutions work together to provide advice to the CEEC to help them reform and improve the quality of public sector administration. The CEEC must make every effort to co-operate and comply with the Community. The accession must not be treated as inevitable. In helping the CEEC to prepare for accession, the current Member States are securing the future of their own social security systems.

7.1. Introducing European legislation

During the transition to a market economy, PHARE, the Member States, the World Bank and other donors have provided substantial aid for social projects in the CEEC. Without Western funds and expertise, the CEEC administrations would have experienced even greater difficulties in managing the transition and the social repercussions of the transition would have been even more extreme. The CEEC have made greater progress towards the market economy than other countries in eastern Europe.

Similar assistance has been given to each of the CEEC to help them reform their social security systems. Expertise and funds have been provided to assist with legislative reform and the implementation of the new laws. World Bank loans have been given to improve infrastructure, such as hospitals, polyclinics, nurses' training colleges and ambulance services. Western assistance, especially PHARE, must continue and perhaps be intensified to make the best use of existing partnerships to improve the living conditions in the CEEC. Particular attention should be paid to the consequences of implementing the new social legislation. Additional training is needed to improve public sector administration in the CEEC. The CEEC governments should be given incentives to make their social services and infrastructure more effective, to reduce over-capacity in a socially feasible manner, improve quality and to stem the loss of trained personnel to the private sector.

7.1.1. Preparing the co-ordination of social security systems

Although the 1995 Commission White Paper did not place high priority on the co-ordination of social security systems, co-ordination is important as many CEEC citizens may want to migrate to the west. Co-ordination of the social security systems will only be possible after a further period of reform and improvement in the CEEC social security systems. The financial problems of the CEEC social security systems, flowing from a weak economy, the effect of anti-inflationary austerity policies, low productivity, high inflation and unemployment, make co-ordination with the Member States' systems difficult; giving the citizens of the CEEC access to the social security systems of western Europe may encourage substantial migration. As social security systems and their ability to implement further reforms differ between the CEEC, the issue of co-ordination of social security systems and freedom of movement requires careful attention from the CEEC, the European Community and the Member States. Care must be taken to ensure that this process is transparent, and neither discriminates against the CEEC nor places excessive burden on the social *aquis* of the Community or the individual Member States. A task force could be established for each country within DG V which would work with experts on economics and social security from eastern and western Europe to monitor the process. These task forces should co-operate with PHARE to ensure that EU aid to the CEEC is used to best effect.

Together with PHARE, these task forces could assist with further legislative reform and implementation in the CEEC. The task forces could also report to the European Parliament and the Member States on relevant issues. It might also be useful to establish an equivalent body in the European Parliament, supported by a network of consultant experts. The pace of the accession process for each country would depend on the progress it had made. Task forces could also be employed to monitor the adoption and implementation of the four other types of legislation mentioned in the Commission White Paper, namely legislation on health and safety at work, equal opportunities for men and women, labour law and working conditions and tobacco products. Very heavily regulated fields such as health and safety at work will be the most difficult. Transparency is essential to ensure that decision-making is well-informed and that undertakings are implemented in practice. Lack of transparency or poorly defined objectives will lead to confusion.

The accession of the five CEEC will be expensive. However, investing money now is likely to reduce costs in the long-run; attempts to postpone inevitable expenditure are counter-productive. The introduction of European Community legislation in the CEEC must be accompanied by the more complicated and extensive task of attaining EU standards.

7.2. Attaining European Union standards

Within the European Union today, there are substantial differences in living standards, efficiency, the quality of public services, the quality of the environment and working conditions; the accession of the five CEEC will introduce even greater discrepancies, which will persist for some time. Until now, the Union has been able to accommodate the salary differences between Germany and Greece or the differences in social services between Denmark and Spain. However, it may not be able to accommodate the much sharper differences in wages and social standards between the current Member States and the CEEC. Community social policy can no longer be seen as a mere adjunct to economic policy but as an essential end in itself. The CEEC governments have so far concentrated on the fight against inflation, economic growth and the establishment of free market structures. While these policies were essential, they must now be accompanied by more attention to social issues. Attaining EU standards does not require the harmonisation of salaries or social standards throughout the Union but the attainment of levels acceptable by regional standards, the prospect of a better economic future and a fair chance for everyone to earn a decent living.

Close co-operation between the EU and the individual CEEC will be necessary to reach this target. It may be useful to establish special groups or think-tanks to improve the co-ordination of assistance and to make available the necessary expertise. The CEEC must be ready to co-operate with these groups on long-term projects. These groups must ensure that their recommendations are implemented by mounting rigorous checks on practice.

The quality of the environment in many CEEC is of great concern. Environmental standards must be addressed as they will not only be affected by the introduction of EU legislation but have a major effect on the general quality of life in the CEEC. Practical assistance should be given for civil service reform and the CEEC should be persuaded to reduce bureaucracy and to increase efficiency. Attaining EU standards in all aspects of social policy will take a very long time. Each of the five CEEC starts from a different position and will make progress towards EU standards at a different pace, which may cause political difficulties; consequently, the EU should design an individual programme for each country. At this stage, however, differences between the CEEC should not be used to compile a rating of more or less favoured countries. On the contrary, solidarity and cohesion among the CEEC is likely to facilitate the exchange of ideas and experience.

7.3. Further reforms in the CEEC

The greatest danger to the successful enlargement of the European Union would be mass migration from the CEEC to the current Member States. Certain reforms are necessary to prevent this.

7.3.1. Reform of the health care system

Health care systems should be able to provide satisfactory standards of service and be able to deal with the effect of Regulation 1408/71. Further reforms are necessary to ensure that insured persons receive competent care without paying "backhanders" and are not tempted to seek treatment abroad. Over-capacity should be reduced and medical personnel paid wages adequate to ensure satisfactory performance.

7.3.2. Reform of the pensions system

The pensions systems have already been extensively reformed but further changes are necessary. The CEEC governments must ensure that the pension funds do not accumulate excessive debts.

7.3.3. Reforms concerning occupational Health and Safety

Community standards must be strictly enforced. Support may be given to obsolete enterprises to prevent further unemployment. Businesses financed by new investment should conform with EC standards to prevent diversion of investment from the EC and the weakening of EC legislation.

7.3.4. Reform of environmental protection

Environmental legislation and standards must be enforced. There is a need for improved training of personnel and better technical equipment .

7.3.5. Reform of unemployment insurance

Governments should implement more programmes to help the unemployed find work. Reforms already completed, such as the establishment of employment agencies, should form the foundation for more active government policies in this area. As unemployment is a particular problem for the EU, it is essential to prepare the CEEC for the future challenges in this field.

7.3.6. Reform of tax collection

Reforms are necessary to improve the efficiency of tax collection and to fight tax evasion, which endangers equilibrium throughout the Union and undermines the ability of the CEEC governments to perform their duties.

7.3.7. Reform of social benefits

Social benefits are essential to prevent destitution. Reforms should continue to ensure that people in need receive enough to survive and do not form an impoverished underclass which endangers social stability.

7.3.8. Reform of the administration and the fight against corruption

The quality of public sector administration in most CEEC must be improved and corruption reduced. Existing training programmes should continue and be supplemented by new programmes. Persons benefitting from training should be required to remain within the public sector for a certain period of time.

7.3.9. Social security and social insurance should be integrated into the Community treaties

Social security and social insurance are cornerstones of the European social model. The accession will put an enormous strain on these social institutions. It should therefore be made clear that social insurance and social security, although organised in accordance with the principle of subsidiarity, are important features of the Community by referring to them in the EC treaties.

Chapter 8 - COUNTRY PROFILES

8.1. Czech Republic

8.1.1. General Information about the Czech Republic

The Czech Republic came into existence on 1 January 1993 upon the dissolution of the Czech and Slovak Federal Republic. Almost two-thirds of Czechoslovakia's former population of 10.3 million now live in the Czech Republic. Three-quarters of the population live in urban areas. The major cities are the capital Prague, with 1.2 million inhabitants, Brno with 390,000 inhabitants, Ostrawa with 327,000 inhabitants and Plzen with 172,000 inhabitants. The area of the Czech Republic is 78,864 km². Population density is 131 persons per km².

a) Political System

The political revolution of November 1989 marked the start of the transformation of the Czech economic system from a command economy to a market economy. Economic liberalisation was accompanied by the introduction of democracy. The Czech Republic is today a parliamentary democracy. President Vaclav Havel was elected by Parliament on 26 January 1993. Parliament consists of the Legislative Assembly (Poslanecká snemovna) with 200 seats and the Senate with eighty-one seats. The largest party is the Democratic Citizens' Party (ODS) with sixty-eight seats, followed by the Social Democrats (CSSD) with sixty-one seats and the Communist Party of Bohemia and Moravia (KSCM) with twenty-two seats. The President of the Assembly is Milos Zeman of the CSSD.

b) General Economic Development

Efforts to transform the Czech economy to a market economy began at the start of this decade. Official price regulations were in general abolished, the Czech Crown was devalued and the privatisation of nationalised enterprises was begun using a voucher system. Although the economy suffered a recession during 1991/1992, this occurred far earlier than comparable recessions in other CEECs. In general, the transition to a market economy has been easier in the Czech Republic than in some other CEEC's

Table 1: Key economic Indicators

	1991	1992	1993	1994	1995	1996	1997 Prognosis
Gross Domestic Product (GDP)*	-14.2%	-6.4%	-0.9%	2.6%	4.8%	4.4%	3.0%
GDP per capita in PPS**	n.a.	n.a.	8,749	9,698	9,410	n.a.	n.a.
Industrial Production*	-16.6%	-9.7%	4.0%	9.6%	4.8%	2.0%	4.0%
Trade balance in US$	n.a.	n.a.	-311.8	-888.8	-3,677.8	-5,971.8	n.a.
Inflation Rate*	56.7%	11.1%	20.8%	10.0%	9.1%	8.8%	9.5%
Real wage growth in %	-24.6	9.9	3.7	6.5	8.0	8.9	n.a.
Unemployment Rate***	n.a.	n.a.	3.9%	3.8%	3.6%	3.4%	n.a.

* change in comparison to previous year; ** Purchasing Power Standard; *** in percent of labour force

Source: Statistical Office, Austria Bank, European Commission Agenda 2000, bfai

Although separation from Slovakia and the abandonment of monetary union reduced trade with Slovakia, traditionally of great importance, overall exports increased by approximately 20% in 1993, due to increased efforts to export to western Europe and the ratification of a Trade and Co-operation Agreement with the European Community. In 1993, Germany was the Czech Republic's most important trading partner, accounting for one-third of Czech exports and imports, followed by Slovakia which accounted for about one-quarter of Czech exports and imports.

The current trade deficit is a central economic problem. In 1996, the deficit amounted to Csk 160 billion, or about 11.5% of GDP. In the first five months of 1997, the trade deficit totalled Csk 65 billion.

Since 1993, the exchange rate of the Czech Crown has been pegged to a basket consisting of the US dollar and the Deutschmark, weighted at 35% and 65% respectively, and has stabilised. The Czech Crown became fully convertible in October 1995. In November 1997, 37.746 Czech Crowns equalled one ECU.

The privatisation of state-owned companies has in general been successful. During the two privatisation phases in 1991 and 1993, 1,869 companies with a nominal value of Csk 367.5 billion (ECU 10,733 billion) were sold into private ownership. By the end of 1996, 90% of all trade and construction companies were privately owned. However, only a few industrial plants have been sold, usually to investment funds more interested in short-term profits than in modernisation; much restructuring and capacity reduction remains to be done in this sector. In 1996, almost three-quarters of GDP was produced by the private sector. The service sector, and especially new service businesses, have contributed to the increase in GDP since 1994.

Table 2: Development of the Number of Employed Persons (in 1000)

Employed Persons	1989	1990	1991	1992	1993	1994	1995
In Industry	2.117	2.025	1.948	1.798	1.711	1.619	1.628
In all Sectors	5.403	5.351	5.059	4.927	4.848	4.885	5.014
Development in comparison to previous year (in %)		- 0.96	-5.45	-2.61	-1.6	+0.76	+2.6

Source: RWI, UN-Forum, WIIW 1996

Between 1990 and 1993 real wages decreased by 18.8% while in 1994 and 1995 they started to rise slowly and increased in 1996 by a remarkable 8.5%. Nevertheless the average wage level of Csk 10,000 (ECU 288) is still low compared to average real wages before the transition. At 3.4% in 1996, the official rate of unemployment is low, although it has increased continuously since 1995.

Since 1996, there have been some signs of economic problems. Persistently high inflation and an increasing deficit in the balance of payments including invisible trade which amounted to 8.6% of GDP in 1996 are difficult problems. Widespread flooding in July 1997 may also have an adverse impact on the economy. In June 1997, the government announced an austerity programme intended to reduce public expenditure by Csk 45 billion. Government spending will be cut, especially in the social sector, and the indexation of pensions on the basis of the inflation rate will be slowed down[5].

8.1.2. Labour Market

a) Employment Structure, Labour Market Policies and Legislation

According to official statistics, unemployment, at 3.4% in 1996, is only a minor problem. Unemployment rates differ significantly between urban and rural areas. Unemployment is extremely low in the major cities; the unemployment rate in Prague is between 0.3 and 0.5%. In peripheral regions such as Znojmo, Brunntal, Northern Bohemia and Moravia, however, unemployment rates reach almost 10%. Unemployment is likely to rise when the remaining major state-owned enterprises are sold into private ownership. A law on bankruptcies introduced in 1993 was intended to make the liquidation of companies easier. To date, it has had only limited effect, because of several exemptions and interim measures, but may be of increasing importance. The average gross wage amounted to approximately Csk 9,600 in December 1996. In 1994, the most important employers were the public sector, which employed 35.8% of the workforce, and industry which employed 33.1%. However, the services sector has since gained in importance and now accounts for almost half of all jobs.

As population growth is stable and the number of persons in employment decreased from 1990 to 1993 by 2.9% each year, it appears likely that the real rate of unemployment is higher than the official one.

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[5] Since June 1997 automatic indexation which was foreseen when the costs of living increase by 5% since the last indexation will only take place when the inflation rate reaches 10% after last indexation.

Czech labour legislation does not distinguish between employees in the public and the private sectors. Special rules may apply, however, to persons working for foreign employers in the Czech Republic and to foreigners working for Czech employers on Czech territory, provided that the two parties have agreed to apply foreign law to their labour relations.

The main sources of labour law are the Constitution, ratified international conventions concerning human rights and basic freedoms, the Labour Code and other laws, government orders, ministerial notifications and collective agreements. The Civil Code contains certain provisions concerning data protection for employees. A concessionary principle is applied when interpreting labour legislation, so that a subordinate regulation in the legal hierarchy can modify a superior regulation provided that the effect is favourable to workers. For example, although the law - the superior regulation - limits the maximum working week to forty-three hours, a notification - the lower regulation - provides for a shorter week. Similarly, collective agreements may provide for more favourable wages and conditions of employment than those stipulated as a minimum in legislation.

Employers are free in their choice of workers and can recruit employees either directly or through labour offices or private employment agencies. If the employer is unable to find enough Czech employees for his needs, he can obtain permission from the labour office to recruit foreigners. If an employer wants to employ a person under eighteen, he must obtain approval from the youth's legal representative. Employment of children under fifteen years is prohibited.

Employers are required to discuss any notice of termination of employment with the competent trade union body. In cases of individual redundancy, the employer is obliged to offer the employee another job either at his current place of work or at his place of residence. Where there is no possibility of alternative employment, the employer can give notice of dismissal. The notice period is two months for the employer and employee alike. However, in cases of termination for reasons of organisational changes or redundancy the notice period is three months[6].

The working week is limited to forty-three hours, including a daily break of at least thirty minutes. When scheduling the working time, giving even scheduling to each week, the difference in the lengths of working time between individual weeks should not exceed three hours and the working day should not be longer than nine and a half hours. When working time is unevenly distributed, average weekly working time for the whole period - generally four weeks - cannot exceed the weekly maximum of forty-three hours. Employees are entitled to three weeks paid holiday each year, rising to four weeks after fifteen years of employment. An employee is entitled to receive his average weekly earnings during the holiday.

Employers must discuss all aspects of scheduling of working time, such as scheduling in an uneven manner, working on public holidays, overtime, night work, breaks, with the trade union body at the workplace. Where there is no trade union in the company, working time arrangements must meet the requirements of labour legislation.

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[6] Source: Czech Ministry of Labour and Social Affairs.

Employers may agree wages either by means of a collective agreement or by individual contracts. All employees must receive the minimum wage, which is intended to be sufficient for subsistence. For the first time, the minimum wage was determined by the government with effect from 1 February 1991. The minimum wage was originally set at Csk 10.8 per hour but was later increased to Csk 12 and, in January 1996, to Csk 13.6 (ECU 0.39). The monthly minimum wage is Csk 2,500 (ECU 72.03). The statutory minimum wage is currently equivalent to about 30% of the national average wage. Fewer than 1% of employees receive only the minimum wage, most of whom are young persons whose earnings represent a supplement to the family income[7].

b) Employment Administration

The employment administration operates under the auspices of the Ministry of Labour and Social Affairs. Unemployment insurance is administered by local Employment Offices in co-operation with district offices which assist in controlling the conditions for claims and paying benefits.

c) Unemployment Insurance

Since 1 January 1996 the State Employment Policy System, which provides unemployment benefit, has been financed by contributions from employees, who pay 0.4% of their gross wages, and employers, who contribute 3.2% of gross wages. In the event of a deficit, subsidies are available from central government resources. These contributions also fund measures to help the unemployed find work.

Every employable Czech citizen aged over fifteen and registered at the job centre is entitled to unemployment benefit if he has worked for at least twelve months during the previous three years and has not received any unemployment benefit during the last six months. Until June 1997, during the first three months of a claim the unemployed person received 60% of average monthly income, falling to 50% during the next six months. At the start of 1994, the maximum level of benefit was Csk 1,440 (ECU 41.49), while the minimum is at subsistence level. In June 1997 the government cut unemployment benefit by 10%. The number of unemployed persons entitled to receive benefit has fallen from 54% of total unemployed persons in January 1991 to 48% in September 1995.

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[7] Source: Czech Ministry of Labour and Social Affairs.

8.1.3. Industrial Policies

a) Trade Unions

Employees are represented by trade unions established in accordance with the Association of Citizens Act and ILO Convention No. 87 concerning freedom of association and the right to organise. The rights of trade unions to participate in labour relations, including collective bargaining, are set out in Sections 18-23 of the Labour Code.

Most trade unions are members of two large confederations: the Czech and Moravian Chamber of Trade Unions, an association of thirty-four independent unions with a total of 2,285,381 members and the Confederation of Arts and Culture, an association of eighteen independent trade unions with 138,500 members.

As in other CEEC, trade unions are suffering from declining membership due to economic restructuring and substantial job losses in former state enterprises. Moreover, the trade unions themselves are engaged in restructuring which is not yet complete.

b) Employers' Organisations

At the beginning of the 1990s, many new employers' associations and federations were established in all areas of economic activity. These organisations gradually merged into two main confederations: the Confederation of Employers' and Entrepreneurial Unions of the Czech Republic representing industrial employers with approximately 1,780,000 employees and the Confederation of Industry and Transport of the Czech Republic with 1,679 employers in all main industries employing 922,000 workers.

c) The Role of the Social Partners and the Government

The legal framework for the social dialogue is contained in the Labour Code and the Act concerning collective bargaining. Trade union bodies have the right to participate in labour relations, including collective bargaining, under conditions stipulated by the labour code. The employer must consult the trade union concerning all measures affecting employees *en masse*, in individual cases of dismissal, in cases of transfer to another job, in the determination of working hours, and on matters of occupational health and safety.

The various forms of social dialogue usually take place either at the company or the industry level, because both employers and trade unions are organised in industry federations. However social dialogue can also occur at the regional level. To ensure meaningful tripartite social dialogue at the company, industry and national level, the Labour Code obliges the competent State authorities to consult trade union bodies on issues concerning the working and living conditions of employees and to provide them, as far as possible, with necessary information. The government is required, when drawing up labour legislation or regulations, to discuss its proposals with trade unions and employers' organisations. There are various forms of bipartite social dialogue, the most important being collective bargaining and the conclusion of collective agreements. There is a distinction between company collective agreements, which are concluded between individual employers and trade unions representing their employees, and higher level collective agreements, which are concluded between employers' federations and trade unions.

The right to strike, subject to such restrictions as may be provided by law, is established by Article 27(4) of the Charter of Fundamental Rights and Freedoms. This provision is amplified by Section 20 of the Collective Bargaining Act, which defines illegal strikes; for example, strikes not preceded by negotiations are illegal. Sections 16-26 of the Act establish a procedure for declaring and conducting a strike. The right to strike is restricted for certain groups, such as employees in the State administration or persons in occupations essential for the protection of life and health. Employers in dispute with their employees may lock them out, but only once mediation has failed.

8.1.4. Health and Safety at Work

The Labour Code sets out a general regulatory framework for employers and workers in the field of health and safety at work. The law provides that the employer is fully responsible for health and safety at work. The Labour Code requires employers systematically to monitor and evaluate possible risks to health and safety, to acquaint workers with these risks and to provide training, to make regular checks concerning the observance of safety rules and established levels of safety and concerning the safety of plant and equipment, to remove without delay perceived defects, to establish and maintain safety procedures and equipment, to provide personal protective devices, and to co-ordinate the operation of several employers in one workplace. Moreover, there are further regulations concerning industrial hygiene and preventive care. The Labour Code also provides for employees' participation in dealing with these issues. The continuing transformation of the economy and massive growth in the number of employers have, however, demonstrated the need for more detailed regulation and greater guidance.

The main inspection body is the Czech Occupational Safety Office and occupational safety inspectorates. The Occupational Safety Office is the supreme inspection body concerning safety at work and operates under the auspices of the Ministry of Labour and Social Affairs. Compliance with obligations in the field of occupational health protection is performed by the hygiene service which forms part of the system of the State administration bodies. The district hygiene officers operate under the auspices of the district office while the supreme hygiene officer reports to the Minister of Health.

The legal position of workers' health and safety representatives is not defined by Czech legislation. Health and safety officers are appointed at both the company and industry levels and are trained by trade unions.

8.1.5. Social Security

a) Introduction

Organisation

Current reforms are intended to create three separate systems within the overall social security system; all social security benefits and allowances have been categorised according to their nature, purpose, construction, means of financing and organisational arrangements concerning payment.

The first system is *social insurance*, which is financed by contributions made by employers, the self-employed and employees. Benefits paid under the social insurance system take the place of earnings and depend on the insured person's former level of earnings and on the length of insurance period. The social insurance system includes the pension insurance, sickness benefit insurance, health insurance and unemployment insurance.

In 1990 the Czech Administration of Social Insurance (CSSZ) was formed from a union of the national Pension Institution and bodies administering sickness benefits. The Health Service remained a separate institution. Since 1990, the CSSZ has been responsible for pensions and for sickness benefits. Unemployment benefit and active measures in the field of employment are administered by the Labour Offices. With the introduction of the General Health Insurance in 1992 a General Health Insurance Institution and twenty-seven further occupational sickness funds were established. The CSSZ is part of the Ministry of Labour and Social Affairs; its budget is part of the State's budget. The CSSZ is based in Prague, with thirteen district offices and eighty-one local offices. The director of the CSSZ and his four deputies are nominated by the Minister of Labour and Social Affairs.

The second branch is *state social support*, which is intended to redistribute government income from tax receipts to certain groups of people, in particular to families with children.

The third branch is the *social assistance system*, which assists persons in material or social distress who require state assistance. Social assistance is funded partly by central and partly by local government.

Since 1993, the CSSZ has been responsible for collecting and administering social insurance contributions. The CSSZ transfers the unemployment insurance contributions to the Labour Offices. In 1996 contributions to the CSSZ amounted to Csk 169 billion (ECU 4.8 billion). At the moment, any surpluses in the amount collected by the CSSZ are transferred to central government, which also covers any deficit. A separation of the sickness-benefit, unemployment and pension insurance funds from central government resources has been proposed but not put in place. Employers' and employees' contributions to the CSSZ are set out in Table 3.

Table 3: Social Contributions

Type of Insurance	Employees	Employers	Self-Employed
Health Insurance	4.5 %	9.0 %	13.5 %*
Sickness Benefit Insurance	1.1 %	3.3 %	4.4 %*
Pension Insurance	6.5 %	19.5 %	26.0 %*
Unemployment Insurance	0.4 %	3.2 %	3.6%*

Source: Ministry of Labour and Social Affairs, 1997

* Basis of assessment is 35 % of the net profit.

In 1995, expenditure on social security including employment policies was estimated at 14.1% of GDP. This figure is expected to fall slightly in the future.

Reform

Reform of the social insurance system has been virtually completed. the introduction of the CSSZ limited the most important social security benefits to persons who had paid insurance contributions. The state, however, continues to provide a safety-net for persons who have not paid contributions through the provision of social support and social assistance. Sickness benefits and unemployment benefits are administered by autonomous bodies.

Private Insurance

Unusually for eastern Europe, private insurance companies have long played an important role in the Czech Republic. The first Czech insurance company, Ceska Pojistowa, was founded in 1827 and is still the market leader. Even under Communism, about 90% of private assets were insured and almost every citizen had a private life insurance policy. Today about forty private companies offer pension, life and health insurance.

The market for private insurance has grown remarkably but several problems remain. The major problem is the absence of an insurance supervision authority. Although there are legal requirements concerning the establishment and management of insurance companies, which are enforced by the Ministry of Finance, there is no control over dishonest companies or companies which are reluctant to honour insurance claims. This is a crucial problem, especially in the pension and life insurance sector.

b) Health Care

Restructuring of the Czech health care system started in 1990. The main objectives were decentralisation, the introduction of competition, giving patients a choice of doctor, general access to the Health System, financing from several sources, an increase in out-patient provision, greater autonomy for providers and improved health promotion measures.

Reform has been slow. By 1995, only four of 136 major hospitals had been privatised and wide-ranging structural reforms had not yet been carried out. It had been hoped that introducing market mechanisms would solve many problems but in fact these reforms have forced employees to work in other professions or in German hospitals. The average income in the health sector is below average. Chronic financing problems have prevented modernisation while the lack of modernisation has aggravated the financial problems of the health insurance institutions. These problems were manifested in nationwide strikes of doctors and medical staff in November 1995 and March 1996.

There are currently two separate sickness insurance systems. The Health Insurance system, administered by the Ministry of Health, grants cash benefits and finances medical treatment. The Sickness Benefit Insurance Scheme, administered by the regional offices of the CSSZ, is responsible for the payment of cash benefits in case of temporary disability.

