
CHAPTER 3

UNEMPLOYMENT IN THE TRANSITION ECONOMIES

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3.1 Introduction

This paper investigates the causes of the disappointingly poor employment performance and persistently high unemployment in the transition countries of central and eastern Europe and central Asia (CEECA). It begins with an overview of labour market developments in these countries, identifying some of the marked differences between the central and south-east European (CSEE) transition countries (including the Baltic states) and those in the Commonwealth of Independent States (CIS). The reasons for these differences lie in the diversity of existing conditions at the outset of transition and the variety of their economic reforms, institutional arrangements and policies. The paper explores the effects of macroeconomic policy, modes of privatization, the ability to attract foreign direct investment, the development of small enterprise and the slow progress of institutional reforms. Demographic factors, as well as variations in education, labour market and social policies, are evaluated from the perspective of their impact on labour supply and its match with demand. The role of labour market regulation, incomes policy and collective bargaining is also examined. In conclusion, some necessary improvements in policy are suggested to boost employment and reduce high levels of unemployment in transition economies.

¹⁵³ The author benefited from comments provided by Peter Auer, Sandrine Cazes, Raul Eamets, Krzysztof Hagemejer and Mieczyslaw Socha.

TABLE 3.2.1

GDP and employment in transition economies: average annual growth rates, 1990-2000
(Per cent per annum)

	GDP		Employment	
	1990-1994	1994-2000	1990-1994	1994-2000
Albania	-5.6	6.2	-5.0	-1.4
Armenia	-16.2	5.4	-2.2	-2.5
Azerbaijan	-17.0	3.7	-0.5	0.3
Belarus	-7.8	3.3	-2.3	-0.9
Bulgaria	-3.9	-0.6	-5.7	-1.6
Croatia	-9.3	4.2	-6.3	0.5
Czech Republic	-2.6	1.8	-2.3	-1.0
Estonia	-8.8	5.0	-4.3	-2.1
Georgia	-27.5	5.2	-10.8	6.9 ^a
Hungary	-3.3	3.6	-7.2	0.4
Kazakhstan	-9.6	0.6	-4.2	-1.0
Kyrgyzstan	-14.4	3.6	-1.5	1.2
Latvia	-15.9	3.7	-6.3	-0.7
Lithuania	-13.4	3.3	-2.5	-0.9
Poland	1.0	5.5	-2.9	0.9
Republic of Moldova	-20.5	-2.3	-5.1	-1.7
Romania	-4.3	-0.2	-2.0	-3.4 ^b
Russian Federation	-10.3	0.2	-2.3	-1.0
Slovakia	-5.2	4.5	-3.8	-
Slovenia	-1.7	4.3	-4.7	0.4
Tajikistan	-20.1	-2.1	-1.1	-1.0
The former Yugoslav				
Republic of Macedonia ...	-5.5	2.2	-6.0	-3.9
Turkmenistan	-9.2	3.9	3.5	2.4
Ukraine	-14.1	-3.8	-2.4	-1.3
Uzbekistan	-4.9	3.1	1.3	1.2
Yugoslavia	-18.0	1.4	-2.8	-1.3
<i>Memorandum items:</i>				
CSEE	-3.1	3.2	-4.0	-0.4 ^b
Baltic states	-13.3	3.8	-4.1	-1.1
CIS	-11.1	0.1	-2.3	-1.1 ^a

Source: UNECE Common Database; author's calculations.

^a 1994-1998.

^b 1994-1999.

TABLE 3.2.2

Participation rates of the population aged 15-64 in transition economies, 1990 and 1999
(Per cent)

