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World Development Studies 2

# Emerging Labour Markets

Arvo Kuddo



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(UNU/WIDER)

World Development Studies 2

## **Emerging Labour Markets**

Labour Market Developments and Transitional Unemployment  
in Central and Eastern European Countries

**Arvo Kuddo**

**UNU World Institute for Development Economics Research (UNU/WIDER)**  
A research and training centre of the United Nations University

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## PREFACE

The human aspects of the development process are crucial issues everywhere, but particularly in the former socialist countries where the society is in the process of profound transformation. In the areas of fast transformation, the working and living conditions of the population are particularly important and the adjustment for the people is often difficult and painful. Poverty is on the increase. Unemployment, under-utilization of human resources, social polarization and exclusion, have become realities which the transition economies cannot efficiently handle. It will be a long time before these countries have effectively functioning labour markets. The improvement of human security in these countries, integrating into the global market system, depends on the consolidation of the economy, on the progress of education and training.

In the research programme of UNU/WIDER, the human side of the transformation process occupies an important place. The future of these countries, their political stability, will depend on the long run on their capabilities to manage the human condition. It is much more than an issue of political commitments, it depends on the economic and institutional strength of the countries to cope with the difficult and multi-dimensional social problems. The employment dimension is, and will be, of a central nature.

This publication results from research work carried out by Dr Arvo Kuddo, a Research Fellow at UNU/WIDER. It is part of his research work on the human aspects of the transformation process and of the integration of the former socialist countries into the global economy.

Dr Kuddo explains the background of the changes and he looks at the problems, causes and consequences of unemployment in a comparative perspective, embedded in the concrete socio-economic structures. The search for answers to such questions as: has unemployment helped toward positive structural changes; did it occur merely as a consequence of the marketization and economic decline; which are the most vulnerable groups? How the labour markets develop in these countries reveals not only the similarities but also the great diversity of the cases and the causes. The overview on the successor states of the former Soviet Union is an particularly interesting contribution to the understanding of the complex nature of the changes.

I would recommend this volume to all those who are interested in the human side of the development process in general. The human dimension of the changes in Central and East Europe and in the former Soviet Union may serve as an important lesson to all those who are working on the adjustment process.

Mihály Simai  
Director, UNU/WIDER, Helsinki

## INTRODUCTION

The whole transformation process from socialism to a market economy has been an economic and social experience unique in the history of mankind. Radical changes in all spheres of society have taken place in an extremely short period of time. A great number of unexpected social consequences, contradictions and conflicts have taken place which were not predictable at the initial stage of the reforms.

The transformation has been an integral and universal process which has touched all the aspects of society, work, and the everyday lives of its citizens. Besides the economic transition, there have been several other aspects of change accompanying the macro and micro restructuring of society. It has encompassed the political and democratic transition from autocratic rule to overwhelming political freedom and participation, establishment of democratic institutions, and the protection of civil, human and economic rights.<sup>1</sup> In most of the countries in transition, the major democratic political structures and their legal framework were established and have been functioning de facto, except possibly in some of the Central Asian countries of the newly independent states (NIS).

However, in many of the countries, the former leadership is still in power. Through privatization and other means, it has taken not only political but economic power as well and has become more powerful than ever. In the last elections in several countries, the left wing came to power as a reaction of the electorate to the failed reforms and economic experiments and their high social costs. In some countries, changes in the political power have had a direct impact on slowing down the privatization process, for example, in Poland, Slovakia, Hungary and Russia.

Reforms in the society embrace a sociocultural transition of changing values and goals and enlarge the variety of views and behaviour of different interest groups and social classes. The ideologies of salary earners and employees of the state-owned enterprises (SOEs), organizations and collective farms have in many cases been replaced by those of the owners, employers, entrepreneurs, businessmen, and the self-employed. People have had to learn a sense of private property which they have never known before. On the other side of the deepening social stratification of the society, a large part of the population have become unemployed, discouraged and poor, feeling excluded from the new life, pushed aside from society, unneeded and unwanted in this changing world.

This psychological transition has been characterized by the change from an overwhelming dependence of the people on the paternalistic state and its institutions,

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<sup>1</sup> UNDP. 1993. *Human Development Report 1993*. New York: Oxford University Press, p. 46.



and its administrative control over the social life to individual choice, initiative and effort. Before the reforms, social security was guaranteed for everybody from the time of birth in a state hospital to a funeral supplied by the state if needed, the so-called cradle-to-grave social security system. The primary guarantee of a socially secure life was full employment. The system was well developed, at least quantitatively and to some extent qualitatively, and every member of society was entitled to benefits. Notwithstanding its many negative aspects, the totalitarian system guaranteed a relatively poor life, but without fear. Today, many are in a situation where no authority or state institution takes the responsibility for the unfortunate who are losing their jobs, having their entitlement to unemployment benefits expire or who fall below a subsistence minimum. From many points of view, the social costs of market-oriented reforms have been higher than expected. This has been a great shock to many former supporters of the reforms.

Rapid changes in the society have been accompanied by substantial changes in the demographic behaviour of the population, including rapidly declining birth rates and postponed marriages. They have increased the labour force with single men and women without families and children, and have a long-term impact on the ageing of the already aged labour force and the population in general. An unprecedented decline in life expectancy in some of the countries in transition is a sign of the rapid deterioration in the standard of health of people in their most active age.

In a wider context, the social transition should be considered a constituent part of the whole process of transformation in this region. The major consequences of this process have been the formation of the labour market and the marketization of the workforce. This, for the able-bodied generation, has been a new phenomenon which they have never experienced before. On the other hand, its move forward has been one of the key success factors of the transition and reforms in general.

The formation of a legal market framework, market institutions and market ideology has been relatively fast. However, the reactions of different actors in the process to market signals have often been controversial and are still not adequate. As long as monopolistic structures are in place in many sectors of the economy, a competitive environment is still not a major component of reforms.

The anatomy, interconnections and specifics of this transition process need to be analysed from various aspects. It has been quite different from what has occurred in the Western world. There are still many problems for which adequate solutions have not yet found in the countries in transition.

There has been a huge variety of experiences in transitional countries in the field of employment policy. Labour market problems have been quite specific to individual countries, regions, segments of the economy, and among social groups. It is not sufficient to study the situation by the method of 'an average temperature of the patients in a hospital' where some are dying and some recovering. In addition to economics, we can not ignore social, cultural, ethnic, psychological or other aspects of labour problems. Even religious background has been important because the Byzantine Orthodox,

Catholic and Protestant faiths have different traditions of collectivism and individualism which have influenced marketization of workforce in certain countries.

One of the main objectives of any research in this field has been to facilitate improvements in the policies and decision-making processes in the countries in transition. Therefore, the aim of this report is to analyse some of the key aspects of labour market formation and transitional unemployment in the Central and Eastern European countries (CEECs) and particularly in the former Soviet Union (FSU). The situations in these countries are quite diverse and therefore we could not pretend to consider the entirety of the problem in the region.

## I ECONOMIC BACKGROUND OF THE LABOUR MARKET

One of the most dynamic and fast changing spheres of the economic transformation in the new market economies has been the labour market adjustment process which has resulted in declining employment rates and sharply rising unemployment. Economic, social and demographic tension in the labour market as well as insecurity and fear of the future have been growing permanently.

The Central and Eastern European countries undergoing transition (including former Soviet Union countries but excluding the eastern part of Germany in this report) encompass a huge territory with a population of close to 400 million people including a working-age population of more than 220 million. These countries were and are in different stages and levels of development. They have many unique problems and solutions in the economic reforms. However, despite the differences in formal labour force statistics, employment problems have been quite similar in the region as a whole. In a very short time the officially-registered unemployment has risen from nearly zero to more than eight million people (see Appendix Table 1). Formerly open unemployment was completely unknown in this part of the world at least officially and to those who grew up in the socialist period.

In the author's opinion, the development of the labour market situation today in the region is similar to many other reform components, determined by at least four major groups of factors:

- i) The socialistic heritage from the past still influencing the economy and almost all aspects of everyday life;
- ii) Reform packages and macrostabilization programmes which have reached different stages and have many peculiarities in certain countries;
- iii) A huge number of factors which could be taken together as the process of structural adjustments and restructuring, partly related to and partly independent from two previous groups of factors;
- iv) Some political and external factors which could be specified separately, such as the disintegration of the FSU and Czechoslovakia or the influence of the UN sanctions on Yugoslavia on the economy and employment in the Balkans and beyond.

These and some other factors have created the specific characteristics of employment and unemployment dynamics in the region. The unemployment patterns resulting from the interaction of above mentioned factors could be called **transitional unemployment**. Despite the similarities with the unemployment situation in the rest of the world, this type of unemployment has different origins, reasons for existence and

course of action. Consequently, the policy aimed at employment and unemployment should also include some specific features compared to the corresponding policies in the market economies.

## **1.1 The concept of full employment**

The most common features of the economic system in the previous socialist countries were:

- i) Governmental control over production which prevailed on the basis of state orders;
- ii) State fixed prices on resources, including the labour force, and accordingly on final production;
- iii) Guaranteed market outlet for the commodity produced mainly in state-owned enterprises;
- iv) Guaranteed employment for life for the workers as well as a salary and necessary income for the family. Workers not only had the right to work, but it was their duty and formed a compulsory element of the system which controlled peoples' behaviour and lives from birth to death.

The system of total state intervention guaranteeing a high level of employment for the workers, but also suppressing their opportunities and economic incentives, caused in many cases a form of social parasitism. As the activities and initiatives were restrained, the people became completely dependent on the opportunities offered by the state and its institutions.

Unfortunately, a similar mentality still exists to a great extent in many of these countries and among many social groups. This has been especially true in the NIS, where free private entrepreneurship had been eliminated for a long period of 3-4 demographic generations, and for two generations in the Baltic region and in Central European transition countries.

Article 55 of the UN Charter strives, among its other goals, to promote higher standards of living, full employment, and conditions of economic and social progress and development. These first priority social tasks were expected to be implemented by the governments in different countries, in different economic conditions, and time. Today it is considered important to promote not only full employment as such, but full productive employment. The criterion of full employment itself has been widely discussed in labour economics.

The concept of full employment was proclaimed as one of the main social goals of the socialist state economic and social policies. Therefore, full employment was formally ensured by administrative measures and by huge state investments in the labour extensive sectors of the economy, through the creation of low efficiency jobs. This

policy facilitated high employment levels in transition countries, but often at the cost of insufficient productivity and, consequently, of low earnings.

Labour demand at that time was determined according to the sectoral priorities established under central planning. Those priorities in turn were mostly in heavy industries and especially in the military sectors which to a large extent functioned as a state within the state. Overmanning and consequently a permanent labour shortage was a common feature of the system. A full-time job in a state enterprise was virtually the only alternative for workers in most of the CEE countries.

According to János Kornai, such efforts by the state to keep the level of employment high resulted in a high rate of unemployment on the job, or actually on the payroll of enterprises. Equal remuneration policy suppressed the interest and motivation of the workers to work hard and to keep activity high on the job. In the FSU, remuneration was based on the universal 'Tariff Schedule of Wages and Salaries' and on its analogues in other socialist countries which allowed little room for variation in payments. Labour stimulus was well expressed in the slogan 'The state is pretending that it is paying us, we are pretending that we are working'.

Under the socialist central planning system, enterprise employment plans had to be approved by the appropriate sectoral ministry. As labour mobility was limited and available labour resources were pre-determined, it was common practice for enterprises or state and public service institutions to request for more people than necessary in order to avoid labour shortages and to guarantee the fulfilment of plans. Thus, they maintained a large number of under-employed workers on their payrolls.

Working places were valued not because of the salary which was more or less equal for all, but mainly because of privileges, additional welfare and related advantages. These included the ability to use working hours partly for private purposes (which explains the popularity of many civil service jobs despite their low salaries) the possibilities to improve one's housing facilities, inner distribution of certain goods and services generally in short supply, opportunities to take time off from work or to steal material from the job, etc.<sup>2</sup>

Production goals were determined by the central plans and they were not oriented towards the markets, customers or profits. Interest in economic results at every level was heavily suppressed and ex-post profits were transferred to the budget to subsidize loss-making enterprises.

The very rigid employment procedure was caused by limited labour and social mobility, 'augmented' by administrative regulations governing residence permits (*propiski*), the lack of housing facilities, or the dependence of the workers' families on housing or hostels owned by the enterprise. Thus, the opportunity to obtain better housing facilities was one of the main motives for labour migration. Full employment

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<sup>2</sup> János Kornai. 1992. *The Socialist System. The Political Economy of Communism*. New York: Princeton University Press, pp. 211-223.

resulting from an acute and chronic shortage of labour protected workers from dismissals.

However, the previous economic system was rather effective in mobilizing and recruiting huge human resources to certain key industries, thus influencing the foundation for the economic and social development; certain regions with unfavourable climate and living conditions such as the far east and the north east of the FSU, or previously under-developed national republics of Central Asia; some rural areas of virgin lands in Kazakhstan or the Non-Black Earth Zone in Russia; or into some unprestigious occupations. In addition, many qualified specialists from Russia, Ukraine, etc., were sent to some of the national republics. To fill the economic needs within the system, there were no other ways to relocate millions of workers except by state plans which at times used incentives; sometimes force. Especially in the pre-Second-World-War period and in some decades after, the economic system was rather effective in building up the countries from ruins and from economic backwardness.

Within a very limited period of time, the socialist system effectively solved the problem of illiteracy of a large part of the population in the CEE region. It guaranteed younger generations access to professional and higher education and provided large-scale re-training and upgrading of the skills of workers. Education, like other social services, was free of charge and available for all. Even production units carried out and financed certain social functions for the workers and their families, providing social reproduction of the workforce.

Many enterprises were responsible and still are not for only the production function, but also numerous social services and costs, thus affecting the whole life of a town. In recent decades the paternalistic role has been taken over by state institutions and in more and more instances by state-owned enterprises as well. Where the state has not been able to satisfy the needs of the citizens, the task has been re-addressed to the enterprises.

Therefore, the differentiation of social benefits from employment remuneration and from employment has been a necessary task for transition economies. Nevertheless, the relationship still exists in many countries, thus lowering labour mobility significantly, making staff reductions very painful, and hampering the creation of new economic structures.

## **1.2 Over-employment and under-employment**

In some publications, the central problem of transition has been regarded as the process to transform the 'supply-constrained shortage economies characterized by sellers' markets into demand-constrained systems of buyers' markets where consumers' choice would rule'.<sup>3</sup> To some extent this characterization is correct. On the other hand it

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<sup>3</sup> WIIW. 1993. Transition from the Command to the Market System: What went wrong and what to do now? The Vienna Institute for Comparative Economic Studies. Vienna. Mimeo.

has been problematic to describe the centrally planned economies according to market categories and instruments.

In the socialist system the production targets were determined centrally and resources, including labour resources, were 'priced' and delivered correspondingly. Producers knew in advance who would be the consumers of their production and what the prices would be as well. The consumers had no other choice but to accept the quantity and the quality norms determined a priori according to the central plans. Enterprises had to establish so-called 'stable links' with their main suppliers and consumers.

Prices were distorted and provided no information according to which producers were able to evaluate the efficiency or preference of their production. Priorities for investments, production and labour placement were, to large extent, determined by non-economic criteria.

The annual and five-year state plans included the planning targets for such specific resources as manpower which were subordinated to other parts of the plans. From a demographic point of view it was easier to calculate the dynamics, distribution, redistribution and utilization of such resources. However, in the last decades the population movements often became unpredictable and unavoidable (especially the rapid growth of big cities, as an example). Aspirations for overfulfilment of the plans and building up labour reserves within the enterprises concealed a large part of the workforce. Low labour productivity in socialist countries and the absence of effective incentives for improvement did facilitated the under-utilization of the labour force. Also the low labour costs, compared to other production factors, made it possible to keep extra workers on the payrolls.

Mismatches in labour planning happened continually in professional education as well. Dynamic economic needs and particularly the long-term professional education system were often unable to meet the demands for certain specialities while over-producing in others.

Employment rates were kept high by several methods including subsidies to certain industries and occupations and redistribution of profits and state revenues. In the new economic conditions, the state is no longer to maintain these artificially high employment rates. The labour costs are still low but intensified competition encourages the reduction of overmanning and a more selective approach to the workforce in general.

State plans were quite restrictive and, consequently, room to manoeuvre was very limited for both producers and consumers. The major problem for the authorities was the huge list of individual goods and services to be matched between producers and consumers. At the end of the 1980s in the FSU it exceeded 24 million items. The authorities were physically able to manipulate aggregated lists of goods and services which at the Central Planning Committee level included thousands of different items, at the All-Union Ministries' level tens of thousands, etc. Therefore, mismatches in

planning happened and often the producers themselves were not able to fulfil the plans. At the end of the 1980s, a certain liberalization in the rules and changes in legislation developed a monetary overhang both for production units and the population which subsequently put even more strain on the whole economy. In this situation, it was obvious that it was mostly the producers who dictated the game. The distribution of excess production was more freely decided by producers and it was often in their interest to accept lower plan targets in order to surpass the plans. It meant that they would have extra resources, including labour, on their payroll.

By law, participation in the public sector was an obligation of every individual in the working age bracket. People had no other choice than to be on the payroll of the SOEs or some other state institution. In order to avoid punishment by law for 'leading a parasitic way of life', it was necessary to do 'socially useful work'. This created the phenomenon of over-employment. In some of the former Soviet Union (FSU) countries and in some other European socialist countries, the employment rate reached 90 per cent of the working-age population. When pupils and students of working age 16 years and older were included in the statistics, it was sometimes 95 per cent; reaching even 97-98 per cent level in certain age groups. For example, in Estonia the share of the employed in the state sector in 1989 was 97.8 per cent for males in the age group 30-34 years and 95.6 per cent for females in the age group 40-44 years. However, if we take into account the working age of 15-64 years which is common in the West, the labour force participation rate in the CEE countries was not much higher than in several industrial countries in the West.

There were many attempts to reduce overmanning in the state enterprises. For example, in the FSU, these included a wage reform in 1986 and the approval of the 1987 Law on State Enterprises which allowed more flexibility in labour and wage policy and demanded more linkage between productivity and wage levels. Until the beginning of 1990, about 3.3 million workers, or 5 per cent of the labour force in the FSU, had been displaced in this manner.<sup>4</sup> As a rule, they were simply transferred to other state-owned enterprises.

Due to low and limited wages and low productivity, many families worked at second jobs or had some other source of income to achieve a subsistence living standard. Moonlighting was very common in Hungary from the 1970s-1980s after the first stage of economic reforms started and this resulted in the rapid decline in birth rates in the country.

There are no strict criteria on how to estimate the level of overmanning during the socialist period in the CEE countries. In several countries, on the basis of questioning the managers, this level was estimated to be between 15-30 per cent of the workforce. However, in comparing manning levels in Western-built plants in the FSU with plants in the West, indicates that Soviet plants employed 50 to 150 per cent more

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<sup>4</sup> *A Study of the Soviet Economy*. 1991. Volume 2. IMF, World Bank, OECD, EBRD, p. 142.



workers.<sup>5</sup> Therefore, large-scale labour resources were used extremely inefficiently and in the planning economy they were to a great extent simply wasted.<sup>6</sup>

### 1.3 Over-concentration and over-monopolization

The economic system, based on central planning, was physically able to control and manage a limited number of production units. Therefore, the number was limited to a level which resulted in an extremely high concentration and monopolization of the economic activities.

In the Russian Federation in 1987, industrial enterprises had on average 821 employees compared with about 160 in the EC. Some enterprises employed roughly 100,000 workers. A relatively small number of enterprises were organized into huge and vertically integrated organizations. The 952 biggest enterprises in Russia represented less than 4 per cent of the total number of enterprises of the country, but accounted for more than 54 per cent of production and almost 40 per cent of total employment.<sup>7</sup> Many of these enterprises were in cities and sometimes constituted the only major enterprise of the city. In the new economic situation, such an over-concentration has made restructuring and privatization very complicated and the social and political consequences of transformation have been very painful and often unpredictable.<sup>8</sup>

Enterprises with 1,000 workers or more accounted for nearly 75 per cent of the industrial output in the FSU at the end of the 1980s. Small manufacturing enterprises were almost completely absent from the economic scene. Enterprises often operated as single large integrated production and social complexes in cities. In the 1980s in the FSU even farms and other agricultural activities were affiliated to enterprises to stimulate and facilitate the production and distribution of food.

In spite of the attempts to create some forms of competition with the Stakhanov movement, Shokhino experiment (named after the chemical company in Shokhino). or brigade contract systems, etc., economic competition did not develop.

Ideologically and economically important branches and enterprises were supported by state subsidies, cheap credits, the distribution of consumer goods, resources for housing, and other social services, or on the other hand, their losses and

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<sup>5</sup> *A Study of the Soviet Economy*. 1991. Volume 2, p. 142.

<sup>6</sup> World Bank. 1993. *Statistical Handbook 1993. States of the Former USSR*. Washington, DC: World Bank, p. 745. In the CIS countries, the term 'labour resources' is often used to encompass those who are working and those who are able to work but are not currently working, i.e. include the able-bodied population of working age and employed persons older and younger than working age.

<sup>7</sup> World Bank. 1991. *Russian Economic Reforms. Crossing the Threshold of Structural Changes*. A World Bank Country Study, p. 82.

<sup>8</sup> Size distribution of industrial enterprises in the FSU, refer to *A Study of the Soviet Economy*. Volume 2, pp. 36-40.

unpaid taxes were written off. As late as in 1992, through these channels Russian firms were net recipients of around 7.5 per cent of GDP.<sup>9</sup>

One of the major forms to take control of the national economies and their substructures in the FSU was the establishment of the authority of all-union or union-republic ministries. In the mid-1980s, the union and union-republic ministries controlled roughly 80 per cent of the 46,000 industrial enterprises located throughout the FSU, of which about 25,000 were in Russia.<sup>10</sup> The all-union enterprises formed one of the main channels of labour migration to the national republics. As a rule, they were mostly staffed with personnel from outside the local republics. Only the smaller and less important enterprises, based mostly on local resources and local markets, were controlled by regional and local authorities.

These all-union structures asserted not only economic, but ideological control over everyday life in the national republics. Prior to 1990, only about 60 of the industrial enterprises located in Lithuania, were effectively controlled by the Lithuanian government. In Estonia, out of 256 industrial enterprises, 206 were so-called all-union or union-republican enterprises actually controlled by the central authorities.<sup>11</sup> Production was designed to supply the FSU as a whole and the vertical and horizontal integration were extremely high. For example, workers of Estonian nationality made up only 2-3 per cent of the labour force in the biggest Estonian enterprises under the all-union ministries.

The collapse of these central government economic structures, including their strictly specialized production destined for certain markets in the FSU, had a positive impact on the national economies in the Baltic countries. In contrast, these all-union enterprises in many of the Central Asian countries of the NIS employed a relatively well-educated and trained labour force. Thus, influenced by the whole structure of the labour force and the system of professional education in the republics, the productivity of these enterprises was higher than average. In many cases they were the only industrial enterprises of significance in the region. Consequently, the interruption of the established links with their mother ministries, suppliers and consumers outside, coupled by a high migration outflow of their labour force, had a strong negative impact on many aspects of the national economies in these countries.

The restructuring of such over-concentrated and over-monopolized economies has resulted in rapid changes in production units and in different segments of the economy; formation of new economic structures of small and medium-sized enterprises; high labour mobility; disruption of former planning-based economic links between these structures and the painful establishment of a market-based relationship; and loss of

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<sup>9</sup> Simon Commander, John McHale and Ruslan Yemtsov. 1994. Russia. Research Project on the Labour Market in Transitional Socialist Economies. World Bank, p. 5. Mimeo.

<sup>10</sup> World Bank. 1991. *Russian Economic Reforms. Crossing the Threshold of Structural Changes*, p.82.

<sup>11</sup> World Bank. 1993. *Lithuania. The Transition to a Market Economy*. A World Bank Country Study, p. 145; also *Estonia. The Transition to a Market Economy*. A World Bank Country Study, p. 86.

guaranteed supplements of resources and market outlets. All of these have considerably influenced the labour market developments in the whole region.

#### 1.4 Mismatches in education

One of the main indicators of the quality of the labour force is its educational level. By formal criteria, the level of general and professional education in the most of the CEE countries was relatively high. The average level of education in the socialist economies in Central Europe was 8.3 years compared to an average of 10.2 years for OECD countries (unweighted average data for 1992).<sup>12</sup> For the FSU republics, the mean years of schooling was reported to vary from 5 years in the Central Asian and Trans-Caucasian republics to 9 years in the Baltic republics and Russia which do not correspond to the census data on educational levels from 1989 (see Appendix Table 2). In old-age groups, the educational level was low. However, in the able-bodied age bracket, the average years of schooling were much higher. For example, by the author's calculations, in Lithuania, where completing secondary school took 11 years for most of the pupils at that time, the mean educational time within the age group 30-34 was 12.1 years, and within age group 35-39 it was 11.3 years. In Ukraine, where completion of secondary school took 10 years, these averages were 10.7 and 10.5 years correspondingly.<sup>13</sup>

The major characteristics of the system included relatively high enrolment levels at different stages from pre-school to higher education which was partly caused by ideological reasons. For many years in the FSU and in several other socialist countries, compulsory education included completed secondary or specialized secondary school (up to the age of 17-18). Higher education in institutes and universities usually took five years and vocational education from two to five years, which was more than in analogous institutions in the West. Education was free of charge at every level. Teachers were highly trained. A unified curriculum guaranteed a standard educational level and most of the subjects were compulsory in every school. A job was guaranteed, graduates had compulsory assignments in their first jobs and, as a rule, young specialists had to serve at least three years at the first assignment.

According to the population census of 1989, in several republics of the FSU, one fifth of the population in the most active working age groups of 25-44 years or more had higher education, and one-fourth or more had completed specialized secondary education. The highest level of vocational training was registered in Lithuania; in some age groups, as much as 35 per cent of the population had graduated from specialized secondary schools. In the higher education group, one-fourth of Georgia's population in the most active age group had achieved this level (see Appendix Table 2). The professional educational system in the FSU produced 4.5 million graduates every year.

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<sup>12</sup> UNDP. 1994. *Human Development Report 1994*. New York: Oxford University Press, pp. 129-130.

<sup>13</sup> *Uroven obrazhovaniya naseleniya SSSR. Po dannym vsesojuzhnoy perepisi naseleniya 1989 goda*. 1990. Moscow: Finansy i Statistika, pp. 6, 9.

Re-training and upgrading the skills of workers was organized on a large scale. For example, in the FSU close to 40 million people or one third of the workers were retrained, received second professions or improved their qualifications every year .

The level of general and professional education in the CEE countries should be evaluated with respect to the needs of the socialist economy. The system was extensive and involved the maximum number of students in studies. Of course, it had its own discrepancies such as the very high level of specialization at the early stages of studies. The shortage of serviceable equipment needed for modern occupations was acute even though it was compensated for by training and practicums in enterprises. Enrolments tended to be geared toward heavy industry, not business, services, etc.

Despite the high educational levels, mismatches became more and more apparent between the educational system and the use of the specialists after graduation. The most negative aspects of this mismatch were the inefficient use of trained specialists in their work, the discrepancies in the development of education, and the level of the material basis of production. The labour force was partly over-educated, or, truly speaking, the available knowledge and abilities were not fully utilized for the needs of the economy and society.

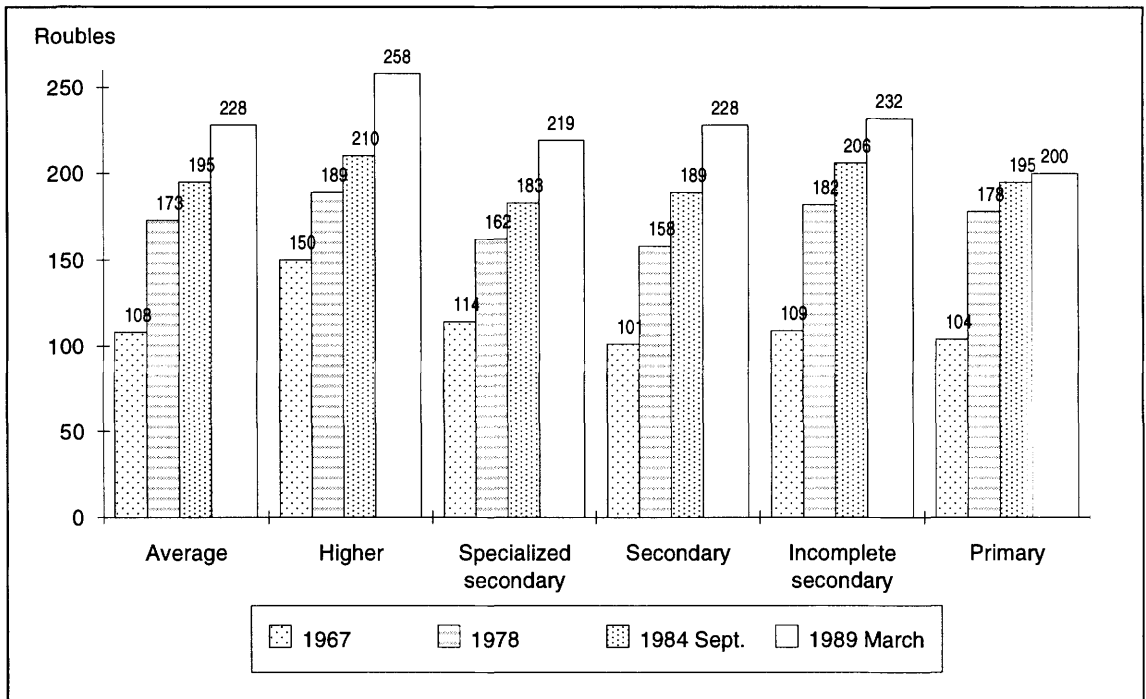
At the end of the 1980s, it was reported in the FSU that 4 million specialists out of a total of 37 million with higher or specialized (professional) education, were working at posts which did not require such schooling. According to surveys, half of these individuals did not work at the specific field they had been trained for. Only a little more than 30 per cent of the engineers worked at engineering jobs for the whole working day and 20 per cent worked for two-thirds of the day. The rest utilized their field of speciality for a smaller periods of their working time.<sup>14</sup> Even for that time, approximately half of the workers received on-the-job training for a specific function or operation or for work on certain machinery. Job mobility was also very low.

One of the aspects of over-education was also a more severe shortage of the labour force at a lower end of educational level. This factor was reflected in the salary levels of workers at different educational achievements. As an example, the dynamics of salaries in Estonia show that they levelled off over time. Workers with incomplete secondary education were paid even better wages than workers who had completed secondary or specialized secondary education. This, in part, was the result of the belief that higher education was a gift from the state, therefore making one ineligible for higher wages.

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<sup>14</sup> Narodnoye Hozhiaystvo SSSR v 1988 g. Moscow: Statistical Year Book. 1989, pp. 47, 53.

FIGURE 1  
AVERAGE MONTHLY WAGES IN ESTONIA BY EDUCATIONAL LEVEL



Source: Statistical Office of Estonia

At the time the reforms started, it became obvious that the majority of workers were unable to fulfil the modern professions and needed to be re-qualified. The training system did not have the capacity to set up the type of training and rapid retraining, especially for the new occupations, that was needed in the market economy. At the same time, the former system of training workers at the enterprise level, and partly the vocational education as well, collapsed resulting in a rapid deterioration of training capacity. Therefore, the large-scale under-education of workers and the lack of structural adjustments to the economy remain obstacles to the modernization of the economic potential in the region.

### 1.5 Unemployment in the socialist period

In the CEE countries, discussions on the nature of the socialist economies including the labour market developments arose from time to time. In the 1960s, the debate was concerned with the 'market' or 'anti-market' character of the socialist economy. The discussions on the issue of the labour force as a commodity, or non-commodity occurred in different countries and were concerned with the existence of unemployment in this economic system as well. For example, in the former Yugoslavia open unemployment was high for many years, and hidden unemployment in different forms was apparent in the other CEE countries.

Despite the abolition of unemployment in the FSU in 1930 when it was declared officially non-existent, large-scale labour dislocation and even unemployment has coexisted in the socialist economic system.<sup>15</sup> Although full employment was formally guaranteed by the state, labour shortage was a serious problem in many regions. Due to rapid population growth, the limited skills of workers, monostructural economies, and the lack of new investments in the national economies, open unemployment (not only voluntary, but also involuntary) was a serious social problem especially in the Central Asian republics of the former USSR.

Deficiencies in investment policies as well as in employment and educational planning often created serious labour discrepancies in certain regions or among certain occupations. Disguised under-employment, hidden unemployment and seasonal unemployment existed in many of the rural areas (especially among the women), in the public service sector and in other fields. In some of the republics, as for example in Azerbaijan, more than one-fifth of the able-bodied population was not employed in the national economy.<sup>16</sup> Depending on the branch, the level of frictional unemployment, which to a certain extent has been a natural component of economic development, was on the average 1 to 2 per cent of the labour force per year in the CEECs.

The demographic development of the working-age population was particularly uneven in the FSU. Within the inter-census years of 1979-1989, the able-bodied population increased from 20.3 million to 25.1 million in the five Central Asian republics of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan and from 7.8 million to 8.8 million in the three Trans-Caucasian republics of Armenia, Azerbaijan and Georgia while in Russia the increase was only from 83.0 million to 83.7 million. In the Baltic republics the increase was from 4.3 million to 4.5 million and in Ukraine the able-bodied population actually decreased.<sup>17</sup>

At the same time, the economic performance of the FSU republics was very uneven. Local resources in the Central Asian republics were very limited (they were heavily subsidized by the central government) and this region needed the redistribution of huge investments and other resources to meet the requirements for new jobs. In addition, these republics needed the permanent inflow of qualified specialists from other regions for modern industries because the indigenous nationalities were not very eager to be employed or trained in these new fields.

Consequently, the main reasons for the rapid growth of open unemployment and the substantial changes in employment structures were the elimination of the concept of artificial full employment, the central administrative policy on labour training and on wages, and the distribution and redistribution of workers.

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<sup>15</sup> Igor Chernyshev. 1994. Introduction. In: *Labour Statistics for a Market Economy*. Geneva: ILO, Budapest: CEU, p. 2.

<sup>16</sup> World Bank. 1994. *Statistical Handbook 1993. States of the Former USSR*.

<sup>17</sup> *Vozrastnoy sostav naseleniya RSFSR. Po dannym vsesojuzhnoy perepisi naseleniya 1989 g.* Moscow: GOSKOMSTAT RSFSR. 1990, p. 4.

## II STRUCTURAL ADJUSTMENTS AND THE LABOUR MARKET

The rapid transformation of the former socialist system has been accompanied by massive structural adjustments in the economies of these countries simultaneously with a rapid decline in the level of output, directly affecting the distribution, allocation and utilization of the workforce. There are numerous factors behind the changes in cumulative output, aggregate demand, and decline in capacity utilization, which affect the reconstruction and reallocation of the workforce. These include diminishing private and public consumption, shrinking investments, the collapse of CMEA markets, etc. Price shocks, especially in imported energy and raw materials, were one of the key factors forcing the CEE countries to change the structure of their production and consequently, affecting the labour market.

The impact of the main adjustment measures on the labour market can be summarized in the following.

### 2.1 Changes in the economic structure

The distribution of the labour force in the former socialist countries reflected the economic and political priorities and was characterized by a heavy shift towards the so-called material branches of the economy and especially towards heavy industry. The service sector, considered non-productive by the Soviet statistics, was often excluded from the calculation of the basic macro indicators of the economy.

