

Preface

Rapid technical progress and increasing competition in global markets are forcing enterprises to continuously innovate and restructure production, invest in new technologies, and minimize production costs in order to be competitive. These changes result in with job creation and job destruction as well as changes in job content and skill requirements within and outside enterprises. Labour force adjustment is achieved through internal redeployment, often combined with retraining and skills upgrading but also through staff reductions and new recruitments of workers with required skills.

This paper focuses on labour market changes in transition countries over the past decade. Until 1990, enterprises of the Soviet bloc countries had been largely protected against the impacts of the world markets through centrally organized production and distribution, and the dominance of producers in the home market. In addition, labour markets were also strongly regulated so that workers enjoyed very high employment security and job stability. Political changes made possible the long-delayed economic and social reforms, which opened domestic markets to import competition while challenging traditional export destinations. Enterprises, suddenly exposed to harsh competition and deprived of state subsidies, were forced to massively restructure their production and workforce within a relatively short time. This paper detects a marked acceleration of labour market flows after 1990 in the transition economies analysed. However, this analysis also reveals an opposite relationship between the intensity of labour flows and the economic cycle in transition countries, in comparison with industrialized countries. This is mainly explained by the perceived higher employment insecurity of workers in the transition economies. This paper also finds large differences in labour mobility and job stability among the transition countries examined, which may partly explain their remarkable variations in economic and employment performance.

The present paper has been prepared within the framework of a project on “Adjustment of labour markets to economic and structural change: Labour market flexibility and security and labour market policies” run by the Labour Market Policy Team of the Employment Strategy Department.

Rashid Amjad
Officer-in-Charge
Employment Strategy Department

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1. Introduction

A topic – emphasized by public media but also frequently discussed in specialist economic journals – is the apparent trend towards higher job instability, irregular employment and flexible work arrangements, to counter the twin challenges of globalization and technological changes in production and distribution. As a response to mergers, acquisitions and in the process of enterprise restructuring and adjustment to market changes, downsizing is indeed prevalent in large and medium-sized enterprises worldwide. Enterprises increasingly turn towards externalizing not only their support services but also ancillary segments of production and towards hiring firms and workers on a temporary basis. Strong competition in the marketplace means that many small firms emerge and die every year. Workers and trade unions, concerned about increasing employment insecurity, call for more employment protection through labour legislation, while employers often blame existing labour regulation for hindering appropriate labour adjustment and making them less effective against competitors.

Numerous studies on job stability in industrialized countries sustain the hypothesis that labour markets have changed dramatically since the 1970s. Findings from a recent ILO study do not support this alarmist view. Flexibility is indeed on the rise in many countries but there is no dramatic universal trend towards increased job instability among major industrialized economies (Auer and Cazes, 2000). Although the problems incurred by higher flexibilization of the labour market have likewise emerged in transition countries, the questions of job stability/flexibility, employment security and labour market regulation are still at issue, for several reasons. First and most importantly, all these countries have been confronted with a deep transition crisis, resulting in significant employment losses and steeply growing unemployment. So far, not all of them have been able to achieve economic recovery; and some that achieved it were unable to sustain it, with negative consequences on employment and unemployment. In such a situation, the primary task is seen as the fight against unemployment (including preservation of existing jobs), while the issues of employment quality and flexibility and the actual effects of labour market regulation are considered less important. Second, there is a lack of comprehensive data documenting these changes, because labour market statistics in transition countries are undergoing a lengthy process of conceptual and methodological upheaval.

The countries under review in this paper are Bulgaria, the Czech Republic, Estonia, Hungary, Lithuania, Poland, the Russian Federation, Slovenia and the Ukraine. The extent and causes of labour turnover¹ in these countries after 1990 is analysed, in order to assess how transition has accelerated labour adjustment in firms and whether or not it has stimulated unstable and insecure employment, compared to

¹ Labour turnover is related to labour force moves, i.e. aggregate changes between employment and unemployment and employment and inactivity as well as changes in employment from one job to another. It can also be referred to as a sum of hiring and separation rates at establishment level, including small enterprises and self-employment although, in practice, usually establishments above a certain employment level are covered. Labour turnover should be distinguished from job turnover, which is related to jobs and empirically measured as the sum of establishment-level employment changes.

the command system. Job stability on the basis of job tenure² data and separation rates is also examined, to reveal to what extent the past model of long-term secure jobs has disappeared. By focusing on labour transitions (through turnover and tenure data), the present paper assesses mainly numerical (external) flexibility. Other types of flexibility, such as functional flexibility, wage flexibility or flexibility in working hours, are not treated here.

