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State Social Policy and Social Expenditure in Central and Eastern Europe

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Introduction

Social policy pursued in the transition period to date can be divided into two phases. The first phase covers the times of economic crisis on the onset of transition period. Social policy in that time created, on the one hand, new instruments replacing those from the period of real socialism, which were subject to liquidation or limitations. On the other hand social policy pursued then soothed new social problems caused by economic crisis. In most countries the second path of changes was followed, except for the Czech Republic, where creation of new instruments and social sphere institutions was considerably more distinct.

Duration of the first phase of transformation varied; in Poland it was relatively short -until 1992, since the economic recovery was recorded here the earliest. In remaining Central and Eastern European countries this phase lasted by approx. 1 year (until 1993), and in the Baltic states by approx. 2 years longer (until 1994) and in other postsoviet countries it still lasted in 1995, though some symptoms of recovery were already visible.

In the first phase mass unemployment and poverty occurred on a considerable scale. This turned the attention of governments to the social policy targeted at supporting income of the low income strata, consequently postponing fundamental systemic reforms in the social security system.

Not in all countries, however, the unemployment was allowed to grow on a scale meeting the needs of effective corporate management. In such countries, mainly in postsoviet countries, though the registered unemployment is very low, the drop of population income is very large. Keeping constant employment level at companies with the output that represents 50-30% of the previous figures must lead to reduction of wages and if the reduction of wages is minimised the inflation is skyrocketing making the effects of minimising wage reduction policy illusory.

Protection against the effects of crisis was not achieved thanks to one method only. In countries where the market-oriented economic transformations were the most advanced, the protection of the weakest groups of the society was pursued by means of open income redistribution. The enterprises' output was not subsidized, but was not taxed too much either. Social protection funds came mainly from personal income taxes and new indirect taxes (VAT, excise tax) and social insurance contributions, and allocation of funds for different purposes was decided by legislative power elected democratically.

The second phase in the social policy in the transition period to date is not characterised by uniform trend. Economic recovery was parallel in a few countries with the taking the power over by leftist parties, which led to introducing policy aimed at compensating the effects of the crisis by increasing the scope of social transfers. On the other hand, however, a new trend occurred pertaining to taking up systemic reforms, which can be termed as second generation social reforms. However, this trend is not a dominant one.

This paper on social policy in Central and Eastern European countries could be written thanks to permission to use ICDC Unicef data base set up to execute MONEE project (Central and Eastern Europe in Transition - Public Policy and Social Condition), on which the author of this paper has worked for 3 year now. Additionally numerous information were used taken directly from relevant institutions in the countries under study, mainly from statistical offices as well as research and development facilities.

1. Public finance

The condition of public finance on the onset of systemic transformations varied a great deal in individual countries. In Poland it was exceptionally bad, since in the eighties the government would repeatedly lose its control over pricing and income policy, which led to considerable instability of macroeconomic parameters and public finance. Two years later a similar situation occurred in Russia, then in Ukraine. In other Central European countries fiscal crisis on the onset of transition phase did not take place at all - Czechoslovakia, Romania, or occurred in a much milder form - Hungary and Bulgaria.

The launching of systemic reform led to a situation when efficiency of new sources of budgetary income related to the introduction of new taxes and to the change of taxpayers' breakdown (growth of private sector share) did not keep the pace with drying of old sources of income coming predominantly from taxation of state enterprises. The shrinking of tax income related to old income sources was not only owing to systemic changes, but also, and perhaps first and foremost - bankruptcy of state enterprises caused by markets and low efficiency revised by opening of the economy, which allowed for competitive imports to a large extent.

Trends in this area are illustrated by data in Table 1.

Table 1: Public income in relation to GDP

Country	1989	1990	1991	1992	1993	1994
Czech Republic	53.1*	54.8*	45.5*	44.4*	39.4	37.1
Slovak Republic	52.4	52.7	43.5	44.4	50.4	34.9
Hungary	58.7	57.7	57.7	56.5	-	53.7
Poland	-	-	43.7	45.3	49.1	46.5
Albania	47.0	44.7	31.4	27.9	28.0	-
Bulgaria	57.9	52.8	43.5	41.7	34.2	38.7
Romania	42.4	40.8	39.6	40.9	41.0	-
Estonia	-	-	-	35.2	40.8	45.4
Lithuania	42.9	40.6	39.6	33.2	32.5	34.0
Latvia	32.9	36.6	38.7	32.9	38.1	44.1
Byelorussia	-	36.3	30.8	32.4	28.7	32.0
Russia	-	25.0	24.0	29.0	30.6	28.2
Ukraine	32.5	27.3	26.2	36.6	47.0	52.0

* applies to Czechoslovakia
Source: ICDC Unicef database and own figures on the basis of domestic data

The shrinking of budgetary income during the first 2-3 years of transition period is not true to the same extent for all countries reforming their economies. In Poland an abundant source of budgetary income was initially anti-inflation tax, commonly dubbed *popiwek*, which is fact was excess wage tax. However, the liberalisation of prices and cutting subsidies to enterprises did not result in savings expected on the cost side. It was so, since social expenditure compensating price growth were higher, mainly owing to introducing pension benefits indexation, given drastic increase of persons eligible for pension benefits. It must be noted that in all countries of real socialism the scale of state obligations related to the social policy model was relatively high compared to the level of their economic advancement.

In the stabilisation programmes, consulted with IMF, balancing of the state budget was assumed, which manifested itself in setting a ceiling for budget deficit of 5% of GDP, which under the conditions of substantial changes of budgetary income structure was undoubtedly very difficult task, which required cuts on the expenditure side, where may expenditures were relatively fixed. For countries that would like to become European Union members the required budget deficit and GDP ratio is much stricter. Maastricht Treaty provides for the ratio not larger than 3%.

After five years of transformations still a difficult situation is in Hungary, Slovakia and Bulgaria (see Table 2), where the ratio of capitalised budget deficit to GDP exceeds the required ceiling of 5%. In Russia and Ukraine this ratio is also almost double the required 5% . Though in Bulgaria the share of budget deficit in GDP amounts at present only to 6%, but still in 1993 the share was about 12% .

When analysing budget situation in Central and Eastern European countries from the other positive side one must record exceptionally advantageous level of the said ratio in the Czech Republic. For two years now the balance of the state budget has been positive. Also in Poland low budget deficit can be observed. For two years now it has been 2.8% of GDP. Also in Romania and in the Baltic states budget deficit was never too high and in the Baltic states there was a surplus in the state budgets prior to 1993.