	1990			1999		
	Men	Women	Total	Men	Women	Total
Albania	86.4	63.3	75.2	..	..	..
Armenia	79.5	69.1	74.1	78.5 ^a	55.6 ^a	66.4 ^a
Azerbaijan	77.8	36.4	66.7	50.1 ^{bc}	44.2 ^{bc}	47.1 ^{bc}
Belarus	82.0	72.6	77.2	45.8 ^{bc}	46.0 ^{bc}	45.9 ^{bc}
Bulgaria	77.7	72.2	75.0	75.9	64.9	70.2
Croatia	76.9	56.4	66.6	59.8 ^b	51.4 ^b	55.6 ^b
Czech Republic	82.2	74.1	78.1	80.3	64.4	72.4
Estonia	83.3	75.9	79.4	78.1	66.4	72.1
Georgia	80.1	63.5	71.5	78.9	62.5	70.2
Hungary	74.5	57.3	65.4	67.8	52.3	59.9
Kazakhstan	82.0 ^d	69.5 ^d	75.6 ^d	..	..	..
Kyrgyzstan	78.2 ^d	65.0 ^d	71.5 ^d	..	..	..
Latvia	83.6	75.3	79.4	75.3	62.6	68.7
Lithuania	81.8	70.5	76.0	77.4	68.3	72.7
Poland	80.1	65.1	72.5	72.8	59.7	66.1
Republic of Moldova ...	81.5	70.4	75.7	..	..	..
Romania	76.7	60.5	68.5	76.3 ^b	61.9 ^b	69.0 ^b
Russian Federation	91.6	71.7	76.5	74.2	63.9	68.9
Slovakia	82.5	74.2	78.3	76.1	62.6	69.3
Slovenia	76.7	64.8	70.7	72.2	63.3	68.0
Tajikistan	77.7	56.2	66.8	32.5 ^{ec}	28.2 ^{ec}	30.3 ^{ec}
The former Yugoslav Republic of						
Macedonia	77.9	53.1	65.6	72.8	46.5	59.7
Turkmenistan	81.0	64.3	72.5	..	..	..
Ukraine	79.7	69.8	74.5	71.4	61.8	66.4
Uzbekistan	77.9	64.2	71.0	..	..	..
Yugoslavia	77.0	54.9	66.0	..	..	..

Source: ILO, Bureau of Statistics, *Economically Active Population* (Geneva) (data for 1990); labour force survey; official estimates; establishment census; population census; author's calculations.

a 1997.

b 1998.

c 15+.

d 1989.

e 1996.

TABLE 3.2.3

Separation rates according to destination of outflows from employment in selected transition economies, 1990-2000
(Per cent)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Employment to unemployment											
Czech Republic .....	..	..	..	1.7	1.4	1.2	1.5	1.8	3.0	..	..
Estonia	0.7	1.7	4.9	5.4	5.1	4.2	4.8	4.6	6.0	..	..
Hungary .....	..	..	..	4.7	2.8	2.8	2.2	2.2	1.7	1.4	1.2
Poland .....	..	..	7.9	8.4	8.1	6.8	6.2	5.0	5.0	..	..
Slovenia	2.3	4.1	..	3.3	2.3	2.2	2.7	2.4	2.5	2.8	1.8
Employment to inactivity											
Czech Republic .....	..	..	..	5.3	4.3	5.6	4	3.8	3.7	..	..
Estonia	5.6	6.4	10	7.5	6.5	3	5	4	4.6	..	..
Hungary .....	..	..	..	8.0	5.7	6.3	5.1	5.4	4.1	3.2	3.1
Poland .....	..	..	11.4	12.8	11.1	8.4	8.3	7.7	6.8	..	..
Slovenia	8.7	8.0	..	6.5	6.2	5.1	6.9	7.1	5.9	7.1	6.3

Source: S. Cazes and A. Nesporova, *Towards Excessive Job Insecurity in Transition Economies?*, ILO Employment Paper, No. 2001:23 (Geneva), 2001.

TABLE 3.2.4

Participation rates according to age group in transition economies, 1990 and 1999
(Per cent)

	1990			1999		
	Age group			Age group		
	15-24	25-49	50-64	15-24	25-49	50-64
Albania	59.5	87.7	64.4	..	..	..
Armenia	49.7	90.9	61.3	27.3 ^a	85.3 ^a	64.7 ^a
Azerbaijan	48.8	85.8	56.3	..	..	..
Belarus	52.4	96.1	60.2	..	..	..
Bulgaria	51.9	95.1	55.3	..	..	..
Croatia	45.8	86.8 ^b	43.5 ^c	40.3 ^d	70.5 ^{bd}	23.3 ^{cd}
Czech Republic	57.7	96.0	55.7	48.7	89.3	59.4
Estonia	53.0	95.6	68.5	43.5	88.2	62.2
Georgia	47.3	85.7	65.4	37.2	80.4	75.0
Hungary	51.5	86.0	36.0	40.7	79.0	37.9
Kazakhstan	53.8 ^e	93.9 ^e	55.7 ^e	..	..	..
Kyrgyzstan	50.5 ^e	92.3 ^e	50.9 ^e	..	..	..
Latvia	56.1	95.1	67.4	41.6	87.0	53.1
Lithuania	49.5	93.9	61.9	39.8	92.6	59.8
Republic of Moldova ..	53.0	94.9	52.4	..	..	..
Poland	44.3	87.3	60.6	37.3	85.0	47.8
Romania	59.8	87.7	42.9	45.8 ^d	84.8 ^d	58.1 ^d
Russian Federation	52.4	95.2	57.7	41.9	87.7	48.8
Slovakia	58.8	95.6	55.3	45.6	89.5	45.6
Slovenia	50.4	93.1	42.0	41.8	91.3	38.2
Tajikistan	49.1	84.5	53.0	..	..	..
The former Yugoslav Republic of						
Macedonia	44.5	81.4	49.5	38.8	76.6	42.1
Turkmenistan	56.2	88.9	56.1	..	..	..
Ukraine	51.5	94.7	55.5	42.1	86.0	46.0
Uzbekistan	52.5	90.0	51.4	..	..	..
Yugoslavia	45.1	84.9	46.6	..	..	..