Industry itself turned towards new investments and the needs of the producers. In the mid-1980s, it was reported that only 25 per cent of the Soviet industrial output was consumer goods. Producer goods made up the remaining 75 per cent.<sup>18</sup> Consequently, the deviation towards employment in industries was obvious.

The CEE countries were not homogeneous in this respect because of their different starting positions after World War II; the availability of natural, financial, material, labour and other resources in the countries; distribution of labour within the CMEA market; and for other reasons. In the FSU, the central authorities spent huge resources in setting up the industrial sector from the very bottom in many of the former rural and agricultural regions in Central Asia, in the Caucasus and even in the Baltic region. Despite the need to import huge labour resources from the rest of the country, such policy created favourable conditions for the development of modern industries and

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<sup>18</sup> IBRD and the World Bank. 1994. *Labour Markets and Social Policy in Central and Eastern Europe. The Transition and Beyond*. Ed. by Nicholas Barr. New York: Oxford University Press, p. 64.

for the education and training of the local population. In other parts of the FSU, accelerated industrialization was carried out in the pre-war period already in the 1930s.

In order to estimate the dynamics of employment in the major sectors of the economy, it should be mentioned that in the pre-reform period (and in several NIS countries even today) the employment statistics according to occupation were missing and structural changes based on statistics by type of industry should be evaluated with scepticism. Economic activities were classified according to the main economic function of the enterprise and there was no (or very limited) information on employment according to occupational records. Industrial enterprises performed not only their own production function, but social and even agricultural functions as well. The same was true for agriculture; the employment statistics included several supportive areas such as construction, maintenance, food processing, and different social and other services of the collective or state farms. These supportive activities, disassociated in recent years from the main function, were taken over by the state (especially the social institutions) or were discontinued altogether.

There were also changes in employment statistics which differ substantially from country to country.<sup>19</sup> A large part of the economy, and employment in particular, has little statistical coverage today. Therefore, data, as a rule, are not comparable between the different countries, the Western ones included, nor over time.

In some of the CEE countries the share of industrial employment at the end of the 1980s was reported to be close to 40 per cent of the total employment. For example, it was 37 per cent in Czechoslovakia; 38 per cent in Romania; and 38 per cent in Bulgaria. In the FSU, the share of employment, including employment in mining, quarrying, electricity, etc., was 29 per cent. In some of the Western countries, this share has also exceeded 30 per cent; for example, in Germany in 1991 it was 33 per cent. Usually the share of industry in employment has been much less.<sup>20</sup>

According to some calculations, the fall in industrial output accounted for 50 to 80 per cent of GDP declines in the Central and Eastern European region. This occurred mostly in machine-building enterprises.<sup>21</sup> This, however, does not correspond to the dynamics of employment and perhaps may be also explained by a heavy underestimation of the non-material service sectors in GDP production earlier.

For some countries in transition, the share of industrial employment has recently actually increased. For example, in Romania it has increased to 46 per cent (1992); in the Czech Republic to 41 per cent; and in Poland to 39 per cent (both first quarter 1994).<sup>22</sup> In Russia and Ukraine, this ratio has not changed significantly. In 1990, it was

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<sup>19</sup>OECD. 1994. *Short-term Economic Indicators. Transition Economies. Sources & Definitions*. Paris: OECD.

<sup>20</sup>ILO. 1993. *Year Book of Labour Statistics. 1993*. Geneva: ILO.

<sup>21</sup>Keith Crane. 1994. *Europe's Industry: A Great Weight Begins to Rise*. PlanEcon Business Report, Vol. 4, Issue 3, February 2.

<sup>22</sup>OECD. 1994. *Short-term Economic Indicators. Transition Economies*. No. 3/1994, pp. 30, 50, 54.



30.3 per cent in Russia, and 31.0 per cent in Ukraine; in 1992, the figures were 29.6 per cent and 30.9 per cent of total employment correspondingly.<sup>23</sup> This means that in some other sectors of the economy, the decline in employment was much faster.

In some countries and especially in the NIS, a highly inflationary central budget, or central bank financing, is still used to maintain the previous enterprise structure. Artificially high employment rates in the industry sector are maintained through 'cheap' state credits, state orders and state investments. Low efficiency, write-offs of losses, and tax arrears are accepted basically for social and political reasons.<sup>24</sup> Earlier many mining towns, particularly in Russia, were established in the far north and east to work the coal reserves which are now nearly exhausted, or big defence plants were built in isolated cities. Despite the severe drop in capacity utilization of these industrial enterprises, the employment levels in these areas are still kept high with the methods described above. It is true that no government – central or local – can ignore the social and political aspects of a sharp reduction in employment resulting from the elimination of non-effective production. It has, however, been a heavy burden on the whole economy.

The share of the labour force engaged in the agricultural sector in the CEE countries was also extremely high. In Romania employment in this sector, including forestry and fishing, was reported to be 29 per cent; in Bulgaria 21 per cent; in Poland 27 per cent, and in the FSU 19 per cent at the end of the 1980s.

However, it is not clear what was the real share of the workforce engaged directly in agriculture itself. For example, in Estonia where 12 per cent of total labour were engaged in this sector (excluding the agriculturally self-employed), it was estimated that only two-fifths of the workers were directly involved in agriculture. The rest were on the payroll of the collective and state farms and were employed in supportive fields. Recently, in 1989-94, employment in agriculture declined from 97,000 to 42,000 or to 6 per cent of the registered employment, but now these workers have been, for the most part, directly involved in agriculture.

Similar tendencies have been evident in other countries. In Hungary, the majority of jobs in agricultural farms in the late 1980s were of a non-agricultural character. In 1990, for example, 60 per cent of blue-collar jobs in this sector were involved in industrial, construction, transport, trade and other activities. Most of the unemployed who lost jobs in agricultural enterprises, had non-agricultural occupations.<sup>25</sup>

The agricultural sector, especially in the FSU, had to cover its own substantial expenditures for education, medical care, and road construction. In the cities, these expenditures were covered by the state. Consequently, agricultural subsidies were, to a certain extent, artificial. The system made it necessary to redistribute some revenues and

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<sup>23</sup> *Rynok truda v stranakh sodruzhestva v tsifrakh i diagrammakh*. No. 24 (66) STATCOM CIS. 1994. Moscow, pp. 44, 52.

<sup>24</sup> Victor Chernomyrdin. 1994. No exits on the road to market. *Financial Times*, May 16.

<sup>25</sup> Alena Nesperova and Agnes Simonyi. 1994. *Labour Market Developments in Hungary*. Budapest: ILO-CEET, p. 10.

incomes through the budget. In addition, the system of low and fixed state prices on agricultural products made efficiency and productivity comparisons between the different economic branches inaccurate.

Statistics on agricultural employment have been quite controversial. In Russia, the latest statistics show an increase from 13.2 per cent in 1990 to 13.5 per cent in 1993 in agricultural and forestry employment. In several other NIS, despite the overall decline in the number of people working, employment in agriculture, forestry and fishery (actually mainly agriculture) increased significantly. These include Azerbaijan with an increase from 899,000 in 1990 to 1,015,000 in 1992 (37 per cent of the employed population in 1992); Armenia from 289,000 to 487,000 correspondingly (31 per cent of the employed), and Uzbekistan from 3,120,000 to 3,656,000 (44 per cent of the employed). In Russia, the number of people engaged in agriculture increased from 9,965,000 in 1990 to 10,348,000 in 1992.<sup>26</sup> The increase in agricultural employment has been accompanied by further deterioration of the sector in general. The volume of production in recent years has declined in all of the NIS countries which means a drop in labour productivity as well.

Such changes in employment have been mostly caused by loss of employment in other activities in the villages; by rapid decline in the living standard in the region forcing people to self-supplement basic food (self-employment in agriculture has also grown); and by some out-migration from the cities and from other NIS countries (including refugees). They have increased the labour resources in rural areas. One of the explanations for employment growth could be the faster increase in the prices of agricultural machinery, fuel, fertilizer, etc., which have induced in more labour-intensive production in this sector of economy.

On the other side, in several other countries in transition, the share and the number of employees in agriculture have been declining rapidly. In Slovenia, for example, this share (including fishing) was reported as 1.5 per cent in 1993 or 10,000 workers which corresponds to the employment ratio for this sector in many Western countries.<sup>27</sup> The decrease in employment figures in agriculture partly reflects changes in the methods of calculation.

The third major activity sector – the tertiary or service sector in the CEECs – was somewhat 'undersized' and partly included in the former labour statistics for other economic activities and thus was heavily underestimated. Under the earlier System of Material Balances in the CEE countries, material services were considered an extension of the production process and were accounted for within the main functions of the material sectors of the economy. Therefore, we do not know the actual employment in this sector by occupations in the pre-reform period. In the NIS countries, the Classification of Branches of the National Economy (CBNE) developed by the Council for Mutual Economic Assistance (CMEA) and used in the FSU for employment

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<sup>26</sup> *Rynok truda v stranakh sodruzhestva v tsifrakh i diagrammakh*, pp. 34-53.

<sup>27</sup> National Employment Office. 1994. *Annual Report 1993*, Ljubljana, p. 27.

statistics is still in effect and consequently does not give the correct estimate of the dynamics of employment by occupations.

Some social services, including education, health care, culture, science, and social security, were relatively well-developed not only extensively, but to some extent also qualitatively. Employment in the social services sector accounted for 19 per cent of the employed population in the FSU.<sup>28</sup> Many of the workers and occupations in this field were included in the statistics for other branches and enterprises. Due to the lack of state resources, a great many of the supplementary social services were handled by the various branches, enterprises and collective farms themselves, creating a huge sector of social services which included hospitals, kindergartens, canteens, recreation centres, housing services, etc., for their employees. The extra expenditures were included in the cost of production. Today, this is a heavy burden for many of the enterprises where, in addition to the main activities, these services still remain.

The whole infrastructure was relatively poorly developed for such components of the tertiary sector as trade, tourism, banking and insurance, communication, and real estate activities. Because of the rapid turnover, higher profits, lower investments needed to start a business, enlarging market capacity, etc., there has been a certain explosion of economic activities in this sector. Compared to the service sector in the West, several of service branches have relatively very high productivity and value-added, high profitability and high salaries (the highest salaries in most of the CEE countries have been in the finance sector). They are mostly labour-intensive activities and employment-creation opportunities in this sector should not be overestimated. A high level of professional qualification is needed to carry out the functions in finance, business and real estate. In many areas the new entrepreneurship has released the former employees or has replaced them with new ones rather than hiring additional new workers. The state has not been able to finance many of the social and public administration services and employment there has also been declining.

For example, the number of employees in trade in Slovenia in 1991-93 declined from 67,000 to 60,000; in hotels, restaurants and travel agencies, the drop was from 21,000 to 17,000 (partly due to the rapid decline in the number of foreign tourists), and in community service, it fell from 12,000 to 10,000. Employment in financial and business activities increased from 36,000 to 39,000 which has not been enough to make up for the decline in most of the other activities.<sup>29</sup>

According to CBNE classification in the NIS, employment in the service sector in general has also declined and in most of the branches as well. In several NIS countries, there has been some growth in employment in finance (in Kazakhstan from 40,000 in 1990 to 49,000 in 1992; in Russia from 402,000 to 494,000 and in Ukraine from 129,000 to 144,000 correspondingly). There has also been some employment growth in science and in educational fields, but these have not been sufficient to compensate for the rapid decline of employment in other branches.

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<sup>28</sup> *Narodnoye Hoziaystvo SSSR v 1988 g*, pp. 32-33.

<sup>29</sup> National Employment Office. 1994. *Annual Report 1993*, p. 27.

The major changes in the economic structure and consequently in employment in the CEE countries have not influenced the growth of employment in certain areas and new employment opportunities. It has been the uneven rates of deterioration in different economic activities, industries, enterprises and occupations which affect the decline in employment. The employment rate has been declining in most of the industries in the region while job creation has still been limited within certain sectors, regions and professions.

In many countries, according to statistics, more than half of the employment has been concentrated in the tertiary sector and it produces more than half of GDP. For example, in Hungary the service sector employed 56 per cent of total employment in 1993 and in Estonia it produced more than 60 per cent of GDP in 1994.<sup>30</sup> This is basically the result of improvements in statistical coverage and new accounting methodology in this sector rather than the result of rapid growth of employment and productivity. However, the service sector has huge potential in terms of output and employment. This sector, especially in the NIS, has been extremely underdeveloped, factor which limits the growth of other sector developments, investments (especially foreign ones), etc. All the major sectors of economic activity need qualitative improvements which place considerable demand on new employment opportunities and on the quality requirements of the labour force as well.

## **2.2 Changes in ownership structures**

One of the of the major changes in employment in recent years has been the shift towards private activities and the collapse of the state-owned sector in the economy. However, the influence of these processes on employment dynamics is still not clear and should be considered very carefully.

In the CEE countries, there is strong resistance today to everything connected to the word 'state'. The rapid changes in ownership structures and the privatization of state property have been considered a major panacea for all the troubles of the past decades. However, there is still no clear indication of what was the main reason for the poor economic performance of the socialist economy – the state property itself or the incompetent and inadequate interference of the state structures in the economy. It is well known that the state sector accounts for 30-40 per cent of GDP in several highly developed industrial countries. On the other hand, rapid privatization in several CEE countries has not solved the problems nor even cushioned the blow of earlier antagonisms between the declared goals of the system and reality.

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<sup>30</sup> Simon Commander, Janos Köllö, Cecilia Ugaz and Balaczs Vilagi. 1994. Unemployment, Restructuring and the Labour Market in Hungary. Research Project on the Labour Market in Transitional Socialist Economies. World Bank Mimeo; Arne Tihemets. 1994. *Rahva Hääl*. Sisemajanduse koguprodukt I poolaastal tootmise meetodil arvatatuna. 29.oktoober.

In Western literature it is often reported that private sector activities at the end of the 1980s produced about 18 per cent of GDP in Poland; 15 per cent in Hungary and only 2-4 per cent of value added in other Central and Eastern European countries. In his book, János Kornai put the figure at 7 per cent for Hungary (1988); 18 per cent for Poland; 13 per cent for the former Yugoslavia; and less than 1 per cent for Czechoslovakia.<sup>31</sup> These statistics most probably cover the visible part of the private economy.

Actually, the transformation of state property to some forms of corporate property started many years earlier in the FSU and in many other countries. It had already appeared in the 1960s in Hungary and later on in other countries. In the former Soviet Union since the 1970s, some key industrial branches and enterprises have been allowed to achieve, within certain limits, more independence in their economic activities and more control over their own property, resources and production. Enterprises have started to participate more actively in planning and decision-making processes and to perform their own independent economic activities in several areas. One of the results was the development of a huge social service sector within the enterprises created from their own resources and used only by their own employees. Almost all big enterprises had their own kindergartens, housing and recreation facilities, hospitals, etc. At the end of the 1980s, even smaller enterprises provided some kind of social services on their own.

Thus, in addition to and instead of state property and ownership, some form of corporate property system on a large scale was developed. The state paternalism was transferred to the state-owned enterprises where it concerned workers and their families. The management, distribution and usage of these benefits were keys to control labour mobility, stimulate productivity and administer punishment. Depending on the hierarchy and other criteria, employees had unequal access to these advantages.

This is one of the explanations why, in the process of privatization, the former managers of the state enterprises consider property as something of their own and they do not want to lose control of it.

The above mentioned share of the state sector in GDP calculations covers only the visible and statistically accountable part of the economy. The absence of statistics does not mean the absence of this sector in general. Actually the shadow (also known as parallel, grey or black, informal) part of economy was always in place there. The major area of its allocation was agriculture, especially in the form of a 'plot' economy which was limited to a certain extent. In the FSU it produced at least one fourth to one third of the total agricultural production in the national republics which was partly sold in private markets and hand-to-hand. Private activities were widespread in trade and different types of services such as in private housing construction. For example, in the FSU the use of state construction firms and machinery for private housing construction or repair works was, as a rule, not allowed. It was mostly done by using informal labour and the unauthorized use of state-owned machinery.

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<sup>31</sup> János Kornai. 1992. *The Socialist System. The Political Economy of Communism*, p. 72.

According to family surveys at the end of the 1980s, 12 per cent of incomes in cash and in kind of the family budgets of workers and employees in the FSU came from such informal sources (salaries accounted for 79 per cent) and for collective farm members, 29 per cent (incomes from the collective farms accounted for 52 per cent). These surveys rather undervalued the real, albeit largely illegal, incomes of other than state origin. Partly the incomes were in the form of barter.

Especially in the 1980s, it was quite common in the FSU republics that many individuals worked in one place, as in state enterprises, or offices, but that their real earnings came from another source. These parallel activities were quite wide-spread, especially in the Central Asian, Trans-Caucasian and Baltic republics. It was the established foundation for private activities afterwards. However, there is uncertainty in the estimate of the real volume of this sector on the basis of value added since this approach was absent from the whole economy.

Secondary employment and second jobs were a widespread phenomenon, especially in Hungary. In 1989, 350,000 people earned additional incomes from 'supplementary', mainly part-time jobs.<sup>32</sup>

In Poland, Yugoslavia and in recent decades in Hungary, despite certain limits, a share of private activities, using even hired labour, has been legally in effect for a long time. It has created a favourable psychological climate for the private sector in general. In the FSU and some other countries where 'the exploitation of man by man' was legally prohibited, the attitude towards the private sector has been much more complicated and negative.

Since 1988 in the FSU some new enterprise forms have been allowed legally, including cooperatives, joint ventures, leasing arrangements, and newly defined small enterprises. Many of them are still not completely private, but they enjoy much more independence from the state. One of the most important factors contributing to the collapse of the state sector was the fact that the number of these enterprises started to grow so fast that the state planning system was not able to control their activities any longer. Such new entrepreneurship forms were massively created within the state enterprises themselves. In the FSU, by October 1990, the number of cooperatives had grown from a scarce 14,000 in 1987, employing at that time some 156,000 workers to 215,000 employing more than 5 million people.<sup>33</sup>

Since 1991, small-scale privatization of state property has started in some of the FSU republics with the first Baltic republics being the forerunners and even earlier in several other CEE countries. Small shops, catering, service points, small construction businesses, etc., were, as a rule, sold through auctions to private hands although in many cases insiders themselves were the most active in this process. This has been successfully completed in several countries, including the Czech Republic, Hungary, Poland, Slovakia, Albania, Estonia and Lithuania. In Latvia, for an initial period of five

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<sup>32</sup> Alena Nesperova and Agnes Simonyi. 1994. *Labour Market Developments in Hungary*, p. 5.

<sup>33</sup> *The Study of the Soviet Economy*. Volume 2, p. 17.

years, small businesses and services were mostly leased to private businesses by municipal privatization commissions.

The first stage of privatization has sometimes been called spontaneous, or privatization in name, since a limited number of people had access to privatized state-owned property at that time. Today these small-scale industries and related employment opportunities play important roles in the economies of the CEE countries. For example, more than 9 million people, or 15 per cent of the labour force, are now employed in Russia's one million small-scale enterprises. The share of small-scale employment in the industrial labour force in mid-1994 was 15 per cent, in retail trade and catering 39 per cent, and in construction 40 per cent.<sup>34</sup>

Later, leasing companies, which quite soon lost their ties to and control by the state authorities, spread as a transitory form of transformation of property from the state into private hands. Foreign investments appeared more and more in the form of joint-stock companies with or without state participation, which also employed local people. Parallel private entrepreneurship created more and more new activities. In agriculture, the main forms of private activities were agricultural associations or cooperatives in addition to private farming. The last and the most complicated stage of property reform was large-scale privatization.

All these forms had and still have different sub-forms in different countries in transition which are not analysed in this report. One of the aspects that possibly should be taken into consideration from the point of view of employment, is the large-scale privatization process since it covers the major part of employment in the region.

There have been many privatization schemes in the CEECs.<sup>35</sup> Some of the countries have introduced more traditional methods of privatization through public and closed tenders, direct sales and various forms of auctions as, for example, in Bulgaria, Hungary and Estonia. In most of the other countries, different voucher schemes and insider buy-outs have been used for property transfers. In several countries and especially in the NIS, Latvia and Lithuania, vouchers were distributed free of charge to every citizen. In Latvia, citizens and non-citizens had some different rules in obtaining these vouchers. In some countries like in the Czech and Slovak Republics, people had to pay for these vouchers valued at 1,000 Kcs (koruna), and people participated in the auctions, bidding at their own risk.

In many cases, employees of the state companies were offered some advantages to encourage participation in the privatization of their own enterprise. For example, in Lithuania they were guaranteed up to 30 per cent of the ordinary shares and 20 per cent of the preferred non-voting stock of the enterprise for a nominal (book value) price

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<sup>34</sup> *Russian Economic Trends*. 1994. Vol. 3, No. 2. WHURR Publishers, p. 78.

<sup>35</sup> OECD. 1994. *Trends and Policies in Privatisation*. Vol. II, No. 1. for an overview of different schemes.

determined by the privatization agency.<sup>36</sup> Insider sales have been the main method of privatization in Belarus, Romania, Latvia, Russia, and to lesser degree, in Poland.

The ownership structure of these privatized SOEs also has interesting characteristics. In Hungary, foreigners purchased 85 per cent of all privatized assets in 1991 and 75 per cent in 1992, far exceeding investments by domestic investors. Afterwards, this share of investment has fallen to 40 per cent.<sup>37</sup> On the other hand, in the FSU and some other countries, most of the privatized property went into the hands of local businesses. In Estonia, according to the Privatization Agency data, 85 per cent of privatized assets belong to local investors who were given some advantages in the process (for example, instalment plans of paying 25 per cent down and the remainder within 10 years). In some cases, the interests of foreign capital, used for earn quick profits or to ignore some social aspects of the regional development in the country, have been divergent from the local needs.

In order to measure the scope of the changes, it is noteworthy that in Russia alone 84,000 small businesses, or 74 per cent, were sold to private owners at the first stage of privatization up to mid-1994, and 21,000 large enterprises, or 70 % of the total, were transformed into stock companies.<sup>38</sup> According to OECD estimates, the Czech Republic has privatized or liquidated more than 75 per cent of its SOEs; Estonia approximately 70 per cent; Hungary 64 per cent; Russia 60 per cent; Lithuania 47 per cent; the Slovak Republic 44 per cent, and Poland 26 per cent. In Bulgaria, Belarus, Romania and Slovenia the rate has still been below 10 per cent (mid-1994 estimate).<sup>39</sup>

There are different opinions concerning the effects of the accelerated privatization in Russia and some other countries. However, the main concern is that privatization has done nothing or very little to accelerate the restructuring of the SOEs; to improve their efficiency; to create competitive markets and to deregulate them; to improve bad financial performance; to bring new investments and resources to the economy; or to cut down overmanning. For example, Stanislav Shatalin, prominent Russian economist noted that: 'We can already say that the aims of the privatization programme have failed mainly because a large part of the companies have not the financial and material resources to carry through any kind of a production programme'.<sup>40</sup> This was the result of the decision to distribute the right to own shares for nothing or for nominal sums.

The voucher scheme's main social goal was the provision of 'equal' opportunities for every citizen to participate in the privatization process. In reality, it turned to be the

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<sup>36</sup> *Paevaleht*. 1994. Lätis ja Leedus privatisatsioonitsekkide jagamisel tööaastaid ei arvestata. July 21.

<sup>37</sup> OECD. 1994. *Trends and Policies in Privatisation*. Vol. II, No. 1, p. 15.

<sup>38</sup> *PlanEcon Business Report*. 1994. Vol. 4, Issue 15, July 20, p. 10. A study on the opinions of Russians concerning privatization shows that a total of 26.2% traded privatization vouchers for money, 7.6 % for stocks in the employing company, 30.1% for stocks in an investment fund and 5.5% for stocks of another company. *Izvestiya*. 1994. 9 July.

<sup>39</sup> OECD. 1994. *Trends and policies in privatization*. Vol. II, No. 1, p. 16.

<sup>40</sup> *Financial Times*. 1994. 30 June.



golden arena for a very limited number of individuals who had the unique opportunity to obtain, for almost nothing, large sectors of the state property. There have been some estimates that in Russia, the insiders – mostly managers of these privatized enterprises – own on the average some 70 per cent of the stocks. In some cases, state credits were even used to buy shares from their own employees or outsiders. The voucher scheme was the major instrument for the old *nomenklatura* who still had better access to the property, information, knowledge, authorities, and even resources to obtain almost anything and to strengthen their economic power. To a large extent, they have merged with the criminal world and some of the economies are even characterized today as gangster economies.

Russian authorities anticipate that 'post-voucher' privatization, which will be carried out by tenders, auctions and direct sales or selling shares for money, will bring fresh money to the companies from internal and foreign investors. It is estimated that at least 51 per cent of the income from the second wave of privatization will go into the company, rather than into the state budget.<sup>41</sup> However, these expectations could be too optimistic.

Privatization of the economy was partly facilitated by a restitution process in several CEECs (except the NIS). For example, in the Czech Republic almost 130,000 property claims on the restoration of nationalized or confiscated assets and properties were settled within this framework. In Estonia, the number of restitution claims on property and land exceeded 220,000, hampering the restructuring of the economy for a long period.

Different privatization schemes have had uneven impact on economic performance and especially on employment patterns. Large-scale voucher privatization in several countries has had very little impact on employment in these former SOEs and on the formation of the labour market in general.

Most enterprises are still run by old management teams. Management has been changed by the shareholder only in 10 per cent of the privatized companies in Russia.<sup>42</sup> However, due to the specifics of the management over the SOEs in the Soviet time, most of these managers are very experienced and true professionals who know their business well but they should be trained in management skills for a market situation. The preparation of a new generation of managers for these enterprises which, as a rule, are huge economic and social complexes, takes time.

By comparison, it can be noted that in direct sales of the SOEs to the strategic owners in Estonia, a change in management resulted in most cases. Generally the competence of the managers, and not the ownership alone, was the major criterion.

Voucher privatization in Russia and in several other countries introduced very few changes in the employment patterns as well. Moreover, when necessary for

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<sup>41</sup> John Lloyd. 1994. Second wave of sell-offs due next month. *Financial Times*, June 21.

<sup>42</sup> John Lloyd. 1994. Aux armes capitalistes. *Financial Times*, June 30.

restructuring, it has become even more complicated to fire those employees who are now 'co-owners' of their enterprise. Ownership of the company's stocks has been one of the major criteria for dismissals and hirings. Thus, the privatization procedure has actually hindered effective labour mobility.

In several countries, including Poland, the majority of workers prefer state sector jobs and increasingly resist privatization.<sup>43</sup> The state still provides workers with some social guarantees such as employment opportunities; wage levels; social benefits accrued with employment in the SOEs; 'cheap' state credits; and state orders and investments which workers are afraid of losing with private ownership. In Poland, many of the socially explosive and still state-owned enterprises, especially mining, regularly do not pay social and other taxes.

The influence of the privatization process on employment has not been analysed deeply enough. In many privatization programmes and in individual cases, the buyer is obligated to retain a certain level of employment in the enterprise (as a rule, some 60-70 per cent of the previous level) for several years (like in Estonia), and has to agree to invest a certain amount of its resources into the enterprise. This provides certain social guarantees for the majority of the workers. However, some privatized firms, for example, in Romania, have laid-off about a quarter of their workers.<sup>44</sup> In Estonia, it has been reported that on the average almost 30 per cent of the workforce was released after the large SOEs were privatized.

Instead of creating new jobs, large-scale small privatization, as a rule, generally let some of the former employees go or replaced them. However, many of the new jobs in new businesses were created in trade, the service sector and other areas where set-up costs, capital and skill requirements have been low. Job-to-job mobility of the labour force was common and therefore relatively few of the unemployed have benefited from job creation in the private sector.

Private businesses have had to create the necessary infrastructure they lacked previously, in financing, marketing, the real estate market, etc. These have not been job-inducing fields and highly trained professionals are needed for these jobs. Relatively few new private enterprises have been created from scratch.

Mostly the newly established family-owned and other businesses including the so-called 'grey or parallel economy' or informal sector have intensively created new jobs and absorbed part of the displaced labour force. It is still not clear how many new jobs this sector has created. For example, by the end of 1993, estimates of Hungary's unreported economic activity outside the tax system ranged as high as 25 per cent of GDP.<sup>45</sup> Similar estimates come from several other countries, but they do not cover

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<sup>43</sup> Fabrizio Coricelli. 1994. Krzysztof Hagemeyer and Krzysztof Rybinski. Poland. Research Project on the Labour Market in Transitional Socialist Economies. The World Bank, p. 24. Mimeo.

<sup>44</sup> OECD. 1994. *Unemployment in transition countries: transient or persistent?*, p. 143.

<sup>45</sup> Simon Commander, Janos Köllö, Cecilia Ugaz and Balazs Vilagi. 1994. Unemployment, Restructuring and the Labour Market in Hungary.

employment in this sector. Many of the employed in this sector have been working in the formal sector as well and the division between these sectors is often not clear.

It would be premature to place heavy taxation and other burdens on these newly established informal activities. Most of them have started operations without any support from the state. They have also created job opportunities, earned incomes and have not used state resources for social or other expenses.

Some of the state enterprises still coexist with the emerging private sector and in many cases they perform quite well. It is very important to create a favourable economic and legal framework for their activities as well. For example, in Estonia since 1991, in the process of balancing the first independent budget of the country, the state enterprises virtually lost all the state subsidies and cheap credits available in the earlier period. At the same time, different restrictions in pricing, foreign trade activities, and salary restrictions were not imposed, and they were forced to operate as any other business under the supervision of the management board. As a result, according to the 1993 data, among the top twenty enterprises in the country measured by growth of turnover, profits, exports and investments, there were at least 12-14 state-owned enterprises in various categories.<sup>46</sup> Of course, they had had certain advantages such as a ready-made economic infrastructure, established markets, stable links with suppliers and consumers, etc. To some extent, the state has still been subsidizing them indirectly by postponing their unpaid taxes and carrying the amount, some 1.5-2 per cent of GDP, in the budget. Despite the fact that there were about a thousand registered bankruptcies in Estonia in 1994, none touched these big SOEs.

Consequently, it is safe to say that the ownership structure of the economy has been changed substantially. From the job creation point of view, however, this process has absorbed a limited number of the workforce.

These privatized SOEs are no longer state-owned. However, in many cases they are not privately owned in the full sense either and in the event of socially explosive problems (such as unpaid salaries or taxes, huge future dismissals, serious financial difficulties including inter-enterprise debt, lack of markets, etc.), they still apply for state support and look for cheap credits from the state budget with no intention of repayment.

In several countries, the private sector has created more than 50 per cent of GDP. These include the Czech Republic (65 per cent in 1994); Hungary, Poland, Slovakia, Estonia, and Latvia (55 per cent); and Russia, Lithuania, and Albania (50 per cent) (see Appendix Table 1). Almost certainly, employment in this sector corresponds to the levels of GDP, including the informal sector. Even in the NIS, the ratio of employees in the state sector decreased from 74.7 per cent in 1991 to 60.6 per cent in 1993. However, private ownership has still 'emitted' very limited market signals of more effective and rational labour movements. It still has very little effect on reducing the overmanning in the former socialist economy and job creation has been rather scarce. Generally, the

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<sup>46</sup> *Äripäev*. 1993. May 6, May 11, May 13.

private sector was created in place of the former state sector and does not add many new placement opportunities.

At the same time, privatization of the economy and the enlarging private sector have been key factors in the success of market reforms in the region. The main tasks of the newly privatized enterprises are to speed the reallocation of labour, to reduce overmanning and to increase the earning capacity and productivity of the labour force. Privatization is one of the most dangerous political steps with a high social risk involved, but it is also one of the requirements for restructuring the economy in transition. Simultaneously, the emerging new private sector needs overwhelming legal support from the state to enlarge its capacity and create new productive employment opportunities.

### 2.3 Investments

Some of the key components of economic recovery, of long-run restructuring and sustained development, and of aggregate demand and new employment opportunities, are the dynamics of fixed capital investments. For example, in all of the fast growing East and South Asian countries, the specific characteristic and the major factor contributing to the high growth rates, has been the high level of gross domestic investments and accordingly gross domestic savings in GDP. Generally it has exceeded 30 per cent of GDP in many East and South Asian countries, and in some like Singapore, Thailand and China, it has been close to 40 per cent or more.<sup>47</sup>

The statistical overview of the dynamics of investments in the CEE countries, related to GDP levels, or to previous years' investments, shows a considerable decline in real terms everywhere in the region. In some countries, even a 40-50 per cent annual decline in investments has been reported within several years of the 1990s as, for example, in the Baltic countries, in Croatia, and in many of the NIS.<sup>48</sup>

The highest decline in gross capital formation among the NIS has been reported in Armenia where, in real terms, the level in 1993 equalled 5 per cent of that in 1990; followed by Moldova with 34 per cent; Kazakhstan and Kyrgyzstan with 40 per cent; and Russia with 43 per cent. The only NIS to report investment growth has been Turkmenistan which has rich natural resources. In that country, the gross capital formation amounted to 184 per cent of the 1990 level. Due to statistical discrepancies, these figures should be treated with scepticism.<sup>49</sup>

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<sup>47</sup> World Bank. 1994. *World Development Report 1994. Infrastructure for Development*. Washington, DC: World Bank, p. 179; Martin Wolf and Tony Walker. 1994. A continent discovered. *Financial Times*, 4 November.

<sup>48</sup> UN/ECE. 1994. *Economic Survey of Europe in 1993-1994*. New York and Geneva: UN/ECE, p. 71; UN/ECE. 1993. *Economic Bulletin for Europe*. Volume 45, p. 48.

<sup>49</sup> OECD. 1994. *Short-term Economic Indicators. Transition Economies*. No. 3.

Most investments have been directed to industry and especially heavy industry; for example, 38 per cent in the FSU in 1989. These are followed by investments in agriculture and housing (17 per cent) which gives an indication of the economic priorities at that time. These sectors were the major source of extensive employment creation. A great part of the investments were placed with the military sector or related industries which, according to some estimates, formed even the biggest share. In the national republics of the FSU, most of the investments were realized in all-union or union-republican enterprises followed by migration streams of the labour force. In the Central Asian republics, investments were needed to support the rapid growth of the able-bodied population.

According to official statistics, more than one tenth of annual investments in the FSU were in the form of unfinished construction, the share of which increased permanently. In 1989, for example, it was 11.3 per cent of gross fixed investments or 2.4 per cent of GDP.<sup>50</sup> This means that a substantial part of the investments was a waste of the state budget or state enterprise resources and was used unproductively. The fall in this ratio is therefore quite a natural process and the rate of change of investments over the previous period at the initial stage of reforms is not an objective criterion for estimating the level of deterioration in this sphere. In the new economic situation, these resources have been used much more efficiently.

In the 1990s, investment programmes in the CEECs were affected by substantial changes in the economic situations. In the pre-reform period, almost all the investments were carried out by the state through the state budget or the SOE resources. Because of the arbitrary confiscation system of profits, the state accumulated huge resources, including those from profitable enterprises (ex-post profit tax rates reached up to 90 per cent in the FSU) and financed new investments and subsidized loss-making enterprises. Today these possibilities have been exhausted.

Not only enterprises, but most of the CEE countries themselves are in deep financial crises, accelerated by rapid inflation which, in several countries, has reached even more than ten thousand per cent annually. A high inflation tax has reduced the savings rate. Commercial banks, preferring short-term commercial credits with high interest rates, are not interested in long-term investments. Especially in Russia because of the high risk, earnings from business still leave the country for Western banks in amounts which exceed many times over the loans given by the IMF and other international financial institutions.