Table 2: Relation of budget deficit to GDP

Country	1989	1990	1991	1992	1993	1994
Czech Republic	-0.3	0.9	-2.5	-0.2	0.1	1.0
Slovakia	-0.2	0.0	-3.0	-2.8	-5.5	-5.7
Hungary	-2.7	-0.1	-4.9	-7.0	-6.0	-5.5
Poland	-7.4	0.4	-3.8	-6.1	-2.8	-2.8
Albania	-5.9	-4.6	-25.8	-16.5	-11.7	-7.8
Bulgaria	-0.6	-4.9	-3.6	-7.1	-12.3	-6.7
Romania	-	1.0	1.9	-4.8	-1.6	-4.3
Estonia	2.8	2.9	4.6	0.5	-1.4	-
Lithuania	1.0	2.0	6.4	3.0	1.0	-1.7
Latvia	0.9	1.4	3.7	1.5	0.9	-1.9
Byelorussia	-	-	-	-2.0	-4.0	-3.0
Russia	-	-	-10.0	-4.9	-7.6	-10.4
Ukraine	-	0.1	10.5	-32.0	-10.7	-10.5

Source: ICDC Unicef database and own figures on the basis of domestic data

2. Public social expenditure

In all countries share of social public expenditure in GDP increased over the first three years of transition period. In 1989-1992 the increase was in the range of a few percentage points, sometimes reaching almost 10 percentage points. The lowest growth for this index was recorded in the Czech Republic and Slovakia, which are countries with relatively high share of social expenditure in the previous years. The growing share of public social expenditure in shrinking GDP implies that all countries pursued social policy weakening to a certain extent the worsening of living conditions in the exchange for other items of national income allocation breakdown.

In subsequent years when the symptoms of economic recovery came into play the share of social expenditure in GDP was growing at a slower pace, though not in all countries. Only in some countries this index stabilised or even slightly lowered.

Table 3: Share of public social expenditure in GDP (%)

Country	1989	1990	1991	1992	1993	1994
Czech Republic	21.5	23.0	24.2	22.9	25.9	25.5
Slovakia	24.4	26.6	27.3	28.4	26.0	-
Hungary	22.5	22.7	29.6	31.9	31.5	34.0
Poland	-	-	31.5	34.8	32.7	35.4
Albania	13.4	15.8	23.1	-	20.3	-
Romania	14.2	16.7	16.2	16.3	16.3	-
Bulgaria	20.3	21.2	25.5	27.0	22.8	21.5
Russia	-	-	-	-	-	-
Ukraine	10.8	11.8	16.6	18.2	23.0	27.1
Byelorussia	-	18.6	18.7	19.2	17.3	-
Lithuania	14.8	15.5	18.7	18.6	17.5	19.3
Latvia	18.7	17.8	16.2	16.4	25.2	30.3
Estonia	-	-	-	-	23.7	-

Source: ICDC Unicef database and own figures on the basis of domestic data.

Indices characterising state social expenditure in the above table are slightly lower than in other sources. For example estimated figures for Hungary quoted in the national source talk about 39.9% share in 1992 (Hungary's Welfare State 1994)[1]. The lowered indices has no impact

[1] Most probably not all national social schemes are accounted for by international, comparative data bases. The scope of public social expenditure applied in the ICDC Unicef data base is a result of methodology adopted in the studies of International Monetary Fund (IMF 1986).

on the conclusions on the direction of changes in the transition period. The growing share of state social expenditure in GDP in the first years of transition was common, forced by rapid accumulation of new social problems and old problems becoming more acute.

The largest increase in the share of social spending was recorded in Hungary and Poland and more recently in Latvia and Ukraine. Because of that Poland and Hungary were forced to restructure thoroughly budgetary expenditure. Social programs trying to save are however difficult to execute due to political reasons, particularly when they apply to legally guaranteed long-term state obligations to the population.

The analysis of expenditure breakdown (see Table 4) shows also a common trend for countries reforming their economies. This trend boils down to increased share of expenditure supporting population income in relation to unemployment and poverty growth. It was also one of the reasons for the growth of spending on disability and old-age pensions.

Table 4: Breakdown of public social spending in 1993-1994

Country	Spending on:					
	Education	Health care	Social care and unemployment benefits	Disability and old-age pensions	Family benefits**	Price subsidies
Czech Republic*	16.5	32.5	2.0	32.5	-	0.0
Slovak Republic	19.6	18.1	5.0	36.2	10.4	5.8
Hungary	18.8	14.4	10.2	33.2	12.7	4.8
Poland*	17.6	14.5	11.1	45.0	1.6	1.4
Albania	19.7	17.7	5.9	30.5	1.0	10.8
Bulgaria*	21.4	18.6	13.9	43.7	7.4	-
Romania	20.9	18.4	-	39.3	-	-
Estonia	29.5	22.8	2.5	-	8.4	-
Lithuania	24.4	15.5	2.0	38.9	7.6	-
Latvia*	30.0	20.2	6.2	35.7	6,2	4.7
Byelorussia*	29.5	21.0	0.6	34.7	11.0	-
Russia	-	-	-	-	-	13.6
Ukraine*	21.0	18.5	-	33.5	-	14.0

* for these countries - 1994 data, for others - 1993 data
** family and maternity benefits

Table 5: Breakdown of public social spending in Poland in 1991-1994

Item		1991	1992	1993	1994
Social spending	(in mln PLZ)	25,953.8	40,003.6	52,529.6	74,384.0
	(in %)	100.0	100.0	100.0	100.0
of which:					
Education	(in mln PLZ)	4,195.1	6,243.9	8,367.6	13,123.7
	(in %)	16.2	15.6	15.9	17,6
Health care	(in mln PLZ)	4,197.8	6,138.1	7,735.3	10,812.9
	(in %)	16.2	15.3	14.7	14.5
Social care	(in mln PLZ)	923.2	1,727.3	2,337.9	3,231.1
	(in %)	3.6	4.3	14.4	4.3
Labour Fund	(in mln PLZ)	1,358.4	2,467.6	3,190.3	4,346.3
spending	(in %)	5.2	6.2	6.1	5.8
Social insurances (disability, old age pensions, family benefits)					
	(in mln PLZ)	13,138.0	21,260.0	28,718.1	40,187.9
	(in %)	50.6	53.1	54.7	54.0
of which:					
· old-age and disability pensions					
	(in mln PLZ)	10,182.5	16,783.8	23,194.1	33,229.8
	(in %)	39.2	41.9	44.2	44.7
· family benefits*					
	(in mln PLZ)	1,945.2	2,869.6	2,909.0	3,084.3
	(in %)	7.5	7.2	5.5	4.1

* family benefits include: family benefits, nursing allowances, child-care benefits, maternity benefit and birth allowance.
Source: Estimates and own calculations on the basis of Central Statistical Office data

Exceptionally high growth of spending on pension benefits is taking place in Poland, where their share in the total social spending accounts for 45% and this is the highest percentage in the whole Central and Eastern Europe region.

Spending cash benefits for families (family, child-care, maternity benefits) had various structure. In countries, which have been pursuing population-oriented policy for a longer time (the Czech Republic, Slovakia, Hungary, Baltic states and Byelorussia) the share of this group of spending is much higher than e.g., in Poland, where there is no such policy. In Poland all family related benefits have been declining (see Table 5).