Increasingly in transition countries, the social partners are recognizing that without competitive enterprises, able to adjust their workforce in numbers, structure and quality to market conditions, employment performance will be poor. At the same time, workers need reasonable employment and income security to be motivated to accept higher mobility and flexibility, to increase their productivity and to lower their opposition to change. The social partners will need to reach a good compromise between labour market flexibility and employment security that is acceptable to both sides and of benefit to the country as a whole.

Several possible factors may impact on labour market dynamics and explain why there may be cross-country differences. Among the most determinant are institutional settings (such as employment protection legislation, tax and social welfare systems, or labour market institutions), skill training and the employment and labour supply structures. While this analysis distinguishes differences in employment stability by gender, education, economic sector and enterprise size, it considers the effects of employment regulation, social dialogue and labour market and social policies on labour market dynamics as external factors. The links between employment protection and labour market policy on the one hand and labour market developments on the other will be explored in a forthcoming larger regional study. Finally, it should be noted that this analysis deals with the formal sector – although a sharp increase in the informal sector can be seen as part of the process of labour market flexibilization – both for enterprises and for workers.

2. Overcoming the legacy of the past: Rapidly declining employment security and massive restructuring

2.1 Weakening employment security

The previous command system supported life-long employment with one firm, usually in one profession for which education or initial training were gained at the beginning of work career and developed on-the-job. Work experience and seniority were the main elements in advancement and remuneration. While labour mobility was encouraged at the moment of labour market entry (first through direct job placement of school leavers, later indirectly by enterprise apprenticeships, stipends or offers of housing and other concessions by enterprises), in later stages of the work career it was discouraged (by long notice and the tie of many social and personal services to employment in the enterprise). The policy of full employment implied not only an absolute guarantee of employment but also strong job security, as dismissals were exceedingly rare, even for misconduct. A significant parameter of state investment policy was to stabilize territorial distribution of population by “moving jobs to workers”, often with little regard to the economic effectiveness of such investment and regional economic potentials and weaknesses. This type of policy was

² Although “employment tenure” would be the most appropriate term to capture the idea that continuity is not broken by job changes within the same enterprise, this paper will refer to “job tenure” as it is the term more commonly used.

advantageous for maintaining control and social peace and was only made possible by the autarky of the “second” world. It found its reflection in the education, remuneration and social systems and was strongly supported by labour legislation. However, as a consequence, any economic restructuring of enterprises was extremely slow and resulted in substantial losses of efficiency both for the enterprises and for the national economy.

Despite this strong support of employment stability, labour turnover was surprisingly high in the majority of transition countries, although mainly restricted within the region of residence, due to the *propiska* (residence permit) system functioning in many non-Central European countries. Widespread labour shortages provided many workers with the opportunity of a higher salary by changing employers rather than relying on promotion or evaluation of their work performance. Separations from enterprises were thus almost exclusively voluntary. Concurrently, enterprises were operating under the soft budget constraint with ever-increasing production targets and little motivation for structural adjustment and cost reduction. Jobs remained fairly stable for long periods of time. *The command system thus combined high labour turnover with low job turnover.*

The policy of extreme employment security and excessive job stability³ was challenged the moment economic reforms opened up the national economies of transition countries to world competition. Enterprises lost large parts of their former markets and often the links to their traditional suppliers. Although in a number of transition countries large unprofitable enterprises were still directly or indirectly subsidized for some time, the deep transition crisis gradually exhausted the possibilities of the State. In order to survive, enterprises were sooner or later forced to adjust their production programmes to new market demand and reduce their costs of production, including labour costs. They did so either by cutting unnecessary jobs, including outsourcing of certain activities, or by temporarily reducing working hours or cutting real wages. Usually enterprises tried to transfer redundant workers to other vacant jobs in the enterprise if their skills matched job requirements and many even funded retraining for workers with obsolete skills to facilitate their internal redeployment. Enterprise trade unions supported such an approach while considering short-time work or solidarity wage cuts as a least attractive option. Many trade unions actually preferred stable or increasing wages even at the cost of job losses of non-core groups of workers.

In contrast, newly established firms, particularly small ones, exploited the emerging market opportunities while generating new jobs in the economy. Due to their size, small enterprises need to react flexibly to changing demand and economic conditions and often require more freedom in hiring and firing rules than larger firms. If national labour legislation does not allow for smooth labour adjustment, they usually either break the rules or resort to irregular work arrangements, including informal labour. Nevertheless, job creation so far has not been high enough to compensate for the number of jobs destroyed.