Source: ILO, Bureau of Statistics, *Economically Active Population* (Geneva) (data for 1990); labour force survey; official estimates; establishment census; population census; author's calculations.

^a 1997.

^b 25-54.

^c 55-64.

^d 1998.

^e 1989.

TABLE 3.2.5

Registered unemployment as a proportion of the labour force in transition economies, 1994, 1998 and 2000 (end-year)
(Per cent)

	1994	1998	2000
Albania	18.0	17.6	16.9
Armenia	6.0	8.9	10.9
Azerbaijan	0.9	1.4	1.2
Belarus	2.1	2.3	2.1
Bulgaria	12.8	12.2	17.9
Croatia	17.3	18.6	22.6
Czech Republic	3.2	7.5	8.8
Estonia ^a	5.0	4.5	6.6
Georgia	3.8	4.2	5.6 ^b
Hungary	10.9	9.1	8.9
Kazakhstan	1.0	3.7	3.7
Kyrgyzstan	0.8	3.1	3.1
Latvia	6.5	9.2	7.8
Lithuania	4.5	6.9	12.6
Republic of Moldova	1.0	1.9	1.8
Poland	16.4	10.4	15.1
Romania.....	10.9	10.3	10.5
Russian Federation	2.1	2.7	1.4
Slovakia	14.8	15.6	17.9
Slovenia	14.2	14.6	12.0
Tajikistan	1.8	2.9	3.0
The former Yugoslav Republic of Macedonia	30.0	41.4	44.9
Ukraine	0.3	4.3	4.2
Yugoslavia	14.2	14.6	12.0 ^c

Source: UNECE Common Database and *Economic Survey of Europe, 2001 No. 2*, p. 167; for Estonia: Labour Market Board data.

^a Job seekers.

^b 1999.

^c Excluding Kosovo and Metohia.

TABLE 3.2.6

Total unemployment in selected transition countries, 1994, 1998 and 2000
(Per cent of labour force)

	1994	1998	2000
Armenia .....	..	36.4 ^a	..
Bulgaria	20.2	14.4 ^a	18.7
Croatia	10.0 ^b	11.4	13.5 ^c
Czech Republic	4.3	7.3	8.8
Estonia	7.6	9.9	13.5
Georgia .....	..	14.5	13.8 ^c
Hungary	10.7	7.8	6.6
Kazakhstan	7.5	13.7	..
Latvia	18.9 ^d	13.8	14.4
Lithuania	16.4 ^b	13.3	15.9
Poland	14.0	10.5	16.6
Romania	8.2	6.3	7.7
Russian Federation	8.1	13.3	13.4 ^c
Slovakia	13.7	12.5	19.1
Slovenia	9.0	7.7	7.1
Ukraine	5.6 ^d	11.3	11.9 ^c

Source: Labour force survey; official estimates.

^a 1997.

^b 1996.

^c 1999.

^d 1995.

TABLE 3.2.7

Youth total (labour force survey) unemployment rates in selected transition economies, 2000
(Per cent)

	Youth unemployment rate: population aged 15-24	National average rate: population aged 15-64
Bulgaria	39.4	18.7
Czech Republic	17.0	8.8
Estonia	23.7	13.5
Hungary	12.3	6.6
Latvia	21.2	14.4
Lithuania	27.5	15.9
Poland	35.7	16.6
Romania	17.8	7.7
Slovakia	36.9	19.1
Slovenia	16.4	7.1
The former Yugoslav Republic of Macedonia	59.9	32.5

Source: EUROSTAT, *Employment and Labour Market in Central European Countries*, No. 3 (Luxembourg), 2001.