Spending on education including higher eduction did not fluctuate a lot. In the second phase of transition period they started to grow (in Poland after three-year-decline started to climb up in 1994). There are, however, large differences among countries in terms of share of education spending in the total social spending. In postsoviet countries such spending weight more than in other countries of Central Europe, where a process of education commercialisation was launched, which led to increase the share of population personal income in financing education.

In the sphere of health care spending situation is varied a lot. For example in the Czech Republic 1/3 of the total social spending is allocated for health care. It is due to no savings policy in this sphere as well as no allowance for its commercialisation.

In the meantime in Poland and Hungary the share of population in financing health care has been on the increase, while share of public spending has been declining and is the lowest in the region, given that commercialisation of health care sector in Poland is carried out spontaneously (no official law regulations). It must be noted that population health indices in both countries are very bad (ICDC Unicef 1993).

In some countries consumption price subsidies are maintained, which have an essential impact on the social spending breakdown - more than 10% share. It is mainly true for Russia, Ukraine as well as Albania. In the Czech Republic this type of spending does not already exist. Also in Poland they have been minimalised.

The social spending breakdown reflects the advancement of social reform in different spheres of life. While Poland has to reform fundamentally its pension system and the Czech Republic - heath care system postsoviet countries, except for Baltic states, face the liquidation of consumer price subsidies.

3. Financial costs of unemployment

Unemployment on the largest scale swole in Poland, then in Bulgaria, Hungary and Slovakia. In postsoviet countries there is still hidden unemployment, which becomes these days quite drastic, since workers formally employed are not paid when production at a plant comes to a halt.

Central European countries suffered from an unemployment shock in 1991-1993 while postsoviet countries only over the period of last two years started to discover its hidden unemployment: Russia and Baltic states in 1994 (see Table 6).

Thus, the statistics on registered unemployment was not in the discussed countries a reliable source of information on the unemployment level. In most countries, after all, the statistics on registered unemployment shows lower unemployment rate than data gathered through labour surveys. An exception here is Poland and Hungary. In these countries the registered unemployment is higher than that recorded in the labour surveys. It is due to the existence of quite large shadow economies (registered unemployed in fact do have work) as well as incentive nature of social rights for the unemployed. In Poland an important motivational factor is access to free-of-charge medical care when one is registered. It is also important that the liberalisation process of the economy and labour market in Hungary and Poland was launched the earliest and with time passing both unemployment and poverty ceased to be a shameful issue. This can be proved by sociological research (Markowska 1995).

Table 6: Unemployment rate (%)

Country	1990	1991	1992	1993	1994
Czech Republic	0.3	2.6	3.1	3.0 - 4.1*	3.3 - 4.0*
Slovak Republic	0.6	6.6	11.4	12.7 - 12.5*	14.4 - 13.7*
Hungary	0.8	4.1	10.3 - 9.2*	12.9 - 11.9*	11.3 - 10.7*
Poland	3.4	9.7	13.6	15.7 - 14.0*	16.1 - 14.4*
Romania	-	3.0	8.4	10.4	10.9 - 8.2*
Bulgaria	1.5	6.7	13.2	15.7 - 21.4*	14.1 - 20.3*
Russia	-	0.1	0.8	1.2	9.0
Ukraine	-	-	0.3	0.3	1.0
Byelorussia	-	-	0.5	1.4	2.1
Lithuania	-	0.2	3.6	1.6 - 3.5*	1.9 - 3.7*
Latvia	-	-	2.3	5.8	6.5
Estonia	-	-	-	2.6	2.0 - 7.5*

* first figure is based on official registration record, second figure on labour surveys.
Source: ICDC Unicef data base and own calculations based on data from individual countries and European Commission. Unemployment Observatory. Central and Eastern Europe 7/1995.

In each country of Central and Eastern Europe first new regulations of the transition period on social sphere were concerned with social protection for the unemployed. Thus, each country adopted laws on employment and unemployment, which provided for setting up labour funds, introduced unemployment benefits and called into being new administrative bodies of labour exchange offices. In Hungary such law was adopted in 1988, in Poland in December 1989, whilst in Baltic states in 1990 and in Czechoslovakia, Bulgaria and Russia in 1991. These laws were amended frequently, which resulted in differentiation of eligibility to cash benefits alongside the unemployment growth as well as in differentiation of benefits' levels depending on the length of unemployment, circumstances on then local labour market and number of dependent persons in the family of the unemployed.

The presented specification (see Table 7) illustrates ongoing changes in the unemployment benefit system. In the first phase of the transition period in most countries, except for the Czech Republic, the Slovak Republic and Hungary relatively moderate eligibility criteria for unemployment benefit were applied. Moderate system entry criteria coupled with high unemployment rate in Poland led inevitably to quick introduction of relatively low benefit (36% of average wage), whereas in the remaining countries, at least in the first months of unemployment period, the unemployment benefit is based on the last wage and amounts to 70 - 50% of its level.

Table 7: Changes in the unemployment benefit level

Country		1989	1990	1991	1992	1993	1994	1995
Czech Republic	a - benefit level		60% of the last wage and if enterprise is under restructuring process - 90%, after 6 months - 60%, ceiling 2,400 Czech crowns, limit - 60% of minimum wage		60% for first 3 months, then 50% for 6 months			
	b - eligibility period		12 months		6 months			
	c - eligibility criteria		employment period at least 1 year in the last few years					
Slovak Republic	a		as above					
	b		as above					6-9 months depending on age
	c							
Hungary		60-70% of last wage for 6 months, then - 50-60% depending on reasons of losing one's job.	38-45% of last wage	70% of last wage for first 90-360 days, then 50%		75% for 23-90 days, then 60%		
	b	12 months	24 months	6-24 months	4-12 months	3-12 months		
	c	employment period at least 18 months in the last few years		1-year-employment within 4 years				

Table 7: continued.

Country		1989	1990	1991	1992	1993	1994	1995
Poland	a	70% of last wage for 3 months, 50% for subsequent 6 months and 40% onwards		36% of average wage, in special cases 52% or 75%				
	b	no limit 12 or 18 months in the regions threatened by unemployment and for employees with 25-30 years of employment						
	c	6-month-employment in a year outside private farming						
Romania	a			50%, 55%, 60% of last wage depending on long employment at the lower limit: 75%, 80%, 85% of the minimum wage	Special support - 40% of minimum net wage		Introduction of benefit upper limit - 200% net minimum wage and increase in special benefit - 60% of minimum net wage	
	b			6 months	9 months + 18 months of special support			
	c			6-month-employment in a year				

Table 7: continued.

Country		1989	1990	1991	1992	1993	1994	1995
Bulgaria	a		In the first month - 100% of last monthly wage, then in subsequent 5 months benefit decreased by 10% monthly, then minimum wage paid for next 3 months		Minimum wage + 20% of difference between average and minimum wages	60% of average wage. Lower limit - 90% of minimum wage. Upper limit - 140% of minimum wage. Indexation - 90% of CPI	Set benefits in the previous month are topped with: 15% for trainees, 10% for persons with dependent children below 16 years of age.	
	b		6 months + 3 months of social assistance		6-12 months depending on age and length of unemployment			
	c		6-month-employment and loss of job					

Table 7: continued.

