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The Folly of Social Safety Nets: Why Basic Income Is Needed in Eastern Europe

BY GUY STANDING*

Introduction

THE OVERUSED word *crisis* implies that there is a moment in which there is a threat of worse to come and also an opportunity to resolve the threat favorably. Countries dubbed euphemistically as "transitional" have lurched into a crisis of social protection that cannot be resolved by importing social security models developed in a different era of industrial welfare capitalism. Yet they have been pushed in that direction, and have adopted many variants of programs implemented in Western Europe and North America, while being lured to privatized social policy. This paper is a plea for something more radical, based on a review of the main stylized facts and trends.

Sequencing and State Desertion

The communist model of social protection offered all citizens a low level of economic security that was based on having everybody

* International Labor Organization (ILO), Geneva. This article is written in a personal capacity, and views and conclusions should not be attributed to the ILO.

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in labor, paid a low wage, and provided with "cradle-to-grave" social benefits in transfers and services paid through the enterprise or organization in which the individual was laboring. Trade unions acted as the "transmission belt," dispensing benefits and using them as a means of control over workers in the workplace. The system worked in a way, being largely dependent on the stable economic structure in which very large state enterprises predominated, as total social as well as economic institutions, with their schools, clinics, social amenities, and rituals. The system was oppressive, paternalistic, and unfair in its arbitrariness. It offered a form of comprehensive security, at the price of loss of individual freedom.

When the economic reforms started, the premises on which the model of social protection and security were based were quickly eroded. The story is too well known to warrant repetition. Suffice it to note that the *sequencing* of reforms was primarily responsible for the subsequent impoverishment in much of the region, rather than the speed of reform. "Shock therapy" and its variants involved initial *price liberalization*, followed by a *stabilization policy*, to squeeze out inflationary pressures. Since the monopolistic structures of production and distribution were left intact, and since there was monetary overhang, the inflation was extremely high. Consequently, the stabilization or deflationary policies had to be severe, which meant reducing output and incomes. This was done mainly by cutting public expenditure. Governments were expected by the international community to cut budget deficits to a small fraction of GDP, and a vicious circle ensued. Since it was hard to raise public revenue, because production was falling and taxes could not or would not be paid, public expenditure and investment were cut very sharply indeed. The result has been called "state desertion," in which social infrastructure and expenditure were hit particularly hard.

In the sequencing of reforms, in the period of stabilization, a *social safety net* was to be erected to cushion the blow for the victims of the economic and social restructuring. This was a set of

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contingency-based programs of social security based on industrialized market economy models. These were to be "targeted" to those in need. These policies were introduced in conditions of severe resource constraints and rapidly rising social need.

The final phases of the sequencing were *mass privatization* and then institutional and enterprise *restructuring*. Addressing restructuring last meant that many inefficiencies and monopolistic practices were left intact, while demoralization spread. Privatization was introduced with structures encouraging opportunistic, rent-seeking behavior, giving insider minorities ample opportunity to enrich themselves. Corruption and economic criminality have become features of the region, and this must be attributed in part to the low priority given to public sector restructuring and rejuvenation in the early phases of reform.

The neglect of the public sector has been reflected in the relative and absolute decline in salaries and conditions of those employed in public administration, social services, and other parts of the so-called budgetary sector.[1] It might be useful to give a few examples, bearing in mind that the comparison should be between wages in the public sector and the better-paying jobs in the rest of the economy, and that higher-level private sector wages have tended to be understated, usually to evade taxes and social contributions.

In Romania, in 1990 the average wage in the civil service was 112 percent of the average for the whole economy; in 1995, it was only 96 percent. In Armenia, government statistics indicate that in late 1996, public sector employees were earning only 45 percent of the national average. In Poland, it was estimated that by December 1995 those employed in the public sector earned on average 85 percent of the average wage outside it, whereas in the past they earned more than the average. In Bulgaria, whereas in 1990 the wages of the public sector were 93 percent of those outside the sector, in 1995 they were only 71.5 percent; in Moldova, the figures were 106 percent in 1991 and 59.7 percent in 1996; in the Slovak Republic, the average public sector wage had fallen to

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about 90 percent of the private sector average. In Russia, by the mid-1990s the situation was worse, since not only had wages in the public sector fallen to well below comparable wages in the private economy, but public sector wage arrears had become endemic.

There is little prospect of efficient, equitable social policy if those expected to implement, administer, and monitor it are low paid. Those who have pushed so strongly for public sector cuts since 1990 should not blame chronically underpaid officials for subsequent inefficiency, petty corruption, and moonlighting. Nor should institutions and individuals that advocated those cuts be given credence now by advocating the creation of a merit-based, high-paid civil service. Some of the failings of design, implementation, and monitoring of social policy can be attributed to the policies of state desertion.

The Impoverishment of Dreams

Economic and political reforms have ushered in an era of relative freedom and—for a minority able to take advantage of them—economic opportunities. This is the good news. They have also resulted in considerable impoverishment and insecurity, as well as socioeconomic differentiation. Supporters of the reform strategy sometimes argue that this is exaggerated, that this is the cost of eradicating the former deplorable system, and that this will be a short-term phase that is essential before sustained economic growth takes off. Undoubtedly, restructuring is painful. Whether the social costs should have been so high is debatable; they were not predicted by the advocates of the strategy, and it would be welcome if a greater sense of humility were shown.

Documenting the deprivation is not a task of this paper. It should be sufficient to note the broad trends, to indicate the challenge for social policy. Poverty rates have risen everywhere in the 1990s, and "poverty gaps" seem to have grown.[2] Defining poverty in a shrinking economy is peculiarly difficult. The conventional approach has been to take a poverty line based on an officially designated "shopping cart of goods and services." In some coun-

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tries, this approach has been manipulated. For instance, in Russia since 1991 the amount of food deemed necessary has been reduced several times, so that the poverty line has, in effect, been adjusted downwards. Moreover, the calculation has been based on the presumption that food accounted for 68 percent of the household budget and the poverty line was based on adjusting upwards the income needed to purchase the food items. Since the relative price of services, including housing and transport, has risen more than the price of food has, the approach has become increasingly biased downwards.

Elsewhere, practices have been better.[3] However, according to poverty line methods, poverty has risen sharply in most countries.[4] Yet these tell only part of the story. Another approach would be to measure living standards by reference to the past. Although individual and household incomes were modest at the end of the 1980s, average real incomes in many of the countries fell very sharply in the 1990s, and there was a systematic erosion of the wide range of enterprise-based benefits on which the previous system had been based. The deprivation is not easily measured by current monetary incomes. Thus, we find that in the late-1990s, 90 percent of Russians have reported that they had become poorer. Even in the relatively successful economy of the Czech Republic, a third of the population reported themselves as poor in 1996.

Another factor is that trends in incomes must be treated with two major reservations. First, it is believed that much economic activity is informal and unrecorded, possibly accounting for 20 percent of national income. One should not exaggerate the growth, since the shadow economy was an integral part of the old system. However, its growth is consistent with the state desertion and the lack of fiscal and administrative regulation. What is questionable is whether the poor benefit much from informal productive activities, since often most income in the shadow economy goes to those with wealth or well-paid employment as well.[5]

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Second, there has been a monetization of worker remuneration that gives an inflated picture of changes in real incomes. A key aspect of the Leninist strategy was the gradual "decommodification" of labor, in which the wage would "wither away." As a result, enterprise-based and community-based benefits and services comprised a high proportion of total remuneration at the end of the era of state socialism. In the 1990s, those benefits have been withering away, and are scarcely found in the majority of units in the new private sector.

