

3.11. South-East Europe: United in Problems, Divided in Solutions

Predrag Bejakovic

Abstract

The aim of the book is both to analyse and propose measures for alleviating the widespread existing conflict between equity and efficiency in social policy in the broader sense: including social welfare, education and employment. Education, social welfare and the labour market are closely intertwined and mutually reinforcing. Efficiency and adequacy (or lack of it) in one field has many positive (or negative) consequences in other sub systems. In South-East Europe (SEE) the discourse on social policy in the broader sense of equity versus efficiency is a new agenda, an agenda of transformational politics. Social policy in SEE has been created by economic discourse on market-making versus market-correcting policies. South East European states have relatively *weak governments*. They have a limited capacity to collect taxes, to tackle the unofficial or grey economy (a financially weak state) and thus, limited resources for the provision of public goods and services. The situation in SEE is far from satisfactory or optimistic. South-East European countries have to find and develop constitutional and legal arrangements that best suit their own historical, social, cultural and economic situations, conditions and possibilities. The government could and should provide a stable legal framework, the social infrastructure and with the co-operation of its citizens, establish the rule of law. Otherwise, the social groups in unfavourable conditions, primarily the poor and socially excluded, will suffer most from the lack of clear laws and the unwillingness of society to respect those that do exist.

3.11.1. Introduction

One lands on a very peculiar political social and economic space on arriving in South-East Europe, with a unique but also variable institutional landscape, with a special culture of governance and with numerous socialist legacies.

The aim of the book is both to analyse and propose measures for alleviating the existing widespread conflict between equity and efficiency in social policy in the broader sense: including social welfare, education and employment. Why education, social welfare, the labour market situation and consequent policies? The topics are specific, but also interconnected, so various terms could be used under different topics. There are many links among the various aspects of these public policies. Education, social welfare and the labour mar-

ket are closely intertwined and mutually reinforcing. Efficiency and adequacy (or lack of it) in one field has many positive (or negative) consequences on other sub-systems. High expenditure for social welfare measures will limit investment in education and technological development, which will result in undesirable consequences for economic growth and development in the long run. Successful employment policies will reduce the risk of poverty and social exclusion, as will effective social and health insurance. High efficiency in social policy has many positive side effects on the economy; primarily there would not be widespread unemployment and poverty traps¹⁵⁹.

¹⁵⁹ The unemployment trap happens when there is no incentive to get a job at all, while the poverty trap occurs when people have little or no incentive to get a better paid job or work longer hours

Furthermore, participation in education and formal education has a positive impact on individual personal as well as social development, social inclusion and social cohesion. For example, among people with upper secondary and tertiary education, the unemployment rate is on average lower than among less well educated people (persons who finished primary school at most). Better-educated and qualified persons also wait less time (as unemployed) for a job and have a higher income when they find a job and better possibilities for professional promotion. Also, the risk-of-poverty rate is significantly lower among better educated persons. Measures for an increase in employment affect the number of employed but also increase the number of insured persons who pay contributions, which reduces expenditure for social care, and increases public revenues which in turn enables easier financing of public goods and services, etc. Inadequate social services could cause bad health in the population or some social groups (for example, the poor or national minorities). That lowers personal employability, reduces chances for employment, and increases the risk of long-term unemployment, poverty and social exclusion.

In South-East Europe (SEE) the discourse on social policy in the broader sense of equity versus efficiency is a new agenda, an agenda of transformational politics. Social policy in SEE has been created by economic discourse on market-making versus market-correcting policies. These countries were particularly exposed to neo-liberal economic and implicit societal policies. Deacon argues (2000), however, that it is *not economic, but instead, political globalisation* that impacted heavily on social policy development in SEE; by that, he meant global actors, such as the World Bank, who promote a particular social policy, driven by ideological reasons and views on how social policy should position itself in relation

to the market. Similar to European-level social policy, post-communist social policy was dominated by market-making features and seriously lacked market-correcting mechanisms.

It is well known that South-East European states have relatively *weak governments*. They have a limited capacity to collect taxes, to tackle the unofficial or grey economy (a financially weak state) and thus, limited resources for the provision of public goods and services – including education, social welfare and labour market policy. Almost all of the SEE countries are characterised by deeply rooted corruption and lack of transparency in political decision-making processes. Most of them have little (if any) public discussion related to public policies and budgetary processes. These countries have quite widespread uneconomic behaviour in government for the spending of public funds. All probably discourage the payment of taxes and increase tax evasion, and reduce the possibilities for collection of public resources needed for the provision of public goods and services. Exclusion of citizens from the decision-making process indirectly affects the deterioration in the quality of public services, increases poverty, social exclusion and inequity of income.