As a result, employment has become much less secure in comparison with the pre-reform period. Open unemployment increased very rapidly everywhere in the region and remains at persistently high levels. Moreover, in many countries

³ By excessive job stability we mean very slow structural changes within enterprises due to lack of modernization pressures from customers as a result of the supplier-dominated market, combined with the central planning system.

underemployment has become substantial.⁴ Simultaneously, a share of redundant workers as well as new labour market entrants – in particular youth without work experience, the elderly, mothers with small children, workers with low or obsolete skills, disabled persons and other vulnerable groups – face immense problems with unemployment and “solve” them through inactivity. While many young people extend their studies, older and disabled persons retire, others withdraw discouraged by unsuccessful job search after exhausting income support and often turn to some form of informal activity. The participation rates have thus significantly declined in all the transition countries after 1990.

Nesporova (1999) provides a comprehensive analysis of labour market developments and the relationship of employment, unemployment and non-participation developments to economic growth in the 1990s. In the present paper, we refer only to the table illustrating selected transition economies (Table 1). The transition decade has been divided into two parts: the period of profound economic and social reforms combined with macroeconomic austerity measures and intense external shocks (1990-1994); and the period of economic stabilization (1995-1999).

⁴ Underemployment refers to economically enforced lower utilization of labour in the form of cuts in working hours, administrative leave, involuntary part-time employment, etc.

Table 1: Economic growth, employment and unemployment in selected transition countries, various years (GDP and employment annual growth rates and unemployment rates in percentages)

| Country | GDP | | Employment | | Unemployment* | |
|--------------|-----------|-----------|------------|-----------|---------------|------|
| | 1990-1994 | 1995-1999 | 1990-1994 | 1995-1999 | 1994 | 1999 |
| Bulgaria | -3.91 | -2.99 | -5.53 | -1.64 | 20.5 | 17.0 |
| Czech Rep. | -2.63 | 0.32 | -2.27 | -1.63 | 4.1 | 9.0 |
| Hungary | -3.29 | 3.81 | -7.17 | 0.88 | 10.7 | 6.5 |
| Poland | 1.03 | 5.45 | -2.92 | 1.60 | 13.9 | 15.3 |
| Romania | -4.29 | -2.77 | -1.95 | -2.95 | 8.2 | 7.2 |
| Slovakia | -5.21 | 4.59 | -3.92 | -2.33 | 13.7 | 17.1 |
| Slovenia | -1.73 | 4.21 | -4.69 | 0.35 | 9.0 | 7.7 |
| Estonia | -8.76 | 4.47 | -4.30 | -1.64 | 7.6 | 12.3 |
| Latvia | -15.89 | 3.93 | -6.35 | -0.17 | 16.7 | 14.4 |
| Lithuania | -13.43 | 3.11 | -2.48 | 0.06 | 17.4 | 14.1 |
| Armenia | -16.16 | 4.93 | -2.25 | -2.78 | 5.8 | 11.6 |
| Kazakhstan | -9.57 | 0.49 | -4.18 | -1.75 | 7.5 | 14.1 |
| Russian Fed. | -10.30 | -1.10 | -2.34 | -0.95 | 8.1 | 12.2 |
| Ukraine | -14.09 | -3.91 | -2.44 | -2.07 | 5.6** | 12.9 |

* ILO definition (data from national labour force surveys).

** 1995.

Sources: UNECE: United Nations Economic Survey for Europe No. 2/2000 and national statistics. Unemployment data for Armenia and Kazakhstan from EBRD: Transition Report 2000.

The first period, from 1990 to 1994, was characterized by transition crisis hitting all the transition economies. It was less deep and shorter although still substantial for Central Europe but extremely painful for the countries of the former USSR. By 1994, Poland was the only country to record a positive average economic growth rate for this period, after having achieved economic recovery as early as 1992. Employment declined substantially everywhere during this period; nevertheless its growth rates were not strongly correlated with those for GDP.

Bulgaria, Hungary, Poland and Slovenia experienced much deeper employment losses, compared to their production rates, reflecting large gains in labour productivity in line with reform assumptions. In contrast, in all other countries and particularly in the ex-Soviet republics, GDP rates were twice or more times lower than employment rates, pointing to an accelerating distance in the level of labour productivity between this group of transition countries and the economically more developed ones. Simultaneously, unemployment increased from zero to high levels, in many countries well above 10 per cent of the labour force. Differences among countries between declines in employment and increases in unemployment reflect negative changes in economic participation of population, most markedly in Central Europe and the Baltic States.