While poverty has spread enormously, economic inequality has also grown extraordinarily rapidly, and some countries in the region have the dubious distinction of being the most inegalitarian in the world. In the Czech Republic, the gini coefficient for income distribution rose from 0.27 in 1988 to 0.34 in 1994 (for an assessment of changes in Central Europe, see Vecernik, 1996). In Bulgaria, it rose from 0.22 in 1989 to 0.38 in 1995; in Poland, it rose from 0.23 in 1990 to 0.30 in 1994.[6] Higher figures have been recorded in Moldova (0.34 in 1995), Estonia (0.36 in 1996), Latvia (0.42 in 1994), and Lithuania, whereas in Armenia (0.65 in 1995), Georgia, and various parts of the former Soviet Union, even higher figures have been recorded.

The trends towards economic informalization and the monetization of remuneration have surely made the growth of economic inequality greater than suggested by the evidence on money incomes alone. In part, this is because there has been a substantial erosion in universal noncash benefits and services, which have a greater value for low-income groups. To compound the problem of interpretation of the available data, in some countries there has been extensive nonpayment of wages and benefits, and extensive delayed payment. *Wage arrears* in Russia have been the norm in the public sector and in much of the privatized economy. This has been as bad in the region's second largest country, Ukraine (Szoldos and Standing, 1996). It has also been common in many former republics of the USSR. Yet typically official statistics have reported *contractual* wages, not wages actually paid. Since

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workers subject to wage arrears or nonpayment have been mainly the relatively low-paid, the observed growth in income inequality probably understates the real growth.

Another feature of intensified economic insecurity is that many groups of "new poor" have emerged into prominence, each requiring or seeming to require separate treatment. There are the enormous numbers of refugees, internally displaced persons and other migrants, the unemployed, the disabled displaced from employment or marginalized because of the virtual collapse of institutional support, the homeless hit by privatization of housing, children in public care whose numbers have risen sharply in most countries, orphans whose numbers have risen because of higher mortality among parents, children hit by the rise in family break-ups, students affected by the falling value and more restricted access to government stipends, and the working poor, many formally attached to enterprises but paid little or nothing and many surviving in the black or informal economy. Unlike the past, a high proportion of the poor are *working poor.*[7] In some countries, the average wage has dropped closer to the official poverty line, and many households cannot escape from poverty on one working adult's earnings

The growth and diversity of forms of poverty, insecurity, and inequality is the context in which the evolving system of social protection has to be assessed. Underlying the bare facts is a terrible human tragedy, in which life expectancy has shrunk to an unprecedented degree in major countries, most notably the Russian Federation; in which suicides have multiplied almost everywhere; and in which morbidity rates have risen sharply. Nobody should be in any doubt that the social costs of what is euphemistically called "the transition" have been huge.

Some observers have expressed surprise that the poverty has been tolerated without social unrest, and some have even questioned the poverty on that ground alone. Others have believed that the poverty would not be tolerated; one claimed that "the threshold of tolerance of poverty and insecurity would be lower in

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the region because they have become used to comparing their societies with Western industrialized countries" (Offe, 1993, p. 658). Yet the absence of a vision of a society combining security with freedom may explain the apparent tolerance of the impoverishment, since most people have a reference point that is in the past, where income security was only provided in conditions where liberty was denied, where individual freedom was depicted as conflicting with societal security.

In the 1990s, like prisoners released into the sunlight, people have allowed the animal spirits of capitalism to have free rein. Social solidarity and distributive justice seemed expendable, even unhealthy, as privileged elites and their foreign advisers took control. The naive commodification of the market has opened the social space to all forms of opportunistic individualism, allowing and even legitimizing criminality and black-economy activities. Yet societies in which a sense of social solidarity is undermined or regarded as unnecessary are prone to populism, intolerance, chauvinism, and stratification in which minorities are faced with what is euphemistically called social exclusion, likely to constitute a *lumpen* element or what historians have called "the dangerous classes." The threshold of tolerance of the impoverishment may have been higher than some expected, but the longer-term consequences for social cohesion and distributive justice could be ugly.

The Withering of Enterprise Benefits

The outstanding feature of the system of social protection in the old regimes was the provision of benefits and social services through enterprises and organizations of employment. With most employment in very large state enterprises, these were total social and economic institutions that dominated most people's social existence.

In the 1990s, those services and benefits have been withering, shown by the erosion of crèches, holiday homes, clinics, sports facilities, training institutes, schools, rented housing, and enter-

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prise shops providing subsidized consumer goods.[8] In some countries, such as Georgia, Kyrgyzia, Russia, and Ukraine (where we have been monitoring changes through enterprise surveys), many enterprises have maintained a wide range of welfare functions. However, their extent and quality have declined, due to lack of funds, lack of investment, loss of interest by managements, and the weakness of trade unions that used to be primary intermediaries. Elsewhere the erosion has been even greater and faster.

There are good reasons for transferring such functions from firms to other bodies. However, in practice the erosion has meant a closure of many facilities or a loss of capacity as usable equipment and amenities have been allowed to decay. Although some have been transferred, many health clinics, crèches, training facilities, apartments, and so on have been lost rather than transferred to local government authorities. This has been an outcome of the state desertion and antistate ethos of the 1990s. The neglect has had unnecessarily adverse consequences for living standards, and has imposed greater costs on social policy.

There has also been a *polarization* (or fragmentation) in access to enterprise-based benefits and services. The more successful enterprises have continued to provide core workers with a wide range of benefits while others have not. This has compounded the growth of socioeconomic inequality and insecurity, while the overall erosion of benefits has increased the *need* for government provision. An assessment of the challenge of social protection in the region cannot be adequate unless it recognizes the importance of these trends, and the underlying tendency to worsen insecurity and inequality.

As their direct role has declined, enterprises have been expected to make more social security contributions to pay for the evolving social protection policies. As these have been high percentages of the average wage, many firms have found ways of circumventing contributions, by underdeclaring the value of wages, by not recording employment, or by drifting into the informal economy. Nonpayment has been pervasive. This has put pres-

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sure on social policy expenditure, and there has been a tendency to shift the contributions from employers to workers. For example, the contribution rate of 37 percent in Latvia in 1996 consisted of 28 percent paid by the employer, 9 percent by the worker; in 2001 the respective figures are planned to be 18 percent and 15 percent. In Poland, a similar shift is envisaged.

The role of enterprises has moved in the direction of that played in many industrialized countries. But it has moved at a time when informalization and flexibility in the labor market make conventional systems of social contributions harder to apply. Thus, enterprises have been cutting back their social welfare functions, have acted in ways that have eroded the funding for state programs, and have made it harder for workers to achieve eligibility for state-based alternatives.

The Minimum Wage Misused

One also cannot assess developments in social policy in Central and Eastern Europe without recognizing the much greater role the statutory minimum wage has played there than elsewhere. As this is discussed extensively elsewhere, suffice it to state that in the 1990s the minimum wage was turned from a source of basic income security for low-wage earners into a mechanism of destitution (Standing and Whitehead, eds., 1995; Standing, 1996). The main reason is that the level of many social benefits has been tied to the minimum wage. So policymakers have held down benefits by allowing the real value of the minimum wage to drop, in some cases to absurdly low levels, well below official measures of poverty and subsistence income.[9]

The minimum wage has long ceased to play a strong role in the labor market as a mechanism to give the employed a modicum of income security. No hope should be held that it could be converted into a source of such income security, although if raised to reasonable levels (as has been the case in a couple of countries recently), it could set standards of decency. However, the level of benefits should be set separately from the statutory minimum

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wage, so that the latter is not used merely as a convenient and clumsy way of controlling social expenditure.

Social Policy Neither Here nor There

In the 1990s, the structure of social protection in Central and Eastern Europe has been changed in many ways, with pension reforms, health care reforms, educational reforms, the introduction of unemployment benefits, and much else. Underlying the specific reforms, there have been two trends—a shift from universalism to selectivity and a partial privatization of social policy.

While governments have been under pressure to make social policies more selective and streamlined, there has been pressure to privatize social policy at least partially, most notably pensions. This pressure has come most from international and other foreign bodies, and such has been the latter's financial strength that their persuasive powers have brought into question the national autonomy of policymaking on social policy.