Table 4: Life expectancy and infant mortality rate

	1989	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**
Life expectancy men	68.1	67.5	68.2	68.5	68.9	n.a.	n.a.
Life expectancy women	75.4	76.0	75.7	76.1	76.6	n.a.	n.a.
Infant mortality rate (per 1,000 life births)	10.0	10.8	10.4	9.9	8.5	7.9	7.7

Source: TRANSMONEE database

Health Insurance

In 1991, a general statutory health insurance scheme was introduced, which entitled all citizens to health care. It is administered by the General Health Insurance Institution (the VZP) and its regional branch offices. Moreover, there are also several private insurance companies which offer health insurance. In particular, many companies with foreign shareholders and substantial capital set up their own occupational sickness funds. Insurance companies are prohibited from competing by offering different contribution rates, so they instead compete by offering different benefits.

There are sixteen health insurance funds in total. The VZP, the largest, covers 75% of the population. Most insurance funds are in debt and half are unable to meet claims. It is estimated that the funds' total debts amounted in 1995 to almost Csk 6 billion (ECU 158,957,240). Several funds have recently ceased activity entirely. This widespread insolvency creates problems for providers of health services. Hospitals, already suffering from financial problems because of the government's austerity policy, are no longer able to pay the invoices of their suppliers. It is estimated that only 15% of all Czech hospitals are financially sound. Essential treatment is often delayed because drugs and materials are missing. Some hospitals will provide treatment only in return for cash. A widely-reported death and the doctors' strikes have brought the critical situation in the health sector to the public's attention. The government is increasingly under pressure to take measures.

All employed persons are compulsorily insured. Contributions for unemployed people, pensioners, children without parents, students and soldiers are paid by the State. Self-employed persons have the choice between membership of the statutory or private systems.

Insured persons are entitled to unlimited medical and dental treatment at local and regional health centres, hospitals, sanatoriums and occupational clinics. Patients may be required to pay for certain drugs. The patient is allowed a free choice of doctor.

Employers contribute 9% of wages to the health insurance fund and employees contribute 4.5%. Self-employed persons pay 13.5% of their net profits. For persons for whom the state pays the contributions, 75% of the average wage is taken as the basis of assessment.

Occupational Accident Insurance

There is no independent occupational accident insurance fund, although the establishment of such a fund and an overhaul of benefits are under discussion. The Ministry of Health has published a list of occupational diseases. As the employer's liability for his employees has not yet been modified, employers have to top up sickness benefits to the full amount of the wages.

Sickness Benefit

The Sickness Benefit Insurance Scheme provides cash benefits for persons too ill to work. The Scheme does not distinguish between general and occupational illnesses and accidents. During the first three days of sickness, the claimant receives 50% of his former wage, subsequently rising to 69%, with a maximum of Csk 131 (ECU 3.77) per day. Sickness benefit may be claimed for up to one year, although longer claims are possible in cases where the claimant's health may improve. Where this is unlikely, the claimant will instead receive a disability pension from the CSSZ.

c) Pensions

In 1996, total spending on pensions amounted to Csk 124 billion (ECU 3.57 billion), or 8.8% of GDP. Income tax is payable on pensions over Csk 10,000. The average pension is Csk 4,500.

Pensioners may receive an old-age, disability or a survivor's pension. Several special pension systems, such as pensions for former soldiers, have been integrated into the Pension Insurance system while other types of pension have been integrated into the social assistance system. Every pensioner receives only one pension. The new law does not set a minimum pension. Social assistance which lifts, where necessary, the pension to the subsistence level is paid by the social security offices.

Although until 1995 the Pension Insurance Fund always enjoyed a surplus which it transferred to central government[8], the relationship of average pensions to gross wages sank from 55.1% in

[8] Legislative changes have since prohibited such transfers.

1990 to 43.7% in 1996. Pensions have been unable to keep pace with wages and the government has tried to reduce the statutory pension so that it will provide merely a basic sum and to create incentives for supplementary private insurance. Although the legal basis for voluntary supplementary insurance was established in 1994, lack of insurance supervision has undermined public confidence in private insurance. The 1996 pension law establishes a double-pillar pension system: a general compulsory pension insurance scheme and a voluntary supplementary insurance scheme with state support. Moreover, the new law envisages the raising of the retirement age and changes to the pension calculation formula and treatment of contribution free periods.

Old-Age Pensions

Until the 1996 Pension Insurance Law, the pension age was sixty years for men and fifty-seven years for women. In 1995, there were 1,811,393 recipients of old-age pension, which amounted on average to 56.6% of the average net wage. Men whose jobs were especially gruelling or unhealthy could draw their pension three to five years earlier, while women could do so depending on the number of children they had raised. The new pension law gradually lifts the pension age to sixty-two years for men by 2006 and to fifty-seven to sixty-one years for women, depending on the number of children they have borne. A person must have paid contributions for at least twenty-five years to be entitled to a pension, or for fifteen years by the age of sixty-five. There are special regulations for persons who have been unemployed.

The method of calculating pensions has also been changed. Previously, after paying contributions for twenty-five years, a pensioner was entitled to a pension of 50% of his average income[9]. Every additional year of contributions increased the pension by 1% of the average income.

Under the 1996 law, every pensioner shall receive a minimum sum of Csk 680 (ECU 19.6) per month and a supplement related to his contributions. After twenty-five years of contributions, a person will be entitled to a pension equivalent to 1.5% of his average earnings for each year of contribution. Thus, a person who has contributed for thirty years will receive 45% of his average wage, while under the former system he would have received 55%. The average wage will be calculated by reference to wages received throughout the pensioner's working life. Although the previous limit on the level of wages which shall be taken into account is abolished, wages over Csk 5,000 are not fully taken into account when assessing the average wage[10]. These reforms relate pensions more closely to the pensioner's previous level of earning and will lead to larger differences in the amount of pensions. There is a ten year transitional period during which new pensioners will be protected against a fall in the pension to which they would have been entitled under the previous system.

[9] The calculation of average income was based on the five best paid years employment. All income up to Csk 2,500 was taken into account. Only 30% of income over Csk 2,500 was taken into account and income over Csk 10,000 was ingnored.

[10] Under Csk 5,000: 100%,
Csk 5,000 - 10,000: 30%,
Over Csk 10,000: 10%.

Persons who reach retirement age but continue to work are not entitled to receive old-age pensions if their income exceeds the minimum wage. This constraint is valid only for two years after reaching retirement age. At the age of sixty-five additional income from work does not affect the level of the pension.

Survivors' Pensions

Widowed spouses and orphans are entitled to a pension if the deceased was entitled to an old-age or disability pension. Survivors' pensions are normally limited to one year but will be extended if the survivor has a dependent child or a disabled family member. In 1995, the spouse's pension consisted of the basic sum of Csk 680 plus 50% of the variable part of the deceased's pension.

Orphans' pensions are paid to children who attend school and to students or trainees under twenty-six years. Claimants receive the basic sum of Csk 680 and 40% of the variable part of the deceased's pension. Children who have lost both parents receive 40% of both parents' pensions.

Survivors without any claim to a pension can apply for social assistance benefits.

Disability Pensions

In 1994, 518,000 persons claimed invalidity pensions; expenditure amounted to Csk 13,447 million. The 1996 Pension Insurance Law distinguishes between pensions paid in cases of partial and total disability. If the claimant's capacity to work is reduced by at least 66% and employment is not reasonable, he is regarded as totally incapacitated. Where a person's capacity to work is reduced by more than one-third, he is classified as partially disabled. In 1995, there were 529,794 beneficiaries of whom 415,863 were fully invalid.

Disability pensions are granted to persons who have been insured for between one and five years, depending on the age of the applicant. Persons under twenty and people who have been born with disabilities are entitled to pensions without having paid contributions.

The same conditions apply to occupational disability pensions. Disability pensions are calculated in the same way as the old-age pension[11]. In 1995, the average full and partial invalidity pension were Csk 3,613 and Csk 2,311. Reductions in the level of disability pensions are currently under discussion.

Reform of the Pension System

The Czech government has proposed the introduction of a capital-funded insurance system which will either complement or replace the statutory pension insurance system. Further changes have been proposed concerning private supplementary old-age insurance. In addition to the

[11] Special regulations exist for persons under 20 years, persons who are incapable from birth and in case of partial disability.

subsidised private life insurance schemes, an insurance relying purely on the principles of risk-adequate premiums and possible profit for providers might be created.

Private Pensions and Life Insurance

Since the introduction of a law on supplementary private pension insurance in 1994, more than 1.6 million Czechs have taken out a policy with one of forty-three insurance companies. The state subsidises contributions at a level dependent on the contributor's income and the amount of contribution required. Persons on low incomes receive higher subsidies[12]. Total state subsidies for private insurance amounted to Csk 1.78 billion (about ECU 50 million) in 1996. Employers may agree to pay premiums for their employees but receive no tax reductions thereby.

Rules governing private insurance are similar to those concerning statutory insurance; private old-age pensions are payable once the legal pension age is reached. For private invalidity pensions a similar regulation exists.

d) Family Benefits

There are nine types of state social support available to families on low incomes or in difficult situations, such as the disability of a family member. In all cases, benefits are calculated by reference to the ”minimum living standard” for an individual or a family which is index-linked to increases in the cost of living. Some benefits, namely the parental allowance (for full time personal care for a child up to four years), maintenance allowance (for military service), foster care allowances and grants (full time care of foster children), maternity grant (lump-sum payment for child birth) and the funeral grant, are not means tested. Since 1 January 1996 child, social, housing and transportation allowances have been subject to a means test.

Women who have given birth or persons taking care of a child under one year are entitled to receive a lump sum maternity grant. The Provision of Maternity Leave and Benefits Act provides for benefits during pregnancy and maternity. Income support is paid to female employees on maternity leave. New mothers receive benefits for twenty-eight weeks, commencing six to eight weeks before the expected date of birth. Single mothers and mothers of twins or triplets are entitled to benefits for thirty-seven weeks. If the mother chooses not to resume employment, she is entitled to parental allowance under the State Social Support Act until the child is four. In 1995, total expenditure on maternity benefits was Csk 1,721,698 (ECU 45,610).

Child allowance is calculated by multiplying the sum necessary for the child's personal needs by a co-efficient depending on the parents' income. About 5% of children do not receive child allowance because their parents' income is too high. *Social Allowance* is granted to persons caring for at least one child, unless they are foster parents or facility care. The provision is means-tested, with special circumstances taken into consideration, and calculated roughly in the same way as child allowance, with various determinants, nominators and co-efficients. *Parental*

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[12] The subsidy amounts to 40 Csk (for a minimum premium of 100 Csk) and to 120 Csk (for a minimum premium of 500 Csk).

allowance is paid to a parent providing full-time care to one child under four years (seven years for children suffering from long-term incapacity), on condition that the parent either has no income from gainful activity or does not work for more than two hours per day, and does not receive social security or unemployment benefits. Parental allowance is the personal needs amount of the parent multiplied by a co-efficient of 1.1.

e) Social Assistance

The social assistance system forms the third pillar of the reformed social security system. It is intended to support persons in material or social difficulties who require assistance. Social assistance takes three main forms. First, there are social services, such as shelters and asylums. Second, social allowances, in the form of food allowances for poor families with children and housing allowances, provide for the basic needs of persons who cannot provide for themselves. Third, there are activities aimed at the protection of children.

In 1991, social assistance benefits were regulated by law for the first time and a fresh law came into force in July 1995. Social assistance benefits have been reduced as a result of the government's austerity programme.

8.1.6. Education and Vocational Training

Education in the Czech Republic is funded both by central and local government. More than 85% of the funds for education come from central government, with a further 11% provided by the Ministry of Economy for the training of apprentices and the remaining 4% by the Ministry of Agriculture, the Ministry of Health and other departments. National expenditure on education has risen (at current prices) from Csk 22.3 billion (ECU 5.9 billion) in 1989 to Csk 62.9 billion (ECU 16.7 billion) in 1994. Over 98% of total expenditure, or Csk 61.7 billion, comes from public funds. In 1994, 79% of expenditure, or Csk 49.6 billion, came from central government and the remaining Csk 12.1 billion from local government. Expenditure on education as a share of GDP increased from 4% in 1989 to 5.9% in 1994.

Czech parents can send children under six years to *pre-school institutions*. The Ministry of Health provides *creches* for children under three years. *Kindergartens*, run by the Ministry of education, provide education for children between three and six.

Basic Schools provide both primary and lower secondary education. Education in State Basic Schools, administered by municipalities, is free. There are also private Basic Schools. Attendance at school is compulsory between the ages of six and fifteen. Until 1996, most pupils moved to secondary school after the eighth year, while a minority remained at Basic School for a ninth year. In 1996/1997, however, a ninth year at Basic School became compulsory and schooling for persons wishing to complete secondary education was extended by one year to thirteen years in most cases. Basic Schools are divided into two levels; the first level consists of years one to five (formerly one to four) and the second consists of years six to nine (formerly five to eight).

All pupils who have successfully completed Basic School can progress to *Secondary School*, of which there three types: the *Gymnasium*, *Secondary Technical School* and *Secondary Vocational School*. Candidates for secondary school must pass an entrance examination.

Gymnasiums provide general education for four years at secondary level continuing from the ninth year of Basic School. Alternatively, since 1990, pupils have been able to transfer to multi-year Gymnasiums after completing the first level of Basic School. In 1995, almost 11% of pupils took this option and this figure is expected to increase. In these cases, the pupil will attend the Gymnasium for eight years. Pupils study for the final examination, the Maturita. The main function of the Gymnasiums is to prepare pupils for higher education.

Secondary Technical Schools offer four year courses of professional study. Different schools specialise in industrial skills, agriculture, commerce, health care, home economics and the arts. In general, studies end with the Maturita examination, considered the equivalent of a Maturita obtained from a Gymnasium, which enables candidates to apply for admission to higher education. A minority of pupils instead take a two or three year course leading to secondary professional qualifications, which are not sufficient for admission to higher education.

Secondary Vocational Schools offer two or three years of vocational training leading to qualifications in skilled work and service occupations. On passing the final examination, pupils obtain an apprentice certificate and have reached the level of "secondary vocational education". Alternatively, pupils may follow either a four year course, or, having completed a three year course, take a further two year course. In both cases, pupils may then take the Maturita examination as well as the examination for the apprentice certificate. Candidates who pass the Maturita can apply to higher education and other post-secondary institutions. Graduates of these courses have reached the level of "full secondary vocational education". Some Secondary Vocational Schools and Secondary Technical Schools are being transformed into *Integrated Secondary Schools*.

Pupils who have left Basic School without a qualification can attend *Vocational Schools* for one to two years training.

Secondary general and technical schools are administered mainly by the Ministry of Education, but in some cases by the Ministries of Health, Agriculture, Interior or Defence. Responsibility for Secondary Vocational Schools is mainly in the hands of the Ministry of Economy. As in the other CEEC, Czech secondary education is dominated by vocational education and training.

Higher education is provided by universities, and by technical, agricultural, veterinary and other specialised higher education institutes which have university status. There are three levels of university education: three year courses leading to a Bachelor's degree; four to six year courses leading to Master's or Engineer's degrees; and three years further study after the Master's degree leading to a Doctorate.

Secondary Technical Schools currently provide post-Maturita courses of one to three years for those who have graduated from any secondary school with a Maturita. These courses were intended for persons wishing to acquire or renew professional qualifications, to requalify or to specialise. The post-Maturita courses will shortly be replaced by a new system of post-secondary education at *Higher Professional Schools*.

After 1989 the system of adult education disintegrated but a new one is developing. A number of agencies and institutions for adult education have been established. Moreover, part-time courses for adults are provided by some state schools. The number of adults in part-time education is falling, partly due to the unwillingness of employers to release employees from work in the current difficult economic situation. The only exceptions are secondary vocational training centres were skilled workers gain full secondary education. Overall, the system of adult education functions poorly.

8.1.7. Equal Treatment for Men and Women

The Constitution of the Czech Republic and the Charter of Basic Rights and Freedoms guarantee the equal standing of women in society in all spheres of social, political and public life. The Charter of Basic Rights and Freedoms also establishes more specific rights for women, such as the right to increased protection of health at work and to special working conditions. These provisions are put into practice by the actions of government bodies.

The Constitution provides for equal remuneration for men and women and all laws dealing with remuneration are based on this principle. Social-economic studies, however, have demonstrated that the average wage for women is roughly three-quarters that for men. This difference may be attributed in part to the differing structure of male and female employment, with women concentrated in non-professional jobs. Those women who are able to pursue a professional career in general receive salaries comparable to men.

8.1.8. Poverty and Income Distribution

Table 5: Low incomes and poverty

	Low Income Low income line = 35% of the 1989 average wage					**Poverty Poverty line = 60 % of low income line**				
	House-holds	Children	Adults	Elderly	Popu-lation	House-holds	Children	Adults	Elderly	Popu-lation
1989	4.6	4.2	4.4	5.7	4.2	0.3	0.3	0.2	0.4	0.2
1990	7.6	12.5	7.6	3.2	8.6	0.3	0.3	0.1	0.1	0.2
1991	23.8	43.2	26.8	12.9	29.8	0.8	0.2	0.5	0.3	0.2
1992	19.6	40.1	22.9	10.9	26.7	1.8	1.2	1.8	0.5	1.4

Source: TRANSMONEE database

At about 42% of the EU average, Czech average per capita income is the highest in the Visegrad states.

From October 1997, only families with an income less than 2.2 times the minimum subsistence level have been entitled to child benefit. Until October 1997, the limit had been set at three times the minimum subsistence level; by introducing the more stringent definition, the government hoped to lower number of recipients from 95% to 75%. Furthermore the amount of the child benefit will be reduced.

The income ratio of the richest 20% of households to the poorest 20% has increased from 5.41 in 1992 to 6.44 in 1994[13].

Table 6: Percentage of Poor Households in EU Countries / Regions and in the Czech Republic

Country / Region	Period	Legal	EU	SPL
Belgium	1985	2.9	6.1	24.9
Lorraine	1986	4.0	10.8	26.5
Ireland	1987	8.1	17.2	31.6
Greece	1988	.	19.9	42.0
CZECH REPUBLIC	12/199	2.0	2.6	25.3
	01/199	2.9	2.3	26.9
	11/199	3.0	2.2	32.8

Source: Deleeck, Van den Bosch 1992, Economic Expectations and Attitudes 1990-94
Legal: according to the fixed minimum income; EU: European Union Method; SPL: Subjective Poverty Line

8.1.9. Conclusions

a) The economy

The Czech government has contained inflation, avoided substantial unemployment and conducted a successful programme of privatisation; it is generally thought to be a leading candidate for accession to the European Union, a goal which has been fervently pursued by successive Czech governments. The separation of the Czech Republic from Slovakia, where heavy industry had been concentrated during the years of Communist rule, has assisted the transition process in the Czech Republic. The introduction of free market structures led to widespread privatisation, especially in the trade and construction sectors where 90% of businesses were in private hands by the end of 1996. However, a number of large and outdated industrial plants remain in state ownership. The service sector has expanded far more rapidly than in other eastern European countries. Monetary policy based on devaluation and stabilisation reduced inflation from 10% in 1994 to 8.8% in 1996. While this figure is considered too high by the Czech government, it is reasonable by east European standards.

There are, however, some clouds on the horizon. A negative trade balance and falling industrial production have led the government to implement a strict austerity programme, which has led to cuts in public expenditure on social security. The social security system has paid a high price for the government's determination to achieve Western standards of economic stability and

13 UNDP, Czech Republic Human Development Report.

efficiency; sufficient attention has not always been paid to the structural problems of the social security system and the growth of poverty. The full impact of the 1997 floods remains to be seen, but may well exacerbate the problems of the social security system. Moreover, the floods drew attention to administrative, social and political difficulties in the Czech Republic which are not usually evident.

b) Social policy

During 1996, unemployment stood at 3.4%, rising to 3.82% in February 1997[14]. Privatisation of state-owned large industrial plants may increase this figure substantially. Unemployment benefits, administered under the auspices of the Ministry of Labour and Social Affairs, have recently been cut by 10% as part of the government's austerity programme. The CSSZ has transferred its responsibility for sickness benefits to a new institution and now deals principally with pensions. Reforms to the pensions system have limited the CSSZ's obligations by introducing the principle that pensions will be provided only to the insured; the state will continue to provide pensions for the most needy. Persons may also take out private pension plans. Further reforms are expected to introduce a new pension insurance system relying largely on capital funding and on additional private initiatives. Unusually for the CEEC, many private insurance companies operate although legal controls to ensure their solvency and stability are not yet fully in place.

Reform of the health care system, which suffers from severe difficulties, has been difficult; reforms have been slow, little progress has been made in restructuring facilities and the system is starved of funds. Inefficient administration, low doctors' salaries and the doubtful solvency of many health insurance funds have stimulated calls for comprehensive reform and repeated strikes by medical personnel draw the public's attention to this issue. The health insurance funds' are often unable to pay for treatment and patients frequently have to pay "backhanders" to doctors. Although urgent reforms are needed, the government prefers to postpone taking action because of the enormous costs involved.

The health insurance institution is also responsible for benefits in respect of occupational accidents and illnesses. With the control of industrial safety standards in the hands of government agencies which have little financial incentive to reduce accidents, progress has been slow. While the government is ready to enact EC regulations, it remains to be seen whether they will be implemented in practice, especially in the large industrial plants using obsolete machinery. Introducing higher safety standards is costly and may deter investment. The introduction of a separate insurance institution for occupational accidents and illnesses is currently under discussion.

Active social policies, such as measures to assist women, young people or the long term unemployed, are rare. Although there has been some debate about the need to increase activity in this area, money is unlikely to be forthcoming in view of the government's general austerity programme. However, it seems likely that once the current difficult period of economic restructuring has been completed, the Czech Republic will implement such measures. Some aspects of Czech social legislation are discriminatory; the most notable example is that survivors' pensions are limited to twelve months.

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[14] Bfai figure.

Environmental issues are being debated in the Czech Republic, but the government is reluctant or unable to invest the huge sums necessary in this field. Moreover, the issue of improving environmental standards is entwined with the difficult question of the future of industrial plants, especially state-owned heavy industry, which fall far short of a wide range of EC standards.

Although there is less visible poverty than in Poland or Hungary, social injustice is nevertheless widespread. The government will do what it can to reduce poverty within the constraints imposed by its drive to accede to the EU. The present government places a low priority on issues of social protection and social security; spending on the social security system was the first area to be cut as part of its response to economic crisis. Some pundits have suggested that the Czech government, although formerly an open admirer of Margaret Thatcher's attitude towards social issues, has been influenced by its rebuff in the last general election and is reluctant to be associated with Thatcherite hostility towards the European Union, and so may change course. Little sign of a change of direction is, however, evident so far and it is possible that determination to reach economic targets will continue to outweigh social policy issues.

The Czech Republic faces fewer difficulties than some other CEEC's in meeting the EU's standards. With comparatively low levels of poverty and only limited numbers still dependent on agricultural smallholdings for their livelihood, the Czech Republic seems unlikely to produce poverty-inspired mass migration to western Europe. Some professionals, however, may be tempted to migrate in search of higher salaries; such migration as does occur will probably be to Germany, the Czech Republic's major economic partner, and to Austria. Widespread environmental degradation and a number of economically backward regions will require assistance from the EU's structural funds. With EU funds and expertise, the Czech Republic should be able gradually to implement European Community legislation both on paper and in practice.

8.2. Estonia

8.2.1. General Information on Estonia

The Republic of Estonia is the smallest Baltic state with an area of 45,227 square kilometres and a population of 1.467 million. In 1996, one-third of the population, or 426,000 people, lived in the capital Tallinn. Other important cities are Tartu with 109,100 inhabitants, Narva with 80,500 inhabitants, Kohtla-Järve with 56,100 inhabitants and Pärnu with 52,100 inhabitants. About 29% of the population live in rural areas. Between mid-1990 and the beginning of 1996, the population declined by 6.5%, or more than 100,000 persons, largely due to emigration and a sharp fall in the birthrate.

For administrative purposes, Estonia is divided into fifteen provinces and six municipal districts; each has between 12,000 and 600,000 inhabitants, with an average of 35,000. For the purposes of local government, Estonia is split into 255 municipalities, ranging in size from those with only a handful of inhabitants to those with almost 500,000. Many municipalities, which have an average population of 6,000, are too small to organise their own social services; it will be necessary to strengthen co-operation between municipalities as part of the government's drive to decentralise social institutions and programmes.

63.2% of the population are Estonian, 29.4% Russian (of whom 52,000 are Russian citizens) and 7.4% belong to smaller minorities, such as Ukrainians, White-Russians and Finns. The Russian population is concentrated in the eastern regions of Estonia; in Narva, for example, 96% of the population are of Russian origin. The eastern and south-eastern border with Russia is disputed; Estonia lays claim to certain portions of territory currently controlled by Russia. Treatment of the Russian minority is a controversial issue in domestic politics; the 1992 electoral law excluded roughly one-third of the population from voting.

a) Political System

Estonia is an independent democratic republic. The political and legal system is regulated by the 1992 constitution. Lennart Meri has been President since 1992. The parliament, the Riigikogu, has 101 members. At the March 1995 elections, the Coalition Party/Farmers Union (KMU) received 32.2% of the votes and forty-one seats, followed by the Reform-Party/Liberals (RE) with nineteen seats and the Centre Party (K) with seventeen seats. Four other parties hold between five and seven seats each. The Prime Minister is Tiit Vähi, leader of the KMU. The new government intends to continue the process of economic reform, but to lay greater emphasis on social policy. The Russian minority have obtained a voice in Parliament through the “Estonia is our home!” party.

b) General Economic Development

During the early stages of the transition to a market economy, the government pursued a policy of economic liberalism concentrating on political and economic reform while neglecting social policy. The removal of price controls was a priority; by January 1992, only 10% of goods were still under price control. The privatisation of small companies was almost finished by 1991/92, although the proceeds were low because some companies were sold for symbolic prices; in total, over 1,200 small enterprises have been sold at auction. Large companies, as in the other CEEC, proved more difficult to sell. The Estonian Privatisation Agency (EPA), modelled on the German Treuhand Privatisation Agency, was established in 1992. As a government agency, it has the authority to negotiate and conclude sales contracts on behalf of the government. Since 1993, it has privatised more than 90% of state-owned enterprises. Sales of companies sold through international tenders raised over ECU 180 million. The new owners employ over 43,000 people, have provided over ECU 135 million in capital investment and taken on over ECU 320 million of liabilities.

The exchange rate of the Estonian Crown (Ekr) is pegged to the Deutschmark at a rate of eight Ekr to one Deutschmark. Foreign debt is very low at 2.5 billion Ekr or about 5% of GDP in 1996. Import and export duties have been almost completely abolished. Estonia's national budget has been balanced since a 1993 law restricted public expenditure to the amount of available finance. This constraint has restricted spending on social security. Nevertheless, government expenditure on social security has increased from 11.1% of GDP in 1994 to almost 15% today. Between the fourth quarter of 1989 and the second quarter of 1994, prices rose 143 times. Wages were unable to keep pace; real wages fell by almost two-thirds between 1991 and 1994. Estonians increasingly came to rely on growing their own food to survive; more than 60% of Estonians citizens own an allotment or garden which is used to grow food[15]. Inflation has fallen from a peak of 1,076% in 1992 to 23% in 1996. The gap between nominal wage increases and inflation has narrowed steadily so that employees can hope to profit from economic growth.