State revenues have fallen in absolute and relative terms and budgets are in deficit in most of the CEECs. For example, in 1989 in Czechoslovakia, the state redistributed 72.3 per cent of GDP through general government expenditures. In 1993, the level was 47.5 per cent in the Czech Republic and 55.1 per cent in Slovakia. In Bulgaria the corresponding fall in government expenditures went from 61.5 per cent of GDP to 51.2 per cent; in Romania from 42.6 per cent to 31 per cent of GDP, limiting the

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<sup>50</sup> *A Study of the Soviet Economy*. 1991. Volume 1, p. 93.

room to manoeuvre for job creation as well.<sup>51</sup> Revenues from foreign trade and other sources have dropped as well and the state is no longer able to finance the huge investment programmes.

The share of capital expenditures within the state budget declined to 1.9 per cent of GDP in Bulgaria; 1.5 per cent in Poland; and 3.4 per cent in Estonia. In some other countries, this ratio has still been relatively high; 8.3 per cent in Lithuania; 6.2 per cent in Hungary; 5 per cent in Russia, and 4.2 per cent in the Czech Republic. It is one of the major differences in macroeconomic policy compared to China, for example, where three-fifths of the fixed investments are state-owned.<sup>52</sup>

Most of the countries in the region have limited internal and external resources for new investments including those from the international financial markets. They can be hindered by restrictive fiscal, monetary and income policies; fiscal deficits; a huge external debt from the past (estimated at USD 97 billion in Eastern and Central Europe and USD 71 billion in the FSU in 1992); high inflation tax; and political instability, etc. These tendencies have had direct implications on employment and government policy should find some other sources to stimulate investment activities.

In some cases, investments have not created new jobs; they have facilitated closures. The coal industry in Russia, which employs nearly 800,000 workers and operates with the aid of massive subsidies from the budget, has had to adopt a fully-fledged closure strategy for loss-making pits. By World Bank estimates, the closure of at least one-third of the industry's capacity is necessary as well as a reduction of the workforce by over 300,000 which will be very costly.<sup>53</sup> The same strategy has been applied to many enterprises in the military-industrial complex and in other areas of non-effective production. In order to avoid the collapse of the whole industry and state finance, investments have therefore been instrumental in facilitating liquidation rather than the creation of new jobs.

However, such crises in the dynamics of investments has been relatively short-term. Even the statistics of investments are not comparative from the point of view that today investments are based on efficacy and profit-oriented calculations. They have been directed mostly to new economic structures. Therefore, the macroeconomic employment-oriented policy of the CEE countries should be stimulated by procuring internal and external sources for new investments.

Since the end of the 1980s, new sources of investments have arisen rapidly. In January 1987, the legislation for joint ventures was passed in the FSU and their numbers started to increase very quickly. Today, countries have been trying to raise money through international equity offerings and privatization programmes. According to recent survey of Western investors, joint venture remains the most popular form of investment in the CEE countries. Its advantages include local knowledge and contacts;

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<sup>51</sup> IMF. 1994. *World Economic Outlook*. October, Washington, CD, pp. 82-83.

<sup>52</sup> Martin Wolf and Tony Walker, cit.op.

<sup>53</sup> John Lloyd. 1994. Moscow weighs up coal restructuring. *Financial Times*, 19 September.

immediate access to the domestic market; and the ability to acquire certain operations of a local company.<sup>54</sup>

The cooperative movement and other production alternatives made it possible for the population to invest their savings in production. Later, foreign direct investments (FDI) and foreign aid for production purposes started to grow swiftly. The gross financial flows to the Central European countries increased from USD 15.9 billion in 1990 to USD 20.5 billion in 1993 and to the former Soviet Union from USD 15.4 billion in 1990 to USD 29.9 billion in 1993.<sup>55</sup> However, it is interesting to note that foreign direct investments (USD 21.7 billion in 1989-92) to Singapore, with a population of 3 million people, were much larger than to the whole region in all.

Hungary remains the largest recipient of FDI in the region. It has attracted almost half of the USD 14 billion in foreign investment which has flowed into Central European reforming countries since 1989. FDI accounted for nearly 9 per cent of the Hungarian GDP compared with 3.5 per cent in the former Czechoslovakia and 1.2 per cent in Poland during 1989-93.<sup>56</sup>

Some of the private investments have been very large. For example, Volkswagen has invested USD 700 million in the automotive industry in the Czech Republic; FIAT invested USD 2,000 million in the Polish automotive industry; Ameritech (USA)/DBR (Germany) USD 875 million in Hungarian telecommunications, and General Electric USD 550 million in the lighting industry in Hungary.<sup>57</sup>

It has been reported that since 1993, there has been an increase in investments in constant prices in Slovenia, Hungary and Poland which means activity growth in the economy in general. As a share of GDP, gross fixed capital formation from 1991 onward started to increase in Hungary and Poland.<sup>58</sup> Domestic savings, as an internal source for investments, has started to grow in most of the CEECs.

Among the FSU republics, the highest recipient of FDI (per capita terms) has been Estonia. In 1993 alone, FDI amounted to USD 170 million or USD 110 per capita (30 per cent of all investments), and in 1994 to USD 250 million or USD 165 per capita. The share of gross fixed capital formation in that country increased from 19.3 per cent in 1992 to 21.8 per cent in 1993 and 23.8 per cent in the first half of 1994. In 1989 this share was equal to 28.8 per cent of GDP.

With the exclusion of other Baltic states and Russia, the rest of the FSU states are in much less favourable situations for reasons of their economic and political instabilities, the absence of adequate legal frameworks and, in particular, guarantees on

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<sup>54</sup> OECD. 1994. *Assessing investment opportunities in economies in transition*, p. 10.

<sup>55</sup> UN/ECE 1994. *Economic Survey of Europe in 1993-1994*, p. 32.

<sup>56</sup> OECD. 1994. *The OECD Observer*, No. 189, August/September, p. 36.

<sup>57</sup> OECD. 1994. *Assessing investment opportunities in economies in transition*, p. 108.

<sup>58</sup> OECD. 1994. *Short-term economic indicators. Transition economies*. No. 3, p. 99.

the repatriation of capital and profits. Even their geographical locations are less favourable for luring foreign investors.

Recently the OECD Centre for Cooperation with Economies in Transition made a survey among the Western investors on their preferences to invest in the region. The study indicated quite a difference from the traditional point of view. Although important, the often quoted 'traditional' advantages of the region, such as low labour costs, cheap resources and investment incentives, were not the prime motivative factors and were considered as potential short-term benefits. The domestic market potential was much more important for the investors.

The investment barriers or perceptions to discourage investment most often mentioned included human resources constraints (the most common problem cited by investors); lack of management skills; problems in recruiting and training new staff; mentality and work ethic problems; lack of a free enterprise culture; and general cultural and language differences and traditions.<sup>59</sup> Despite the fact that a skilled workforce and particularly good engineering skills were noted in some of the countries, the necessity for training to adopt to modern industries and managerial duties at every level was obvious.

However, it should be mentioned that even huge FDI to the economies of the CEE countries has not helped much in the way of job creation and new employment opportunities. Investments in many – if not in most of the cases – have been made in existing structures in the form of take-overs. Production has been modernized and oriented towards new markets, but as a rule, the number of work places has been reduced. This reflects higher productivity and better management and organization of work. It indicates a general improvement of the labour environment in the country, raises output, sales and tax revenues, creates productive employment opportunities, but helps little to solve the employment problem in the region in general.

Investments in the modern economy in the countries in transition have not been labour creative. The only exception has been perhaps in some areas of the service sector where even relatively small investments to existing structures has created many new jobs in catering, trade, and tourism. Since this sector has been mostly underdeveloped, but has high turnover, it dictates the preference of the direction of investments and placement.

## **2.4 Export and import markets**

One of the main 'employers' and contributors to the high participation rates in the CEE countries was the well-established and stable trade relationship within the CMEA, the FSU or other markets from which they all benefited. In several countries which had very open economies, the direct links between the regions, enterprises and the customers guaranteed a job for at least a quarter or even more of the total labour force.

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<sup>59</sup> OECD. 1994. *Assessing investment opportunities in economies in transition*.



The CMEA had facilitated the creation of a common labour market in the CEECs. Stable links between the countries, industries and enterprises were established on a mutual basis. To a great extent, it provided a long-term, fixed and guaranteed market outlet. Producers had their own standard and quality norms which were lower than those of the world market; their own centrally regulated system of pricing; and a centrally planned system of supplement within this huge market of 19 countries in Europe, Asia and Latin America. For a long time, the countries specialized or were forced to specialize in certain areas of economy. Production was developed for specific customers in specific countries.

The volume of trade within the CMEA market for the FSU alone reached 79 billion roubles in 1988 out of a total 132 billion roubles.<sup>60</sup> The collapse of the socialist economic system and the termination of the privileged trading arrangements have contributed significantly to the deterioration of employment in the CEECs.

The CMEA countries had a favourable payment system. Up to the end of the 1980s, approximately 70 per cent of CMEA trade had been conducted on the basis of clearing arrangements which also included trade with Finland, India, Yugoslavia and some other countries. Barter arrangements accounted for an additional 5 per cent. Due to their own pricing system, most of the countries benefited from much lower than standard world market prices for energy imported from the FSU. FSU's actual subsidy on energy prices to other CMEA countries was estimated at USD 6-14 billion in 1989.<sup>61</sup>

For many of the newly formed countries, not only the CMEA market, but also the common domestic markets of the FSU, Czechoslovakia and Yugoslavia disappeared within a short period of several years. In the FSU, the republics had very open economies, a high degree of regional specialization and high levels of inter-republic trade. At the end of the 1980s, total trade – the average of exports and imports of goods – varied from 34 per cent of GDP in Kazakhstan and Ukraine to 64 per cent in Estonia. The share of intra-regional trade in total trade fluctuated from 79 per cent in Ukraine to 89 per cent in Armenia and Turkmenistan. Only in Russia were the figures for average exports and imports lower, 22 and 58 per cent correspondingly.<sup>62</sup>

This share was extremely high for some of the former Soviet republics. As late as 1991, 85 per cent of the import and 95 per cent of the export sales in Estonia were in roubles; in Lithuania the corresponding figures were 90 and 95 per cent and in Latvia 86 and 95 per cent.<sup>63</sup>

It was estimated that about 30-40 per cent of Soviet industrial output was composed of goods produced on single sites. With the loss of earlier markets, due to either political or economic disintegration, total or partial termination of production was

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<sup>60</sup> *Narodnoye Hoziaystvo SSSR v 1988 g.* 1989. Moscow, p. 636.

<sup>61</sup> *A Study of the Soviet Economy.* Volume 2, p. 44.

<sup>62</sup> IMF. 1992. *Macroeconomic Policies and Financial Programming.* No 6, p. 37.

<sup>63</sup> *Sostojaniye rynka potrebitelskikh tovarov v pribaltiyskikh respublikakh v 1991 g.* Tallinn. 1992, p.3.

the result for many of the enterprises being privatized today.<sup>64</sup> Restoring previous economic links in the new political and economic realities and creating new ones have been painful for many enterprises.

Previously the CMEA markets overwhelmingly prevailed in the trade turnover of not only the FSU, but other countries as well. At the end of the 1980s, the share of the Soviet Union alone in Bulgaria's exports was 49 per cent and in imports 34 per cent. The Soviet Union's share in the trade balance of other countries was, on the average, almost one fourth of exports and one fifth of imports. The CMEA collapse was particularly serious for Bulgaria. As much as 76 per cent of its exports had gone to the CMEA markets, compared to 45 per cent for Poland and Czechoslovakia, 40 per cent for Hungary and 24 per cent for Romania (1989).

TABLE 1  
EUROPEAN TRANSITION COUNTRIES,  
RATIO OF EASTERN EUROPE AND USSR/CIS IN THEIR EXPORTS AND IMPORTS  
1989-1991

	Exports, %		Imports, %	
	1989	1991	1989	1991
Bulgaria	62.2	54.9	46.0	48.9
Poland	40.8	16.8	38.0	19.0
Czechoslovakia	46.6	32.9	47.8	37.5
Romania	24.7	28.3	37.4	24.0
Hungary	41.0	19.2	39.2	21.3
USSR/Russia	24.4	19.8	26.3	19.3

Source: UN/ECE.1992. *Economic Bulletin for Europe*, Vol. 44, New York and Geneva, pp. 51-52.

Despite all the difficulties in restructuring their trade relationship, almost all former CMEA countries have experienced a rapid change in the structure of their export and import markets, reflecting the new requirements in the quantity and quality of the work, labour productivity and competitiveness. In most cases, the earlier production of the firms could not be sold to Western consumers or even on domestic markets and the standard of quality needed to be replaced or improved significantly.

For the new market economies, the principle of 'more trade, not aid' has been to a great extent a question of survival. In the contemporary situation in the world economy, Western countries have not been very enthusiastic to follow the principles of free trade.

Different international bodies have expressed their intentions of supporting more opened markets and more tolerant rules concerning the region in transition. For example, the White Paper of the Commission of the European Communities emphasizes that 'protectionism would be suicidal for the European Union, the world's largest trading

<sup>64</sup> *A Study of the Soviet Economy*. Volume 2, p. 16.

power, and would run counter to its proclaimed objectives, in particular that of encouraging the economies of the poorest countries to take off.<sup>65</sup> The White Paper points out that the EU must first demonstrate to its eastern and southern neighbours this openness of mind and recognition of the unavoidable globalization of the economy.

However, despite statements underlining the importance of keeping the European economy and trade open, in practice, the CEE countries have had little advantage in opening up Western markets for their production and even when succeeded, it has been, to a large extent, low value-added production.

Some of the CEECs have negotiated trade agreements with the EC. In Hungary, the Association Agreement with the European Union was signed in December 1991. However, there has been much evidence that the EC markets are still very protective of Hungarian imports. For example, the Hungarian products facing high tariff barriers have been precisely the ones that are most competitive. Sensitive products like agriculture, steel, and textiles have been especially protected and seem to be 'crowded out' of the EU markets. The EU tariffs are several times higher than Hungarian tariffs. In perspective, a schedule to eliminate restrictions on sensitive goods has been established.<sup>66</sup>

The same tendencies influence the Europe Agreement on Poland's association with the EC. The free trade area has been asymmetrical and includes several quantitative restrictions and non-tariff barriers, such as strict technical standards. The main export articles for Poland have been agricultural products, textiles, steel, mineral products, raw materials and simple industrial goods with low value-added.<sup>67</sup>

Estonia was the first FSU republic to conclude a free trade agreement with the EC in 1995, but quotas, especially on agricultural products, do not exceed the existing levels of trade. For example, quotas from Estonia to the EC markets were established on a favourable tariff base on butter at the level of 700 tons per year, the actual exports in 10 months of 1994 were 10,100 tons; on cheese the quota was established at 800 tons, actual exports were 4,564 tons; on meat the quota for the all Baltic countries was established at 800 tons for pork and 1,500 tons of beef. Estonia alone exported to the EC 5,570 tons of meat and meat products in 10 months of 1994. In addition, the agreement proposes exports through companies from the EC which means that differences in internal and external prices and consequently the profits would go into the pockets of these intermediary companies. However, these agreements have been an important step towards more opened economies and trade areas in Europe.

Some of the Western exporters have been conducting very aggressive trade policies in the CEE countries. Sometimes they have accused the CEECs of dumping

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<sup>65</sup> *Growth, Competitiveness, Employment. The Challenges and Ways Forward into the 21st Century*. 1993. White Paper. Bulletin of the European Communities. Supplement. 6, p. 9.

<sup>66</sup> András Inotai. 1994. Economic Impacts of the Association Agreement: the Case of Hungary. In: *Development and International Cooperation*. Vol. X, No. 18, June.

<sup>67</sup> Elzbieta Kawecka-Wyrzykowska. 1994. Poland's Association with the EC: Chances and Constraints. In: *Development and International Cooperation*. Vol. X, No. 18, June.

prices, a practice that is quite common for Western traders themselves. In addition, they have had certain advantages such as huge export subsidies and credits and export guarantees which for Eastern partners have been very limited, if any. In some cases, even the quality of the Western products has not met the EC standards and they have tried to sell these products in the less restrictive markets of the CEE countries.

The percentage of imports from the countries in transition to the Western world has been too small to affect to any great extent their markets, wages or employment (mainly low productive, low-tech or low-skill-intensive industries). The share of the CEE countries in the EC imports has been less than 3 per cent of the total volume. On the other hand, in the volume of exports and imports of the Czech Republic, the share of the EC has been equal to one half, in Hungary 46 and 40 per cent correspondingly, in Poland 58 and 68 per cent correspondingly (1993).<sup>68</sup>

The countries most successful in enlarging their export markets in recent years include the Czech Republic where the growth rate was as high as 26 per cent in 1991-93; Romania with an increase of 12 per cent in 1992-93; and Poland with a growth rate of 7 per cent in 1993. Most of the other Central European countries in transition have experienced declines in their export volumes in the past years.<sup>69</sup> Among the countries of the FSU, the highest increase in exports has taken place in Estonia where in 1992-94 it tripled. However, the uniting of Eastern markets to the world market has, in general, been quite fast and a two-sided process. This demonstrates that expanding the export potential of the Eastern Bloc countries has been one of the key factors in easing tension in the labour market and compensating for the limited demand on the domestic market.

One of the components of foreign trade directly influencing employment opportunities has been the growing trade deficit in many of the CEE countries. In 1993 in Bulgaria it has reached USD 3.4 billion; in Hungary USD 2.8 billion; and USD 1.1 billion in Romania. Import-induced unemployment could reach an enormous scale. With regard to Poland, Mieczyslaw Kabaj estimated that the trade deficit growth, amounting to USD 620 million in 1991; 2.7 billion in 1992 and 4.7 billion in 1993, was responsible for adding between 700,000-800,000 people to the army of the unemployed.<sup>70</sup>

Due to the rapid deterioration of the economies in most of the NIS, foreign trade with non-NIS countries remains very limited. They have not succeeded in replacing the loss of their market share in the inter-republican trade of the FSU. In 1993 these exports totalled USD 31 million or USD 9 per capita in Armenia to USD 358 million or USD 76 per capita in Kazakhstan. The only exceptions were Russia and Turkmenistan having

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<sup>68</sup> IMF. 1994. *Direction of Trade Statistics. Yearbook*, pp. 167-168; 233-234; 346-347.

<sup>69</sup> UN/ECE. 1994. *Economic Survey of Europe in 1993-1994*, p. 95.

<sup>70</sup> Mieczyslaw Kabaj. 1994. The evolving labour market in Poland in the transformation process. Paper presented at the UNU/WIDER conference on 'The Politics and Economics of Global Employment'. 17-18 June. Helsinki. Mimeo.

exports of USD 289 and USD 311 per capita correspondingly (in volume, this was USD 43.0 billion in Russia and USD 1.1 billion in Turkmenistan).<sup>71</sup>

However, open trade regimes are only one factor of better employment opportunities for the CEECs. These countries have to adapt to new quality and technical standards; to high productivity norms in producing high-tech and high value added products and services; and to adjust to the rules of world competition. As they have been mostly newcomers, it has been a long-term and painful process for many of them, but the tough conditions of the world market offer no other options.

## 2.5 Military sector

One of the segments of the socialist economies was the military sector. The sector was important not only for its political and economic values, it provided one of the major placement and employment opportunities for millions of people in many of the countries in transition.

The share of the budget for defence outlays in 1989 totalled 8 per cent of GDP in the FSU compared to 5.9 per cent in the USA.<sup>72</sup> Due to substantial underpricing of defence goods and activities, this share was actually heavily undervalued and did not include the indirect 'cost' of many of the subcontracting or other related activities.

During the socialist period a huge military-industrial complex was built up in the FSU and in many other countries in the region. Not concerned with expediency and necessity, this complex undoubtedly was disproportionately too large and costly in comparison with the economic potential of the countries. According to the official statistics, of the 45,000 enterprises in the FSU, more than one in five were subordinated in some fashion to one of the military-industrial ministries.<sup>73</sup>

Czechoslovakia was also one of the most important producers of military equipment in this region where conversion of the defence industry to civilian use has been very complicated in the depressed economic conditions.<sup>74</sup>

Previously, with its orders guaranteed and financed by the state and with other economic privileges as well, the military-industrial complex had first priority over resources; technology and supplies; a guaranteed high level of social services; state housing; and even the supply of consumer goods. As a rule, it also had a more qualified workforce, better discipline and higher productivity. It was common practice to have defence plants built separately in so-called 'closed towns'. Often they were the only enterprise in the city or they were located in separate regions far away from civil

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<sup>71</sup> UN/ECE. 1994. *Economic Survey of Europe in 1993-1994*, p. 102.

<sup>72</sup> *A Study of the Soviet Economy*. Volume 1, pp. 266, 276.

<sup>73</sup> World Bank. 1991. *Russian Economic Reforms. Crossing the Threshold of Structural Changes*, p. 82.

<sup>74</sup> UN/ECE. 1991. *Economic Bulletin for Europe*. Volume 43, p. 29.

industries and settlements. Now these plants no longer receive orders or the orders have been sharply reduced.

These plants generally have unique machinery, high level cadres for the engineers and constructors and good economic potential for both military and civilian production. Some of them have opened their gates to the world market of armament while some have restructured their production to civilian use. However, dismantlement or reduction of the military-industrial complex has created large-scale unemployment both directly and indirectly in the industries connected to it. It has also increased social tensions and uncertainty in these cities and enterprises. The possible social consequences of this process have been one of the main reasons why the reduction of military spending in Russia, in real terms, has been slower than expected.

TABLE 2  
REGIONAL EMPLOYMENT IN THE MILITARY-INDUSTRIAL COMPLEX  
IN THE RUSSIAN FEDERATION

Region	Military-industrial employment (000s)	Percentage of total employment
Russian Federation	5,416.8	23.5
Northwest	455.3	30.7
Urals	1,116.4	30.7
(Udmurt ASSR)	167.7	55.3
Volga-Vyatka	451.1	28.5
Volga	750.9	27.9
(Saratov Oblast)	212.1	50.9
Central	1,211.4	22.7
Western Siberia	472.5	22.7
(Novosibirsk Oblast)	172.4	43.5
Central Chernozem	247.2	22.6
Far East	178.3	17.8
Kaliningrad Oblast	18.9	15.0
Eastern Siberia	167.5	13.9
North Caucasus	255.1	13.7
North	92.2	9.4

Source: World Bank. 1991. *Russian Economic Reforms*, a World Bank Country Study, Washington, DC, p. 152.

The military sector was not only one of the major 'employers' of the workforce, but it was one of the key instruments in mobilizing human resources from the villages or certain regions to other industries and regions. Due to the forced places of residence, the army was the only option for many of the rural youngsters in order to leave their villages. In the FSU, in many regions after compulsory service and demobilization they were free to move from their home villages.

During peak seasons the military provided the manpower to fulfil the demand in agricultural work. In the FSU, millions of servicemen and even reserve soldiers and

officers were sent during the autumn to the villages to pick potatoes, transport the grain, etc.

Therefore, the various aspects of the impact of the collapse of this sector should be considered separately. The state budget has not been able to finance to the previous level both the military sector and the army itself. Guaranteed military orders have been reduced substantially and the under-financing of this sector has been extremely large compared to its privileged status in the previous system. Conversion of the military industry to civilian production has been an ongoing process, but it also has been complex. It takes time to replace tanks with refrigerators or anything else when domestic demand for any kind of production is very limited and foreign trade opportunities are often not yet available.

One of the pillars of the functioning military industrial complex was the world armament trade. However, due to collapse of the socialist system and the Russia's diminishing political influence in the third world, trade has been shrinking for the region as well. Many arms markets previously supplied by FSU military industries in the third world have been acquired by Western companies. Within five years, the profitable arms trade, which earlier had brought substantial hard currency incomes to some of the Eastern countries, declined several times over, having a direct impact on employment in this sector of economy.

TABLE 3  
ARMS TRADE, 1988-1992

Major arms exporters	Exports of major conventional arms (millions of 1990 USD)		
	1988	1992	Total 1988-92
USA	12,204	8,429	54,968
Former USSR/Russia	14,658	2,043	45,182
France	2,403	1,151	9,349
Germany	1,241	1,928	8,190
China	2,161	1,535	7,658
United Kingdom	1,704	952	7,623
Czechoslovakia	927	779	3,163
Total	40,034	18,405	151,014

Source: UNDP. 1994. *Human Development Report 1994*, New York, p. 55.

Employment problems in the CEE countries and especially in Russia have been compounded by substantial reduction in army. The former Soviet Army had personnel about 3.7 million soldiers. By January 1995, the number in the Russian Army was 1.9 million and during 1994-95 a further cut of 0.6 million is expected.<sup>75</sup> Most of these

<sup>75</sup> *International Herald Tribune*. 1994. 26 October.

retired military men are in their best working age and need to be retrained and placed in civilian professions. In many of the countries in transition, the employment situation has also been affected by a reduction in the length of military service from 2-3 years to a maximum of one year thus adding to the labour market supply.

In addition, more than 300,000 mostly Russian officers were recalled from Central Europe within 2-3 years and tens of thousands enlisted men from some FSU republics including the independent Baltic countries. According to some data, more than 140,000 of these officers and their families have been without housing and mostly without work, creating enormous social tension in this group and in the regions of their placement. As a rule, they are well educated and, even without training are capable of several civilian professions. However, in spite of several programmes to convert military personnel to civilian workforce and to obtain housing for these individuals, only a few have been able to find any employment in the present circumstances of added reductions in army staff and growing unemployment in their homeland.

## **2.6 Agricultural sector**

One of the most important placements of the labour force was in agriculture. It had great importance in creating employment opportunities because of its related industries such as food processing, agricultural machinery, chemical industry, etc. Exports of agricultural products represented a significant share of total exports in many of the CEE countries. More than just a sector of the economy and a place to live for thousands, rural employment and rural life have had important social significance for the region.

The rural life-style has traditionally been considered the foundation of national identity, of culture, of tradition and even of language in the region. A large number of citizens also have contacts of some sort with the rural community: summer cottages; plots of land close to the city for growing vegetables, fruits and berries; or perhaps farms owned by parents or grandparents which are still retained for garden crops or for relaxation. Therefore, the collapse of the previous agricultural and rural framework and its ties have affected much more than the rural population and employment alone.

In the 1970s-1980s, the state and cooperative farms in most of the CEE countries were consolidated into huge agro-industrial complexes. Recent trends in ownership, privatization, and organizational structures have very rapidly reduced the earlier ties between agriculture and industry. Agriculture itself has benefited little from the new forms of entrepreneurship.

It has often been argued that the communist system was effective at the mobilization of labour from the countryside, where productivity was very low, to the urban industrial sector, where it was much higher. However, price structure and levels in the socialist economies were heavily deformed with a shift towards the urban industries. Rural producers were not allowed to decide their economic priorities and preferences, markets, prices, etc. In the FSU, some basic food prices had been virtually unchanged



for many years; for example prices for milk and meat products had been in effect since 1962, prices for sugar, macaroni, sunflower oil, tea, etc., since 1956. On the other side, industrial goods and services for agriculture became more expensive year after year. The difference in prices was covered by a huge redistribution of state revenues. At the end of the 1980s, the state subsidies for agriculture exceeded 79 billion roubles (in 1988). It was the main item contributing to the state budget deficit which reached 10 per cent of GDP at that time.<sup>76</sup> As it was mentioned earlier, subsidies to agriculture were to a large extent artificial.

All the countries in transition started their economic reforms by slashing the huge state subsidies, especially for agriculture. However, prices for industrial goods, especially for agricultural machinery, were liberated at an earlier stage than for agricultural products. For social reasons, the food prices in the NIS were under strict state control for a long time. They are still in some countries. For example, in 1991 grain cost twice as much as fertilizer while in 1994, the situation was reversed and fertilizer cost eight times as much as grain. Five years ago a pound of wheat bought twice its weight in diesel fuel. In 1994 farmers needed to trade nine pounds of wheat for two of fuel.<sup>77</sup> This may be one of the explanations for the increasing agricultural employment in the NIS.

Collectivization in agriculture has created in the villages a new class of wage labourers who were narrowly specialized and accustomed to work certain hours per day and week, to a large extent, for low albeit guaranteed regular salaries from the state. Only in Poland and the former Yugoslavia did private farmership prevail in agriculture. Even graduates of agricultural schools – agronomists, animal technicians, and mechanics – have focused on very limited fields of specialization and many have no knowledge about managing and running private farms.

In the new economic situation and especially after the collapse of the collective farming system, most of the rural labourers have experienced disastrous economic difficulties because of the complicated process of restitution of land in many countries; restrictions in starting their own farms; privatization by rural elite of the means of production, mostly the management of former collective or state farms and local administration; limited demand on agricultural products; and lack of new investments in the rural areas.

The demographic situation in most of the rural areas has been extremely complex. As a rule, the most gifted and educated young people left the villages first. Among the migrants, women prevailed, generating the so-called 'problem of brides' in the villages. The collective farming system did not offer much choice in the way of a job for females. In many rural areas, pensioners became the majority of the population which results inability to reproduce either demographically or socially. The efforts and

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<sup>76</sup> O. Blanchard, R. Dornbusch, P. Krugman, R. Layard and L. Summers. 1991. *Reform in Eastern Europe*. UNU/WIDER. Cambridge: MIT Press, p. 13.

<sup>77</sup> Michael Specter. 1994. Russians Facing Worst Harvest in 3 Decades. *International Herald Tribune*, 20 September.

resources by the state in keeping the remaining rural life alive, especially for social purposes, should be increased objectively in the future.

Some Western experts have anticipated a high labour movement out of agriculture and the agricultural labour force has been perceived as a labour reservoir.<sup>78</sup> Nevertheless, a large-scale outflow of the rural population to the cities is not expected in the nearest future and recent tendencies have been rather in the opposite direction.

The outflow of the labour force from the villages has not been significant for many reasons. It was difficult for this group to adapt and compete with the previous outward migrations of the population who, as a rule, were better educated and prepared for urban life. The lower level of education and the specific rural and agricultural skills of the remaining rural residents limited their options. In addition, they have been unable to sell their homes at acceptable prices or to buy housing in new locations because of the differences in the housing demand and prices of housing in the cities and villages. As a rule, the rural population is very old and any massive exodus of the younger and more active part of its population will have severe effect on the vitality and self-support capabilities of rural communities in general. And last, but not least, most of the families in the villages can produce some food to supplement their income and consumption, enabling them to survive even without a regular income.

In all of the countries in transition, the transformation of collectivized agriculture and rural life was one of the main elements of the economic reforms. There was a consensus that the huge agro-industrial complexes and collective and state farms, had no future and their dismantling was carried out very quickly. The prevailing opinion recommended that private farms, like in the West, should replace them immediately. Spontaneous or other privatization of the means of production at book value at best was done quickly. The remaining assets (if any, as most of the agricultural sector, especially in the NIS, was in deficit) were distributed to the former members of the collective farms, or in the Baltic countries and Central European countries in transition, to the heirs of the former owners of the land and other expropriated property.

As Alexander A. Nikonov, president of the Agrarian Institute of the Russian Academy of Sciences said: "The old system was irrational, but it has been replaced by no system. There are no supports, no credits, no loans or guidance. It has been as if the government said, "You are free now; do it by yourself" ".<sup>79</sup>

At the initial stage, the creation of private farms was quite fast. Land reforms guaranteed farmers ownership of land despite some restrictions in size. For example, in Bulgaria private ownership was generally limited to 20 hectares (except in the grain-

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<sup>78</sup> Guy Standing. 1993. Structural changes and the labour market crisis in Eastern and Central Europe. In: *Structural Change, Employment and Unemployment in the Market and Transition Economies*, UN/ECE, Discussion Papers, Volume 3, No. 1, p. 47.

<sup>79</sup> Cited in Michael Specter. 1994. Russians Facing Worst Harvest in 3 Decades. *International Herald Tribune*, 20 September.

growing area of Dobrudja where the limit was 30 hectares).<sup>80</sup> In many other countries, there were no limits if the land was intended for agricultural use.

In the NIS region, 684,000 private farms had been established by mid-1994. Most of them, 286,000 farms, were located in Russia and 303,000 farms in Armenia. Land in the hands of farmers totalled 20.8 million hectares which means that the average farm is 31 hectares. However, the land is not distributed evenly and in Kazakhstan the average farm is 387 hectares, in Tajikistan 144 hectares, and in Russia 42 hectares. In Armenia the average farm consists of one hectare of land and it can barely be called a private farm; instead, it is a family plot.<sup>81</sup>

A year after the decree enabling Russians to own, buy and sell private land, less than 5 per cent of the nation's 10 million agricultural workers owned property which could be described as a farm. The farmers have less than 2 per cent of the livestock. Despite the decrease in number of collective and state farms or their successors in recent years, they still are the dominant organizational form of production. There were 13,000 collective farms in 1992 in Russia and 6,500 in 1994, and 12,400 state farms in 1992 and 4,100 in 1994. The major tendency in agriculture determining the volume of market production, has been the creation, on the basis of collective and state farms, of different joint-stock companies, agricultural communities, agricultural cooperatives, etc. The number of them increased in Russia from 12,900 in 1993 to 17,400 in 1994.

The future of agricultural employment and its patterns are determined by the recent economic and demographic development of the Russian village. According to some surveys, only 10-15 per cent of the peasants want to leave the collective farms to work on their own. Reports indicate that in the rural areas of the North-West of Russia, for instance, more than 90 per cent of the adult population suffer from alcoholism; just half of the peasants have knowledge on the care of the animals; and only one in every six know how to operate tractors or other agricultural machinery.<sup>82</sup> Therefore, the transformed agricultural communities would provide the major employment opportunity for these agricultural salary earners.

In other countries of the NIS, the re-organization of agriculture has been much slower. For example, in Moldova the number of collective and state farms in 1992-93 was reduced by 15 per cent; in Kyrgyzstan by 14 per cent, and in Uzbekistan by 8 per cent. In Kazakhstan and Ukraine the number of these farms increased, partly because they were divided into smaller units.<sup>83</sup>

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<sup>80</sup> Diana Kopeva, Plamen Mishnev, Keith Howe. 1994. Land Reform and Liquidation of Collective Farm Assets in Bulgarian Agriculture: Progress and Prospects. *Communist Economies & Economic Transformation*. Volume 6, No. 2, p. 208.

<sup>81</sup> *Statistitsheskiy bylleten SNG*. 1994. Moscow, No. 28 (70) STATCOM CIS, pp. 5-6.

<sup>82</sup> E. Serova. Predposylki i sushnost sovremennoy agrarnoy reformy v Rossii. In: *Voprosy ekonomiki*, 1995, No. 1.

<sup>83</sup> *Statistitsheskiy bylleten SNG*. 1994. Moscow, No. 26 (68) STATCOM CIS, p. 60.

The total volume of agricultural production has declined almost everywhere. In the NIS in 1992-93 alone, there was a 13 per cent decline in Russia; 37 per cent in Azerbaijan; 29 per cent in Tajikistan, and 14 per cent in Moldova. In 1994 the worst harvest in several decades was reported in Russia. The same tendencies have been common in other CEE countries. In Estonia, agricultural production (at constant prices) declined in 1991-93 by 20 per cent; in Latvia by 27 per cent, and in Lithuania by 24 per cent.<sup>84</sup>

Typical for most of the CEE countries is the fact that the agricultural communities, joint-stock companies, etc., established on the basis of former collective or state farms – and not the peasant farms – are the units that produce up to 80-90 per cent of the market volume of agricultural production. In areas where these farms were not destroyed and buildings, machinery and other equipment were kept intact, the fall in production volume has been much less significant. Perhaps it would have been a better solution for the former socialist large-scale agriculture to transform the disadvantages of large state-owned farms into advantages, creating prosperous and self-reproducing private agricultural production communities and units. It would have solved many of the social and employment problems in the villages.