Meanwhile, the social insurance basis of funding social transfers has run into trouble. Because of the decline in employment and the growing poverty rates, contributions have declined, inducing higher contribution rates and the erosion of the contributory base mentioned earlier. The growth of informal activities (which has caused ambivalence among policy advisers) has shrunk the realm of social insurance. But to the extent that people are working in informal activities, they are not entitled to insurance-based benefits. In principle, this could lead workers to put pressure on employers to make them formally covered workers. However, in an era of labor market flexibility and insecurity, where the value of current income is high relative to the possible need for future support (and its questionable availability), the working poor are unlikely to conclude that it is in their interest to put pressure on employers, and it is unlikely that such pressure would have the result intended, since employers would have alternative options.

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It might be an exaggeration to claim that the following has been a pervasive outcome, but those working in the region may recognize it. First, pressure has been applied to cut public social spending; this has encouraged resort to increased "targeting"; economic stagnation has further increased fiscal pressure; the shrinking resources and the complexity of the targeting have compounded public sector inefficiency, which has been cited as one reason for accelerating the privatization of social policy. The end result is a meaner and more complex state system of social "protection." Let us consider trends in the main spheres of social protection affecting income security.

Trends in Pensions, Family Benefits, and Social Assistance

The pension arrangements were in a mess in the era of state socialism. Pensions were low, paid at an early age, and paid on the expectation that most recipients would continue to be in paid labor well beyond the formal age of retirement. Pension reform has been high on the agenda of social policy throughout the 1990s. In many places, it has not been a great success.

In most countries, pensions have accounted for by far the largest proportion of social expenditure. In Poland, it was about 50 percent of the total in 1996, even though the age profile of the population was quite young. In many countries, the percent of GDP spent on pensions has been rising. Yet average state pensions have fallen in value.[10] With aging, induced earlier retirement, and a fall of over 20 million in employment in the region during the 1990s, the number of pensioners and the proportion of the population receiving or entitled to state pensions have risen substantially. This is so, even though there have been efforts to raise the age of old-age pension entitlement. The trends have put added pressure on the financial and administrative capabilities of pension systems. In countries such as Russia and Ukraine, millions of pensioners have experienced long delays in obtaining their pensions, and many have not received them at all or only in part. In most countries, differentials between the basic and aver-

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age pension have widened, while there has been a trend to private or occupational pensions, intensifying inequality among the elderly.

There has been considerable pressure to introduce variants of the Chilean pension system. In 1997, the Polish authorities, strongly encouraged and partially funded by the World Bank, devised a plan to introduce a three-tier pension system in which the first tier would be intended to provide a guaranteed minimum pension (Ministry of Labor and Social Policy, 1997). The second tier would be an obligatory plan for all the employed, in which contributions would be invested in designated pension funds, so that the pension entitlement would depend on the rate of return on capital. The third tier would be a voluntary plan depending on employers and workers. Unfortunately, this Chilean-type plan would give a very low guaranteed minimum pension, set at 28 percent of the average wage. It would extend the principle of selectivity and erode the role of state-guaranteed social protection. And it would increase income inequality, leaving those unable to count on prolonged, well-paid employment at a life-lasting disadvantage. Workers would face greater risk, or income insecurity, because their pensions would depend largely on the success of fund managers. Finally, it would lead to an erosion of public support for the basic state pension, since this would only be the major concern for a disadvantaged minority. Other countries have been under pressure to move in the same direction, and it seems only a matter of time before countries such as the Slovak Republic embrace funded pension schemes to supplement if not displace the primary position of pay-as-you-go schemes.

Other forms of income support have also become meaner and more selective in character. *Family benefits*, introduced or reformed in the early phase of economic reform, have tended to decline in value, while access to them has become more restrictive. In most countries, total expenditure on family allowances has fallen as a proportion of GDP, most strikingly in Slovakia and

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Romania. In Slovakia, child benefits were transformed from a universal grant to a means-tested benefit in 1993. *Maternity benefits*, made dependent on past employment and on the woman's past wage, have also tended to decline. The replacement rates were lowered in the Czech Republic and Hungary, while their real value has fallen because they are not indexed to price inflation. Targeting has also been extended to include means-tested exemptions for fees for nurseries, as in Hungary and Lithuania, and for meals and textbooks in schools, as in Poland and Slovenia. The levels and incidence of take up of such means-tested schemes among those *eligible* for such benefits deserve independent research.

While these shifts represent a restructuring, the most important trend in social protection—besides the general erosion in levels of income support—is the drift to selectivity, represented by the growing reliance on *social assistance*. The growth has been rapid and the number of people receiving means-tested benefits is now very high. Although there may be some double counting, Table 1 shows the growth in the number of people on regular and occasional social assistance.[11]

International experience tells us that the take-up rate for means-tested social assistance is always modest, and one can anticipate that it is particularly low in societies where experience of such plans is limited and the administrative capacity to deliver them undeveloped. It is also likely that the take up is lower for the most impoverished and vulnerable, leaving the distributional consequences of a targeted approach decidedly uncertain. According to local calculations, in Poland the number of households receiving some state benefits was less than half the number classified as having incomes below the modest poverty line, implying that a majority of those needing income support were not receiving it.

Another feature of social assistance is the tendency to give entitlement only if the person's income is lower than the statutory minimum wage, as in Kyrgyzia, for instance. Since in most countries the minimum wage has been held down to below any mea-

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TABLE 1:Reported Number of Cases of Regular and Occasional Social Assistance, Central and Eastern Europe, 1990–95
(per 10,000)

	Regular		Occasional	
	1990	1995	1990	1995
Armenia	18.2	64.5[93]	3.4	14.9[94]
Bulgaria	934.3	998.5[94]	516.1	895.8[94]
Czech Republic	101.2	1,041.2[94]	215.5	513.0[94]
Georgia	10.8	269.7[94,b]	32.7	309.7[94]
Hungary	132.9	521.6[94]	845.7	2382.4
Latvia	77.0[92]	2,776.0[94]	406.0[92]	5,567.0
Moldova	n.a.	n.a.	600.0[93]	1,372.0
Poland	281.1	468.594	571.0	769.7[94]
Russia	991.1[92,a]	n.a.	2,200.0[92,c]	n.a.
Slovakia	39.1	929.6	60.6	228.7[94]
Slovenia	52.0	172.2[94]	181.1	237.4
Ukraine	262.0[93]	353.0	93.0[92]	575.0[94]

Notes: Number in superscript after data indicates a source year different from the year at the top of the column, e.g. 92 indicates data from 1992 instead of 1990.

[a] Data from a one-time survey showing that 10.2 million pensioners, 2.5 million families with children, and 2 million students received additional payments from local authorities.

[b] Besides regular in-kind assistance, 29,000 people also received regular cash aid and 5,400 social pensions.

[c] Free or reduced-price meals supplied by local administrations.

Source: UNICEF, *Children at Risk in Central and Eastern Europe: Perils and Promises* (Florence, UNICEF, 1997), Tables F7 and 8, p. 152.

sure of subsistence, the system has meant that many people in genuine poverty have not been entitled to social assistance. To make matters even more precarious, provision of social assistance has commonly been delegated to local authorities, many of which have lacked funds or the facilities or capacities to administer or pay them, giving scope for discretionary and arbitrary decisions on who to pay, how much, on what condition, and so on.

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In sum, the trends in pensions, family benefits, and social assistance have been toward greater selectivity and means-testing, and greater official discretion. The extent and value of universal benefits and services have shrunk, and the differential security provided to those in and out of employment has widened. There has been a substantial increase in the income insecurity of those outside employment and the labor market. Their insecurity is likely to have been further intensified by developments in social services.