Central and South-Eastern European countries experienced economic recovery already in 1994 and the Baltic countries and Armenia a year later, although in some of these countries structural imbalances and impacts of the war in ex-Yugoslavia temporarily reverted this trend. The three CIS countries – Kazakhstan, the Russian Federation and Ukraine – reached relative stabilization of their economies around 1995. Economic recovery was achieved only at the end of the 1990s and is still considered fragile. Nevertheless, employment continued to decline, despite rather robust production growth of some transition economies. Even the three countries – Hungary, Poland and Slovenia – which had achieved particularly high productivity

gains in the first period and later enjoyed strong economic recovery, recorded only minimal improvements in employment performance. The main reason for this poor employment development was a rather weak demand for labour because of enterprise cutbacks on staffing, better utilization of labour, and the use of new technologies. In contrast, the changing demand for skills, unsatisfactorily matched by skill supply, leaves a number of vacancies unfilled. Open unemployment has thus remained substantial. In a number of countries, after a temporary decline around the mid-1990s, it has augmented in the wake of new structural changes and economic imbalances resolved by restrictive financial policies. In some countries, demographic factors (labour market entry of young people in strong age groups) and reforms of health insurance systems (forcing many inactive persons of working age, including informal workers, to register as jobseekers) also played a significant role.

2.2 Structural challenges

Table 2 illustrates the extent of accumulated structural problems at the onset of economic reforms in selected transition countries.

Table 2: Employment structure by sector in selected transition countries, 1990-1998 (percentages)

| Country | 1990 | | | 1998 | | |
|--------------|-------------|----------|----------|-------------|----------|----------|
| | Agriculture | Industry | Services | Agriculture | Industry | Services |
| Bulgaria | 18.6 | 46 | 35.4 | 26.2 | 30.6 | 43.2 |
| Czech Rep. | 11.6 | 46.4 | 42.0 | 5.5 | 41.0 | 53.6 |
| Hungary | 18.3 | 37.0 | 44.7 | 7.5 | 34.2 | 58.3 |
| Poland | 26.8 | 36.8 | 36.4 | 25.2 | 29.5 | 45.3 |
| Romania | 27.9 | 44.9 | 27.1 | 38.1 | 30.7 | 31.2 |
| Slovakia | 13.7 | 45.5 | 40.8 | 7.7 | 35.5 | 56.8 |
| Slovenia | 9.4 | 46.7 | 44.0 | 6.7 | 41.6 | 51.7 |
| Estonia | 21.1 | 37.1 | 41.8 | 9.1 | 33.2 | 57.7 |
| Latvia | 17.1 | 38.4 | 44.4 | 17.6 | 24.4 | 57.9 |
| Lithuania | 18.4 | 42.6 | 39.0 | 21.4 | 27.1 | 51.4 |
| Armenia | 17.5 | 41 | 41.4 | 42.5 | 19.7 | 37.8 |
| Kazakhstan | 21.7 | 31.4 | 46.9 | 22.0 | 18.2 | 59.7 |
| Russian Fed. | 13.3 | 42.8 | 43.9 | 14.1 | 30.1 | 55.8 |
| Ukraine | 18.5 | 40.8 | 40.6 | 22.4 | 26.7 | 51.0 |

Source: UNECE: United Nations Economic Survey of Europe, No.1/2000

In 1990, a generally high proportion of agriculture in total employment was more or less in line with the achieved medium economic level, according to a general economic development theory. In tendency, the ranking of countries by shares of agriculture inversely corresponded to their ranking by GDP per capita. In contrast, the share of industry was excessive in most countries, compared to countries at a similar economic level, reflecting the strong accent put on heavy industry by political leaderships of command economies. As a result, services contributed much less to total employment than would be an analogous average figure for medium-income countries.

However, it should be taken into account that many services for production as well as social and personal services had been provided internally, within enterprises. As in most countries the basic statistical unit was the enterprise, internal services were imputed to the main activity of the enterprise. The shares of industry, construction and agriculture in total employment (as well as in other aggregate indicators) were thus

higher while that of services was underestimated, compared with its actual proportion. The difference was substantial. In Czechoslovakia, a detailed statistical analysis of the 1988 employment structure by industry revealed that of the 48 per cent share of industry and construction in total employment as much as 6 percentage points were actually services (and should therefore be imputed to the tertiary sector) while only the remaining 42 per cent were genuine industrial and construction activities (Nesporova, 1993).

Transition crisis hit manufacturing in the first place and its share declined everywhere. However, a strong correlation could be found between the extent of job losses in industry and overall economic performance. In those countries (see Table 2) which were soon able to halt the economic fall and achieve positive economic growth, employment losses in industry were much more limited than in other transition countries. Large structural changes within industry meant that massive job destruction from the period of transition crisis was counterbalanced, to a large extent, by new job creation in developing segments of manufacturing. Indirect evidence of positive structural changes is a sharply decreasing share of agriculture in total employment, indicating that at least a proportion of workers from former agricultural cooperatives or state farms were able to find jobs in other sectors of the economy.⁵ The persisting larger proportion of the secondary sector in total employment, combined with its internal restructuring, has been the decisive factor for early economic recovery and sustainability. Consequently, the contribution of services increased there, primarily as a result of higher demand from consumers and enterprises.

