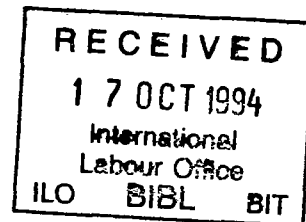


**POLICY PAPER NO. 2**

**RESTRUCTURING FOR DISTRIBUTIVE JUSTICE  
IN EASTERN EUROPE**

by

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# RESTRUCTURING FOR DISTRIBUTIVE JUSTICE IN EASTERN EUROPE

## 1. Introduction

It is customary to wonder at the enormity of the upheavals taking place in east and central Europe, to stress the uniqueness of the transition from "socialism" to capitalism, to marvel at the new liberties and opportunities, and to nod sagely at the price that the peoples of the region are having to pay for the decades of rigid paralysis of command economics. Anybody wishing to play the philosopher must try to peer through the conventional wisdoms into some more promising windows.

What is promising amidst all the understandable gloom is the combination of circumstances in which the economic and social restructuring is taking place. First of all, neither the institutional structures or processes of the old system nor those of the industrialised market economies are legitimised or operational in any of the countries. This vacuum of legitimacy implies the *possibility* of leapfrogging institutionally. It also, of course -- and this is far more likely -- means that those trying to formulate and implement new social and economic policies in the region are likely to be led by pragmatic considerations into routes chosen for them by those with the financial power to cajole, seduce and influence them with opportunistic baubles.

The rush to the "market economy" is the favourite euphemism of the era, supported by such revered bon mots as "stabilisation" and "structural adjustment". It may seem trite to say so, yet one should stress repeatedly that (a) labour market and social policy developments have been anything but satisfactory in almost all market industrialised economies in the past two decades of high unemployment and worsening socio-economic inequalities, and (b) there are several forms of market economy system that could be emulated, ranging from the "market regulation" model associated with "Thatcherism" and "Reaganomics" to the "institutionally regulated" model associated with pre-1990s Scandinavia and "neo-corporatism".

There is a third theme that we should surely stress as well: In the 1990s the pursuit of political democracy will be a disillusioning mirage unless coupled with the pursuit of social democracy and economic democracy. One may be whistling in the wind in the early 1990s, as the neo-liberal economists and powerful lobbies determine the political and economic policy agenda. But when the wind dies, an alternative gentler breeze may make what seem to be today's idle musings seem commonplace norms.

What follows is an attempt to present a picture of what seem to be the principal trends in the labour markets of eastern and central Europe. Inevitably, as such, it does injustice to any specific place. To some observers, it will seem to have echoes in western Europe,

North America and elsewhere. The final section will present elements of what would seem to be a potential route to social and economic democracy.

## **2. Labour Market Trends: The Growth of Insecurity**

Labour market developments in central and eastern Europe can be presented in terms of a growth in various forms of labour insecurity. These constitute some of the basic contradictions of social policy. In a sense, while many of the phenomena that were bad have become more promising, many of those that were reasonable have become bad. From an over-concern with socio-economic "security", there has been a deterioration in seven forms of labour security, which must set the scene for a renewed concern for the social side of the restructuring agenda. We will consider these tendencies in turn.

### **(i) Labour Market Insecurity**

Let us begin with the most basic of stylised facts: National income and industrial output in the region has plunged in the past three years, however much one quibbles with definitions and claims (surely correct) that official data understate the growth in the private and informal economies.<sup>1</sup> In most of the area, there was a real need to force down the production of arms and other spheres of heavy, obsolete "material production". Yet the ensuing dislocation has compounded the economic slump, coupled with the effects of the collapse of COMECON, the wider international recession and the disruption to inter-enterprise trading relations.

Had such declines -- perhaps one-third of total production over two years -- occurred in the United States or western Europe the levels of open unemployment would surely have surpassed those of the Great Depression. In fact, official data tell us that in most countries open unemployment has risen remarkably modestly, even though the rate of growth has been dramatic and the levels in some of the countries of the region already very high.

This delayed reaction has reflected, in part, the inertia and the reluctance of managements to resort to mass redundancies. It has also reflected the slow movement from the decades of phoney "labour shortage" and "labour hoarding" to recognition of labour surplus conditions.<sup>2</sup>

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<sup>1</sup> Incomes and industrial output have plunged in the CIS states over the past year, falling on average by over 18% in the year to June 1992, according to Goskomstat estimates.

<sup>2</sup> In Poland, in the late 1980s various estimates indicated that up to 25% of all those employed were surplus to requirements. See, e.g, M.Rutkowski, "Labour hoarding and future open unemployment in eastern Europe: The case of Polish industry" (London, Centre for Economic Performance, Discussion Paper No. 6, July 1990).

In most countries there seems to be three phases employment decline. In the first, labour shortage and hoarding diminish, while employment declines come from labour turnover, as many workers drift away from an increasingly demoralised labour force. In the second, recruitment dries up and sporadic layoffs and periods of "unpaid leave" are coupled with young workers seeking alternatives in the "informal" economy. The third phase sees plant closures and mass layoffs. In the second and particularly in the third phases, vulnerable social groups are seriously affected. Thus, there has been a managerial preference to lay-off many of the large number of pension-age workers, who have subsequently left the labour force, usually to eke out the remainder of their lives in virtual destitution.

This process is being observed in Russia. It may be of interest that in a large survey of over 500 Russian factories that we have been conducting, in late 1991 only about 10% of managements recognised that there had been any period of labour surplus in their factories over the previous year -- even though it was quite evident that chronic labour underutilisation was pervasive. In June 1992, revisiting many of the same factories, nearly two-thirds accepted that they had labour surplus, and over half of them were planning major redundancies.