Trends in Health Care, Housing, and Schooling

Social services have followed similar trends to those shown in social protection. Public health care services have been cut in most countries, an exception being the Czech Republic. There has also been a shift to private payment for public health care, and a growth in the private provision of health care, coupled with a growth of private health insurance. Although most countries have continued to rely on a public health system, in practice privatization has proceeded quite fast and access to relatively good service has become increasingly dependent on the ability to pay. At the same time, sickness benefits have become more restrictive in some countries, with reforms often putting more onus on the enterprise to pay workers for the first few days of sick leave and making workers share the costs. In some countries, a two-tier system of public health service has been introduced. Thus, in Latvia since the beginning of 1997, there has been a free public service for illnesses deemed strategically important alongside a basic program for other health needs for which the patient pays 15 percent of the cost, except for children and those classified as poor.

Similarly, access to housing has become more dependent on income. There has been a trend towards the privatization of housing, while rental subsidies have dwindled. These developments have increased the financial burden for low-income earners, and made the consequences of nonentitlement to income transfers correspondingly more critical to their security.

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Access to education has followed similar trends. Although enrollment rates in the state system of schooling have remained high, they have tended to fall. Preprimary facilities have shrunk particularly sharply, making it more costly for mothers of young children to be in the labor force. In many countries, the proportion of GDP devoted to schooling has fallen, an exception being Poland. Although public schooling has generally remained free of charge, the definition of this has often been narrowed, and supplementary costs have grown. For secondary and tertiary students, the value of stipends has fallen to a small percentage of average wages and to less than any measure of subsistence.[12] Entitlement to them has become more restrictive, becoming means-tested and in some cases, as in Bulgaria, being determined by exam results.[13] The trends in stipends have made it harder for young people from middle-income and poor families to enter or remain in secondary and tertiary schooling, and may have affected the learning capacity of those who have continued to attend.

Private schooling has been spreading, and in some countries private payments have been required within the nominally public system. Again, all of this is intensifying the inequalities in society, and making access to education increasingly dependent on the ability to pay.

In sum, public social services have shrunk in many countries and have become more costly in financial terms for potential users. The adverse distributional consequences of these developments have yet to be fully felt, since deprivation of schooling, housing, and health care later result in lower incomes and higher costs of living. The strong trend is for the state to provide a very basic level of public service and support, leaving users to pay an increasing share of the costs and giving means-tested financial and direct assistance to a minority. Whether or not the changes are justifiable on efficiency grounds, they surely increase socioeconomic inequality and income insecurity for a very large proportion of the population.

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Unemployment Benefits: Teething Pains, Deception, or Chaos?

All these trends have hit the unemployed particularly severely. In the past decade, unemployment has been legitimized in the region, and the number of unemployed has risen to chronically high proportions, much of it concealed or unmeasured. Unemployment benefits were introduced early in the reform process, closely modeled on programs operating in Western Europe or North America. The story since then is that conditionality has been steadily tightened, the value of benefits has tended to fall, often to derisively low levels, and disentitlement has become widespread. Familiar contradictory attitudes have contributed to the sorry evolution.

For many decades, as unemployment was regarded officially as "parasitic," the unemployed were regarded as part of the "undeserving" poor. This attitude has persisted in the employment exchanges in many areas. To some extent, the early reforms tried to redress that attitude, but the combination of rising numbers of unemployed wanting benefits and the squeeze on public finances led to a renewal of administrative heavy-handedness. This was compounded by the decline in contributions to so-called employment or unemployment funds, as more employment went into private and informal activities. Where the authorities responded to the funding crisis by raising contribution rates, the tendency to evade or avoid payment grew; where they lowered the contribution rates, total revenue was likely to fall, since the informalization and evasion were not counteracted. In both cases, those losing jobs lacked entitlement to unemployment benefits.

Actually, in much of the region you have to be quite astute to obtain unemployment benefits. First, entitlement has depended on registration at an employment exchange. In most countries, these have been inadequate in number and ineffectual, often being located a long, expensive journey from where the unemployed person has been living. Many of the unemployed seem unaware of the need to register or where to go. The costs of registering and the lack of information have probably been major

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reasons for very low registration rates in Russia, Ukraine, and the other countries of the former Soviet Union, where the majority of the unemployed have not been counted.[14]

Other conditions for entitlement to unemployment benefits have been arbitrary. For example, in many cases those unemployed who have quit their previous job have been disentitled, either for a time or permanently. Thus, if a worker is in an enterprise where wages have not been paid for months (an experience known to millions of workers in the region), quitting in despair would result in disentitlement to unemployment benefits. Policy makers have had a double incentive to allow this to continue—it saves on public spending and it encourages workers to stay on the employment rolls and not in the unemployment statistics.

A record of extensive past employment is usually a condition for entitlement. The rule on the amount of time varies widely, and there is no rationale other than a pragmatic rule of thumb. Thus, in Bulgaria and Estonia, it was at least six months in the past twelve months; in the Czech Republic and the Slovak Republic, it was at least twelve months in the past three years; in Lithuania, it was twenty-four months in the past three years.[15] So, someone in Bulgaria who worked seven months last year would receive benefits, while someone who had worked just as long in the Czech Republic would not. There is no sound principle being served. Elsewhere, the amount of payment has varied according to duration of past employment. In Latvia, for instance, entitlement to the full unemployment benefit is only achieved if the unemployed person has been paying the social tax for five years or more. In Azerbaijan, entitlement to full unemployment benefit has required proof of employment for ten years or more.

The linkage between entitlement to unemployment benefits and severance pay has also varied. In Russia, Ukraine, and elsewhere, many hundreds of thousands of workers have been trapped in a truly absurd situation. If they quit a job paying little or nothing, they lose entitlement to severance pay (usually equal to three months pay); they also probably lose entitlement to

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unemployment benefits, particularly if they cannot obtain their work history book, which they may need to register at an employment exchange. At the same time, it does not pay employers to dismiss redundant workers, because the cost of retaining unpaid workers is less than the cost of paying severance pay. So, millions of workers have been trapped in nonpaying, nonworking employment, which neither they nor their employers have an incentive to end.[16]

Every general rule of disqualification from entitlement has an arbitrary element. Thus, in Ukraine an unemployed person can be denied benefits if he was dismissed from employment or left a job without a cause deemed justifiable by a local official. Anyone who has visited an employment exchange in Ukraine will understand that this procedure is less than ideal. In Bulgaria, Estonia, Slovakia, and elsewhere, refusal by a registered unemployed to accept a job (usually the second offered) or training place offered by an exchange without a reason deemed justifiable is also grounds for disqualification. This rule may seem reasonable to a government planner or academic policy designer, but in reality it is rather different. This writer recalls a woman in charge of a regional employment service in Russia who recognized wryly that, for many of the unemployed registered at employment offices under her jurisdiction, accepting the type of job or training place they had on offer would be a route to deskilling and permanently lower job and wage prospects. She recognized their rationality, yet they lost their benefit entitlements and probably disappeared from the unemployment count as well.

Duration of entitlement has also varied widely, with twelve months being common in the initial programs; since then there has been a widespread tendency to shorten the period, often to six months, as in Belarus, Bulgaria, the Czech Republic, Estonia, Kyrgyzia, and Lithuania, or to nine months, as in Latvia, and even to institute a declining level of benefit over successive months, as in Moldova and Romania. Ironically, the shortening occurred as prospects of employment declined with rising unemployment. A

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reason, of course, was that rising unemployment was putting pressure on employment or unemployment funds. But the practice of shortening entitlement as the difficulty of obtaining employment grows is perverse. In some countries, such as Bulgaria, the duration of entitlement has depended on age and duration of past employment. In Slovakia, if the unemployed person is aged between fifteen and twenty-nine, he or she is entitled to six months benefit; if aged thirty to forty-four, entitlement rises to eight months; if aged forty-five to forty-nine, it rises to nine months; and after that, it rises to twelve months. One may comprehend the rough logic, but it represents a rough sort of justice.