Furthermore, these countries are caught in a *legislation trap*: their Parliaments undertake massive legislation which puts a heavy burden on the whole range of the policy-making machinery (weak regulatory state). As a result, there is insufficient capacity to follow up, to evaluate, and to monitor the implementation of even major legislation, particularly related to education, social welfare and labour market policy. Additionally, there is unrealistic normative optimism that all problems could be solved with new laws, various strategies of governmental regulation and the establishment of new governmental bodies, agencies and institutions. In assessing the reformulation of social policy in Eastern

Europe some important factors are forgotten: there is a huge implementation gap between accepted laws and their real implementation and a limited capacity of institutions that are often weak and/or ineffective.

As social policies in the broader sense (education, social welfare and labour market) are closely linked both to the State (as a necessary authority to correct market failures and promote the public good) and market-making mechanisms (negative social policy that is aiming to remove the boundaries of market competitiveness), the question of trade-off between efficiency and equity should be in the centre of political discussion and social analysis. However, it is very often neglected and/or almost forgotten.

Simultaneously, the two processes are occurring in very different circumstances. There has been no history of equity-efficiency choices in the framework of the market economy. In the case of many SEE countries there is the trade-off of focus on what is called the *pre-mature welfare state*. It is argued that compared to the level of economic development and the national GDP, as far as the fiscal capacity of the SEE welfare states is concerned, it is over-muscled. The level of welfare spending is not supported by economic performance, therefore it pre-empts fiscal policy space and endangers investments and economic restructuring.

3.11.2. Most Important Characteristics and the Situation in the Countries Covered

The authors of the national case studies provide an interesting range of human stories and data for and against the education, social and employment situations in their countries. The individual articles give very different weight to the three main themes: education, social and employment (sometimes almost none at all) and most have a polemic touch (or sometimes

even a 'greedy grasp'). A number of themes begin to offer themselves up - the long versus short term implications on the equity side; the English speaking influence (described as Anglo-Saxon in some of the pieces) from and on policy influencers, whether the World Bank or European Union as opposed to "European' mainstream" however defined; the advisability of some EU Commission approaches; the sheer weight of post-Keynes 'animal spirits' - versus phenomenology; the small 'p' political versus bureaucratic versus academic/objective perspectives; the immediate lack of all real resource and so on.

Due to various socio-economic situations in the countries (differences among them are almost bigger than the similarities) as well as different contributions of authors to the book, it is almost impossible to provide inter-country comparisons regarding situations, problems and solutions for the efficiency and equity trade-off. However, it is possible to repeat what has been analysed, summarise the most important messages from each contribution and finish with recommendations and proposals for future research.

While it is straightforwardly apparent what *equity* and what *efficiency* is, the relation between those two phenomena is not so obvious. Succinctly, the efficiency and equity trade-off is that adequate equity enhances the poverty reduction agenda and thus, socio-economic efficiency. The poor generally have less influence, less income, and less access to services than other better-off social groups. As stated in the *conceptual framework* of this book, when societies become more equitable in ways that lead to greater opportunities for all, the poor usually have double benefits. First, expanded opportunities help the poor directly through greater participation in the development process. Second, the development process itself may become more successful and resilient as greater equity leads

to better institutions, more effective conflict management, and a better use of all potential resources in society, including those of the poor. A modern equality approach tends to require equality of something, but not necessarily equality of outcome in the material sphere (in fact, plain equality of resources is a claim very few theorists of justice would be willing to defend, since people have different needs, are confronted with different circumstances and, if they are given the same opportunities, are likely to make different use of them) (Robeyns, 2009).

Even from its first days of independence in 1912, **Albania** was plagued by a host of ills: pervasive poverty, overwhelming illiteracy, blood feuds, epidemics of disease, and gross subjugation of women. Stitched into the ever-convulsive Balkans, Albania was Europe's most isolated and deprived country, overwhelmed by instability and poverty. After a long-term communist regime that lasted from the end of the Second World War till 1991 (when the first multiparty elections were held since the 1920s and predestined the end of communist rule), Albania entered a turbulent period of political and economic change. Almost two decades after democracy and privatization were supposed to deliver undreamed-of life in today's Albania is marked by massive unemployment and disillusionment. So it is not surprising that disappointment and low expectations pervade conversations with many Albanians. Radical changes of the Albanian economy after the downfall of the communist regime have produced not only a change in the structure of the production of goods, but also in the make up of the structure of the producers, as well as the prices of goods. There were also changes in the forms of ownership and the organization of production resources. After the collapse of the centralized economic system, many economic sectors failed, thus generating greater