Country		1989	1990	1991	1992	1993	1994	1995
Albania	a			70% of average wage for first 6 months, then increase by 20% of minimum wage for dependent persons; for persons employed shorter 1 year - 50% of average wage, then lowered by 10%. Lower limit 90% of minimum wage. Upper limit - 120% of minimum wage.			Fixed amount for first 6 months (1920 leks), and then reduced by 10%, indexed with CPI	
	b			12 months				
	c			3-month-employment and loss of job in the transition period			12 month employment	

High unemployment rate triggers high costs of social protection for the unemployed and labour market schemes. A rule observed here is that expenses on labour market active schemes are lower in countries with higher unemployment rate. In Poland, which has the highest registered unemployment rate funds for labour market active schemes started to play more important role only in 1993-94, when the share of expenses for active forms of counteracting unemployment in the Labour Fund exceeded 10% . In 1994 the said percentage was on the level of 12.8% . In the Czech Republic, on the other hand, the country with the lowest registered unemployment rate among the countries with advanced reforms, the policy in this sphere was different. Funds from the Czech labour fund were spent from the very beginning on labour market active policy. In 1993 the share of active forms amounted to 55% and covered 75% of the unemployed. These included first and foremost training courses, subsidies and loans for creating new job positions, with special emphasis on promoting small business.

Substantial funds on labour market active schemes are also allocated in Hungary. In addition such schemes are the most diversified here.

First research on the evolution of such schemes in Poland (Bednarski 1996) and in Hungary (Frey 1996) show that effective are primarily training courses and loans and credits extended to people who want to set up their own business.

Table 8: Expenditure on labour market schemes in 1993

Country	Share of expenditure on labour market schemes in GDP	Share of expenses on active schemes * in total expenditure on labour market schemes**	US $ per capita of unemployed population
Czech Republic	0.36	55	354
Slovak Republic	1.22	36	120
Hungary	2.94	23	345
Poland	2.18	16 (12***)	107
Romania	-	-	-
Bulgaria	0.76	12	31

* active schemes include: training and retraining courses, subsidized and public works, loans for setting up own business, subsidies to companies to create new job positions
** including administrative expenditure
***excluding administrative expenditure
Source: Estimates of M. Kabaj 1996 and data of the Ministry of Labour and Social Policy in Poland and Labour Ministry in Hungary (Frey 1996).

At the same time the participants of the schemes are characterized by much more advantageous features than average unemployed person: they are better educated and younger. The scope of such schemes depends primarily on the amount of funds available, but also on the efficiency of activities executed by labour market administration. In this area both in Poland and Hungary there are many shortcomings.

First years of experience with labour funds pose a constant question about the proper mechanism for financing unemployment benefits and labour market schemes. In many countries there is a strife to set up insurance institutions and to introduce appropriate level of contributions to be paid by employers, but a concern about the growth of non-wage labour costs in the environment of constant threat with unemployment given ongoing restructuring process of the economy, discourages governments to make an unanimous decisions in this area.

4. Changes in the pension system

Fundamental changes in the pension system are determined to a large extent by disadvantageous situation on the labour market. On the onset of transition period in Hungary, Bulgaria, Romania and Poland a right to earlier retirement or pension benefits was introduced.

In parallel a number of persons who were granted disability pensions increased. In a nutshell - a considerable growth in number of beneficiaries as opposed to demographic proportions was recorded (actual/systemic dependency rate much higher than demographic dependency rate[2]).

Additionally, in most Central and Eastern European countries statutory regulations on indexation of pensionary benefits were introduced, which resulted in their smaller drop when compared to wages, and even to remaining on the same level.

The protection of old-age and disability pensioners in the first, most difficult phase of transition period caused the increase of percentage share of pensionary benefits spending in the GDP (see Table 9).

Table 9: Share of pensionary benefits spending in GDP (in %)

[2] In Poland difference is almost double.

Country	1989	1990	1991	1992	1993	1994
Czech Republic	8.3	8.0	7.9	8.1	8.1	8.3
Slovak Republic	7.7	7.8	8.5	9.3	9.4	8.9
Hungary	9.1	9.7	11.3	11.6	10.9	-
Poland	8.2	8.1	12.2	14.7	14.9	15.8
Romania	5.7	7.2	7.0	6.4	-	-
Bulgaria	8.7	8.7	9.4	10.2	9.5	9.4
Russia	5.9	6.0	6.6	4.0	5.9	-
Ukraine	4.4	4.9	6.9	7.1	7.7	11.1
Byelorussia	-	6.2	6.4	5.7	6.0	-
Latvia	6.3	5.8	7.8	6.2	9.9	11.8
Lithuania	4.9	5.5	6.1	5.8	5.1	6.9
Estonia	-	-	-	-	-	-
Albania	5.7	6.8	10.1	6.2	6.2	-

Source: ICDC Unicef data base and own calculations.

In the next phase of transition period the trend pertaining to spending level on pensionary benefits diversified considerably. In some countries this group of expenditures continued to grow, both in relative (as a share in GDP) and absolute terms, mainly in Poland, Hungary, the Slovak Republic, Latvia, Ukraine. In the Czech Republic and Slovenia expenditures on pensionary benefits stabilised. In the remaining countries of the region such as Romania, Bulgaria, Albania spending on pensionary benefits in the second phase of transformation started to diminish in relative terms.

Only in few the average pensionary benefit to average wage ratio did not deteriorate. These countries include Poland, Slovenia, Estonia, Lithuania, Byelorussia (see Table 10).

Compared to the group of countries under study exceptionally advantageous situation was in the area of pensionary benefits expenditure in Poland. Within five years of transition period the share of this expenditure category doubled in GDP, and pensionary benefit to wage ratio grew almost by 20 percentage points. Additionally, it must be noted that in parallel the number of beneficiaries grew by more than 20% .