Indeed, many of the rules and conditions are unjust. They often translate into greater income inequality and insecurity. For instance, the insurance-based rationale of unemployment benefits may accentuate inequalities among the unemployed, since those losing a job after a long period of income earning could be expected to receive income support and have more savings and assets than those with shorter periods of employment. Those in greater need would thus receive less.

Use of early retirement has been another form of conditionality imposed on unemployment benefits, since those over a certain age suddenly cease to be entitled to unemployment benefits per se. Putting older workers who become unemployed into the status of pensioner has had the double objective of increasing the targeting character of public employment offices, reducing the number of unemployed, and saving on unemployment benefit funds. For example, in Romania, a 1995 law on early retirement put unemployed men over the age of fifty-five and women over the age of fifty onto pension status. That has been the norm in Russia for several years, making a large number of men and women in their fifties disappear from the labor force. But this represents a distorting intervention, making it harder for the poor in their fifties to receive a labor market service. Is that fair, or even efficient?

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In Poland, unemployment benefits have varied according to the level of unemployment in the area of the person's residence. If he lived in an area of above-average unemployment, he has been entitled to twelve months of benefit; if living in an area of below-average unemployment, entitlement has been for only six months. Not only has this perversely discouraged labor mobility from high- to low-unemployment areas, but it is manifestly unfair on the interpersonal level. The conditionality has a pragmatic rationale, but it offends any theory of social justice. Why should someone living in an area with 9.9 percent unemployment receive half the benefits of someone living in an area of 10.1 percent unemployment? Both persons are unemployed, and if their qualifications differ it is possible that the person in the lower-unemployment area would have a higher probability of securing employment than the other person.

The main outcome of the evolution of unemployment benefit systems is that only small minorities of the unemployed have received benefits. Some analysts have concluded that the systems are operating reasonably well by international standards, since on average about half the registered unemployed are shown to be receiving benefits. There are at least five reasons for regarding that view with skepticism.

First, in many countries only a minority of the unemployed register, for reasons ranging from the cost of travel to fear of bureaucrats in general and the specific fear that they have no entitlement to benefits, whether justified or not (for an analysis of the factors, based on survey data, see Standing, 1996b, Ch. 2). Extreme examples are all the former republics of the Soviet Union. In Russia, less than a quarter of the unemployed have registered; in Latvia, a survey found that in late 1995 a third of the unemployed were registering. In some countries only a tiny minority of the unemployed register. In Azerbaijan, the registered "official" unemployment rate was 0.8 percent at the end of 1996; the Ministry of Economy estimated actual unemployment to be about 20 percent.

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Second, only a modest proportion of the registered unemployed are entitled to or apparently receive benefits. In Georgia, according to government reports, in 1996 only about 10 percent of the *registered* unemployed were receiving benefits, but over 90 percent of the unemployed were not registered. In Tajikistan, only 13 percent of the registered unemployed in late 1996 were receiving benefits. In Azerbaijan, where less than 5 percent of unemployed have registered, only 21 percent of those have received benefits, implying that less than 1 percent of the unemployed have been receiving benefits. What system is this? Elsewhere the figures have been higher, but they are still all surprisingly low. In Croatia, in 1996 20 percent of registered unemployed were receiving benefits; in Bulgaria, in late 1996 the figure was 23 percent; in Lithuania, it was 24 percent; in Latvia, the figure was 47 percent; in Poland, 52 percent; in Kyrgyzia, about 57 percent; in Kazakstan, about 60 percent.

Third, in some countries the figure for the proportion of registrants receiving benefits has been an overstatement. This is primarily because some local officials report entitlements rather than actual payments. Local officials frequently admit that many of the registered unemployed do not receive benefits to which they are entitled because there are no funds or because funds are allocated to other purposes, usually at the discretion of the local officials. Firms have refused to pay their contributions, or have said they cannot pay, and in some cases have provided goods in kind, which have then been given to the unemployed in lieu of benefits. In 1996, a survey in Russia suggested that 54 percent of the registered unemployed with entitlement to benefit did not receive anything (Chetvernina, 1997, p. 8).

Fourth, the trend in the share of registered unemployed receiving benefits has been downward. In Belarus, 80 percent received them in 1992, 39 percent in 1994; in Moldova it was 57 percent in 1992, 19 percent in 1994. The main reasons seem to be the rising number of unemployed, the increasing selectivity of unemployment benefits, the low income replacement rates of benefits, and

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the spread of informal economic activities in which no contributions are made and no entitlements established.

Fifth, in most cases replacement rates for unemployment benefits have been low. For instance, in Armenia it was about 33 percent of the average wage in 1996; in Poland it was 28 percent; in Romania, about 50 percent. These would have been below the subsistence income or poverty line. Although commentators have called for a reduction in the "generosity" of unemployment benefits, this would scarcely be justified. In Russia and Ukraine, the average unemployment benefits have been equivalent to the minimum wage, which has been a small fraction of the average wage and well below the subsistence income level; in Belarus, the figure was even lower. In Bulgaria, the unemployment benefit has been 60 percent of a person's previous gross wage, which in inflationary conditions has had a dwindling real value, even though benefits have been partially indexed to price inflation. The maximum benefit has been 140 percent of the minimum wage, which in 1995 was about a third of the average wage and about 50 percent of the subsistence income level.

As in Western Europe, with persistently high unemployment and poverty, many of the registered unemployed have drifted from unemployment insurance benefits into reliance on means-tested unemployment assistance. Some statistics on numbers of recipients of unemployment benefits include those receiving unemployment assistance, which has an even lower value. For instance, in Romania, the unemployment assistance level has been 40 percent of the minimum wage; in Ukraine, it was set at 50 percent of the minimum wage, which has been worth less than 20 percent of the official subsistence income.

In sum, unemployment benefits are arbitrary, unfair, inefficient, and ineffectual. Unemployment benefits have been low, hard to obtain, and uncertain. They have put some workers into poverty traps—often stranded in virtually unpaid employment—and have put some into unemployment traps, unable to take low-paid jobs legally for fear of losing entitlement. For those on the

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margins of the labor market, they are not a solution to income insecurity, but an intensifying contributor to it. Presuming that it is not a policy objective to have a majority of the unemployed receiving nothing in benefits, reform in a constructive direction should be much higher on the policy agenda than it has been in recent years. So far, the reforms have been mainly in the direction of limiting benefits and intensifying insecurity.

The Ethics of Targeting: Why a Citizenship Income Is Needed

Although not all have been discussed in this paper, the main policy trends affecting income security in Central and Eastern Europe in the 1990s are the following:

- Unemployment has been legitimized, and unemployment insurance benefits have been introduced, only to reach a minority of the unemployed.
- A social security basis for social protection has been established formally, only to be subject to a steady narrowing of entitlement.
- The statutory minimum wage has been turned from a basis of income security into a means of holding down the value of benefits and a mechanism for limiting public social expenditure.
- A lack of effective regulations and sanctions has accelerated the growth of informal, private economic activity, which has eroded the contributions basis of social security.
- Universal social services and income transfers have been reduced by various means, including the removal of consumer subsidies, removal of subsidies on school books and meals, introduction of user fees and user cost-sharing, introduction of partial payment by firms and workers for sick leave, and so on.
- Targeting has been increased by more means tests, linking benefit entitlements to income, and by making some benefits taxable.
- Targeting has been increased by attaching more conditions to entitlement and by tighter regulations.

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- The drift to workfare has been emerging, through the tightening of conditions and the belief in active social and labor market measures rather than passive measures.
- Privatization of social policy has been growing, notably with pension reforms, by making some services private and subject to market pricing, and by obliging people to opt for private pensions, private health services, and private schooling.
- Decentralization of responsibility for policy formulation, implementation, and monitoring has been occurring, often without effective funding or accountability, resulting in widespread nonpayment, discretionary payment, and ad hoc selectivity in practice.
- Nongovernmental organizations (NGOs) are being expected to take over responsibilities in social policy.