Yet despite the inertia, the third phase of mass redundancies has spread throughout the region. For instance, in a recently-completed representative survey of 500 Bulgarian factories, we have found that average employment cuts over the past year amounted to about 25% of total employment. In the Russian survey, the number of job cuts over the past year had been substantial, and the recent acceleration in employment decline has been quite remarkable. In Poland, Hungary and the former Czech and Slovak Republic, very considerable employment decline has been chronicled. Mass unemployment has arrived. In Hungary, the national unemployment rate has just passed the symbolic rate of 10% of the labour force, in Poland the figure could pass 20% before long. Elsewhere the figures are approaching those levels, and worst of all, officially at least, in Albania it has been estimated that 50% of the urban working age population are jobless.

In short, the era of *labour market insecurity* has arrived, where the State has abandoned any pretence to safeguard the "right" to work, defined as formal wage and salary employment. One can say that right was abused in the past. Yet for many millions of workers the new form of insecurity is one new form of deception.

Even so, the situation is much worse than the official figures suggest. Unemployment is chronically underestimated throughout the region, since everywhere so far measurement has been based on the number of registered jobseekers, in circumstances in which employment exchanges have been few and undeveloped, where knowledge of procedures has been rudimentary and, commonly, where conditions for unemployment benefit entitlement have been close to absurd. Nowhere has the understatement of unemployment been greater than in Russia and other parts of the former Soviet Union, where the official figures should be treated as risible.

Yet Poland, the leader in the growth of labour market insecurity, has also been prominent in the understatement of unemployment. By February 1992, there were 2.2 million registered unemployed, representing 12.3% of the active adult population; there were about 80 registrants for every job vacancy, yet the then Minister of Labour and Social Policy, Jerzy Kropiwnicki, suggested that there was hidden unemployment of over 1.5 million, implying a rate of unemployment of over 20%. Poland has received a lot more foreign assistance than any other country in the region, and has gone further and faster in its restructuring than most. Its experience in terms of growing labour market insecurity represents a depressing prospect for many other parts of the region.

*(ii) New Forms of Income Insecurity*

In the first flush of reforming zeal, and in preparation for the expected growth in unemployment, governments in most the countries of the region introduced new employment legislation, usually broad "framework" laws covering a vast array of issues. All instituted unemployment benefit systems, modelled closely on lines perceived to be the western, market-economy system.<sup>3</sup> In some cases, those initial systems were quite generous, paying reasonable benefits for a long period, and with relatively few restrictive conditions.

As unemployment rose, and as the financial schoolmasters moved in and started daily lectures on budget deficits, many officials became like recalcitrant school pupils, rushing to amend the legislation and administrative procedures, so as to make it harder for the unemployed to become eligible to obtain benefits and to make the level of their benefits lower and the duration of entitlement shorter. Poland has led the way here, officials and their foreign advisers pleading fiscal crises, IMF conditionality and the need to implement the famous and aptly named "safety net", apt because one feature of all such nets is that they have holes in them for many of the needy to fall through. The twin message has been that income transfers should be "targeted" on those most in need -- raising spectres of the "deserving poor" -- and that "active" measures to put or oblige people to work are preferable to "passive" unemployment benefit support. Now, in Poland, for instance, the unemployed, if they succeed in passing the numerous and onerous eligibility tests, may obtain 36% of the average minimum wage for up to six months.

Even though many of the policymakers may have the best interests of the population at heart, the basic fact is that the way most of the countries are proceeding with unemployment benefits policy, a large and growing proportion of the unemployed will fail to receive unemployment benefits, and it would be intellectually reprehensible to pretend

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<sup>3</sup> I recall one senior official saying that they had tried to adopt a system to correspond to what existed in France and Canada.

that this will change in the near or even medium-term future, given the stance of the State and its financial advisory institutions.

Some governments have tried to square the circle by raising employer and employee contribution rates, as in Hungary where employer social security contributions in principle have accounted for about 44% of the total wage bill. Such measures have typically induced numerous forms of contributions' avoidance and evasion, and in the CSFR, for instance, have fuelled the growth of "self-employment" as employers have reclassified workers to avoid such fiscal overheads. Significantly, such contributions can only be applied with any effectiveness in large-scale enterprises, if then. Perversely, they encourage the desired break-up of the giant enterprises that for so long dominated the industrial landscape of many parts of the region, besides deterring employment because of the increased cost of labour and encouraging the shift to non-regular forms of work status, an issue to which we will return.

Although one could elaborate on these issues, the primary point is that with labour market insecurity has come a major source of *income insecurity*. The unemployed -- including all those who deserve to be called or treated as unemployed who for arbitrary administrative or statistical reasons are called something else -- are facing an increasing prospect of penury. This threat is compounded because the decades of state paternalism have destroyed or debilitated the communal networks of mutual support that shield today's unemployed in the interests of real social insurance (i.e., family, kin, friends and "neighbours" helping the currently deprived because they could be tomorrow's victims).

Another source of growing income insecurity has been the withering of what was the outstanding feature of social policy, the huge state enterprises that, rather than being exclusively or even predominantly productive concerns, were "total institutions", providing income and social welfare "from cradle to grave". In many respects one need not weep for the break up of these giant industrial dinosaurs. However, most workers have received their social policy through belonging to such institutions, with the trades unions acting as managerial intermediaries dispensing a multitude of monetary and direct benefits.