unemployment. During the transition, unemployment in Albania has been higher than the average for other countries in transition. The situation was partially mitigated by a pervasive informal sector and by remittances from abroad sent by relatives from West Europe. It is assessed that the informal economy produces more than 50% of the GDP (Gërzhani, 2001). The existence of the informal sector – very often a lifeboat for many and a mean for the majority of the population to secure their living or income - is a result of radical changes in the economy that resulted in huge modification in the labour force and the population's income, vacuums in the legal structure, lack of implementation of the laws by governmental structures, and a confused tax policy with high costs. All these factors contribute to an unfavourable social picture with no easy solution.

Fifteen years after the Dayton peace agreement ended the ferocious ethnic war in **Bosnia and Herzegovina** (B&H), the country is still not prosperous and united, but remains poor and divided into two entities, a Muslim-Croat Federation and a Serbian Republic. Thus, the social protection and social assistance system in B&H is highly fragmented and comprises 13 almost independent systems, with a low level of coordination and cooperation among them. Furthermore, functions are overlapping and the division of responsibilities is unclear. Therefore, the main problems of Bosnia's development since 1995 are the consistent dominance of nationalist parties and the practice of voting along national lines, which results in political elites that focus on the well-being of their own national group rather than on the well-being of all. Only recently have leading politicians in Bosnia and Herzegovina made statements suggesting attempts at reconciliation, essential for unblocking the political deadlock and accelerating economic growth. Regardless of the fact

that a large share of the population is below the poverty threshold, there are no social inclusion policies at any level of government in B&H that would systematically try to solve the basic causes of poverty and social exclusion. Bosnia's prospects for stability would be helped if it joined the European Union, and soon, but progress in that direction has not been encouraging.

Supported by more than a decade of consistent macroeconomic policies and deep structural reforms, **Bulgaria** joined the European Union in 2007. However, the country still has to overcome many obstacles, including a harsh social situation, a low technological development of the economy, a significant productivity gap and low labour remuneration in comparison with the rest of the EU plus a widespread and deeply rooted unofficial economy, etc. Analysing a trade-off in social policy, Bulgarian authors particularly emphasised the pension system because about 85% of all social welfare outlays has been paid out for pensions. Bulgaria's labour market has improved over the last few years, but the global economic crisis has interrupted and reversed this progress. Paradoxically, in many cases Bulgaria, in spite of (or because of) its socialist past, has paid low-skilled labour as much as high-skilled labour or even higher. The low technological level of the national economy creates more jobs for people with lower educational and qualification attainments. Thus, highly educated and/or people with specific knowledge and skills happen to be less in demand on the Bulgarian labour market, and in many cases they accept job positions, which do not match their high professional status. Thus, educational policy seems to be controversial and the results do not positively influence the social environment and individuals' labour market opportunities.

In the chapter on **Croatia** it is mentioned that absolute poverty in Croatia is low and poverty is highly correlated with the situation in the formal labour market and the skills of individuals. Thus, the most important exit from poverty is better education and acquiring knowledge, skills and experience for adequate employability. It looks as though unemployment is mostly the consequence of the countries' inability to create jobs fast enough to accommodate new entrants into the labour force. There is an overall deficiency of jobs and substantial unemployment, but people with jobs stay in them for unusually long periods. Furthermore, not enough attention is given to the long-term unemployed (that is an entry ticket to poverty and social exclusion) and to the evaluation of labour market policy. There is also, currently, a concern that social care services in Croatia are not necessarily targeted to those most in need. Thus, for Croatia it is much more important to invest in the "quality" of social and employment policies rather than in quantity.

Kosovo is the smallest state in terms of territory and the newest state in South-Eastern Europe, but with very old, deep and serious economic and social problems. Kosovo began its post-conflict transition from a very difficult starting point. During the 1990s, its economy had already suffered from poor economic policies, lack of domestic institutions, broken external trade and financial links, international sanctions, underinvestment, and ethnic conflict. Output fell by a half in the early 1990s, and additionally by at least another 20% as a result of the conflict at the end of the decade. Furthermore, Kosovo maintains some of the worst social indicators in the region. Almost one half of the population is estimated to be poor, while 15% live in extreme poverty. The poverty rate is very high compared to neighbouring economies, and has not significantly

changed over time. Around 70% of all the poor are either unemployed or inactive. Employment possibilities are very limited and unemployment remains broadly stable on an exceptionally high level (above 40% with youth unemployment at almost 80%). As the author for Kosovo underlines, *poverty reduction through growth could be achieved only through strategies that lead to high employment-generating growth* Important steps towards enhancing economic growth and reducing existing high unemployment would be improvements of the country's image and attraction of foreign investors. The importance of eliminating (or at least reducing) corruption is emphasized, as well as improving labour regulation and its implementation, and enhancing business start up regulations.