Table 7: Development of GDP and inflation rate (in percentage change over previous year)

	1993	1994	1995	1996
Gross Demestic Product	-8.5%	1.8%	4.3%	n.a.
GDP per capita in Purchasing Power Standard	3,508.9	3,592.8	3,917.2	n.a.
Unemployment in % of workforce	6.6	7.6	n.a.	n.a.
Inflation Rate	89.8%	47.7%	29%	23.1%
Trade balance (in million US$)	-145	-356	-674	-1,058
Real average wage growth	1.9	1.6	1.4	1.2

Sources: European Commission *Agenda 2000*; Eesti Pank; Ministry of Social Affairs

8.2.2. Labour Market

a) Employment Structure, Labour Market Policies and Legislation

In 1996, 2.6% of the workforce was registered as unemployed. However, it is thought that the real figure is far higher because this statistic only includes persons receiving unemployment benefit, which is paid only for six months; the long-term unemployed are thus excluded. It is estimated that about 75,000 to 85,000 persons or 10% of the workforce are unemployed. The unemployment figure is also kept low by the large number -14% in 1995 - of people who work part-time[16]. It is thought that about one-third of people in part-time employment would prefer to

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15 29% of milk, 49% of pork and 76% of potatoes are produced on smallholdings, allotments or gardens.

16 ILO Office, Estonian Ministry of Social Affairs.

work full-time but have had their working hours reduced by their employer or cannot find full-time jobs. Considerable numbers work in the illegal labour market, especially in construction, agriculture and the service sector.

There are considerable regional variations in employment. In Tallinn, labour is scarce, while the rural southern and eastern regions suffer from very high unemployment. Unemployment is high in regions with a high concentration of heavy industry and where large agricultural companies have been liquidated. Unemployment reaches 40% in some regions.

The rate of unemployment among the young is low, largely because during the period of transition employers have sought to employ young graduates, who are seen as more flexible and innovative, often at high salaries.

Under Estonian law, entrepreneurship, full-time study, military service, raising a child who is an invalid or under seven, undergoing hospital treatment, caring for an old person or an invalid and serving a prison sentence are considered as forms of employment[17]. A retraining scholarship can be paid for up to six months. In addition, an entrepreneurship subsidy, of Ekr 8,000 in 1995, can be paid to an unemployed person to enable him to establish a small business; the applicant must undergo business training or have previous experience in business. An employer can claim a labour market subsidy if he takes on certain types of unemployed persons, such as the handicapped, women with children under six and young people between sixteen and twenty.

b) Employment Administration

Labour administration is in the hands of the newly-established Labour Market Board, which is under the auspices of the Ministry of Labour and Social Affairs. The Board has 250 employees and forty-three regional offices. The organisation and staffing of the Board are now virtually complete. The Labour Market Board is responsible for job mediation, job consulting, payment of unemployment benefit and vocational training. The Board is financed by the Ministry of Labour and labour market policy has to be agreed with the Ministry, which often leads to considerable delays.

c) Unemployment Insurance

There is currently no separate system of unemployment insurance and unemployment benefit is financed by central government. The government intends to establish a separate insurance system in 1998.

Unemployed persons, including the self-employed and members of the professions, can claim unemployment benefit if they have worked for at least 180 days during the last twelve months and have not found a job or begun retraining within thirty days of losing their job. Unemployment benefit amounts to 80% of the minimum wage and is paid for six months. In July 1996, the minimum wage was raised to Ekr 240 (ECU 15.23), which is less than 10% of the average net wage. Certain groups are not eligible to claim unemployment benefit[18].

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[17] UNDP, Estonian Human Development Report 1996.

[18] Persons in education, who are caring for children under seven years, caring for the sick, the incapable or persons aged over eighty years and persons who are less than sixteen years from the pensionable age.

As unemployment benefit is so low and the period of entitlement limited, most unemployed persons depend on social assistance. Moreover, persons who are still unemployed after six months are no longer entitled to the Health Insurance Fund's benefits; the municipalities have to bear the cost of their medical treatment instead.

8.2.3. Industrial Policies

a) Trade Unions

Trade unions are independent of the state and political parties. The former state-run trade union confederation has been replaced by the Central Organisation of Estonian Trade Unions (EAKL), which has about 150,000 members, mainly workers in large enterprises. The Estonian Employees' Unions Association (EEUA) represents about 50,000 public employees. Only about 30% of workers belong to a trade union, compared to 98% in 1989, when membership assured access to social security benefits. Employees have the right to strike and are protected from retribution. A collective bargaining law was adopted in 1993. In common with other economic and political organisations in Estonia, the trade unions are currently undergoing reforms.

b) Employers' Organisations

Employers' organisations came into existence as part of the process of transition to a market economy. The employers are the least organised of the social partners, and they are still defining their role in tripartite co-operation.

In 1991 the Confederation of Estonian Industry was founded as an umbrella organisation for Estonian employers; the members of the Confederation were mainly large state-owned enterprises and its main activity was to represent members before government agencies

and in tripartite negotiations and consultations. Following the privatisation of about 85% of nationalised industries, in May 1995 the Confederation of Estonian Industry was re-organised into the Confederation of Estonian Industry and Employers (CEIE).

The CEIE aims to secure and represent its members' interests before government bodies, to hold negotiations and to conclude agreements with trade unions. In general, the CEIE seeks to consolidate its members' economic and political independence and to improve living standards. While recognising the importance of flexibility in meeting the demands of the free market, the members of the CEIE lay emphasis on harmonious industrial relations. Employment contracts are seen as a means of ensuring co-operation between employers and workers; contracts are detailed and aim to treat the employee as a partner so that he will not submit excessive demands.

c) The Role of the Social Partners and the Government

Following Estonia's readmission to the International Labour Organisation in 1992, an ILO Council was established. From 1992 to 1994, the ILO Council functioned as an economic and social council; consultations on the minimum wage, unemployment benefits and tax allowances were held under its auspices. Since 1994, the ILO Council has made proposals concerning the ratification of International Labour Organisation Conventions and has overseen their implementation.

While there is no permanent tripartite or bipartite consultative body, tripartite and bipartite negotiations at the national level occur frequently. Since 1991, annual negotiations have taken place between the government and the employers' organisations and trade unions; the negotiations may be preceded by preparatory meetings of working groups representing the parties. The Ministry of Labour or sometimes a party with an especial interest in the subject at issue is responsible for technical support. Moreover, employers' organisations and trade unions enjoy the right to make representations to the government concerning draft laws on social matters and labour relations.

Until 1994 these meetings decided on unemployment benefit and the level of income at which income tax starts to apply and until 1995 they set the framework for the minimum wage. At the 1996 negotiations, the trade unions put forward representations on the protection of workers in the case of insolvency, social reforms and industrial relations. In December 1996 a tripartite agreement on the minimum wage for 1997 was signed. Three tripartite working groups were established to consider problems in other areas.

Under the Law on Collective Agreements, collective agreements may be concluded at all levels of labour relations. Collective agreements bind the parties, without any need for registration. In 1994, the government and the EAKL signed a collective agreement on wages for public sector employees; as this agreement concerned public expenditure, it was subject to approval by Parliament.

8.2.4. Health and Safety at Work

The process of privatisation has been accompanied by an increase in the number of accidents at work. According to the National Board for the Working Environment, 2,296 work-related accidents, of which sixty-one were fatal and 290 caused severe injury, were recorded in 1995, almost double the number in 1994.

The government is committed to improving working conditions and has set out a policy framework for the improvement of occupational safety and health. The framework establishes guidelines for reducing occupational risks, improving the exchange of information, improving consultation with and participation by employees and training of workers. It is hoped that increased co-operation between the government, labour market organisations and business associations will facilitate the development of measures to harmonise Estonian law with European Community directives and ILO conventions. In particular, the government hopes to ratify ILO Convention No 155 concerning the working environment and the safety and health of employees as soon as it is able to develop a suitable policy for implementation.

A number of reforms are under way in the system of health and safety inspection. A Labour Inspectorate, established in 1990, is responsible for enforcing all aspects of health and safety legislation. It is also intended to establish an Occupational Health Centre, with regional offices, to provide occupational health services, a tripartite working environment council, a working environment fund and branch safety committees.

In the future, employers will be required to put in place an Internal Control System to ensure that health and safety regulations are implemented; while employers organise their activities according to their economic needs, they must not neglect their responsibility for the working conditions of their employees. It is hoped that these systems will enhance co-operation between the Labour Inspectorate, management and employees in the field of occupational safety.

8.2.5 Social Security

a) Introduction

Organisation

The process of economic transition has given rise to enormous economic, political and social change which has posed massive problems for the Estonian social security system. Some figures illustrate the widespread sense of social dislocation: the number of suicides increased from 382 in 1988 to 614 in 1994, the number of abortions was extremely high rising from 171 abortions per 100 births in 1993 to 150 abortions per 100 births in 1994 while the birth rate has fallen to the lowest level in fifty years. While in 1988 25,060 births had been registered, the number of births fell to 10,276 cases in 1994; this fall may reflect increasing economic insecurity in Estonian society.

The fruits of economic success have been enjoyed by only a small minority of the population. The gap between the lowest and highest incomes continues to grow. At the beginning of 1995 average income was Ekr 973 (ECU 64.88) per month; the lowest income group earned on average only Ekr 256 Ekr (ECU 17.07) while the highest income group earnt Ekr 2,975 (ECU 198.33).

The social security system suffers from chronic financial problems and inertia. Some problems date from the Communist period, while economic changes during the transition and lack of experience in dealing with the demands of market system have exacerbated old problems and created new ones. Taxes and social insurance contributions are evaded systematically. Limited funds and an increase in the number of persons in need have hindered restructuring of the social security system and led to a reduction of benefits, which has forced more people, such as pensioners, into poverty.

The main administrative body is the Ministry of Social Security, which has several subordinate bodies, namely the Social Insurance Office (RSKA), the Statutory Labour Authority, the Labour Environment Office and the Office of Social Welfare Aid. In general, these bodies have autonomous budgets and are financed partly by insurance contributions and partly from central government resources. However, the expenditure of the Labour Market Board and the Office for Social Welfare Aid is financed entirely from tax receipts. The Social Insurance Office (RSKA) administers pensions and health insurance for all persons permanently resident in Estonia. The health insurance branch grants cash benefits and finances medical treatment. The Office of Social Welfare Aid administers social assistance programmes.

In 1994, municipalities were given greater autonomy and became responsible for some social services. Municipalities are now in charge of day nurseries and nursery schools, homes for delinquent children, nursing homes, hospitals and other health institutions, which were formerly the responsibility of central government. However, central government still contributes to the cost of these services. The small size of many municipalities limits the range of services they are able to provide and co-operation between municipalities which might enhance efficiency is poorly developed.

The 1995 Social Assistance Law sets out the framework for the provision of social services; responsibility for provision is moved to the local level. Municipalities become responsible for the support of children, juveniles, handicapped persons, old persons and other groups such as former prisoners and drug and alcohol addicts. Institutional support shall gradually be replaced by more open types of support. As the Social Assistance Law constitutes only a general framework, the municipalities retain considerable independence to decide on what kind of services they will actually provide, which are in any event constrained by their budget. In 1996, further reforms devolved responsibility for planning, administration and financing social assistance to the municipalities. The government established Ekr 420 (ECU 26.65), an increase from the previous Ekr 320, as the minimum monthly limit for social assistance. The costs of these reforms will be met from the municipalities' receipts from local income tax.

Social insurance contributions are currently paid only by employers and the self-employed. Employers must contribute 33% of an employee's gross wages, of which 20% goes to the pensions fund and 13% to health insurance. Self-employed persons and members of the professions contribute 25.7% of any income above the minimum wage, of which 20% goes to the pensions fund and 5.7% to health insurance. Self-employed farmers have to pay 20% of their profits for pension insurance and 1.2% for health insurance. Social security benefits are in general exempt from taxation. The rate of contributions is fixed by central government, although municipalities can increase the rate of health insurance contributions for employers with unhealthy working conditions by up to 3%. Central government meets any deficit of expenditure over income from insurance contributions; in 1996, government subsidies amounted to about 25 % of all social insurance funds' budgets.

Reforms

The entire social security system is currently undergoing a process of decentralisation, whereby administration and the provision of care are gradually transferred to local government bodies. Health and social welfare institutions will be particularly affected by this process.

Under a draft Social Insurance Framework Law put forward in June 1997 the RSKA will no longer be part of central government but will become an autonomous body within the public sector. The budget of the RSKA will remain part of the national budget but the RSKA will have limited independence. An occupational accident insurance fund, separate from the pension and health insurance funds, will be established within the RSKA in January 1998. An unemployment insurance fund will be introduced at the same time.

The old-age pension system currently consists of two elements, the basic pension and a supplementary pension related to the length of employment; it is intended to introduce a third element, financed by contributions and related to the pensioner's income. Supplementary private old-age insurance will be encouraged by life insurance and private savings.

Improving the collection of contributions is essential to strengthen the social security system; at present, many businesses either conceal part of the wages they pay or evade all contributions.

All reforms must be carried out against the background of the government's policy of restricting expenditure on social security; additional benefits have to be financed by cuts in other social security benefits. One reform under discussion is to require employees to contribute 2% of gross wages to the pension insurance fund, while reducing the employers's contributions by 2%. The proposed occupational accident insurance fund, which is currently being considered by Parliament, would be financed by equal contributions from employers and employees totalling 1.5 % of gross wages. However, this law will be enacted only after reforms to social insurance contributions and pensions have been completed.

b) Health Care

Table 8: Life expectancy and infant mortality rate

	1989	1990	1991	1992	1993	1994	1995
Infant mortality rate (per 1,000 live births)	14.8	12.4	13.4	15.8	15.8	14.5	14.8
Life expectancy men	65.7	64.6	64.4	63.5	62.4	61.0	n.a.
Life expectancy women	74.8	74.7	74.8	74.7	73.9	74.0	n.a.

Source: TRANSMONEE database

The Estonian health service was reorganised in 1994. Local health institutions which had previously been under the central control of the Ministry of Health were brought under the control of cities and districts. Regional health institutions became the responsibility of federations of municipalities and district administrations. Specialised services continued to be provided by the Ministry of Health and by district doctors. In 1996 spending on the health service amounted to Ekr 2.6 billion (ECU 165 million) or approximately 5.8% of GDP. It is estimated that 85% of expenditure is financed from health insurance contributions, 12% from grants from central government and 3% from payments made by patients.

The health insurance system was reformed in 1992. There is now a Central Sickness Fund, subordinate to the RSKA, and seventeen Regional Health Funds which are responsible for collecting contributions. Although initially these funds were independent, in 1994 they were linked to the central fund because of problems concerning redistribution between regions. The Health Funds pay for medical treatment for all employees and self-employed persons and their dependents, as well as for schoolchildren, students, parents with children under three years, pensioners and unemployed persons in receipt of unemployment benefit. Health services for non-insured persons, who constitute about 7% of the population, are financed by the municipalities.

The Health Funds conclude contracts of limited duration with doctors and hospitals, who then charge the Funds for treatment in accordance with a price list maintained by the Ministry of Health. Each contract sets a limit on the Fund's quarterly expenditure, so restricting the amount of treatment available. In particular, hospital treatment is limited to 120 days; longer stays must be paid for by the patient or the municipality. Psychiatric patients are often discharged from hospital because the municipalities are unable to pay for their treatment.

Health insurance contributions also finance sickness and maternity benefits. These benefits are paid out in cash by the employer and then set off against his health insurance contributions. For unemployed persons these cash benefits are paid by the Regional Health Funds themselves.

Occupational Accident Insurance

A separate occupational accident insurance system will come into effect on 1 January 1998. At present, the Regional Health Funds finance medical treatment and sickness pay in case of occupational accidents and diseases. In cases of permanent disability, the RSKA pays the standard invalidity pension.

Furthermore, where the employee can establish that the employer is liable for his disability, the employer must pay compensation; the amount paid depends on the degree of blame borne by the employer, which is established by a process in which the employer admits his own responsibility. This compensation is paid as a supplement to the disability pension. Attempts to force employers to compensate their injured employee's have given rise to a considerable amount of litigation. Where an employer has gone bankrupt, this compensation will be paid by the State. In cases of temporary disability, the employer must reimburse the Regional Health Fund in proportion to his responsibility for the disability. In extreme cases, a criminal prosecution may be brought against a culpable employer.

Sickness Benefit

Sickness benefits are administered by the Regional Health Funds. The level of sickness benefit is calculated by reference to the claimant's average daily wage during the last two months. If the claimant is recovering at home or in a polyclinic, he receives 80% of his average wage. A claimant receiving treatment in a sanatorium receives 65% of his average wage and claimants in hospital receive 60%. Persons caring for their sick relatives at home receive benefit at between 80 to 100% of their wages for between one or two weeks. In cases of occupational accident or disease, the claimant is entitled to receive 100% of his wage.

c) Pensions

The pension insurance system consists of a central administrative body, the RSKA, and twenty-two regional offices. The RSKA is responsible for overall planning, administration, legislative reforms and the redistribution of funds between regions. Regional offices are responsible for the collection of contributions and administering payments.

In 1996, the budget of RSKA amounted to almost Ekr 5 billion (ECU 317 million) or 22.8% of government expenditure. In 1994, 382,722 Estonians, or almost one quarter of the population, were pensioners; 308,294 received an old-age pension, 50,004 a disability pension and 24,428 a survivor's pension. The unusually large number of pensioners is caused by the low pension age, high emigration among people of working age and the falling birth rate. About 17% of pensioners work; since September 1996, they have not been penalised by a reduction in their pension[19].

Old-Age Pensions

Until 1994, the pension age was fifty-five years for women and sixty years for men. Since then the pension age has been gradually increased by one year every six months. In 2003 the pension age will be sixty-three years for both men and women.

The old-age pension consists of two components, a basic pension and a supplementary pension related to length of employment. In 1994 the basic pension amounted to 85% of the minimum wage. Since 1994 the basic pension has been fixed by Parliament with reference to the amount of money available for public expenditure. In January 1996, the basic pension was Ekr 410 (ECU 26) per month but was subsequently raised and now stands at Ekr 1,000 (ECU 63.5) or 38% of the average wage. All persons are entitled to receive the basic pension but if they have

[19] In 1990, almost 50% of old-age pensioners worked during the first five years of drawing a pension; these people were the first to be dismissed during the transition process.

not been insured for at least fifteen years entitlement is delayed by five years; thus, until 1994 women and men insured for less than fifteen years became entitled to a basic pension at sixty and sixty-five respectively.

The supplementary element is granted to pensioners insured for more than fifteen years. The amount paid, which is a percentage of the basic pension, depends on the length of the insurance period. A pensioner is entitled to a supplement for every additional year above the minimum insurance period. This supplement amounts to 1% of the basic pension during the first five years, subsequently rising to a maximum of 1.7 % during the next five years. The maximum supplement is reached after an insurance period of forty years. Under certain conditions other supplements amounting to 10-25% of the minimum wage can be payable.

Survivors' Pensions

Survivors' pensions are granted to siblings, children and grandchildren of the deceased who are under eighteen or handicapped. Parents or spouses are entitled to a survivors' pension if they have reached the pension age or if they are handicapped. Surviving adults receive the basic pension. Children under eighteen receive 60% of this sum and orphans under eighteen receive 100% of the minimum wage.

Disability Pensions

Persons who are wholly or partly incapable are entitled to a disability pension regardless of whether they have paid insurance contributions. The amount of the pension is dependent on the degree of disability; pensions are 105%, 95% or 60% of the minimum wage. Persons in categories I and II can choose to claim an old-age pension instead of a disability pension provided they have been insured for at least fifteen years. The pension is paid as long as the disability lasts and for life for men over sixty and women over fifty-five. About 10% of all pensioners are totally disabled.

Private Pensions and Life Insurance

Although the government is keen to encourage people to contribute to private pension and life insurance schemes, few people can afford them.

d) Family Benefits

Child benefits are governed by a 1992 law and are paid by central government. Ekr 130 (ECU 8.66) can be claimed for the first child, Ekr 165 for the second and up to Ekr 215 for subsequent children. Benefits are paid until the child reaches fifteen. Single parents receive a supplement of 60% of the standard benefit in respect of the first child only. Moreover, mothers who are not working can claim child maintenance benefit until the child is three. For the first eighteen months, child maintenance benefit amounts to twice the rate of child benefit for the first child; it falls to the same amount as child benefit for the remaining eighteen months.

Child benefits are paid by employers who offset these payments against their insurance contributions. Persons who are not employed receive these benefits from the regional pension offices.

e) *Social Assistance*

In 1995 the government estimated actual annual expenditure on social assistance at Ekr 70 million but also estimated that expenditure of Ekr 108 million was necessary. Limited financial resources lead to interruptions in payment. Responsibility for social assistance measures has now been transferred from central government to the municipalities and will impose a heavy burden on them. As unemployment benefit is so low and can be claimed for only six months, many of the unemployed depend on social assistance. Furthermore the municipalities have to finance medical treatment for the long-term unemployed. Another problem is that while the first 120 days of hospital treatment are financed by the Health Insurance Fund, any further hospital treatment must be paid for by the municipality.

As well as cash benefits, the municipalities provide fuel, food and improvements to accommodation for the poor. Many Estonian flats are in urgent need of renovation. It is estimated that merely to maintain current standards would cost Ekr 824 million (ECU 52.29 million) annually. About 12,000 flats are regarded as uninhabitable and no longer worth renovating. Dilapidated flats increase the cost of heating; fuel bills account for up to 60% of a household’s income. Many flats have been disconnected from electricity and heating. It is thought that perhaps thousands of Tallinn families face eviction orders because they are unable to pay the rent and utilities' bills.

Low incomes, dilapidated flats, inadequate social services and shortages of pharmaceuticals encourage the transfer of old and handicapped persons to institutions, although in better circumstances they might well have been able to stay at home and to care for themselves.

8.2.6. Education and Vocational Training

a) *School System*

The education system comprises pre-school education in kindergartens, general education in primary and basic schools and gymnasiums (upper secondary general schools), vocational education and higher education at universities and institutes of applied higher education. Although under Communist rule Estonia was in general obliged to adopt the Soviet education system, Estonia nevertheless managed to continue to provide some teaching in the Estonian language and to maintain some differentiation among schools.

Pre-school education is widespread in Estonia. It is conducted in Estonian for 71.3% of pupils, in Russian for 22.2% and in both languages for 6.5%.

Compulsory schooling begins at the age of seven. Pupils first attend primary school for levels one to four and then basic school for levels five to nine. After passing the basic school certificate, a pupil can choose between upper secondary school at levels ten to twelve or vocational school. After passing the secondary school certificate, a student can choose to attend university or another type of higher education institute.

In 1994/1995, 68.8% of pupils leaving basic school went on to secondary school and 29% to vocational schools. Only 2-3% left the education system, although this number is rising. 39.9 % of the graduates from secondary school continue their studies in higher education institutes while 26.7 % attend vocational schools.

From the year 2000, all teaching in state and municipal upper secondary schools will be conducted in Estonian. Basic schools will continue to teach in either Estonian or Russian, but pupils at the schools using Russian will be expected to gain sufficient knowledge of Estonian to attend upper secondary schools. However, the 1993 Law on Cultural Autonomy for National Minorities allows national minorities to establish private upper secondary schools which teach in any language.

In 1994 there were thirteen public and eight private higher educational institutions in Estonia. The number of private institutions is increasing rapidly. There are six universities, with 25,483 students in 1992/93. Approximately 45% of the students attended other state higher education institutes while 55% enrolled at private higher education institutes. 84% of these students came from the general secondary schools. Undergraduate academic studies in universities last between four and six years. Institutes of applied higher education are mainly based on the former secondary vocational schools.

In 1992, education represented 16% of government expenditure; in 1993, this figure was 16.5%, in 1994 14.9% and in 1995 16.5%. Central government bears all the costs of state schools, vocational schools and higher education institutes. In the case of municipal schools, the cost of teachers' salaries and textbooks is borne by central government but the maintenance costs are covered by local government. The government has provided loans for students in higher education since 1992.

b) Vocational Training

Until the beginning of the 1990's, vocational education had to follow the Soviet model. In general, compulsory secondary education was accompanied by vocational training with little flexibility. Today there are different curricula depending on the educational level attained by a student. In 1996 there were 85 different vocational training institutions which were attended by over 29,000 students and more than 7,000 graduates. Since the early 1990's, there have been seven vocational educational institutes at the tertiary level. New programmes in subjects such as business, management, navigation, aviation and tourism have been introduced to prepare students for the needs of a market economy. Municipalities are responsible for non-tertiary institutions. A number of secondary schools also offer some vocational training.

In 1996 the government for the first time committed funds to adult education. Although a comprehensive adult education system has not yet developed, more than forty adult education institutes have been established and there are adult education centres in the larger towns. Evening schools are also enabling more adults to return to education. Further education courses are available in over half of the vocational education institutions. There are also a number of private initiatives in this field.

8.2.7. Equal Treatment for Men and Women

Article 12 of the Constitution prohibits discrimination on the basis of, *inter alia*, gender. There is no legislation providing for equal treatment of men and women in the field of social security. The Law on Employment Contracts prohibits the granting or removal of advantages upon *inter alia* the grounds of gender. Moreover, the Law on Wages prohibits any link between wages and an employee's gender or family responsibilities. There is no general legislative provision similar to Article 119 of the Treaty of Rome requiring equal pay for work of equal value.

In 1994, women represented 61% of white-collar workers. 9.5% of working women held managerial positions, 34% were specialists, 23% worked in the service or sales sector, 21% worked in industry, 12% in education and 13% in the health and social security systems. The number of female managers and entrepreneurs is growing. The number of women among those owning or running a business was 7% in 1992, 27.5% in 1993 and more than 33% in 1994. Women's participation in business in Estonia is comparable to the levels found in Belgium, the Netherlands and Spain.

On average, women earn less than men in all occupations and this gap has grown in recent years. In 1994, women earned on average 71% of men's salaries; in some occupations, women earn half the salary of their male counterparts. Female legislators, top executive and managers earn 70.9% of their male counterparts' salaries.

In April 1997 the unemployment rate was 4% for men and 5.8% for women, although at certain times the rate for men has exceeded that for women. Unemployment is particularly high among Russian-speaking women aged 25-49 with only secondary education.