Table 10: Average pensionary benefit to average wage ratio (1989-1994/1995)

Country		1989	1990	1991	1992	1993	1994	% growth in 1994-89
Czech Republic	a	50.4	52.7	57.4	52.0	47.0	44.4	-19.8
	b	63.8	64.9	70.4	67.7	60.1	57.2	-6.6
Slovak Republic	a	49.2	51.0	53.6	49.1	48.1	41.8	-7.4
	b	-	-	-	-	-	-	-
Hungary	a	-	-	-	-	-	-	-
	b	63.1	62.6	64.3	60.9	59.6	56.9	-6.2
Poland	a	53.3	65.0	76.2	71.7	70.3	72.8	+19.5
	b	-	-	-	72.5	72.8	74.8	-
Romania a		-	-	-	-	-	-	-
	b	54.9	45.6	44.6	43.1	49.2	49.2	-5.7
Bulgaria	a*	57.3	48.2	53.5	43.5	44.1	46.8	-10.5
	b	-	-	-	-	-	-	-
Russia	a	35.5	33.7	33.8	25.8	33.6	35.0	-0.5
	b	-	-	-	-	-	-	-
Ukraine	a	-	31.6	23.2	19.5	-	-	-
	b	-	44.0	45.0	51.0	39.1	-	-
Byelorussia	a	-	25.7	38.8	21.8	37.2	34.7	+9.0
	b	-	-	-	-	-	-	-
Lithuania	a	40.7	43.9	44.3	52.5	49.4	45.9	+5.9
	b	-	-	-	-	-	-	-
Latvia	a	37.6	29.8	26.0	34.6	30.7	33.5	-4.1
	b	-	-	-	-	-	-	-
Estonia	a	38.5	33.2	-	46.3	35.0	38.9	+0.4
	b	-	-	-	-	-	-	-
Albania	a	76.9	74.2	74.6	45.5	44.0	54.2	-22.7
	b	-	-	-	-	-	-	-
Slovenia	a	-	-	-	-	-	-	-
	b	75.2	89.2	73.6	77.8	73.9	75.4	+0.2

a - gross ratio
b - net ratio
* - applies to wages in public sector

Pensionary benefits to wages ratio diminished the most in Albania and Bulgaria (more than 10 percentage points) and then in the Slovak Republic, the Czech Republic, Hungary and Romania (more than 5 percentage points).

The level of spending on pensionary benefits is determined strongly by not only an economic situation in a given country, but also by ongoing political processes. More frequent changes of governments and parliaments create favourable grounds for meeting demands of old-age and disability pensioners as a considerable group of electorate. A classical example is that of Poland.

Exceptionally high dependence of undertaken systemic changes in the pension area on the political circumstances led to a situation where the reform of pension system became one of the most difficult ones. Despite statements on inevitable and urgent character of reforms of the pension system, the transformation process is sluggish and full of conflicts.

A need of reforms in this area in the countries of Central and Eastern Europe is a result of the fact that the main cause for burdening with pensionary benefits is a large number of beneficiaries being paid their benefits relatively early. In most countries the benefits are on a low level. In relation to low wages they do not exceed 50% and in post-soviet countries even 40% .

In a few countries high level of burdening with the pension system is also due to high pension/wage ratio. The leading countries in this respect are Poland and Slovenia.

Low and flattened pensionary benefits create favourable conditions for introducing such reform projects, which allow to link individual input to the system with benefit level in the future. This type of changes is proposed, however, under the state benefit system based on a pay-as-you-go principle through the change of benefit calculation formula. Pure actuarial approach has been underway since the beginning of 1996 in Latvia. Switching to capital financing of pension system is still being postulated and discussed. In Hungary and the Czech Republic conditions were created for making savings for the old age under the pension fund system; in Hungary in 1993, in the Czech Republic in 1994. These funds have various dynamics; in the Czech Republic it is largely connected with the state subsidies to the paid contributions. In Hungary an essential obstacle to the growth of propensity to deposit money with pension funds is still unlimited and disorderly state benefit system, which does not create conditions for accumulation of savings for the old age.

An interesting fact are mushrooming company pension funds in private Russian companies. Their activities are based on the President's decree of 1992 on Non-State Pension Funds. Their number grows at a fast pace and accumulated capital is close to the federal budget level (Sinicyna 1994 in: Dąbrowski, Kozarzewski 1994).

Putting in order and restricting of state benefit systems implies abandoning and reduction of the number of benefits existing in real socialism era or denying rights to benefits for many groups of employees, who gained such rights due to other reasons than social insurance, most frequently due to preferences given in plans related to the wage policy pursued then or policy aimed at favouring some professions. Because of the strife to maintain old rights, reforms of social insurance systems are difficult to execute and in all countries of the Central and Eastern Europe progress in this area has been moderate. An exceptional country in this respect is the Czech Republic, which launched the reform of the social insurance system with the liquidation of political, professional and sectoral privileges (1990).

In Poland, despite good start in the fall 1991 (Indexation Law) further steps were paralysed by social protests and moderation of politicians.

5. Poverty versus schemes and social assistance expenditure

The growing population of poor people accompanied by unemployment rise as drastic drop in wages and limitation of social activities of companies and removal of price subsidies moved to the forefront of the first phase of transition period the problem of assistance rendered to the poor and fight against poverty.

In all countries of the region the creation of a network of social assistance institutions has been launched, as a rule on the basis of previously operating centres based on health care institutions. In all countries questions on criteria for providing assistance were posed. This question refers to the definition of the poverty and determination of so called official poverty line dividing the poor from the rest of the society.

In a few real socialism countries a category close to Polish social minimum was defined earlier. In former USRR it was the so called budget of material security minimum (McAuley 1979) determined by the experts for 4-person worker family. Those who did not reach that level were described as poorly secured and in reference to families with small children (below 7 years of age) this category represented a criterium allowing to apply for assistance.

Social minimum category was described widely and estimated precisely using experts' method (Tymowski 1973, Demiszczuk 1977). In 1981 by the virtue of government decision the Institute of Labour and Social Studies was obliged to calculate systematically social minimum basket whose value was changing under the influence of economic growth and changes in price structure. Social minimum was never used as an official criterion for determining other social categories, though its value represented a benchmark for evaluating financial standing of the Polish society in the eighties, when Poland suffered from long-term economic slump. Estimated values of social minimums were eagerly used by trade unions and courts that issued decisions on the level of child support for children left by one of the parents.

In the transition period, when social problems became even more severe, it was necessary to define official poverty line that could be used as a criterion for providing social assistance. A relative line was selected then - 35% of average wage, since this relation to average wage determined also level of minimum old-age benefit. In the first phase of transition period abrupt wage drop occurred, which was followed by corresponding decline in the value of official poverty line. However when the situation improved the value of the set criterion grew not only in a natural way, but also by the virtue of political decision (in 1994) its relation to average wage was increased by 4 percentage points (up to 39%). Thus official poverty line in Poland, compared to other countries, it is characterised by quite high level and whilst in other countries there was a trend to lower its level in Poland it went up.

Categories similar to social minimum had existed in other countries such as the Czech Republic and Hungary. Their significance in the social policy was not too high. They rather performed an informational function. In addition in parallel to the change of the system, voices could be heard that the category such as social minimum was not category of poverty, but rather category of low income, allowing nevertheless for integration with the society, which does not give social grounds for state intervention.

A few years prior to the commencement of transition period the approach to estimating poverty line was altered in Hungary. In Hungarian central statistical office a category of so called subsistence minimum was defined already in mid eighties, by estimating "backwards" poverty rate using this criterion (T. Fabian 1995). A model for this construction was official poverty line applied in the United States, where income for food was defined by experts on nutrition, whereas income needed for meeting other needs was determined statistically; on the basis of relation to the food expenses in low income households. Methodologically speaking this line connects absolute poverty (experts' evaluation of food needs) with relative measures (proportional share of expenses for other needs in relation to food needs). Such an approach led to maintaining real value of subsistence minimum in the transition period. In 1993 its real value was even a few percentage points higher than in 1989 (World Bank 1995, p. 4).