In Poland the situation in agriculture has been different since most of the land was privately owned. At present, there are 2.1 million privately owned farms with an average size of 7.1 hectares. They account for 76 per cent of the arable land. There are still 1,400 state-owned units undergoing privatization and commercialization. There is also a small cooperative sector in agriculture accounting for 2,000 units with 3.6 per cent of the total acreage.<sup>85</sup> However, the problems in Polish agriculture have been quite similar to those of other countries in transition. In addition, 1.3 million part-time labourers in Poland have lost non-agricultural jobs and have returned to their villages, adding to the army of the discouraged unemployed. The laws have provided this group with very limited unemployment or other social security schemes. Nevertheless, the group in private farming who had better starting positions regarding the ownership of arable land, of machinery, and other equipment, found its markets, including export, and has been developing quite successfully. The development of income and social stratification has therefore been very fast in the rural areas.

Major problems in agriculture have been common everywhere. Limited demand for agricultural production in local markets has been reflected in the drop in living standards. Rapid increases in food prices have forced the population to expand self-supplement and to stimulate plot economy. For example, the share of household production of basic foodstuffs, as a percentage share of total production, grew in Russia from 24 per cent in 1990 to 36 per cent in 1993, including the share of self-production in potatoes from 58 per cent to 78 per cent and in vegetables from 34 to 62 per cent. In the production of meat, the share of this part of the private sector increased in Russia from

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<sup>84</sup> *Baltic Facts 1994*. 1994. Estonian Institute for Market Research. Tallinn, September, p. 36.

<sup>85</sup> *Transforming the Polish Economy*. 1994. Vol. II. Ed. Janusz W. Golebiowski. Warsaw School of Economics. Warsaw, p. 228.

24 to 39 per cent; in milk from 24 to 35 per cent; and in eggs from 22 to 27 per cent.<sup>86</sup> Similar trends have developed in other CEECs.

The relatively low prices of food do not make this industry profitable enough. Mostly the food processing industries, intermediates and trade have benefited from price liberalization. The lack of financing has limited new investments. Restitution problems prevent many of the potential farmers from getting a plot of land for cultivation. Many heirs of the former owners are not planning to farm, but simply want the ownership of the land back. The high level of rural unemployment has been also compounded by many other factors such as the relatively high price of energy and other price-cost factors; loss in the traditional CMEA and other markets; and organizational changes. At the same time opportunities for non-farm employment in the rural areas have been few.

One more factor should be mentioned. It has been hard for local farmers to compete in the long-term perspective with the well-developed agriculture of the West. In addition, the agricultural and food imports from these markets to CEE countries have grown substantially. Agricultural trade lobbying in the EC and production and trade policy in this field in the West have been examples of the aggressiveness which has interfered with and even destroyed local production, markets and employment.

The annual subsidies transferred from consumers and from national budgets to agriculture are measured by an indicator known as the Producer Subsidy Equivalent (PSE). In the EC region, the total amount of assistance provided to agriculture was equal to 48 per cent of the total value of agricultural production (or USD 12,000 per farmer). In Japan this ratio was 70 per cent (USD 20,000); in the USA, it was 23 per cent (USD 17,000) and in the OECD in general it was 42 per cent (USD 14,000).<sup>87</sup> This increase in subsidies was heavily criticized in the Western countries, but still the tendency has been upwards. Compared to the poor possibilities of the CEE countries, these subsidies give tremendous support and advantages to the Western farmers. In addition, export of food to the CEE markets has been stimulated by export credits and export guarantees which make competition in this field unfair. In the EC markets, agricultural products have been one of the most sensitive items and their markets have been heavily protected.

The economic situation in the CEE countries has created very specific and complicated social, and particularly employment, problems in the villages. Employment offices are beyond the reach of remote villages and the unemployed have not been able to get any social or other support from the state. There have been very few possibilities for rural labourers to be employed by private farmers who have mainly managed on their own. Even employment opportunities in the state public sector have recently been reduced sharply. It has been difficult to encourage investments in these areas because of the limited production scale, higher costs for transport or retraining, and so on. In many of the communities in the FSU, the only salaried employees might be representatives of the local administration.

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<sup>86</sup> *Rossiyskaya Federatsiya v tsifrakh v 1993 godu*. 1994. Moscow, GOSKOMSTAT of Russia, p. 22.

<sup>87</sup> OECD. 1994. *The OECD Observer*. No. 189, August/September, p. 24.

People in the villages near industrial centres, cities, and main roads or those individuals who have been able to promote tourism have found some employment as subcontractors, in the service sector or servicing motorists such as in catering or at gasoline stations.

The only solution for stimulating employment in rural areas could be a strong regional policy particularly supporting small entrepreneurship, creating jobs in some food processing and packing industries, in small subsidiary companies, in construction (especially for private housing, the need for which has been growing). In districts close to towns, part of the workforce could find employment in urban areas, or in serving these areas. Due to the demographic structures of the inhabitants in the villages and the rapid ageing of rural population, communal services could play an important placement role. In some places even untraditional sectors of employment should be stimulated in the recreational services such as hunting tourism, fishery, etc.

In the long-term perspective rural employment, and agriculture in particular, will not be able to maintain as many jobs as it does today. Partly the able-bodied population will rapidly diminish in many regions in a natural way. The outflow of the more active members of the able-bodied population and the retirement of others will deteriorate the pillars of the rural life framework even more and therefore the prospects of the villages are a source of anxiety for the whole society in the region.

## **2.7 Reforms in the public service sector**

In the Western world, the public sector, as an employer, has been growing, which is observed in the fact that, the more a society develops the more it consumes public services.

In the former socialist system many public services were at least extensively well developed. For example, the number of the population per doctor was twice lower in most of the FSU republics than in the OECD countries.<sup>88</sup> Even such systems as the Communist Party, the Young Communist League (Komsomol) and the trade union administration employed several million people (including those on the payroll of enterprises).

Despite the low salaries in the social service sector including medicine, the arts, education, science, etc., jobs were relatively better guaranteed and often more prestigious. They had better working environments and more flexible time schedules. Sometimes there was a promise of some extra income, for example, in the case of doctors and medical staff. Stable budget allocations to this sector of activities guaranteed employment.

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<sup>88</sup> UNDP. 1994. *Human Development Report 1994*, p. 191.

In recent decades, different branches and production units have developed their own system of social services which have also been important sources of placement. Even some state functions like social security payments were made through enterprise accountants. Often social service workers hired by the production units were better paid than average and had some advantages in getting enterprise-subsidized housing, kindergartens, etc. The rapid transformation of enterprises' finance had immediate effect on many of these supplementary professions which were considered too costly. The state had to take over many of the enterprise-related social services, but on a much limited scale.

A rapid decline in employment rates took place in some of the public service sector and other state institutions of a non-firm nature. It was the result of the lack of public financing and concerns, for example, for such fields as science, culture, and even education and some of the governmental services. The introduction of a more cost-effective health insurance system and the lack of financing have reduced the number of employees in the medical services.

Privatization has touched the social service sector as well. In the Czech Republic, by mid-1994 approximately half of the 36,000 doctors were already employed in the private sector which needs a smaller workforce.

The white collar workers now form a large part of the job seekers because the labour market today needs them for some other kind of work for which they are not eager to retrain or specialize.

The decline in employment in this sector has partly been 'compensated' for by the retirement of a part of the staff since a large part of its employment consisted of those pension-aged. However, there has been substantial overmanning in many of the public service occupations, which has been one of the reasons for low salaries in this field. On the other hand, the state has been paying low salaries knowing that many of these employees have no other choice for placement. Relatively more highly-educated women have prevailed among the sector employees. They have been much more vulnerable to staff reductions and it has been more difficult for them to find new jobs.

In the transformation process, the CEE countries needed to diversify their economic activities. In order to have an economically, as well as politically, independent structure for the economy, on becoming independent states these countries needed to create the full state infrastructure they were lacking and to develop many new branches and economic activities which previously had been domain of other countries or institutions. In the NIS and in the Baltic countries, these new structures and institutions related to the tasks previously performed by the USSR government, such as defence, customs services, frontier guards, diplomatic service, and so on, have also been important areas of placement of the labour force.

In the FSU, the dynamics of employment in community services have been quite controversial. For example, in Russia its share in total employment increased from 19.4 per cent in 1990 to 20.5 per cent in 1993. However, there was a substantial decline in

employment in science, from 3.1 million in 1990 to 2.6 million in 1992. In education and in culture it increased from 7.2 million to 7.5 million correspondingly. In Ukraine, the number of employees in science also decreased from 632,000 in 1990 to 480,000 in 1992.

Science seems to be the most vulnerable occupation in all of the NIS. In other NIS, there has been a decline in the number of employees in other occupations financed by the budget as well: in Armenia in education and culture, more than one tenth within 1990-92 and in Kazakhstan 15 per cent of employees in this field.<sup>89</sup> Also, the employees of these sectors have been in the lowest paid professions, a factor which has also influenced labour mobility. In Russia in 1993, the average wages in science were 64 per cent of the country's average; in culture, 60 per cent of the average and in medicine, 73 per cent. In several NIS, cultural workers got barely a half of the national average wage, in Kazakhstan it was 55 per cent of the average in 1993; in Armenia 59 per cent, in Ukraine 62 per cent. As a rule, only agricultural workers were paid even less than social service workers.

In recent years the financial situation in the NIS has deteriorated even more and a significant outflow of labour force is expected from this sector.

## 2.8 New work ethics

At the microeconomic level, the economic behaviour of both employers and workers has been changed by the quick shift from a supply-side to a demand-side economic environment. All the participants directly or indirectly involved in the work process, had to change their organization of work, their work mentality, and their attitudes. They have had to be more active themselves and employers have had to be more critical of the labour force they employ. Substantial changes were needed in improving labour discipline, in changing the relationship with the customer, even in liquidating or limiting working time arrangements for personal affairs so common earlier. At least there is no need any longer to queue for scarce goods.

Therefore, one of the elements of the adjustment process has been the creation and stimulation of new work ethics, high labour discipline, and new work mentality. For the first time in decades people know what it means to work for the customer, for the concrete employer and ultimately for themselves and not just the abstract state.

This process has been rather hard for many people. Two to three generations have grown up in a paternalistic-oriented economic and social environment. The concept of the state being responsible for their well-being is still strongly embedded in their minds. For that reason, many people still prefer to work in the state-owned enterprises instead of a private employer. They believe the state will provide more guarantees and a more secure job even if it means lower pay.

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<sup>89</sup> *Rynok truda v stranakh sodruzhestva v tsifrakh i diagrammakh*, p. 33-55.



We are often expecting the unemployed or even the employed to act and react adequately to market changes, market signals and market forces. However, many people have been still very passive in labour relationships and have been poorly prepared, educated and trained for the new situation. They are unsure of the new market conditions and how to promote their skills. In general this phase of the adjustments is just beginning. Reforms were too sudden and were a great psychological shock for many of the people in the region.

For example, it has taken almost 18 months for American Airlines to train the ground staff at the Warsaw airport on Western standards of low absenteeism, no drinking on the job and service with a smile.<sup>90</sup>

At the initial stage of reforms, one of the first consequences of the new labour environment was a rapid reduction in sickness rates. People were not generally healthier, but they were afraid to call in sick because of an illness.

The major stimulus for these changes should be the formation of a competitive environment not in the economy alone, but in the labour market as well. Despite higher labour mobility, workers generally have been more eager to keep their jobs and less likely to look for new ones. Accepting the new labour mentality probably takes more time and effort than many of the other adjustments in the society.

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<sup>90</sup> Jane Perlez. 1994. East: Long and Painful Transition. *International Herald Tribune*, 8-9 October.

### III DYNAMICS AND REGULARITIES OF THE LABOUR MARKET

#### 3.1 Specifics of labour statistics in the region

The methodology of labour statistics in the CEECs differs from country to country and, as a rule, has not been comparative to the previous employment records. Sources of information have been very scarce and inadequate. Earlier it was compulsory for the public sector, legally the only one in most of the countries, to report their employment and salary data regularly to the statistical authorities. Nowadays, a large share of the labour force is excluded from statistical coverage despite the numerous surveys on different enterprises, industries, labour forces, and households. They often do not match, thus providing sporadic and incomplete facts on employment dynamics in different countries. National classifications of occupations have been changed to ISCO-88 in most of the countries in transition, but it takes time to adapt the country statistics to the new demands.

By the ILO statistical standards, the term 'employed' comprise all persons above a specific age who, during a specified brief period, were in the following categories:

- i) 'Paid employment', i.e. persons 'at work', who during the reference period performed some work for wage or salary, in cash or in kind; and persons 'with a job, but not at work', who, having already worked in their present job, were temporarily not at work during the reference period and had a formal attachment to their job;
- ii) 'Self-employment', i.e. persons 'at work', who during the reference period performed some work for profit or family gain, in cash or in kind; or persons 'with an enterprise, but not at work', who with a business enterprise, a farm or a service undertaking, were temporarily not at work during the reference period for any specific reason.

Since the ILO considers the notion 'some work' as work for at least one hour per week, such criteria could give us a completely inadequate picture of the labour market and employment in the CEE countries.<sup>91</sup>

By these formal criteria, the employment rate in the region could still be very high. Previously, it was very common to perform some activities outside formal employment. Nowadays, these activities seem to be growing and include more people than before.

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<sup>91</sup> ILO. 1993. *Bulletin of Labour Statistics*. No. 4, p. XIX; ILO. 1993. Fifteenth International Conference of Labour Statisticians. *Report of the conference*, 19-28 January.

The new situation in the region needs a redefinition of employment and participation to include clear definitions and determination of the self-employed, farm workers, and the informal sector in general. It has been often very difficult to distinguish between the groups.

Since employment and unemployment statistics have many peculiarities in different countries, let us mention only some of the specifics.<sup>92</sup>

First is the registration of employment in cooperatives, private small businesses and private practitioners. The number of the registered private activities surpasses several times the number of the functioning ones. The registration rules have still not been very strict. In some of the CEE countries, it costs less than a hundred US dollars to officially register your firm and become a company owner.

New entrepreneurship has often been reluctant to register their activities and employees, or to respond to demands from the state authorities. In Lithuania, only 1/4 of the private sector enterprises responded to a labour force survey in 1992. In some countries, as in the Czech Republic, some private entrepreneurs have been excluded from the employment statistics if the enterprise has less than 25 employees. In some countries, only enterprises with a legal entity were included in the statistics (e.g., Hungary). In some countries, for example, in Estonia, the enterprise survey data have been extrapolated to estimate the total number of wage earners.

In some countries, apprentices and employees on maternity or child care leave as well as home contract workers and casual employees have been included in the employment statistics (in the NIS). Part-time employees have been sometimes calculated as full-time workers (in Latvia), in some cases the hours of employees have been combined and recorded as full-time equivalents of the working time (in Estonia). In some countries, employees in joint ventures, owners of individual farms or other units employing wage earners and the self-employed have not yet been included in the employment statistics. In some cases, only civilian employment has been accounted, in some others, professional military staff and servicemen have been included as well (in Latvia).

In several countries, there has been a significant difference in the number of the employed calculated by statistical or insurance authorities because personal insurance (social security) codes have still not been implemented. In Lithuania, at the end of 1993 the Department of Statistics reported 1.8 million employees in the country, while insurance authorities ('Sodra') had data on only 1.4 million insured employees.<sup>93</sup>

In the FSU, the employment statistics also included students of working age studying at day-time schools. They are still used in some of the statistics of the NIS.

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<sup>92</sup> OECD. 1994. *Short-Term Economic Indicators. Transition Economies. Sources and Definitions.*

<sup>93</sup> Boguslavas Gruzevskis. 1994. Phenomenon of Lithuania: production is decreasing, the number of unemployed remains the same. Paper presented at the UNU/WIDER conference on 'The Politics and Economics of Global Employment'. Helsinki, 17-18 June. Mimeo.

In Poland, employees in units of national defence and Internal Affairs, financed from the central budget, have been excluded from the employment statistics. Often only employees holding labour contracts have been included in the official labour statistics. In some countries, homeworkers have also been included on a full-wage equivalent basis (in Lithuania). Even the legal working age has been different in various countries in the CEECs (see Appendix Table 1).

One of the major and, from a legal point of view, new areas of employment has been the informal sector. According to the UNDP, the informal sector suggests at least a productive activity and it is not identical with the so-called illegal, second, or shadow economy. In many developing countries it tends to include all enterprises with ten persons or less engaged in manufacturing, construction, transport, trade and services. Often informal activities have been included in the legal and fiscal framework and may provide their workers and owners with a higher income than in the formal sector.<sup>94</sup>

The estimates of the share of unreported or informal activities outside of the tax system, and thus often not included in statistical employment coverage as well, vary between 20 to 40 per cent of GDP in the CEE countries. Unfortunately, there have been very few surveys on employment and incomes from this sector of activities. The informal sector plays however an important role in placement and as a source of income for thousands of people in every country in transition.

There has been very little information on 'visible' and 'invisible' under-employment (or disguised unemployment) in the countries in transition. This area has been characterized by people who work part-time or shorter working hours, but would like to work longer, or those occupied in activities with low incomes and/or productivity, as well as in activities in which their qualifications have not been utilized. In many countries not only unemployed families (where one or more breadwinners are out of regular work), but families of low wage worker fall below the poverty level and this statistical data would be very important for designing labour market policy.

Eligibility criteria for the unemployed or job-seekers differ from country to country and therefore these statistics have not been comparable either. However, an even more important aspect has been the fact that in several countries, many job seekers never visit employment offices and register themselves. Thus, the labour market picture has been incomplete in the CEE countries.

The low level of officially-registered unemployed persons compared to their real status has been common feature. The reasons are well-known. Let us name some of them.

Many state-owned or even newly 'privatized' enterprises especially in the NIS, still entitle the worker to important non-cash benefits such as subsidized housing, kindergarten, health services, etc. In order to claim unemployment benefits, a worker

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<sup>94</sup> United Nations. 1994. *World Economic and Social Survey 1994. Current Trends and Policies in the World Economy*.

must formally become disassociated from the enterprise. Even without work or the option of renewal, workers still prefer to stay on unpaid leaves and on the payroll of the enterprise in order to enjoy the benefits.

Many workers are still unfamiliar with the employment service and employment legislation. They are not aware of the kind of rights and obligations the social protection system provides. Often the unemployed have not been able to register because they have incomplete documentation such as professional record books, earning records from their last employer, education certificates, etc. Due to high territorial mobility, including the huge number of refugees in many parts of the NIS, many of the unemployed are missing some documents. In accordance with legislation in some of the countries, a person who refuses a job offer is taken off the register, even though the job is far from home or does not correspond to professional level or previous engagement level of the job seeker.

In many cases, being registered as an unemployed, provides the worker with free health insurance and extend his service length which has been necessary for a pension account. Nevertheless, even these have not been stimuli. Possibly, many of the unemployed consider their current status short term and temporary. Official and hidden unemployment rates have been so different also because of the low level of benefits provided by the employment offices, a limited number of other services and especially a limited number of vacancies. Traditionally, neither job seekers nor the employers have valued the employment offices and only part of the vacancies have been registered.

It has been a common practice especially in new businesses that employers have been looking for new staff among relatives, friends and other acquaintances and for managerial posts through newspapers, special employment agencies, etc. For many job seekers the employment offices are too far away and transportation fares could eat up the benefits received. In some of the NIS, the registered unemployed have to re-register themselves twice a month (the Russian Federation, Kyrgyzstan and Uzbekistan), every ten days (Moldova) or even four times a month (Kazakhstan and Tajikistan) in order to get quite low benefits.<sup>95</sup> Rural unemployment has been especially heavily under-registered.

As a rule, there are several categories of unemployed. The first is the officially-registered unemployed, or often the unemployment beneficiaries who belong to this social group as classified by law or governmental decree and are thus paid certain allowances.

The second group is made up of the officially-registered unemployed still having the social status of job seekers who are waiting out a period before qualifying as officially unemployed and receiving benefits. In some countries (e.g., the Baltic countries) before the job seeker could apply for benefits this waiting period has been

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<sup>95</sup> OECD. 1993. Short-term Economic Statistics. Commonwealth of Independent States, 1980-1993, p. 21.

generally 30 days (recently reduced in Estonia) and even 60-90 days for those who have just left school (in Hungary, Poland, Romania, etc.).<sup>96</sup>

The third group of the unemployed are those who do not visit employment offices at all. They may be looking for a job independently or may be partly engaged in the informal sector or they may have some other source of irregular incomes, or support from family and/or other relatives. They may not be able to register because they have no previous service which has been a condition for applying for benefits, or the service length has not been sufficient to be registered. This group includes graduates, young mothers, housewives who because of economic or other reasons have to look for a job, etc.

Some of the job seekers do not visit an employment office because the benefits are low; the employment services offered are limited especially in offering proper vacancies; other sources of income or temporary jobs available from time to time; obligations to participate in public works; a question of prestige, etc.

The fourth category, like the third, contains hidden unemployment. Although formally employed, these workers (considered under-employed) are involuntarily working shorter hours than they would like or are forced to take partially-paid or unpaid leaves. A huge number of workers on forced unpaid leaves have been registered in the NIS. In Russia, in 1993, the Ministry of Labour even introduced a regulation on subsidizing workers on administrative leave, reducing the cost to enterprises and providing a minimum wage income for some of those on such leave.<sup>97</sup> This kind of unemployment has been extremely costly to the economy because expenditures have been passed to product costs, making many of them non-competitive in the markets.

In Russia alone at the end of October 1994, officials estimated that 4.8 million workers were in forced part-time jobs or on partly-paid or unpaid leaves (so-called administrative leaves). This constituted 6.4 per cent of the economically active population of 74.9 million.

In accordance with ILO methodology, 4.9 million people were counted as active job seekers in Russia, which was 6.5 per cent of the labour force. However, the number of workers who were officially registered at employment offices as unemployed was 1.5 million, or 2 per cent of the economically active population. Only 1.2 million unemployed received the very low unemployment benefits. This means that the differences in unemployment figures have been significant.<sup>98</sup>

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<sup>96</sup> *Riigi Teataja*. 1991. Töötotsija või töötü täiendus- või ümberõppe stipendiumi ja töötü abiraha määramise ja maksmise kohta. Nr. 2, 17 jaanuar.

<sup>97</sup> Guy Standing. 1994. *Labour Market Dynamics in Russian Industry in 1993: Results from the Third Round of the RLFS*, p. 22.

<sup>98</sup> Sotsialno-ekonomitsheskoye polozhenye Rossiy. Moscow, GOSKOMSTAT of Russia, January-October 1994, p. 116.

In some countries, the duration of an involuntary part-time job and the level of salary have been defined by law. In Estonia, according to the law since 1993, 'Additional regulations on applying shorter working hours or partly paid leaves', the employer on his own initiative can no longer put employees on involuntary leave. Should the work volume temporarily drop, the employer, with the consent of the labour inspector and an agreement of the worker, has the right to introduce shorter working hours, but not less than 60 per cent of that outlined in the labour contract and the salary must be at least 60 per cent of the minimum salary. This period cannot be longer than three months a year.<sup>99</sup> This amendment to the law on labour contracts caused the number of registered workers on partly-paid or unpaid leaves or in involuntary part-time jobs to drop very quickly.

For example, in Estonia the number of officially-registered unemployment beneficiaries in December 1994 was 12,100, or 1.4 per cent of able-bodied population including 3,600 in training schemes and 2,600 in public works. Since official labour force statistics are incomplete, this share was calculated from the working-age population. The number of registered job seekers was 22,800, or 2.7 per cent of the able-bodied population. The latter almost twice exceeded the number of the registered unemployment beneficiaries.

According to sociological surveys in Estonia, only half of all job seekers ever visit employment offices and register themselves and 1/5 get certain unemployment allowances or retraining stipends. According to these surveys, the unemployment rate (job seekers out of the labour force) was equal to 7.0 per cent, and the unemployment level (job seekers out of working-age population) was 5.6 per cent (IV quarter 1994). The difference, depending on the method of calculation, could be as great as five times.

At the same time, according to surveys, one fifth of the job seekers in Estonia performed some activities and had earned incomes. Therefore, by ILO standards, they should not be counted as unemployed (see Appendix Table 3).

In some other countries, unemployment rates in accordance with the labour market surveys have been lower than those registered by labour market authorities. For example, in Poland, according to labour force surveys, there are about 500,000 unemployed persons less in the country than those registered by the official statistics. The reason has been that the unemployed who have been actually working for more than one hour per week, have been excluded from the unemployment pool by the survey.<sup>100</sup>

The share of the unemployment beneficiaries has been very low in several countries and has been close to one fifth of the registered unemployed in Azerbaijan, Armenia, Moldova and Tajikistan (see Appendix Table 4). In many Western countries, the unemployed in able-bodied age bracket engaged in training, early retirement or

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<sup>99</sup> Riigi Teataja. 1993. Osalise tööaja rakendamise või osaliselt tasustatava puhkuse täiendava reguleerimise seadus. Nr. 10, 2. märts.

<sup>100</sup> Charalambos Christofides. 1994. The Supply Response: Microeconomic Liberalization, Sectoral Developments, and the Labour Market. In: *Poland. The Path to a Market Economy*. By Liam P. Ebrill, Ajai Chopra, Charalambos Christofides, Paul Mylonas, Inci Otker, and Gerd Schwartz. IMF. Occasional Paper No. 113, October, p. 66.

disability schemes have often been excluded from unemployment statistics. Partly it has been true for many CEECs as well, especially concerning early retirement. This means that different criteria have been used to measure the levels of unemployment.

The same statistical problems arise with vacancy statistics. In Russia, it has been reported that vacancies registered in the employment offices account for less than one third of the actual vacancies.<sup>101</sup> In Estonia, the reported vacancies in the employment offices in 1993 were almost five times less than those registered by the Statistical Office's labour surveys, despite the Law of Labour Contract which stipulates all vacancies to be reported to the employment offices. In Lithuania, for example, labour exchanges have almost no vacancies in the private sector. Therefore, the labour statistics in the CEE countries should be treated with scepticism.

## **3.2 General rules and regularities in the labour market**

Despite the national differences in the employment statistics, in macroeconomic and especially labour market policies, and in the dynamics and levels of employment and unemployment, some general tendencies could be identified as being common in most of the countries in transition. Earlier the impact of the structural adjustments in the CEE countries on sectoral and segmental employment patterns was mentioned. Therefore, other characteristics in the dynamics of employment and unemployment need to be specified.<sup>102</sup> The main ones are listed on the following pages.

### *3.2.1 Employment rates*

In all of the CEECs, the employment rate in the formal sector has declined. The highest declines and the lowest participation rates have been reported in Bulgaria, Hungary and Poland (see Appendix Table 5).

In the NIS, despite the rapid deterioration of the economy, the participation rate has declined much less. In Russia it fell from 87.5 per cent of able-bodied population in 1990 to 82.7 per cent in 1993; in Ukraine from 86.0 per cent in 1990 to 81.0 per cent in 1992.

The population structure by economic activity is one characteristic of the economic reproduction capabilities of a society. Unfortunately in almost all countries in transition, the productive part of the society and income earners (both groups have been declining in size) have to support the growing number of dependants including those in their most active age. It puts much pressure on the whole economy and on the reforms in particular.

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<sup>101</sup> Government of the Russian Federation. 1993. *Russian Economic Trends*. No. 2, table 8-1.

<sup>102</sup> OECD. 1994. Overview of the labour market dynamics in the Central European transition countries, see, for example: *Unemployment in transition countries: transient or persistent?*



It has been reported that in 1991-93, the highest declines in the number of the economically active population in the NIS were in Ukraine by 2.6 million, or 10.1 per cent; and in Kazakhstan by 0.6 million, or 8.0 per cent (partly due to out migration). In Turkmenistan and Uzbekistan, the sizes of the economically active populations increased by 6.4 and 3.6 per cent correspondingly in response to their rapid population growths.

The highest decline in the share of the economically active population out of the whole population in the NIS, was also reported in Ukraine where it went from 48.7 per cent in 1990 to 43.6 per cent in 1993. This decline was fast also in Kazakhstan, from 45.2 to 41.0 per cent and in Turkmenistan, from 42.0 to 38.1 per cent. According to these statistics, the highest dependency rates should be in Tajikistan, where only 33.1 per cent of the population in 1993 was economically active including the unemployed, followed by Azerbaijan with 36.6 per cent; Uzbekistan and Kyrgyzstan, both at 37.5 per cent. The lowest participation rate for the able-bodied population in 1992 was reported in Azerbaijan, 67.3 per cent; followed by Tajikistan, 71.5 per cent; and in Armenia, 76.7 per cent (see Appendix Table 4). Since the working ages in these countries are from 16 to 54 for females and 16 to 59 for males, the trend in these rates is worrying. In recent years, the situation has become worse.

Due to their demographic situation, their high inter-republican economic dependency earlier, their specific economic, social, national and even religious features, these former Soviet republics have been in great difficulties in planning their own market reforms. Possibilities to enlarge not only productive, but any employment opportunities have been very scarce. Social policy burdens resources too much, and it has not been a surprise that living standards have deteriorated. The state has been not able to safeguard even the subsistence minimum to large segments of their population or to pay minimum social support to risk groups. Compared to earlier social security system and heavy redistribution of resources from the central FSU budget, it has been a real shock for most of the families in this region. Tajikistan's budget is still heavily subsidized by the Russian government.

Compared to many other Central European countries in transition, overmanning has been relatively high in the Czech and Slovak Republics where it was at least 3-4 times higher than in Hungary and Poland. This could be one of the many explanations of the low unemployment rate in the Czech Republic today. In 1990-93, the so-called labour hoarding indicator equalled 11.2 per cent in the Czech Republic and 15.6 per cent in Slovakia. In Poland it was 'only' 3.4 per cent and in Hungary 4.1 per cent.

Other reasons for the Czech low unemployment rate could be government subsidies which are still quite high and help to keep some low efficient enterprises alive;<sup>103</sup> delays in the corporate restructuring of enterprises; state-imposed wage ceilings

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<sup>103</sup> According to IMF, government subsidies constituted in Czech Republic 5.0 per cent of GDP in 1992 and 4.4 per cent in 1993. This ratio was even higher in Russia at 7.0 per cent; in Romania 5.5 per cent; in Bulgaria, Hungary and Slovakia 4.8 per cent of GDP in 1993. In Estonia this ratio was 0.7 per cent and in Lithuania 1.4 per cent of GDP correspondingly. See IMF. 1994. *World Economic Outlook*. October, pp. 80-83.

and low salaries which have made mass firings unnecessary; forced retirements (including early retirements); and prolonged parental leaves (i.e. a larger increase in non-participation). These factors are to a large extent in effect in most of the countries in transition. However, the employment policy in the Czech Republic has also been one of the most active and successful. Here the whole restructuring process has progressed ahead of the others. The favourable geographical location, relatively well-developed infrastructure and well-trained manpower facilitate trade and business, making their transformation easier, softer and quicker.<sup>104</sup> It has perhaps been one of the few positive examples of employment saving macroeconomic policies in the region.

TABLE 4  
CHANGES IN THE OUTPUT-EMPLOYMENT RELATIONSHIP  
OF SELECTED TRANSITION COUNTRIES  
1990-1993

	Employment rate (as % of the working-age population)				Dynamics of real GDP				Labour hoarding indicator
	1990	1991	1992	1993	1990	1991	1992	1993	1990-93
Bulgaria	82.5	72.2	67.0	61.9	-9.1	-11.7	-5.7	-4.2	-10.1
Czech Republic	89.3	80.8	77.9	77.8 <sup>1</sup>	-1.2	-14.1	-7.1	-0.3	-11.2
Slovakia	85.7	75.1	74.5	71.7	-2.5	-14.0	-7.0	-4.1	-15.6
Hungary	80.2	77.6	70.2	63.8	-3.5	-9.9	-5.1	-2.0	-4.1
Poland	75.3	70.9	68.3	65.9	-11.6	-7.6	2.6	3.8	-3.4
Romania	83.3	82.6	81.7	...	-7.4	-15.1	-13.5	...	-34.4 <sup>2</sup>
Russia	87.5	85.7	84.0	82.7	...	-13.0	-19.0	-12.0	-41.0 <sup>3</sup>
Ukraine	86.0	84.5	81.0	79.0	...	-11.9	-17.0	-14.2	-37.6 <sup>3</sup>

Sources: Crisis in mortality, health and nutrition. Regional monitoring report no. 2. August 1994. UNICEF, Florence, 1994, p. 98. World Economic Outlook. October 1994. IMF, Washington, DC, 1994, p. 66; Short-term economic indicators. Transition economies. 3/1994. OECD, Paris, p. 92. Czech Statistical Yearbook 1993. Prague, 1994, p. 42, 56.

Notes: Labour hoarding indicator is defined as the difference between cumulative changes in employment and GDP.

<sup>1</sup> Preliminary.

<sup>2</sup> Indicator for 1990-92.

<sup>3</sup> Indicator for 1991-93.

Introduced in many of the CEE countries prolonged parental leaves (mostly used by mothers), have released at least one tenth of the women's labour force, or 4-5 per cent of the able-bodied population. Maternity leaves were extended, as a rule, to the child's age of three. In Hungary, such long-term parental leaves were introduced in 1967.

Overmanning was significant in the socialist period, but in the process of economic reforms it has further increased in the region. A drop in the participation rate has been, as a rule, far away from a decline in GDP, industrial output or other economic

<sup>104</sup> United Nations. 1994. Is the employment situation in the Czech Republic special? In: *World Economic and Social Survey 1994. Current Trends and Policies in the World Economy*, pp. 197-198; Comments by Alena Nesperova. 1994. In: *Unemployment in transition countries: transient or persistent?*

indicators. On the other hand, the fall in production has not affected the unemployment rates in many of the transition countries to any great extent and especially in the NIS. In other words, a remarkable time lag exists between the fall in production and the unemployment growth rate. Although labour productivity fell significantly, over-employment still exists and has even grown. A recent ILO survey shows that 63 per cent of the large companies in Russia with more than 1,000 workers estimate that they could cut their workforce by a fifth without any impact on their output.<sup>105</sup>

In the FSU, average weekly hours worked were much less than in many of the industrial countries. Employees in certain occupations and hazardous professions have had much shorter working hours than average. These 'advantages' have mostly remained. Perhaps only in the private sector and in small businesses, have the average working hours per employee/owner increased.

The average employee worked 34.5 hours per week in Soviet industry in 1989, and 37.8 hours in agriculture. Their colleagues in the USA worked on average 39.1 hours in the non-agricultural sectors (self-employed 41.0 hours) and in agriculture 41.3 hours (self-employed 47.5 hours).<sup>106</sup> The increasing labour hoarding indicators mean that actual working hours have declined even more.

One of the indirect consequences of overmanning has been that actual working hours have been much less than 'normal time' – in this survey, 35.8 hours per week for employees and 36.7 hours for workers. It may not cover the large number of employees on forced administrative leaves and in forced part-time work. Otherwise, these figures should be even lower. At the same time, state enterprises, in particular, have been reporting relatively high vacancy rates (in this survey 5.2 per cent).<sup>107</sup> This means that despite rapid changes in the economy, privatization, etc., market signals to the employment patterns have been very weak.