In contrast, in countries that so far are less economically successful, the degree of de-industrialization was considerably more profound: industry lost 12 or more percentage points in its employment share in 8 years of economic transformation. Structural changes were more of a passive character, i.e. massive job destruction was combined with little new job creation in industry. For this reason, agriculture maintained or even increased its contribution to total employment, once it had absorbed a share of those workers made redundant from industrial enterprises. Jobs created in agriculture are usually low-productive; family farms are poorly mechanized and the agricultural cooperatives remaining do not have enough finance to maintain their machinery. For many people, subsistence farming on their own plots of land has become an important source of income (although most frequently this type of activity is informal, performed as a second job and not covered by labour statistics). In these countries, the deeper the fall in GDP, the larger the increase in the proportion of agriculture in total employment.

The majority of these latter countries have recorded some increase of employment in services, although rather limited due to very low demand. New jobs in services are created on both sides of the decent work spectrum. Those in the financial sector, business services or public administration require high skills and belong to the best-paid jobs in the national economy. In contrast, a large share of new jobs in distribution, personal and household services are of low quality in terms of stability, security, remuneration and working conditions.

⁵ Other agricultural workers, especially those with low education, ended up in long-term unemployment or withdrew from the formal labour market (see e.g. T. Boeri, 2000).

3. A comparative analysis of labour turnover in the 1990s

3.1 Data and sources

Labour mobility and intensity of labour reallocation are best reflected in labour market flow data. Under the command system, in principle all types of enterprises and organizations were obliged to deliver statistical data on production, investment, labour, etc., including data on recruitments and separations. Consequently, national statistical offices published aggregate data on accessions and separations for the state and the cooperative sectors (excluding agricultural cooperatives), some countries also produced data divided by origin of accession and cause of separation.

With transition to a market system and corresponding methodological changes there are now two sources of employment flow data: those based on establishment surveys and those originating in labour force surveys. The former source of information has become less comprehensive and reliable. First, it covers only enterprises exceeding a certain size of employment, which differs by country but may also differ by sector within one country. This is a considerable limitation as the share of small and micro firms and self-employment in total employment has escalated during economic transition. Second, the quality of data delivered is often poor. Enterprises may wish to hide or bias certain facts for tax evasion or other reasons, and statistical bodies have limited possibilities to check the data. Privatization and enterprise restructuring, as well as enterprise mergers and acquisitions, may also cause considerable data bias, as both newly established or privatized entities and the old ones may formally recruit or lay off workers who in fact do not change their jobs. Labour turnover based on establishment surveys is calculated as a sum of recruitments and separations by individual establishments over a given year divided by their initial or average employment levels for that year.

Labour force surveys are a new statistical instrument for transition countries, introduced gradually during the 1990s in an increasing number of these countries. Thus, large discrepancies exist among countries in the time-periods for which data are available, in the frequency of surveys, and in the range of information covered and made available to the public. Although microeconomic data on changes in labour market status are regularly collected, it is only recently that some national statistical offices have begun to estimate selected aggregate flow data regularly and provide them to EUROSTAT. Also, some researchers have used rough data from labour force surveys to make their own calculations of labour market flows.⁶ Labour turnover is a sum of the aggregate accession and separation rates. The accession rate is calculated as a sum of aggregate flows from unemployment to employment, from inactivity to employment and from one employment to another, divided by initial or average employment in a given year.⁷ The separation rate is a sum of aggregate flows from employment to unemployment, from employment to inactivity and from one employment to another, divided by initial or average employment in a given year.

⁶ For example, Haltiwanger and Vodopivec (1998); Arro, Eamets et al. (2001); Kwiatkowski, Socha and Sztanderska (2001); and Vecernik (2001), who provided data calculated by them for Estonia, Poland and the Czech Republic. For Hungary and Slovenia the calculations have been done and kindly provided to us by departments responsible for labour force surveys in the National Statistical Offices.

⁷ Similarly as in the case of establishment surveys a vague definition of job-to-job changes may be an important source of data distortions especially in comparative studies. For this reason we could not even use all the available data, in particular when there was a strikingly wide difference between the results of establishment surveys and labour force surveys, as in the case of Slovenia.

3.2 A comparison of labour turnover in selected transition countries

Available data from both sources of information (establishment data (ES) for Ukraine, the Russian Federation, Slovenia and Bulgaria; and labour force survey (LFS) data for Estonia and the Czech Republic and, for Poland, both – see Table 3) reveal a substantial increase in labour turnover for our sample of transition countries after 1989. This higher labour turnover first resulted from a reduction of extensive labour hoarding as enterprises cut their labour costs but also from the growing voluntary quits of people deciding to start their own business or join newly established firms. This first period of intensive labour reallocation emerged in the first 2-3 years after the introduction of economic reforms – in Central and South-Eastern Europe in 1990-92 and about 2 years later in ex-USSR countries. In that period separation rates markedly exceeded accession rates, indicating large-scale downsizing in large and medium-sized enterprises while new hirings were limited. It should also be noted that part of this downsizing was connected with frequent splits of large enterprises into two or more new firms, and with externalization of production support services and services for workers.