In **Macedonia**, apart from the troubles typically attributable to the transition process, there were also other problems which prevailed long before transition and contributed to the overall deterioration of living conditions in the transition period. Among these is the generally low economic development of the country, higher unemployment levels, as well as lower investments. Furthermore, economic emigration and low levels of education and training have aggravated the transition process. Macedonia submitted its application for EU membership in 2004, but the European Commission's recommendation to open negotiations with Macedonia was blocked by Greece's objection to the new republic's name. High unemployment could be at least lowered through active labour market policies (ALMP) – skilling, requalification and education of unemployed persons. ALMP have been implemented to enhance labour supply (e.g., training); increase labour demand (for example, wage and/or employment subsidies, and public works); and improve the functioning of the labour market (primarily, employment

services). In addition to the quality of design and implementation of the programmes themselves, these variables include external factors, such as stable macroeconomic conditions, a favourable investment climate and enabling a business environment, and a competitive product market, all preconditions that should and could be achieved in Macedonia.

The contribution for **Moldova** explains a complex socio-economic situation, primarily linked with an increase of poverty after the country proclaimed independence. Moldova's transition process had devastatingly impacted on the country's social situation. The unfavourable economic situation is further worsened by political instability in the breakaway territory of Transdnestr. The country is highly dependent on migrant remittances, which represent about one third of GDP. The population in big cities has a significantly lower risk of living in poverty in comparison with those living in rural areas, mostly due to the fact that the agricultural sector has very low levels of production and labour remuneration. From the point of view of the trade-off between efficiency and equity there are various risks which affect the social policy of Moldova, very often linked with the fact that the government is forced to search for hasty short-term and mid-term solutions and being less 'prospective', frequently missing the long-term vision. As in many other SEE countries, in Moldova there is also a significant gap between the supply of the education system and labour market demands. Due to specific national problems, the author dedicated attention to the trade-off between efficiency and equity in the health-care system, emphasising that reforms have had a very positive impact on equity in the health system's costs and benefits overall. However, the present system of health financing does not guarantee the effective protection of the whole

population from financial risks, primarily because of out-of-pocket payments and a sizeable proportion of the population that is not covered by social health insurance.

Montenegro achieved independence in 2006, signed a Stabilisation and Association Agreement with the EU in 2007, applied for membership a year later, and received candidate status in 2010. Montenegro has achieved remarkable economic growth in recent years, which has created opportunities and brought about some progress in the social situation and equity question. Poverty in Montenegro is low, but there are significant differences in the extent of poverty among the regions. There is a favourable situation in the south and central regions, and much higher poverty rates in the north of the country. Poverty in Montenegro has a multidimensional character: it is characterised by chronic poverty; sub-standard living conditions; lack of availability of basic services; lack of educational attainment etc. Poverty is directly linked to the person's position on the labour market. Montenegro had been characterised by a highly regulated and very rigid labour market, which probably contributed to the extensive informal economy and the high percentage of long-term unemployment. The Parliament of Montenegro recently adopted a new Labour Code, which has enabled improvements in the regulatory aspect of the labour market. This law presents a significant improvement over the old law. The author in the analysis underlined that *there is significant room for improvement in social protection effectiveness in Montenegro, primarily in terms of the targeting of social protection and the adequacy of social benefits, as well as improvement in transparency and accessibility of data and information.*

Experiences in **Romania** demonstrate the unrealistic expectations of many transi-

tion countries that all social problems will be solved with EU accession. Romania is, in spite of the accession to the EU, faced with a serious and overwhelming economic crisis and the many difficulties of integration. Thus, current economic and social data show deterioration in the situation. What is particularly worrisome is the large category of "working poor" in Romanian society because many full-time employees and self-employed persons belong to this category. A way of escaping poverty for many Romanians was labour migrations that in the short-term could alleviate poverty and, due to remittances, the unfavourable social picture. But in the long-run these can endanger family links, tear the social fabric and due to the lack of labour force (particularly the educated and qualified) menace economic development and progress. The valuable message from the Romanian contribution is that a *generous level of social protection does not necessarily lead to worse economic results. On the contrary, social policies based on investment in human and social capital are conducive to higher economic efficiency as they improve productivity and the quality of the labour force.*