In May 1996, a Commission was established under the chairmanship of the Minister of Social Affairs to implement resolutions adopted by UN Conferences concerning social and gender issues; one of the Commission's priorities is to improve women's role and status in the work place. In December 1996 the Ministry of Social Affairs established a Bureau of Equal Opportunities. Estonia is one of the pilot countries participating in the ILO Programme *More and Better Jobs for Women.*

8.2.8. Poverty and Income Distribution

The fruits of Estonia's economic success have not been evenly distributed; only a small minority profits from Estonia's economic success. In 1993 10.2 % of all Estonian households received social transfer payments. One empirical study found that about 10% of households did not have access to sufficient food. If poverty is defined as spending 50% of income on food, one-third of all Estonian households fall beneath the poverty line. Families with several children, single parents and pensioners are particularly badly affected.

Economic inequality decreased in 1995 compared to 1994. The Gini co-efficient was 0.371 for 1995 and 0.379 in 1994. Moreover, the income of the poorest 40% rose, while that of the richest 20% fell. The share of income of the richest 20% decreased at a significantly faster rate than the year before.

Research conducted in 1994 by the Estonian Statistical Office found that 20% of respondents classified themselves as poor, 10% as able to manage without excessive strain and the remaining 70% thought that they were able to make ends meet. Although respondents from urban and rural areas evaluated current living conditions in the same way, rural inhabitants were more positive about past conditions and more pessimistic about future conditions than their urban counterparts. When an official poverty line was first established, 10% of Estonians were living below it. Although the number of families classified as poor has decreased due to rapid inflation and changes in the definition of the poverty level, actual poverty may not have decreased at all. For people without income, the amount of benefits needed to increase income to the poverty line, the "poverty gap", may have increased. It is correct to consider 10% of families as poor.

8.2.9. Conclusions

a) The economy

Estonia has pursued liberal economic policies with considerable success; price controls were abolished at the start of the transition process and the sale of nationalised industries to the private sector has been successful. Real wages fell by almost two-thirds between 1991 and 1994. Inflation, however, has now been curbed; the rate of inflation fell from 47.7% in 1994 to 23.1% in 1996 and a further reduction was expected for 1997.

Estonia's budget has been balanced since 1993 because of a strict austerity policy. Limits on government expenditure have damaged the social security system and led to substantial social problems.

b) Social policy

The transition process, with its emphasis on the encouragement of investment, economic success and the development of substantial differences in income, gave rise to enormous social uncertainty, as illustrated by the steep rise in the suicide and abortion rates and the decline in the birthrate. The social security system has not been able fully to cope with the new problems it has had to face. The social security system lacks financial resources; taxes and contributions are widely evaded. The system is further handicapped by a lack of knowledge and expertise. Moreover, the inadequacies of the social security system have led to the creation of new problem groups and swelled the ranks of the needy.

The social security system is currently run principally by the Ministry of Social Security and other statutory bodies, which are partly financed from the resources of central government and partly from social contributions paid by employers. A new Bill is under discussion which will transform the RSKA into an autonomous body operating under public law with some degree of financial independence. It is intended to establish separate accident, unemployment, health and pension insurance funds. The health insurance system was modernised in 1992. Expenditure on the Health Service, sickness and maternity benefits currently amount to 5.2% of GDP. Pensioners represent almost 25% of the population, an unusually high figure, and there are substantial problems in financing the current system. The pension age is being lifted gradually in an effort to solve these difficulties.

At the end of 1996, 2.6% of the workforce were registered as unemployed. It is thought that the real figure may be much higher, as perhaps as few as half of all persons seeking employment are actually registered as unemployed. In 1994, the European Commission estimated that unemployment stood at 7.6% of the labour force. Moreover, there are important regional variations in unemployment, which is concentrated in the south and east of the country; in areas where large national agricultural companies and heavy industry are concentrated, unemployment may reach 40%. Unemployment benefit is financed by central government, which is attempting strictly to limit expenditure. As unemployment benefit is both meagre and limited to six months, many unemployed persons have to claim social assistance and free health care from the municipalities, which places a heavy burden on their resources.

Many Estonians do not benefit from their country's economic success. If poverty is defined as spending more than half of income on food, one-third of Estonians live beneath the poverty line. As municipalities have taken over responsibility for many social services, better co-operation between municipalities is essential to improve efficiency. The availability of social services depends upon the municipalities' financial resources; although the criteria for entitlement to social assistance are very strict, some municipalities have been unable to provide social services because of financial problems. The municipalities' financial problems are aggravated by their responsibility for paying for hospital treatment exceeding 120 days for patients who cannot afford to pay. The large amounts which municipalities have to spend on social allowances are a consequence of the inadequacy of the social insurance system. Substantial funds are required for the renovation of houses, flats and heating systems. At present some Estonian households spend up to 60% of their income on fuel. Old and handicapped persons, who might have been able to remain at home if they had better accommodation, are compelled to seek care in institutions.

8.3. Hungary

8.3.1. General Information on Hungary

Hungary has an area of 93,000 square kilometres and a population of 10.2 million, of whom 63% live in the cities. The capital, Budapest, has a population of 2 million. Other major cities are Debrecen with 214,000 inhabitants, Miskolc with 194,000 inhabitants, Szeged with 176,000 inhabitants and Pécs with 170,000 inhabitants. The average population density is 110 persons per square kilometre. For administrative purposes, Hungary is divided into nineteen districts (Komitát) and six city-districts.

a) Political System

Hungary is a democratic republic. Its constitution dates from 1949 and was modified in 1989. The head of state is the President, Arpád Göncz, who was first elected in 1990 and re-elected in 1995. The Prime Minister is Gyula Horn, whose Socialist Party (MSzP) won a third of the vote in May 1994 elections. The Socialists formed a coalition government with the Union of Free Democrats (SzDSz) in July 1994.

The President is elected by the National Assembly. The National Assembly enacts amendments to the Constitution, passes legislation, approves the national budget and the economic and social plan. The Cabinet is responsible to the National Assembly and consists of a Chairman, the State Ministers and other Ministers elected by the National Assembly upon the proposal of the President. The Cabinet directs the work of the government ministries, oversees the implementation of laws and the budget and can veto or change the programmes of local government.

b) General Economic Development

Hungary has made great efforts to develop its exports to Western Europe; 32% of exports go to Germany and 13% to Austria. Nevertheless, economic growth has been slower than expected because exports suffered from the recession in western Europe and from the collapse of exports to Yugoslavia; in 1993, exports declined by 25%. The government reacted to falling exports by repeatedly devaluing the Forint, but with only limited success. In 1995, Hungary's trade deficit was ECU 2.95 billion which fell to ECU 2.41 billion in 1996. It is thought that the trade deficit increased again in 1997.

The government has made control of inflation a priority. The annual rate of inflation fell from 28.2% in 1995 to 23.6% in 1996. The government hoped that in 1997 the inflation rate would be under 20% for the first time since 1989.

Since 1995, the government has made considerable efforts to curb public expenditure. It has succeeded in reducing both the trade deficit and the government spending deficit. An increasing proportion of the Hungarian population is affected by poverty. It has been estimated that one-fifth of the population, mainly pensioners, live below the poverty-line.

In comparison to other countries in transition, Hungary's privatisation efforts have been remarkably successful. Approximately 75% of GDP is produced by the private sector. The black economy is thought to represent 20 to 30% of GDP, a low figure by CEEC standards.

The deficit in the social insurance system has been increasing for several years; in 1996, it was HUF 68.6 billion (ECU 330 million) and in early 1997 HUF 28.1 billion (ECU 135 million). The deficit is a significant problem for public expenditure. The government has proposed reforms to the pension and health systems (see 5.1.4).

Table 9: Economic Indicators (change in % to previous year)

	1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**
GDP	n.a.	n.a.	-3.1	-0.6	2.9	1.5	n.a.
GDP per capita (in Purchasing Power Standard)	n.a.	n.a.	n.a.	5543.6	5953.9	6311.4	n.a.
Inflation Rate	28.9	35.0	23.0	22.5	18.8	28.2	23.6
Real Wages	n.a.	n.a.	n.a.	-3.9	7.0	-22.2	-5.4
Unemployment Rate	n.a.	n.a.	n.a.	11.3	10.2	9.3	9.2
Trade Balance (in million US$)	534	358	-11	-4,021	-3,716	-2,433	-2,652

Source: European Commission, Agenda 2000

8.3.2. Labour Market

a) Employment Structure, Labour Market Policies and Legislation

Legislation

There are three main legislative Acts:

1. Act XXII of 1992 enacting a Labour Code which applies to all industrial relations unless another Act provides otherwise.
2. Act XXXIII of 1992 on the Legal Status of Public Employees.
3. Act XXIII of 1992 on the Legal Status of Civil Servants employed by central and local government.

In 1996, the most important employers were manufacturing industry with 851,000 employees, trade and catering with 601,000 employees, health and education with 545,000 employees and transport and communications with 321,000 employees[20]. Unemployment among industrial workers is continuing to rise. Although the rate of unemployment has stabilised at around 10%, the long-term unemployed are no longer included in the statistics. The Government Labour Centre estimates that between 80,000 and 120,000 people without jobs are not registered as unemployed. The long-term unemployed represented just under 50% of all unemployed

[20] Source: OECD, CSO data.

between April 1996 and April 1997; 27% of the long-term unemployed were aged between fifteen and twenty-four. Unemployment in this age group increased slightly from 18.8% in 1992 to 19.2% in 1996. In 1995, the unemployment rate for women was 11.2% and for men was 12.7%.

Table 10: Development in wages

	1988	1989	1990	1991	1992	1993	1994	1995
average gross monthly wage (HUF)	8,968	10,571	13,446	17,934	22,294	27,173	33,939	38,900
wage growth/ previous year = 100	N/A	116.9	121.6	125.5	121.3	117.3	127.3	112.6
real income/ previous year = 100	N/A	99.7	94.3	93.0	98.6	96.1	107.2	87.8

Source: CSO

The World Bank estimates that average per capita income is 36% of the EU average.

The government has established a number of measures to help the unemployed find work, such as training, subsidised work programmes for local government, wage subsidies to encourage employers to engage the unemployed and assistance for the unemployed to set up their own businesses.

Recruitment

Employers are in general free to employ whom they wish. However, the Labour Code provides for certain restrictions: applicants must not be discriminated against on grounds of their sex, age, nationality, racial origin, religion or political convictions; applicants may be required to reach certain minimum requirements, such as having completed compulsory education; women and minors cannot be employed in jobs which may harm their health; and certain jobs are limited to persons with certain qualifications or to Hungarian citizens or to persons without a criminal record.

Employment Contracts

The Labour Code provides that employment contracts, which must be written, shall stipulate the employee's wage, his duties and the place of work. Unless stated otherwise, employment contracts are of indefinite duration and the employee is employed full-time. Fixed term contracts cannot exceed five years, except for managers. If the limit of a fixed term contract is exceeded with the employer's consent, it automatically becomes indefinite. Fixed term contracts are not legal for public employees and civil servants, unless the employee is engaged as a temporary replacement or for a project of fixed duration.

The Labour Code establishes a minimum wage and minimum pay levels for overtime.

Table 11: Average Salaries and Earnings

	1991	1992	1993	1994	1995
Average Gross Wage in HUF	17,934	22,294	27,173	33,939	38.900
Change compared to previous year in %	30.0	25.1	21.9	24.9	16.8
Real Income Index; Change in %	-7.0	-1.4	-3.9	7.2	-12.2

Source: CSO

Individual and Collective Dismissals

An employer can terminate employment by notice, in which he must state his reasons; an employee can be dismissed only for reasons connected with his ability or conduct or for reasons connected with the employer’s operations.

The law provides special protection against dismissal for certain groups, namely sick employees, pregnant employees and persons required to perform military service.

Although the legal system does not recognise the existence of collective redundancies, in practice employees made be made redundant in certain circumstances. The works council, and in some cases the trade union, have the right to be consulted. The public authorities must also be informed of redundancies; the amount of information which must be provided depends upon the type and extent of the dismissals.

b) Employment Administration

The Law on the Promotion of Employment established two separate funds under the authority of the Ministry of Labour. The Employment Fund is financed from tax receipts and the proceeds of privatisation; it is used to finance activities to help the unemployed find work. The Solidarity Fund is financed from social insurance contributions and is used to pay unemployment benefit. It was envisaged that government payments to this fund would not exceed 10% of the total value of contributions, but it has not been possible to keep to this limit. In 1992, 4% of GDP was spent on unemployment benefit.

The system of labour administration is part of the Ministry of Labour. The head of the labour administration system is the Government Labour Centre, whose director is appointed by the Minister of Labour. The Labour Centre is responsible for research on the labour market and providing information to the general public. Regional and local Employment Offices, managed by the Labour Centre, administer measures to help the unemployed find work and pay out unemployment benefit.

The rise in unemployment has produced changes in the employment budget. In 1989, the Labour Centre and its local offices spent 75% of their budget on measures to help the unemployed find work, but in 1995 the greater part of their budget was spent on unemployment benefit.

c) Unemployment Insurance

Entitlement to unemployment benefit is dependent upon an individual's record of unemployment insurance contributions. All employees are required to pay unemployment insurance contributions; the self-employed may choose to pay contributions if they wish. The period during which benefit can be claimed depends on the claimant's employment record during the previous four years; the minimum entitlement is three months and the maximum is one year. The amount of benefit is based upon the gross average income during the four quarters prior to unemployment; it is not indexed. Claimants receive 75% of their previous income during the first third of their period of entitlement and 60% for the remainder.

8.3.3. Industrial Policies

a) Trade Unions

The role of the trade unions was redefined by the reformist Communists in connection with the New Economic Mechanism. Trade unions were given a genuine right to consultation concerning wages and labour legislation. Since these reforms, employers have been obliged to consult the workers' committee when setting wages or working hours. Industrial disputes can be referred to arbitration tribunals.

There are six main trade union associations, which co-operate on basic issues. 25% of workers belong to a trade union but this figure is falling because of job losses in the public sector. Trade union membership among employees in the private sector has not risen sufficiently to offset these losses. The trade unions' position during the transition period remained fairly strong but relations between private sector employers and the trade unions are poor.

Framework conditions and wages are negotiated in the tripartite Interest Reconciliation Council. Hungarian trade unions enjoy close relations with their partners in the EU, such as the German Trade Union Congress (Deutscher Gewerkschaftsbund). Three trade union associations - MszOSz[21], LIGA and MOSz - have been members of the European Trade Union Congress since January 1996, while the other three have observer status.

Independent trade unions have been founded under the aegis of two organisations, the Autonomous Trade Unions (Autonóm Szakszervetezek) and the Democratic League of Independent Trade Unions (Fuggetlen Szakszerverzetek Demokratikus Ligája; FszDL).

b) Employers' Organisations

There are several employers' associations in Hungary. One of the biggest is the Hungarian Employers' Association, which represents through branch and territorial member associations some 5,000 to 6,000 businesses, employing nearly 1.1 million persons. Other associations represent employers with common interests, such as the Federation of Hungarian Industrialists and the Hungarian Industrial Association. The National Federation of General Consumer Co-operatives and the National Federation of Agricultural Co-operators and Producers represent the interests of vendors and purchasers of agricultural products. The Union of Agrarian Employers

[21] Magyar Szakszervezetek Országos Szövetsége, the umbrella organisation of the General Council of Trade Unions, founded in 1898 with 1.37 million members.

represent major agricultural corporations, state farms, forestry bodies, the National Association of Farmers and agricultural research and education institutions. Separate associations also exist for industrial corporations and for traders and caterers.

c) The Role of the Social Partners and the Government

Social dialogue is conducted at the national, sectoral, medium, local and company levels.
At the national level there are three main forums:

- *Interest Reconciliation Council (IRC)*

The Council is composed of representatives of employers, employees and the government. It deals with basic economic, social and labour issues which concern the social partners. It negotiates certain aspects of industrial relations, such as the national minimum wage and guidelines on the average salary increase. Moreover, consultations are conducted regarding draft Bills on economic, social and labour issues.

- *Governing Body of the Labour Market Fund*

The Governing Body consists of representatives of employers, employees and central government. It oversees the Fund's activities concerning the promotion of employment and provision for the unemployed.

- *National Vocational Training Council*

Employees, employers, chambers of commerce, vocational schools and representatives of ministries involved in vocational training participate in the Council. The Council takes decisions and makes suggestions concerning vocational training.

Civil servants and public sector employees are represented in two sectoral bodies: the Interest Reconciliation Council for Budgetary Institutions and the Forum for Interest Reconciliation of Civil Servants.

Medium level collective bargaining is starting to take shape in Hungary. As in most western European countries, it follows a bipartite structure. At this level several ministerial reconciliation forums also exist. Local social dialogue on labour market and employment issues takes place within the municipal Labour Councils. As at the medium level, there is also a bipartite social dialogue between local government and the trade unions regarding industrial relations.

8.3.4. Health and Safety at Work

Official health and safety at work statistics show a decline in occupational accidents since 1986. Occupational accidents fell from 86,176 to 30,920 cases between 1986 and 1996; the number of fatal occupational accidents decreased from 334 to 151 over the same period. However, experts doubt that improved safety practices by employers are the reason for the fall. Instead, it is thought that the fall in accidents in part reflects the decline in economic activity during the transition process. Meanwhile, increased competition has forced many employers to cut back on safety measures to reduce costs; obsolete machines are still in use, security devices are not used and employees responsible for safety at work have been dismissed. Employees, scared of unemployment, are willing to endure hazardous jobs. Moreover, there is little prospect of employers being held responsible for occupational accidents; official controls are easily avoided

by, for example, the bribing of civil servants. Workers without contracts are rarely able to prove that their employer was responsible for an accident. A further explanation for the apparent decrease in accidents is the growth of the black economy, in which employers hush up injuries by compensating employees out of their own pockets.
Efforts are under way to improve standards of health and safety at work. In 1992 the International Labour Organisation, with the support of German consultants, carried out an analysis of occupational accidents in Hungary and recommended twenty-five improvements to existing practice. As a result both of this study and of the need to adopt EC regulations, the first Hungarian Law on Safety at Work was enacted by Parliament in 1993 and took effect on 1 January 1994. This law sets out the obligations of both employers and employees concerning occupational health and safety and introduced significant reforms, especially to employers' obligations. It also establishes the right of employees to elect representatives to monitor occupational safety issues.

The Labour Code limits standard daily working time to eight hours; an employee is entitled to two days' rest each week. In certain circumstances, shorter or longer limits apply; for example, workers engaged in dangerous or hazardous activities can work for only six hours per day. Overtime work must be paid at 150 % of the normal rate or, with the agreement of both parties, the employer can grant additional holiday *in lieu* of extra payment. If an employee is on "standby" or "on call", he must be paid at least 25% of his normal wage, while actual working time must be paid at overtime rates.

Every employee is entitled to twenty days of paid holiday per year. Entitlement to additional days' holiday depends upon the employee's age; the maximum holiday is thirty days. The holiday entitlement of public employees is fixed by the Act on the Legal Status of Public Employees at a basic allowance of twenty or twenty-one days, plus further days depending upon an employee's remuneration category and seniority. Civil servants are entitled to at least twenty-five days paid holiday, plus extra days depending on their seniority.

8.3.5. Social Security

a) Introduction

Organisation

The Ministry of Finance's severe austerity politics have badly affected the Hungarian Social Insurance System. These measures were intended to reduce social insurance contribution rates, which are extremely high by international standards and which, although they provide only limited social benefits, pose a serious obstacle to the development of small and medium enterprises.

Article 70E of the Hungarian Constitution provides that citizens have the right to social security; in cases of old age, illness, disability, being widowed or orphaned, and in case of unemployment through no fault of their own, they are entitled to the provisions necessary for subsistence. More detailed provisions are set out in the 1975 Social Insurance Law, which has never been wholly reformed. Under this law, the Ministry of Welfare is responsible for administering the social security system. Labour market activities and unemployment insurance are administered by the Ministry of Labour.

However, in 1991 responsibility for the administration of the pension and health insurance systems was transferred from the Ministry of Welfare to a new autonomous Social Insurance Institution. In 1993, the Social Insurance Institution was divided into two self-governing bodies; the Pension Insurance Fund and the Health Insurance Fund cover employees, trainees, homeworkers, the self-employed, the professions, members of companies and recipients of social benefits. The annual budgets of both Funds have to be approved by Parliament. Both Insurance Funds maintain a central office in Budapest and branch offices in the nineteen Komitát.

The regional offices of the Insurance Funds are legally independent entities, subject to the supervision of Parliament. The head offices of the Funds do not control the regional offices but merely consult them and make suggestions in an effort to ensure reasonably uniform application of legislation throughout Hungary. The regional offices have sole responsibility for concluding contracts with doctors and hospitals. Institutions providing tertiary health care are administered by the Ministry of Welfare while institutions providing secondary and primary provision are managed by their own administrative bodies.

Out-patient polyclinics have been closed and their functions transferred to hospitals and General Practitioners. Since 1989 general practitioners have been under a legal obligation to register. Patients have been allowed a free choice of General Practitioner since 1992.

Social allowances are administered by social security offices; although highly autonomous, these offices are part of the regional administrative bodies. There are substantial differences between regions in the administration of social allowances, while uniform national criteria are applied when granting family assistance. Since March 1990, Hungarian citizens, foreigners with residence permits and resident citizens of countries with which Hungary has concluded an agreement have been entitled to family benefits.

The Pension Insurance Fund, Health Insurance Fund and Unemployment Insurance Fund are financed by compulsory contributions. These contributions amount to 56% of the gross wage; 44% is paid by the employer and the remaining 12% by the employee. Table 2 shows the distribution of contributions between the Funds. Employment Offices pay contributions in respect of unemployed persons. Contributions to the Health insurance Fund for officials, soldiers, recipients of social assistance, students and certain other groups are paid by the state.

Table 12: Financing of Contributions to the Social Insurance System 1997
(Contributions in %)

Type of Insurance	Employer	Employee	Total
Pension Insurance	24.0%	6.0%	30.0%
Health Insurance	15.0%	4.0%	19.0%
Unemployment Insurance	5.0%	2.0%	7.0%
All Insurances	**44.0%**	**12.0%**	**56.0%**

The regional offices of the Health Insurance Fund are responsible for collecting health and pension insurance contributions, for registering employers and for administering the contribution accounts. The Pension Insurance Fund, however, is responsible for "specialised control", including assessing contribution rates, checking the basis of assessment and auditing employers. The decentralised organisation of the two Funds and poor exchange of information between them makes the supervision system inefficient.

Both the Health and the Pension Insurance Funds are in financial difficulties and depend on interest-free loans from the Central Bank to continue operating. The main reason for their difficulties is the high level of unpaid contributions; in 1994, outstanding contributions amounted to HUF 200 billion (ECU 962 million). By way of comparison, the entire annual expenditure of the Health Insurance Fund in 1994 was HUF 364 billion. The Funds hope to be able to collect two-thirds of the outstanding amount. The main debtors are large companies, especially the railways. The Funds' financial problems have been exacerbated by the government's refusal to transfer the proceeds of some privatisations to the Funds in line with its earlier promises. These proceeds were intended to form a financial reserve for the Funds. However, the government does continue to make good any deficit of expenditure over income in the Funds.

While social assistance benefits are financed by the regional administrative bodies, the payment of family benefits is the responsibility of the communal social security offices, which are reimbursed by the Ministry of Welfare. In both cases, the Ministry makes good any deficit of expenditure over income.

Reforms

The financial problems of the social insurance system and the government's duty to ensure the insurance funds' liquidity have led the Ministry of Welfare to take over responsibility for the collection of contributions and the management of assets from the Insurance Funds. In future, the Treasury will administer not only taxes but also all levies similar to taxes, including duties and social insurance contributions. The collection of contributions and the running of contribution accounts will thus be in the hands of the tax authorities. The social insurance Funds will submit monthly requests to the Treasury for the amount they require to pay benefits and cover administrative costs.

This reform is a significant blow to the Insurance Funds. The arguments advanced in favour of the reform - that administrative costs would be reduced and more efficient supervision of employers would be introduced - imply that the Insurance Funds should have been made more, not less, independent of central government. Under the new system, the Funds providing benefits have no voice in managing their budget, assets or reserves. The Funds see the reform as a retreat from an insurance system and a return to a statutory social coverage system.

A World Bank loan has enabled the introduction of a new computer system in the Pension and Health Insurance Funds. Very little co-ordination of social security administrative procedures or computerisation has been achieved.

A number of reforms are under way to the pensions system, including raising the pension age, introducing a three pillar system (see under d) Family Benefits) and introducing accident insurance (see Sickness Benefit).

There have only been minimal reforms to the health care systems, largely because well-organised interest groups have obstructed most attempts at reform.

b) Health Care

Until 1992, all Hungarians had the right to free medical treatment. In 1992, the Law on the Modification of National Insurance restricted entitlement to free services funded by the Health Insurance Fund to insured individuals and their families. Pensioners, the unemployed and the needy are covered by other arrangements.

Communities are responsible for primary medical care. Patients have a free choice of doctor in the primary sector, while claims for special doctors and hospitals require a transfer. General Practitioners and hospital doctors conclude contracts with the regional offices of the Health Insurance Fund. Payments to doctors are calculated in accordance with certain fixed rates, with supplementary payments for the use of special equipment or treatment in certain hospitals.

Persons insured with the Health Insurance Fund are entitled to preventive care, the services of General Practitioners and specialists, maternity care, hospital treatment and medical rehabilitation from hospitals and doctors who have concluded contracts with the Health Insurance Fund. Vital drugs are also free, but supplementary payments are required for other drugs and medical equipment. The Ministry of Finance’s austerity programme has reduced the range of free services; for example, in 1995 non-emergency dental treatment was removed from the list of benefits. Moreover, it is often necessary for patients to pay "backhanders" to obtain treatment, which have become widely tolerated. While doctors' salaries remain extremely low and far too many doctors are employed, there seems little chance of ending this practice.

In 1994, the Health Insurance Fund's income was about HUF 346 billion (ECU 166 million). HUF 281 billion came from employers’ and employees’ contributions and another HUF 19.5 billion from other providers of social insurance. State subsidies represented only HUF 7 billion. As the Health Insurance Fund’s expenditure was HUF 358 billion, there was a deficit of HUF 12 billion. The provision of medical treatment cost HUF 231 billion and the provision of cash benefits cost HUF 108 billion.

Table 13: Life expectancy and infant mortality rate

	1980	1989	1990	1991	1992	1993	1994	1995
Life expectancy at birth (men)	65.5	65.4	65.1	65.0	64.5	64.5	64.8	N/A
Life expectancy at birth (women)	72.7	73.8	73.7	73.8	73.7	73.8	74.2	N/A
Infant mortality rate (per 1,000 live births)	23.2	15.7	14.8	15.6	14.1	12.5	11.5	10.7

Source: TRANSMONEE database

Occupational Accident Insurance

Victims of occupational accidents or their dependents may receive sickness benefit, disability pensions or survivors' pensions from the Health Insurance Fund. No minimum insurance period is necessary to become entitled to these benefits. Benefits paid in respect of occupational accidents or diseases are higher than normal benefits and pensions. In cases of temporary disability, claimants receive their normal wage for at least one year. It is proposed that occupational accident insurance will become an independent system so that invalidity pensions will no longer be part of the general pensions system.