As economic restructuring has accelerated, as privatisation has spread (everywhere more than most commentators or statisticians seem to have recognised) and as joint-ventures (sic) have displaced state enterprises, so the number of those covered by enterprise-based social policy has shrunk. Yet perversely and paradoxically, in most countries the economic stagnation, inflation and chaos in Government policy have pushed many state enterprises to *increase* their provision of non-wage benefits, a trend accentuated by the implementation of ill-conceived TIPs (tax-based incomes policy) foisted on new

governments by the foreign financial institutions as a counter-inflationary part of economic reform.<sup>4</sup>

These conflicting pressures have implied a strengthening of "insider-outsider" divides in terms of social welfare and consumption and have further distorted the wage mechanism. In the old Leninist image, the wage was meant to wither away with the growth of communism, which meant that the wage rate was low and the ratio of non-wage to wage remuneration very high and rising. Whatever one might feel about that as an objective, it prevented the wage from performing an incentive function, and with the economic restructuring has been strengthening labour market segmentation, since those inside large well-entrenched state enterprises had access to social consumption and wage goods and services, while those outside queued for less subsidised and less accessible substitutes. Now, far more people are drifting into the outsider category, deprived of the relative comforts of the huge paternalistic enterprises and paternalistic union officials. Yet in a number of countries, most notably Russia, there has been a certain amount of social protection for those remaining in state enterprises. Thus, over the past year we have observed in Russian industry a fivefold increase in the extent of barter between big enterprises, often to provide workers with food or clothing. One factory employing about 4,000 workers had one shop on the factory site when we first visited it; by June it had five. Another shoemaking factory had opened seven more inside its sprawling premises, making for a total of eleven shops selling everything from bread to kitchen utensils, most obtained from barter. In Bulgaria we have found many similar cases of a trend to non-wage benefits. This is not to pretend that all those in employment are benefitting, nor that such trends are affecting more than a minority of the population. It is simply one of the contradictions of social development.

The shrinkage of coverage of total institutions has been one source of income insecurity that has been insufficiently analysed. It has undoubtedly affected certain social groups far more than others. Hit most of all have been pension-age workers pushed into earlier early retirement, when more than ever they need to supplement their meagre state pension with earned income.<sup>5</sup> It has also severely hit women, eased out of jobs or not invited to return at the end of what have been extended maternity leave.<sup>6</sup> And internal

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<sup>4</sup> For a justification of this view, see G.Standing, "Wages and work motivation in the Soviet labour market: Why a "BIP" not a "TIP" is required", *International Labour Review*, Vol.130, No.2, July 1991, pp.237-53.

<sup>5</sup> The average age of retirement in central and eastern Europe has long been much lower than in the rest of Europe. In the early 1990s, the age was nearly five years lower for men (60 compared to 64.4) and up to eight years for women (55 compared to 63). In Poland, in 1991 the average age of those beginning to receive a pension of some sort was 57.

<sup>6</sup> It has been common for women to have two years of paid maternity leave, as in Hungary for instance, one factor contributing to the very high female employment and participation rates. We have found that in early 1992 women on maternity leave accounted for over 8% of women's industrial employment in Russia.

and external migrants, minorities and groups with physical disabilities have all had their labour market positions weakened by the erosion of the "social function" of enterprises.

Indeed, in the surveys of factories in Bulgaria, Hungary and Russia, one of the outstanding features has been the observation of the mostly reluctant shedding by managements of what might be called their "social responsibility functions". With a new and in itself welcome concern for raising labour productivity -- and often without the means or knowledge of better personnel management techniques -- crude forms of screening in the recruitment and retention of workers is leading to the widespread displacement of vulnerable groups, such as physically handicapped workers, women with small children and older workers.<sup>7</sup> The need for protective labour regulations and interventionist labour market policy to combat discrimination and overcome such disadvantages is vital. In the old "full employment" system, these were not developed beyond the turgid abstractions of excruciatingly complex Labour Codes religiously at hand in management and union offices.

### *(iii) The Emergence of Employment Insecurity*

The trend to the marginalisation of vulnerable social groups and the growth of labour market segmentation will be compounded by another trend being imported from some of the industrialised market economies. This is the growth of *employment insecurity*. The growth of "external" labour flexibility arises from a shift from direct, regular, full-time, permanent employment to the use by employers of temporary workers, contract labour, homeworkers and the contracting out of part of the production and distribution process. In the old system, enterprises were highly integrated vertically and horizontally, in part reflecting the induced shortage nature of the productive system, whereby enterprises felt that they had to control all aspects of the production process. In the 1990s, the chains will be broken, so that much greater reliance will be placed on market relations between suppliers of raw materials, components and the array of service functions. The productive system will evolve towards the mainstream trend in market industrialised countries, whereby in effect much of the employment function will be contracted out by the direct producers of goods and services.

In the old systems, non-regular forms of labour status had a rather different connotation, because in an artificially overfull employment context, it was advantageous if not essential for many workers to take second jobs, to work on a temporary or informal basis or complement a "full-time" job with a part-time one. The game was survival, and differentiation by other means. The process took many forms. In some Bulgarian factories, for instance, in 1990 we were still able to observe that significant numbers of workers had permanent, full-time jobs combined with temporary, part-time jobs in the

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<sup>7</sup> One large factory we visited had a special workshop manned by 81 disabled workers. It had the most antiquated machinery and slowest production line in the plant. Hit by a decline in demand for their output, management had decided to shut the workshop, laying off all 81 workers.



same factory. No doubt, one could chronicle many such forms of flexibility that suited the workers and the managements, if not the efficiency of the overall system.

This pattern has begun to change with a vengeance, so that the basic character of non-regular forms of labour has changed, from one of mutual advantage to one of precariousness. There is a shift from direct to indirect forms of labour, which is desirable in many respects, offering the prospect of an informalisation of the work process and a source of flexibility to managements. However, without proper safeguards and an appropriate institutional context, including a system of social protection compatible with such practices, the trend to labour casualisation will merely accentuate the labour market insecurity and income insecurity.