The crises and trends in social policy in Central and Eastern Europe are stronger than elsewhere, but with the exception of the cruel misuse of the minimum wage similar trends exist in most industrialized economies. A root factor is the discordance between the increasingly flexible and informal productive system and labor market and the increasingly selective social policies. In these circumstances, creating a welfare state in Eastern Europe along the lines of what evolved in Western Europe after 1945 is neither feasible nor appropriate.

What should be the future basis of social protection policy? We are coming to the end of the century of the laboring man. The welfare states constructed during the past century were based on the norm of the laboring man, with a dependent wife and children, where the man was in full-time employment from an early age until retirement, with occasional temporary interruptions of earning power. The welfare system had three primary objectives: to compensate families for contingency risks such as sickness or frictional unemployment; to provide income security in old age and in chronic disability; and to facilitate, legitimize, and stabilize the industrial economy. It would be wrong to focus exclusively on its compensatory role. It has always had a regulatory role as well,

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ensuring the reproduction of the workforce and encouraging disciplined labor. It was never intended to be a major means of redistribution of income, wealth, or power.

Welfare state capitalism could only secure a trend toward income equality on the basis of something close to full employment (of men) and where strongly progressive income tax was feasible and socially accepted. At the end of the century of the laboring man, neither of those conditions are broadly envisaged, and there is no prospect of a consensus that they should or could be achieved. Without those circumstances, fiscal pressures on the social protection system are likely to make policy more selective, more judgmental in design and implementation, more discretionary at all levels of administration, and meaner in terms of level of benefits. These will increase income inequality, as it has done in many countries in the past decade or so, and socioeconomic detachment becomes pervasive.

This leads us to the old conflict between *universalism* and *selectivity*. The respective appeals must be reassessed in the context of globalization, in which growing international mobility of capital, labor, and technology is coupled with increasing flexibility, informalization, and insecurity in the labor market. The challenge is to create a system of social protection that combines income security with incentives to flexibility, work, and saving; that gives priority to improving the position of the socially disadvantaged; and that is economically, socially, and ecologically sustainable.

The rationale for selectivity and targeting is well known, and has been a global refrain in the past decade or more. The ostensible objectives are to reduce public spending through greater efficiency, to concentrate public social spending on those in need, and to shift social policy from a welfare-orientation to a developmental one, moving from compensating people for being unproductive (poor) to enabling them to be productive (earning an income). This at least has been the rhetorical refrain. In practice, selectivity means reducing the scope of publicly funded and publicly provided social protection, it means rationing such assis-

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tance and it means making judgments about the "deserving" and "undeserving."

Consider the main arguments. Efficiency is not just a matter of fiscal cost. That can always be achieved by withholding transfer payments or by lowering their value. Efficiency is also about the cost of achieving what should be the primary objective, that of giving income security to the whole population. The pursuit of narrowly defined efficiency through means-tested and behavior-conditioned transfers induces a worrying issue of moral hazard for politicians and public officials. If the take-up rate is low, the government or local authority "saves money," which it can allocate to other purposes or use as a means of cutting public expenditure. This could be shown as an apparent efficiency gain or as a reduction in the budget deficit. People who do not claim benefits or who do not do so successfully can be presented as demonstrating that they are not in need or as not satisfying some socially popular behavioral norm, allowing politicians and analysts to remove them from the "deserving" category. In short, selectivity is open to administrative opportunism, and is rarely transparent. The outcome might be presented as evidence of enhanced efficiency. It is not. That should be measured in terms of enhanced income security for all the economically vulnerable in society.

A second argument cited for selectivity is that it is relatively equitable. For instance, it is argued that because of growing income inequality, targeting in the provision of state transfers would reduce income inequality. However, global experience suggests that welfare benefits have rarely been an effective redistributive instrument (Anderson, 1990). They can at best give greater income security, with a modestly progressive tendency. Yet can selective programs achieve that? It is far from clear that there is a consistent, ethically sound system of distributive justice underlying complex systems of selective programs. For instance, it is often argued that family benefits and unemployment benefits are more progressive than old-age pensions because they go more to poorer groups. Yet often those least able to clutch onto the web-

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bing of the safety net are the most vulnerable and socially ill-equipped. In other words, because of the incidence of low take up, there are large exclusion errors. In response to such realities, some have proposed greater categorical targeting. These may be more successful. However, beyond the easily visible cases (for instance, the severely disabled), categorical targeting has its own exclusion errors and has moral-hazard drawbacks, notably in some cases encouraging behavior or circumstances for which the compensation is intended.[17]

The means tests and behavioral conditions of most programs amount to mechanisms of social regulation and control, and because of practical failings surely result in interpersonal and intergroup inequity. If, for example, the take-up rate is low and if there is no prospect of overcoming the reasons for low take up, then means-tested selectivity must be socially unjust. In the countries covered by this paper, this surely is the case.

A third argument made for selectivity is that it concentrates support on those who deserve support and/or who merit support. This is perhaps the most dubious claim of all. It is a smokescreen for paternalism, if not something worse. Any such distinction involves moral and economic judgments on whom to select, the criteria to be used, and so on. This raises other issues of moral hazard, as to who should make such judgments, on what basis, and with what priority. For instance, in many countries old-age pensions have risen more than other transfers. Is this because the elderly need more than others or is it because they comprise a larger voting bloc? Even categorical targeting correctly based on the average degree of income security of the groups is going to result in some transfers going to those with relatively little need, while many of those in need will be omitted.

The effects of judgments made on who deserves or merits income support are magnified in sharply contracting economies where the communal network of informal support is weak or absent for historical or other reasons. They are also magnified if the administrative machinery is undeveloped or inexperienced,

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or prone to its own idiosyncracies. The more complex and selective the system, the greater the transaction costs. But judgments have to be made about costs and benefits in general. The fiscal savings of selectivity consist of money saved from nonpayment to people who might otherwise receive transfers without "deserving" them. Policy-makers rarely define the deserving, but even if they could do so there are extra costs of doing so. The explicit costs include the extra administration. The implicit costs include the value of nonpayment to those perceived as "deserving" according to officially accepted criteria (the non-take-up problem) plus the value of nonpayment to those in need who do not meet the official criteria.

All of these issues—inefficiency, inequity, and moral hazards of judgmentalism—are writ large in economies in which the administration of social policy is inexperienced and inadequate in terms of capacity, size of staff, training, and public awareness. It is naive or cynical to propose selective programs requiring complex behavioral and other conditions when there is little prospect of those operating efficiently and equitably. Administrative inadequacy extends to the character of governance of social policy. Many of the measures introduced in the 1990s have had a transitory character, with decisions on benefits and conditions for entitlement based on *ad hoc* negotiations between officials of several Ministries all jostling for spheres of responsibility and operating with little relevant information. Often decisions have been legitimized by the establishment of nominally tripartite bodies consisting of carefully chosen trade union, employer, and government representatives. These have limited technical or representative capacity (for a critical review, see Standing, 1997). In the absence of more representative bodies, representing the interests of workers, employers, the self-employed, those on the margins of the labor force, and so on, it is hard to envisage governance systems that can implement and monitor complex, selective programs efficiently or equitably.

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Another argument for selectivity is that is can facilitate two forms of privatization—the private commercial provision of social benefits and the private provision by voluntary nongovernmental organizations. By having commercial and representative interests more prominent, it is presumably reasoned, they can be more efficient and more effective.

The privatization of production and the privatization of social protection policy are already extensive and are growing. Although this may reduce transaction costs by increasing the concern for efficiency and profitability, it is also likely to intensify socioeconomic differentiation and insecurity. Privatization of social benefits gives advantages to the advantaged, since it gives benefits to those with the ability and in a position to pay. This is not necessarily an argument for trying to reverse a powerful international trend. It is an argument for recognizing the dangers of multitierism, which are that it increases inequality of security and income and increases the tendency to reduce the consensual commitment to a decent level of public benefits.

