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## PANEL 3. SOCIAL ASPECTS AND FINANCING OF INDUSTRIAL RESTRUCTURING

Topic 5. Social costs of industrial restructuring and remedies

**SOCIAL DIMENSION OF INDUSTRIAL RESTRUCTURING\***by Mr. **Oscar de Vries**, Director, Sectoral Activities Department (SECTOR)  
International Labour Organization (ILO)  
Switzerland**Employment and unemployment trends<sup>1</sup>**

One of the most dramatic features of the transition from centrally planned to market-based economies has been the enormous decline in employment, combined with growing unemployment (at least in the first years) and falling participation rates. Table 1 gives an overview of changes in employment in selected transition countries during the 1990s.

Employment losses were particularly high in Central and Eastern Europe in the first years of economic transition. They even continued for some time in those countries which resumed economic growth. These countries have recently seen a modest recovery in employment, but in other countries which have not yet achieved a sustained revival, employment is still declining. The reasons for such poor performance are many. First, the extent of initial labour hoarding was such that production could easily be increased without additional labour. Second, in order to become more competitive, enterprises have been forced to cut costs, including labour costs, and invest in new technologies, many of which are labour-saving. Third, the number of new jobs is still not sufficient to make up for those lost and to provide openings for new labour market entrants

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in many transition countries. The absorption capacity of previously underdeveloped sectors has proved lower than expected. Finally, skill mismatches and regional disparities leave many people without work while some new jobs remain vacant.

**Table 1**  
**Employment trends in selected transition countries, 1989-1999**  
**(1989 = 100)**

Country	1990	1992	1996	1999
Bulgaria	93.9	75	75.3	70.4
Croatia	97.1	79.3	74.5	78.5
Czech Republic	99.1	91.2	93.4	86.9
Hungary	96.7	77	69	72.9
Poland	95.8	86.3	88.3	92.4
Romania	99	95.5	85.7	76.9
Slovakia	98.2	86.8	84.5	78
Slovenia	96.1	83.8	78.7	80.2
Estonia	98.6	91.4	77	73.3
Latvia	100.1	92	72.3	73.8
Lithuania	97.3	97.5	87.2	86.6
Armenia	102.4	99.2	90.2	82.9
Azerbaijan	100.9	101.4	100.5	100.9
Belarus	99.1	94.1	84	85.5
Kazakhstan	101.3	98.3	84.6	79.2
Moldova	99.1	98	79.4	71.5
Russian Federation	99.6	95.3	87.2	84.6
Ukraine	99.9	96.3	91.3	85.8

**Source: UN ECE (2000)**

The countries of the CIS experienced a different development in their labour markets. Despite large production losses, employment cuts remained fairly limited until recently. This is explained by the paternalistic approach of enterprise managers towards their workers and a preference for avoiding redundancies, even at the cost of low wages and lower capacity utilization, especially in the first years of economic transition. Later their motivation was to avoid making severance payments to redundant workers and to reduce labour costs by placing redundant workers on administrative leave (often without pay) or cutting working hours or withholding wages. Many workers facing a loss of income due to these practices opted to resign and until recently many were able to find other jobs, although frequently of similar low quality. Moreover, regional authorities in many CIS countries granted concessions to enterprises to prevent mass layoffs, which also postponed job cuts and maintained redundant labour within enterprises. This has changed since 1995, as a result of tightening macroeconomic austerity measures and the Russian crisis. The number of layoffs for economic reasons has increased in the last six years.

The Baltic states initially shared the same pattern as the CIS countries, with employment losses lagging far behind production trends. However, employment cuts accelerated fairly soon. Employment has recently stabilized but it has not increased, despite strong economic growth in Estonia and Lithuania since 1994 and in Latvia since 1995.

Open unemployment started to accelerate immediately after the introduction of economic reforms, (see Table 2). In Central and Eastern Europe the rates of registered unemployment reached two-digit levels within the first three years of economic transition, the only exception being the Czech Republic and to some extent Romania. A certain decline and stabilization of registered unemployment at around ten per cent occurred in the second stage of transformation. This stabilization was more a consequence of restrictions in the national unemployment insurance systems due to tight budgets than due to a recovery in demand for labour. Only in the last few years has unemployment started to decrease in countries like Hungary or Slovenia in connection with economic growth stimulating the demand for labour. In other countries of this group, unemployment increased again as a result of economic recession (Bulgaria, Romania) and/or acceleration of enterprise restructuring (Czech Republic, Poland, Slovakia) and the introduction of a new health insurance system (Bulgaria, Croatia, Poland) whereby registration as unemployed became necessary.