Table 3: Labour turnover, accession and separation rates for selected transition countries in the 1990s (percentages)

| Country | Source | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|-------------------------|--------|------|------|------|------|------|------|------|------|------|------|------|
| Accession rates | | | | | | | | | | | | |
| Poland | ES | 12.2 | 16.1 | 17.9 | 20.6 | 21.0 | 23.3 | 25.0 | 20.2 | 24.6 | | |
| Poland | LFS | | | 16.4 | 22.8 | 28.5 | 25.6 | 28.5 | 21.9 | 21.2 | | |
| Slovenia | ES | 9.6 | 11.8 | 12.5 | 14.1 | 15.3 | 14.5 | 14.8 | 14.3 | 14.6 | 16.6 | 15.6 |
| Ukraine | ES | | | | | | 17.5 | 15.6 | 14.7 | 15.4 | 16.7 | |
| Russian Fed. | ES | | | 22.9 | 21.1 | 20.8 | 22.6 | 18.9 | 19.9 | 21.0 | 24.2 | |
| Bulgaria | ES | 20.0 | 14.7 | 12.6 | 15.4 | 18.1 | 20.9 | 21.3 | 27.4 | 26.0 | 27.6 | |
| Estonia | LFS | 14.9 | 18.0 | 23.0 | 25.6 | 27.6 | 15.8 | 20.8 | 17.7 | 16.0 | | |
| Czech Republic | LFS | | | | 22.6 | 18.6 | 14.5 | 12.2 | 12.6 | 10.5 | | |
| Separation rates | | | | | | | | | | | | |
| Poland | ES | 23.0 | 26.8 | 22.4 | 21.0 | 20.7 | 21.9 | 22.3 | 16.9 | 22.8 | | |
| Poland | LFS | | | 19.3 | 21.2 | 25.7 | 21.5 | 24.9 | 18.7 | 17.0 | | |
| Slovenia | ES | 17.5 | 22.4 | 19.1 | 18.1 | 16.7 | 16.9 | 16.4 | 15.0 | 14.2 | 14.5 | 14.5 |
| Ukraine | ES | | | | | | 21.3 | 22 | 20.6 | 19.8 | 20.7 | |
| Russian Fed. | ES | | | 26.9 | 25.1 | 27.4 | 25.7 | 23.9 | 24.5 | 24.9 | 24.5 | |
| Bulgaria | ES | 28.9 | 36.2 | 31.1 | 29.6 | 25.8 | 22.5 | 24.8 | 31.9 | 29.8 | 39.9 | |
| Estonia | LFS | 15.9 | 20.4 | 31.4 | 30.0 | 27.7 | 16.2 | 22.1 | 18.5 | 19.0 | | |
| Czech Republic | LFS | | | | 22.0 | 17.5 | 15.8 | 12.6 | 12.2 | 11.8 | | |
| Labour turnover | | | | | | | | | | | | |
| 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 | | |
| 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 | |
| Russian Fed. | ES | | | 49.8 | 46.2 | 48.2 | 48.3 | 42.8 | 44.4 | 45.9 | 48.7 | |
| Bulgaria | ES | 48.9 | 50.9 | 43.7 | 45.0 | 43.9 | 43.4 | 46.1 | 59.3 | 55.8 | 67.5 | |
| Estonia | LFS | 30.8 | 38.4 | 54.4 | 55.6 | 55.3 | 31.0 | 42.9 | 36.2 | 35.0 | | |
| Czech Republic | LFS | | | | 44.5 | 36.1 | 30.3 | 24.8 | 24.7 | 22.3 | | |

Note: ES = establishment survey; LFS = labour force survey.

Source: National statistics. LFS data from Arro, Eamets et al., (2001), Vecernik (2001), and Kwiatkowski, Socha and Sztanderska (2001).

Later on, labour turnover declined and stabilized but in each country certain periods of a sudden increase in labour turnover emerged (for example, in Bulgaria in 1997 and 1999 and in the Czech Republic since 1998). These relate to renewed structural changes connected with economic imbalances and remedial policy packages. The Russian financial crisis in 1998 caused a considerable economic shock, with countries such as Estonia and Ukraine being particularly hit by large foreign trade exchange with the Russian Federation. This again initiated higher turnover of labour.⁸ The Kosovo crisis negatively affected Bulgaria and contributed to accelerating separations from larger enterprises.