Sickness Benefit

Employees are entitled to sick pay from their employer for the first fifteen working days of sickness. After fifteen days, sickness benefit is paid by the Health Insurance Fund provided the claimant has been insured for at least 180 days without interruption. Sickness benefit amounts to 65% of the claimant's average gross wage, up to a ceiling of HUF 75,000 (ECU 360). Persons insured for at least two years are entitled to sickness benefit at a rate of 70% of their wage for the first thirty days sickness, thereafter rising to 75%. Sickness benefits are usually paid for a maximum period of twelve months. If the claimant's doctor certifies that the claimant is likely to recover, sickness benefit can be paid for up to twenty-four months. In 1994, the Health Insurance Fund spent HUF 41 billion, or 12% of its total expenditure, on sickness benefit.

c) Pensions

The Pension Insurance Fund provides old-age, disability (for persons over pensionable age) and survivors' pensions. 3.1 million people, or 30% of the population, currently receive pensions. Approximately 50% of pensioners receive an old-age pension, 24% a disability pension and 11% a survivor's pension. There are several reasons for the high number of pensioners. The normal pension age, at fifty-five years for women and sixty years for men, is low. Several early retirement schemes have been introduced in recent years because of labour market problems, so the real average pension age is even lower than the statutory one; the average age at which pensions are first paid is fifty-one for women and fifty-three for men. Early retirement is not penalised by a pension reduction and there is thus no incentive to stay at work until the statutory pension age is reached. Moreover, continuing to work after reaching retirement age does not lead to any appreciable rise in pension rates. In 1995, 34% of male pensioners and 39% of female pensioners were under fifty.

Table 14: Pensions and Pension Recipients 1990 - 1996

	1990	1994	1995	1996
Total amount of all Pensions in billion HUF	202.1	498.4	582.2	669,8
Share of Gross National Product (in %)	9.7	11.4	10.6	9.9
Number of Pension Recipients (in 1,000)	2,556.3	2,934.5	2,982.7	3,081.7
Share of Total Population (in %)	24.7	28.6	29.2	30.3
Average (monthly) Pension	6,683	13,977	16,030	18,113
Average Pension/ Average Wage (in %)	66.1	69.7	61.9	59.9

Source: Hungarian Central Office of Statistics

Old-Age Pensions

Reforms are raising the retirement age to sixty-two years for men and women by 2009. Persons who have been insured for twenty years are entitled to receive the full pension. The calculation of insurance periods includes military service, education, maternity leave, paid leave for new parents and periods of sickness. The pension is calculated by reference to the average wage received by the pensioner during the seven years immediately preceding the pension. After twenty years of insurance, the pensioner will receive 53% of this sum. Each additional year of insurance raises the pension by between 0.5 and 2%.

In early 1997 the average pension amounted to HUF 20,700 (ECU 100), or about 58% of the average wage. Thus the average pension was only slightly higher than the subsistence level, estimated at HUF 15,000 (ECU 72). In 1996, the minimum pension was HUF 11,500 (ECU 55). In 1994, only 1 to 2% of the insured received the maximum pension while about 16% received the minimum pension. There is little difference between pensions, due to the small differences in wages before the economic transition, the lack of a strong link between contributions and pension rates and, until 1992, the effect of adjustments made on the basis of fixed amounts; in 1994, 60% of pensions were between HUF 12,000 and 14,000.

Survivors' Pensions

Survivors' pension are granted to the dependents of a deceased person who was himself entitled to a pension. Widowed spouses are paid a pension regardless of their own and the deceased's income for one year after the death of the deceased. Subsequently a pension is paid indefinitely if the spouse has reached the pension age, is incapable or has to look after at least two children of the deceased who are entitled to an orphan's pension.

The deceased's children are granted an orphan's pension if they are under sixteen, or twenty-five in the case of students. Handicapped children receive an orphan's pension indefinitely. The survivors' pension for spouses and orphans is 50% of the deceased's pension. Orphans with one surviving parent receive half this rate. The total pension received by a survivor cannot exceed the pension to which the deceased was entitled. In 1997, the minimum survivor's pension was HUF 10,700 (ECU 51) for widowed spouses and HUF 9,800 (ECU 47) for orphans.

Disability Pensions

Disability is usually a permanent state in Hungary. Little effort is made to rehabilitate the disabled. Moreover, disability pensions are not transformed into old-age pensions when the claimant reaches pension age, although the pension is then paid by the Pension Insurance Fund instead of the Health Insurance Fund, which explains the high number of disability pensioners in Hungary. In 1994, disability pensions accounted for 16% of the Health Insurance Fund's expenditure, or HUF 58 billion (ECU 279 million).

The degree of disability is determined by experts from the Institute for Medical Assessment, a part of the Health Insurance Fund. There are three levels of disability. The amount of the disability pension depends on the age of the applicant, the length of his insurance period and his average salary, which is calculate in the same way as for old-age pensions. The minimum insurance period necessary rises with the age of the applicant. People who have been insured for twenty-five years receive a disability pension equal to an old-age pension, or 63% of the average wage. If the applicant has been insured for a longer period, the disability pension rises in the same way as an old-age pension.

Occupational Pensions

The 1993 law on voluntary mutual pension funds provides the basis for the establishment of occupational pensions and health insurance funds. Businesses with between forty and fifty employees can set up their own occupational pension insurance. Smaller companies may become part of insurance funds which cover several companies or a region. Mutual pension funds may also be established independently of any business by any group of at least fifteen persons. All funds are legally independent but controlled by an authority operating under the auspices of the Ministry of Finance.

The government has encouraged the foundation of mutual funds to avoid capital concentration and to enhance the development of a domestic capital market. Employers' contributions to mutual funds are subsidised by tax relief while employees' contributions to a mutual fund are exempt from assessment for social insurance contributions. In the long run, the government estimates that occupational pensions will represent 10 to 15% of all old-age pensions.

Reform of the Pension System

In May 1997, Parliament presented a Bill for the reform of the pension system, which is still under discussion. The Bill proposes the introduction of a three pillar system, consisting of a basic pension, an insurance fund financed by compulsory contributions and supplementary private insurance. The government hopes that this reform will reduce the burden on the Pensions Insurance Fund. The Bill aims to establish a much stronger link between an individual's record of insurance contributions and his pension entitlement.

Under the proposed system, longer insurance periods will be considered in a linear way and the final years of insurance periods exceeding forty years will be considered in a progressive way. The treatment of higher incomes, which are currently considered degressively when calculating pensions, will be altered. Greater differences in pension amounts will be achieved by the application of a linear calculation formula. Restrictions on early retirement will be introduced. A rehabilitation system will be established.

The present statutory pension fund will become the first pillar of the new pension system; employers will contribute 20 % - a reduction of 4% - and employees 1%. A ceiling will be set on contributions at the level of twice the average wage. This fund will be responsible for financing the greater part of most pensions. Employees will contribute 10% of their wages to individual accounts in a compulsory capital funded pension fund, which forms the second pillar. Benefits from this pillar will represent up to 25% of the contributor's pension. The third pillar consists of voluntary private pension and life insurance, which will receive certain tax concessions. It is hoped that employees will be willing to invest in these funds.

It is expected that this law will come into force in January 1998. It will apply only to persons who have not yet started employment. Employed persons who are likely to reach retirement age after fifteen years will have the option of switching to the new system. The old system will remain in force for everyone else. However, it appears likely that once the new system has come into force, it may be increasingly difficult to fund the payments due under the old system because of insufficient contributions.

d) Family Benefits

Pregnant women are entitled to maternity leave starting four weeks before birth and ending twenty-four weeks after birth, provided that they have been insured for at least 180 days during the last two years. During maternity leave, women receive maternity benefit equivalent to 65% of their average wage from the Health Insurance Fund. Women who have worked for at least 270 days during the last two years receive maternity benefit equivalent to their normal wage.

Until 1 January 1994 child care grants and maternity benefits were provided by the Health Insurance Fund but are now financed from central government resources.

In 1994, total expenditure on family allowances, child care allowance and child care fees amounted to HUF 137 million, or 3.1% of GDP.

Family Allowance is paid to persons taking care of children under sixteen, or under twenty in the case of full-time students. It is paid indefinitely to persons caring for chronically sick children. The payment is flat-rate and increases according to the number of children.

Child Care Fee / Child Care Grant I is a continuation of maternity benefit for parents taking care of a child until the age of two. The level of this benefit is related to employment ans earnings. To receive Child Care Fee, a parent must have completed 270 days of insured employment in the two years before the birth of the child.

Child Care Allowance / Child Care Grant II provides a flat-rate, monthly allowance for mothers - although fathers can apply - until the child is three, or ten if disabled. This benefit is paid to persons no longer entitled to child care fee.

Child Raising Support / Child Care Grant III was introduced in March 1993 and is paid to mothers, and occasionally to fathers, with three or more children when the youngest child is between three and eight years. To be eligible, the mother must have completed 180 days of insured employment before the start of the payment period. The allowance is a flat-rate monthly benefit.

In addition the Health Insurance Fund provides parents caring for sick children with child care sick pay.

e) Social Assistance

The number of persons receiving social support has decreased from 46,800 in 1990 to 26,700 in 1994. Social Assistance Schemes are administered by local self-governing bodies, which must ensure adequate welfare provision for poor families, elderly people without pensions and people in crisis.

The 1993 Law on Social Service Welfare Administration and Social Service provides the legal basis for the administration of social assistance. Eligibility for assistance is determined by a means-test applied to the income and property of the claimant's household. Social Assistance is paid if the household income is less than 80% of the minimum old age pension and the claimant is not entitled to unemployment benefit. Social assistance will make up the claimant's income until it reaches 80% of the minimum old age pension. Social assistance is financed by the Employment Fund and by central government in equal shares.

8.3.6. Education and Vocational Training

a) School System

Almost all schools are owned and run by local self-governments. In 1993, local authorities, which were first granted some independence in 1971 and obtained complete autonomy in 1990, owned 4,519 out of a total of 5,021 primary, secondary and short vocational schools. Nevertheless control of education is shared among several agencies. Responsibility is divided between national and local levels and, at the national level, shared by different ministries. Major changes to the education system thus require the agreement of several partners and take a long time to achieve. In 1993, 282 schools were owned by country authorities, sixty-eight by national agencies and ninety-four by churches. The remaining fifty-eight schools were financed by foundations.

Children are admitted to kindergarten from the age of three. Kindergarten services are relatively well developed. In 1991 nearly 90% of the three to six age group attended kindergartens. Early childhood education is not compulsory but local councils are obliged to offer some kind of school preparation for all children from the age of five. Compulsory school attendance starts at the age of six and ends at sixteen. In 1991 there were 3,575 General Schools, 607 of which were small village schools teaching different age groups in the same classes. The number of schools has risen from 3,526 in 1988 because many smaller communities have taken advantage of their new autonomy to re-open schools which had been closed in order to create larger schools. Since 1986, demographic changes have led to a sharp fall in the number of pupils in the eight year General School.

Beginning in 1978, a series of reforms have relaxed the rigidity of the curricula and time schedules. Apart from the abolition of the compulsory Russian and ideological parts of the curriculum, several local innovations have been introduced. Schools enjoy considerable freedom in defining their own educational programmes.

Education in Hungary is financed from several sources. The most important source is central government, which provides a per capita grant to all schools. Schools may have other sources of income as well. Of particular importance are the other forms of state support provided from special funds and from assets of the institutions. About 95% of schools are financed by local or country authorities, with the remainder obtaining their funds from state organisations, churches or other private institutions. In 1991, educational expenditure totalled HUF 112 billion.

After finishing General School, which last for eight years, pupils may enter vocational education or grammar school. Grammar Schools provide an academic education, preparing pupils for higher education or for work. About two-thirds of students in higher education attended Grammar School. The role of Grammar Schools in preparing students for work is also of growing importance. In 1993-1994, there were 420 Grammar Schools, of which 270 provided only general classes while 150 mixed institutions provided both general and vocational classes. Thirty of these schools were maintained by churches and private foundations. In the same academic year 138,198 pupils were enrolled in Grammar Schools. Most Grammar Schools have four levels. Since curriculum reforms in 1978, optional subjects - some intended to prepare pupils for work - can be taught in levels three and four.

Higher education is provided by eight universities, eleven institutes of higher education or high schools and over twenty other institutes. University courses last five years, while high school courses last three years. Students must pass an entrance examination to gain admittance to university or high school.

b) Vocational Training

Vocational training schools provide either a three year course after primary education or a one or two year streamlined training following the completion of four years at secondary school. Vocational schools prepare pupils for skilled jobs and award certificates recognised nationwide. Attendance at a vocational training school does not lead to a General Certificate of Secondary Education nor does it entitle students to apply to any higher education institute.

Vocational secondary schools provide general education, train qualified technicians, provide skilled workers' and other qualifications and prepare trainees for further studies in higher education. Pupils attend vocational secondary schools for four or five years. The function of secondary vocational education has been debated for several decades. This debate led vocational secondary schools to be divided into three types:

- (type 1) schools preparing pupils for higher secondary (technician) level vocational qualifications;
- (type 2) schools preparing pupils for skilled worker level vocational qualifications; and
- (type 3) schools preparing pupils for a general secondary level vocational education.

In general, the three types of vocational education are offered in different classes at the same school. Vocational secondary schools currently offer training in twenty-seven fields: fifteen in type 3 subjects, four in type 2 subjects and eight in type 1 subjects.

In 1994 136,858 persons completed eight years of General School and continued their studies as shown in the following table:

Table 15: Secondary Education by Type of School (1994) - in percentages of all graduates of primary schools (8 years)

Type of secondary school		**Percentage**
Grammar school		26.0 %
Vocational secondary school	(type 1)	5.3 %
Vocational training	(type 2)	35.7 %
Vocational secondary school	(type 3)	33.0 %
All types		**100.0 %**

Source: Ministry of Labour, 1994

Hungary has a well-developed short vocational training sector which is based on the German model. Since the early 1970's, the training of skilled workers was politically encouraged and was supported by heavy industry and large state factories. Since the end of the 1980's, however, the restructuring of industry has provoked a crisis in short vocational training.

There are four types of short vocational schools: the three-year skilled worker training school; the three-year health service training school; the two-year typists' school; and the two-year special vocational school. Of these, the most important is the three-year skilled worker training school, which accounts for 26% of pupils who have completed General School. Pupils spend half their time on practical training, either in workshops maintained partly by the schools and partly by state firms, or with an employer. The number of workshops in state enterprise has fallen sharply as this sector contracts, although this has been partly offset by a rapid increase in school-based practical training places. Short vocational training has not been especially useful in preventing unemployment in Hungary because the rate of unemployment among skilled workers is already high.

Vocational training action plans have been put in place to fill the gap left as large companies which once provided vocational training either went into liquidation or stopped training employees. Reforms have also been implemented to the content and methodology of practical training in an effort to meet the needs of participants and to improve employment among school leavers by introducing post-GCSE specialisation. Financial support for these efforts has been provided by the World Bank and PHARE.

General and vocational education for adults is provided at primary, secondary and higher levels. The education system introduced after the Second World War intended these courses to act as an alternative way of completing secondary and higher education in order to stimulate social mobility.

8.3.7. Equal Treatment for Men and Women

The Labour Code forbids discrimination in relation to employment. The Code provides that women shall not be employed in jobs which may affect their physical condition. The Code also protects women from dismissal during pregnancy and while caring for a small child. In 1995, the unemployment rate was 11.2% for women and 12.7% for men (CSO figures), mainly because redundancies have been concentrated in industries with high levels of male employment. Moreover, job opportunities have increased in areas traditionally dominated by women, such as the service sector. The figure for female unemployment is further reduced because persons on child care leave are considered to be in employment.

According to one recent study[22], the earnings gap between men and women narrowed by 15 % between 1986 and 1994, so that in 1994 the average wage for a man was 20% higher than the average for a woman. This occurred because the white collar sector, which is dominated by women, has expanded, while redundancies have been concentrated in sectors employing mainly unskilled or semi-skilled men. On the other hand, during the same period, the earnings differential between professional men and professional women has increased and, in the more developed regions, men have been promoted more often to better paid jobs than women with the same qualifications.

Figures from the Ministry of Labour's Bulletin on Earning Ratios in 1995 estimated the average pay differential between men and women at 10.5%. In 1995, average monthly gross earnings for men in the entrepreneurial sector were HUF 44,046 (ECU 212) and for women were HUF

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[22] Gábor Kertesi and János Köllö *Wages and Unemployment in Hungary 1986-1994*, Manuscript Budapest, December 1995.

36,174 (ECU 174). Equivalent figures for the public sector were HUF 46,471 (ECU 223) for men and HUF 35,450 (ECU 170) for women.

8.3.8. Poverty and Income Distribution

As in all the CEEC's, it is difficult to assess the degree of poverty in Hungary. Opinion polls revealed that in 1992, 36% of all households had to use their savings or borrow to survive. During the first six months of 1994, 40-50% of households were estimated to live beneath the poverty line. According to a World Bank Report[23], average disposable income fell by 10.5% during 1989-1993 while average gross income fell by 17.4%. Gross cash transfers remained constant during this period. Real wages have remained relatively constant despite steep declines during the inflationary period between 1989 and 1991; the decline in household income between 1989 and 1993 was caused by rising unemployment rather than any significant decline in real wages, which fell by only 7.2%.

A UNICEF study puts the index of income inequality, i.e. the Gini coefficient of net per capita household income, at 23%. In 1993, 14.9% of wage earners earnt less than 50% of the average wage, while 37.9% of pensioners had an income of less than 50% of the average wage (TRANSMONEE database).

Changes in the relative importance of income from employment and income from social transfers has affected different groups in different ways. Households which rely heavily on insurance-based social transfers, such as pensions, have improved their relative position, because of the relationship between benefits and generally constant real wages. The losers have been the unemployed and those who rely on social transfers which have not maintained their real value, such as family allowance and social assistance. Average per capita income is highest in households with persons in employment.

In an effort to deal with social problems during the first years of transition, new western-style benefits were added to the social security benefits which had been paid under the command economy. Consequently the social security system became more generous and widespread. In 1993, 40% of the population received benefits, subsidies or income supplements and were no longer in full-time employment. Cash social transfers rose from 14.6% of GDP in 1989 to 20% in 1993 and 19% in 1994. In 1996 about seven million people were eligible for at least one type of cash social transfer and 91% of households benefitted from them. Despite this wide coverage, the level of social security benefits was insufficient to lift the neediest persons out of poverty.

In March 1995, the Hungarian government announced proposals to modify some elements of the social transfers system as part of a broader austerity package. These proposals were significant because, for the first time, they challenged the principle of universal entitlement, recognised the differing ability of individuals and households to benefit from the emerging market economy and began to shift welfare responsibility from the state to the individual. The main innovation in the proposals was the introduction of means-testing for family allowance and child care benefits. Certain modifications have been made since the announcement of the proposals. According to the World Bank, changes likely to be introduced in April 1996 were:

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[23] World Bank Country Study *Hungary: Poverty and Social Transfers* Washington 1996.

1. An income cap is to be applied to the family allowance. Households will be eligible for the full amount only if they had a monthly net income of less than HUF 18,000 (ECU 87) in the previous calendar year. Households will be eligible for a proportion of the full family allowance if they have an income between HUF 18,001 and 19,500 (ECU 94). Income above HUF 19,500 will make a household ineligible for family allowance. In the case of a single parent, the monthly per capita ceiling is HUF 23,400 (ECU 113).

2. Households with three or more children shall be eligible for family allowances regardless of their income. Households with permanently ill or disabled children are treated in the same way.

3. The child care allowance (GYES) and the child care fee (GYED) are to be merged; the new benefit will be paid for two years and should be means tested, based on the same criteria as for the family allowance.

8.3.9. Conclusions

a) The economy

During the economic transition, the Hungarian government pinned its hopes for rapid economic development on export-led growth. Consequently recession in western Europe and the collapse of the market in Yugoslavia dealt the economy a heavy blow which even repeated devaluations of the Forint were unable to offset. Among the CEEC, Hungary has a particularly high level of foreign direct investment but nevertheless has a trade deficit. Even though the deficit fell from ECU 3.36 billion in 1994 to ECU 2.41 billion in 1996, it is thought to have increased in 1997. Inflation has been reduced from 28.2% in 1995 to under 20%, although this figure is still high by international standards. The austerity measures used to control inflation have led to widespread poverty and demonstrated that economic growth is not sufficient to eliminate poverty. With a stable government, a well established democracy, a government responsive to the needs of foreign investors and considerable support from western countries, Hungary looks set to receive substantial fresh investment. Moreover, the Forint is likely to be devalued still further.

High unemployment is a cause for concern. Widespread redundancies in the industrial sector are likely to continue as obsolete heavy industry is replaced by modern western technology. With almost 75% of GDP produced in the private sector, Hungary has managed to reduce state influence on economic life to a remarkable extent. The black economy is quite small by CEEC standards, representing perhaps 20 to 30% of GDP.

b) Social Policy

Although the first post-Communist governments, often strongly influenced by World Bank prescriptions for change, were quick to embark on reform of the social security system and the national health service, major problems still remain. The Constitution still guarantees every citizen social security protection against sickness, disability, the loss of the breadwinner and unemployment. Although the introduction of contributory social insurance funds has in practice restricted the entitlement of many citizens to social security benefits, the Constitution remains unchanged.

Old age pensions, disability pensions, health care benefits and occupational accident and illness benefits are administered by the Pension Insurance Fund and the Health Insurance Fund. The decentralised administration of these Funds, together with weak supervision and co-ordination from their central offices, has led to severe problems. The national health service, formerly modelled on the Soviet system, now consists of a mixture of hospitals and General Practitioners operating under the auspices of communal institutions. As the communal institutions own many of the medical facilities, little streamlining has occurred. The general quality of medical treatment is poor and "backhanders" are commonplace.

The Health Insurance Fund has been unable to collect a substantial part of the contributions due to it and consequently is in financial difficulties. The Health Insurance Fund’s financial problems will exacerbate the difficulties of the health care sector and encourage still further the practice of paying "backhanders". There is widespread mismanagement in the health care sector and the Fund exercises little influence on the prices charged to it by hospitals and doctors. The Ministry of Welfare has proposed that the Health Insurance Fund’s deficit should be made good by transferring responsibility for collecting contributions to the tax inspectorate. This institution, which is not generally known for its efficiency, would then transfer the money collected to the Health Insurance Fund. This reform would deprive the Fund of responsibility for its income without giving it the possibility of improving its general financial position.

The Health Insurance Fund is also responsible for occupational safety. Poorly qualified staff, low salaries and poor morale have hindered the effective implementation of both Hungarian and EC legislation on occupational safety. Although official statistics show a sharp decline in occupational accidents since 1986, this is largely due to a reduction in old-fashioned methods of industrial production and the increasing reluctance of employers to report incidents. Safety at work is increasingly neglected in order to reduce costs; even businesses using the latest technology sometimes fail to implement safety procedures. Thus occupational safety standards are well below EC standards. The creation of a special fund for occupational accident and illness insurance may lead to improvements, as the fund will have a financial interest in reducing the number of accidents. There has been little effort to introduce rehabilitation for injured workers as it was thought unnecessary given the high level of unemployment and the low cost of pensions.

The government has done little to prevent certain groups sinking into poverty. Lack of funds and expertise mean that there are few programmes to help the unemployed find work. Eager to keep taxes low to encourage investment and committed to deflationary policies, Hungarian governments have starved the social security system of both funds and expertise. More than 20% of Hungarians live below the poverty line. Pensioners and single mothers in particular have borne the brunt of social change. Given the determination of the government to control inflation and to produce good macro-economic statistics to bolster its bid for EU membership, there seems little prospect that spending on social security will increase.

As in Poland, foreign investment is concentrated in regions close to the western border or around the capital which have a better infrastructure and a better-trained workforce; many other regions, especially in the east, are experiencing poverty. These regions will obviously be the first to receive structural aid from the EU. Unlike Poland, the agricultural sector supports comparatively few people, has fewer smallholdings and represents less of an obstacle to economic reform. The environment, however, is a huge problem and requires far more government attention. Although there are many inadequacies in the social security system, it nevertheless functions reasonably well and the danger of mass emigration of the poor to western countries is limited. Money and expertise from the EU will help to improve the quality of the social security system and to nip problems in the bud. The willingness of the Hungarian government to implement reforms recommended by the EU will make reform easier.

8.4. Poland

8.4.1. General Information on Poland

With a population of 38.6 million people, Poland is the largest of the CEEC. Approximately 62% of the population live in cities. Warsaw, the capital, has 1.6 million inhabitants. Other important urban centres are Lodz with 830,000 inhabitants, Krakow with 750,000 inhabitants, Wroclaw with 640,000 inhabitants and Poznan with 580,000 inhabitants. Poland is one of the few European nations where the population is increasing; in 1995, the population growth rate was 0.3%.

a) Political System

Since democratic elections in 1989, Poland has been a parliamentary democracy, headed by a President. The current government, headed by Prime Minister Jerzy Buzek, was formed after Parliamentary elections in September 1997 with a turnout of just under 50%. The AWS, an alliance of about thirty political parties, obtained roughly 33% of the votes, followed by the Social Democratic Party (SLD) with about. 28%, the Union of Freedom (OW) with just under 20% and the Polish Peasant Party (PSL) and Movement for Reconstruction (ROP) with just over 5% each. The 1995 presidential elections were won by the Chairman of the SLD, Alexander Kwasniewski.

b) General Economic Development

Poland accounts for nearly 40% of total production in the CEEC region. While the transition to a market economy was initially very difficult, especially in view of enormous foreign debts and difficulties in obtaining further loans, the economic picture has improved considerably in recent years. International agreements have reduced the foreign debt problem and GDP has grown steadily. The annual inflation rate fell from 586% in 1990 to 20% in 1996 and was estimated at 16% in 1997.

The economy is notable for the very large privately owned agricultural sector, which was not nationalised under Communism. Industry is concentrated around Warsaw, in Upper Silesia and, to a lesser degree, around Krakow and Gdansk. Almost 64% of all persons in employment work in the private sector and generate 60% of GDP.

Despite a gradual decrease in recent years, unemployment, at 12.4% in 1994, is still high compared to the other CEECs. Although exports are rising and are thought to have increased by 15% in 1997, they cannot balance the high imports. The trade deficit almost doubled in 1996 to ECU 11.5 billion. Approximately 70% of exports go to the European Union, which has helped to stabilise the currency.

A three-year economic boom increased real incomes for most Poles, even for those whose real incomes fell during the first years of transition. However, growing demand for Western consumer products is an important reason for the trade deficit.