In social assistance the minimum old-age benefit criterion was used, similar to Poland, but the value of this criterion in Hungary in comparisons with other income categories is much lower than in Poland. In 1993 it amounted to 6,400 Hungarian forints monthly, which compared to 1989 level meant drop in real terms by 27% . Drop in value of real relative line - 50% of average expenses was at that time - 88% . Using these low value categories a conclusion was drawn that increase of poverty in Hungary was insignificant (see Table 11).

Table 11: Low income and poverty lines as well as poverty line in Hungary and Poland

Country		**Minimum old-age benefit**	**Relative line 50% of average income (expenses)**
Hungary	**Subsistence minimum (estimated on the basis of household budget studies)**		
	1978 - 15.4		
	1982 - 14.8		
	1987 - 13.8		
	1989 - 13.9	1989 - 1.6*	1989 - 4.3*
	1993 - 45.2* (58.3**)	1993 - 2.5 (4.5**)	1993 - 5.0*
Poland	**Social minimum**		
	1981 - 14.2		
	1983 - 27.2		
	1987 - 25.3		
	1989 - 16.3		
	1990 - 33.4		1990 - 12.0**
	20.5***		1991 - 8.0**
	1992 - 44.1		1992 - 7.0**
	1993 - 52.0	1993 - 14.4	1993 - 12.0**
	1994 - 54.0	1994 - 19.0	1994 - 13.5**

* income; ** expenses
Source: World Bank (1995), ILSS (1995).

On the other hand the poverty rate growth indices when subsistence minimum line was applied did not exceed 30 percentage points within 4 years.

Hungarians believe that poverty has become troublesome and difficult social issue in their country (Andorka 1995, Szivos 1995). It affects first and foremost young people and families with children like in Poland. It has one specific feature: it is closely related to ethnical differentiation of population, since the poverty affects the most Gypsy families. Causes for poverty are similar: unemployment and growing income gap and differentiation of income sources (considerable growth of social and private transfer share).

On the onset of transition period when Czechs were creating their market-oriented social policy, they defined living minimum category (żivotni minimum), which was supposed to be used for income reallocation. This category was similar to the previously existing category close to Polish social minimum. Necessary needs in the living minimum basket were defined using mixed expert and statistical approach; foods standards were defined by experts on physiology of nutrition[3], whereas the remaining needs - by statisticians on the basis of study on Czech families' expenses[4]. Living minimum value for 4-person-family amounted to about 44% of average Czech population income in 1989-1990 (Hirsl, Rusnok, Fassmann 1995). Within next four years it went down to 40% .

Conscious repetitive use of this category in the family policy and social assistance system under the conditions more stable than in other countries of the region led to a situation where poverty in the Czech Republic in the years of transition occurred on a smaller scale than in the neighbouring countries, though it went up a bit at the beginning (1990-1991). Absolute poverty rate indices defined by ICDC Unicef (21% of average wage from 1989) indicate that in 1992-1993 in the Czech Republic 1.5% of population and about 2% of households lived below poverty line (ICDC Unicef 1995, p. 8). In addition no poverty growth among children was recorded as opposed to adults and the elderly, which is a characteristic feature of most countries of the region in that time.

Tradition of normative approach to determine poverty line has existed in **Romania**. In 1994 a basket of subsistence minimum and minimum fair income were estimated, which were used to estimate subjective poverty line. According to the research (Stroie 1995) poverty in

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[3] Institute of Agricultural Economics in Prague.

[4] Detailed description of defining and valutating living minimum was presented by I. Bastyr and M. Kotynkowa (ILSS 1995).

Romania occurs almost on a mass scale. About 40% of population lives below subsistence minimum, while almost 80% live below social minimum. Subjective measures i.e., feelings of population give similar results. In accordance with official, very low poverty line applied by the Ministry of Labour and Social Security in the social assistance system in Romania, poverty rate is about 12% . The situation of said 12% of population below official poverty line is drastic. Similar to Poland and Hungary, in Romania these are primarily families with children, both full and broken. In Romania these families are frequently of Gypsy origin.

Social assistance expenditure in Romania is small - 0.3% of GDP. Changes in the system of providing assistance (introduction of individual meas-tested criterion) do not provide for increasing the total amount for assistance to the poor and fight with poverty. Generally, social expenditure in Romania is low - 16% of national income. Taxes are also low. In 1993-1995 taxation stabilised on the level of 33.4%, which should create favourable conditions for economic revival domestically (Zamfir's 1996). However, not earlier than in 1994 signs of economic revival could be recorded, though relatively high share of shadow economy (estimated to be 40%) and poverty of population still are not on a declining curve.

Threat of poverty in the first phase of transition period in **Bulgaria** led to a situation where trade unions after negotiations with government defined a category of social minimum as category of poverty. Similarly to each normative category of this kind applied to evaluation of poverty rate is showed that most of the society is poor, viz. as much as 2/3. Thus another criterion called fundamental minimum income (total expenses necessary to meet minimum food standards and electricity bills) was applied in the social assistance system. According to this criterion extreme poverty rate amounted to about 8% in 1991 and to 12% in 1994 (Nontcheva 1995).

Economic revival in Bulgaria observed since 1994 caused that the process of depriving social needs came to a halt and poverty rate estimated on the basis of relative line (50% of average population income) ceased to climb stabilising on the level of approx. 50%.

Despite the process of deteriorating material situation of the population did stop, the relative poverty rate is still very high in Bulgaria. Under such situation social transfers for the poor introduced in the social assistance system play an important role. About 3% of GDP is earmarked by Bulgarian government for unemployment benefits and constant social assistance benefits. Eligibility criterion is very low current income per capital in a family (below mentioned fundamental minimum income) accounting for possessed resources and property. Social assistance scheme operational since a decree was announced (1991) led to tenfold increase of state expenditure on poverty mediating policy. It is estimated that it played a positive role in the most difficult phase of transition period. At present another scheme is being postulated, more targeted at differentiation of instruments depending on poverty underlying reasons and bigger emphasis put on material means at the cost of cash payments (Nontcheva 1995).

In post-soviet countries where poverty occurs on a larger scale and is deeper than in Central European countries governmental policy in the social assistance area is characterised by current interventions rather than consistent execution of a uniform scheme.

An exception here is **Estonia**, where category of minimum guaranteed income was applied (fall 1993) and was called living means limit. This category allows everybody to apply for help who proves lower income than 320 crowns (1994) per capita (applying OECD equivalency scales).

In the remaining postsoviet countries the beginning of transition period was paralleled by ambitious principles and social assistance schemes, which could not be implemented due to economic crisis and budgetary cuts.