Similar tendencies characterize the dynamics of employment at sectoral, regional and enterprise levels. For example, according to the data of the Federal Employment Board of Russia, output in 1992 in the textile and sewing industries declined by 24 per cent, but employment declined by only 6.4 per cent; in machine-building and metallurgy corresponding figures were 20 per cent and 10.1 per cent.<sup>108</sup> Even in these cases, posts were discontinued due to the elimination of vacancies and the displacement of workers of pension age.

In many countries, labour participation and labour supply have been regulated by a significant reduction in working hours. For example, in Romania it has been reported that a reduction of the standard workweek from 46 hours to 40 hours generated an

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<sup>105</sup> *The Wall Street Journal Europe*. 1994. 1 November.

<sup>106</sup> *USA/USSR: Facts and Figures*. 1991. August. US. Department of Commerce, Bureau of the Census; State Committee on Statistics of the USSR, pp. 3-7.

<sup>107</sup> Guy Standing. 1994. *Labour Market Dynamics in Russian Industry in 1993: Results from the Third Round of the RLFS*, pp. 12, 22, 25.

<sup>108</sup> *Kommersant*. 1993. 21 December.

additional demand for labour of approximately 230,000 people.<sup>109</sup> Average work hours declined from 2,087 in 1989 to 1,511 in 1992. It has helped to some extent to keep the participation rate higher.

Deteriorating participation rates have been partly compensated for by employment growth in the informal sector. As mentioned, information on this has been incomplete. One of the major areas of such placement has been the 'plot' economy. In several countries it has been reported that a major part of the population has been performing some work both for profit and family gain.

More than 60 per cent of Romanians report that they, or someone in their household, spend some time each week growing food.<sup>110</sup> Similar rates have been found in the Baltic countries. In Hungary in 1991 it was reported that out of 317,200 registered small private entrepreneurs, one-third were doing business as a supplement to a main job, and another 130,000 had second jobs in partnerships or with private employers.<sup>111</sup>

The huge level of disguised unemployment, forced part-time work or administrative leaves and recurring low productivity mean that employment is still artificially high and the unemployment rates will be high or will increase even in the event that economic depression can be overcome and the economic situation improved.

### 3.2.2 Labour turnover

Labour turnover has increased significantly in the region. For example, in Russian industry in 1993, 5.4 million workers, or 1/4 of the total labour force left their jobs, and 3.8 million were hired. Labour turnover increased in Russian industry from 13.9 per cent in 1990 to 19.0 per cent in 1992. These figures were even higher in construction: in 1993, 30 per cent of the workers in this sector quit their jobs within a year and a new workforce of 25 per cent was hired.<sup>112</sup> However, it has been reported everywhere that most workers move directly from enterprise to enterprise (state-owned or private sector) without experiencing a spell of joblessness. Most job openings have been filled by those who have been searching for jobs while still employed.

Guy Standing distinguishes four forms of labour mobility: geographical, employment (inter-firm), job (intra-firm) and skill mobility.<sup>113</sup> Of these forms, employment (inter-firm) mobility has been the only one which has increased substantially. Recent political changes, limits in the housing market, etc., have reduced

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<sup>109</sup> Georghe Raboaca. 1993. Romania: labour market trends and policies. In: *Structural change in Central and Eastern Europe: Labour market and social policy implications*. Ed. by Georg Fisher and Guy Standing, p. 183.

<sup>110</sup> John S. Earle and Gheorghe Oprescu. 1994. Aggregate Labour Market Behaviour in the Restructuring of the Romanian Economy. Research Project on the Labour Market in Transitional Socialist Economies. The World Bank, p. 27. Mimeo.

<sup>111</sup> Alena Nesperova and Agnes Simonyi. 1994. *Labour Market Developments in Hungary*, p. 6.

<sup>112</sup> Rynok truda v stranakh sodruzhestva v tsifrakh i diagrammakh, pp. 44, 73.

<sup>113</sup> Guy Standing. 1988. *Unemployment and Labour Market Flexibility*. Sweden. Geneva: ILO.

territorial mobility, especially in the NIS, or territorial mobility has been mostly of a forced nature.

The flexibility of labour remains too low – almost the only alternative for wage earners is full-time work. However, employment opportunities and jobs have been much more flexible in the informal sector.

In several countries, especially in the NIS, voluntary resignation remain the principal means of employment mobility. In the NIS in 1993, for registered job seekers it was the major reason for leaving a job in 5 countries out of 8 where such data is collected. In Russia it was the reason in 47 per cent of the cases and in Tajikistan in 45 per cent (see Appendix Table 4). However, these figures conceal the large number of workers who actually quit involuntarily because of direct or indirect pressure from managers. Staff reduction was the major reason only in Kyrgyzstan in 54 per cent of the cases; in Moldova in 52 per cent and in Ukraine in 35 per cent of the total number of workers who left their jobs. The third major 'reason' concerns graduates of daily schools entering the labour market. In Azerbaijan and Armenia, almost one fifth of the registered job seekers were recent graduates. Violation of the labour discipline was another important reason for losing a job in Russia. This was the case for 5 per cent of the job seekers.

In Russia, persons who have been dismissed for disciplinary reasons, have 3 months waiting period to get the status of being unemployed. Unfortunately, a voluntary resignation has not been an obstacle before they qualify for the status of job seeker. However, in many cases, it has been difficult afterwards to determine the real reasons for leaving a job.

Despite the increasing tensions in the labour market, there has been a permanent demand on the labour force even though the ratio of the unemployed to vacancies has tended to worsen in most of the CEECs. These statistics should be treated as incomplete since most of the vacancies, as well as a large number of the unemployed, have not been registered at the employment offices.

The unemployment-vacancy ratio has a strong seasonal character. In winter it has been sometimes several times higher than in summer. In the NIS, in June 1994 the worst ratio was registered in Armenia with an average of 60 job seekers to one registered vacancy. In Tajikistan this ratio was 42:1 and in Moldova 19:1. In several other countries, for example, in Russia, Belarus, and Kyrgyzstan, the ratio was equal to 4-5:1. In Uzbekistan, the ratio was 1.1:1 and in Ukraine the number of registered vacancies actually exceeded the number of job seekers (Appendix Table 4). Taking into consideration the heavy under-reporting of vacancies, the situation in several countries of the NIS has been quite controversial. On the one hand, rapid deterioration of employment rates and growth in unemployment is evident, and on the other, the number of vacancies has still been rather high or exceeds the number of the registered job seekers. This partly reflects the structural mismatch of labour supply and demand. It also has been the outcome of job creation processes in the many new segments of the economy, but mainly it has been an indication that restructuring is only at the initial

stage in this region. Privatization and other adjustments have not sufficiently changed the general situation in the labour market.

In the Baltic countries, the number of vacancies registered by employment offices has generally been only a fraction of the actual figure and therefore these statistics are not very objective. In Central European transition countries, the situation in unemployment-vacancy ratios has been rather different. In the Czech Republic the ratio has been rather low and at the end of 1993 it equalled 3.4:1. In Poland it exceeded 133:1 proving that job seekers have had very little chance to get a job through the employment offices.<sup>114</sup>

This characterizes the specificity and needs for employment policies in the different countries. In some countries, an active employment policy could facilitate employment in the country; in others even the most active and expensive employment policy measures have little chance to improve the labour market situation. In these circumstances the course of action should be an active support and stimulation of job creation by the unemployed themselves through job counselling, special training programmes on entrepreneurship and small businesses, information support, strong regional policies in support of small activities in different forms, etc. The least desirable form of 'support' for the unemployed, which should come only after all the other active approaches have failed, is social assistance, early retirement schemes and other such programmes.

At the same time, there are several regions of 'overheated' economies in the CEE countries, where labour demand on several occupations exceeds the needs for expanding activities. This is true for some of the capitals and other regions of active entrepreneurship. It has also had some impact on salaries which have been much higher than the average in the countries. For example, in Tallinn in December 1994, the local employment office had 585 registered unemployment beneficiaries (official unemployment rate was 0.2 per cent), 3,981 registered job seekers, 633 registered job offers and newspapers full of job advertisements. As a consequence, the wage level in Tallinn was twice as much as in many other areas and especially in rural regions.

### 3.2.3 Unemployment rates

At the initial stage of economic reforms, the unemployment forecasts for the region were rather pessimistic. For example, a joint IMF, World Bank, OECD and EBRD project on the development of the Soviet economy predicted the stock of unemployment by gradual scenario to be 13.2 million at the end of 1992 (unemployment rate 9.4 per cent) and 15.1 million by radical scenario (unemployment rate 10.8 per cent).<sup>115</sup> If we take the actual number of the able-bodied population who left their jobs for various reasons, then the figures could be quite close to the forecast. However, the number of registered unemployment has been much less, a fact which could be

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<sup>114</sup> United Nations. 1994. *World Economic and Social Survey 1994. Current Trends and Policies in the World Economy*, p. 196.

<sup>115</sup> *A Study of the Soviet Economy*. Volume 2, p. 200.

explained by the specifics of the labour movements in the region and the economies in general.

Unemployment rates are one of the objective indicators of the speed of the reforms and other characteristics of the macroeconomic policy in the region. In several Central European countries, rapid unemployment growth started in 1991, for example, in Bulgaria, Hungary, Slovakia, etc. (see Appendix Table 6). In Poland, reforms started earlier and therefore reflected earlier unemployment growth. Reforms were delayed in Romania and consequently, deterioration in the labour market became obvious there in 1992. In the FSU countries, the registered unemployment rates have been relatively low all these years (the highest level was in Latvia with 6 per cent of the labour force in 1994) which does not correspond to the real situation in the labour market.

However, since 1994 there has been an obvious stabilization in the unemployment rates throughout the region (except maybe the recent developments in the NIS). In many cases this trend does not reflect improvements in the labour market because many of the long-term unemployed have disappeared from the statistics. Many job seekers have found informal activities which do not meet with their wishes, education, or income expectations. Also a large number have retired or gone on maternity leaves. To a large extent, the stabilization of unemployment rates can also be explained by the rapid growth of non-participation rates and the inactive population which for many has been partly a forced status.

There has been some evidence that the unemployment rates (both open and hidden) actually started to improve in several countries, including Hungary, the Czech Republic, Lithuania, and Estonia. In most cases this reflects the improvements in macroeconomic stabilization and the recovery of economy, the growth of investment activities, developments in businesses. After the recession, GDP, as the most general indicator, was expected to increase in real terms in 12 countries of the region in 1994.<sup>116</sup>

In Poland it has been believed that the rate of unemployment stabilized due to an increase in the gross flows to the employment status, not by a decline in the newly unemployed.<sup>117</sup>

Despite the expectations, mass layoffs have been relatively unknown in most of the countries in the region. Bankruptcies of the big companies have been very rare. In Slovenia in a worsening unemployment situation, a moratorium on bankruptcies of companies with predominantly social (state) capital was recently declared.<sup>118</sup>

For one thing, layoffs are extremely costly to the firms. For example, in Slovenia an employer has to retrain or upgrade a worker for a position in the same or in another

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<sup>116</sup> IMF. 1994. *World Economic Outlook*. October, p. 66.

<sup>117</sup> Charalambos Christofides. 1994. The Supply Response: Microeconomic Liberalization, Sectoral Developments, and the Labour Market. In: *Poland. The Path to a Market Economy*, p. 66.

<sup>118</sup> National Employment Office. 1994. *Annual Report 1993*, p.8.

firm, pay severance compensation amounting to at least 24 months, purchase pension credits for employees within five years of retirement, etc.<sup>119</sup>

In Poland however it has been reported that especially at the initial stage of labour market formation, mass layoffs contributed to a substantial part of unemployment. For example, in December 1990, out of 1.2 million unemployed, 37 per cent were the result of mass-layoffs.<sup>120</sup>

Over the past 4 years about 12 million persons, or more than 30 per cent of the Polish population, have experienced unemployment.<sup>121</sup> Actual unemployment has been very high also in Bulgaria, Slovakia and Hungary. It has been a new social experience for large segments of the society.

### 3.2.4 *Re-employment rates*

It has been a common feature in the CEE countries that the re-employment rates of the unemployed have been very low, and even at times decreasing, which leads to a low turnover in the unemployment pool. It has been reported in several publications that only in the Czech Republic and in Russia have the monthly outflow rates from unemployment to jobs been relatively high.

However, in most of the NIS, placement rates are much higher than in Russia. In January-May 1994, 62 per cent of the registered job seekers were placed in jobs in Uzbekistan; 57 per cent in Azerbaijan; 43 per cent in Belarus, and 39 per cent in Ukraine compared to 27 per cent in Russia. Only in Armenia, Tajikistan and Moldova was this share lower than in Russia (see Appendix Table 4).

These figures, which correspond to the low official unemployment levels, should indicate a relatively high efficacy of employment services in the NIS, but they are contradicted by the rapid decline in participation rates and growth of dependency rates in these countries.

The low turnover of the (registered) unemployment pool is partly explained by the structure of the job seekers. As has been seen in everyday practice and reported by many surveys, it is the job seekers with the limited education and mobility who are most active in trying to find jobs through the employment agencies. The more highly qualified and active job seekers prefer to look for jobs through newspapers, friends and relatives, special employment agencies, etc. Therefore, the statistics of turnover in the unemployment pool are not correct or enough to explain the phenomenon.

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<sup>119</sup> Milan Vodopivec and Samo Hribar-Milic. 1992. The Slovenian labour market in transition. Mimeo. September.

<sup>120</sup> Ludwik Florek. 1993. Job and unemployment security in Poland. In: *Unemployment*. Occasional Papers, No. 2 Institute of Labour and Social Studies. Warsaw, p. 6.

<sup>121</sup> M. Boni, M. Kowalska, W. Radwanski. 1994. How to avoid the danger of creating a permanent social underclass in Eastern Europe: responses on the individual and on the government level. Paper presented at the Aspen Institute and Dräger Foundation conference on 'The Challenge to Modern Democracies from Rising Structural Unemployment'. Bled, Slovenia, 9-13 November. Mimeo.



In many cases, women have been more active in registering, and men are generally more active to find jobs without the help of employment offices. Females, however, have fewer chances to find jobs and to be placed. For example, in the NIS, women prevailed among the employment office visitors in most of the countries (63 per cent in Armenia, 60 per cent in Russia, 55 per cent in Ukraine). Of job seekers, women were a minority group only in Tajikistan at 42 per cent in 1993. However, among those who were placed in a job, women often represented minority (in Ukraine 49 per cent, in Tajikistan 38 per cent, in Armenia 47 per cent). The only exception was Russia where 55 per cent of successful job seekers were female.<sup>122</sup>

In most of the CEECs, the registered unemployed had very little prospects of being placed in a job within a short period. However, in the Czech Republic and in some of the NIS, the chances were much better.

It has been reported that in Russia over a third of the job finds were achieved within an unemployment spell of less than one month and nearly 80 per cent were achieved within four months.<sup>123</sup> This means that despite the rapid fall in output, and overmanning, the economy has not only eliminated jobs but has also created new ones as well.

One of the major aims of the macroeconomic policy should be the implementation of measures to prevent those who are still employed from being made redundant. Otherwise the starting platforms would be different. It would take more complex employment strategy to reduce 15 per cent unemployment rather than 5 per cent. In addition to recognizing the registered unemployment, the policy should also include measures to reduce disguised and long-term unemployment, or those in forced administrative leaves. The hysteresis effect of unemployment has also been apparent in the economies in transition. Unemployment can readily reach high levels needing huge resources and efforts to reduce it, still no doubt stabilizing at a much higher level than those in low unemployment countries.

### *3.2.5 Long-term unemployment*

In almost all of the CEECs, a rapid growth of long-term unemployment has been reported, and in several countries, more than 50 per cent of the unemployed have actually been jobless for longer than a year. Therefore, unemployment rates have been growing, to a great extent, because of the growth of long-term unemployment which puts pressure on the social tensions in the society and results in the erosion of professional skills and experience.

This is true for people with limited skills and low levels of education or job seekers in some depressed regions. As a rule it means an increase in the average duration of unemployment and the job seekers prospects of being re-employed

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<sup>122</sup> *Rynok truda v stranakh sodruzhestva v tsifrakh i diagrammakh*, p. 76.

<sup>123</sup> Simon Commander, John McHale and Ruslan Yemtsov. 1994. Russia, p. 16. Mimeo.

deteriorate as the waiting period increases. Eventually these people disappear from the rosters of employment offices and other state authorities as well.

These tendencies add to the number of the discouraged unemployed workers. It has been reported in many countries that only a minority of these people have been covered by any kind of social assistance. It has been very serious problem from a social point of view and in a long-term perspective very expensive from an economic viewpoint, because the society has to take care of these people on a permanent basis and in growing numbers. The length of unemployment periods is an important indicator – the longer it is, the smaller the chances of being re-employed or when re-employed the longer the adaptation period.

### 3.2.6 *Unemployment by categories*

Unemployment has been traditionally high among low-skilled or semi-skilled workers, youth, women and people in the pre-pension age bracket. Even industrial enterprises have been cutting mainly female administrative jobs in favour of those on the production line.

At the same time in many of the CEECs, it has been quite common that such occupational and demographic determinants are not so obvious. Unemployment rates can be higher or even the highest among the population in their economically most active ages or among the workers who according to their educational levels would be classified as high-skilled.

In Hungary, for example, the unemployment rate has been higher among men because closures and cut-backs were concentrated in the male-dominated heavy industry.<sup>124</sup> The same situation has been in Slovenia. In the NIS, among the registered unemployed, women were in the minority only in Tajikistan at 42 per cent in 1993. The highest rates of unemployed women were in Ukraine at 75 per cent of the total unemployed; in Kazakhstan at 70 per cent, and in Russia at 68 per cent. The variations mainly reflected the differences in the deterioration of certain industries and occupations in the countries and in the level of overmanning in different occupations.

There have been some variation in the common age level of the unemployed. In Poland, the unemployment rate among 25-49 year-olds was 13.0 per cent, i.e., it was higher than among the elder part of the workforce since at the ages 50-54, the unemployment rate was 8.5 per cent and among 55-60 year-olds, 7.9 per cent (mid-1993).<sup>125</sup>

The trend that the low-skilled workers were prevalent among the unemployed was typical at the initial stage of labour market developments. Later, a growing number

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<sup>124</sup> Comments by Katalin Nagy. 1994. In: *Unemployment in transition countries: transient or persistent?*

<sup>125</sup> Marek Gora. 1994. Labour market flows in economies in transition: the case of Poland. In: *Proceedings of the symposium on unemployment*. Ed. by Tor Eriksson, Seppo Leppänen and Pekka Tossavainen. Helsinki, p. 43.

of highly-educated employees lost their jobs as well and the differences seem to have been diminished in many countries. At the end of 1993, in Ukraine 31.4 per cent of the unemployed had higher education and 30.6 per cent had specialized secondary education. Incomplete secondary education was typical to only 4.3 per cent of the unemployed. High rates of the unemployed with higher or specialized secondary education were also seen in the Kyrgyz Republic, 25.6 and 24.4 per cent; and in Azerbaijan, 20.1 and 40.4 per cent correspondingly. At the beginning of 1993, the State Employment Board of the Russian Federation reported that 45 per cent of the registered unemployed were graduates of universities and institutes or professional schools.<sup>126</sup>

Of the job seekers registered by the Tallinn Employment Office at the beginning of 1994, 38 per cent were of the same educational level.<sup>127</sup> However, upper secondary level of education was necessary for 20 per cent of the registered job vacancies and basic school education (grades up to 9) or even a lower level of education was sufficient for 52 per cent of the vacancies. Many of the highly-educated unemployed could be requested to accept a job for which they are overqualified. Such a structural disparity between vacancies and job seekers makes their re-employment very complex. It is one of the reasons why many of the unemployed do not visit state employment offices, preferring to look for jobs independently. For its part, new entrepreneurship has frequently increased the demand for physical jobs with low qualifications which highly-educated job seekers are not eager to perform.

Structural disparity between the job offers and job seekers has been typical today in the new market economies. Very few white collar workers, who at the moment are out of the labour market, really want to step down to positions lower than those which they had in the previous social strata or to accept jobs for which they are overqualified. They are still looking for work similar to what they had before. It is a difficult decision to change stereotypes from the past nor to adapt quickly to market demands.

In several countries, a sharp deviation from the general level of unemployment has been reported among some national minorities and particularly among gypsies. The hidden unemployment in this group was always very high. Nowadays they have lost most of their traditional employment opportunities in construction and agriculture.

### *3.2.7 Regional, sectoral, and occupational discrepancies*

In all of the CEE countries, the statistics show considerable regional, sectoral and occupational discrepancies in the labour market. In almost every country there have been so-called depressed regions, characterized by much higher unemployment rates and more tension in labour matters. Typical of these regions could be towns where the single dominant enterprise perhaps in textiles or engineering industry has collapsed. It can be remote rural areas far from industrial centres where the collective or state farm have gone bankrupt or has been liquidated; former so-called closed cities in Russia where

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<sup>126</sup> *Delovoi Mir*. 1993. 10 April.

<sup>127</sup> *Tööturuameti Infovihik*. 1994. Nr. 2.

military factories no longer receive state-guaranteed orders; or mining towns where the reserves are near to exhaustion.

As a rule, unemployment has been lowest in the capitals. The low level has been reflected by the quicker development of new entrepreneurship in these cities (especially those depending on invested foreign capital), the development of the infrastructure, the proximity of the markets and the level of demand in the region. In many capitals, due to the overheating of their economies, there have been even shortages of labour in certain professions and the actual number of vacancies can even exceed the real number of the unemployed.

It has been reported that at the initial stage of reforms, Bulgaria was the only country where the largest numbers of unemployed people lived in the biggest cities in the Plovdiv and Sofia districts.<sup>128</sup> Perhaps the employment infrastructure was better developed, and the unemployed had better access to services there. Recently the level of unemployment in the biggest cities in Bulgaria became the lowest as well.

Regional discrepancies have been one of the major social problems in the countries in transition. Regions and especially rural areas have been developing unevenly. New investments and entrepreneurship activities have been concentrated in certain regions and cities. In most cases these disadvantages and discrepancies have been influenced by some objective factors like geographical location and access to communications, the sectoral and labour force structure in the region, etc. In many cases, it has not been a solution for the unemployed to move to other locations with better access to jobs. In addition to the absence of a housing market, they would have to compete with local job seekers which has been hard because of different educational and training backgrounds, earlier work experiences, etc.

Therefore, all the countries need strong regional policies, including investment, credit, even training opportunities, to support these people and the local economies to develop their activities. Unless this factor is acknowledged, the state and society have to pay the increasing social costs for keeping these people out of streets.

### 3.2.8 *Marital status*

There has been a clear distinction in employment and unemployment rates according to marital status. Among married people, the employment level has been much higher, and the unemployment rate has been correspondingly lower. Wedded people feel more responsibility not only for themselves, but for their families as well, and try to keep their jobs. Employers often prefer married people considering them more disciplined and less mobile. For example, in Russia in 1993, among the unemployed

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<sup>128</sup> Iskra Beleva, Daniela Bobeva, Silvia Diova, Asen Mitchkovski. 1993. Bulgaria: Labour market trends and policies. In: *Structural change in Central and Eastern Europe: Labour market and social policy implications*. Ed. by Georg Fischer and Guy Standing, p. 46.

only 53.5 per cent were married and of the employed population 73.5 per cent were married.<sup>129</sup> The same tendencies appear in other countries.

In recent years, the demographic situation has deteriorated in many countries in transition. One of the consequences has been the decline in marriage rates and the growth in divorce rates. Young people have been postponing marriages until graduation and job procurement. However, such changes in demographic behaviour probably also have some influence on labour mobility.

TABLE 5  
EMPLOYMENT AND UNEMPLOYMENT LISTED ACCORDING TO  
MARITAL STATUS IN SLOVENIA, 1993

Age groups (male and female)	Employed, % of total	Unemployed, % of total
Single - total	45.8	16.5
15-24	28.9	25.5
25-49	80.3	11.1
50-64	34.7	6.5
Married - total	61.5	6.1
15-24	69.5	16.7
25-49	87.4	6.1
50-64	34.9	4.7
Widowed or divorced - total	23.9	(6.8)
15-24	...	...
25-49	82.1	(8.2)
50-64	21.6	...

Source: 1994. Labour force survey results-Slovenia 93-Europe 91., No. 607, Ljubljana, pp. 29, 32.

### 3.2.9 Reservation wage

There have been very few surveys on the reservation wage which the unemployed are willing in order to take a job. According to some data, wage expectations of many of the unemployed are quite high which could reflect their previous social status and qualification levels.

Some surveys in Poland report that the unemployed who had been looking for jobs had expected quite high salaries. On average, salaries were 185 per cent of the unemployment benefit and 175 per cent of the minimum wage level (September 1992). The average reservation wage equalled 93 per cent of the modal range of the wages. As Marek Gora mentioned, unemployed people are looking for jobs similar to those of their peers.<sup>130</sup>

<sup>129</sup> *Rossiyskaya Federatsiya v tsifrakh v 1993 godu*. COSKOMSAT of Russia, p. 89.

<sup>130</sup> Marek Gora. 1994. Labour market flows in economies in transition: the case of Poland, p.48.

Other data indicate that approximately 40 per cent of the Polish unemployed in November 1992 would have agreed to a wage between 1 million and 1.5 million zlotys, or close to the minimum wage, and another 40 per cent would have accepted wages between 1.5-2 million zlotys. For comparison, the average wage in Poland at that time was 3.1 million zlotys.<sup>131</sup>

These and some other regularities in the labour market have caused unique situation in certain regions and in industries in the CEECs. However, employment policy should consider the recent tendencies in employment as a basis for formulating concrete measures for every demographic, social and occupational group of population.

Despite the rapid growth in unemployment in the region, the most astonishing aspect has been the fact that many vital economic structures, services, jobs, and professions are still absent or poorly developed. This indicates that in reality unemployment has been mainly structural.

However, the employment statistics for many regions of the NIS covering chaotic economic conditions such as civil wars, and the suppression of opposition or popular movements, should be treated with precaution. Mostly it covers only some industrial cities and certain sectors of economy. According to officials of the UN and other international organizations, by the beginning of 1993, over 500,000 people were reported displaced from their villages in other regions of the country in Tajikistan alone; tens of thousands people have fled to the neighbouring countries of Uzbekistan, Kyrgyzstan and Afghanistan, and to Russia, where they were neither recognized nor registered as refugees. The death toll in this country from the civil war was put by government sources at between 25,000 and 40,000.<sup>132</sup> In such a situation an employment policy in a civilized manner can hardly be organized and managed, and the statistics accordingly collected.

Economic situation and economic policy in many parts of Georgia, Azerbaijan, Armenia, Central Asian countries, and in some regions of the NIS, as well as for large segments of population, aimed at reforming the former centrally planned economy, is because of their recent political and economic development under severe pressure of simple survival. Market institutions and their legal framework have still insufficient foundation for recognition, and labour market as such is evolving spontaneously. Therefore, reforms in employment sector are uneven all over the CEE region and in many occasions they are almost at initial stage.

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<sup>131</sup> Fabrizio Coricelli, Krzysztof Hagemeyer and Krzysztof Rybinski. 1994. Poland.

<sup>132</sup> *Tajikistan: A Forgotten Civil War*. By Nassim Jawad and Shahrbanou Tadjbakhsh. An MRG International Report. 94/6, p. 20.

## IV EMPLOYMENT POLICY

The new economic environment in the CEECs needs to replace the current employment policy which, to a certain extent, has been missing in many important labour areas, or has been a policy of very limited scope. The labour market policy often takes into account only those who are already unemployed, or to put even more accurately, those who are registered at the state employment offices and covered by some form of unemployment services. The people still employed receive much less attention.

In the adjustment processes, labour relations have become more strained. Workers are often reluctant to protest against the violations of the labour laws or contracts because of the fear of losing their jobs. Trade unions, as the only representatives of workers' interests, have disappeared in many of the privatized or newly formed enterprises, and industrial relations are poorly developed in most of the CEECs. Employees are afraid to demand salary improvements because increases are often possible only after staff reductions. New entrepreneurship need investments. These investments have often been made at the expense of labour costs.

The state has paid very little attention to the masses of employed people in small businesses and in the informal sector in general. Many of these have no social protection since employers, employees, or the self-employed themselves have not been paying taxes. Wages have been quite irregular and often below the established minimum. Despite the fact that this sector has become an important placement arena, we have no information about the real level of employment or incomes in this sector of the economy.

Therefore, some employment policy directions should be analysed as well.

### 4.1 Labour legislation

In all of the new market economies, labour legislation has been replaced by modern laws which take into account the changing economic conditions and international labour standards, including ILO conventions. Other FSU republics in addition to Ukraine and Belarus have become members of ILO or have renewed their pre-war membership like the Baltic countries.

In all of the CEECs, new laws on employment and unemployment coverage were approved rather recently: these have included new labour codes; laws on individual and collective labour contracts; on labour protection; on annual leaves, etc., creating legal framework for new labour relationships.

The new labour legislation has a dual task of some controversy. From one point of view, the employees are the vulnerable partners of the labour relationship who need well-established legislative protection especially in the new economic conditions. In most cases because trade unions today are very weak and mostly absent in the new entrepreneurship, only labour legislation would be able to protect them from the autocracy and the injustice of many of the new enterprise owners. Labour laws regulating collective and individual bargaining and labour contracts are thus extremely important instruments of social peace in the society. On the other hand, employers themselves need flexibility, more liberty and free hands to regulate labour mobility, to reduce overstaffing (including the right to fire non-utilized workers), and to restructure, as in the case of bankruptcy.

Earlier in the socialist period, labour contracts, if any, were often oral agreements. Basic rules, after all, were regulated by state instructions and by tariff schedules so there was not much choice for either administration or the state employees. Now the individual and collective labour contracts serve the basic regulators of the employer and employee relationship. This has been quite a new and unfamiliar experience for most.

Despite the fact that new legislation has been introduced, it has not been enough to safeguard the legal protection of workers. In many cases they have not been well informed about the legislative changes which in times earlier were followed by trade unions or the administration of the state enterprises. The laws are not always observed at the lower level and the control mechanisms at the various levels of state, branch, enterprise, and occupation do not always function properly. The bargaining process has been rather rare in the region. There are almost no labour courts or labour cases in the courts in most of the CEECs.

In some cases, workers have been afraid to inform labour inspectorates or trade unions of violations because they might lose their jobs. A most common violation has been the lack of some of the workers a written labour contract. Also contracts ignore or scarcely consider the rights of the workers, for example, in salary regulations during rapid inflation, work safety, etc. Particularly in the NIS, wages have been outstanding for months or they have been much lower than stipulated in the contract; minimum salary requirements have not been followed; and employees have been forced to work in unsafe conditions.

One aspect of the employment policy still without a solution in the CEECs, has been the complete absence of options for more flexible work schedules such as part-time work (if it exists, it has usually been forced), job-sharing, home working, etc. This inadequacy has been caused by the absence of social security schemes for those individuals employed in this manner, including adjustments in the scale of benefits and appropriate schedules of employee contributions. Employers, considering similar schemes too much trouble and too costly, have also been reluctant to introduce them.

Despite the improvements in labour legislation, violations have been quite common in the region. In general, employers have been the most beneficiaries of the



new situation in the labour market. For example, in Hungary, 2/3 of state firm respondents and over 85 per cent of private respondents reported that they had no serious constraints on dismissing workers. In the larger state firms, union presence was cited as a factor in 6 per cent of the cases, with legal constraints being cited by 15 per cent of all respondents.<sup>133</sup> This is a clear sign that unions and worker councils have been relatively weak in Hungary. Even the still existing state enterprises have no serious restrictions on the dismissal of workers compared to the situation earlier despite the fact that the administration quite often does not use this option for the above mentioned reasons. It has been an important factor contributing to mobility trends in the labour market.

Therefore, it is not sufficient only to have well-established labour legislation. One of the economic and cultural components of the labour relationship is the awareness, implementation, and the use of these labour norms in everyday work life. It takes time for all of the participants to adapt to these norms and to accept wage and other bargaining as normal procedures in labour issues or that the violations of labour safety norms are violations of the workers' rights which should be protected. The CEECs have been going in this direction.

## 4.2 Training

Education, training and the improvement of human capabilities are the crucial determinants of a country's economic success. In the socialist period in addition to a wide-ranged general educational system, a well-developed and steady process of retraining existed, including upgrading of the skills of the labour force at the work place, in enterprises training centres, in evening and correspondence courses, and study-leave programmes was common. However, on-the-job training in enterprises was also high. Educational institutes, and vocational schools in particular, provided students with only some basic knowledge and often in very narrow occupational fields.<sup>134</sup>

In the pre-reform period, education and training were mostly functions of the state, or were organized and financed by the state enterprises. Unfortunately, this system is now to a great extent in crisis. Most of the enterprise training centres were closed. Employers consider the training of the workforce to be the responsibility of the state and consequently they look for qualified workers from the labour market. The necessary specialists have often been lured from other enterprises by offers of higher wages or other benefits. The training system needs to be updated to meet the new requirements of the market. Many teachers from the vocational or higher schools have gone to private businesses because the state has not been able to pay them satisfactory wages.

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<sup>133</sup> Simon Commander, Janos Köllö, Cecilia Ugaz and Balazs Vilagi. 1994. Unemployment, Restructuring and the Labour Market in Hungary.

<sup>134</sup> Bruno Laporte and Julian Schweitzer. 1994. Education and Training. In: *Labour Markets and Social Policy in Central and Eastern Europe*, p. 261.

What has come to replace this? Many foreign investors start their operations in the country with their own training programmes. Training itself has been a rapidly growing private business area and thousands of alternative schools and private training and educational institutions were opened recently, including private universities, colleges, gymnasiums, lyceums, etc. Private educational and training firms have been offering their services, including training by foreign specialists. Despite high prices, private universities are full of applicants, reflecting that they teach courses on entrepreneurship, commerce, business legislation, and so on, thus, the investment return in human capital has been rather quick though not even sponsored by private business.

What are the general tendencies in education and training in the NIS? In almost all, there has been a substantial increase in the number of graduates of higher educational establishments which to some extent reflects the higher enrolments at the end of the 1980s. Due to the influence of demographic waves and higher birth rates at the beginning of the 1970s, this generation in general was more numerous. In Russia, the number of graduates increased from 401,000 in 1990 to 444,000 in 1993, or 11 per cent; in Ukraine from 137,000 to 154,000, or 12 per cent. The highest growth rates were in Tajikistan, 33 per cent during this period; in Turkmenistan, 30 per cent; and in Belarus, 25 per cent.

At the same time, there has been a substantial decrease in the number of graduates and students in specialized secondary or professional schools. Many families can no longer afford to keep their children in professional schools for several years because family budgets have deteriorated and the limited support of these institutions by the state. Stipends were commonly cut down and/or replaced by student grants. Youngsters have had to help support their families from their early years.

The highest rates of decline in graduates from professional schools were reported in Armenia at 30 per cent during 1990-93; in Azerbaijan 28 per cent; and in Moldova 27 per cent. In Russia, the number of graduates of professional schools decreased from 637,000 in 1990 to 547,000 in 1993. Many professional schools were even closed, or the number of students were substantially reduced. This meant that more and more workers needed short-term on-the-job training immediately after hiring. The lower professional educational level reduces their chances to find a job. It has been difficult at a later stage to retrain or give them some basic professional knowledge through the employment offices.