#### *(iv) Job and Labour Reproduction Insecurity*

Corresponding to the growth of external labour market flexibility, in central and eastern European economies there have been signs of a growth of another well-known international labour market trend, the pursuit of internal or "functional" flexibility, as more workers and employees are required to adapt to technological change and work reorganisations. Occupational restructuring is long overdue, with the old processes having relied on a highly developed technical division of labour on Taylorist lines and a consequential over-reliance on semi-skilled, manual jobs.<sup>8</sup> That will and must change.

Yet in the process there will be a considerable increase in *job insecurity*. The difficulty is that it will put a heavy premium on the ability and opportunity to adapt, in conditions of labour market, income and employment insecurity. As those conditions are rapidly deteriorating, the job insecurity will also compound problems of inequality and social marginalisation.

Perversely, just as more workers and employers are required to adjust their work profiles, so the means of enabling them to do so have been weakened, and in some cases crippled. Many industrial enterprises, which as total institutions had operated or subsidised training institutes, have cut those facilities, typically in response to the tightening of budget constraints and the emergence of labour surplus conditions. Thus, with job restructuring has come growing *labour reproduction insecurity* to accompany all the other forms of labour insecurity. Again, one need not weep too long for the demise of huge bureaucratic training institutes, and one can see the positive potential of versatile craftsmanship replacing the monotony and alienation of manual, semi-skilled wage labour. But for many that potential is likely to seem a very long way off.

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<sup>8</sup> For an analysis of recent changes in the occupational structure in Russian industry, see G.Standing, "Occupational restructuring of industrial employment", Paper 4, to be presented to the Conference on Employment Restructuring in Russian Industry, Moscow, October 21-23, 1992.

For a majority, the immediate prospects in these two related respects of job and labour reproduction security are grim. The shift to an open, more insecure labour market highlights the need for the State to reconceptualise the very notion of "training", and to substitute alternatives for the diminishing role of industrial enterprises.

**(v) *Work Insecurity***

This sense of in-work precariousness is compounded by the intensification of *work insecurity*. One of the well-documented scandals of the old system was the neglect of occupational safety and health in the context of industrial pollution. The tragedy is that in many places, these issues have been given low priority in the rush to restructure the economy. We know from international experience that, with mass unemployment and mass poverty outside the factory or enterprise gates, workers cannot risk much to put pressure on managements to improve safety standards. Enterprises battling to survive also find it relatively easy to trim expenditure on such matters, just as they turn to training cuts in such circumstances. In Russia, it has been reported officially that there were 400,000 workers involved in industrial accidents in 1991, and that many enterprises have opted for the cheaper option of compensating workers and their families rather than improving or maintaining security standards, so that there has been a wave of closures of work security inspection units.<sup>9</sup>

It is scarcely surprising that in several countries of the region, there has been an enormous increase in industrial accidents in the past two years. The victims face a cruel combination of labour-related insecurities.

**(vi) *Labour Representation Insecurity***

Finally, just as in western Europe and North America, there has already been a dramatic process of deunionisation, which has also been insufficiently taken into account in formulating a socio-economic agenda for the next few years. The dubious credentials and unrepresentative nature of the old "transmission belt" official trades unions, with their near-universal coverage of the workforce, have been replaced by an increasingly non-union labour environment, coupled with an unresolved legitimisation crisis for both the old, reformed unions and the new "independent" unions, the latter being fragmented into numerous competing entities.

Many joint ventures have effectively banned unions, and many enterprises seem to have relegated them to their social welfare function, obliging them to administer a quasi-managerial function with dwindling resources. As generalisations go, it is probably fair to say that unions in the region have lost a role (or several roles) and not yet found an effective voice. It all adds up to a picture of worsening *labour representation insecurity*,

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<sup>9</sup> Apparently, 8,000 workers were killed, 15,000 disabled for life. *Rossiiskie vesty* (Moscow), July 30, 1992.

which could very easily hinder the emergence of an effective redistributive force and agenda. Yet what should that redistributive agenda be ?

### 3. Looking Forward in an Era of Insecurity

Considered in the context of the generalised impoverishment of large proportions of the population in most of the region, some of the labour market trends might seem of limited importance. Yet if they are allowed to fester, they will surely exacerbate the social tensions and inequalities that are growing and ultimately prevent the emergence of a new social consensus around which moderate debates can be conducted in moderate tones.

In that context of growing poverty, unemployment and poverty, those working in the region should certainly be trying to devise an alternative strategy, and it is in that spirit that the following suggests some possible elements, with a prior apology for being critical of those who adhere to the pragmatic mood of the time and to those who support the prevailing orthodoxy of supply-side economics and the conventional "structural adjustment strategy". Possibly, as an excuse, when asked to prepare a "background paper" for a reflective conference, one has a duty to be mildly provocative.

Actually the time is ripe for that. In eastern Europe as in western Europe, the 1990s will be an era of experimentation in social and labour policy, against the backdrop of widespread disillusion and anomie.<sup>10</sup> Yet in eastern Europe, it must not be -- and almost certainly will not be -- an era of copying atavistic systems of so-called "governance" from abroad, let alone of adopting variants of the malfunctioning social security systems of many industrialised economies or the structure of labour market regulations.