In **Lithuania** minimum living standard was defined normatively. Its value as of January 1990 was 100 roubles. Since 1992 Lithuanian government abandoned completely the category of minimum living standard from 1990 restricting it only to expenses on minimum food needs in order to protect population against hunger. Even when criterion of minimum food needs is applied poverty rate in Lithuania is still very high; in 1994 about 20% (Lithuanian Human Development Report 1995). Under such circumstances Lithuanian government was not in a position to help everybody who applied for assistance. A further lowering of the value of criterion applied in the social assistance followed, though expenses of the poor without work in relation to GDP grew from 0.4% in 1992 to 1.2% in 1994. At the beginning of 1994 paid allowances represented only 22% of redefined normative category of minimum living standard (Lazutka, Sniukstiena 1995, p. 16).

In **Latvia** parallel to Lithuania minimum commodity and services basket was defined, whose value represented basis for determining level of various minimum social categories for only a year. In 1992 the so called "crisis basket" was defined, which was applied by Latvian

Ministry of Social Policy and trade unions. The value of "crisis basket" in relation to the previous minimum commodity and services basket was constantly declining, though not at a such drastic pace as in Lithuania. In 1994 it reached value lower by approx. 25% (Central Statistical Bureau of Latvia 1995).

In **Russia** despite president's signing a decree on minimum existence index (March 1992) social assistance has used minimum wage criterion. Minimum wage was in the second half of 1993 only 25% of normative minimum existence index (Sinicyna 1994 in: Dąbrowski, Kozarzewski 1994). Adopting minimum existence criterion to be a poverty line it is estimated that poverty rate in 1992-1993 in Russia grew by approx. 10 percentage points. About 20% of population lived below poverty line in 1992, while in 1993 this figure went up to 30% (taking per capita income disregarding equivalency scales). First information dating back to 1994 show that percentage of the poor ceased to grow, while poverty was deepening. The poor became even poorer (McAuley 1995). Expenditure on mediating poverty in Russia are very low and vary from region to region. There are not national schemes counteracting this social phenomenon.

In **Ukraine** in the first phase of transition period a principle was introduced that social assistance can be provided to a family where income per capita does not exceed 50% of minimum wage. Social assistance benefit level was also determined in reference to minimum wage level: 200% for adults and 100% for children. Assistance was financed fro a local budget.

Minimum wage level in turn was linked to the level of normatively defined living standard criterion (minimum consumption basket). Since 1992 when wage indexation was abandoned gap between minimum wage and living minimum started to grow drastically. At the beginning of 1994 the minimum wage was only about 7% of minimum consumption basket. Even average wage did not reach normative living minimum. In the first quarter of 1994 it represented mere 50% of defined minimum consumption category (ILO-CEET 1994). In such a situation in the social assistance area new category introduced by Prime Minister's decree in June 1993 called social assistance intervention line started to be applied. The assistance under this new criterion could be also enjoyed by old-age and disability pensioners, but first and foremost families with children, which was decided in a separate law. This criterion was defined basing on the relation to the minimum consumption basket for each group of needs (from 30% to 90%).

In Ukraine their also benefits for the victims of the Czernobyl nuclear power station disaster. However, they are not financed from social assistance funds, but mainly from pension insurance funds, which are collected through additional contribution on wages. In 1992 expenses for this group of benefits amounted for about 5% of GDP (ILO-CEET 1994).

Drop in the national income and population wages in **Byelorussia** in 1990-1994 was huge (almost 40%). Consequently the pauperization of the population was wide sweeping. If we take normatively defined the so called minimum consumption budget to be indicative poverty line then estimate poverty rate grew from 5% in 1990 to 53% in 1994. Using minimum consumption budget category World Bank experts analyzed in 1994 the breakdown of the poor in the Byelorussian society. Under the analysis the highest rate of poverty is that of children and the youth (maximum 16 years of age). It gives index in the range of 80%, whereas for the whole population it was 70% and for pensioners (non-working) about 54% . (Unicef CEE/CIS and Baltic Section 1995).

Facing poverty swollen drastically to on a such scale it was necessary to apply another lower value criterion in the Byelorussian social assistance system. 60% of the value of minimum consumption budget for four-person-family was adopted as an official poverty line.

However, Byelorussian government allocates few funds for benefits for the unemployed and poor - one could say they are of marginal value, viz. 0.1% of GDP. However, expenditure for all services provided under social assistance system more substantial funds are spent - 0.9 GDP (op. cit.)

Growth of poverty in the first phase of transition period was in most countries of the region stopped when economic revival occurred and wages started to grow in real terms. Except for the Czech Republic poverty rate is high enough that without social assistance schemes targeted at mitigation of this phenomenon, the deepening of poverty and its strengthening among clearly defined groups of population. Despite that expenditures incurred by governments to fight with poverty and applied instruments are varied a great deal (see Table 12). Some countries do not execute significant schemes mitigating poverty e.g., Romania, Byelorussia or Russia. Other countries, on the other hand, are very serious about it: the Czech Republic, Bulgaria or Estonia. The remaining countries react on a current basis, though in most of them appropriate institutions were established and relevant tools are applied e.g., Hungary, Poland.

Table 12: Poverty criteria estimated and applied in the social assistance and spending on benefits for the poor and unemployed

Country	**Indicative criterion of social status - officially estimated**	**Official poverty lines**	**Spending on benefits for the poor and unemployed* (% GDP)**
Czech Republic	Living minimum	Living minimum	0.5 (1994)
Hungary	Subsistence minimum	Minimum old-age pension	3.2 (1993)
Poland	Social minimum	Minimum old-age pension (39% of average wage)	4.3 (1993)
Romania	Subsistence minimum - lower limit Social minimum - upper limit		
Bulgaria	Social minimum	Fundamental minimum income (expenses for food and electricity)	3.0 (1994)
Estonia	Support means limit	Support means limit (320 crowns in 1994)	1.8 (1994)
Lithuania	Minimum living standard	Standardised expenses for food	1.2 (1994)
Latvia	Commodities and services minimum basket	Crisis basket (by 25% lower than indicative line)	
Russia	Existence minimum	Minimum wage (in 1993 about 25% of existence minimum)	
Ukraine	Minimum consumption basket	Minimum wage prior to 1993, then social assistance intervention criterion	
Byelorussia	Minimum consumption budget	60% of minimum consumption budget	0.1 (1994)

* in a social assistance system

The problem of poverty in a few countries under transition was subject of detailed studies carried out by World Bank experts. From the studies conclusions were drawn on the shallow and short-term character of the poverty in the region, despite fast growth (Milanovic 1995). These two features represented a basis for recommendation that quick intervention under such circumstances could be exceptionally effective. Moreover it would require few funds to bring the income in line with poverty line, when poverty gap is small. To date the experience related to execution of social schemes in Central and Eastern Europe show that cash benefits and income equalisation are not as much effective as family assistance policy, education and economic revival of local centres. Funds needed for the above objectives are quite substantial already. Their utilisation would require change of the social expenditure breakdown in most countries of the region.