Interestingly, for Poland the two labour turnover series show substantial differences. According to ES data, labour turnover significantly declined after 1991 with a new upswing in 1995-1996 and again in 1998. The LFS data indicate a fast increase after 1992 well above 50 per cent and a similarly steep decline after 1996. It clearly proves a significant variety between the development of the large and medium-sized sector of enterprises and that of smaller firms, usually newly created. Before 1994 the large-enterprise sector mainly determined labour market changes and was responsible both for extensive layoffs and more limited new hirings. The period of strong economic recovery offered market opportunities for new small enterprises, generating new jobs and attracting competitive workers from declining state enterprises, although a number of these firms failed because of stronger competition. Since 1998, the restructuring of large enterprises in coal mining and the steel industry has again dominated labour market dynamics, as measured by the establishment survey.

There is a significant difference among transition countries in the extent of labour turnover as well as in the relationship between accession and separation rates. An outstanding example is Poland with high labour turnover throughout the whole decade, which would indicate intensive structural adjustment of the enterprise sector. While until 1993 Polish enterprises had significantly reduced their workforce, since 1994 hirings outnumbered separations, reflecting net job creation in the economy, both in the segment of large and medium-sized enterprises and in the small-enterprise sector. This differentiates Poland from all other transition countries in our sample. Our database does not go beyond 1998 and therefore it does not catch the recent reversal of this positive trend in Poland since 1999, reflected in accelerating unemployment.

Surprisingly, among the countries reviewed, the Russian Federation had highest and relatively stable labour mobility over the 1990s. This could also indicate extensive structural changes; however, a significant GDP decline argues against any massive restructuring improving effective allocation of labour. In the case of the Russian Federation, this large labour reallocation points to some extent to the legacy of the past (as noted in the Introduction): workers moved between existing jobs mainly in order to improve their wages slightly and to gain access to enterprise-provided services. As large numbers of workers have been exposed to forced administrative leave and shortened working time and many have not been paid wages for an extended period, they usually quit the enterprise voluntarily in order to find a financially more secure job.⁹ As new job creation was very limited until recently, they ended up in a similar type of job. Since 1999, more economically sound jobs have

⁸ For the Czech Republic and Estonia, the data on 1999 are unfortunately not available but a sharp increase in unemployment can prove this higher labour turnover indirectly.

⁹ See also Gimpelson and Lippoldt (1997).

been created and positive structural changes seem to be taking on. This can also be seen from an increase in the accession rate, which moved closer to the level of the separation rate and reached it in 1999.

Labour turnover in Ukraine was much lower compared to the Russian Federation although both countries shared the same problem of high underemployment and the non-payment of wages creating incentives for workers to move among existing jobs. The lower level of mobility in Ukraine is best explained by that country's much deeper economic recession and the consequent tighter labour market situation, in which workers were more reluctant to leave their poorly paid jobs. The large gap between hiring and separation rates, as yet showing no tendency towards closing, points to a severely limited new job creation. Both indicators also compare negatively with other transition countries and are evidence of a very slow restructuring of labour towards economically more viable sectors in Ukraine, contributing to negative economic growth since the start of the reform process. Bulgaria witnessed very high labour mobility rates in the first two years of reform, indicating massive job destruction in large and medium-sized enterprises and reaching its peak in 1991. Between 1992 and 1996, labour turnover decreased, mainly as a result of a substantial decline in the separation rates while the hiring rate gradually recovered. However, the financial collapse of the country in 1996 resulted in a steep upswing of labour mobility with a one-year delay. The introduction of the currency board in 1997 cut almost all subsidies for large state enterprises and forced the government to accelerate their privatization. This led to their restructuring combined with large-scale downsizing, particularly high in 1999. Simultaneously, the hiring rate has increased substantially, pointing to strengthening structural changes, with a positive effect on economic growth.

In Estonia, the government's very liberal reform approach stimulated massive restructuring of the enterprise sector and intensive reallocation of labour. Labour turnover between 1992 and 1994 reached the highest levels among all transition economies, with elevated values both for accessions and separations. Following this period of accelerated restructuring, the labour market has gradually stabilized. However, with separations always exceeding recruitments, the overall effect of structural changes on employment has been negative for the whole transition decade.

Slovenia has been a somewhat different case for the whole period under review. After an increase in labour turnover encouraged by economic reforms in the early 1990s, it stabilized at this new but still quite low level, compared with other transition countries. The first 3-4 years of transition were marked by a large gap between separation and accession rates, with increasing numbers of people leaving enterprises which had accumulated excess labour and, under the impact of economic reforms, were forced to reduce it, while new hirings were limited. Between 1994 and 1997, both rates converged but separations still outnumbered hirings. Since 1998, recruitments have accelerated and finally exceeded separations, with a positive impact on the labour market situation in Slovenia.