For the moment, the early 1990s has continued an era of bemusing euphemisms, such as "stabilisation", "shock therapy" and "big bang". Few euphemisms have had wider usage than the "social safety net". We are invited to believe that, once market forces have been liberated, the pain of the restructuring will be short-lived and that during that period the unlucky losers need to be compensated -- the "deserving poor". This is the justification for installing a social safety net. For those hit by "involuntary" unemployment, by premature retirement and dependent incapacity, the State should provide transitional income support, while those to "blame" for their plight should be treated less generously. The selective, "targeting" approach to social protection is legitimised, and in many circles the universalistic approach barely regarded as worthy of debate.

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<sup>10</sup> It would be a mistake to think that there is strong political commitment to the mainstream political agendas offered in the region so far. This has come through in Richard Rose's work. See, also, L.Kolarska-Bobinska, "Civil society and social anomie in Poland", in B.Deacon (ed.), *Social Policy, Social Justice and Citizenship in Eastern Europe* (Aldershot, Avebury, 1992), pp.56-70.

The difficulty starts with the realisation that there are an awful lot of losers. It is compounded by the realisation that the painful period of restructuring looks likely to stretch until the end of the century, and in some countries well beyond it. The difficulty is compounded still further by awkward and familiar questions about the legitimacy of separating the deserving poor from others in economic hardship, echoing debates from the nineteenth and early twentieth centuries. Already governments have moved far down the track of introducing means tests, work tests and numerous behavioural tests that the unemployed and others in difficulty have to pass in order to obtain entitlement to some form of benefit from the State.<sup>11</sup> It is fortunate that many local officials have either been unable or unwilling to operationalise some of those tests, for otherwise even fewer would have obtained transfers than has been the case.

In summary form, what seems to be happening is that, as unemployment and labour market marginalisation and segmentation grow, there will be both *explicit disentanglement* to social protection, as regulations are made more restrictive and as benefits are curtailed, and *implicit disentanglement*, as more people move into situations in which they do not qualify for existing benefits. These twin phenomena have spread in market industrialised economies over the past decade. Now they threaten to accentuate deprivation in economies with much lower levels of per capita income.

In short, and as a prediction, all variants of the social safety net notion, conceived as a highly targeted, selective system based on social insurance and conventional social security practices adopted from the "market economies" will fail even more than they do in their parent countries. They will fail to provide social protection and they will fail the other functions mentioned in Bernd Marin's paper for this conference.<sup>12</sup>

The drawbacks to the orthodox social safety net are not limited to the rather important fact that many of the poor inevitably fall through the holes in the net into unprotected poverty.<sup>13</sup> The approach also fails to pass any efficiency or motivation test one cares to consider. To most east European social or labour market policymakers terms such as "poverty trap" and "unemployment trap" would probably be alien. However, the new forms of unemployment benefit and other forms of conditional benefits build in dis-

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<sup>11</sup> As mentioned earlier, I recall asking a senior official responsible for introducing the unemployment benefit system in one country how they had devised the complex set of eligibility rules, bearing in mind that they had never even recognised unemployment as a legitimate status in the past. The reply was that they had combined the regulations from two countries. In another country, the Minister has been relying on a Swedish lawyer to design the set of eligibility criteria based on the Swedish AMS system. Somehow Sweden seemed separated from that country by more than geography.

<sup>12</sup> B.Marin, "Towards a competitive society in central and eastern Europe: Social dimensions", mimeo., May 1992.

<sup>13</sup> One lesson from the 1980s in western Europe was that because of labour market and other changes, increasing reliance has been placed on means tested social assistance.

couragements to many forms of labour mobility and incremental behavioural adaptation.<sup>14</sup> And in some respects, the new policies almost perversely encourage people to evade or avoid the law, and to drift into the "shadow", "informal" or "black" economy, beyond the scope of social security coverage, possibly to their long-term detriment.

Complex social security systems are also likely to run into difficulties on the contributions' side, since high social security contribution rates encourage a desire to evade or avoid payment, while inadequate tax and contribution collection procedures make it easier for those wishing to realise their desire to do so with impunity. This is likely to induce two effects. It will create a tendency of the authorities to raise the contribution rates, in order to make up for the loss of revenue as well as to pay for the growing number of unemployed, which will merely encourage further evasion and avoidance. And it will encourage the authorities to lower the benefit levels and further tighten the conditions for entitlement, worsening the labour market poverty and intensifying the inefficiency and demoralising consequences of the safety net system.

That path does not look very enticing. The dilemma has led many to grow lyrical about another popular euphemism, the advocacy of moving from a "passive" social policy to an "active" social policy. This is making new converts at a rapid rate, and it was significant that by mid 1992 Yegor Gaidar, the "acting" prime minister of the Russian Federation, was also claiming that the Russian Government would adopt an active social policy to combat rising unemployment and poverty.

The essential idea is that by giving a person a sum of money every week for being idle and only for being idle (albeit only if he or she is looking for paid work and has not become economically idle by some unacceptable means), the State is being "passive" and the individual is being "passive". By contrast, if such a person is provided with labour market training or is put into a public works' scheme, then the State is being "active" and the person is being enabled to be "active". As anyone familiar with the debates in the west is aware, it is a short step from that to advocacy of "workfare" as a replacement of "welfare". This, one submits, is a dangerous path to take. Active social policy is likely to lead to coercive social policy or, at best, a greater tolerance by politicians of labour market-induced poverty and deprivation. To put it crudely -- in the interest of brevity -- the main message easily becomes: If you do not take a place in this training (or public works) scheme, you will not receive anything, and if you do not receive anything you are not worthy of being called unemployed, or of receiving another kind of transfer to alleviate your financial hardship. This is not active in the sense of enabling people to make choices for themselves, for the active policy effectively makes the unemployed a dependent client.