**Table 2**  
**Unemployed rates in selected transition countries, (in per cent) 1992-1999**

Country	Registered unemployment				1994	LFS unemployment					
	1992	1994	1996	1998		1999	1996	1998	1999		
Bulgaria			15.3	12.8	12.5	12.2	16	20.5	13.7	16	17
Croatia			17.8	17.3	15.9	18.6	20.8	N/A	10	11.4	13.6
Czech Rep.			2.6	3.2	3.5	7.5	9.4	4.1	3.9	7.3	9
Hungary			12.3	10.9	10.5	9.1	9.6	10.7	9.8	7.8	7
Poland			14.3	16	13.2	10.4	13	13.9	11.5	10.6	15.3
Romania			8.2	10.9	6.6	10.3	11.5	8.2	6.7	7.4	8.2
Slovakia			10.4	14.8	12.8	15.6	19.2	13.7	11.1	11.9	17.1
Slovenia			13.3	14.2	14.4	14.6	13	9	7.3	7.7	7.4
Estonia			1.6	5.1	5.6	5.1	6.7	7.6	10	9.6	12.3
Latvia			2.3	6.5	7.2	9.2	9.1	N/A	18.3	13.8	14.4
Lithuania			3.5	4.5	6.2	6.9	10	17.4	16.4	13.3	14.1
Armenia			3.5	6	9.7	8.9	11.5	N/A	10.8*	9.3	11.6
Azerbaijan			0.2	0.9	1.1	1.4	1.2	N/A	N/A	N/A	N/A
Belarus			0.5	2.1	4	2.3	2	N/A	N/A	N/A	N/A
Kazakhstan			0.4	1	4.1	3.7	3.9	N/A	N/A	N/A	N/A
Moldova			0.7	1	1.5	1.9	2.1	N/A	N/A	N/A	N/A
Russian Fed.			0.8	2.1	3.4	2.7	1.7	8.1	9.7	12.8	12.2
Ukraine			0.3	0.3	1.5	4.3	4.3	N/A	7.6	11.3	12.9

\* 1997

Sources: UN ECE (2000) for registered unemployment. ILO LABORSTA database and national statistics for LFS unemployment.

The CIS countries have witnessed a different type of development with regard to registered unemployment. Most of these countries have fairly low rates of registered unemployment, with the exception of Armenia. However, unemployment measured by labour force surveys has been several times higher. This difference should be attributed first of all to low levels of unemployment benefit and significant delays in payment, as well as very limited access to employment promotion measures so that many unemployed persons are not interested in being registered. The further tightening of eligibility for unemployment benefits and the reduction in employment promotion measures has even led to the paradoxical situation in some CIS countries, such as the Russian Federation, that registered unemployment recently declined whereas unemployment measured by labour force surveys has risen. Many unemployed persons are thus left without assistance in job search or access to income support from the employment service. The same applies to people who are formally employed but actually on administrative leave, those whose wages are not paid or whose working hours are shortened and who would like help in finding a new reasonably paid job.

Registered unemployment rates in the Baltic states have reached higher levels, closer to those of Central and Eastern Europe. Labour force survey data on unemployment are however much higher than administrative data, although the difference is not as great as in the CIS countries. The explanation is similar: stricter criteria for registration, low levels of unemployment benefit and limited employment promotion programmes disqualify or discourage many unemployed persons from registration.

All transition countries have substantial regional disparities in unemployment, which are still greater at local levels. The main reason for high and persistent regional unemployment is the low geographical mobility of the population by lack of affordable accommodation in regions offering good employment opportunities. In a number of transition countries, housing is still subsidized and moving out means losing the controlled rent. Commuting to work has also declined recently due to deteriorating public transport services and increasing fares. Regional unemployment is particularly high in rural areas and in areas which depend on a small number of industries (or one single) which are hit by economic crisis. Some of these areas have little potential for development due to poor infrastructure or low quality human resources or for other reasons.

### **Active labour market policies**

Most transition countries apply a wide range of labour market programmes. They are modelled on similar programmes used by industrialized market economies. The programmes aim to assist job seekers, and also workers threatened by redundancy in some countries. The services include finding new employment opportunities and providing income support. Under the heading *Active labour market policies* attention is given to specific programmes reflecting the particular needs of countries. Transition countries with high long-term unemployment tend to run broad-based public works programmed to alleviate poverty among the long-term jobless and keep up their contact with the labour market. Public works schemes are particularly widespread in Hungary, Bulgaria, Russia, Ukraine and Estonia. They have the disadvantage that they usually provide only unskilled short-term jobs with no prospect of a long-term assignment. Therefore some countries, such as Slovenia, try to extend the schemes to include jobs requiring higher skills, with a possibility (or even a subsidy) for converting them into permanent jobs. Similarly, Hungary is moving towards linking public works with post-programme regular employment and introducing training in such programmes.

Countries facing high structural unemployment and skill mismatches in the labour market invest heavily in the labour market training of job seekers with low or obsolete skills. Labour market training is widely used in Hungary, Russia and the Ukraine. Some countries, such as Hungary, Croatia, Slovenia and the Czech Republic, also subsidize the retraining of employed persons before their internal redeployment in enterprises undergoing major restructuring or they finance the retraining of redundant workers with obsolete skills before layoff, to facilitate their re-employment.