TABLE 3.3.1

Self-employment as a share of total employment in selected transition economies, 1993 and 2000
(Per cent)

	1993			2000		
	Men	Women	Total	Men	Women	Total
Bulgaria	12.9	9.2	11.2	18.3	10.6	14.7
Croatia	25.1 ^a	15.4 ^a	20.7 ^a	23.3 ^b	14.4 ^b	19.2 ^b
Czech Republic	15.8	9.4	12.8	18.8	9.0	14.5
Estonia	10.4	6.2	8.4	9.7	6.4	8.1
Hungary	17.4	11.3	14.6	18.7	9.6	14.6
Kazakhstan	0.1 ^c	0.2 ^c	0.1 ^c	..	..	..
Latvia	12.4 ^d	6.9 ^d	9.8 ^d	12.5	8.4	10.5
Lithuania	21.5 ^e	14.6 ^e	18.3 ^e	19.2	12.7	15.9
Poland	32.2	29.9	31.2	25.9	18.4	22.5
Romania	24.4	19.4	22.1	32.6	17.4	25.4
Russian Federation	10.1 ^f	5.6 ^f	8.0 ^f	8.4	6.2	7.4
Slovakia	9.0	3.5	6.6	10.9	4.1	7.8
Slovenia	16.0	7.6	12.2	15.3	6.5	11.2
The former Yugoslav						
Republic of Macedonia	74.0 ^g	68.5 ^g	71.8 ^g	..	..	..
Ukraine .....	..	..	..	8.3 ^b	9.0 ^b	8.6 ^b

Source: Labour force surveys; author's calculations.

^a 1996.

^b 1999.

^c 1989.

^d 1995.

^e 1997.

^f 1991.

^g 1994.

TABLE 3.3.2

Labour turnover in selected transition economies in the 1990s
(Per cent)

Country labour turnover	Source	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Bulgaria	ES	48.9	50.9	43.7	45.0	43.9	43.4	46.1	59.3	55.8	67.5	..
Czech Republic	LFS	..	..	..	44.5	36.1	30.3	24.8	24.7	22.3	..	..
Estonia	LFS	30.8	38.4	54.4	55.6	55.3	31.0	42.9	36.2	35.0	..	..
Poland	ES	35.2	42.9	40.3	41.6	41.7	45.2	47.3	37.1	47.4	..	..
Poland	LFS	..	..	35.7	44.1	54.2	47.1	53.4	40.1	38.2	..	..
Russian Federation	ES	..	..	49.8	46.2	48.2	48.3	42.8	44.4	45.9	48.7	..
Slovenia	ES	27.1	34.2	31.6	32.2	32.0	31.4	31.2	29.3	28.8	31.1	30.1
Ukraine	ES	..	..	..	..	..	38.8	37.6	35.3	35.2	37.4	..

Source: S. Cazes and A. Nesporova, *Towards Excessive Job Insecurity in Transition Economies?*, ILO Employment Paper, No. 2001:23 (Geneva), 2001.

Note: ES = establishment survey; LFS = labour force survey. Labour turnover is calculated as a ratio of the sum of hirings and separations during the year to the initial employment level in that year at establishment level, or as a sum of aggregate changes between employment and unemployment and employment and inactivity, as well as changes in employment from one job to another over the year, divided by initial employment in that year.

TABLE 3.3.3

Comparison of labour turnover and job turnover in selected transition economies, 1994-1997
(Per cent)

	Labour turnover	Job turnover	Share of job turnover in labour turnover
Bulgaria	48.2	8.1	16.8
Estonia	41.4	16.0	38.6
Poland	42.8	8.5	19.9
Russian Federation ^a ...	48.2	6.5	13.5
Slovenia	31.0	9.5	30.6

Source: Labour turnover data as for table 3.3.2; job turnover data for Bulgaria, Estonia, Poland and Slovenia from G. Faggio and J. Konings, *Job Creation, Job Destruction and Employment Growth in Transition Countries in the 1990s*, LICOS (Leuven), 2000. For the Russian Federation from V. Gimpelson and D. Lippoldt, "Labour turnover in the Russian economy", *OECD Proceedings: Labour Market Dynamics in the Russian Federation*, OECD (Paris), 1997.