Secondary enrolment rates also declined in 1990-92 by 6 per cent in Russia; 10 per cent in Romania and 5 per cent in Bulgaria. This has also been reflected in the early start of professional careers. In other countries of Central Europe these rates have been at the same level.<sup>135</sup>

The most substantial decline has been observed in the number of drop-outs of different retraining, evening and study-leave courses. The number of workers being

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<sup>135</sup> UNICEF. 1994. *Crisis in Mortality, Health and Nutrition. Economies in Transition Studies. Regional Monitoring Report*, No. 2, August 1994, Florence: UNICEF, p. 106.

retrained diminished in some cases by more than ten-fold: in the Kyrgyz Republic from 214,000 in 1990 to 18,000 in 1993, in Armenia from 88,000 to 3,000, and in Kazakhstan from 1,014,000 to 211,000. The number of retrained management and specialist cadres has declined proportionally less, but also substantially. Quite a large part of existing retraining programmes are devoted to the basic knowledge of market economy which accounted for 34 per cent of the retrained specialists in Belarus, 24 per cent in Russia, and 23 per cent in Kyrgyzstan.<sup>136</sup>

All together, in 1992 the share of employees graduation from some form of retraining courses, was 9 per cent in Russia (in 1990, it was 26 per cent); 11 per cent in Belarus (30 per cent in 1990); 5 per cent in Kazakhstan and 4 per cent in Kyrgyzstan (22 and 23 per cent in 1990 correspondingly). This reflects the deterioration of vocational education in the region. It has been the direct result of the closure of thousands of enterprise-related training centres as well as the redistribution of responsibilities between enterprises and the state. The collapse of enterprise and state finance focused on training was one of the first areas to undergo substantial reductions.

The situation has been much worse for unemployed population. In some of the NIS, it has been reported that, according to the situation in May 1994, less than one per cent of the unemployed were undergoing some form of training or retraining under the direction of employment offices, including those in Armenia, and Belarus. In Uzbekistan this share was reported to be 12.6 per cent; in Moldova 7.0 per cent, and in Russia 3.6 per cent. Similar tendencies have been common in other countries in transition. This means that the level of qualification of the workforce is no longer attracting new investors.

Training programmes are rather scarce and seem to have relatively low efficiency. For example, in Romania it was reported that only 10 per cent of the registered job seekers have completed training courses. Most courses were organized at the initiative of local labour offices but only about 17 per cent of the trainees were successful in getting job thereafter. Only the courses organized by firms, which covered about 5 per cent of the participants were instrumental in job procurement for the unemployed by providing 85 per cent of them a job.<sup>137</sup>

In Latvia, in January-October 1994, only 5.7 per cent of the unemployed were referred for vocational training or retraining courses.<sup>138</sup> The recruitment rate for them was 3-4 per cent per month. In Russia expenditures for retraining programmes and public works have been about 2 per cent of the total Employment Fund.<sup>139</sup> In the Czech and Slovak Republics, the share of unemployed workers who have received retraining

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<sup>136</sup> *Rynok truda v stranakh sodruzhestva v tsifrakh i diagrammakh*, pp. 98-101.

<sup>137</sup> John Earle and Gheorghe Oprescu. 1994. *Aggregate Labour Market Behaviour in the Restructuring of the Romanian Economy*.

<sup>138</sup> *Monthly Bulletin of Latvian Statistics*. 1994. No 10, p. 28.

<sup>139</sup> *Ekonomika i zhizn*. 1994. *Trudovoye zakonodatelstvo: novyie tendentsiy i napravleniya*. No 6, February.

went down to 2 per cent of the total unemployment despite the fact that roughly 60 per cent of the retrained workers were successful in finding new jobs.<sup>140</sup>

In Estonia in December 1994, 10 per cent of the registered unemployed and job seekers were undergoing retraining. The stipend for trainees was established at a rate several times higher than the unemployment benefit in order to stimulate interest (in 1994, the stipend amounted to 450 Estonian kroons (EEK) and the unemployment benefit 180 EEK). The main motivation for some additional studies or retraining was to keep a job or find a new one. In most cases, trainees were enrolled in courses such as bookkeeping, elementary level management and entrepreneurship, languages (including Estonian for Russians), computing, etc. Re-qualification or improvement of professional skills does not play a significant role in the enrolment of the retraining programmes.

As a rule, the importance of training has been clearly understood by job seekers and the whole population. It has become very expensive and few families are able to afford training outside the state system. The state also has had some limits in offering certain courses, improving existing institutions or opening new ones.

For example, according to sociological surveys in Estonia, in the first quarter of 1994, 63 per cent of the total job seekers (not only those registered by the employment offices) wanted to attend retraining courses. However, only 16 per cent were offered retraining while the corresponding figures from first quarter of 1993 were 70 per cent and 6 per cent.<sup>141</sup> Lately, the situation has been improving very slowly.

This problem has been compounded by the fact that it has been difficult to teach job seekers without definite information on their future employment prospects and professions. As a rule, there are no definite forecasts for the labour market developments to predict the demand for different occupations, professions, or on employment dynamics. Even the sectoral changes are quite vague. Therefore, the educational system has not been prepared to meet the demand on the educated cadres.

In Hungary, the sum allocated to training has been distributed through competitive bidding by the National Training Council consisting of representatives of the government, trade unions and associations of employers.<sup>142</sup> It helps to determine the most effective use of the limited resources for training, and guarantee the structure and quality of the programmes which meet the demand of the market.

It is a well-known fact that education and training are, as a rule, positively related to productivity and wage growth. A highly-educated workforce is much less likely to go from employment to unemployment and is more likely to experience occupational mobility compared with those who received no training. Today a higher

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<sup>140</sup> Kamil Janáček. 1993. Unemployment and Labour Market in Czechoslovakia 1990-1992. Ministry of Labour and Social Affairs, Institute of Economics of the Czech National Bank, p. 20. Mimeo.

<sup>141</sup> EMOR. 1994. *Labour Market Survey*. Tallinn, p. 23.

<sup>142</sup> Ervin Gömbös. 1994. The efficiency of retraining schemes in Hungary. Paper presented at the conference on 'The Politics and Economics of Global Employment'. Helsinki, 17-18 June, p. 7. Mimeo.

level of education has also been stimulated by salary trends. For example, in March 1989 the average worker in Estonia at a higher educational level earned 258 roubles and at the upper secondary level earned 228 roubles (the ratio was 1.13:1). In the second quarter of 1994, the average gross salary per month for the graduates of universities and institutes was 2484 EEK and for the graduates of upper secondary level, it was 1497 EEK. The ratio between them was 1.66:1 and this ratio has been increasing. These wage differentials stimulate important human capital investments.

Serious problems have been associated with the unemployed youth. Previously, as it was mentioned earlier, professional education was planned by the state and graduates were given their first work place on a compulsory assignment basis. This arrangement was eliminated soon after the reforms started.

One aspect of this problem concerns the students who started their studies just before the reforms were put into effect. The curriculum at that time was not designed with a market economy situation in mind. In many cases, he might also have to consider whether his speciality or profession, achieved after 4-5 years of study, is perhaps outdated. For example, students in agricultural institutes were taught the specialities needed for the collective farm system. Now the collective farms have disappeared and the expertise of the students is not sufficient for private farming. Many graduating students of engineering or other professions have the same problem.

In Russia, for instance, 59 per cent of the graduates of construction and administrative colleges, 38 per cent of those in higher education institutes and about half of those from professional schools, could not be placed in jobs in 1992.<sup>143</sup>

Education, especially higher education, has been one of the most conservative areas of civil society. Rapid transformation has shown us the deficiencies of the previous and the current educational systems. This is why professional education particularly remains one of the key issues and sensitive subjects of the employment policy which has a direct impact on the speed of the economic reforms in the CEECs.

### **4.3 Labour safety and protection**

One of the most negative aspects of the labour movements during the transition period has been the deterioration of work conditions and occupational safety almost everywhere in the region. At the first stage of reforms, the previous state and trade union labour safety inspection system, which had representatives at enterprise, sectoral, regional and state levels, collapsed even though it still functions to some extent in some places.

Work security inspection units in factories were in mass closed. Labour inspectors and trade unionists on the payroll of enterprises were those who were

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<sup>143</sup> UNICEF. 1993. *Central and Eastern Europe in Transition. Public Policy and Social Conditions.* Regional Monitoring Report No. 1, November, p. 31.

dismissed first. In their place, much less numerous and still less effective labour inspectorate systems were created in several countries.

A second reason for the deterioration of work conditions was the creation of a huge number of new economic structures and new enterprises – private and small – which have been, to a great extent, neglecting labour safety standards. In addition, in recent years very few investments were made in new technology or for improvement of existing ones. The depreciation of machinery has been therefore very quick and some machines have even become dangerous. In many cases, new technology was purchased by an enterprise, but training was not sufficient to manage it and this also resulted in increasing the number of work related accidents.

In a recent survey in the NIS which covered 43 million workers, it was found that 7.7 million, or 18 per cent were working in unsafe or unhealthy industrial conditions, 31 per cent of those working in unsafe conditions were women.<sup>144</sup> Year by year, the situation has become worse everywhere. In the industry of Kazakhstan, the share of such workers increased from 20 per cent in 1990 to 30 per cent in 1993, in Russia from 18 per cent to 22 per cent; in Turkmenistan and Uzbekistan from 10 per cent to 16 and 15 per cent correspondingly. The same tendencies have been apparent in other states and industries.

In the NIS, it was reported that in 1992, about 1 million people were working on equipment which did not meet industrial safety requirements and 1.3 million were engaged in hard manual labour.<sup>145</sup>

There are probably some statistical discrepancies in these numbers and the real ratios are no doubt even higher because not all cases or industrial accidents have been reported and some have been 'paid for' by employers.

Unfortunately, the solution for fighting against poor safety conditions has not been an improvement of the working conditions, but for employers to provide different types of 'privileges' and compensation, such as additional annually paid leaves, shorter working days, free medicinal-preventive meals, free milk, the right to privileged pensions according to age and years of service, etc. The share of the workforce in industry having these fringe benefits exceeds 40 per cent in most of the NIS.

The number of accidents on the job has declined to some extent, but not proportionally to production output which means that the frequency of accidents at work has actually increased. In Russia, 7,574 workers lost their lives in 1993 in job related accidents and in Ukraine the number was 2,300 (8,400 and 2,600 in 1990 correspondingly).

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<sup>144</sup> *Statistitsheskiy bylleten SNG*. 1994. Moscow, No 32 (74) STATCOM CIS, p. 103.

<sup>145</sup> Iraida Manykina. 1994. Some aspects of labour analysis in the CIS countries. In: *Labour Statistics for a Market Economy*, p. 55.

The neglect of occupational safety and health risks in the restructuring process has been one of the key labour problems in the region in transition. The improved safety of jobs and greater job security are therefore important elements of employment policy. Unfortunately, the actual situation in this field has shown no or very little progress.

#### 4.4 Wage policy

One of the elements of the structural adjustments aimed at expanding output and employment by more efficient utilization of human resources, has been the liberalization of wage and salary policies. During the period of rapid inflation, most of the countries in transition implemented some regulations or limits to the growth and distribution of earned incomes either in the state sector, or both in the state and private sector. Nevertheless, more liberal policies and legislation for wages and salaries have stimulated work which is more intensive, productive, creative and in total more effective. For the first time in decades, hard working labourers have been compensated in a more sufficient and appropriate way.

Wage liberalization in the FSU started at the end of the 1980s through the Law on State Enterprise, the Law on Cooperatives, and the Law on Individual Labour Activity, which allowed more freedom in the allocation of internal resources for wage payments. These measures, on the other hand, defused wage pressure and the relationship with productivity resulting in the acceleration of the monetary overhang. Despite several attempts to restrain the upward development of wages, including taxes on salary increases in excess of governmental guidelines, these measures have been unsuccessful.

In many other countries, different salary restrictions which were strongly advocated by the IMF and the World Bank were imposed by the governments in order to keep salary costs, budgets and public and enterprise finance under control.<sup>146</sup> Ceilings on wage bills, on individual wages or on the average wages were imposed. Most of these controls were tax-based and, as a rule, exempted the private sector. For example, in Poland the tax on excess wages over a predetermined wage norm was established at 500 per cent, dropping to 300 per cent by 1993 (so called *popiwiek*). These restrictions are substantiated and necessary elements of macrostabilization. However, practice shows that it has not been enough to use only salary restrictions. In some cases they have prevented successful firms from expanding and have introduced some other distortions.

At the initial stage of reforms, the main importance of these restrictions was to keep wage inflation down. At that time the market signals were very weak, the economy was still overmonopolized, competition was absent or weak, and the managers of the SOEs had exclusive rights to handle salary regulations which often resulted in excessive salary growth in most of the CEECs.

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<sup>146</sup> *Wage Policy during the Transition to a Market Economy: Poland 1990-91*. 1992. Ed. by Fabrizio Coricelli and Ana Revenga. World Bank Discussion Papers. No. 158.

However, wages have increased rapidly despite these restrictions and productivity declined. In some of the countries, especially in Hungary and Poland, the average real wages have in many cases exceeded the level existing before the reforms. In addition, a different wage indexation mechanism was imposed on certain branches of the economy.

After the decentralization of wage bargaining, the threat of strikes in several transition countries has had potent influence on wage negotiations. In Bulgaria, for example, attempts by the government to suppress wages in the budget sector led to nation-wide strikes in 1991, 1992 and 1993. From February 1991 onward, Bulgarian firms were able to decide their prices, employment and investment, but not their wages, and the previous tariff system remained in effect as a basis for wage settlements.<sup>147</sup>

In most of the other countries, the drop in real wages, following the decline in output and productivity levels, has been substantial. In Lithuania and Bulgaria, the average real wages in mid-1994 were 44 per cent of the December 1990 level; in Romania, real wages fell in mid-1994 to 54 per cent of those in January 1990 partly reflecting the fact that the hours of work were reduced from 46 to 40 per week while monthly wages were not.<sup>148</sup>

Penalization in the form of wage taxes has been very rare and useless. It was reported that in Poland tax collections for excess wages at the beginning of 1991 covered only half of the amounts due, while in 1993 in Bulgaria only about 10 per cent could be collected.<sup>149</sup>

In September 1992, Estonia in accordance to an IMF agreement implemented salary restrictions. Salary growth in the state-owned companies with 50 per cent state capital or more was not allowed to exceed the CPI of the previous quarter.

Information, however, on the economic activities of the SOEs, including salaries, was very scarce. There were no control mechanisms and at no time were the tax penalties implemented; in 1994 these restrictions were abolished. At that time even state-owned companies had reached salary levels or increase rates which could not be exceeded. Many enterprises, particularly export-oriented firms, were acutely aware of market restrictions on salary growth since in the world market, the price levels for products from the CEECs markets have increased, but much slower than CPI.

In principle, every director of a SOE knew the schemes to evade controls, to avoid punitive taxes, and to lobby for exceptions to be made in their own individual

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<sup>147</sup> Iskra Beleva, Richard Jackman and Mariela Nenova-Amar. 1994. *The Labour Market in Bulgaria*. Research Project on the Labour Market in Transitional Socialist Economies. The World Bank, p. 6. Mimeo.

<sup>148</sup> *PlanEcon Business Report*. 1994. Vol. 4, Issue 20, 12 October, p. 19; Vol. 4, Issue 3, 2 February, p. 19.

<sup>149</sup> Richard Jackman and Michal Rutkowski. 1994. *Labour Markets: Wages and Employment*. In: *Labour Markets and Social Policy in Central and Eastern Europe. The Transition and Beyond*, p. 145.



cases. Especially in the NIS, there has been no effective state control mechanism over the wage discipline. In Russia and Ukraine, it has been common for a SOE to have huge debts to other enterprises (inter-enterprise debts were 70 per cent of GDP in 1992 and about 16 per cent of GDP for 1993)<sup>150</sup> and to the state budget. Even though production volume fell, salaries were increased regularly. Consequently, in Russia, in spite of the tax penalties, the average (official) monthly wage increased from 15,690 roubles in January 1993 to 130,000 in December of the same year, and to 273,000 roubles by October 1994.<sup>151</sup>

One way to pay higher salaries to workers, and especially to the managerial staff, was to retain on the enterprise payroll surplus low paid staff or even unpaid workers on involuntary leaves. These workers could use the social services offered by the enterprise, thus effecting the salaries for the rest of the employees because the average wages would still remain within limits. The elimination of these common practices will automatically lead to a rapid growth of registered unemployment. Thus, it is not surprising that official and actual unemployment rates are so different in these countries and that the rates do not reflect the actual decline in production. To some extent, these salary increase restrictions prevented the effective allocation of the labour force and staff reduction. When only the SOEs are concerned, with these restrictions the competitiveness of the effectively functioning SOEs is reduced.

These necessary salary restrictions could be combined with other economic measures such as limits in the cost of production determined by the market, real competition in the labour market and in the economy, the implementation of a bankruptcy law, establishment of private ownership for the major part of the economy, etc. These restrictions should be supported by actual wage bargaining between the social partners at every level, including enterprises, occupations, branches and the state.

Wage restrictions have been one of the major reasons why other forms of compensation still are so widespread in several countries. According to the ILO surveys, different non-cash benefits play an important role in stimulating labour, and in Russia the 'bonus' share of a worker's earnings increased from 39 per cent in mid-1992 to 44 per cent in mid-1993. These bonuses included vacation homes (for 67 per cent of full-time workers in mid-1993), paid health services (for 50 per cent), subsidies for house payments (for 15 per cent) and for kindergarten (for 49 per cent), discount prices for food (for 35 per cent), subsidies for canteens (for 63 per cent), etc.<sup>152</sup> These were used as countermeasures by the enterprises to offset the tax-based income policy with which

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<sup>150</sup> *The Wall Street Journal Europe*. 1994. Russian Reformers Point to Signs of Progress in Economy Amid Latest Forecasts of Doom. 2 March; *Ekonomika i zhizn*. 1994. Neplatezhy v Rossiy: yest vyhod. No. 23, June.

<sup>151</sup> *Russian Economic Trends*. Monthly Update. 31 January 1994. WHURR Publishers, p. 12; GOSKOMSTAT of Russia. 1994. *Sotsyalno-ekonomitsheskoye polozheniye Rossiy*. January-October Moscow, p. 109.

<sup>152</sup> Guy Standing. 1994. *Labour Market Dynamics in Russian Industry in 1993: Results from the Third Round of the RLFS*, p. 37.

the state tried to reduce wage push inflation. The result was a shift from money wages to non-monetary forms of remuneration.<sup>153</sup>

One other problem has become apparent in the new economic environment – some employees have no other job alternatives or social protection from the state or public institutions, such as employee unions. Therefore these workers have been forced to accept very low wages, sometimes even below the officially established minimum wages, or to submit to long-term unpaid or partly-paid leaves, causing poverty and inequality even among the formally employed population. The figures of Russian Goskomstat suggest that workers in 33,000 enterprises, 20,000 of which were collective farms or agro-industrial corporations, regularly received no pay for months at a time. The overall indebtedness of the enterprises to their workers in 1993 was about 3.4 trillion roubles (equal to 2.1 per cent of GDP in 1993).<sup>154</sup> The 'new working poor' have made the labour market situation even more complicated.

Although some workers in Russia have not been paid for months, managers of the SOEs have found ways to buy expensive cars with company funds, lease vacation villas in the Bahamas and finance businesses owned by relatives and friends. According to Anatoli B. Chubais, the First Deputy Prime Minister, at least 50 per cent of the non-payment crisis crippling the country has been the result of embezzlement and financial manipulations by managers.<sup>155</sup>

A liberal salary and wage policy and the absence of a proper collective wage bargaining scheme have reinforced income differences between employees of various branches of business, different enterprises, occupations, and qualification levels. This has been a positive sign. This type of wage policy (or absence of effective wage policy) has stimulated the flexibility and mobility of the labour force. Disparity between the wages of the top 10 or 20 per cent and the lowest 10 or 20 per cent of the salary earners has been much higher in the CEECs than in most of the industrial countries. However, there should be some optimal level of wage disparities bargained for by the social partners or determined in some other way.

The relatively low cost of production has been one of the key components affecting the external competitiveness of the countries in transition. Low production costs have been influenced by the low labour cost in the CEECs where the average monthly gross salaries, calculated on a hard currency basis, were between USD 80 to USD 310 (even less in the NIS as a rule, and in Slovenia close to USD 800) (see Appendix Tables 7 and 8).

Wages have been unrealistically low when compared with other cost factors and to some extent even with productivity. With this nominal salary level it has been

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<sup>153</sup> UN/ECE. 1994. *Structural change, employment and unemployment in the market and transition economies*. Discussion papers. Vol. 3. 1993. No. 1, p. 12.

<sup>154</sup> John Lloyd. 1994. Indebted Russian enterprises fail to pay workers. *Financial Times*, 1 August.

<sup>155</sup> Margaret Shapiro. 1994. Corruption Threatens to Spill Russia's Economic Brew. *International Herald Tribune*, 14 November.

difficult to stimulate workers to produce quantitatively and qualitatively the same work as their competitors in other countries. Consequently, it is not a surprise that in export-oriented industries the level of salaries has been much higher than average.

Of course, on the basis of purchasing power parity, the real value of the average salary has been many times higher than the nominal value. However, for the Western investor or exporter, these advantages, even if they are not the first priority, still seem very attractive. These include the low cost of labour (including payroll tax) and other relatively low cost expenditures, such as rent, tax on land and other taxes, and so forth.

Some influence on the dynamics of real wages and even inflation from the labour market situation can be observed in the new market economies. Direct correlation between the salary levels and unemployment rates exist in many regions. Even though labour market factors alone do not determine the level of salaries today, unemployment has started to discipline wages.

The effect of salaries on labour mobility has also been controversial from the point of view of their rapid differentiation. For example, up to 1989, administratively controlled salaries varied on the average by a factor of two in different branches, such as construction and culture in Estonia. By 1991, the salary differentials between the branches were still below a factor of 3. In 1993 when comparing workers in sea transport, for example, with those in agriculture, they had increased up to 10 times. But higher salaries have not automatically encouraged labour movement to branches or enterprises with better wages because most are still reducing the number of workers. The higher salary levels have been mainly the prerogative of industries and enterprises oriented towards the export of goods and services. Also fields with close ties to the international labour market, such as seamen, and joint-venture or foreign capital based enterprises have been better paid. Because of their shortage in the labour market and their specialized professional knowledge, certain professions – such as financiers, lawyers, top managers, property and business servicemen – have had much better wages than average. Training for these professions takes time and practical experience. Even in the long-term the new market economies will experience an acute deficit of specialists and consequently it is not just a matter of this group's influence on the salary levels of others or a case of speed-training these professionals.

In several NIS, average wages have dropped below the subsistence level. In December 1993, the average wage in Azerbaijan and in the Kyrgyz Republic corresponded to 70-80 per cent of the officially established subsistence minimum. In Belarus and the Tajik Republic, the average wage equalled 1-2 times the subsistence minimum. Salary policy was decentralized within the NIS and currently every republic has been following its own policy which has resulted in increasing differences in salary levels. For instance in 1993, the salary differences between the NIS countries exceeded more than 5 times those compared to 1.7 times the average salaries in 1991.

Wage differences between the various branches have been significant. For example, in Russia when the average salary in 1993 was 64,000 roubles, the highest average salaries were registered in finance at 179,000 roubles, and the lowest in

agriculture at 38,000. In culture the average salary was 39,000 roubles and in education 44,000. Finance was the highest paid sector of the economy in all of the NIS, exceeding, as a rule, the average salary level by factor of two or three: it was 3.6 times in Ukraine and 3.1 times in Moldova.<sup>156</sup>

A substantial number of workers – 'the working poor' – have been earning salaries below the subsistence minimum. In Russia these individuals made up 24 per cent of the working population (September 1994).<sup>157</sup>

The deregulation of salary policies has had in general a positive influence on the labour market. It has stimulated highly productive work; it has differentiated the qualification level of jobs; it has influenced investments in human capital; and affected labour movements. On the other hand, wage inflation is still not under control. Real wage bargaining has been almost absent, or it covers only some aspects of the issue such as minimum salaries. In many countries there has been no effective market mechanism for wage regulation. To some extent, such a situation in this period of rapid changes has been unavoidable. However, sooner or later the social partners will have to find a consensus on wage dynamics and levels in the CEECs.

#### **4.5 Social protection of the unemployed**

One of the key issues of social and labour legislation is social protection for the workers who have been dismissed, forced to retire or are fresh school-leavers unable to find jobs. Unfortunately, the new market economies have been restricted by financial and budgetary constraints, infrastructure, professional cadres for employment policy, and by the range and efficacy of the instruments available for these purposes. It is a well-known fact that unemployment has been the main factor directly causing poverty and the increase of families living below the subsistence level.

Social protection for the unemployed in the CEECs has introduced a variety of different rules and schemes concerning the level of unemployment benefits, the duration of payments, other supplementary benefits, and the source of financing the unemployment funds.<sup>158</sup> The source of funds depends on the actual economic, political, social, demographic, labour market situation in the country or region. Therefore, the following are just a few of the many elements effecting employment policy.

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<sup>156</sup> *Rynok truda v stranakh sodruzhestva v tsifrah i diagrammakh*, pp. 3, 114-115.

<sup>157</sup> *Sotsialno-ekonomitsheskoye polozheniye Rossiy*. GOSKOMSTAT of Russia. 1994. January-October, p. 112.

<sup>158</sup> For more detailed analyses of unemployment compensation systems see, for example: OECD. 1994. *Unemployment in transition countries: transient or persistent?*; OECD. 1993. *Structural change in Central and Eastern Europe: labour market and social policy implications*; OECD; IBRD/World Bank. 1994. *Labour markets and social policy in Central and Eastern Europe. The transition and beyond*; OECD. 1994. *Short-term Economic Indicators. Transition Economies. Sources and Definitions*, pp. 22-31.

Open unemployment has started to grow in most of the CEECs only since the beginning of the 1990s. However, in Hungary, the first schemes, albeit in disguised form, for job seekers and for workers on 'prolonged notice of lay-off' were introduced already in 1986.

Certain principles for these schemes should be followed in all of the region.<sup>159</sup> On the one hand, the benefits should not be too high in order not to erode the incentive to work. On the other, they should guarantee a certain minimum subsistence level even for workers with no dependants. An unemployed person should be prepared to accept employment at a lower status than what he or she was earlier qualified for, or the person should be willing to attend public vocational training and/or participate in public works.

In most of the countries, the major criterion for receiving unemployment benefits has been a certain length of employment. This differs from country to country; for example, in the Czech Republic, it has been employment for at least 12 months during the last 3 years; in Poland and Estonia, employment for at least 6 months during the last 12 month period. In Hungary, the scheme stipulates that the unemployed should have contributed to the unemployment fund for at least 360 days during the last 4 years before becoming unemployed. This encourages both employers and employees to contribute to the fund. Consequently, social security registers with personal codes are needed in the CEECs to register individual contribution payments.

The waiting period, after registering as a job seeker to gain the official status of 'unemployed' also varies – from one day in Tajikistan, one week in Kazakhstan and the Czech Republic to several months for recent graduates in Hungary, Poland, and Estonia. In some countries, there has been no waiting period; for example, in Belarus and in Romania, an individual simply needs to register himself as unemployed within 30 days of labour contract termination; the same applies in Russia except for those who were dismissed for disciplinary reasons. As a rule, a beneficiary loses the benefits if he or she refuses to accept suitable work or training, or because of a violation of re-registration rules. In Latvia and Poland, a person can reject offers of employment three times while in the NIS it may normally be rejected twice.

The maximum period for receiving benefits has also been rather varied, ranging from one year in Bulgaria and Poland to 6 months or 26 weeks on the average in other countries. The period can be extended in certain conditions: in Poland in the regions with high unemployment, in Russia for pre-pensioners. On the other hand, the period could be reduced for new job seekers. This is the case in several NIS.

The flat-rate, or wage-related basic unemployment benefits vary from country to country. Some of the countries have established very low flat-rate benefits which are tied to the minimum salary. For example, in Estonia the level of the benefits was initially 80 per cent of the minimum salary, and from October 1992 onward it has been 60 per cent. In Hungary for recent graduates, it has been 75 per cent of the minimum wage while in Poland, according to the Employment Act of February 15, 1992, the

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<sup>159</sup> OECD. 1991. Unemployment benefit rules and labour market policy. In: *OECD Employment Outlook*.

standard rate of unemployment compensation was established at 36 per cent of the average salary for the previous three months.<sup>160</sup> The claimant is entitled to compensation for a maximum of 12 months.

In some countries, as in Romania, unemployment benefits have been indexed to wages. In Poland, eligibility for unemployment benefits has been determined by a means-test based on the family income level of the claimant. For example, the unemployed may lose eligibility for benefits if the spouse earns twice the average wage or if the income per household member (including children) exceeds one-third of the average wage.<sup>161</sup> At the same time, it is also possible for the unemployed person to be entitled to benefits if he is earning less than half of the minimum wage. Similar rules, which allow unemployment beneficiaries to earn some additional income, have been established in some other countries as well. In reality, it has been difficult to control the real earnings of the unemployed, and this regulation has opened a legal channel to collect both wages and social benefits.

In Latvia if the social tax payments of the beneficiary have been made for six months during the last twelve month period, the unemployed receive 90 per cent of the minimum wage established by the government. New job seekers receive 70 per cent of the minimum salary. If there are no social tax payments during the last twelve months, the compensation has been only 70 per cent of minimum wages. In some depressed regions of Latvia, the period for receiving unemployment benefits has been extended to 12 months on the condition that the beneficiary participates in unpaid community services which cover at least 20 hours per week. If no community services have been organized, the unemployment benefits are paid from the budget of the local authorities. These measures also have a disciplinary effect on all participants in the labour market.

In most of the countries, unemployment allowance is determined by the level of the previous salary of the redundant worker. As a rule, it has been 60-70 per cent, and according to a depreciating schedule, it could be reduced after a certain payment period. In addition, in Russia and Moldova for example, the unemployment compensation was limited to a certain amount, for example, to a maximum level corresponding to the average wage. In the NIS, the benefit has been linked to the previous salary, but as it has not been indexed to the cost of living, the high inflation rates have reduced the real value of the benefit rather quickly to an amount which has generally corresponded to the minimum salary, or in Kyrgyzstan and in some other states, to 75 per cent of the minimum wage.

In some countries as in Uzbekistan, the Kyrgyz Republic, Azerbaijan, an unemployed person receives a 10 per cent supplement he or she has children or other dependants. In the NIS, the registered number of the unemployed and the extra benefits have been relatively small. Thus these amendments do not have much effect on the family or the state budget.

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<sup>160</sup> *Transforming the Polish Economy*. 1994. Vol. I, p. 259.

<sup>161</sup> *Unemployment in transition countries: transient or persistent?*, p. 261.

In many of the Central Asian NIS, the employment rates for women have always been very low. Due to high birth rates and limited social benefits, the redundancy of the head of the household has been a real tragedy for the family.

A low level flat-rate benefit system is more effective from an economic point of view. It encourages the unemployed to seek vacancies more actively, to perhaps create new jobs in small or family enterprises, or to look for self-employment opportunities. It makes the mainly passive employment policy less expensive and keeps the payroll tax level lower. In Estonia and some other countries, the unemployed with minimal benefits and especially those who have very limited opportunities of finding jobs through the state employment offices, have in general been much more active in looking for alternative sources of other incomes, in creating jobs in family businesses, and in establishing business contacts. Over-generous benefits discourage the unemployed from seeking work, while high labour taxes deter employers from hiring more workers. The employment situation in many of the Western countries demonstrates that such an employment policy actually pushes even more workers out of jobs.

At the same time, the low allowances have automatically forced the unemployed and their families into poverty and, as a rule, many of them need additional social support from the state.

As mentioned in 'The OECD Jobs Study', the willingness of workers to accept low-paid jobs depends, in part, on the relative generosity of the unemployment benefits.<sup>162</sup> Benefits, however, should be adequate to guarantee the jobless and his family certain minimum protection from poverty. In certain cases, the benefits have been so minimal that efforts by the jobless to collect them have been more expensive and have not been worth the trouble.

In several countries, not only unemployment compensation, but also minimum wages have actually fallen far below the poverty level. In the Baltic countries, the basic unemployment benefit has diminished to 10-15 per cent of the average gross salary. Rapid inflation in the NIS has further reduced the real value of the benefit to an even lower level. Consequently, unemployment and poverty have often been synonymous even when just one spouse becomes unemployed.

At the initial stage of reforms when unemployment coverage was implemented, it was common in all the transitory countries that many jobless people applied for benefits. Most of these had not been employed previously at all or had been employed only temporarily and a large part of the applicants were not truly interested in job proposals. They simply wanted the benefits. This was especially true of mothers with small children, housewives, and individuals previously employed in the informal sector.

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<sup>162</sup> OECD. 1994. *The OECD Jobs Study. Facts, Analysis, Strategies*, p. 24.

TABLE 6  
UNEMPLOYMENT BENEFITS AND WAGES IN SOME OF THE NIS COUNTRIES, MAY 1994

Country	Currency	Unemployment benefit, average	Minimum wage	Average wage	Benefit/ average wage ratio, %	% of unemployed receiving benefits
Armenia	Drams	198.7	176	1,100	18.1	21.8
Moldova	Leis	18.1	13.5	84.4	21.1	23.9
Ukraine	Karbovanets	185,800	60,000	1,047,836	17.7	49.1
Russia	Roubles	22,600	14,620	200,731	11.3	82.8

Source: *Rynok truda v stranakh sodruzhestva v tsifrakh i diagrammakh*. Moscow, STATCOM CIS, N. 24 (66), July, 1994, pp. 97, 113.

At the same time a certain number of the unemployment beneficiaries were not legitimate because they in fact did do some type of work. In Poland the Ministry of Labour and Social Policy estimated that some 20-25 per cent of beneficiaries received compensation on illegal claims (so-called 'scroungers').<sup>163</sup> On the other hand, a great part of the unemployed still are not covered by any kind of social support. The social protection policy for families, where one or more breadwinners have lost their regular incomes is inadequate and consequently legislation on this matter needs significant improvements.

At the initial stage of labour market formation, the number of applicants was rather limited, allowing for generous compensations to be made in many countries. In Czechoslovakia the law on employment in 1991 stipulated unemployment allowance for the first six months to be 65 per cent of the net average wage accrued during the last three months of employment and 50 per cent in the consecutive six month period. Later legal action was taken to reduce the duration and the rate at which the unemployment benefits were paid. Since 1992, unemployment benefits have been limited to 6 months and, for the first three months, it has been paid at 60 per cent of the former net wages and thereafter at 50 per cent.<sup>164</sup> In several countries, some groups of the unemployed have been excluded from benefits. For example in Romania and Poland, these groups have included owners of a certain acreage of agricultural land, individuals with personal income 'from authorized activities' amounting to more than half of the minimum wage, and former agricultural cooperative members.

Earlier, in some countries as in Slovakia, for example, the law allowed individuals to collect severance pay and the unemployment benefits concurrently. This practice has now been abolished. The same principle of double benefits was also true in cases where the unemployed had voluntarily quit his job. An individual who has

<sup>163</sup> *Poland. International Economic Report 1992/93*. 1993. Warsaw School of Economics, Warsaw, p. 113.

<sup>164</sup> Kamil Janáček. 1993. Unemployment and Labour Market in Czechoslovakia 1990-1992, pp. 2, 11. Mimeo.



voluntarily resigned cannot be registered as a job seeker, or he then must have a longer waiting period.

A system which correlates to a high degree unemployment benefits to previous salaries has certain advantages in guaranteeing a minimum standard of living for the family of the unemployed. However, in the actual economic situation of the countries in transition, it also has discouraged some unemployed groups from re-entering the labour market. It also has placed a considerable tax burden on the taxpayers who, as a rule, have been mainly employers.