Table 16: Economic indicators (in %) 1991-1996

Indicator	1991	1992	1993	1994	1995	1996
GDP	n.a.	n.a.	n.a.	5.2	7.0	6.0
GDP per capita in PPS*	n.a.	n.a.	4331.0	4727.7	5318.1	n.a.
Industrial production	n.a.	n.a.	5.6	13.1	10.2	8.8
Export	n.a.	n.a.	n.a.	13.1	24.3	n.a.
Import	n.a.	n.a.	n.a.	11.3	23.6	n.a.
Inflation rate	70.3	43.0	35.3	32.2	27.8	19.9
Real wages	n.a.	n.a.	-11.3	2.5	3.9	5.8
Unemployment rate (in % of labour force)	n.a.	n.a.	14.0	14.4	13.3	12.4
Trade balance (in million USD)	-711	-131	-3505	-1809	-3224	n.a.

Source: European Commission, Agenda 2000 * Purchasing Power Standard

By the beginning of 1996, approximately 60% of all state-owned enterprises had been privatised. A number of ‘commercialised’ joint-stock companies remain in state ownership.

The incomplete privatisation and the inefficient agricultural sector still pose major obstacles to achieving a balanced State Budget. Almost 30 % of all employed Polish citizens, some four million people, work in two million agricultural smallholdings with an average productive area of less than eight hectares. These enterprises account for only 7% of GDP. It is estimated that only 10% of farmers would be able to live on their own income. As nearly 40% of the population live in the countryside, agricultural reforms could trigger enormous movements of the rural population into the cities and create a new urban under-class. The government has been reluctant to implement agricultural reforms. The state continues to provide substantial subsidies to support prices and to provide assistance to farmers through the social security system. Import duties on food further inflate food prices.

The government set out its economic policy in its ***Package 2000*** programme. Priorities are the fight against inflation, with a goal of 4.9% inflation in the year 2000, tax cuts to encourage economic growth and the reduction of the unemployment rate to single figures. As a result of the government’s severe austerity programme, the public sector deficit has been reduced to Zloty 12.2 billion (ECU 3.86 billion), or 2.8% of GDP. Increasing government expenditure on the social security system has contributed to this deficit.

8.4.2. Labour Market

Since 1992, the nominal average monthly salary has tripled to Zloty 873 (ECU 276) in 1996. The minimum wage also increased to Zloty 370 (ECU 117) at the end of 1996, and was raised again in 1997.

a) *Employment Structure, Labour Market Policies and Legislation*

Article 65 of the Polish Constitution provides that public authorities shall pursue policies aiming at full, productive employment by implementing programmes to combat unemployment, including the organisation of and support for occupational advice and training, as well as public works and economic intervention. Unemployment reached a peak of 14.4% in 1994 and has since fallen to 12.4%, or 2.1 million people, in April 1997. The most important employers are the industrial sector, which accounts for 35% of GDP, and the trading sector accounting for 15.4% of GDP, followed by agriculture and forestry with 7% of GDP.

Polish wages are high by eastern European standards. To increase competitiveness, the government has implemented redundancies in the nationalised industries in an effort to increase productivity. Moreover, high wages have held back the creation of jobs in the service sector. These two factors have led to a sharp increase in unemployment. However, official unemployment statistics may be misleading as it is thought that many registered unemployed persons are working clandestinely. In autumn 1994, the Warsaw Employment Office estimated that 20 to 30% of all registered unemployed persons were working secretly. This figure illustrates the gap which frequently exists in Poland between legislation or official statistics and actual practice; laws and regulations are often circumvented.

The structure of unemployment is comparable to other OECD countries, with one exception. Persons over 45 have a much lower unemployment rate in Poland than elsewhere because of the introduction of early retirement schemes at the start of the transition period. Moreover, Polish employers prefer employees with working experience. In 1993, only 2% of all unemployed persons were over 55. By the same token, people with limited job experience fare badly in the employment market, having an unemployment rate of up to 40%. Persons under 25, who represent almost 30% of the workforce, are disproportionately affected by unemployment; they account for 34.5% of the unemployed. Approximately 62% of all unemployed people are under 35 years old. In 1994, only 19% of school-leavers with general secondary education and 31% of vocational school graduates found a job within one year. University graduates have an employment rate of 78%[24]. Long term unemployment has also increased dramatically. In 1993 and 1994, the average number of long-term unemployed was 1.349 million people, or 475% of all unemployed persons.

Unemployment is not equally distributed. Expansion of the service sector in the cities has limited unemployment; urban rates of unemployment are 7.5 % for Warsaw, 8.5 % for Krakow, 8.8% for Poznan and 10.1% for Kattowice. Higher rates of unemployment are found in the agricultural regions of northern Poland, in regions with industrial monocultures and in regions with unprofitable state-owned industry. In 1994, the highest rates of unemployment occurred in the Voivodships Slupsk (30.5%), Suwalki (29.1%), Olsztyn (28.2%), Koszalin (28%) and Walbrzych (27.1%). The mobility of workers is low as it is difficult to find accommodation outside one's own region; labour markets are therefore regional rather than national.

The development of the Polish labour market will be influenced by the enormous number of farmers. At the moment, a sharp increase in rural unemployment is averted by state subsidies. Small family farms are highly inefficient and unlikely to continue to provide a living if Poland accedes to the European Union. Another major problem is the need to restructure nationalised

[24] Source: Friedrich-Ebert-Stiftung, Polen im Wahljahr 1997, March 1997.

heavy industry and mining which have high rates of hidden unemployment, a legacy of the Communist practice of separating employment in labour-intensive industries from economic considerations.

An employment contract should define the type of work, the date when employment commences, the place of performance, the wage - either in money or by reference to a wage bracket - and, where agreed, the payment of supplements. An employment contract is normally in writing; oral contracts must be confirmed in writing by the employer within seven days of the commencement of employment. A contract may be for a fixed term (contracts for a probationary period, fixed term contracts) or of indefinite length (contract for performing a task, unlimited contract).

An employee is entitled to annual leave of eighteen days after one to six years of employment, twenty days after six to ten years and twenty-six days after more than ten years of employment. Seasonal employees are entitled to one and a half days of holiday per month.

b) Employment Administration

Labour administration is in the hands of the National Labour Office, under the supervision of the Ministry of Labour and Social Policy. As well as a central Labour Exchange, there are forty-nine provincial Labour Exchanges and 356 local Labour Exchanges. The local Labour Exchanges are responsible for helping the unemployed to find jobs, providing retraining and further education courses, organising public works and emergency works programmes and paying unemployment benefits. The National Labour Office has been handicapped by limited resources; in particular, a lack of computers and poor communications have hindered the development of a national labour market. Consequently, private employment agencies and self-help groups for the unemployed are thriving.

c) Unemployment Insurance

High expenditure on unemployment benefit reduces the amount spent on measures to help the unemployed find jobs. On 14 December 1994, the Law on Employment was amended so as to tighten the criteria for entitlement to unemployment benefit and to limit the period of entitlement. Although these restrictions succeeded in reducing expenditure on unemployment benefit by 25 %, the payment of unemployment benefit continued to divert too much money away from active measures to help the unemployed find work. In 1993, for example, only 10% of the Unemployment Fund’s budget was spent on qualification measures.

Following the 1994 amendments, applicants who have worked for at least 180 days during the preceding twelve months and who have paid contributions are entitled to unemployment benefit amounting to 36% of the national average wage, which was ECU 275 in 1996. Unemployment benefit is normally paid for twelve months, although special rules apply to graduates (nine months), women who have worked for twenty-five years (eighteen months), men who have worked for thirty years (eighteen months) and other special groups. The length of the period of entitlement may also be varied between different regions to allow individual responses to local economic conditions.

Unemployment benefits are financed by an employer’s contribution of 3% of gross wages which is collected along with other social insurance contributions by the national Social Insurance Institution (ZUS) and transferred to the Unemployment Fund. Employer's contributions are insufficient In 1994, approximately 70% of the Fund's expenditure was financed by subsidies from central government. It has been suggested that the Unemployment Fund should in future be financed entirely from employers' and employees' contributions without support from central government funds.

8.4.3. Industrial Policies

a) Trade Unions

Of the 9.6 million Poles in employment, almost half are members of a trade union; trade union membership has declined slightly in recent years. Polish trade unions enjoy a powerful position while employers' organisations are comparatively weak.

There are two main trade unions. *Solidarnosz* (NSZZ) developed from the former anti-Communist opposition and was declared legal in April 1989. After being elected as President of Poland, Lech Walesa stepped down as leader of Solidarnosz; the current leader is Dr Marian Krzaklewski. Solidarnosz is a centralised organisation, which follows the national administrative structure of division into thirty-seven regions, with some regions comprising several Voivodships. The organisation has about 1.3 million members. The *OPZZ* (Ogólnopolskie Porozumienie Zwiazków Zawodowych: Polish Trade Union Congress) was founded in 1984 by the Communist authorities after Solidarnosz was declared illegal. The OPZZ is a federation, due to the Communists' fear of a strong union, and is organised in twenty-five branches and fifteen regions comprising several Voivodships. It has around 1.6 million members. Its leader is Ewa Spychalska.

There are also a number of smaller organisations and splinter groups which are of minor significance. There is, however, a growing tendency for trade unions to fragment, reflecting growing divisions in Polish society since 1989.

Solidarnosz and the OPZZ mainly represent employees in state-owned companies. Both trade unions have political affiliations. Solidarnosz supported the establishment of the centre-right AWS in June 1996, which subsequently won the 1997 parliamentary elections. AWS has 201 of the 460 seats in the National Assembly (the Sejm) and 51 of the 100 seats in the Senate; about half of the AWS members of parliament are trade unionists. OPZZ belongs to the post-Communist SLD coalition; it has 42 seats in the National Assembly out of a total of 164 SLD seats and four seats in the Senate out of an SLD total of 28 seats.

b) Employers' Organisations

Employers' organisations can take the form of unions, federations or confederations. Once established by resolution, an organisation must register in the appropriate provincial court, so obtaining legal personality[25]. Employers' organisations may be organised by activity, such as the National Union of Geodetic and Cartographic Companies' Employers, by region or may be national, such as the Confederation of Polish Employers and the Business Centre Club. The entire structure of employers' organisations is presently undergoing reform.

[25] Regulation of 23 March 1991 on employers' organisations.

Employers' organisations are responsible for protecting employers' rights and representing their interests vis-a-vis trade unions. Moreover, they represent employers at all levels of central and local government, such as in the Triangular Committee, a consultative body on labour market policy which brings together government, trade unions and employers; employers' organisations have the right to voice opinions on a wide range of social and economic issues.

c) The Role of the Social Partners and The Government

The Polish government has intervened in wage negotiations only in nationalised enterprises, leaving wages in the private sector to be set by negotiation. In 1993, nationalised enterprises employed 43% of the working population. At the start of the economic transition, the government concentrated on controlling inflation. During the next few years, the government and the trade unions, and especially Solidarnosc, agreed that wages should rise only slowly in order to avoid redundancies in nationalised companies. In 1990 the government introduced a statutory standard wage which was calculated by reference to estimated inflation; any wage rises in excess of this standard wage were penalised by a confiscatory tax, the popiwek, of 500% of the excess sum. The popiwek caused so many dismissals that in 1991 the basis of calculation was changed to the standard wage per employed person; between 1991 and 1993 real wages declined further.

8.4.4. Health and safety at work

In 1996, 117,000 occupational accidents, including 650 fatalities, were reported to the Ministry of Labour. The actual number of accidents is thought to be substantially higher because some employers conceal some or all occupational accidents. Moreover, this figure does not include accidents on farms - estimated at 57,000 cases - or in the black economy.

Responsibility for health and safety at work is split between the Sejm and the Ministry of Labour and Social Affairs. The enforcement of health and safety regulations is the responsibility of Panstwowa Inspekca Pracy (PIP), which was established in 1981 and operates under the auspices of the Sejm. PIP has seventeen central and thirty-five regional offices and employs 991 safety inspectors. The number of firms supervised by PIP doubled from 450,000 in 1989 to 1.1 million in 1991. PIP can impose a range of sanctions, ranging from fines to suspending a firm's operations, for non-compliance with health and safety regulations.

Most employees work an eight hour day. There are several restrictions on overtime; for example, average working time must not exceed forty-two hours per week for more than three months and the daily maximum working time is twelve hours, although there are exceptions for certain jobs. Moreover, overtime is only permitted when it is necessary to protect life, health or property, to remedy damage or to meet special needs of the employer. In the case of special needs, overtime is limited to four hours per day with a maximum of 150 hours per year. An employee is entitled to a bonus of 50% of normal wages for the first two hours overtime and 100% of normal wages for all further overtime. Juveniles and pregnant women are neither allowed to work overtime nor to work between 9 p.m. and 7 a.m.

The development of regulations on health and safety at work and their adaptation to European Community standards is in the hands of the National Safety at Work Institute (Centralny Instytut Ochrony Pracy - CIOP), a body under the auspices of the Ministry of Labour. The division of powers between the Sejm and the Ministry of Labour causes substantial friction.

Several initiatives are currently under way in this field. Foreign consultants, in some cases financed by the European Community, are advising on the content of training courses, on maximum permitted exposure levels to dangerous substances, on the training of security engineers and on the adaptation of Polish law to European Community standards. PHARE has provided substantial funds for a programme to enhance the effectiveness of PIP.

8.4.5. Social Security

a) Introduction

The social insurance system has experienced financial difficulties since the early 1970's. The National Social Insurance Institution (ZUS) is currently able to finance only 75% of its expenditure from its own resources; the remainder is contributed by central government and represents 30% of all government spending. ZUS' income does not cover its expenditure for several reasons. The low percentage of persons in employment limits insurance contributions, as does the modest level of wages. This problem is exacerbated by widespread inefficiency in revenue collection and very considerable avoidance and evasion by employers of their fiscal obligations. Moreover, necessary administrative reforms have not been completed.

Organisation

Responsibility for the social security system is vested in the Social Committee of the Cabinet Council, which is composed of Ministers responsible for the social sector and its financing. The main administrative body is the Social Insurance Institution (ZUS), part of the Ministry of Labour and Social Affairs. ZUS is supervised by a Board of thirty-six members, of whom twenty are nominated by trade unions, eight by the Federation of Independent Entrepreneurs, four by pensioners' organisaions and four by the government.

ZUS administers old age, invalidity and survivors' pensions, occupational sickness benefits, and maternity and general sickness benefits. ZUS has a head office in Warsaw, fifty-six regional offices and 181 local offices. For historical reasons, certain professions retain their own insurance systems. For example, employees of the National Railway Corporation are insured by a separate institution which provides the same benefits as ZUS. There are also special systems for employees of the Ministries of Home Affairs, Defence and Transport. In 1991, a separate insurance institution, under the auspices of the Ministry of Agriculture, was established for self-employed farmers and their families.

All contributions to ZUS are paid by employers, although it is anticipated that before long employees will also be required to contribute. Employers contribute 48.5% of gross wages. Of this, 45% goes to ZUS[26], 3% to the Employment Fund and 0.5% to the Guarantee Fund for Bankruptcies. All social insurance Funds receive further contributions from central government; 25% of ZUS' expenditure, 70% of the Employment Fund's expenditure and 90% of the Agricultural Social Insurance's expenditure are provided from the central government's coffers. In 1994, government support for ZUS amounted to ECU 3 billion; this figure includes a notional contribution for members of the armed forces who are entitled to receive benefits from ZUS.

[26] Employers of persons working in agricultural co-operatives contribute only 14% of gross wages; the remaining 29% is made up by central government. Self-employed persons pay 38% of their income, with a minimum contribution in 1997 of Zloty 985.

ZUS' deficit was reduced by requiring employers rather than ZUS to pay the first thirty-five days of sickness pay and by the elimination of some child benefits. The social assistance system and the health service are financed wholly from taxation. In 1994, ZUS' expenditure was ECU 12.3 billion.

Table 17: Expenditure of ZUS for 1994

Function	Annual expenditure in billion Zloty	Annual expenditure in billion ECU
Pensions	277.0	10.0
Sickness benefit	32.2	1.2
Allowances for children	21.0	0.8
Investments and administration	8.6	0.3

Source: The National Social Insurance Institution

b) Health Care

Health Care System

The Polish Health Service is funded by central government. Persons entitled to receive benefits from ZUS, persons in the disciplined services, students, the unemployed, pensioners and prisoners are entitled to free treatment on the Health Service. In 1994, expenditure on the health service amounted to ECU 3.3 billion, or 13% of government spending. The Health Service has accumulated considerable debts during the 1990's, despite efforts to prevent this. The total amount of liabilities amounted to Zloty 3.2 billion (ECU 987 million).

The Health Service has substantial problems. Although reforms have been under discussion since the late 1980's, until 1996 only minimal reforms had been effected, largely due to resistance from doctors and the sensitive nature of the issue. Inefficiency and low pay has led to the development of a substantial private health sector; in 1994, there were 28,000 private doctors and 11,800 private dentists. Moreover, even doctors working in the Health Service may require "backhander" payments for treatment. The average Polish household pays 10% of its income for medical treatment. "Backhanders" to doctors may be equivalent to one-third of total expenditure on the health service.

Table 18: Life expectancy and infant mortality rate

	1980	1989	1990	1991	1992	1993	1994	1994
Life expectancy at birth for men**	66.9	66.8	66.5	66.1	66.7	67.4	67.5	n.a.
Life expectancy at birth for women**	75.4	75.5	75.5	75.3	75.7	76.0	76.1	n.a.
Infant mortality per 1,000 live births	25.5	19.1	19.3	18.2	17.3	16.1	15.1	13.6
Children aged 1-4 admitted to hospital for general health reasons in % (1989 = 100)*	n.a.	100	105	108	120	124	130	n.a.

Source: TRANSMONEE database; * Source: Golinowska et al., forthcoming;
** EU average regardless of sex 1995: 77 years

In December 1996/January 1997, Parliament passed a law on the introduction of a General Social Health Insurance System. The law establishes a compulsory health insurance system, under which employees will contribute 10% of their gross income; employers will not make contributions. At the same time, income tax will be reduced by 10%. These contributions will be paid to a network of regional funds, with local sub-branches and branches for certain trades and industries. All funds will belong to a national administrative organisation. Each regional fund will be a legal entity, independent of the state and the national organisation; there will, however, be some redistribution of income between funds to take account of regional differences in wealth. Each regional fund will ensure the provision of medical care in its region by concluding contracts with the providers of medical services. The new system will take two years to come into effect. The government calculated that it was worth sacrificing substantial revenue from income tax in order to end its obligation to provide medical services. The transfer of responsibility for health care from the state to quasi-autonomous bodies is a common feature of the economic transition in the CEEC.

Furthermore, the system of hospitals is to be restructured. There has already been some decentralisation of decision-taking and it is intended to reduce the role of the Ministry of Health to planning the overall framework for health care. Hospitals will be divided into several categories according to function and range of services. A General Practitioner system will be established to reduce demand for hospital beds. Demand for hospitals will be analysed by regional working groups using national planning regulations and the Ministry of Health will develop a national demand plan for specialist hospitals. These reforms are intended to enable hospitals to be used more efficiently; it is hoped that the rate of utilisation will rise from the current 50 to 75% to 85%. The restructuring process is expected to last between five and seven years. There is, however, a need for far more radical reform concerning overcapacity in the health service. Administrative re-organisation can produce only limited effects, unless it is accompanied by an analysis of demand and productivity and cuts in capacity.

Occupational Accident Insurance

Disability pensions are paid by funds within ZUS and KRUS (the social security institution for farmers). Benefits paid in respect of occupational accidents and diseases are the same as normal disability benefits. The level of benefits is related to loss of earnings and amounts to

100% of the Disability Pension Base in disability groups I and II, and 75% in disability group III. The creation of a new Occupational Insurance Fund is currently under discussion. This Fund might be an independent body, but it is more likely to be into ZUS.

Sickness Benefit

Since 1 March 1995, employers must pay sick pay, amounting to between 75% and 100% of his earnings, for the first thirty-five days of an employee's illness. After thirty-five days, ZUS is responsible for sickness benefit equivalent to the employee's average earnings. Benefit is usually limited to six months, but may be extended if the claimant is being rehabilitated. More favourable rules apply in the case of occupational accidents and sickness.

c) Pensions

Old Age Pensions

In 1995, there were 7.1 million pensioners, of whom 3.2 million received an old age pension[27]. The number of pensioners was equivalent to 20.6% of the working population in 1985, 22.33% in 1990 and 23.45% in 1995; this figure is expected to rise further. While the statutory retirement age is sixty-five years for men and sixty years for women, on average men become entitled to a pension at fifty-nine years and women at fifty-five. Widespread early retirement produces unusually large numbers of pensioners, which makes necessary substantial government spending on pensions and sharpens the problems of financing.

Women have to be insured for at least for twenty years to draw their old age pension, while men have to work for twenty-five years to draw a pension. Periods of apprenticeship, paid leave for parents and periods of receiving social assistance are taken into account for the calculation of the pension. Insurance periods without contributions, such as maternity leave or unemployment, can be taken into account so long as they do not exceed one-third of the whole insurance period.

Old age pensions consist of a fixed basic sum and a variable supplement. The basic sum amounts to 24% of the national average wage. The variable supplement is calculated with reference to the average wage earnt during the pensioner's three highest-earning years during the last twelve years of his working life. 1.3% of this amount is added to the fixed basic sum for each year of the contribution period. For every year during which contributions were not paid, 0.7% of this amount is added. Pensioners who are in need of permanent care receive an additional payment of 10 % of the national average wage.

The minimum pension was fixed on 1 January 1994 at 39% of the national average wage. Pensions are automatically adjusted if wages have increased by more than 10% in four months. The average old age pension amounts to 73% of the average wage, a high level by CEEC standards. It has been suggested that the minimum pension should be lowered to 26-28% of the average wage.

The minimum pension level is linked to the subsistence level. Thus, if the minimum pension rises, so does the subsistence level and the number of people entitled to claim social assistance

27 Source: Information on benefits from social security fund ZUS, Warsaw 1994/95.

may increase sharply. A rise in the minimum pension in 1994 led to a large increase in persons claiming social assistance benefits; the government responded by reducing the level of these benefits.

Survivors' Pensions

Survivors' pensions are paid to the widowed spouses and dependants of persons entitled to old age or disability pensions. The amount of the pension depends on the number of claimants. A single claimant receives 85% of the deceased's pension, two claimants will receive together 90% of the pension and three or more claimants will receive 95% of the pension. Orphans receive a supplement of 10% of the average national wage.

Disability Pensions

Disability pensions are paid by ZUS to people who are permanently wholly or partly incapacitated. In Poland, incapacitated persons are grouped into three categories, depending on the degree of disability and the stability of their health. To be entitled to a disability pension for a non-occupational injury, the claimant must have contributed to ZUS for a minimum period, which varies according to his age.

If the disability was caused by an occupational accident or disease, however, the claimant does not need to have contributed to ZUS to claim a pension. Pensions for persons disabled by occupational accidents or diseases are the same as normal disability pensions. The minimum level for disability pensions is 80% of the claimant's average wage in cases of total disability and 60% in cases of partial disability.

Poland has an unusually high number of people entitled to disability pensions because it is relatively easy to come within the definition of disability. In 1994, a new definition of disability entitlement was adopted. Moreover, in an attempt to place greater emphasis on rehabilitation, in August 1995, ZUS became responsible for financing rehabilitation measures for the disabled. ZUS has allocated 0.5% of its annual budget for this purpose. If rehabilitation measures achieve a success rate of 10%, this new responsibility will cost ZUS nothing. There is a need for improved training for medical experts involved with rehabilitation, better financial management of rehabilitation hospitals and general improvements in the quality of rehabilitation treatment.

Reform of the Pension System

In July 1997, Parliament passed a law which changes the existing "pay-as-you-go" system, whereby current workers pay for current pensioners' benefits, to a funded system. The new system is based on three pillars. The first pillar, which will be administered by ZUS, will remain based on general mandatory contributions and will pay benefits dependent on the value of contributions and the length of the contribution period. A minimum pension for all will be guaranteed under this pillar. The second pillar will consist of privately managed pension funds, financed through capital funding, to which the employed must pay compulsory contributions. The third pillar will allow persons to make additional voluntary savings for retirement; employers will be able to make contributions to their employees' pensions accounts which will be treated as a tax-deductible expense and which will be exempt from tax when the money is withdrawn as a pension.

The combined contributions to the first and the second pillars will not exceed the current level of compulsory contributions; 9% of the 45% of income currently paid as a contribution to ZUS will be paid into the pension fund under the second pillar. The government intends to meet any shortages in ZUS' funds from the proceeds of future privatisations, which are expected to raise roughly Zloty 45 billion (ECU 14.2 billion).

Statutory pension age for women will be increased from sixty to sixty-two years in 1999. Moreover, the pension regulations will be tightened to discourage early retirement. Other reforms include restructuring the calculation, collection and control of contributions, installing a computer system, introducing individual pension accounts and improving administrative efficiency.

d) Agricultural Social Insurance

In 1990, the Agricultural Social Insurance Fund (KRUS) was established, under the supervision of the Ministry of Agriculture, to administer social security for self-employed farmers and their families. KRUS is divided into a Pension Fund, which pays old age, disability and survivors' pensions and a Contribution Fund which deals with accident, health and maternity benefits.

Both branches are financed by contributions paid to KRUS. The number of persons insured fell from 2.34 million in 1990 to 1.53 million in 1995, while the number of pensioners rose in the same period from 1.5 million to 2.05 million. The number of persons claiming disability pensions increased by 70%. The Pension Fund represents 97.75% of KRUS' expenditure. 90% of this expenditure is covered by a grant from central government with the remaining 10% financed from insurance contributions to KRUS. The expenditure of the Contribution Fund is financed wholly from contributions.

e) Family Benefits

Employed women are entitled to sixteen weeks maternity leave for their first child and eighteen weeks for every subsequent child. During maternity leave, mothers are entitled to a maternity grant equivalent to their wage. Women who are insured, either through their own contributions or their husband's, are also entitled to a single additional child allowance, amounting to double child benefit.

Female, and in some cases male, employees and members of agricultural co-operatives can claim child education benefit, which amounts to 25% of the national average wage. During the first three years of the child's life, child education benefit can be claimed for a maximum of twenty-four months.

Child benefit is paid until the child reaches the age of sixteen, or twenty if he or she is in education. It is only paid if the family's income is less than 50% of the average national wage. In 1996, child benefit was Zloty 47.34 (ECU 15) per month. Until 1 March 1995, child benefit was a statutory benefit of ZUS but is now part of the new Social Assistance System.

f) Social Assistance

The social assistance system, established by law in 1990, has two principal objectives: integrating the very poor into productive, better-paid jobs and assisting those unable to meet their basic needs by themselves. The social assistance scheme, which distributes income-tested benefits, is therefore directed at two different types of beneficiaries: those suffering from social dysfunction who cannot care for themselves, and those falling into poverty because they are unemployed or have insufficient income to meet their basic needs. The Social Assistance Act provides that social assistance fulfils both preventive and curative functions, aiming at assisting individuals and families “who are in a difficult situation endangering their existence, and are not capable of overcoming this with means, actions or rights of their own”.