Note: Labour turnover is defined in table 3.3.2. Job turnover is the sum of changes in the number of jobs in individual establishments, i.e. the sum of all employment gains from new or expanding establishments and all employment losses from closed down or declining establishments. For details concerning the calculation of job turnover data in this table see source.

^a Only 1994-1995.

TABLE 3.3.4

Composition of the population, aged 15-64, according to education level, in selected transition economies, 2000
(Per cent of total population)

	Level of education		
	Primary	Secondary	Tertiary
Bulgaria	43.9	42.7	13.4
Czech Republic	23.8	67.0	9.1
Estonia	26.2	51.3	22.5
Hungary	38.5	50.3	11.2
Latvia	30.6	55.3	14.1
Lithuania	31.3	36.8	31.9
Poland	33.1	58.3	8.6
Romania	43.2	49.9	6.9
Slovakia	28.8	63.5	7.6
Slovenia	33.9	53.9	12.1

Source: EUROSTAT, *Employment and Labour Market in Central European Countries* (Luxembourg), 2001.

TABLE 3.3.5

Recipients of unemployment benefits and replacement rates in selected transition economies, 1998
(Per cent)

	Share of benefit recipients in registered unemployment	Average benefits in relation to average wage (=replacement rate)
Bulgaria	24.8	29.0 ^a
Czech Republic	48.8	24.0 ^a
Estonia	59.3	7.5
Hungary	73.9	27.5 ^b
Poland	23.1	36.0 ^c
Russian Federation	89.5	..
Slovakia	27.0	32.8
Slovenia	32.6	43.9
Ukraine	53.1	22.7 ^d

Source: C. O'Leary, A. Nesporova and A. Samorodov, *Manual on Evaluation of Labour Market Policies in Transition Economies*, ILO (Geneva), 2001.

^a 1997.

^b 1999.

^c March 1996.

^d December 1999.

TABLE 3.3.6

Expenditure on labour market policy per unemployed person in selected transition economies, 1998

	Total expenditure		Expenditure on active labour market policies	Expenditure on income support
	GDP (per cent)	Per unemployed ^a		
Bulgaria	0.8	0.056	0.007	0.029
Croatia	0.6	0.053	0.002	0.042
Czech Republic ..	0.4	0.055	0.007	0.036
Estonia	0.2	0.020	0.007	0.010
Hungary	1.3	0.167	0.036	0.117
Poland	1.0	0.095	0.028	0.056
Russian Federation	0.2	0.015	0.002	0.010
Slovakia	1.1	0.088	0.026	0.044
Ukraine	0.3	0.027	0.003	0.017

Source: Data on labour market policy spending: C. O'Leary, A. Nesporova and A. Samorodov, *Manual on Evaluation of Labour Market Policies in Transition Economies*, ILO (Geneva), 2001; labour force survey unemployment rates: table 3.2.6; author's calculations.

^a Ratio of GDP spent on labour market policies to labour force survey unemployment rate (both in percentage terms) including spending on active policies and on income support. The difference between column 3 and columns 4 and 5 relates to the costs of running national public employment services.

DISCUSSANTS' COMMENTS

3.A Gábor Kőrösi¹⁵⁴

and

3.B Iskra Beleva

TABLE 3.A.1

Employment ratios of the population aged 25-62 by level of educational attainment, 1998
(Per cent)

		Men			Women		
		All levels	ISCED 0/1 and 2	Difference	All levels	ISCED 0/1 and 2	Difference
Hungary	33	69.1	37.1	32.0	53.9	31.6	22.3
Poland	24	75.9	57.4	18.5	60.5	40.7	19.9
Comparators							
Austria	28	80.7	65.3	15.4	60.3	45.1	15.2
Finland	28	76.2	61.6	10.9	69.8	57.8	12.0
Czech Republic	16	82.9	57.6	25.3	63.4	41.8	21.6
Comparators							
Denmark	20	84.0	69.0	15.0	73.2	55.7	17.5
Germany	19	76.9	62.5	14.4	59.7	40.4	19.3

Source: OECD, *Education at a Glance* (Paris), 2000, tables A2.1b and E1.1-E1.2.

Note: International Standard Classification of Education (ISCED), UNESCO.

¹⁵⁴ I am grateful for the help and comments received from János Köllő.