Another way by which government is narrowing its role and strengthening selectivity is by allowing nongovernmental organizations to take over some of the functions of public social services. In Central and Eastern Europe, NGOs are spreading, and to some extent are being expected to fill the vacuum left by the erosion of the state-based social protection. However, can they and should they do so? One possibility is that underpaid voluntary workers could find they are being made responsible for administration and being held responsible for any unsatisfactory outcomes.

The moral hazards include the tendency to perpetuate dependency by "clients" on the NGO, and the tendency for private unaccountable bureaucracies to displace public, potentially more accountable bureaucracies. There is also the tendency of relatively powerful blocs crowding out those representing smaller groups and those representing groups deemed less "deserving." The pensioner's voice is always likely to be heard over the voice of an ethnic minority. For this reason, among others, reliance on

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NGOs could intensify socioeconomic fragmentation. Part of this could arise from competition for resources and for public sympathy between NGOs, which could also divert part of the funds mobilized by or for NGOs into fund-raising and negative lobbying campaigns. Thus the socioeconomic inequity could be accompanied by a heavy leakage effect.

If NGOs became part of the governance of social protection, there would be a conflict between their function as voice representation of the vulnerable and their function as regulator of the system of income transfers and service delivery. If the system of social transfers were highly targeted, the NGOs could become the microarbiters of social justice, making discretionary judgments on deserving and undeserving cases for support. Where would be the independent voice to provide representation security?

NGOs would be inappropriate as alternative implementers and monitors of selective income support programs. Making NGOs vehicles of administration would strengthen the clientelistic allocation of benefits and services, distorting the notion of citizen rights. This aspect of selectivity and conditional social policy has received insufficient attention.

In sum, even though targeting, means-testing, and behavior-testing plans appeal to a wide section of elite opinion—since they seem to offer a mix of social engineering, administrative complexity, and technical sophistication—wholesale reliance on selectivity is micromanagement and microregulation at its worst. Some privatization and greater integration of nongovernmental representative organizations in social policy are desirable, yet targeting suffers from numerous drawbacks.

The arguments for universalism should be seen in the context of the new era of insecurity, flexibility, and informalization of economic activities. Ideally, universalism amounts to giving everybody income security, perhaps making basic social services free for all and providing income support for all those in need regardless of work status or past or present activity, paid by taxation, the proceeds of privatization, or other means. The ideal of universal,

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basic income security is not feasible in the immediate future, and many would argue that it is undesirable, on grounds of cost, incentives, and other factors. However, there are grounds for advocating moving toward less conditionality and targeting in the immediate future, perhaps by moving toward having a basic income transfer as a social right coupled with a second-tier public system with benefits determined largely by categorical criteria as defining needs.

There are several arguments for universalism. It has the virtue of transparency, and if everybody were entitled to basic income support with minimal conditions, there would be an assurance that everybody needing income support could obtain it. Making sure that everybody received it would be administratively relatively easy, certainly by comparison with existing and proposed targeting programs.

A second argument for universalism is that the more people who gain from any income support program the more likely it is to promote or maintain a sense of social solidarity. Critics claim that the more universalistic the program the thinner the available resources, the less adequate the income support, and the less redistributive the outcome. Defenders of universalism might respond that one could use taxation or other means to reduce inequality and that selective programs will end up meaner than more universalistic plans because they are susceptible to erosion by opportunistic politicians and do not reach many of those in need. Because no substantial bloc of potential voters gain from highly selective programs, politicians and budget-cutting bureaucrats would be more likely to allow the real value of benefits to fall and the conditionality to be tightened. Benefits that give security to a broad cross-section of society are more likely to attract broadly based support for adequate levels of transfer, and may also induce a greater sense of social responsibility as to the level that is feasible and sustainable.

A third claim for universalism is that no judgment is desirable on the "deserving." Critics would contend that therefore funds

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would go to those who are undeserving, either because they are wealthy or because they do not comply with some behavioral norm. Progressive income tax or taxes on consumer goods bought predominantly by the affluent can rectify the first part of the criticism. To the second part, one merely asserts that making judgments on behavioral norms is an infringement of freedom and is also prone to interpersonal inequity in practice. Unless one believes that the lazy and those we think "bad" have no right to live, it is probably more efficient and equitable to provide a basic income security and presume that the vast majority of people would not be satisfied with that, and therefore would want to work to obtain a higher income. The cost of lost output from those who became inactive and those who wished to live on a small basic income would surely be less than the costs of administration and policing and the inefficiencies involved in highly conditional programs, which surely involve poverty traps, unemployment traps, and other disincentives of their own.

A fourth argument for moving toward a universal system based on almost unconditional basic income security is that this provides more incentives to work. This is paradoxical, because critics have often opposed the delinking of income security from labor conditions on the grounds that this would erode the incentive to work. Flexible labor markets alter the terms of debate. With the informal economy a pervasive and growing reality, and likely to remain a main means of income earning, it makes little sense to discourage participation in it. Yet this is what most unemployment benefit programs do, as do some other means-tested or conditional programs. Unemployment and poverty traps are arbitrary and for the person concerned often unavoidable. People should be encouraged to do part-time, intermittent, and informal work, according to the opportunities, desires, and capacities of those wishing to do so. Therefore, it is perverse that means-tested and condition-based benefits actively discourage such activity.[18] If one believed that obtaining a modest income from informal work

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would result in loss of benefit entitlements, three perverse outcomes would be encouraged:

- Work would not be undertaken, thus lowering output and welfare.
- Work would be undertaken and undeclared, thereby involving a growth of illegality, a possible loss of tax revenue, and exposure to socially undesirable and costly behavior, such as blackmail and exploitation.
- Work would be undertaken informally and lead to downward pressure on the wages and working conditions of low-paid workers, since it would provide competition with such workers.

Another instance of perverse disincentives and inequity resulting from selectivity is the popular expedient of early retirement pensions, which is a form of categorical selectivity. Putting men and women in their fifties into early retirement accentuates their economic marginalization, discouraging them from participating in the economy and inducing discrimination against them in the labor market. It leads to their being denied equal—or any—access to public employment services, if only because they are not expected to be searching or available for paid employment. A straightforward basic income regardless of age or labor-force status would tend to reduce such age discrimination in what should be an employment service.

Another argument for wishing to see moves in the direction of basic income security for all is that it would reduce the plethora of moral hazards for administrators and potential recipients of public transfers. Besides those already mentioned, means-tested and condition-based benefits penalize those who tell the truth and those who are unfamiliar with the rules, as well as those who have ugly faces. The latter point is not facetious. An applicant for benefits is likely to be subject to closer questioning if he or she looks unsympathetic. As for truthfulness, imagine a woman coming into an employment exchange a long way from where she lives; she knows that half the women in her community are unemployed and she knows there is no point in searching for employ-

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ment every week. Asked if she has been looking for work in the past week, she says truthfully that she has not done so. In most places, the probably inexperienced, probably untrained official behind the counter would be in his rights to deny the woman unemployment benefits. Another woman with similar experience comes in, says she has looked for work, and receives benefits. A defender of the system could retort that both need legal or social advice. But there is no prospect of that, so one should not pretend or refer to the line that "ignorance is no excuse." A similar situation is likely with the registration condition. For the woman coming sixty kilometers and having to spend a lot of money catching a rare bus and then walking a long way to the exchange, the condition is much more onerous than for someone who lives in the neighborhood of the exchange. Such examples are the reality of behavioral conditionality. It is regulation of the most intrusive kind. It is also ironic that proponents of conditionality are often the most earnest advocates of "deregulation" in other spheres.