Central government ministries are responsible for policy formulation, financing, setting norms and monitoring. Responsibility for administering programmes and delivering benefits has been transferred to the provincial and communal governments. Social assistance benefits are funded from the tax receipts of central, provincial and communal government. In 1995, total public expenditure on social assistance benefits exceeded Zloty 1 billion (ECU 278 million).

Benefits are paid only to families with a per capita income less than the minimum old age pension, which is 39% of the average wage. In December 1995, the minimum pension was Zloty 280 (ECU 88.6) per month. Cash benefits may not exceed 80 % of that amount.

Allowances include assistance for pensioners, unemployed people, the handicapped, chronically sick people, pregnant women, single parents, alcohol and drug users and families with many children. Furthermore there are supplementary programmes for single parents, alcoholics and released prisoners. Most social assistance benefits are granted in the form of periodic allowances; only in one in every six cases is a benefit granted in the long term.

Housing benefits are paid by the communal administrations but since 1994 they have been financed by the Ministry of Construction. Child allowances have been excluded from ZUS and financed by the social assistance budget since March 1995; parents are entitled to child allowance only if their income is below a certain limit.

As well as providing cash benefits, the state also maintains old people’s homes and nursing homes. In 1994, fourteen new institutions were opened.

It is estimated that every fourth or every fifth Polish family depends on social assistance. Assessments of the real extent of poverty differ. A 1994 World Bank report which defined the minimum pension as the subsistence level argued that 14.4% of the population live below the subsistence level. Some Polish experts, however, argue that the minimum wage is the poverty line. By this measure, 30-40% of the population live beneath subsistence level.

8.4.6. Education and Vocational Training

a) School System

Most Polish children attend pre-school educational institutions, such as kindergartens. Compulsory schooling lasts from the ages of seven to seventeen. Kindergartens and primary schools are the responsibility of the local authorities. After eight years of primary school, children can continue their education in general secondary schools (Lycea), vocational schools (basic vocational schools or vocational preparatory schools) or mixed general-vocational schools (vocational Lycea or Technika).

Lycea last four years and lead to a secondary school certificate, the Matura. Students who pass the Matura may progress to University or to Polytechnics (Technical Universities). Since 1989 a number of post-secondary, non-university colleges have been established, notably for the training of foreign language teachers.

In 1987/88, 505,600 pupils left primary school. They continued their studies as follows:

Basic Vocational Schools	265,400
Lycea	105,900
Vocational Lycea or Technika	122,400

The total figures for 1987/88 for students in different branches of education were:

Lycea	372,600
Vocational Preparatory Schools	24,000
Basic Vocational Schools	780,000
Vocational Technika or Lycea	724,000
Universities	356,400

In theory, students at basic vocational schools can progress to mixed general-vocational schools but in practice most graduates from these schools begin employment at once. The mixed general-vocational schools provide their students with a Matura as well as a basic professional qualification. Pupils who have learning problems in primary school go to vocational preparatory schools, where they learn basic industrial skills.

During the 1980's, 96% to 97% of primary school leavers continued in full time education but in 1991/92 this proportion dropped to 94%. About 26% of primary school leavers entered Secondary General Schools while 25% started at Technika and Vocational Lycea. Vocational schools were chosen by about 43% of the students. Only 12% of students went on to higher education is low, which is low compared to the OECD average of 30% and the average figures in the other CEEC's, which vary between 15-20%. 66.1% of the 356,400 students in higher education in 1987/88 received a scholarship.

In September 1991, Parliament passed the Education Reform Act, which reformed the management and administration of the education system in the light of the new financial and administrative conditions. It restored overall responsibility for the education system to the Ministry of National Education and regulated the role of other ministries and organisations. The Act also set out the rights and obligations of regional education authorities and introduced a considerable amount of decentralisation. Schools were given significant discretion in their own management and school curricula were reformed with a view to the needs of the labour market. Furthermore, the Act permitted the establishment of private schools which, in certain cases, could be partly financed by the state. Current reforms aim to further the process of decentralisation begun in the 1991 Act.

In 1991, state spending on education amounted to 3.8% of GDP, of which more than half went on primary schools. The next two biggest sectors were higher education and secondary vocational schools. Spending on Lycea was negligible in comparison. Despite the low numbers entering higher education, this sector received about one-fifth of all expenditure. On the other hand, although more than 70% of all primary school leavers entered vocational schools, the vocational sector received only about 15% of public educational funds; this figure was, however, increased by contributions from other Ministries.

b) Vocational Training

There are three types of vocational schools:

- *Vocational Preparatory Schools,* which provide pupils who have not been successful at primary school with basic industrial skills;
- *Basic Vocational Schools,* lasting for two or three years, which lead to a certificate of a skilled worker;
- *Secondary Technical and Vocational schools* (Technika and Lycea, 4-5 years) which lead to a certificate of medium level job skills and where graduates have to pass the Matura.

In addition, Poland is the only former Communist country to have maintained a traditional apprenticeship system within the handicrafts sector. Training lasts for three years and is organised by the Chamber of Handicrafts. Apprentices can obtain skilled worker and master qualifications.

All schools, except the Vocational Schools, set entrance examinations, which have limited the numbers entering secondary schools. Consequently Basic Vocational School has borne the stigma that it educated those who had failed to enter other types of schools. A similar stigma was attached to the Vocational Lycea and Technika which have never been able to reach the standard of general education at the General Lycea. Moreover, Vocational Lycea and Technika have often been used by students as a "waiting-room" until they are accepted by a university. These problems were aggravated by the traditional pedagogical approach which focused on university preparation in secondary schools and primary schools as well. The stigma has been reinforced further by the dead-end character of Basic Vocational Schools. Present policies aim to increase the number of students with full secondary education, that is a Matura and job qualification, and so reduce the number of young people entering Vocational Schools.

In 1994, 607,500 pupils left primary school. 39.5%, or 239,600 students, entered Basic Vocational Schools, 5.2% or 31,300 students entered Vocational Lycea and 23.2% or 140,800 students entered Technika. Drop out rates, however, are fairly high, especially in basic vocational education.

There have been no significant changes to the educational system since the 1960's, other than a slight tendency to reduce the numbers of students entering Basic Vocational Schools and to increase the numbers in Secondary Technical Schools. About 70% of each cohort reach the Vocational Education System. Some 50% start at general or vocational secondary schools which lead to a diploma allowing students to sit higher education entrance examinations. Graduates of vocational schools, who represent 40 % of primary school leavers, who are not offered this possibility can in principle continue their studies to achieve full secondary level certificates, although few do so.

There are four types of continuing vocational training, namely: Secondary General Schools which students can enter after finishing Basic Vocational School; Technika, lasting two to three years, which students can enter after after finishing General Vocational School; Technika which students can enter after finishing General Secondary School; and Post-Secondary Schools, lasting between one and three years. Graduates are qualified as technicians or skilled workers. In practice the number of students in further education has always been limited. Poland also has a widespread system of out-school training.

8.4.7. Equal Treatment for Men and Women

Article 33 of the Constitution provides that men and women have equal rights in social and economic life and, in particular, with respect to education, employment and promotion, the right to equal compensation for work of equal value and to social security. Article 11 of the Labour Code and the 1994 Law on Employment and Unemployment Counteraction also deal with equal rights for men and women. Moreover, Poland has ratified the 1979 UN Convention on the Elimination of Discrimination against Women and ILO Conventions No. 111 and 122. A draft law on the equal status of men and women has been put forward by the Women's Group in Parliament.

Since 1992, there has been a notable increase in the number of working women, especially in the cities, largely in response to a widespread fall in the standard of living, reductions in men's real wages and the curtailment of social benefits for women temporarily without work. The highest level of economic activity for both men and women is found in the thirty-five to fouty-four age group. Two age groups show a decline in employment; persons over fifty-five - due to the possibility of taking early retirement and the difficulty of finding employment - and persons between eighteen and twenty-four, who are prolonging their education, especially in the cities.

Table 19: Unemployment rate (in %) in November 1996 by age

	men	women
15-24	23.4	29.5
25-34	9.5	15.6
35-44	8.0	11.6
45-54	6.8	8.1
over 55	4.6	3.8

Source: Mini Yearbook GUS 1997

In December 1996, the number of women registered as unemployed was 1,375,600, or 58.3% of total unemployed persons. Women represent more than half of the unemployed in all provinces. Moreover, the unemployment rate was 16.4% for women and 11% for men. 47% of unemployed women are long-term unemployed. 35.9% of unemployed women have at least a secondary education.

The average period of unemployment is longer for women than for men. Consequently, 61% of women are not entitled to unemployment benefit, compared to 40.19% of men. Fewer women than men apply for loans from the Employment Fund to set up a business.

The 1994 Law on Employment and Unemployment Counteraction established a number of programmes to help the unemployed find work. Special programmes were aimed at particular groups who have difficulty in finding employment. A number of local programmes were introduced for women in difficult conditions, such as the Stimulation of Professional Activity for the Long-Term Unemployed Programme (Tarnobrzeg), the Evening Elementary Technical School Programme (Household-Poznan), the Fight against Unemployment among Long-Term Unemployed Women from Rural Areas Programme (CHANCE-Choszczno) and the Stimulation of Professional Activity among Women Unemployed for over one year (Kolobrzeg). Unemployed women participated in a broad range of government training programmes; by the end of 1996, 7,600 women, representing 60.5% of participants, had received training or obtained a qualification. Moreover, it has been noted that women appear to be more mobile and flexible than men in the labour market.

8.4.8. Poverty and Income Distribution

During the 1980's and 1990's, Poland underwent substantial political, social and economic changes. According to the World Bank, in 1995 more than 14% of the population lived in poverty; poverty was defined as receiving an income of less than Zloty 123 (ECU 34) per month. If the definition is broadened slightly to include persons receiving less than Zloty 150 (ECU 46) per month, the number of persons living in poverty almost doubles. Poverty is particularly widespread among farmers, in rural areas, among workers with low education and among households with many children. During the process of transition, two new socio-economic groups have emerged: a successful class of entrepreneurs and a class reliant on the non-pension part of social transfers for their main income. Poland's poor can roughly be divided into three groups: about 35% are poor because of unemployment, another 60% are working poor and 5 % are elderly.

Table 20: Wage earners and pensions below the average wage

	1989	1990	1991	1992	1993	1994	1995
Percentage of wage earners with wage 50% of the average wage	4.2	n.a.	6.7	7.5	8.9	11.8	n.a.
Percentage of pensioners with pension below 50% of the average wage	62.6	51.9	42.5	31.3	39.4	42.6	48.1

Source: TRANSMONEE database

Income inequality, measured using the GINI co-efficient of net per capita household income in %, rose from 23.0 to 32.1 between 1990 and 1995.

During the transition from a socialist to a market economy, Poland has experienced high unemployment and an increase in social problems such as delinquency, drug addiction and alcoholism. The well-educated and the entrepreneurial can now earn far more than the unskilled or semi-skilled, which has produced a profound change in the distribution of wealth in Poland. While Communism prevented the development of large inequalities between professional and manual workers, a link has now developed between education and entrepreneurship and high salaries; the well-educated are most unlikely to be poor while many poorly qualified persons have sunk into poverty. The increase in inequality between wages is largely the result of the growth in white-collar workers' salaries rather than any fall in the nominal wages of the low-paid. Poverty has been created by falls in real wages and by unemployment. Wage inequalities are significantly higher in the private than in the public sector.

8.4.9. Conclusions

a) The economy

Poland, the largest of the five countries proposed by the European Commission for accession to the European Union, has established a functioning parliamentary democracy and made remarkable economic progress since the downfall of the Communist regime. The prospects for certain industrial sectors, such as the production of machinery and even shipbuilding, are good thanks to comparatively low wages. In other areas of manufacturing, such as textiles, clothes and furniture, privatisation and technical modernisation have led to promising developments.

Nevertheless, problems remain. The huge and inefficient agricultural sector employs four million people, or 25% of the workforce, but produces less than 7% of GDP. The large number of agricultural smallholdings are a remnant of the Communist period, when small farms producing food for sale on the grey market were quite profitable. Today, despite receiving large government subsidies and being protected by high import duties on food, agricultural smallholdings can barely provide a subsistence income for farmers. Although there is an urgent need for reform, the government has been reluctant to tackle this problem because of the large numbers who will be affected. Reforms are likely to lead to fundamental changes in the structure of rural life, to expose millions of small farmers to poverty and to provoke migration to the cities in search of employment. Substantial population movements to the cities may well overburden weak administrative structures and create more urban poverty.

The remaining state monopolies, such as telecommunications, public transport and energy, may be a further source of economic difficulties. The inflation rate is still high by Western standards. Even more ominous is the sharp increase in the trade deficit, due to increased demand for foreign products from the emergent middle class. Although unemployment has fallen from 14.4% in 1994 to 12.4% in 1996, there is substantial long-term unemployment amongst the young. Moreover, reforms to the agricultural sector will increase unemployment considerably. Finally, as in all CEEC, official figures must be treated with caution; many persons registered as unemployed are in fact working in the huge black labour market.

b) Social policy

There are serious inadequacies in social policies and the administration of social security in Poland. The government's austerity measures against inflation have increased the difficulties experienced by already-weak administrative institutions. The weaknesses of administration were clearly exposed by the inadequate response to the Oder flood, which seriously affected over 100,000 people and which has left a variety of problems in its wake.

In the field of employment, the National Labour Office and its local offices are so preoccupied with administering unemployment benefit that active measures, such as retraining programmes, have been neglected. Any separation of the unemployment fund, currently largely financed directly by central government, from the state budget will exacerbate these problems. Health and safety at work measures are in the hands of two influential bodies, the Sejm and the Ministry of Labour and Social Policy with its subordinate body, the National

Safety at Work Institute. This division of competences leads to competition for influence. A number of reform programmes, often benefitting from European Community financial support, are under way to align national regulations with European standards. The introduction of new standards may have dramatic consequences for the older sectors of Polish industry; some factories may even be forced to close. However, a reluctance to force obsolete factories to close and a fear of the social consequences may restrict the implementation of these new regulations in practice.

Despite reforms, ZUS still suffers from substantial difficulties. It continues to require a subsidy from central government to cover 25% of its annual expenditure, although it is planned to give it more independence from government and to improve its services to the public. Such progress as has been achieved is largely due to support from the PHARE programme and bilateral assistance from Community Member States. There nevertheless remain severe problems concerning the efficient collection of contributions, fraud and corruption and widespread evasion of contributions, often as a result of collusion between employers and employees. Most Poles see little incentive to invest their money in such a troubled institution. The future of KRUS is also highly uncertain. With the agricultural sector likely to undergo massive change, KRUS' future stability, and the pensions of several million farmers, hang in the balance. Moreover, the government may find it increasingly difficult to continue supporting the various insurance systems; not only does the government provide 25% of ZUS' expenditure, but it also contributes 70% of the expenditure of the Employment Fund and 90% of the expenditure of the Agricultural Social Insurance Fund.

The Health Service is experiencing particularly acute problems. Unlike the other CEEC, Poland has only recently started to reform its health care system, which is still largely based on the system established under Communist government but deprived of the funds which were formerly available. At the moment, the standard and availability of health care are poor. Inefficient administration, substantial infrastructure over-capacity and continuing disputes over areas of responsibility have helped to make the payment of "backhanders" increasingly necessary to obtain treatment. The affluent are turning to private medicine. After years of debate and jostling for influence between different interest groups, a new law on health insurance was adopted in January 1997 which will come into force in 1999. The new law introduces a system of compulsory health insurance; to compensate for the introduction of the new insurance premiums, income tax will be reduced by 10%. The new scheme, however, looks set for a difficult start and, in particular, will find it hard to win the trust of its contributors. Other reforms deal with the issues of independence from the state, contracting for services and the reduction of over-capacity. However, given the tight budget, the lack of administrative expertise and strong opposition from certain interest groups who hope to preserve the *status quo*, it is impossible to say how successful the reforms will be.

State intervention in industrial relations and wage controls is now limited to nationalised industries. As inefficient businesses continue to shut down and the social security safety net for the unemployed gradually becomes more fragile, workers find themselves increasingly powerless to resist or to influence changes in their terms of employment. The position of workers is set to become even more precarious once agricultural reforms lead to increased unemployment.

Although the well-educated are able to earn good incomes and an urban middle class is emerging, for many Poles everyday life consists of a permanent struggle for survival. However, it must be remembered that the black economy is large and official statistics therefore underestimate income for many people; nevertheless, for the unemployed who cannot participate in the black economy, life is hard. It is therefore understandable that interest in issues such as sex equality in the work place is by and large limited to urban intellectual circles.

In view of its size, and its political and strategic importance, Poland is likely to be one of the first countries to join the European Union. The difficulties will, however, be enormous despite the successful progress made in privatisation and the generally rosy outlook for the Polish economy. Poverty is likely to encourage widespread migration; reforms in the agricultural sector, and the consequent unemployment, will add to this problem. Although austerity measures and the fight against inflation are vital to economic stability, they may encounter substantial popular opposition. Forthcoming general elections may lead to a change of government and friction between the President and the Prime Minister which will delay further reforms.

8.5. Slovenia

8.5.1 General Information on Slovenia

Slovenia has a population of 1.989 million persons and an area of 20,254 km². Between 1992 and 1995, the population fell by 0.3% per year. Ljubljana, the capital, had a population of 271,900 in 1995. Other important towns are Maribor with a population of 103,512 in 1993, Cilli with 39,942, Kranj with 36,808 and Velenje with 27,142. In 1993, 62% of the population lived in towns. 91% of the population are of Slovene origin, 3% are Croats, 2% are Serbs and approximately 3% belong to other nationalities, of whom 0.4% are Hungarians and 0.2% Italians. Most of the population is Catholic. The official languages are Slovene, Croatian, Hungarian and Italian.

a) Political System

On 23 December 1990 a referendum was held to decide whether Slovenia was to become an autonomous and independent state. Out of a turn-out of 93.2% of the electorate, 82.2% voted in favour. On 23 December 1991, Parliament adopted the new Constitution, which is based on western European models. Under the Constitution, Slovenia is a parliamentary republic with a bi-cameral system. The President is elected directly, while the leader of the party receiving most votes in parliamentary elections becomes Prime Minister. Slovenia was recognised as a state by the Member States of the European Community in May 1992 and has become a member of the United Nations.

The leading political parties are the Liberal Democracy of Slovenia (LDS) with twenty-five seats out of a total of eighty-eight seats in Parliament, the Slovenian People's Party (SLS) with nineteen seats and the Social Democratic Party of Slovenia (SDS) with sixteen seats. The President is Milan Kucan of the SLS, who was first elected in 1990 and re-elected in 1992. The Prime Minister is Janez Drnovsek of the LDS.

Slovenia signed an Association Agreement with the European Community and its Member States in June 1996 and applied for membership of the European Union. Slovenia already partly fulfils the criteria for joining Economic and Monetary Union.

b) General Economic Development

Slovenia's industry is relatively modern and diversified between different sectors. In 1994, manufacturing accounted for 35% of GDP and employed 47% of the work force. The service sector represented 60% of GDP and employed 50% of the work force, while agriculture and forestry accounted for 5% of GDP and 3% of the work force. The service sector is the most dynamic sector. It is composed mainly of traditional services, such as retailing, pubs and restaurants, tourism, transport and communications; the financial services sector is only slowly beginning to develop.

Slovenia avoided the worst of the war in Yugoslavia and its economy emerged largely unscathed. By making strenuous efforts to export to western Europe and by implementing a successful reform and stabilisation policy, Slovenia managed to recover faster than any other of the successor states of Yugoslavia. Slovenia now enjoys the highest standard of living in central Europe.

In 1994, GDP increased by 5.3% and in 1995 and 1996 it increased by 3.9 %. The economy prospered due to improved competitiveness in export markets and to increased domestic demand, especially in the fields of construction, trade and tourism. The economic situation was less rosy in 1996, as increased labour costs and rising real wages affected labour-intensive sectors. However, the most recent data from surveys on manufacturing show an increase in economic activity in the last three months.

In 1994 the inflation rate was 19.8 % and has fallen to 9.7% in 1996 and is estimated at 8.5% for 1997. The public sector deficit is very low; it was 0.03 % of GDP in 1995, an estimated 0.27 % in 1996 and an estimated 1.99% for 1997. The National Debt rose from US $ 0.164 billion in 1992 to US $ 2.97 billion in 1995. In 1996 an agreement was reached with the London Club on settling the National Debt.

In 1994 66% of exports went to European Union countries, of which Germany accounted for 30% and Italy 13%. 10% of exports went to Croatia and 15% to Yugoslavia (Serbia-Montenegro). In 1994, 69% of imports came from European Union countries, of which Germany supplied 24%, Italy 17% and Austria 10%. A further 7% of imports came from Croatia and 8% from Yugoslavia (Serbia-Montenegro). Unemployment fell from 9% in 1994 to 7.4% in 1995 and 7.3% in 1996. The Yugoslavian Dinar has been replaced by a new currency, the Tolar (SLT)[28]. The Tolar has been convertible since September 1995. Its value stabilised in 1996 at an exchange rate of 1 ECU to 179.21 Tolar.

Table 21: Key Economic Indicators (percentage changes over previous year)

Gross Investment in Fixed Assets	-13.9	11.9	12.6	20.8
Inflation Rate	201.3	32.2	19.8	12.6
Net Real Wages	N/A	N/A	3.6	4.3
Unemployment Rate	N/A	N/A	9.0	7.4
Exports (Goods)	-23.5	0.6	10.5	0.7
Imports (Goods)	-22.9	17.6	10.7	11.6
Exports (% of GDP)	63.1	58.8	59.1	54.7
Imports (% of GDP)	56.2	57.7	56.5	55.9
GDP	-5.5	2.8	5.3	3.9
GDP per capita in Purchasing Power Standard	N/A	8,557.4	9,354.2	10,111.8
Balance of Trade (in million US$)	791	-154	-338	-953
Gross Foreign Debt (in billion US$)	0.164	0.902	1.603	2.97

Source: Agenda 2000

28 1 Tolar = 100 Stotin.

In 1996, Slovenian economic policy resembled a walk on a tightrope. While fighting inflation, the government was also forced to take measures to stimulate economic growth. Economic growth lagged far behind expectations in 1995 and GDP continued to stagnate during the first half of 1996. The real revaluation of the Tolar and the slowing down of the economy demonstrated Slovenia's dependence on exports. Consequently social security contributions were reduced at the beginning of 1996 and the Tolar was devalued again.

By March 1996, 1,070 privatisation programmes had received initial government permission and 506 had received full permission and were under way. To date, foreign investors have played little part in the privatisation process.

8.5.2. Labour Market

a) Employment Structure, Labour Market Policies and Legislation

Slovenia shows the normal employment structure of a country in transition. As the state has abandoned its former paternalistic policies towards workers, firms have been allowed to dismiss employees who have had to hunt for new jobs. Collective bargaining has replaced the former system where wages were set by the state. These radical reforms have created a more mobile and flexible labour force and led to increased differences in income depending on an employee's education, experience and sex.

There have been several major changes in the labour market. Well educated workers are now in considerable demand and command higher salaries. Youth unemployment has increased. Older workers who lose their jobs encounter especial difficulty in finding a new one. Job opportunities and salaries have improved for women.

Out of a labour force of 865,003, 740,759, or 85.63%, are currently in employment[29]. The labour force represents 37.7% of the population.

Table 22: Employment Structure

	1989	1992	1993
all empolyed average in the year	943,485	791,027	766,448
including services	137,644	129,780	139,969
registered unemployment	21,341	102,593	129,087
in % of employed	2.9	11.5	14.4
under 26 in %	51.5	40.7	37.4
women in %	48.9	43.9	43.8
long-term unemployed in % (more than 6 months)	60.2	69.2	71.8

Source: National Employment Office

In 1995 the average monthly gross wage was SLT 111,996 (ECU 722) and the average net wage was SLT 71,279 (ECU 460). The highest average gross wages - SLT 155,787 (ECU

[29] As per March 1997, NEO.

1,005) - were earned in the financial and business activities sector, and the lowest - SLT 89,052 (ECU 575) - in the crafts and personal services sector. In 1996 the minimum wage was 25% of the average monthly salary, or SLT 35,177 (ECU 196). Following the signature of the 1996 Association Agreement, the minimum wage was increased to SLT 53,500 (ECU 345) until 1 April 1997[30].

The average period of unemployment is twenty-three months, although unemployed people with a lower level of education and persons over forty were on average unemployed for twenty-eight months[31]. Of the total unemployed, 29.9% had been unemployed for less than six months, 16.3% for between six months and one year, 29.7% for between one and three years and 24.1% for over three years.

There is a very close link between education and unemployment. The unemployment rate is only 1.7% for highly educated people but 47.6% among unskilled people. Youth unemployment is a particular problem. In 1996, the unemployment rate for persons under 25 years was 28.6%.

Part-time work is not common; one survey[32] found that only 1.8% of persons work part-time. However, the term "part-time" is not defined by law; consequently the survey depended on an individual's own assessment of whether he was in "part-time" employment and may be inaccurate.

The main legislation on employment is the Collective Agreement Act, the Law on Wages and the Law on Employment and Unemployment Insurance, which is currently being amended. A Law on Labour Relations, which is intended to form the foundation of Slovenian employment law, is currently before Parliament. This Law, as well as the amendments to the Law on Employment and Unemployment Insurance, is intended to align Slovenian legislation with EU Directives.

These laws restrict weekly working time to forty-two hours per week. The night shift lasts from 11 pm until 6 am. Collective agreements can define working time more specifically but cannot exceed forty-two hours. Breaks, which vary according to the length of the working day, are fixed by the collective agreements. The minimum paid annual leave is eighteen days. Employees working in a dangerous environment, such as pilots or nuclear power station operatives, and the handicapped are entitled to additional holiday.

b) Employment Administration

The Ministry of Labour, Family and Social Affairs is in charge of formulating policy, while implementation is in the hands of the National Employment Office (NEO). In 1996, the Ministry of Labour oversaw a number of measures designed to help the unemployed find work. Within the framework of the Programme on Active Employment Measures, the Ministry sought to reduce frictional unemployment by improving the NEO's information system, encouraged education, training and career counselling, and encouraged employers to

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30 OSTWIRTSCHAFTSREPORT 16.08.1997.

31 As per 31. Dec. 1996, NEO.

32 *Survey on Working Potential in Slovenia*, Institute of Social Science/National Employment Office. The survery was conducted using a sample of 4,972 persons in 1992 and 8,272 persons in 1993.

take on new employees. The Ministry has also begun to offer employers subsidies for creating new jobs and to support existing ones, to finance training programmes, and to pay part of the salaries of persons who are working for the first time.
In addition to implementing the Active Employment Measures Programme, the NEO runs Job Seekers' Clubs, funds programmes of training, counselling and rehabilitation to equip workers with new skills and qualifications, encourages and assists persons to start their own small business, trains the handicapped and provides subsidies to companies which employ handicapped people and funds public works programmes. A revised version of the Regulation on Implementation of the Active Employment Policy is currently before Parliament.