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<sup>14</sup> In many economies of the region, there has been a tradition of high labour turnover, usually "voluntary" in character. With most new systems of unemployment benefit, quitting your job would be a rash move, since you could destroy your right to unemployment benefit. Yet a high level of labour turnover is what the restructuring process requires.

The alternative is to move in the *direction* of less conditionality, and to conceive how a basic *citizenship income guarantee* might work. The idea of providing every person with a basic subsistence income as a right deserves to be considered more carefully. There are many arguments for and against this approach, which we have been evaluating in BIEN.<sup>15</sup> In eastern and central Europe, there are additional considerations, including the likelihood that a social insurance system would leave an increasing number of people uncovered and unprotected, especially as much economic activity in the next few years will be "informal" in one or more senses, involving people in irregular employment and possibly involving many having a portfolio of activities, as Richard Rose and colleagues have been monitoring.<sup>16</sup>

A minimum citizenship income guarantee (CIG), which is not the same as a minimum wage, would leave the wage mechanism to play its proper incentive and productivity functions. It would also have the virtue of passing what might whimsically be called the STEP test, which is important in a period of social uncertainty and revolutionary restructuring -- namely being Simple, Transparent, Equitable and Productive. Introducing a highly complex system of social protection will have many drawbacks, political, administrative and economic. The more complex the system, the more arbitrary the distinctions that have to be made. The less transparent the mechanisms and principles underlying them, the less the politico-social consensus that is likely to emerge with them. The more complex and differentiated the system, the less equitable it is likely to be. And the less complex the system the more likely it is to encourage diverse patterns of workstyles and productive activities, thereby encouraging economic restructuring and dynamism.

There have been various objections to moving in the direction of a CIG, the main two being its cost and its alleged disincentive effects. The cost argument can be answered in various ways, in part by looking at the full cost of alternative direct and indirect transfers and by considering its dynamic properties.<sup>17</sup> The disincentive criticism is that, by guaranteeing a basic income workers, would have little incentive to work, a view that besides making a peculiar presumption about motivation and exaggerating the likely size of the CIG in the typical "portfolio" of income sources, ignores the fact that other means-

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<sup>15</sup> This is the Basic Income European Network, set up in 1986, which has organised a series of congresses and seminars and produces a quarterly Newsletter documenting research and publications on the issue from all European countries.

<sup>16</sup> See, for instance, R.Rose, *Between State and Market: Key Indicators of Transition in Eastern Europe* (Glasgow, University of Strathclyde, Studies in Public Policy No.196, 1991).

<sup>17</sup> The arguments are discussed in detail elsewhere and in many costing exercises done in recent years. See, inter alia, P.van Parijs (ed.), *Arguing for Basic Income* (1992); H.Parker, *Instead of the Dole: An Enquiry into the Integration of the Tax and Benefit Systems* (London, Routledge, 1989).

tested and behavioural-tested schemes invariably involve major disincentives, particularly at the margin of the labour market.

This is not a paper in which to discuss the details of this type of reform. The point is to stake the claim for making basic income security a cornerstone of the pursuit of socio-economic restructuring and a foundation of democracy. Reforms should surely try to move social protection *in the direction* of less conditionality. In the fluid circumstances of the early 1990s, selective, conditional means-tested transfers will be regulatory and arbitrary, and in many cases they will be either unworkable or detrimental to labour market efficiency.

Moving in the direction of a CIG (i.e., gradually building up the elements of income transfers provided solely to reflect personal needs) could be seen as part of a socially redistributive vision guiding an era of experimentation. In the spirit of Rawls, all social policies should be judged by whether they contribute to or weaken the commitment to redistributive justice, the strengthening of democratic principles and the creation of conditions in which flexible workstyles can become the norm.

A citizenship income guarantee, however modest, can be seen as linked to the promotion of three complementary forms of democracy. Thus far, there has been a great deal of rhetoric devoted to *political democracy* and wretchedly little attention given to *industrial democracy* and *economic democracy*. There may be a unique opportunity in eastern and central Europe between 1992 and about 1994 for the nucleus of what could be called a "social dividend strategy" to take shape, in which all three forms of democracy could be strengthened.

The key is the actual process of privatisation of the productive structure. Privatisation is a fetish of the era, as well as a strange euphemism for an ideological crusade. It offers both negative and positive potential. The danger is that it will merely create the conditions for massive increases in inequality of income, wealth and power, and in the case of eastern and central Europe enable foreign capital to obtain and/or cement control over national economic and social policies, as well as create more fertile conditions for the "mafiosation" of the State.<sup>18</sup>

Yet the process of privatisation offers the great, and possibly fleeting, prospect of creating a new basis for redistributive justice and economic democracy, and in the process providing one major source of income for a citizenship income guarantee, without which any "social consensus" is likely to be a new euphemism, describing a process by which a

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<sup>18</sup> The mafioso tendencies are strong in all countries of the region. Images of Chicago in the 1930s and Palermo and Milan in the 1980s and 1990s are not too fanciful. What happens when the class-redistributive basis goes out of politics ?

large mass of losers are policed in the interest of the winners or perceived winners in the market economy.<sup>19</sup>

What is required with privatisation is that ownership is diversified and management is made democratic as well as oriented to productive efficiency. The old State system nationalised ownership and desocialised management, in the process debilitating the intrinsic incentive functions needed for efficient production and the provision of better consumer goods and services.

A reassessment of the objectives of privatisation is needed, bearing in mind that the original ideological motivation has not been concerned with redistribution but with creating a capitalist economy in which "the market" would determine the degree of inequality based on the private ownership of property. In short, others should look at privatisation more systematically to turn it into a more democratic and redistributive process.