In most transition countries labour market training is the only regularly monitored programme in terms of re-employment after competition. In the Czech Republic, the average annual placement rate after labour market training was 71.2 per cent. for the period 1991 to 1997, in the Russian Federation it was 89.2 per cent in 1998. In Hungary, group training resulted in re-employment for 45.6 per cent of the participants while individual training led to job placements for 51.3 per cent of the participants in 1997. In Poland and Estonia the placement rates hover around 56 per cent. Bulgaria reported a 35.3 per cent average placement rate after labour market training in 1999.

Subsidized employment programmes have been used in a number of transition countries. They are usually expensive but have the advantage that the employment service can select the people who are placed. Therefore, subsidized employment programmes often target disadvantaged groups or they are applied in regions with very high unemployment. The experiences in Poland and Hungary are so far positive: in Poland more than half of the participants found employment after leaving the programme in 1997, whereas in Hungary some 55 per cent of the participants were re-employed.

Lastly, programmes encouraging the self-employment of jobless persons are rather modest in most transition countries, partly because few people are willing and able to run a business. Nonetheless, improved screening of potential entrepreneurs has resulted in Poland and Hungary in high re-employment rates achieved by such programmes: in Poland around 80 per cent of the recipients of a business start-up loan were successful in 1997, while in Hungary the success rate in the same year was 85 per cent.

### **Social dialogue**

Since the beginning of the transition period, the main form of social dialogue with employers and trade unions in transition economies has been that of tripartite consultation and negotiation at the national level. There are many reasons for this, but one main reason was that following the long period of central control and given the difficulties of the transition process, the governments preferred to keep a relatively tight hand on economic and social reforms. Of course, this would be impossible in the context of a completely decentralized system of industrial relations.

In addition, the experience of Western European countries had convinced the countries in transition that tripartite consultation and negotiation often helps the social partners to become more cooperative, especially during periods of difficult economic adjustment. The basic belief was that if all parties were directly involved in the decision making process, the outcome would stand a greater chance both of being perceived as equitable by all the parties concerned and of being effectively implemented. Therefore, countries in the region such as Bulgaria, Czech Republic, Hungary, Poland and Slovakia started to establish tripartite bodies at the national level, followed by other countries as well. Generally these tripartite bodies are dealing with the whole range of economic and social policies, as well as specific industrial relations issues, such as labour legislation and the fixing of the minimum wage. In some countries, for example Hungary, special national tripartite bodies have been established to deal with employment policies.

At the enterprise level, most transition countries have opted for a system whereby trade union representatives defend the workers' interests in enterprises. Some countries, such as Croatia, Hungary and Slovenia, have introduced a dual system of worker representation at the enterprise level, i.e. trade union representation and a works council system, such as exist in a number of West European countries. As an example, the works councils in Hungary have a number of information and consultation rights and in some cases the right of co-decision. The information supplied to works councils is often at the centre of discussions between management and the works council. Usually, the main subjects are related to the general situation of the enterprise, its economic and financial outlook, and changes that management is considering in areas such as the introduction of new technologies, investments, rationalization of production methods, changes in the structure of the enterprises and their impacts on jobs. Thus the works council may generally request forecasts

of events which may lead to changes in the employment situation. In addition, many West European firms which are subject to European Directive 94/45 on the establishment of European Works Councils have extended these EWCs to their subsidiaries in the countries which are candidates for EU membership.

At the sectoral level, a number of transition countries have established tripartite consultation bodies to deal with problems of particular industries. This is particularly important in the case of industries undergoing massive restructuring. Poland is one of the countries where this type of social dialogue is most developed. In the last ten years the following sectoral tripartite bodies have been established in Poland and are functioning:

- C Miners= social security (1992);
- C Social conditions of restructuring of the steel industry (1997);
- C Restructuring of the energy sector (1998);
- C Restructuring of the arms and aircraft industry (1998);
- C Restructuring of sulphur mining and processing (1998);
- C Light industry (1999);
- C Maritime shipping and fisheries (2000), and
- C Metal industry (2001).

Social dialogue has also been important for local and regional development policies. Such policies may have many components in providing local actors with the necessary capacity and means to develop and implement local development initiatives. The following components of such policies could be mentioned:

- C decentralizing responsibilities from the central government to regional or local governments;
- C strengthening the role of local and regional labour offices;
- C decentralizing decision-making power on the use of employment or social funds;
- C promoting the establishment of institutions that may play a role in local development (e.g. local and regional development councils and agencies or enterprise promotion agencies);
- C promoting cooperation between the social partners at the local level, and
- C capacity-building activities for local actors.

The experience with social dialogue at the different levels in transition countries is mixed. In many instances it has been hampered by institutional difficulties and weaknesses of the social partners, sometimes compounded by excessive pluralism among employers= and workers= organizations. However, in the more successful transition economies there is a clear correlation between their economic and social development and the effectiveness of their social dialogue mechanisms.

## **Conclusion**

The restructuring of the economies in transition countries has had a dramatic impact on employment and this may be further compounded by ongoing and needed industrial restructuring. A strengthening and further targeting of active labour market policies should be envisaged to counter these developments. Social dialogue at all levels plays an important role in enhancing the effectiveness of the different policy components and ensuring that equitable solutions are found so that the costs and benefits are shared in a more just manner.