In May 1996, the government began a programme to help companies with personnel restructuring and to prevent redundancies. Under this programme, funds and expertise may be made available to small and medium sized enterprises and to establish Labour Funds.

c) Unemployment Insurance

Unemployment benefit is administered by the Employment Agencies. Unemployment benefit is available to workers in industry, commerce and agriculture, public employees and members of handicraft and fishery co-operatives. To be eligible, claimants must have been employed for the preceding nine months or for twelve months during the preceding eighteen months. Furthermore, claimants must register with the Employment Agency within thirty days of becoming unemployed.

Unemployment benefit is means tested and amounts to 50% of average earnings during the last three months. The period of entitlement depends on the length of contributions. If a claimant has paid contributions only for the minimum period necessary to be entitled to claim benefit, he will receive benefit for three months only; at the other extreme, if he has been insured for twenty or more years, he can receive benefit for two years.

Unemployment benefit is financed from the contributions of insured persons and employers, each of whom pays 0.7% of earnings. However, central government makes good any deficit in the unemployment insurance fund, as well as covering the administrative costs of the Employment Agencies and providing funds for other purposes defined by the Law on Employment and Unemployment Insurance.

8.5.3. Industrial Policies

a) Trade Unions

There are three trade union organisations in Slovenia: the Free Slovenian Trade Union, with about 460,000 members, the Organisation of Slovene Trade Unions - Independence with about 135,000 members and the Independent Trade Union of Slovenia with about 5,000 members. There are also about 130 trade unions for particular trades and professions. Twenty-one of these unions are representative trade unions within the meaning of the 1993 Law on the Representative Nature of Trade Unions, which gives them the right to conclude collective agreements and to be represented in bodies dealing with the economic and social position of employees.

b) Employers' Organisations

There are four employers' organisations:
- the Employers' Association of Slovenia - 1,618 members
- the Employers' Organisation of Slovenia - 1,916 members
- the Small Business Association of Slovenia - 30,000 members
- the Association of Crafts, Catering, Intellectual Services, Tourism, Trade and Road Haulage Employers - 2,730 members

c) The Role of the Social Partners and the Government

During the period of Communist rule, dialogue between the social partners, in a western European sense, did not exist. Ownership of industry was in public hands. Salaries were determined in accordance with criteria such as education and work performance but in practice salary differentials were small. The state ensured a high level of social security. Workers participated in two bodies. Organisations of Associated Labour represented labour working in areas of public ownership. Within these organisations, workers were allowed to manage industrial relations and to determine their rights in the workplace. Self-management Communities of Interest, nominated by members of the Organisations of Associated Labour, dealt with issues of social needs. These institutions were political bodies while today the trade unions are mainly professional bodies representing economic interests.

Today the social dialogue is conducted at the national, industry and company levels. At the industry and company levels, the employers and employees negotiate collective agreements. The government joins this dialogue at the national level, in the Economic and Social Council. Within the Council, the social partners participate in the preparation of legislation and put forward their opinions on social policy. The Economic and Social Council deals with employment contracts, social rights, rights under compulsory insurance in respect of old-age and disability pensions and social welfare, labour relations, collective bargaining and the legal protection of employees.

In January 1997, the trade unions, the Chamber of Commerce and the Employers' Association started negotiations on employees' benefits with a view to concluding a new Social Agreement. The current agreement, introduced in 1990 and renewed in 1993, will then expire. The Chamber of Commerce and the Employers' Association sought a reduction of employees' benefits in financially troubled companies, claiming such expenses were too high and seriously damaged Slovenia's competitiveness abroad. Employers argued for shorter holidays, reduced sickness and redundancy payments, reduced daily allowances and lower strike compensation payments. The trade unions opposed these proposals.

In an attempt to control wage increases, a law was passed in April 1994 levying a 50% tax on wages above a defined level. In practice, both this and previous attempts to control wages through legislation and taxation have met with limited success. The 1996 Social Agreement set the minimum wage at SLT 53,500 (ECU 298.53) and linked the basic wage to retail price inflation. There is no comprehensive legislation on wages of civil servants, which caused some social upheaval in 1996 when the wages of Members of Parliament and of the judiciary were changed.

8.5.4. Health and safety at work

Before independence, health and safety standards in Slovenia were high by eastern European standards. Nationalised industry was divided into large units of production, each of which was supervised by Safety Committees, Safety Officers and a range of Occupational Medical Services. Although some aspects of this system remain, the economic transition has brought considerable change. Faced with the need to keep their goods competitive and to control costs, many employers have reacted by cutting the numbers of occupational safety specialists and medical personnel and disregarding good health and safety practices. Employees, fearful of losing their jobs, are reluctant to complain about falling safety standards.

The number of fatal and non-fatal accidents has increased considerably since 1990. Ten to twelve deaths and approximately 20,000 accidents are reported each year. However, health and safety standards before 1990 were exceptionally high by eastern European standards and, even though these standards have declined, they could still be much worse. One particular problem is that currently two separate occupational health inspectorates exist; one deals with safety at work and the other with health at work. This division is both unusual and inefficient, as risks to health and occupational accidents are clearly closely linked.

To bring Slovenian law into line with European standards, the Minister for Labour has recently put forward a draft Law on the Assurance of Safety and Health at Work which will reform the Law on Safety at Work, which currently regulates health and safety issues. In assessing these proposals, it must be borne in mind that as 95% of Slovenian companies have fewer than fifty employees, it is important that the health and safety legislation should not hinder the operation of small and medium sized enterprises.

8.5.5. Social Security

a) Organisation

The health sector is administered by the National Institute of Medical Insurance with its ten district units. The highest administrative body of this Institute is an Assembly consisting of representatives of employers' associations and of the insured. Benefits and allowances for mothers and children are paid at Centres of Social Work which are part of the Ministry of Labour, Family and Social Welfare. The pension system is administered by the national Old Age and Disability Pension Institute (ZPIZ). ZPIZ has a Board of fifteen members and a tripartite Assembly of sixty members. Until February 1996, the Assembly was composed of pensioners, employees and employers; today the members are contributors, pensioners and the government. ZPIZ also administers disability pensions, survivors' pensions and compensation for occupational injuries. The General Health Insurance Association funds medical treatment for occupational illnesses and accidents.

Both employers and employees pay insurance contributions for health care, pensions, unemployment benefits and family benefits. Until 1996, the employer paid 19.9% of the gross salary but this was then reduced to 15.9%; the employee contributes 22.1% of his gross wage. In addition the employer pays insurance contributions for statutory accident insurance.

In 1995, the average household received 24.6% of its income from social security receipts, close to the average for European Union countries.

b) Health Care

Table 23: Life expectancy and infant mortality rate

	1980	1990	1991	1992	1993	1994	1995
infant mortality rate (per 1,000 live births)	15.3	8.4	8.3	8.9	6.8	6.5	5.5
life expectancy men	67.4	69.4	69.5	69.4	69.4	n.a.	n.a.
life expectancy women	75.2	77.3	77.4	77.3	77.3	n.a.	n.a.

Source: TRANSMONEE database

Until 1992, Slovenia had a national health service which provided universal coverage; private medical care did not exist. In 1992, three new laws introduced an insurance based system. Employers and employees each pay 6.5% of the gross income as a health insurance contribution. Contributions are mandatory for all employed persons, members of the professions, artists, farmers and pensioners. The state pays the contributions for socially disadvantaged groups.

The National Health Insurance Institute decides annually which medical services will be paid for by health insurance; most services are currently covered. However, patients - except those in socially disadvantaged groups whose insurance contributions are paid by the state - are required to pay a proportion of the cost of treatment. For any services which are not covered by health insurance or towards which the patient is required to contribute, individuals can take out voluntary health insurance. In 1996, 1,208,581 persons, or 90% of the population, had voluntary medical insurance. In 1995, the share of GDP devoted to health services was 7.75%.

Sickness Benefit

Sickness benefit amounts to between 80 and 100% of the average wages during the previous year, depending on the reason for absence. The benefit is adjusted to take into account general changes in wage levels and cannot be lower than the minimum wage. Sickness benefit, and any benefits for dependents, are paid by the employer for the first thirty days.

c) Pensions

Old Age Pensions

The Slovenian pension system is very generous. The pension is calculated as 85% of the average salary during the ten highest-earning consecutive years after 1970; this figure is then multiplied by a co-efficient of 0.866 to give an actual pension of some 74% of the former salary. Moreover, pensions are linked to increases in the average wage. The minimum pension is 54% of the average wage.

Contributions to the pension system are high. Until 1996, pension contributions were 31%, paid equally by employer and employee. It is a "pay-as-you-go" system offering predefined benefits.

The retirement age used to be fifty-five years for men and fifty for women but was raised in 1997 to fifty-eight years for men - providing that contributions have been paid for forty years - and fifty-three years for women providing that contributions have been paid for thirty-five years. The system of calculation favours early retirement; if an employee takes early retirement during the five years before the statutory pension age, his pension is decreased by only 1% for each year of early retirement.

Survivors' Pensions

Survivors' pensions are administered by the Institute for Pension and Disability Insurance. Survivor's pensions are generous by western European standards. One survivor receives a pension of 70% of the pension previously paid or accrued to the deceased. Two survivors receive a pension of 40% each and four or more survivors are paid 100% altogether. Those eligible include widows over fifty, widowers over fifty-five, children, parents, disabled persons and persons caring for a child under fifteen.

Disability Pensions

The disability pension system is very elaborate, with pensions and allowances linked to occupation. If the cause of disability is an occupational accident or disease, the pension amounts to a full old-age pension. In all other cases the amount of the pension depends on the length of the contribution period. For those who have reached the normal pension age the pension may not be lower than 35% of the pension base for men and 40% of the pension base for women. For those who have not reached this age, the invalidity pension may not be lower than 45% for men and 55% for women. Persons in this group whose invalidity pension is below 85% of the pension base have a right to disability allowance which depends on the contribution period.

The number of disability pensions has increased quickly from 67,600 in 1985 to 96,058 in 1995. In 1995, disability pensions amounted at least to the old-age pension which is increased by 10% to 30% of earnings according to the years of coverage, except for men under fifty-five and women under fifty.

Reform of the Pension System

Reform of the pension system is inevitable. The current system, which favours the old at the expense of those in work, reduces income and the incentive to work, impairs the competitiveness of business and holds back economic growth.

In 1996, transfers from central government resources to the pension system were increased in order to cover an anticipated deficit in the ZPIZ budget. The employers' contribution rate was reduced from 15.5% to 12.85% while the employees' rate remained unchanged at 15.5%.

However, these reforms were limited and not sufficient to solve the problems facing the pension system. Pension costs have been increasing for several years, from 7.4% of GDP in 1980 to 15% in 1995. The number of old-age pensioners has increased from 137,441 in 1985 to 259,253 in 1995. Large numbers opt for early retirement, as pensioners frequently enjoy a better standard of living than they did during their working life. The 1992 Pension and Disability Act has not brought about any improvements, as it merely ensured continuity with the pensions legislation inherited from Yugoslavia.

Several reforms are under discussion, but the favoured model is a three-pillar system.The first pillar would be funded by compulsory contributions and would pay predetermined benefits sufficient to ensure a basic standard of living for all pensioners. The second pillar, which represents the most important change, would be a compulsory insurance system. Each individual would invest part of his pension contributions in a personal pension account, which would be administered by publicly and privately managed pension funds under state supervision. The capital accumulated would be used to purchase an annuity (life-long payment of income in monthly instalments) which would be transferable to family members on the death of the insured. The first and second pillar together would be comparable to the current average pension. Contributions to the third pillar would be voluntary. It would be based on an investment system and voluntary personal pension accounts administered by specially authorised and privately managed pension funds[33].

d) Family Benefits

The rates for family allowances are set by the Law on Family Benefits, according to an income test. Adjustments are made periodically according to increases in the minimum wage. Both mothers and fathers are entitled to parental benefit of 100% of average income in the twelve months preceding the start of parental leave. If the parent has not received income for at least twelve months, parental benefit is calculated with reference to the minimum wage. Parental benefit is paid for up to one year and may be extended by three months. For parents who are not insured for parenthood, parental allowance is 52% of the minimum wage.

Child allowances are paid in respect of children under fifteen, handicapped children under eighteen and students under twenty-six. The amount of the allowance is related to the family income. Where the family income is less than 25% of the average wage, child allowance amounts to 22% of the minimum wage. The level of child allowance decreases as family income rises, so that families with an income greater than 110% of the average wage are not eligible. Child allowances are paid by the Ministry of Labour, Family and Social Affairs.

e) Social Assistance

Social assistance, paid under the Act on Social Security, is intended to help those who lack some means of subsistence. It is means tested, financed by central government and administered by community centres for social work. There are three types of social assistance.

- *Cash Assistance*

Cash assistance is available to persons who, due to old age or disability, are unable to work. To be eligible, claimants must have neither income nor property nor close relatives who are obliged to care for them. Cash assistance amounts to 60% of the minimum wage. In addition, claimants receive an annual non-pecuniary grant, such as food or fuel. Where the claimant is dependent upon care, cash assistance can be increased by 30%. Claimants living in rented accommodation receive an additional rent allowance. Cash assistance can be paid indefinitely. In 1995 there were 1,600 recipients.

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[33] Ministry of Labour Family and Social Affairs, *Starting Points for the Reform of the Pension and Disability Insurance System*, Ljubljana, July 1997.

- *Cash allowance*

To be eligible for a cash allowance, an individual must be over eighteen and not a student, not married or cohabiting and without children. Moreover, the claimant must have an income of less than 52% of the minimum wage. Cash allowance makes up the gap between a claimant's actual income and 52% of the minimum wage. If the claimant is dependent upon care or lives in rented accommodation, the cash allowance can be increased by 20%. Claimants can receive a cash allowance only for six months, but can then make a fresh application. In 1995, 25,000 individuals, who were maintaining about 30,000 family members, received a cash allowance. 94.2% of claimants were under sixty-four years and 45.7% were unemployed.

- *Casual assistance*

In extraordinary situations, such as damage to a home or the death of the breadwinner, a person in need may apply for casual assistance at the community centre for social work regardless of his economic position. The amount of assistance is in the discretion of a social worker but cannot exceed 60% of the minimum wage.

8.5.6. Education and Vocational Training

The Ministries of Labour and of Education, as well as a variety of governmental and non-governmental organisations, employers' and employees' organisations, are currently reforming the educational system in order to improve the quality of vocational training so as to produce employees with better skills. Problems remain concerning the definition of vocation and the lack of labour market research to meet the needs of four sub-systems (educational, economic, social and political).

a) School System

Compulsory education starts with enrolment at primary school at the age of six and lasts for nine years. Pupils who have difficulty at primary school may enrol in an optional tenth year of general education.

The most important form of secondary education is the gymnasium. Attendance at a general gymnasium ends with the Matura exam, which is required for university entrance. Alternatively, children can attend a secondary technical school which provides professional education and prepares students for the Matura. Moreover, students can acquire a professional education on one-year programmes known as technical vocational courses.

Higher education began to develop during the 1950's. There are thirty institutes of higher education, with over 43,000 students, which provide two-year courses. There are two universities: Ljubljana, the older, and Maribor, which was established in 1975. As education in former Yugoslavia was decentralised, the Slovenian universities were not exposed to competition or influence from other universities.

b) Vocational Training

After leaving primary school, children can enrol in a lower vocational school to receive basic vocational education for two to three years.

Students then progress to vocational secondary school, where they spend three years gaining qualifications to work in industrial production processes and services. They can then obtain the "master" craft qualification, which will enable them to run their own independent small businesses. Passing this examination is equivalent to completing secondary education and enables pupils, after passing further examinations, to continue their education at a vocational college.

Pupils who graduate from general or technical and professional gymnasiums, can take a one year technical vocational course, which provide professional or practical training. After passing the Matura or technical vocational course, most students continue their education at college or university. Some colleges have been transformed into three or four year higher professional schools, but shorter forms of vocational and professional training are also envisaged by the new law on education.

The apprenticeship system is currently unimportant but could become more important as the new concept of education develops. The development of a system of adult education is essential to ensure a vocational education system without dead ends, one of the basic principles of the new system.

8.5.7. Equal Treatment for Men and Women

In 1995, women represented 46.7% of all employed persons and 28.4% of employers and the self-employed In March 1997, the official unemployment rate was 15.2% for women and 13.5% for men. In 1995, women on average worked for 38.5 hours per week - compared to 39.7 hours in 1993 - and men on average worked 41.5 hours per week - compared to 39.7 hours in 1993. Women represent 54.8% of the short-term unemployed, who account for 2.2 % of the active labour force; the comparable figure for men is 1.5%.[34] In 1995/1996, 26,126 women and 19,825 men were enrolled as university students. In 1994/95, 1,431 women and 1,001 men were enrolled on two to three year programmes at colleges. Professional Higher Education Institutes were attended by 3,212 women and 1,807 men in 1995/96.

By western standards, women in Slovenia not only have a high rate of participation in the labour force, but also receive high relative wages. On average,women in Slovenia are paid 88% of the average male wage, compared to 73% in Austria, 69% in Germany and 68% in the United States. Moreover, women’s wages have risen relative to men’s during the transition. Women appear to be improving their position because they are, on average, better educated and concentrated in the occupations which have been least damaged by the economic transition.

The Office for Women's Policy deals with questions of equal treatment and equal opportunities for women. The Labour Relations Act provides certain protections for female employees, such as prohibiting night work in industry and construction. Women are also protected from dismissal during pregnancy and maternity leave. However, there is no law dealing solely with equal rights and opportunities.

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34 Zaposlovane-priblizevanje Evropi, Svetlik et al, 1994, Faculty of Social Sciences.

8.5.8. Poverty and Income Distribution

It is difficult to gather date in this field, especially as there is no national survey to determine the level of poverty in Slovenia. In 1991 the Institute of Social Science carried out a research study on 2,472 subjects concerning the quality of life in Slovenia which *inter alia* analysed poverty using various criteria, such as living conditions, assets and resources available for ordinary living.

According to UNICEF, in 1994 10.3% of all wage earners earnt less than 50% of the average wage. In 1993, 30.9% of the population had a low income, defined as less than 35% of average income; of those on low incomes, 6.1% lived below the poverty line, defined as 60% of low income. The Gini Co-efficient, which measures the degree of inequality in the distribution of earnings, increased from 1989 to 1994 from 22 to 28.

A 1995 study[35] showed that differences between wages had developed considerably since 1987; not only has the distribution become more unequal, but the gap between the richest and poorest has increased. While real wages fell at all levels between 1987 and 1991, the largest reductions were in the wages of the poorest workers. By 1991, wages among the worst-paid 10% of workers represented 56% of the wage they had earned in 1987. In contrast, those at the median in 1991 earned 64% of the wage earned by the median workers in 1987, while those at the ninetieth percentile earned 70% of the wage earned by those at the same position in 1987. Moreover, co-efficient of variation show increases in the variance of earnings for the lowest and highest educated groups and for the most experienced groups.

8.5.9. Conclusions

a) The economy

With relatively modern industry, a fairly small agricultural sector and isolated from the worst of the Yugoslav war, Slovenia has accomplished a swift transition from a command economy to a market economy. Slovenia has made considerable efforts to reform its industry to concentrate on Western export markets. 47% of the work force are employed in manufacturing industry, which produces 35% of GDP. The service sector is especially dynamic; retailing, tourism, transport and communications have grown considerably. The government was able to reduce inflation from 12.6% in 1995 to 9.7% in 1996 to an estimated 8.5% in 1997 without needing to resort to harsh austerity policies.

Even in 1996, when many western European countries were experiencing a recession, GDP increased by 3.9% due to the improved competitiveness of Slovenian exports and increased domestic demand. Nevertheless, this increase in GDP was less than in 1994 and 1995, largely due to increased labour costs. The volume of imports has increased and this trend is likely to continue. In an effort to halt this decline in competitiveness, in April 1997 the government unveiled new measures to increase productivity.

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35 Orazem P. and Vodopivec M., *Winners and losers in transition; returns to education experiences and gender in Slovenia*, World Bank Economic Review Vol 9, No 2, 1995.

Given the great importance which the Slovenian government attaches to EU membership, it is making considerable efforts to stress Slovenia's economic successes; the Prime Minister, for example, has recently drawn attention to Slovenia's ability to satisfy the criteria for EMU.

b) Social policy

The government, determined to transform Slovenia into a free market economy integrated into the western Europe economic system, has concentrated on ensuring the conditions for economic growth and been willing to tolerate reductions in social security. In assessing developments in Slovenia, the differences between the Yugoslav model of Communism and the more Soviet model in the other CEEC should be borne in mind. Unlike the citizens of the other CEEC, Slovenes were free to travel and work in western Europe and to transfer assets home. Slovenian migrant workers acquired knowledge of modern technology and of western industrial and business practices; this knowledge has facilitated the adoption of new structures and practices in Slovenia.

During the transition, the state has abandoned its paternalistic role and instead adopted the free market approach to employment, which accepts the existence of unemployment. The work force has had to adapt to redundancies at large companies, increased competition and the use of collective bargaining instead of the imposition of wages by the state. High rates of medium- and long-term unemployment demonstrate the difficulty that many have experienced in adjusting their skills to the new economic situation. To stimulate employment, the Ministry of Labour, with assistance from PHARE, has established an extensive programme of re-training, career counselling and job subsidies. The young, with an unemployment rate of 20% or 2.5 times the average, have been selected for special measures. Other government programmes seek to prevent people from losing their jobs due to economic changes or to assist persons seeking their first job. Government assistance is provided at the regional and company level in the form both of money and expertise, which is particularly useful to new small businesses with limited experience. Special programmes have been established to train handicapped people and to provide subsidies for businesses employing handicapped workers. The Slovenian authorities have been able to implement both on paper and in practice a large number of western recommendations.

Reforms to the system of industrial relations have been accomplished more successfully in Slovenia than in other CEEC. The large number of trade unions is evidence of their popularity among the workers rather than their strength but is also testimony of the development of an active "civil society" in Slovenia.

The system for ensuring health and safety at work is unsatisfactory. Before the economic transition, standards of health and safety at work were unusually high and substantial numbers were employed as safety experts. However, as the former large employers have been replaced by small businesses - 95% of businesses in Slovenia now have fewer than fifty employees - pressure to reduce costs and remain competitive have led many employers to cut back on health and safety measures. However, once a decision has been taken on Slovenia's accession to the European Union, there may be greater political willingness to address this problem, which could be underpinned by EU assistance.

The government-funded national health service was abandoned in 1992 and replaced with a system of compulsory health insurance funded by contributions from employers and workers which covers only part of the costs of treatment. People may purchase voluntary supplementary insurance to cover the shortfall. The standard of medical facilities in Yugoslavia was far higher than in some other CEEC, partly because contact with western Europe had encouraged the adoption of new treatments and technology. In 1995 Slovenia spent 7.75% of GDP on health care, an average figure by western European standards.

The pension system has acute problems. An low pension age and generous payments often make early retirement more attractive than employment and have led to large numbers opting to become pensioners. Major changes are likely in this field.

Important reforms to the education system are currently under way. Despite the absence of apprenticeships, much has been done to improve the qualifications of young people and to integrate them into the labour market. Nevertheless, high unemployment among the young remains a problem. There are no special measures to fight female unemployment and no general laws against sex discrimination, although there are certain limited protections for female employees. The Office for Women's Policy, however, may be the focal point for future developments. It is hard to assess how far the numbers of the poor have increased during the transition process as, according to official statistics, there was no poverty in Yugoslavia. Nevertheless, rising GDP, limited unemployment and a generally positive economic outlook should allow the government to deal effectively with poverty.

Provided that greater attention is paid to reforming the social security system - in particular the pensions system - and the system for protecting health and safety at work, Slovenia should have little difficulty in adopting European Community legislation, both on paper and in practice. With continuing economic growth, emigration of the poor to western Europe seems unlikely. In general the Slovenian economy appears sufficiently stable to cope with periods of minimal or even negative growth without overburdening national resources.

Chapter 9 - ANNEXES

9.1. Key Indicators

	Czech Republic			Estonia			Hungary			Poland			Slovenia			EU average		
	94	**95**	**96**	**94**	**95**	**96**	**94**	**95**	**96**	**94**	**95**	**96**	**94**	**95**	**96**	**93**	**94**	
population in mio.	10,33	10,33	#	1,49	1,48	#	10,25	#	#	38,58	38,61	#	1,99	1,99	#	total population (1996)		
growth of GDP (current prices)*	2,60%	4,80%	4,40%	-1,80%	4,30%	#	2,90%	1,50%	1,00%	5,20%	7%	6%	5,30%	3,90%	3,90%	2,40%	6,50%	
GDP per capita (in ECU)	#	3.491,00	#	#	1.854,00	#	#	3.343,00	#	#	2.359,00	#	#	7.236,00	#	15.850,00	17.420,00	
inflation rate*	10,00%	9,10%	8,80%	47,70%	29,00%	23,10%	18,80%	28,20%	23,60%	32,20%	27,80%	19,90%	19,80%	12,60%	9,70%	3,40%	3,10%	3,
trade balance (in mio US$)	-889	-3.678	-5.972	-356	-674	-106	-3.716	-2.433	-2.652	-1.809	-3.224	#	-338	-953	-853	#	#	
unemployment rate (in % of labour force)	3,80%	3,60%	3,40%	7,60%	#	#	10,20%	9,30%	9,20%	14,40%	13,30%	12,40%	9,00%	7,40%	7,30%	#	11,20%	10
unemployment under 25 years (in % labour force)	7,70%	6,80%	6,10%	11,80%	#	#	17,60%	16,60%	15,70%	32,50%	31,20%	28,70%	22,20%	18,80%	18,80%	21,30%	22,00%	21
life expectancy at birth (males/females)	69,5/ 76,6	70/ 76,9	#	61,7/ #	74,3	#	64,8/ 74,2	64,8/ 74,2	#	67,5/ 76,1	67,6/ 76,4	#	69,6/ 77,4	#	#	1992: 72,9/79,5		
population older than 65 years**	#	13,10%	#	#	13,10%	#	#	14%	#	#	10,90%	#	#	12,10%	#	15%	#	
US$ exchange rate (average)	28,785	26,541	27,14	12,991	11,465	12,034	105,16	125,68	152,65	2,2723	2,425	2,6961	128,81	118,52	135,36			
ECU exchange rate (average)	34,24	34,716	34,71	15,453	14,996	15,758	125,09	164,392	207,909	2,703	3,172	#	153,222	155,025	179,213	#	#	

* percentage change over previous year ** in % of total population # not a

sources:
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