Thus, (recalling that the main source of market value in most enterprises has been systematically ignored or undervalued in valuations by commercial banks and the like, namely the workforce, not the obsolescent machinery and stock) in the restructuring period the proceeds of privatisation could help finance a citizenship income guarantee, as a restructuring social dividend. The way shares in individual enterprises are auctioneered or distributed could promote economic democracy, by enabling not just workers and management of the enterprise to purchase ownership but the local community to participate and other intermediary institutions, to which we will return.

Those concerned with the need to revive social policy should examine the privatisation process as an opportunity, rather than leave it to the Ministries of Finance and Ministries of Transformation of Property (or as in Poland the Ministry of Ownership Changes). Privatisation is not just a matter of commercialisation and the breaking up of enterprises. Ultimately it is about the character of the socio-economic structure of society in the late 1990s.

When talking about building "intermediary institutions", this too must be seen as an opportunity. It should lead to reconsideration of the carefully neglected issue of equality, bearing in mind that in the market industrialised countries, the last decade has possibly been unique in the twentieth century: In every country for which there are reliable data there was a growth in income inequality, and in most if not all there was a growth in the number and proportion of the population living in poverty. The Luxembourg Income Survey testifies to that, as have other sources of data. Now, the fear must be that if eastern Europe rushes to emulate the forms of privatisation of else-

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<sup>19</sup> Surely, the riots of Los Angeles and similar social explosions point to the nastiness of that alternative. Will Los Angeles prove to be a forgotten few days or will it be recalled as a watershed when the supply-side libertarian agenda lost its legitimacy?



where they will create an explosive combination of inequality and poverty, given their much lower levels of per capita income.

Yet the lessons of recent social policy experience in the west include a realisation that direct taxation and transfer policy have little potential for redistribution, even if they were intended to have those objectives. That is why those who wish to promote redistribution must look again at mechanisms for promoting economic democracy, which probably means forms of profit or surplus sharing. Perhaps the mid 1990s will see a constructive reappraisal of communal surplus-sharing mechanisms. And the point at which this could be institutionalised most effectively would be as part of the privatisation process.

That would be the key to a social dividend economy, in which part of the economic surplus was distributed in CIG payments, part redistributed as collective profit sharing, part in various forms of investment. It will be essential for the productive structure to have in-built incentive functions to boost productivity and behavioural dynamism. This consideration leads to questions about the optimal scale of the "collective" units for calculating profit sharing, as well as the relative levels of the wage, the CIG and the surplus for profit sharing. These are mechanical puzzles that could only be worked out once principles of redistributive justice and democracy have been worked out and once an era of experimentation in those directions had been nurtured into existence.

It is that latter point that deserves to be emphasised here, since there is a danger that promising social experiments will be "starved of oxygen". With apologies for a personal anecdote: A few months ago, I spent a day in a large Russian factory that was planning its transformation and listened to the managers and worker representatives devising a set of mechanisms that would provide incentives to productive growth, a sharing of risks and rewards and secure share-owning control for the work collective that would also enable the new firm to obtain additional capital on the market. Such initiatives were being castigated as nomenclatura privatisation in the public debate, often by foreign advisers to the Russian authorities. Of course, some such schemes may be crooked, just as many business deals everywhere are crooked, yet one cannot help feeling that the economic restructuring will only flourish on the basis of a myriad pattern of micro-level experimentation. This will allow for a vision without a blueprint, a recipe for every successful revolution.

This paper was presented to a conference in Finland, where policy makers flirted with wage earner funds in the 1980s, and one of its neighbours flirted more passionately with them in the 1970s and early 1980s. Once the suitors lost their nerve in the face of

employer opposition, the redistributive drive in both countries fizzled out.<sup>20</sup> In the unique circumstances of eastern and central Europe, moving in the direction of economic democracy may be essential to provide social motivation and enable enough of the limited social surplus to be redistributed to prevent social implosion, if a distributional crisis is to be averted in the mid 1990s.

### *Community Unions*

This leads to consideration of another key element in an alternative vision. What should be the appropriate level of "intermediary institution" to promote a redistributive labour market agenda? This raises unresolved issues of "neo-corporatism" and the desirable nature of civil society in the 1990s. Yet there are a few points that are clear. Centralised systems have been shown to become bureaucratic, anti-democratic, inefficient and inequitable. Highly decentralised systems tend to become tyrannical, idiosyncratic, mafioso and inequitable. This leads to well-trodden paths, concerned with the viability or otherwise of a "middle way" or a "third way".

While there is neither the time nor space to go into those issues here, we may proffer a working hypothesis: In the flexible economies and labour markets of the 1990s, the most appropriate representative organisations for promoting labour security and economic democracy would be *community unions*, bringing together people from local labour markets as workers and consumers in a collective entity. Such unions do not exist at the moment, and they may never exist, but there is ample reason to encourage experiments that tilt in that direction.

The awkward starting point for anyone associated with an organisation committed to "tripartism" is that the international erosion of trades unionism has reached a point when images of neo-corporatist management of the labour market become almost atavistic fantasies. In France, less than 9% of the workforce are in trades unions, in the USA it is about 13%. In most countries, the decline has been dramatic and sustained. Even the representativeness of unions has diminished, so that rethinking of the role and form of unions should have become a powerful current of social rethinking. So far, that does not seem to have happened. Unions of some sort surely remain critical to the success of any redistributive agenda.

