

# THE STATE AND SOCIAL SECURITY - CHALLENGES IN CENTRAL-EASTERN EUROPE

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**After the political and economic changes** in 1989/90, Central-Eastern Europe has been faced with **a double pressure** regarding social protection and the state's role in it: **firstly**, the social effects of change (growing unemployment, poverty, etc.) **have imposed increasing burdens on the existing systems of social protection**, and **secondly, decreased state revenues** (due to declining real earnings, income and GDP) **have provided fewer adequate means for the functioning of these systems.**

The necessity of systematic reform has also been underlined by the **tensions between past approaches and new social and economic realities.** The old tax-financed social protection systems - under the formalistic cover of "social insurance" - had replaced the individuals' material and economic risks and their right to economic and political self-determination (of the democratic and market oriented economies) with guarantees of universal social protection and material security, albeit on a relatively modest level. **The political and economic change** - beyond putting old systems under the double pressure referred to above - **undermined not only the material foundations** of these systems, but **also questioned their raison d'être.**

## **The present challenges have their roots in:**

- **the (relatively) high level of unemployment and in the (relatively) low level of employment.**

The appearance of open mass unemployment around 1990/91 - after decades of job security coupled with hidden unemployment in the economy - was (and still is) a major shock for the countries and societies in the region. The countries concerned have built up their employment services and policies to take care of the unemployed and to promote their re-employment. Long term unemployment and its geographical concentration in crisis areas are of growing concern. Unemployment (and related other social) benefits do not ensure the survival of those concerned.

- **the drop in economic performance (of GDP) in the early 1990s - and macro-economic stabilisation policies - have led to considerable falls in real earnings.**

Guaranteed minimum wages - the legally obligatory minima of wages - have always lagged behind the minimum costs of living.

- **social benefits - pensions and other benefits - have suffered similar (sometimes even more radical) losses in their real value.**
- **economic change has been coupled to two - and in some countries three - digit growth in consumer price inflation especially in the early years of transition.**

The growth of consumer prices, among others, involved the radical increase of former administered prices on essential products which earlier had enjoyed - for considerations of social protection - substantial state subsidies (such as essential food, gas and electricity, water, public transport, rents of apartments, etc.). This type of inflation has touched heavily upon the population especially in the lower income brackets.

- **poverty has reached hitherto unseen dimensions as a result of the processes described above.**

The above developments involve new challenges for social protection while weakening its financial foundation. Although we are now witnessing **a recovery of economic growth and of real earnings in several countries, inflation seems to be under control and labour market tensions have also been eased,** further profound reforms appear to be unavoidable.

The financing of tax-based pension systems are based on **the balance of the current pensions** covered by **the current contributions** made to the pension fund. In fact, the sum of current contributions is distributed among those eligible for pensions taking into account their earlier earnings. **This balance has been upset** by two factors: the ageing of the population and the decline in employment. As a result, in the short run, Hungary for example had to raise the age of retirement (from 55 for women and 60 for men to 62 to both) and, in the long run, to lay the foundation for a new system which combines three pillars: the present system (for a minimum pension), **obligatory and voluntary pension insurance.**

**State health services are in deep crisis.** They have always been ineffective and wasting resources, a weakness illuminated by current financial constraints. They are (or were) free of charge for all. But charging (part or most of the) services directly to the population seems to be unavoidable and the improvement of the cost effectiveness of the system is necessary and overdue. Privatisation in this field is a hot issue in public debate.

**The promotion of employment and unemployment care systems seem to work with much less difficulty.** As they are relatively new - they were developed mostly post-1989 - **there are no inherited old approaches, practices, structures and public expectations** to be overcome in their development. That is why,

as issues of pensions and health insurance are in the focus of public debate, issues of the employment system, surprisingly, often fall outside public and political interest.

**The state's capacity to provide universal** - even if modest - **social protection is becoming a legend of the past, but public expectations of universal protection have survived and are a part of today's reality.** It is an extremely difficult task for the present Central-Eastern European governments and societies to get rid of illusions and to ensure very much needed - **at least minimal and targeted** - **social protection** in the present period of transition. As difficult will be to build up a new effective system of social protection based on the principles of a new market economy.

Central-Eastern Europe, disregarding the decades of "socialism", **has long traditions in social insurance based social protection** going back to the end of the last century. This history might be helpful in the promotion of current developments. However, the present changes in the pension and health systems **require time and capital.** Presently, **both the central state budget and the population are faced with strict financial constraints.**

**The future integration of several Central-Eastern European countries into the European Union** sets a new context for the issue of the state and social security. It has a relevance both for legislation and practice. While labour legislation (legislation on employment) and practices do not seem to meet with any serious difficulties, social legislation and related practices may involve problems. A test in this field is the ratification (and application) of the **Social Charter of Europe** which, as it is part of the Amsterdam Treaty, appears to be a kind of "visit card" for those wishing to join the European Union.