In many cases, the average wages vary considerably between different firms and the different branches so that benefits accrued from the previous salaries do not encourage the unemployed to seek jobs in other sectors or enterprises which are in demand but with a lower salary level. According to several surveys, the high replacement ratio has discouraged active job searching and partly explains some of the durational effects. On the other hand, a growing majority of those affected by unemployment have not received benefits or any other support. Many have families and dependants, but the state authorities have not shown interest in the social status and income levels of this group.

As a rule, employment policies have been financed by special employment taxes or they have been a part of the social security taxes. In some countries, a payroll tax has been paid by employers as well as employees to cover these expenditures. Highest payroll taxes have been in Hungary at 62 per cent in total, followed by the Czech Republic and Slovakia at 50 per cent; Bulgaria with 35-50 per cent; and Poland 48 per cent. The lowest payroll taxes have been in Lithuania with 31 per cent, and in Estonia with 20 per cent.<sup>165</sup> However, the state subsidies to the social funds and measures financed through these taxes have not been the same in all countries. Therefore, their comparison has not been feasible. For example, the entire amount accrued from social security taxes in Estonia since April 1994 has been spent on pensions, while labour market policies have been financed from the state budget.

In European countries with an advanced economy, the share of public expenditure on labour market policies has typically been 2 to 3 per cent of GDP including, on average, 0.9 per cent on active measures.<sup>166</sup> In some countries with high unemployment rates it has even exceeded 6.5 per cent as in Denmark, for example, or 5.2 per cent in Finland, and 4.4 per cent in Ireland. The lowest shares have been in Switzerland, 0.6 per cent of GDP; and 1.5 per cent in Austria. In Central European countries in transition, it has ranged from 0.5 per cent of GDP in the Czech Republic to 2.8 per cent in Hungary and Poland (all data for 1992).<sup>167</sup> However, it has been low also in most of the FSU countries, and generally it has not exceeded the one per cent GDP

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<sup>165</sup> World Bank. 1994. *Averting the Old Age Crisis. Policies to Protect the Old and Promote Growth*. Washington, DC: Oxford University Press, p. 373.

<sup>166</sup> OECD. 1994. *The OECD Jobs Study. Facts, Analysis, Strategies*, p. 37.

<sup>167</sup> OECD. 1993. *OECD Employment Outlook 1993*, pp. 73-78.

level. Another subject which needs serious evaluation is the cost-efficiency of the expenditures.

A common feature of employment policies in all the countries in transition has been the fact that a vast majority of the revenue has been spent on passive measures, mostly unemployment benefits. There has been growing concern about the targeting and the cost-effectiveness of social protection programmes for the unemployed.

Only the Czech Republic has reported an increase in costs on active labour market policies both in absolute and in relative terms, reaching more than 60 per cent of the total labour market expenditures. At the same time, the amounts spent per person in real terms have declined because of the rapid increase in the number of unemployed in most of the CEECs. It is therefore easy to understand why the employment offices have not been able to implement more active policies for employment and job creation.

Despite serious difficulties, the whole labour market infrastructure in the CEECs was created from scratch within a short period of time. One issue of debate is the effectiveness of a well-designed labour market policy in cushioning the blow of unemployment. Undoubtedly, a well-designed policy could facilitate access to the labour market and jobs, improve the skills of many of the job seekers, enhance the job matching process, facilitate the reintegration of special risk group workers in the labour market and redistribute employment opportunities. As an integrated part of the reforming process, labour market policy could actively support macroeconomic stabilization. However, for many reasons this policy's scope and efficiency are still quite limited.

The rapid growth in the number of the unemployed has reduced the real value of expenditures per client and increased the number of visitors per employment office staff member. For instance, in Romania it has been reported that there have been close to 600 unemployed individuals per each employment officer.<sup>168</sup> In circumstances strained by the lack of funds, equipment and experience, these officers have at best had time only to register visitors and to handle the payment of compensation. Czech Republic has been the only country with a relative small number of unemployed persons per staff member. It is not surprising to note that active labour market measures have had a high priority in that country.

Public works for job seekers have been set up in some countries. In Estonia, it has been the obligation of the registered unemployed to participate for 10 days or 80 hours per month in these public works when they have been organized by the employment office or other authorities.<sup>169</sup> Compulsory participation in community service has also been one of the reasons why some job seekers do not want to be registered as unemployed. Economic aspects of the public works are not the only factors which should be taken into consideration. Community services also have a disciplinary

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<sup>168</sup> OECD. 1994. *Unemployment in transition countries: transient or persistent?*, pp. 118, 257, 283.

<sup>169</sup> *Riigi Teataja*. 1993. 'Töötutele ja tööotsijatele hädaabitööde korraldamise korra' kinnitamise kohta. I osa, Nr. 19, 4 mai.

effect for the job seekers preventing them from taking alternative or unregistered job during the job-searching period and from collecting both earnings and benefits. Up to 20-25 per cent of the registered unemployed participated in short-term public works in Estonia in 1993 and 1994. However, the efficiency of these schemes is still low and engagement in public works should not compete with existing jobs.

Problems with employment policy directed at the job seekers have been quite common and are well-known to the employment officers in the region. However, the major problems are not the discrepancies in the systems of compensation which also need to be modified. In particular, benefits should correspond to wage-related contributions which would be shared between the employer and the employee. The major problems comprise the lack of demand on the workforce, the scarcity of jobs, and the absence of effective job creation programmes in general.

More restrictive eligibility rules and shorter entitlement periods have rapidly increased long-term unemployment. Consequently, more unemployed people have exhausted their entitlements and still remain unemployed. Many have disappeared from the rosters of employment offices and from the state and local communities as well. In many countries, social programmes in the form of unemployment assistance, guaranteed minimum income schemes, and social welfare for those whose entitlements have expired, were introduced. Usually they have been means-tested but in the CEECs they fell below the poverty level in most of the cases because of the low level of incomes. In addition, these small token amounts of assistance have been available, as a rule, to a very limited number of unemployed families.

Generally, there have been very few special measures for the unemployed seeking his first job. After decades of full social guarantees, it has been quite a great moral shock for the young generation to have to start their independent life with a visit to the employment office. The same has been true for people who are disabled, in the pre-retirement age group, former convicts and other risk groups such as gypsies in many countries.

Unemployment has most severely affected the majority of the disadvantaged groups in the employment sector. The most vulnerable people in the labour market have been those in the pre-pension age bracket, the disabled, mothers with small children, the handicapped, former convicts, etc. These people need retraining courses and special job creation or job supporting programmes as well as material support. Social rehabilitation has also been necessary after a long period of displacement and unemployment. Unfortunately there have been very few special employment programmes for these groups.

In the West, different labour market institutions generally handle separate functions including placement services, the administration of benefits, training and provision of temporary jobs. Usually in the CEECs, these functions have been carried out by one administrative body, the local employment office. Other local authorities have often not been involved with job provision, and direct contact with the employment office has been very rare or non-existent. Contacts, such as regular

interviews by the labour authorities with the unemployed, have also been very infrequent. Mostly offices have only provided the functions of registration of the unemployed and the granting of benefits.

It has been difficult or virtually impossible for the employment offices to evaluate the revenue of the unemployed earned from moonlighting jobs and informal activities. According to family budget surveys, it is well-known that many of the unemployment beneficiaries have actually some earned incomes as well but the offices have been unable to check the income situation of the unemployed or to control the use of the state funds.

The quantity and quality of services offered by the employment offices are still limited because the relatively insufficient technical and professional levels of these officers and their newly recruited staff members hinder their activities. Well-equipped, professionally managed employment offices with accurate job matching classifications and job search strategies are required. Therefore, the development of the social, and especially employment, infrastructure to provide more modern employment services and labour market activities is the key consideration for the effective improvement of the employment policy.

There has been a great variety of services and benefits offered by the employment offices to job seekers in different countries. In addition to the above mentioned measures, various forms of job counselling, subsidies to employers, start-up loans, early retirement for labour market reasons, different forms of training programmes, job clubs, mobility support, subsidized credits to employers in exchange for job creation, and wage support have been used. In some countries, even private placement agencies have been active. However, the success of these agencies in helping the unemployed to find work during the period of high unemployment has, as a rule, been very limited.

OECD recommendations on the improvement of the labour market policy have been concerned mostly with the compensation system and eligibility criteria, rather than with the macroeconomic policy itself. It amounts to trying to extinguish a fire rather than taking preventive measures beforehand.

Tito Boeri is right in his statement that 'active labour market policies may at best redistribute employment opportunities; they do not increase the number of jobs available'.<sup>170</sup> Therefore, as mentioned earlier, the main focus should be on preventing the currently employed population from becoming unemployed.

The key questions in employment policy are to find measures to fight long-term unemployment and disguised unemployment; to facilitate the employment of the most vulnerable groups after the eligibility terms have been exhausted; and to determine the workforce needs, the labour demand, or the needed labour skills for training

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<sup>170</sup> Tito Boeri. 1994. Labour market flows and the persistence of unemployment in Central and Eastern Europe. In: *Unemployment in transition countries: transient or persistent?*, p. 28.

programmes in the quick-changing situation of structural restructuring in the CEECs. The answers to these questions can to large extent be found beyond the employment policy.

#### 4.6 Industrial relations

Tension in the labour market has created the need for coordinated activities and policies between the social partners, the governmental authorities and employee and employer unions. Unfortunately in all of these countries, tripartism and coordinated wage, employment and social policies have not been functioning effectively.<sup>171</sup> However, it should be an important institution in the new market economies to negotiate wages, job security and employee participation practices.

In the pre-reform period, almost all workers in state-owned enterprises and other institutions belonged to unions. Dues amounting to one per cent of the salary were automatically transferred to the union treasury. Union members had significant benefits which included pre-paid recreation, full coverage in the case of illnesses, etc. Even the distribution of some consumer goods in short supply was implemented through the local trade union organization. In the FSU, the trade unions also partly carried the social security system. With the discontinuation of these benefits, participation in the trade unions has fallen everywhere.

In most of the CEECs, trade unions have not been so well represented in the private sector and, as a rule, it has been the self-employed or the unemployed who lost their contact with the unions. Data on trade union membership have been very scarce all over the CEECs.

In Romania which has one of the highest participation rates for union membership, it was reported that the claims of leading trade unions concerning their membership numbers substantially exceeded Romania's total active population. The actual rate was around 60 per cent of all employees.<sup>172</sup> It was reported in Estonia, which has one of the lowest membership, that the biggest trade unions – the Confederation of Estonian Trade Unions, a successor of the former Soviet-style union – had only 190,000 members who paid regular fees, which is less than one-fourth of the labour force.

In some of the CEECs, the industrial relations activities started quite early. In Hungary, the first steps to negotiate collective wage bargaining at the national level were started in 1988 when a tripartite Council on Reconciliation of Interest was created. In 1991, a special tripartite Labour Market Committee was established in that country to coordinate employment issues. It is important to mention that regional county labour councils were also established to conciliate and determine the use of resource allocation

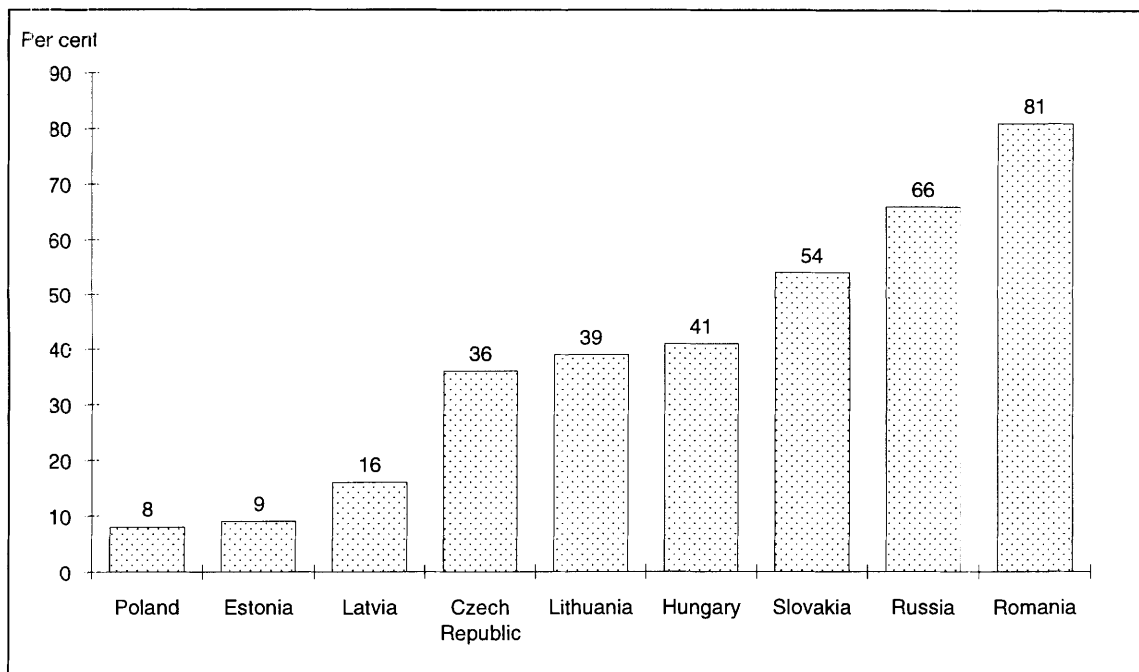
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<sup>171</sup> Overview of trade unions' and employers' organizations and activities in the CEECs: ILO. 1993. *World Labour Report 1993*, pp. 33-51; ILO. 1994. *World Labour Report 1994*, pp. 48-53.

<sup>172</sup> John S. Earle and Gheorghe Oprescu. 1994. *Aggregate Labor Market Behaviour in the Restructuring of the Romanian Economy*. Mimeo.

at local levels. Often these activities stop at some branch level. In Poland, the Employment Board, consisting of 24 representatives of employees, employers, and state and county administration, has also been replicated at the regional and local levels.

FIGURE 2  
TRADE UNION MEMBERSHIP IN THE PRIVATE SECTOR EMPLOYMENT  
1993



Source: Ida-Euroopa ametiühingud on taasloomisel. Kaubaleht, 19-26 September 1994.

In Bulgaria, the first general agreement between the Confederation of Independent Trade Unions (CITUB), the government and the national Union of Employers was signed in February 1990. Trade unions in Bulgaria have been very active and powerful in forcing the government to accept social and wage protection at the national level, although much less at the local level.<sup>173</sup> The trade unions played an important role not only in the economic development, but also in the politics of the country and the strike by two main trade unions – Podkrepa (Confederation of Labour) and CITUB – led to the resignation of the socialist government at the end of 1990.

In some of the FSU countries, the first agreements between the social partners were signed at the beginning of 1991, but as a rule they have had very little influence on everyday work life. In spite of nation-wide negotiations and agreements, these decisions have very rarely affected the workers. Negotiations were often very formal and general in nature and there was no effective mechanism to implement or to supervise the decisions.

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<sup>173</sup> OECD. 1993. *Structural change in Central and Eastern Europe: Labour market and social policy implications*, pp. 68-69.

Trade unions have also been going through a period of transformation. Trade unions in most of the countries belonged to two categories. First, there are the new versions of the old trade unions, the 'reformed' organizations. Many are still burdened by the negative image from the past when they were called 'the school of communism' and were considered to be 'the right hand of the party'. There have also been hundreds of new 'alternative' unions.<sup>174</sup> Particularly in the FSU these unions have originated from strike committees whose main function was to force the government to pay salaries in line with inflation rates regardless of productivity.

In Russia, according to a recent poll, 73 per cent of the workers thought unions ineffective in defending workers' rights. Thus the trade unions have mostly been concentrating their influence on a shrinking public sector.<sup>175</sup> Currently, the most serious problem for the workers has been the delays in the payment of wages which at times can be months overdue. Unfortunately, trade unions have little impact on the management of enterprises in regard to remuneration issues.

Labour issues are not the first priority of the employer unions recently created in the CEECs. As mentioned in the ILO World Labour Report for 1994, 'the employer side remains by far the weakest link in the nascent tripartite infrastructure in the region'.<sup>176</sup> Governments in most of the countries in transition have often been the major negotiating partner for the trade unions, especially in connection with the minimum salary and salary scale regulations. As a result, free collective bargaining, when it emerged, has been conducted mainly at the enterprise level.

The major bargaining issue should be wages. However, surveys in Russia show that in over 80 per cent of the cases, wages were fixed by the administration. Some form of explicit bargaining was evident in only 17 per cent of the cases, and even these were predominantly small units negotiating over individual wage contracts.<sup>177</sup>

Labour conflicts leading to strikes have been relatively infrequent in the region and the labour laws concerning the right to strike are very strict. For example, strikes were registered in only seven of the NIS in 1991-93, including 265 enterprises in Russia and in 457 in Ukraine in 1993. Some 120,000 workers in Russia and 260,000 in Ukraine participated in the strikes.<sup>178</sup>

Well-developed industrial relations form the major instrument for establishing social peace in the labour relationship. They are necessary to coordinate and to regulate the labour questions and conflicts. However, the mechanism does not work properly yet.

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<sup>174</sup> ILO. 1993. *World Labour Report 1993*, pp. 33-51.

<sup>175</sup> David Goodhart, Christia Freeland. 1994. Eastern comrades strike back. *Financial Times*, 7 September.

<sup>176</sup> ILO. 1994. *World Labour Report 1994*, p. 6.

<sup>177</sup> Simon Commander, John McHale and Ruslan Yemtsov. 1994. Russia, p. 18.

<sup>178</sup> *Rynok truda v stranakh sodruzhestva v tsifrah i diagrammakh*, p. 109.

## 4.7 Urgent employment policy measures

The declining participation rates and increasing unemployment in the CEE countries have had direct impact on the expansion of poverty and inequality in the society. Social exclusion and disintegration of large segments of the population, growing anxiety about the future, psychological confusion and intensified social tension all stem from unemployment. In the long-term perspective, the insecurity of the unemployed segment of the able-bodied population will directly affect the well-being of those who have found their place in the new economic environment.

Due to employment practices of the past, there is a danger that in this region the 'growthless jobs' will sooner or later transform to 'jobless growth'. The term 'growthless jobs' means that the majority of the under- or unutilized workers still on the enterprises' payrolls are not contributing to productive work or that they are on so-called administrative leaves. Often enterprises cannot find the funds to distribute severance pay for these workers to leave. On the other hand, high overmanning in many of the enterprises is still common and the economic growth in the future will be accompanied by a further reduction in job opportunities instead of an increase. Jobless growth is affected by a more productive and less numerous labour force.

The best employment-oriented policy is macroeconomic measures aimed at job creation opportunities and, to certain extent, at employment saving economic strategy. Accompanying the rapid restructuring of the economy and adjustments to the market conditions, such policy should provide for the shifts in productive employment. Measures should be taken to facilitate employment activities in the country by:

- i) attracting foreign investment;
- ii) stimulating domestic savings;
- iii) seeking other internal sources of accumulation;
- iv) encouraging banks to finance long-term investments instead of short-term commercial credits;
- v) supporting foreign trade and export activities in particular;
- vi) enlarging the markets for domestic goods and services to include facilitation of effective domestic demand;
- vii) promoting financial and monetary stabilization in the country, and low inflation;
- viii) guaranteeing access by the population to productive resources, including land and capital;
- ix) implementing the strategy to promote demand for labour in all economic branches, and weakening the supply on the labour market, on the other hand;
- x) supporting the competitiveness of vital sectors and enterprises of the national economy; and



- xi) providing legal framework and broad support for private entrepreneurship including informal activities which stimulate the self-help mentality in the society.

However, some special employment-oriented measures seem to be crucial in most of the countries in transition. In a number of areas, labour legislation should be refined to eliminate massive unpaid or partly paid administrative leaves. Workers need precise social protection in case of bankruptcies and mass lay-offs. Despite certain increases in labour supply, pension age needs to be raised to reduce the dependency ratios of the population.

Market-oriented labour legislation should be prepared and approved as well as implemented and carried out at the place of work. Workers need better access to information on labour legislation to be aware of their rights and obligations. Therefore, the system of labour inspectorates needs to be strengthened. Stricter rules to qualify for the status of job seeker and to receive unemployment benefits should be instigated for those who resign voluntarily or are dismissed for disciplinary reasons.

Serious restructuring is needed in education as well as in the training and retraining of employees, entrepreneurs, employers and unemployed. The major problem in meeting the demand of the market seems to be the lack of coordination between all the educational institutions both at national and regional level, including general education, vocational and higher educational institutions, or those agencies who train and retrain employees and unemployed. Labour offices and educational institutions need to investigate actual and potential needs of qualified cadres in enterprises and to set up training for them accordingly. Different educational institutions are still functioning independently without definite knowledge of the short-term and long-term market needs for trained specialists.

A very important aspect of employment policy is to provide support to promote all other forms of labour, be it self-employment or part-time employment. Small businesses, private farming, and informal activities in general can all be given a boost with easy access to bank credits and to credit guarantees or other financial resources; the availability of premises and inexpensive second-hand equipment; tax holidays; limited subsidies for starting business activities; preferential loans; and training in entrepreneurial skills. The state can partly pay interest on commercial loans or grants for those starting their business activities.

Passive employment policy measures should be improved. In most of the countries, the financing of the benefits needs to be transferred to the insurance and contribution base. Each employee receiving remuneration should make an obligatory unemployment insurance contribution. Both parties – employers and employees alike – should participate in the employment fund. Criteria on eligibility should be tightened to avoid or reduce benefit payments to job seekers employed in informal activities, and those who resigned voluntarily from their last jobs.

The long-term unemployed who have exhausted their entitlement to unemployment benefits and are without jobs, should have access to social safety net. Therefore, a means-tested assistance to provide income compensation should be available for the families of these job seekers. They should retain contact with employment authorities and other officials. In order not to lose their self-confidence and hopes for the employment, they need some psychological counselling and informal vocational assessment in the form of job clubs, courses on how to recover normal work habits and attitudes.

To promote the employment and competitiveness of risk groups in the labour market, special programmes should be developed for workers with disabilities, women with young children, and minorities. It is important to prevent labour market marginalization of disadvantaged social groups. In some cases, fixed job quotas in large-scale enterprises for workers with disabilities can be useful. They could be handled through tax benefits, as an example.

Labour mobility should be activated to include geographical, employment, job and skill mobility. New entrepreneurship and the workers themselves need more flexibility in employment, work schedules and compensation, and social security schemes. Amendments to legislation are necessary to promote social protection and benefits for part-time workers in connection with staff reductions, maternity or parental leaves, annual vacations and sickness.

Employment offices currently involved in just the registration of job seekers and calculation of benefits should diversify their activities in order to reduce the period of involuntary unemployment. The employment offices need to promote employment opportunities, to initiate retraining in new specialized fields or even to stimulate migration to other territories. These offices should be able to provide start-up assistance and counselling to those interested in starting businesses in the form of accumulated unemployment benefit, as an example. Job seekers, particularly in rural areas need better access to employment office services. The reputation of the offices should be improved both for employers and job seekers. Contacts with unemployment people should be more comprehensive and regular. The offices should emphasize cooperation with other local authorities, with employers, trade unions, and education institutions. A national employment information network which would provide access to data on all vacancies and job seekers is needed.

Policy supporting strong regional employment measures in depressed areas with the highest unemployment levels is needed in most of the countries. In areas such as far east or far north of Russia which have no perspectives for restructuring or new investments, labour migration should be stimulated to regions where job opportunities are more readily available.

Cooperation needs to be strengthened between the social partners and to become more active especially in the areas of wage negotiations to keep wage inflation down. Tax based wage regulating mechanisms as well as other types of schemes have been ineffective in this sense, and control is weak. Wages should be linked to the productivity

and economic performance of enterprises. Better working conditions and occupational safety should also be issues especially for the unions. Appreciation for skilled labour is often falling among employees. Therefore, salary schemes and wage bargaining should recognize highly qualified work by proposing higher salaries. At the regional level, closer partnership should be promoted between the employment offices, other authorities, local enterprises, employers, trade unions and educational institutions. If mass redundancies are inevitable, joint efforts are needed to help identify re-employment opportunities and training possibilities to meet the new requirements of the market.

Enterprises should be exempt from the responsibility of carrying out social functions that hamper the restructuring of the enterprises, delay the privatization process and make production too costly. The social services, such as housing, medical care, and kindergartens should be overtaken by the state and/or local authorities, a fact which would also help enterprises dismiss redundant workers.

In several countries, and especially in the NIS, the statistical coverage of the labour market and labour force should be improved substantially. Regular statistics and labour market surveys are needed on employment and unemployment situations in different regions, segments of economy, occupations, social groups, on demand of the labour force and training needs, on statistics of vacancies, salary levels, etc. More comprehensive research and analysis of the situation in the labour market could also help to refine and improve the labour market policies.

These and many other guidelines in employment policy should reduce the period of unemployment and promote employment opportunities.

## V SOCIAL AND DEMOGRAPHIC ASPECTS OF EMPLOYMENT

### 5.1 Employment of the old-aged

Some specific social and demographic aspects of the employment policy should be mentioned. Due to a relatively low pension age, it was common practice in the socialist period for many pensioners to work for some time beyond retirement age since pension was, as a rule, also paid. The old-aged employees constituted an important part of the labour force in several branches of the economy.

Also, certain hazardous professions had and still have retirement ages 5 or 10 years younger than those of other professions. In the FSU, at the end of the 1980s the average age eligible for a pension was 58.5 years for males and 54.6 years for females. The corresponding ages in the USA were 63.7 and 63.3 years, respectively.<sup>179</sup>

At the first stage of reforms when tension in the labour market was rapidly growing, the labour force participation rate for older workers, including those pension-aged, declined rapidly. The governments in several CEECs introduced early retirement schemes to force the old-aged workers to leave the labour market.

In the OECD region there has been a decline in the average age when individuals receive their first pension or retirement benefits. Public pre-standard age schemes have been expanded. In the last 30 years, at least 8 OECD countries have lowered the standard age of retirement. The age of eligibility is 60 years in France, Italy, Japan, and New Zealand.<sup>180</sup> If we take into consideration the recent changes in the Western labour markets and the introduction of new early retirement and the disability pension programmes, then there are even more countries with low real pension age. Therefore, despite the low pension age in most of the CEECs, the same tendency has been increasing in advanced economies as well.

The schemes, designed to free jobs for the young, have proved to be very costly and inefficient. Even in the EC countries, most of the member states have sought to increase the effective age of retirement or to increase the number of years of contributions necessary to qualify for a full pension.<sup>181</sup> It is not sure whether such measures like prolonged paternal leaves, shortened working hours, and early retirement for labour market reasons can sufficiently stimulate labour demand. These measures reduce the labour supply and, as a result, the employment rate declines in the long-term.

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<sup>179</sup> USA/USSR: *Facts and Figures*.

<sup>180</sup> OECD. 1992. Labour market participation and retirement of older workers. In: *Employment Outlook*. July, p. 213.

<sup>181</sup> Commission of the European Communities. 1994. *Social Protection in Europe 1993*. Brussels, Luxembourg, p. 9.

However, the number of tax-payers is also reduced and the number of dependants is increased which is very costly to society.

It is true that in a situation of growing unemployment, a society must also decide who should be encouraged to enter the labour market and who should stay at home. At the same time, when considering jobs for the younger generation at the cost of early retirement for the pre-pension age bracket, it should be mentioned that very often these two age groups do not compete for the same jobs.

Older employees have lost some of their work capacity even though it is often not obvious in the pre-pension age of 50-54 years for females and 55-59 for males. Furthermore such characteristics as qualifications and work experience, work ethics and discipline are not the same for workers young and old alike. Each group quite often searches for different types of jobs – young workers are unwilling to accept jobs with unfavourable working conditions and schedules or part-time jobs which the older generation still accept. Therefore, the labour involvement of the two age groups is not always interchangeable. A major part of the working pensioners have also been paying taxes – both income and payroll taxes – and have been economically supporting themselves and their families. Working pensioners in many countries also have smaller pensions (allowances) which have helped to finance other social protection schemes.

Several transition countries have introduced extremely restrictive rules for hiring pensioners. For example, in Bulgaria employers using pensioners have to pay contributions to a 'qualification and upgrading' fund which are 8 times higher than for ordinary able-bodied workers. As a result, the share of the old-aged in total employment fell sharply, to 2.6 per cent by late 1991.<sup>182</sup>

Early retirement policies for labour market reasons have also been widely used in Romania and Poland. For example, it was reported in Poland in 1990 that at least 70 per cent of the employment decline was the result of early retirements. It absorbed one-third of all old-age pension expenditures. In 1984 the pension age in Poland was established at 60 years for women and 65 for men. According to an act ratified on October 17, 1991, a pension could be granted at any age to a worker made redundant by the liquidation of an enterprise, or for other economic reasons, provided that the individual had worked for at least 35 years in the case of women and 40 years in the case of men. As a result, effective pension age has dropped to 55 years.<sup>183</sup> In Czech Republic, the number of economically active pension-aged workers has fallen from 519,000 in 1990 to 273,000 in 1993.

These measures have sharply increased the relative cost of pensions in most of the countries in transition. The highest ratio of average pension to average wage was

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<sup>182</sup> Iskra Beleva, Daniela Bobeva, Silvia Dilova and Asen Mitchkovski. 1993. Labour market trends and policies: Bulgaria. In: *Structural change in Central and Eastern Europe: labour market and social policy implication*, p. 49; Guy Standing. 1993. Structural changes and the labour market crisis in Eastern and Central Europe, p. 57.

<sup>183</sup> *Unemployment in transition countries: transient or persistent?*, p. 61; Nicholas Barr. Income Transfers: Social Insurance. In: *Labour markets and social policy in Central and Eastern Europe*, p. 203

also in Poland where in 1992 it was 57 per cent. The country has been spending one-fourth of its governmental expenditures on pensions. This has been equal to nearly 12 per cent of GDP compared to 7 per cent in 1988. In most of the other countries, pensions have amounted to approximately half of the average wage or even less. However, Hungary and the Czech Republic have also been spending more than one tenth of their GDP on pensions.<sup>184</sup>

A policy contrary to the old-aged has been implemented in Estonia. According to the 1989 census, 29.4 per cent of pensioners worked in Estonia. In some fields, they accounted for a substitute work force constituting, for example, 25 per cent of the workers in the oil shale industry, 24 per cent in medicine, 18 per cent in chemical industries and 18 per cent of postal and communications workers in 1990.<sup>185</sup> Nearly three-fifths of the old-age pensioners who retired more than five years ago, continued to work. After the start of the reforms, they were among the first to be dismissed. However, in Estonia there were no attempts through political or legal measures to solve the unemployment problem with early retirement schemes. In accordance with the Law on Labour Contract, approved in April 1992, an employer has the right to terminate a labour contract when the worker has reached the age of 65 years and he or she is eligible for a full old-age pension.<sup>186</sup> This provides workers with better protection than with the earlier retirement ages of 55 or 60.

Officially the number of pension-age workers on the payrolls in Estonia continues to decline, dropping from 102,000 in 1990 to 70,000 at the beginning of 1993 and 54,000 at the beginning of 1994. They are paid only half of the state allowance for living expenses

Nevertheless, sociological surveys indicate that the participation rate for the aged, due to self-employment and employment in the informal sector, has been quite high. Twenty-six per cent of old-age pensioners were working during the first quarter of 1993. In the fourth quarter of 1994, 23 per cent were still employed, including 44 per cent of those who retired more than five years ago (see Appendix Table 3). Also, in 1994 pension age in Estonia was raised by half a year. The poor economic circumstances of the elderly have forced them to seek additional income.

Serious problems have also been associated with workers in the pre-pension age bracket. To retrain these people or to find new jobs has always been a very difficult task for employment offices and for the pre-pensioners themselves. If it is necessary to increase the pension age in the immediate future, it is very problematic to create early retirement schemes in the countries in transition and consequently, the size of the unemployed pre-pension-aged labour force will grow significantly.

Several countries in transition have already decided to raise the pension age. In Estonia, effective from 1994, the pension age will increase by 6 months every year. For

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<sup>184</sup> *The Economist*. 1994. Old and unaffordable. April 30th-May 6th, pp. 29-30.

<sup>185</sup> A. Kuddo. 1994. Estonian labour market. Bank of Estonia. *Quarterly Review*. No. 4, pp. 19-20.

<sup>186</sup> *Riigi Teataja*. 1992. Eesti Vabariigi töölepingu seadus. Nr. 15/16, 7. mai, lk. 403.

example, pensioners will retire half a year later each year until the pension age of 60 years for women and 65 for men is reached in 2003. The difference in retirement age between the genders will stay in effect. This will also increase the labour supply which means that problems concerning this generation will be more acute.<sup>187</sup> In Lithuania, the pension age will increase from 1995 by 2 months for males and 4 months for females every year until 2024 when 65 years will be the pension age for both. The country has introduced a more gradual approach to the retirement age than Estonia.

In Hungary, there are plans to increase the retirement age for women by twelve months every second year until it reaches 60 years. Then the retirement age for both men and women will rise by 12 months every second year until it reaches 65. In January 1995, the Czech cabinet passed a law which stipulated that the retirement age for men be raised from 60 years to 62 and for women from 54-57 years to 57-61 depending on the number of children they have.

Economic policy has had a major impact on the demographic behaviour of the population. For example, in Russia the fertility rate dropped from 2.01 in 1989 to 1.55 in 1992; in 1989-93, in Romania from 1.92 to 1.44; in Bulgaria from 1.90 to 1.45 and in Estonia from 2.21 to 1.45 correspondingly.<sup>188</sup> This means that from the economic point of view the age structure of the labour force and population will become extremely ineffective in the long-term future resulting in dependency ratios being further distorted. Especially the age dependency ratio and the economic dependency ratio could take a turn for the worse because the share of the post-working-age population has been increasing. Society has to spend more money on the social safety net and for medical care of the elderly.

In the immediate future, these rapid demographic changes mean that annually there will be less need for pre-school and school facilities and consequently the number of schools and teachers will be reduced. By the end of the first decade of the next century, the total number of young people entering the labour market will decrease significantly. Dramatic changes will also affect the age composition of the working population.

## 5.2 Migration

Political and economic development and openness of the society have created massive migration movements within the countries and regions. For example, there is a massive exodus of mainly Russian nationalities from non-Russian republics of the former Soviet Union. This potential is not trivial. According to the population census in 1989, 25 million Russians lived outside the Russian Federation borders and in a 1991

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<sup>187</sup> *Rahva Hää*. 1993. Riiklike elatusrahade seadus. 29. märts.

<sup>188</sup> UNICEF. 1994. *Crisis in Mortality, Health and Nutrition. Economies in Transition Studies*, p. 93.

survey, 37 per cent indicated an intention to emigrate to Russia.<sup>189</sup> Most are in working age bracket.

A large common labour market functioned in the FSU despite the different administrative regulations (e.g., residence permits or *propiski*). It was based on labour movements (*orgnabor*) organized by the monopolistic ministries and enterprises. Now the Baltic states have introduced very protective migration rules and have closed their labour markets with strict immigration quotas.

In many FSU countries, migration increased the labour force and changed its structures, including the national and occupational composition of employees in different sectors of economy. Indigenous nationalities prevailed mostly in agriculture. However, non-indigenous nationalities represented a much higher share of the workforce in industry, transport and communication, and in construction. For example, the share of non-indigenous nationalities in the economy of the Kyrgyz Republic was 59 per cent; in agriculture, 31 per cent; in industry, 75 per cent; and in construction, 74 per cent. A similar situation was apparent in most of the Central Asian republics of the FSU, and in the Trans-Caucasian and the Baltic republics as well, with the possible exclusion of Armenia with its low non-indigenous nationalities in general.<sup>190</sup> Now because of political and other changes, the non-indigenous people, mainly Russian speaking, have been leaving in considerable numbers.