In **Serbia**, after political changes caused by the fall of the Milosević regime, the new Government commenced, from the year 2001, more serious reforms in the field of price liberalization, the abolition of control of foreign trade, privatization of social enterprises, comprehensive fiscal reforms (including the introduction of a new taxation system - primarily Value Added Tax), improvement of Tax Administration and budget consolidation, strict monetary policy, reform of the banking and financial system, etc. Non-payment or irregular payment of salaries, the bankruptcy of big public companies, delays in payment and/or non-payment of social aid and pensions forced a large part of the population to live

in conditions of poverty, scarcity and despair. The new Government prepared a package of proposals for economic reform including social measures to assist the poor and vulnerable that face difficulties caused by the restructuring. The destruction of non-productive and artificially maintained jobs in the formal sector increased the number of people who lost their jobs. Agriculture and small and medium enterprises (SME) have been the main source of net job creation in Serbia but these sectors are most developed in the informal economy. Due to its being a relatively privileged sector there is constant pressure for employment in the public sector. The goal of social measures has been only partially achieved. Analyses show that the Serbian main social assistance programmes - so called material assistance to the family (MAF) - is very well targeted, with the poor receiving over 90% of the total funds from the programmes. Limited duration of the right to MAF, the introduction of which was motivated by activating recipients, has been significantly jeopardized by lack of sufficient jobs and problems in the equity vs. efficiency trade off in education, primarily differences of labour market needs with inadequate education or low qualifications of cash benefit recipients. The authors of the Serbian contribution believe that *applying explicitly or implicitly pro-poor policies in Serbia would simultaneously improve efficiency and equity.*

3.11.3. Conclusions and Recommendations

After reading all the contributions collected in this study an honest reader should be in a quite grim mood, because the situation in them is far from satisfactory or optimistic. The reasons for that are manifold: path dependency, (it is not easy to relieve the heavy socialistic burden and paternalism), unfavourable political instability and/or (post)war conditions and reconciliations, corrupt or weak

public government and administration (including regulatory authorities and judiciary systems), ineffective private governance. All these elements hinder economic and social development in South-East Europe.

Analysis of the impact of market adjustment on the social sectors and particularly on the trade-off equity vs. efficiency is difficult because it involves evaluating a counterfactual situation in which the population is affected by new (or significantly changed) socio-economic systems, including public services, resources and prices, with the possibility of substantial substitutions and complicated concurrent and delayed interactions. While inevitable in nature, the speed and extremity of these new policies left many of the *losers* of economic structural change destitute, particularly those who were already poor at the beginning of the changes.

To respond to constantly changing circumstances quickly, economic and social policy reform design should be embedded in up-to-date, country-specific analysis. This is especially important in the context of a global economic and financial crisis. Three conditions are required to achieve equitable growth: sustaining macroeconomic stability, creating an enabling environment for private businesses, and increasing investment in human capital. This would involve redefining the frontier between the state and the market on equity and efficiency grounds: the state should withdraw from activities that are inherently a market domain. A major problem with the economic policies advocated for the transition period is that they have been based on minimizing the role of the state. But because of the prolonged and complex nature of the transition, the responsibilities of the state should increase rather than decrease.

This does not mean a return to an authoritarian, undemocratic state. It also does not signify that the state should be large

relative to the private economy, and certainly not that it should try to dictate the direction of the economy. It does imply that the state should be activist and intervene in critical areas where market forces cannot ensure an efficient allocation of resources or where access to basic assets and opportunities for people's livelihoods is inequitable.

Like all others, South-East European countries have to find and develop constitutional and legal arrangements that best suit their own historical, social, cultural and economic situations, conditions and possibilities. From the abundant economic and social literature as well as from everyday practice it is quite obvious that government (not only in South-East Europe) is incapable of solving all economic and social problems and insuring the preconditions for sustainable and long-term economic and social prosperity. Government could provide a stable legal framework, the social infrastructure and with the co-operation of its citizens, establish the rule of law. Otherwise, the social groups in unfavourable conditions, primarily the poor and socially excluded, will suffer most from the lack of clear laws and the unwillingness of society to respect the existing laws.