Targeting endangers freedom of choice. Indicative of the trend toward directive targeting is that in some countries entitlement to family benefits has been made conditional on participation by the household's teenagers in schooling. This can become a paternalistic intervention by the state that is ethically unjustifiable, socially inequitable, and administratively ineffectual. Workfare has also been much mooted, and to some extent introduced through greater conditionality. Workfare in a region just emerging from a long night of bureaucratic direction and paternalism would not be a solution. For ordinary people, they have been there and done that.

In an article in this journal, Claus Offe referred to the need for stronger "social trust"—trust in others and trust in the future (Offe, 1993, p. 684). Trust can be established only if there is a basis of socioeconomic solidarity and if individuals feel they can rely on a source of income if the need arises and can feel a sense of income security within their local and national community. Trust cannot develop unless there are informal networks of com-

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munity support. These thrive in societies in which there is a common basis of income security. This is a pragmatic argument for a guaranteed income, as a facilitator of social trust. Above all though, basic income security would give substance to social and economic freedom.

In sum, across the region, economic, labor market, and social policy developments have plunged people into an era of insecurity, when explicit and implicit disentitlement to income protection has occurred and where most people cannot envisage having control over their living standards because of inherent uncertainty. Much of this insecurity comes from the character of social policy, which by becoming increasingly selective is becoming increasingly discretionary, left to the whims of local officials, local politicians, national officials, national politicians, and international bodies whose highly paid officials descend to make prescriptions and propose conditions for entitlement and then depart. Selective, means-tested, conditional systems are always generators of insecurity and can always be used as a means of discretionary control over the lives of the poor and the less informed in society. It may be that some policy-makers like to make people insecure because it leads to dependency, in that people learn to conform in order to obtain entitlements, in order to be "deserving." One cannot have means-tested, conditional benefits without that implying bureaucratic direction of individual behavior, or without infringing on personal choice.

The administrative capacity to deliver numerous complex and highly selective benefit programs does not exist in most of Central and Eastern Europe, and there is little prospect that it will develop in the near future. The inefficiency is likely to go with interpersonal and intergroup inequity in the delivery of benefits, leaving those with the weakest voice most deprived. While the lack of funds has been the primary cause of arrears in payment of transfers, administrative complexity and incapacity have played their part. This is surely a reason for moving in the direction of

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consolidating and simplifying the transfers into a more universal income guarantee.

The trend to selectivity will probably continue for some time because unemployment and poverty will remain extensive while public spending will be squeezed. Only when enough people realize that selectivity is inefficient, a means of social control, and a cause of intensified income insecurity will pressure mount to give real meaning to the rhetorical commitment to basic income security. Without real income security, redistributive justice will not materialize.

Notes

[1] It is ironic that the huge cuts in public sector wages and benefits were the result of policies recommended by the international financial agencies. Only after the consequences for morale, efficiency, and regulation of the economies became clear did they emphasize the importance of high pay in the civil service. This was a theme of the World Bank's 1997 *World Development Report.*

[2] In the whole region, it was estimated that, based on a poverty line of $4 a day on a 1990 purchasing power parity basis, the number of people in poverty rose from about 4 million in 1990 to 119 million in 1994, implying a rise in the poverty rate from 4 percent to 32 percent (Milanovic, 1997).

[3] However, the practice in some countries of defining the poverty line as the minimum pension, as in Estonia, seems to mix a policy variable with an index of living. In some cases, several poverty lines have competed for official use. In Kyrgyzia, the poverty line used to determine social benefits was set by the World Bank; it was well below estimates made by various national bodies. Even with the low figure, in 1996 a majority of households were found to be in poverty.

[4] For instance, in Ukraine 32 percent of individuals had an income below the official poverty line in 1995, based on a very meager minimum-consumption-poverty-line definition. In Azerbaijan in 1995, the World Bank estimated that 68 percent of households had incomes below the low official poverty line. In Bulgaria, the poverty rate for individuals rose from 38 percent in 1992 to 64 percent in 1995, based on an official poverty line (ILO-CEET, 1995). In Moldova, the UNDP estimated that

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over 40 percent of households had incomes below the poverty line in the mid-1990s (UNDP, 1996, p. 2).

5 This was shown in studies in Hungary and Poland (see B. Boyle Torrey et al., 1996, p. 5).

6 The figures are given as indicative, since measurement and conceptual difficulties make comparisons rather dubious. Actual inequality is surely greater than the statistics suggest.

7 In both Poland and Russia, a majority of the poor have been nominally in employment (The World Bank, 1996, pp. 15, 115).

8 In Central Europe, similar trends have occurred. In Slovakia, for instance, before 1989 enterprises were obliged to contribute to the Fund of Cultural and Social Needs, but after 1989 the compulsory contribution rate was cut by stages, until it was abolished.

9 The misuse of the minimum wage has produced some bizarre situations. In 1995, the Russian president proposed to raise the minimum wage. This was vehemently condemned by the IMF, which threatened to withhold financial assistance to the country. The proposed rise would have made the minimum wage about 20 percent of the officially designated "physiological survival income." The IMF were concerned about the impact on total social spending. The criticism was misdirected. They should have concentrated on the need to delink the minimum wage from benefit levels.

10 In Ukraine, in 1996 the average pension was about 35 percent of the average wage, even though the latter was close to the subsistence income level. In Armenia, the average monthly pension was about $7.50, whereas the official poverty line was nearly $35; the pension was one-third of the average wage. In Azerbaijan, the average pension fell to below a quarter of the average wage by 1995, when its real value was 4 percent of its 1991 value. In Bulgaria, the average pension fell from 42.3 percent of the average wage in 1989 to 32.7 percent in 1995. In Estonia, the average old-age pension in late 1996 was 42 percent of the average net wage. In Latvia, in 1996 it was nearly 50 percent of the average net wage, but was below the "crisis" minimum income level. In Kazakstan, the average pension was 28 percent of the average wage in 1995 and 46 percent in 1996. In Kyrgyzia, the average pension has been below the subsistence income consistently. In Moldova, in 1996 it was worth about 42 percent of the average wage; in Romania, the corresponding figure was 46 percent.

11 For example, in Slovakia the number of households receiving social assistance regularly rose from 42,473 in 1991 to 341,693 in 1995, according to data from the Ministry of Labor, Social Affairs, and Family.

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[12] For instance, in 1996 in Latvia, the stipend for undergraduates was 11 percent of the national average wage; in Poland, it was 12 percent; in Kazakstan, it was 17 percent.

[13] The Bulgarian scheme has been strange. The stipends have been graded according to family income and exam results, so that a high-scoring student receives a high stipend regardless of family income, while a low-scoring student might receive very little even if from a poor family. The rationale for this is easy to understand. Its regressive character is also clear.

[14] An untold scandal is that a national labor force survey launched in Russia by the official statistical body, Goskomstat, found that most of the unemployed were not registering and thus were not being counted in official statistics. In 1996, the survey was suspended, ostensibly as a cost-saving measure, and as a result the scale and rise in unemployment virtually disappeared from the policy-making gaze. When this writer pointed out that the unemployed were not being counted, the Minister of Labor told his cabinet colleagues that he was "muddying the water."

[15] Usually, some other conditions have been added, most of which have been subject to different interpretations.

[16] And nor do the economic advisers, who can continue to claim that there is little unemployment.

[17] This point has been labored by libertarians. Use of some categorical targeting is surely desirable, including the use of second-tier social transfers for those with special needs. However, if, to give a well-known example, certain benefits are provided only to one-parent families, a desperately poor family with children would be encouraged to split to enable the woman to be entitled to the benefit. One does not have to believe that many people *do* behave in this way to accept that the mechanism is flawed. Because of the possibilities, the authorities are encouraged to adopt a greater policing role, and the regulatory rules become increasingly intrusive and judgmental. This is an almost inevitable outcome of selective targeting.

[18] The term *actively* is used ironically, since one refrain in the region (as elsewhere) is that "active social policy" and "active labor market policy" should replace "passive" policies. Paradoxically, so-called active policies are designed to place people in jobs, in training places, and so on, so that the person is in effect made passive.

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