In eastern and central Europe, the real level of unionisation has fallen, amidst much noise about new unions, which indeed have mushroomed, most notably of all in Romania, but also in Hungary, where there are seven *federations* of unions, as well as in Bulgaria, where the two large federations (Podkrepa and CITUB) have only recently concluded a

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<sup>20</sup> For an assessment of progress made in Finland, see T.Santamaki, L.Reija and G.Standing, *Unemployment and Labour Market Flexibility: Finland* (Geneva, ILO, 1990). For documentation of the lost impetus towards redistribution in Sweden from the late 1970s onwards, see G.Standing, *Unemployment and Labour Market Flexibility: Sweden* (Geneva, ILO, 1988).

truce. The noise and sympathetic publicity they have received -- particularly abroad, one suspects -- has hidden a real loss of strength and possibly a lack of any clear redistributive or political objectives.

Yet if unions want to have an influence and redistributive power in the more flexible, informal labour markets of the 1990s, whether in eastern and central Europe or anywhere else, they will have to become community-based and to represent local communities of consumers as well as workers from various industries and occupations. What are the alternatives? One is the company union -- consideration of which is prompted by a question posed in Bernd Marin's paper about the lessons of East Asian industrialisation. Company unions have been the norm in Japan and have been actively promoted in other countries of that region. There are signs that this form of union is spreading in parts of eastern and central Europe. Their credentials deserve critical scrutiny. All the evidence suggests that such "unions" easily become -- if they do not start out as -- organs of management and are notoriously unable to develop a representative character or act as a mechanism for "dynamic efficiency".

As for old-style industrial and craft unions, throughout the world they have been weakened not just by the political onslaught on their socio-economic role but by the growth of mass unemployment and labour market flexibility. In the 1990s, there will be a universal trend towards flexible patterns of work, involving increasing numbers of workers changing or combining work statuses and types of work, so that many more workers will change industries, switch from direct to indirect (informal) work statuses, and so on. This flexibilisation makes it much harder for industrial or craft unions to organise or *retain* members, since people will identify much less with such organisations than they would have done in the past.

The most promising option, therefore, is for unions to evolve into community associations of workers, representing them as consumers and citizens as much as workers. This brings us back to the process of privatisation. Without a collective institution playing a representative role in the productive structure, regulating the redistribution and use of the economic surplus, the medium-term outcome of the privatisation will be control by a minority and a steady transfer of shares into their hands.

This schematic scenario raises complex, unresolved issues. Yet without something like that, the prospect of an economic structure geared to redistributive justice would be dim. At the same time, community unions could promote industrial democracy, which also requires intermediary institutions that adequately represent identifiable groups in society directly or indirectly affected by industrial safety and work standards. To sceptics, one has to ask: What would be the alternative?

### *The Regulatory Apparatus*

Consideration of the role of unions and the prospects of economic and industrial democracy would be incomplete without considering the role of labour regulations in the new

circumstances of central and eastern Europe. Earlier, we recalled the era of turgidly complex Labour Codes, which have been undergoing a mixture of quiet neglect and wholesale revision. But in the quest for replacements, those looking to the west will have to come to terms with one of the silliest euphemisms of the 1980s, that being "deregulation".

Practically nobody advocating deregulation has actually meant that at all, certainly not the leading names associated with it, such as Hayek. What they have meant is a removal of one or more types of regulation and their replacement by market regulation and pro-individualistic regulations. In what might be called the era of societal regulation in western Europe, which reached its peak between 1945 and about 1975, the essential character of the regulatory framework was pro-collective and protective.<sup>21</sup> In the 1980s and early 1990s, by legislation and other means, in almost all countries there was a spread of pro-individualistic, promotional and restrictive regulations, including measures to curtail union freedoms in some countries and promote, through fiscal and other means, more flexible labour practices.

In the remainder of the 1990s, there must be a reassessment of the role of labour regulations, recognising their inherent limitations as protective devices in increasingly flexible labour markets. Pro-collective and protective regulations surely do have a role to play, in setting standards of good practice and in forcing the authorities to pay more attention to social issues. Yet ultimately the most important regulatory device for protecting the interests of the vulnerable segments of society is what we have called labour representation security, and that means institutionalising mechanisms giving Voice to the underprivileged, the potentially marginalised and the groups that can sustain the development of redistributive mechanisms in the labour market.

#### **4. Conclusions**

Unless faith in market forces counts as a blueprint, the mood of the era is hostility to blueprints. In central and eastern Europe, one can appreciate the reasons for that. Yet such hostility should surely not preclude having a vision of the Good Society, which seems to have been lacking in much of the debate on the restructuring of central and eastern European economies. Surely, nihilism is not to be the adage of the age, which has already been dubbed by one well-informed pundit as the end of history.

The thrust of this paper is that in all countries of the region the restructuring so far, while much of it in a welcome redirection, can be seen as having created or worsened all seven forms of labour insecurity. To combat the divisive and impoverishing tendencies, one

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<sup>21</sup> Some writers have distinguished social policy, designed to compensate the disadvantaged and losers in society, from societal policy, designed to restructure society in certain ways, usually with redistributive objectives. See, e.g., Z.Ferge, *A Society in the Making* (Harmondsworth, Penguin, 1979).

needs to identify the forms of labour security that deserve highest priority among policymakers. It is the underlying view that underpinning any redistributive agenda and strategy must be mechanisms to achieve widespread income security and labour representation security, from which a strengthening of the others can take place. Providing minimum income security, as far as resources allow, would strengthen and legitimise political democracy. Effective promotion of labour representation security, giving people Voice in the production process, would revive occupational security and work security, and create the basis for industrial democracy. Promoting mechanisms for surplus-sharing (and loss sharing) will in turn promote economic democracy. Without the latter two forms of democracy, is it not likely that political democracy will be a charade, the greatest euphemism of all ?

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