It is not so important to produce new laws and changes in the organizational structure, but to enhance respect for the laws in place. Institutional reforms with regard to transparency, accountability and good governance are also critical. Transparency and openness in decision-making about public expenditure are necessary for the determination of the competence, responsibility, efficiency and legitimacy as well as for the better determination of policy and evaluation of decisions on the range and the manner of providing public services. In general, informational broadening, in one form or another, is an effective way of overcoming social choice pessimism and of avoiding impossibilities, and it leads

directly to constructive approaches with viability and reach.

However, in order to make the laws work, political will and leadership commitment are vital. Just as important are the empowerment of citizens and their full participation in the political process. In all these things, accession to the EU could be helpful, but one should be realistic and according to Romanian and Bulgarian experience, not expect too much. Further strengthening of democratic institutions and the opening up of the SEE countries to closer integration with European and global structures should also help to bring these countries a step forward in the trade off between equity vs. efficiency, primarily in poverty reduction, better educational outcomes and improved labour markets.

Targeted government spending can provide effective relief to vulnerable households affected by the economic crisis. The recession lowered household income through increased unemployment, a contraction of the informal economy, and cutbacks in wages. The sectors of social policies - education, social welfare and employment - face numerous challenges and need to be modernised if SEE is to become more competitive and promote excellence. One challenge is to create diversified systems which allow equitable participation for all, while remaining financially viable and functioning more efficiently.

One should recommend that some effort should be invested in improving the quality, range and frequency of collecting data, information and social statistics, as well as in enhancing research about poverty, economic inequality and social exclusion. Such information and research are required for social planning and for the formulation of appropriate policies. If the objective is for safety nets to reach the poor, information is required on who the poor are and where they are located, and how much of the benefits from the

programme are reaching this target group. In most cases, (especially observed in SEE) countries spend significant resources on safety nets but fail to collect data and monitor who receives the benefits and how they affect the recipients. Such information should also be made available to the research community and general public. These two steps will help to make government at all levels more accountable to the electorate, by providing voters with more and current information about the impact of government policies, which should also raise the quality of public debate and increase the participation of citizens in the political decision-making process.

According to the various sources, primarily OECD, in the observed SEE countries the considerable problems faced by the educational system are: the lack of emphasis on developing analytical and problem-solving abilities, very weak links between education and the professional world, and the partial development of lifelong learning, mostly oriented toward vocational education and vocational skills (neglected are non-formal education and key competencies). Lacking skills prevents the unemployed from reintegration in the labour market and hampers labour mobility. Skills matter even more during the crisis. Thus, there is a need to continue with education reform to raise labour productivity. Also, there is a need to increase labour market flexibility to support the reallocation of resources from the non-traded to traded goods and the service sectors.

Better management and delivery of tertiary education would help countries achieve their economic and social objectives. A common assumption has been that a *free* system of education, particularly tertiary (one funded entirely by the state) is, of itself, equitable. In fact, this assumption has not been borne out by reality, since the crucial determining factor for participation is socio-economic back-

ground. The bulk of the evidence shows that there are usually significant private returns to those who participate in higher education, and that these are not entirely offset by progressive tax systems. This can have a reverse redistribution effect. This regressive effect is particularly acute where school systems intensify the effects of socio-economic background on educational attainment. In order to bring about a more equitable balance between the costs funded by individuals and society and the benefits accrued by each, and to contribute to providing tertiary educational institutions with the extra funding they need, many countries are turning to the main direct beneficiaries of higher education, the students, to invest in their own futures by paying tuition fees which may also improve the quality of teaching and the management in universities, and reinforce student motivation.

In SEE countries there are insufficient links between the education arena, the economy and the labour market and not enough attention is given to the estimation of the future trends and needs of the labour force, which causes problems in providing education and skills programmes compatible with the skills and occupations sought on the labour market. The high proportion of workers with fixed term contracts limits the incentives for both firms and employees to develop skills. Insufficient opportunities for education are not the principal reason why many adults do not engage in learning: evidence on barriers to participation suggests that under-investment in adult learning is due more to the demand side than to lack of supply of learning opportunities. Many adults are simply not interested. This may be because they are not aware of the need for training or because of lack of information, lack of incentives, or a perceived lack of returns. SEE countries should develop flexible and clear pathways through adult education and lifelong learning to increase

employability and assure easy entry into (or return to) the labour market.

Market forces alone can never be relied on to produce a fair or equitable society. The state must be committed to the reduction of poverty and inequality, and in order to do so, it must maintain a transparent and equitable system of social protection that relies on a foundation of universal coverage and non-discrimination. It is necessary to strengthen the social safety net through improved targeting and monitoring of social welfare programmes and social assistance, empowering civil society in the provision of social services, decentralisation of some social services and the better design of employment policy measures.