In 1993 alone, more than 120,000 people left the Kyrgyz Republic. A great majority were qualified specialists, which added to the shortage of the labour force in certain areas. Out of registered vacancies in Kyrgyzstan, 45 per cent were pedagogical specialities, 27 per cent medical personnel, 10 per cent economists and 7 per cent engineers, thus indicating that there is demand on the labour market for highly qualified specialists.<sup>191</sup>

After the approval of the Law on Emigration in Russia in May 1991, there was some anxiety about massive emigration from the country. However, the total outflow from this region seems to have been much lower than was anticipated. In 1990-93, officially 408,500 people emigrated from Russia.<sup>192</sup>

Refugee problems have been very serious in several NIS. The number of officially registered refugees in Russia at the beginning of 1994 was 448,000, in Belarus 20,000, and in April 1994 in Azerbaijan 878,000.<sup>193</sup> Most were families in the most active age bracket who had lost their homes, jobs and incomes. It has been difficult for them to adapt to a new place of residence.

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<sup>189</sup> D. A. Coleman. 1993. The World on the Move? International Migration in 1992. Paper Presented at European Population Conference. Geneva, Switzerland, 23-26 March, p. 23.

<sup>190</sup> *A Study of the Soviet Economy*. Volume 1, p. 224.

<sup>191</sup> *Rynok truda v stranakh sodruzhestva v tsifrakh i diagrammakh*, p. 2.

<sup>192</sup> *Rossiiskaiya Federatsiya v tsifrakh v 1993 godu*. Moscow, GOSKOMSTAT of Russia. 1994, p. 72.

<sup>193</sup> *Rynok truda v stranakh sodruzhestva v tsifrakh i diagrammakh*, pp. 66-68.



Around 1990, there were about 64,000 Hungarians, 411,000 Poles, and 912,000 ex-Yugoslavians living in Western Europe. The civil war in the former Yugoslavia added some two million extra emigrants.<sup>194</sup> The main solution for keeping workers at home is to facilitate employment opportunities locally. This, however, has been very problematic for many of the countries.

At the same time, there has also been a massive labour force inflow to many of the Central and Eastern European countries. For example, due to the increasing differences in the levels of wages and the lack of jobs at home, many Ukrainians and Byelorussians have been working legally or illegally in neighbouring countries of Poland, the Czech and Slovak Republics, and Russia; in addition, workers from Poland and Hungary have found employment in the neighbouring areas of the Czech Republic, Germany, and Austria. The territorial mobility of the labour force is also becoming more intensive among the countries in transition.

### 5.3 Gender issues

It was common feature of the former socialist countries to have high female labour force participation with a rate close to 50 per cent. The high level of employment of women which was partly implemented for ideological reasons forced them to combine productive and reproductive functions.

In accordance with the socialist ideology, women were declared equal to men in every respect. Women were to have equal opportunity in employment and in the participation in most professions even when the jobs such as combine operators and tractor drivers, for example, were considered unsuitable for females due to health or other reasons. High employment rates, to some extent, helped to raise the social and political status of women in the society.

Also, from an economic point of view, one salary was inadequate for maintaining a socially acceptable standard of living. In the last decades, a high female employment rate also reflected changes in the family relationships and resulted in a rapid increase of single parent families.

Women were well educated in the former Soviet Union and they predominated in the specialized fields with higher education. Their share on the average equalled 55 per cent, ranging from 38 per cent in Tajikistan to 60 per cent in Latvia.<sup>195</sup>

An important factor contributing to women's high participation in the labour force was the relatively well-developed pre-school educational system in these countries. Alternatively, it can be observed that the state was forced to establish the well developed system in order to keep the employment rates for women high. Kindergarten

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<sup>194</sup> *Political and Demographic Aspects of Migration Flows to Europe*. 1991. Provisional version, Paper prepared by Council of Europe, p. 64.

<sup>195</sup> *Narodnoye Hozhaystvo SSSR v 1989 godu*. Finansy i Statistika. 1990. Moscow, pp. 56-59.

enrolment rates for children between the ages 3-5 were around 70-90 per cent in most of the Central and Eastern European countries, and in the Czechoslovakia, it was even more than 90 per cent. After the reforms, state subsidies for pre-school institutions were heavily cut and enrolment rates declined. In Russia, the attendance of children in the pre-primary educational system dropped from 69 per cent in 1989 to 57 per cent in 1993 and in Bulgaria from 73 to 60 per cent. In Estonia the decline went from 69 per cent in 1985 to 43 per cent in 1993. Women with small children have had to make a choice: either to pay the increasing costs for kindergartens in order to stay in the labour market, or to remain on maternity leave for a longer period. This factor also explains the decreasing participation rates for women in the labour force. On the other hand, children now have been alone at home while both parents work. They have no regular meals, they are ill more often, and they tend to wander around in the streets.

In many areas where certain professions were predominant, as in cities where a textile industry or military complex industries underwent substantial layoffs, the unbalanced employment structure created specific demographic and social problems. Burdened with these problems compounded by growing unemployment, these cities today face an explosive labour situation.

In mid-1994 in Ivanovo, the home of Russia's textile industry, there were 53 job seekers for each registered vacancy, and virtually no hope of another job for the predominantly unemployed women. For comparison, the average for the country was four job seekers for each vacancy registered at the Federal Employment Service.<sup>196</sup>

In many areas, single mothers form a high proportion of the population. When a single mother becomes unemployed, it is a real economic and social problem not only for the family, but also for the society as a whole. For example, in Estonia in 1993, 38 per cent of new-born children were born out of wedlock.<sup>197</sup> These single parent families were mostly from the low income population.

Maternity leaves and family benefits have been increased at least nominally during the last few years in all of the countries in transition. Maternity leave duration has been about four months in Bulgaria and Poland, six months in Hungary, and seven months in the Czech Republic and Slovakia. Parental leave has been extended to three years following the birth of the child. This, with the increasing tensions of the labour market, has encouraged women to stay at home and to drop temporarily out of the labour force. Nevertheless, in Poland and Hungary women who register as unemployed lose their right to child-care benefits. Thus it could be said that the state has been 'punishing' them for labour market reasons.

High unemployment among women partly reflects the fact that women dominated the public service sector and administrative jobs. White collar workers were previously financed by state revenues and local budgets. In this sector, the so-called unemployment on the job was one of the highest. Now because of the financial

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<sup>196</sup> *Russian Economic Trends*. 1994. Vol. 3, No. 2. WHURR Publishers, p. 76.

<sup>197</sup> *Statistical Yearbook 1994*. 1994. Tallinn, p. 62.

difficulties of the state and changes in management organization, they have been among the first to be dismissed. It has been much more difficult for these women to be retrained and to find new jobs. It is a well-known fact that men have been considered more eager to work overtime and in less favourable working conditions, and to pass retraining courses, thus placing women at a disadvantage in gaining employment. Newspaper advertisements announcing job offers for 'young man under 35 years' have been very common.

Quite a high proportion of females, particularly in the FSU, were also engaged in engineering, construction or some other male-dominated fields. This was partly due to the fact that many young women wanted to get a higher education and entered the male-dominated faculties even though they had no desire to work in that particular field after graduation. The new economic environment has forced the dismissal of many of these women because entrepreneurship needs generally more male workers than female.

#### **5.4 Social aspects**

Growing unemployment is reflected in income losses and a deterioration in the standard of living, as well as negative psychological effects. When breadwinners are unemployed, it places a considerable strain on family relations. Unemployment, from an economic point of view, is costly to the society in the form of expenditures for unemployment schemes and the reduction in taxes, as well as for many other reasons.

Unemployment brings about quick changes in the social behaviour of those affected, increasing crime levels, alcoholism, violent deaths, heart diseases, etc.

The most general indicator of social development and of quality of life – the life expectancy at birth – declined in Russia from 64.9 years in 1990 to 58.9 years for men in 1993, and from 74.5 to 72.5 years for women correspondingly. Extreme cases excluded, this is an unprecedented rapid decline in such a short period of time in modern demographic history.<sup>198</sup> The death rates from all the major causes increased, including cardiovascular diseases from 617 per 100,000 of inhabitants in 1990 to 769 in 1993 and from external causes from 134 to 228 correspondingly. This mostly reflects the morbidity and mortality growth of the population at their most active working ages. The same tendencies have been observed in many other countries. In Estonia, for example, the death rate per 100,000 persons from just three causes – homicide, suicide and alcohol poisoning – increased from 39.2 in 1988 to 84.0 in 1993.

The recent UNICEF survey of the CEECs suggests that the mortality increase rate has been affected mainly by three broad, transition-related factors – widespread impoverishment; erosion of preventive health services, sanitary infrastructure and

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<sup>198</sup> *Rossiyskaya Federatsiya v 1992 godu*, p. 120; *Rossiyskaya Federatsiya v tsifrakh v 1993 godu*, p. 79-80.

medical services; and social stress. These have hit young and middle-aged men particularly hard.<sup>199</sup>

This, to a great extent, can be explained by the increasing economic difficulties including the dual hardship of unemployment and poverty which have accompanied the transformation. Tension in the labour market also accounts for the rapid changes in demographic behaviour and is no doubt also the reason for the rapid declines in the number of births and marriages, the increase in divorce rates and so on.

TABLE 7  
LIFE EXPECTANCY (IN YEARS) AT BIRTH IN RUSSIA AND CZECH REPUBLIC

	Male		Female	
	Russia	Czech Republic	Russia	Czech Republic
1989	64.2	68.1	74.5	75.4
1990	63.8	67.5	74.3	76.0
1991	63.5	68.2	74.3	75.7
1992	62.0	68.5	73.8	76.1
1993	58.9	68.9	72.5	76.6

Source: GOSKOMSTAT of Russia; Quarterly Statistical Bulletin, Czech Statistical Office. 1994. Prague. 3/94, p. 29.

Unemployment has been common among individuals resorting to crime. Of course, there have also been other reasons to explain the increasing crime rate, such as the growing income gap and disorder in legislation and in the society in general. In Russia in 1993, every third crime was carried out by a person without a permanent source of income, every twelfth crime by an unemployed person.<sup>200</sup>

Indirect social expenditures resulting from unemployment could be even higher than the direct expenditures. Social rehabilitation and permanent social aid to many of the jobless are needed.

Because of the lack of resources and the high level of inflation still prevalent, families of the unemployed have been among the poorest. This means that in addition to unemployment benefits, these families need other social programmes, such as food stamps, housing subsidies, extra allowances through anti-poverty programmes, etc.

The provision of higher benefits alone is not the only way to keep this group socially protected and active members of the community. They need to be encouraged to return to the labour market as soon as possible. The creation of new jobs must have top priority in order to help the unemployed find ways to support themselves. It is one of the main reasons why active employment policy measures are so crucial.

<sup>199</sup> UNICEF. 1994. *Crisis in Mortality, Health and Nutrition. Economies in Transition Studies*, p. v.

<sup>200</sup> *Rossiyskaya Federatsiya v tsifrakh v 1993 godu*, p. 31.

## CONCLUSION

In summarizing, one could mention that stabilization in employment and the labour market and adjustments to the market conditions in the countries in transition have been and will continue to be a long-term, painful process. Employment has been following the changes taking place in the economy and society as a whole. Different social groups have come through this stage of development with disparity. However, it is the responsibility of society to participate actively in the process of adjustment and to support those social groups unable to adapt to the new economic conditions.

In the recent OECD jobs study, the strategy first mentioned declared: 'Set macroeconomic policy such that it will both encourage growth and, in conjunction with good structural policies, make it sustainable.'<sup>201</sup> All steps to reform society and all steps undertaken by the governments, should be weighted from the point of view whether they promote employment or whether they destroy existing jobs. Thus, labour market regulations and developments play a key role in maintaining both economic and social sustainability. In the current economic situation in Central and Eastern Europe, the countries have a difficult task to implement these recommendations.

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<sup>201</sup> OECD. 1994. *The OECD Jobs Study. Facts, Analysis, Strategies*, p. 43.

## **APPENDIX**

Appendix Tables 1 to 8

APPENDIX TABLE 1

POPULATION, UNEMPLOYMENT, GROSS NATIONAL PRODUCT, REAL GDP  
AND CPI DYNAMICS IN CENTRAL AND EASTERN EUROPEAN COUNTRIES

	GNP per capita		PPP-based GNP		Private sector share of GDP 1994, % b)	Real GDP c)		CPI c)		Population (millions) 1994	Population of working age (millions)			Registered unemployment (thousands) Sept. 1994
	in dollars a)		per capita in dollars a)			Annual percent change					Year	Age	Number	
	1992	1993	1992	1993	1993	1994	1993	1994	1994	Year	Age	Number	Sept. 1994	
1 Tajikistan	600	470	2000	1430	15	-27.6	-15.0	2,195	1,500	5.7	1992	16-54/59	2.6	27.3 <sup>2</sup>
2 Albania	623 <sup>1</sup>	340	...	...	50	11.0	8.0	85	27	3.4	1990	15-54/59	1.9	440.0 <sup>3</sup>
3 Armenia	870	660	2500	2080	40	-14.8	3.0	3,732	5,458	3.7	1993	16-54/59	2	91.6
4 Azerbaijan	880	730	2650	2230	20	-13.3	-6.0	833	1,281	7.4	1992	16-54/59	3.9	23.4
5 Uzbekistan	1000	960	2600	2580	20	-2.4	-10.1	851	1,349	22.2	1992	16-54/59	10.1	20.0
6 Kyrgyzstan	1020	830	2820	2420	30	-16.0	-5.5	1,209	299	4.5	1993	16-54/59	2.4	10.2
7 Georgia	1020	560	2470	1410	20	-39.1	-10.0	3,126	10,000	5.4	1991	16-54/59	3	34.8 <sup>2</sup>
8 Romania	1170	1120	2750	2910	35	-	-	256	156	23.4	1990	16-54/59	13	1,178.8
9 Turkmenistan	1380	...	3950	...	15	-7.6	1.7	3,102	1,608	4.4	1992	16-54/59	1.9	...
10 Bulgaria	1410	1160	5130	3730	40	-4.2	-2.0	73	81	8.9	1991	16-54/59	5	484.0
11 Moldova	1450	1180	3870	3210	20	-14.8	-2.2	688	245	4.4	1993	16-54/59	2.4	19.7
12 Lithuania	1710	1310	3710	3160	50	-16.5	4.7	410	69	3.8	1991	16-54/59	2.1	28.6
13 Kazakhstan	1880	1540	4780	3770	20	-12.0	-6.0	1,571	1,680	16.9	1991	16-54/59	9.2	60.0
14 Poland	1950	2270	4880	5010	55	3.8	4.5	35	30	38.6	1993	18-59/64	22.2	2,915.7
15 Slovakia	2040	1900	5620	6450	55	-4.1	-	23	14	5.4	1991	15-54/59	3.1	363.5
16 Ukraine	2360	1910	5010	4030	30	-14.2	-25.0	4,735	1,000	52.1	1992	16-54/59	28.9	88.9
17 Czech Republic	2590	2730	7160	7700	65	-0.3	1.5	21	9	10.5	1992	15-54/59	6.2	163.9
18 Latvia	2610	2030	4690	5170	55	-11.7	4.1	109	36	2.7	1993	16-54/59	1.4	81.0
19 Russia	2820	2350	6220	5240	50	-12.0	-12.0	915	336	148.4	1992	16-54/59	83.7	1,425.6
20 Estonia	3170	3040	6320	6860	55	-2.1	6.0	89	47	1.5	1994	16-54/59	0.8	13.7
21 Hungary	3190	3330	5740	6260	55	-2.0	1.0	22	19	10.5	1992	15-54/59	6	545.9
22 Belarus	3210	2840	6840	6360	15	-11.6	-17.1	1,188	1,621	10.4	1991	16-54/59	5.7	91.6
23 Slovenia	6700	6310	...	...	30	1.0	4.0	32	18	2	1993	15-64	1.4	125.6

Sources: World Development Report 1994. Infrastructure for Development. World Development Indicators. The World Bank, 1994, pp. 162, 220-221; The World Bank Atlas. The World Bank, Washington, D.C., 1995, pp. 18-19; Short-term economic indicators. Transition economies, 4/1994. OECD, Paris, 1994; The Economist. December 3rd-9th 1994, p. 27; World Economic Outlook. October 1994. IMF, Washington, DC, p. 66; STATCOM CIS; The Vienna Institute Monthly Report 1995/1; The national statistics.

Notes: a) World Bank b) EBRD c) IMF, 1994, Staff projections 1) 1990 2) August 1994 3) end 1993.

APPENDIX TABLE 2

## EDUCATIONAL ATTAINMENT IN THE USSR (ACCORDING TO POPULATION CENSUS 1989)

	Completed and incomplete higher					Completed specialized secondary				
	Population aged 15 years or above	including at age:				Population aged 15 years or above	including at age:			
		25-29	30-34	35-39	40-44		25-29	30-34	35-39	40-44
Armenia	16.1	19.8	21.3	24.7	26.6	17.9	25.0	25.9	25.1	21.0
Azerbaijan	12.5	15.2	18.5	21.8	23.4	14.4	18.9	21.3	22.2	20.4
Belarus	12.3	18.7	19.4	19.8	20.0	16.9	25.9	24.9	25.2	22.7
Estonia	13.5	20.3	21.0	19.9	19.4	19.6	30.7	28.3	25.3	23.2
Georgia	17.5	23.5	24.0	25.3	26.8	18.7	27.3	27.4	26.1	22.1
Kazakhstan	11.7	16.3	17.0	17.9	19.9	18.5	27.2	26.1	26.0	23.9
Kyrgyzstan	11.0	15.2	17.0	18.7	10.9	15.7	22.9	23.0	23.3	21.4
Latvia	13.8	20.0	21.1	20.1	19.0	16.8	25.2	24.3	23.0	20.7
Lithuania	12.4	19.8	21.7	20.2	18.3	19.5	34.5	32.4	28.9	25.0
Moldova	10.0	13.5	14.0	14.7	17.9	15.1	23.4	22.1	21.1	19.0
Russia	13.0	18.1	17.9	18.1	21.1	19.2	28.3	27.1	26.5	25.4
Turkmenistan	9.7	13.0	14.4	16.9	19.2	13.5	18.9	18.5	19.6	18.8
Tajikistan	8.9	11.6	14.6	16.6	17.8	11.0	15.4	16.5	17.4	15.9
Ukraine	11.9	17.8	18.3	17.9	18.8	18.0	28.1	27.1	26.4	24.0
Uzbekistan	11.1	14.4	16.5	19.3	21.5	15.0	22.1	22.2	22.3	19.3

Source: Uroven obrazhovaniya naseleniya SSSR. Po dannym Vsesojuzhnoy perepisi naseleniya 1989 g. Moscow, 1990.



APPENDIX TABLE 3

## LABOUR FORCE SURVEY IN ESTONIA, 1993 AND 1994

	1993				1994			
	Quarter	I	II	III	IV	I	II	III
1 Number of respondents' families	1177	1623	1615	1772	1756	1667	1618	1761
2 Total number of family members of which	3628	5165	5213	5704	5479	5226	5023	5411
3 At working age (male -16/59, female -16/54)	2005	2831	2838	3086	3049	2887	2754	2950
4 Employed persons	1616	2272	2274	2483	2420	2319	2207	2406
5 Workers of working age	1457	2040	2063	2249	2199	2112	2020	2204
6 Job seekers of working age	155	211	194	196	230	182	178	165
7 Working age population who neither work nor seek work	393	580	581	641	620	593	556	582
8 Disabled (in working age)	41	92	86	91	70	78	67	79
9 At pre-working age	1005	1451	1513	1673	1609	1549	1490	1590
10 At post-working age	618	883	862	945	821	790	779	871
11 Activity ratio, percentage (employed per 100 of population)	45	44	44	44	44	44	44	44
12 Age dependency ratio, percentage (at pre-working and post-working age per 100 of population at working age)	81	82	84	85	80	81	82	83
13 Economic dependency ratio (unoccupied/employed population)	1.25	1.27	1.29	1.30	1.26	1.25	1.28	1.25
14 Employment rate, % (employed at working age per 100 of population at working age)	72.7	72.1	72.7	72.9	72.1	73.2	73.3	74.7
15 Unemployment rate, % (job seekers/employed at working age+ job seekers)	9.6	9.4	8.6	8.0	9.5	7.9	8.1	7.0
including: towns	11.0	9.5	8.3	7.4	10.0	8.1	8.5	7.3
countryside	6.7	9.2	9.2	9.5	8.0	7.4	7.1	6.2
16 Unemployment level, % (job seekers/working age population)	7.7	7.5	6.8	6.4	7.5	6.3	6.5	5.6
including: towns	8.8	7.6	6.6	5.9	8.0	6.4	6.8	5.9
countryside	5.5	7.2	7.4	7.5	6.4	5.8	5.7	4.9
17 Percentage of job seekers having visited employment offices	42	44	53	53	54	58	49	49
18 Percentage of job seekers who:								
receive unemployment benefit	13	19	18	18	18	23	18	17
previously received benefits	6	9	11	18	13	18	19	19
have never received benefits	72	65	66	58	68	55	59	55
19 Long-term unemployment (% of job seekers unemployed more than one year)	22	17	32	32	32	32	41	36
20 Percentage of employed, who worked in their work place in a last week of the month: <sup>1</sup>								
more than 41 hours	16	12	10	10	11	12	9	9
41 hours	56	62	57	66	69	68	64	72
30-40 hours	9	7	6	6	7	4	4	5
20-29 hours	5	4	3	4	4	4	3	4
less than 20 hours	5	3	3	3	3	2	2	2
did not work (on holidays, etc.)	6	8	17	6	4	7	15	5
21 Employed old-age pensioners, %	26	26	24	25	26	26	23	23
including: males	32	33	30	30	31	30	27	25
females	23	23	21	22	23	25	22	22
22 Employed old-age pensioners who retired up to five years ago, %	49	46	43	47	45	47	45	44
including: males	43	49	48	48	50	44	38	36
females	53	44	39	46	43	49	49	49
23 Average official unemployment rate (unemployment beneficiaries/total working age population)	2.3	2.5	2	1.8	2.1	2.2	1.7	1.5

Source: EMOR (Estonian Market and Opinion Research Centre Ltd.); Labour Market Board of Estonia

Note: <sup>1</sup> When the total percentage is less than 100, some respondents left this question unanswered. Ordinary working hours per week: 41 (from 1994, it officially stipulated at 40 hour). Effective 1994, the pensionable age for males is 60.5 years and females 55.5 years.

APPENDIX TABLE 4

## CHARACTERISTICS OF THE LABOUR MARKET IN THE NIS

	Structure of population by age, %										
	Population of working age		Below	Working	Over	Economically active		Registered unemployed		Out of work	
	Year	(thousands)	working age	age	working age	1991	1993	Jan 1994	Sept 1994	Jan 1994	Sept 1994
Armenia	1993	2,043.9	31.7	54.9	13.4	1,671	1,633	104.8	91.6	112.9	110
Azerbaijan	1992	3,935.9	35.3	54.4	10.3	2,905	2,715	20.2	23.4	48.8	55.3
Belarus	1992	5,677.0	24.3	55.5	20.2	5,022	4,826	72.5	99.5	72.5	99.5
Georgia	1991	3,027.0	26.1	55.8	18.1	...	...	24.9	34.8 <sup>1</sup>	60.6	80.1 <sup>1</sup>
Kazakhstan	1991	9,226.0	33.2	55.2	11.6	7,498	7,381	42.9	60.0	...	...
Kyrgyzstan	1993	2,242.7	39.8	50.2	10	1,731	1,803	3.1	10.2	8.3	22.3
Moldova	1993	2,395.6	29.2	55.1	15.7	2,070	2,044	15.8	19.7	15.8	19.7
Russia	1993	83,747.3	23.7	56.5	19.8	73,871	71,861	893.6	1,425.6	1,164.6	1,687.9
Tajikistan	1992	2,610.4	45.5	47.0	7.5	1,970	1,872	22.7	27.3 <sup>1</sup>	130.9	144.7 <sup>1</sup>
Turkmenistan	1992	1,896.9	42.5	50.0	7.5	1,571	1,642	...	...	...	...
Ukraine	1992	28,857.3	22.6	55.7	21.7	24,984	23,634	87.7	88.9	90.5	97.6
Uzbekistan	1991	10,125.2	43.1	49.1	7.8	8,323	8,228	14.2	20.0	30.1	30.9
Unemployed according to the reason for leaving or last engagement											
% of registered unemployed, end of 1993											
		Dismissed for disciplinary			Registered in May	Worked		Unemployment		Placed in job, % of	
Voluntary	Staff	Graduates	reasons	Job	Registered in May	Vacancies	in unhealthy	beneficiaries, % of	registered unemployed	1993	Jan-May
resignation	reduction			seekers	1994 (thousands)		conditions in	1993	May 1994		1994
							industry, 1993				
							% of total				
Armenia	27.9	27.4	21.7	0.7	119.1	2.0	9.8	32.2	21.8	7.7	10.7
Azerbaijan	30.8	8.3	18.9	0.1	52.0	9.8	6.1	22.8	21.4	52.0	57.2
Belarus	34.0	26.5	14.5	1.5	86.9	21.9	23.1 <sup>3</sup>	52.1	52.2	47.5	43.0
Georgia	...	...	...	...	...	...	...	...	...	...	...
Kazakhstan	33.5 <sup>2</sup>	32.3 <sup>2</sup>	20.4 <sup>2</sup>	1.2 <sup>2</sup>	...	45.7	30.2	38.1	41.2	63.1	33.3
Kyrgyzstan	34.7	53.6	10.4	0.6	15.9	3.2	13.2	59.0	63.1	45.8	23.9
Moldova	21.7	51.8	12.5	0.3	17.3	0.9	16.8	28.8	23.9	29.8	26.0
Russia	47.0	27.1	12.1	4.6	1,482.9	347.2	21.6	65.9	82.8	39.0	26.5
Tajikistan	45.1	18.2	16.0	0.3	148.1	3.5	18.1 <sup>4</sup>	23.4	21.6	11.7	17.5
Turkmenistan	...	...	...	...	...	...	16.2	...	...	...	...
Ukraine	33.1	34.8	13.0	0.6	141.6	121.9	28.4	47.6	49.1	47.9	39.4
Uzbekistan	26.4	23.6	30.9	0.8	34.2	37.5	15.3	57.0	42.1	60.9	61.6

Sources: STATCOM CIS; PlanEcon. Volume X/Numbers 39-40, 1994, p. 12.

Notes: <sup>1</sup> End of August 1994; <sup>2</sup> End of 1992; <sup>3</sup> 1992; <sup>4</sup> 1991

## APPENDIX TABLE 5

EMPLOYMENT RATE IN SOME OF THE CEE COUNTRIES  
(as per cent of the working age population)

	1989	1990	1991	1992	1993
Albania	78.5	75.0	73.0	36.6 <sup>1</sup>	59.2
Bulgaria	86.3	82.5	72.2	67.0	61.9
Czech Republic	91.1	89.3	80.8	77.9	77.8 <sup>2</sup>
Slovakia	87.3	85.7	75.1	74.1	71.7 <sup>2</sup>
Hungary <sup>3</sup>	79.3	80.2	77.6	70.2	63.8
Poland	78.4	75.3	70.9	68.3	65.9
Romania	84.3	83.3	82.6	81.7	-
Russia <sup>3</sup>	-	87.5	85.7	84.0	82.7
Ukraine	86.3	86.0	84.5	81.0 <sup>2</sup>	-

Source: Crisis in Mortality, Health and Nutrition. Economies in Transition Studies. Regional Monitoring Report No. 2. August 1994.

Notes: <sup>1</sup> Excluding those in self-employment in agriculture.

<sup>2</sup> Preliminary estimate.

<sup>3</sup> People on parental leave are not included in employment data.

APPENDIX TABLE 6

END-MONTH UNEMPLOYMENT RATES IN CENTRAL AND EASTERN EUROPE  
(in per cent of economically active population)

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Bulgaria	1991	1.8	2.5	3.2	4.3	5.0	5.7	6.9	7.8	8.5	9.2	10.1	10.7
	1992	11.3	11.6	12.0	12.4	12.5	12.6	13.4	13.9	14.3	14.8	15.0	15.2
	1993	15.3	15.5	16.0	15.9	15.7	15.5	16.2	16.0	15.7	15.9	16.1	16.4
	1994	16.5	16.3	16.1	15.3	14.5	13.3	13.5	13.0	12.7			
Czech Republic	1991	1.1	1.4	1.7	2.0	2.2	2.6	3.1	3.4	3.8	3.9	4.1	4.1
	1992	4.4	4.1	3.7	3.2	2.9	2.7	2.7	2.7	2.6	2.5	2.5	2.6
	1993	3.0	3.0	2.9	2.7	2.6	2.6	2.8	3.0	3.2	3.2	3.3	3.5
	1994	3.8	3.7	3.5	3.3	3.1	3.1	3.2	3.2	3.2	3.1		
Hungary	1991	1.8	2.2	2.5	2.8	3.1	3.4	4.1	4.7	5.4	6.1	6.8	7.5
	1992	8.2	8.4	8.9	9.3	9.7	10.1	10.9	11.1	11.4	11.6	11.9	12.3
	1993	13.3	13.6	13.4	13.2	13.0	12.6	13.0	13.0	12.9	12.6	12.4	12.2
	1994	12.8	12.6	12.2	11.8	11.4	11.0	11.1	10.1	10.9	10.6		
Poland	1991	6.8	7.0	7.3	7.5	7.9	8.6	9.6	10.1	10.7	11.1	11.4	11.8
	1992	12.1	12.4	12.1	12.2	12.3	12.6	13.1	13.4	13.6	13.5	13.5	13.6
	1993	14.2	14.4	14.4	14.4	14.3	14.8	15.4	15.4	15.4	15.3	15.5	15.7
	1994	16.7	16.8	16.0	16.4	16.2	16.6	16.9	16.8	16.5	16.2	16.1	
Romania	1991	0.6	0.6	0.8	1.1	1.4	1.7	1.9	2.1	2.3	2.3	2.4	3.0
	1992	3.6	4.2	4.5	4.8	5.2	5.7	6.3	6.8	7.4	8.1	8.7	9.1
	1993	8.8	9.4	9.5	9.3	9.3	9.3	9.0	9.0	9.2	9.4	9.9	10.2
	1994	10.8	11.1	11.3	11.2	11.0	10.9	10.6	10.5	10.5	10.7	10.8	
Slovakia	1991	2.4	3.0	3.7	4.6	5.4	6.3	7.7	8.7	9.6	10.3	11.1	11.8
	1992	12.7	12.7	12.3	11.8	11.3	11.3	11.1	10.9	10.6	10.4	10.3	10.4
	1993	11.2	11.8	12.0	12.0	12.0	12.5	13.3	13.5	13.7	13.8	14.0	14.4
	1994	15.2	15.0	14.8	14.4	14.1	14.4	14.8	14.6	14.5	14.4	14.5	
Slovenia	1991	6.8	7.1	7.4	7.6	7.9	8.1	8.5	8.7	9.2	9.6	10.1	10.2
	1992	10.5	10.7	10.7	10.8	10.9	11.1	11.5	11.7	12.2	12.7	12.8	13.4
	1993	13.5	13.4	13.5	14.1	14.0	14.4	14.9	15.0	15.1	15.4	15.3	15.5
	1994	15.3	15.2	14.8	14.6	14.3	14.1	14.4	14.4	14.5	14.5	14.2	
Russia <sup>1</sup>	1991							0.0	0.0	0.0	0.1	0.1	0.1
	1992	0.7	0.7	0.8	0.9	1.0	1.0	1.1	1.2	1.2	1.3	1.4	1.3
	1993	1.4	1.4	1.5	1.5	1.4	1.3	1.3	1.3	1.3	1.3	1.4	1.4
	1994	1.3	1.4	1.5	1.6	1.7	1.8	1.9	1.9	2.0	2.1	2.2	2.4
Croatia	1994	19.3	19.4	19.4	19.4	19.3	18.9	19.0	19.1	19.5	19.7	20.0	
Estonia	1991					0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
	1992	0.1	0.2	0.3	0.4	0.5	0.7	0.8	0.9	1.0	1.2	1.4	1.7
	1993	2.1	2.3	2.5	2.6	2.6	2.3	2.2	1.9	1.8	1.8	1.7	1.9
	1994	2.7	3.0	3.6	3.6	3.5	3.3	3.2	2.3	1.9	1.8	1.8	1.9
Latvia	1993	2.8	3.0	3.5	3.9	4.1	4.5	4.8	5.0	5.0	5.0	5.2	5.3
	1994	6.0	6.3	6.5	6.6	6.4	6.4	6.4	6.3	6.2	6.2	6.4	5.8
Lithuania	1992	0.2	0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.5	0.6	0.8	1.0
	1993	1.1	1.3	1.3	1.4	1.5	1.5	1.5	1.5	1.5	1.4	1.4	1.4
	1994	1.6	1.6	1.4	1.5	1.4	1.4	1.4	1.4	1.5	1.6	1.7	1.8

Source: PlanEcon Business Report, Vol.4, Issue 15, July 20, 1994; Issue 4, Feb. 16, 1994; Vol 3, Issue 7. The Vienna Institute Monthly Report 1995/1; For the Baltic countries: national labour authorities (unemployed entitled to benefit out of working age population, from 1994 - out of labour force).

Note: <sup>1</sup> From 1992, the narrow definition is 'individuals out of employment'.

## APPENDIX TABLE 7

AVERAGE MONTHLY GROSS EARNINGS IN THE CEE COUNTRIES, 1994  
(in US dollars)

	Quarter	Monthly earnings		Quarter	Monthly earnings
Bulgaria	II	83 <sup>1</sup>	Armenia	I	2 <sup>1</sup>
Czech Republic	II	240	Azerbaijan	II	9 <sup>1</sup>
Estonia	II	131	Belarus	II	19 <sup>1</sup>
Hungary	II	312	Kazakhstan	II	25 <sup>1</sup>
Latvia	II	124	Kyrgyz Republic	I	15 <sup>1</sup>
Lithuania	II	86 <sup>1</sup>	Moldova	II	22 <sup>1</sup>
Poland	II	187	Russia	II	104 <sup>1</sup>
Romania	II	77	Tajikistan	I	18 <sup>3</sup>
Slovakia	IV <sup>2</sup>	187	Turkmenistan	I	55 <sup>1</sup>
Slovenia	III <sup>4</sup>	777	Ukraine	II	58 <sup>1</sup>
			Uzbekistan	III <sup>2</sup>	18 <sup>1</sup>

Source: Short-term economic indicators. Transition economies. 4/1994. OECD, Paris, 1994.

Notes: Monthly earnings calculated on the basis of the official USD exchange rate.

<sup>1</sup> Exchange rate at the end of the period.

<sup>2</sup> 1993

<sup>3</sup> Exchange rate of the Russian rouble.

<sup>4</sup> August .

## APPENDIX TABLE 8

MANUFACTURING LABOUR COSTS, 1993  
(US dollars per hour)

Hungary	1.82	Romania	0.68
Poland	1.40	Bulgaria	0.63
Estonia <sup>1</sup>	1.27	Russia	0.54
Czechoslovakia	1.14	Serbia	0.40

Source: World of Work, ILO, No. 8, June 1994, p. 28; Wages and Salaries in the Republic of Estonia. 2/94. ESA, Tallinn, 1994, p. 44.

Note: <sup>1</sup> For the second quarter of 1994.