6. Medical care

Transition period in Central and Eastern European countries caused considerable deterioration of population health indicators. In some countries the deterioration of these indicators was frightening, especially in Russia, Ukraine and Byelorussia (ICDC Unicef 1994). Given the difference between health indicators before and during transition period one could suspect that previous data were not reliable enough. However, it does not change the picture of public health in the region. This situation was the main factor of maintaining, and in some cases even growing expenditures on health care as a percentage of GDP (see Table 13).

Table 13: Share of public health care expenditure in GDP (in %)

Country	1989	1990	1991	1992	1993	1994
Czech Republic	4.8	5.1	5.1	4.6	8.5	8.3
Slovak Republic	5.1	5.7	6.4	6.2	4.7	4.2
Hungary	4.0	4.5	5.1	5.2	-	-
Poland	3.0	4.3	4.8	5.1	4.7	-
Romania	2.5	2.9	3.3	3.3	3.0	-
Bulgaria	3.3	4.0	4.1	5.4	3.7	3.9
Russia	2.6	2.4	2.6	2.4	3.6	-
Ukraine	2.4	2.7	3.1	3.9	3.1	5.0
Byelorussia	-	2.6	2.9	3.7	3.6	4.6
Lithuania	2.8	3.0	3.2	3.5	3.4	3.9
Latvia	2.6	2.5	2.6	2.8	4.1	4.7
Estonia	-	-	-	-	5.4	-

Source: ICDC Unicef data base

When analysing institutional changes in the medical care common strives of majority countries in the region should be emphasized. Attempts are being made to **transform** supply financing system of **health care** (financed from general taxes) into a system partially of insurance character (financed from contributions paid by employers and employees). The beginning was to separate health insurance fund from the state budget or social insurance fund.

A pioneer in this area was Hungary.

In Hungary in turned out to be easier than it would be in Poland, since health care was fully financed through a contribution system, so from social insurance fund rather than general taxes from the state budget. In addition Hungary also introduces system of regulating market on the basis of prices calculated for illnesses using diagnosis-related group method. This solution has been worked on since 1978.

Health insurance funds were also set up in the Czech and the Slovak Republics (contribution of 13.5%), in Russia (contribution of 3.6% of payroll fund and state subsidies), in Estonia (contribution of 13% on individual gross income) and are planned in the remaining countries, including Latvia and Poland.

Another essential feature of changes in financing health care is restriction of total financing from insurance fund of the so called basic medical services. For services defined as non-basic charges are taken. Breakdown into basis and non-basic services and introduction of charges for the latter was made in Hungary and in some postsoviet countries e.g., in Russia in 1993 and in Estonia. Such breakdown was also developed in Poland and draft law introducing the charges was prepared. It implies departure from the principle of completely free health care services. In Poland and Lithuania it is a constitutional principle, which undoubtedly hampers the implementation of reforms.

In parallel in everyday practice of health care systems in many countries of the region different kind of charges are levied, not only illegal ones. Financial problems of health care institutions, which occurred in all countries of Central and Eastern Europe necessitated the introduction of various charges and fees for patients, first and foremost for services e.g., food and laundry in hospital, transport and using expensive medical equipment.

In all countries payments for drugs increased through the limitation of state subsidies to pharmaceuticals production and opening of domestic markets for foreign drugs.

Transformations of the health care systems in countries of Central and Eastern Europe are accompanied by considerable commercialisation of medical services. Commercialisation process is of spontaneous character, caused by wage degradation of doctors and medical personnel. Experience with still growing scope of medical services charges not defined unanimously makes reform makers seek such systemic solutions, where costs and services prices are known and sources of their financing are clearly indicated. Health insurance system meets those requirements much more than known from experience budgetary supply system, though when fee for service principle is applied, it does not necessarily have to be cheaper.

The introduction of insurance-related solutions in the countries of Central and Eastern Europe is a return to old tradition, whereas numerous European countries organised national health care financed from general taxes: Great Britain that did this right after World War II was followed then by Spain, Portugal, Italy and Greece.

Health insurance or broadly speaking insurance systems within social security system are in the postcommunist countries return to transparency of rules, openness of redistribution and possibility to control it. I think that this path is a result of, primarily negative experience with total income reallocation by budget. Insurance system will not solve the problem of services quality, nor economic effectiveness of medical institutions operations. Therefore the reform of the health care systems in the region will not finish with institutional transformations and change of financing sources. This area will still require a lot of new solutions.

7. Concluding remarks

The introduction of institutional reforms in the area of social policy during economic crisis is threatened by predominance of short-term fiscal approach over systemic one. On one hand an attempt is made to curtail public social expenditure and on the other hand income support is given to the social groups threatened the most. It brings, however, only short-term effects, but does not solve permanently the problem of operations of basic social security institutions advantageous to social effectiveness growth. An illustration of this kind of difficulties is the reform of pension system. It requires the implementation of a mechanism that would balance the interests of the generation paying contributions with pensioners and motivation for increasing propensity to save. In the meantime general decline in living standards makes politicians account for first and foremost current interests of present beneficiaries at the expense of next generation interest.

The adopted solutions are dominated by all kinds of cash benefits rather than material benefits. Such funds can be organised faster and more easily and decisions on the increase of benefits give temporary political gains. Meanwhile transition process needs much bigger emphasis on development of services representing investment in human resources i.e., in family policy, education and training and also activities oriented at active labour market policy.

Institutional reforms in the social policy area are very hard to implement. Each announcement of changes is met with reluctance, since it is associated with denying rights to benefits from real socialism, though more and more frequently such benefits are only "on paper". Lack of funds necessitates cuts and creates favourable conditions for commercialisation processes.

As soon as experience with unrestrained commercialisation is gained people are more included to accept reforms, which despite partial restriction of benefits introduce reason and more equitable criteria, though they are less egalitarian.

This implies that reform of social security and assistance organisations will last much longer than economic reforms. Claims and expectations on state policy exist and will grow proportionally to the process of developing effective social policy on local and NGOs levels.

Lack of confidence in NGOs hampers restructuring of social policy organisations. To gain confidence needs some time, but this period of time could be shortened by the governmental policy providing regulatory and financial support. In a few countries work was commenced and new regulations advantageous for nonprofit sector performing functions of social gains: in Hungary, the Czech Republic, Bulgaria and Poland. The process of setting up these institutions has not gained impetus yet.

Under the circumstances of restricting activities of social service sector and underdevelopment of relevant nonprofit organisations as well as private sector services an institutional vacuum emerges, which additionally increases the social problems of the transition period. This area would require more attention from reform makers. The acceptation of systemic changes in social policy area varies from country to country in the region. Basically, only the Czech Republic pursue consistent social policy reform planned back in 1990. In the remaining countries reform process in this area is determined to a large extent by political events.

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