A primary aim of policy must be to get people into work - or back into work. For most people most of the time, dependency on state assistance cannot provide a satisfactory alternative to employment - in terms of either psychological satisfaction or material well-being. The opportunity of paid employment is among the simplest ways of escaping poverty and dependency. It is desirable, wherever possible, that people are found (or find themselves) jobs in the formal sector. Not only are such jobs more secure, in general, but they also offer more opportunities for training and the acquisition of skills. Furthermore, they will increase the tax base and, in some measure, allow a reduction in indirect labour costs.

The low employment rate, or rather an increase in unemployment, currently - particularly in the conditions of economic crisis - represents one of the main priorities for economic policy in South-East Europe. There is clearly a strong association among poverty, education, employability and long-term unemployment. In the majority of the countries the problem of long term unemployment - those who have been waiting for more than one year - is not diminishing. The task is to reduce both the flows into long-term unem-

ployment and the stock of people already out of work for more than a year. The problems faced by many of the long-term jobless are often multi-dimensional and frequently include low levels of education and of motivation.

SEE countries have a range of active and passive measures to assist the unemployed. The employability of the long-term unemployed should be enhanced and social exclusion reduced through participation in work related activities. The key ingredient to boosting employment in the course of the crisis is to promote the upgrading of the skills of laid-off workers and those at risk of lay-off through new training programmes designed together with employers' representatives and through incentive schemes for companies and individuals. There is also a lack of timely evaluation to assess the true effectiveness of policy measures on the labour market. This could be addressed through the introduction of new techniques (tracking studies) for collecting up-to-the-minute data about their impact.

The economies of South East Europe have suffered from the impact of the global recession more than most other regions around the world (Mitra et al., 2009). However, while some countries within the SEE region have been very deeply affected, others appear to have been relatively lightly touched by the crisis. While GDP fell significantly in 2009 in Romania (by 8%), Albania escaped relatively unscathed with positive, albeit reduced growth in the worst recession year. The effects of the crisis on the economic and social situation in SEE have been deeper than most analysts thought at the end of 2009 (Bartlett and Monastiriotis 2010). However, countries in South-East Europe did make some recent progress on structural and institutional reforms. Let us hope that the whole region will live in peace, stability and security, that the institutions will be more powerful and oriented towards ordinary citizens and that with

adequate cooperation and collaboration of government, citizens, private and public sectors the future of South East countries will be bright, characterised by wisdom, responsibility and prosperity as well as by adequate trade-offs between equity and efficiency.

In further analysis it would be useful to broaden some issues that have been just touched on by several contributions to the book, such as equity vs. efficiency in health care and protection that was tackled in the report for Moldavia and nicely analysed by Shakarishvili (2006). Furthermore, it will be

valuable to provide deeper analysis of equity and efficiency in pension insurance, mentioned in the report for Bulgaria, but excellently explained by Grosh *et al* (2008). Finally, there is an open (or everlasting) issue of equity and efficiency in the tax system, shortly explained in the Serbian report, but also analysed in the classically famous book by Musgrave (1985) and recently by OECD (2010). Succinctly, there are more open issues related to the trade-off between equity and efficiency than there are researchers willing to analyse them.

Bibliography

- Bartlett, W, Monastiriotis, V, 2010. *South East Europe after the Economic Crisis: a New Dawn or back to Business as Usual?* London: Research on South Eastern Europe European Institute, The London School of Economics and Political Science, on line available on <http://www2.lse.ac.uk/europeanInstitute/research/LSEE/PDF%20Files/Publications/SEE%20Crisis%20Book.pdf>
- Commission of the European Communities, 2006. *Communication from the Commission to the Council and to the European Parliament: Efficiency and equity in European education and training systems*, Brussels: Commission of the European Communities http://ec.europa.eu/education/policies/2010/doc/comm481_en.pdf
- Cornia, G. A., Jolly, R. and Stewart, F. (Eds.) (1988). *Adjustment with a Human Face: Ten Country Case Studies*, Oxford: Oxford University Press.
- Deacon, B., 1998. "Global and regional agencies and the making of post-communist social policy in Eastern Europe" in Rhodes, M., and Meny *The future of European welfare A new social contract?* London: Macmillan Press, 204-227.
- Deacon, B., 2000. "Eastern European welfare states: the impact of the politics of globalisation". *Journal of European Social Policy*, 10 (2): 146-161. OECD, 2009: *Education Today, The OECD Perspective*.
- European Commission and World Bank 2008 *Kosovo, Prospectus*, Brussels and Washington DC. European Commission and World Bank, on line available on <http://ec.europa.eu/enlargement/archives/seerecon/kdc/prospectus.pdf>
- Gërzhani, K., 2001 *The informal sector in transition: tax evasion in an institutional vacuum*. Amsterdam : Tinberger Institut.
- Grosh, M., del Ninno, C., Tesliuc, E., Ouerghi, A., Milazzo, A., Weigand, C., 2008. *The Design and Implementation of Effective Safety Nets*, Washington DC: The International Bank for Reconstruction and Development and The World Bank, on line available on <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTSOCIALPROTECTION/EXTSAFETYNETSANDTRANSFERS/0,,contentMDK:21925478~pagePK:148956~piPK:216618~theSitePK:282761,00.html>.
- Jansen M., von Uexkull, E., 2010. *Trade and Employment in the Global Crisis* Budapest: International Labour Organisation, on line available on http://www.ilo.org/global/publications/ilo-bookstore/order-online/books/WCMS_141911/lang--en/index.htm
- Kostadinov, A., 2009. *Labour market policies in Macedonia*, Comparative study, Skopje: Center for Economic Analyses, on line available on <http://www.cea.org.mk/Documents/Labour%20market%20policies%20in%20Macedonia.pdf>
- Mitra, P., Selowsky, M., Zalduendo, J., 2010. *Turmoil at Twenty: Recession, Recovery, and Reform in Central and Eastern Europe and the Former Soviet Union*, Washington: the World Bank, on line available on <http://siteresources.worldbank.org/MACEDONIAEXTN/Resources/t20-fullreport.pdf>
- Musgrave R. A., 1985. A Brief History of Fiscal Doctrine, in Auerbach, A. J. and Feldstein M (ed.). *Handbook of Public Economics* Vol. I, Amsterdam: Elsevier Science Publishers B.V.).
- OECD, 2009. *Education Today: The OECD Perspective*, Paris: OECD.

- Pavelic, D., Obradovic, N, Kamenica, A., 2008. *Social Protection and Social Inclusion in Bosnia And Herzegovina*, Brussels: European Commission Directorate General for Employment, Social Affairs and Equal Opportunities, on line available on http://Ec.europa.eu/employment_social/spsi
- Robeyns, I., 2009. *Equality and Justice*, in Deneulin, S., Shahani. L., (Eds.) *An Introduction to the Human Development and Capability Approach Freedom and Agency* Washington DC: UNDP, on line available on <http://hdr.undp.org/en/humandev/learnmore/title,18966,en.html>
- Shakarishvili, G., 2006. *Poverty and Equity in Healthcare Finance: Analyzing Post-Soviet Healthcare Reform*, Budapest: Local Government and Public Service Reform Initiative, on line available on <http://lgi.osi.hu>
- Spence R., 2009. *Economic Growth* in Deneulin, S., Shahani. L., (Eds.) *An Introduction to the Human Development and Capability Approach Freedom and Agency*. Washington DC: UNDP, on line available on http://www.idrc.ca/en/ev-146687-201-1-DO_TOPIC.html
- United Nation Development Programme, 1995. *National Human Development Report Republic of Moldova (Revised version)*: Chisinau: UNDP, on line available on http://hdr.undp.org/en/reports/national/europethecis/moldova/MOLDOVA_1995_en.pdf
- World Bank, 2008a. *Bulgaria: Raising employment and human capital for growth and convergence* Sofia: World Bank, on line available on www.worldbank.bg
- World Bank 2008b. *Social Assistance Programs: Cost, Coverage, Targeting and Poverty Impact*. Sofia: World Bank, on line available on http://siteresources.worldbank.org/BULGARIAEXTN/Resources/305438-1224088560466/BulgariaPolicyNotesFinal_eng.pdf
- World Bank 2008c., *Active Labor Market Programs in Macedonia*, Report No. 45258-MK, *A Policy Note* Skopje, Washington DC: World Bank, on line available on <http://siteresources.worldbank.org>
- World Bank 2009. *Mapping Bulgaria's Future Inclusive Growth and Productive Jobs*, Sofia, Washington DC: World Bank. on line available on http://siteresources.worldbank.org/BULGARIAEXTN/Resources/305438-1224088560466/BulgariaPolicyNotesFinal_eng.pdf