Among our set of transition countries, the Czech Republic recorded high labour turnover in the first period of economic transition. Unfortunately, our data only covered the end of this phase. However, rapid changes in the employment structure by sector, hand in hand with declining participation rates and increasing unemployment in this period provide clear evidence of elevated labour reallocation. Since 1993, labour turnover declined considerably, indicating rapid stabilization of the labour market. Renewed structural changes initiated by economic recession after 1997 are unfortunately not covered by available data. It is also important to note that labour

turnover data for the Czech Republic are not fully comparable with those for other countries, as they underestimate job-to-job moves. (For methodological reasons it was not possible to separate job-to-job moves from continuous employment for some 20 per cent of persons covered by the LFS – see Vecernik (2001). Moreover, unlike Poland, where calculations summed up the quarterly flows, the data for the Czech Republic as well as for Estonia are annual and do not take into account multiple changes during the year. Therefore, they underestimate aggregate labour market flows.

3.3 Labour turnover versus job turnover: A comparative analysis of the speed of restructuring

Labour turnover reflects the speed of reallocation of labour in the economy, which may result from the dynamics of job creation and job destruction, as well as from moves of employed persons among existing jobs and moves from unemployment and inactivity to employment in a given set of jobs and vice versa. Thus, in theory, structural changes relate only to the process of job creation and job destruction while labour turnover in excess of job turnover, sometimes called “labour churning”, points to labour mobility connected with other, non-structural reasons.

The purpose of the following analysis is to show how important the structural component has been in total labour reallocation of the selected transition economies in the period under review. Taking the share of job turnover in labour turnover provides an indication of the importance of the former for explaining the latter. It is also interesting to compare the relationship between job turnover and labour turnover in transition countries with OECD countries, where it ranged from 25 per cent to 40 per cent over the late 1980s and the early 1990s.¹⁰

Job creation, job destruction and resulting job turnover are usually calculated on the basis of establishment surveys as 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 or declining establishments. Such information is not officially collected and published in any of these countries. However, on the basis of enterprise databases maintained by chambers of industry and commerce or similar institutions, and enterprise surveys undertaken by statistical offices, it is possible to make a rough estimate of gross job turnover in selected transition countries.¹¹ Here we rely on recent publications by Faggio and Konings (2000) and Gimpelson and Lippoldt (1997) providing such estimates for five countries: Poland, Estonia, Slovenia, Bulgaria and the Russian Federation. For the first four countries the period covered 1994-1997, for the Russian Federation 1994-1995, i.e. the period of relative economic stabilization and recovery after the initial turbulent stage of transformation. The comparisons of job turnover with labour turnover are given in Table 4.

¹⁰ See OECD: *Employment Outlook*, 1994, and 1996. Boeri (1995) puts the ratio of job turnover in labour turnover for OECD countries at between one-third and one-half.

¹¹ As mentioned earlier, such surveys or databases cover only large and medium-sized enterprises and may not include newly established, in particular, private enterprises and likewise do not consider employment losses in closed-down enterprises.

Table 4: Comparison of labour turnover and job turnover for selected transition economies, 1994-1997 (percentages)

| Country | Labour turnover | Job turnover | Share of job turnover in labour turnover | Excess job reallocation rate* |
|----------------------|-----------------|--------------|--|-------------------------------|
| Poland | 42.8 | 8.5 | 19.9 | 6.3 |
| Estonia | 41.4 | 16.0 | 38.6 | 13.5 |
| Slovenia | 31.0 | 9.5 | 30.6 | 8.5 |
| Bulgaria | 48.2 | 8.1 | 16.8 | 4.8 |
| Russian Federation** | 48.2 | 6.5 | 13.5 | n.a. |

* Excess job reallocation rate is the difference between job turnover and the absolute value of net employment growth rate. It can be used as an index of the extent of restructuring.

**Only 1994-1995.

n.a. = not available .

Sources: Labour turnover data see Table 3, job turnover data for Poland, Estonia, Slovenia and Bulgaria from Faggio and Konings (2000), for the Russian Federation from Gimpelson and Lippoldt (1997).

Table 4 shows significant differences among the selected countries. On the one hand, Estonia is characterized by relatively high job turnover, which contributed almost 40 per cent to overall labour mobility in the period under review. This confirms that liberal economic reforms have accelerated structural adjustment of the economy, resulting in the highest achieved economic dynamics in the region. Also Slovenia, often criticized for the slow restructuring of its large state enterprise sector, can actually boast the second highest rate of job creation and job destruction among our group of transition countries. Structural changes also explain quite favourable economic development of this country in the 1990s, often puzzling many experts who considered its low labour turnover as a symptom of its slow pace in economic transformation.

In contrast, low job turnover in Bulgaria and the Russian Federation is clear evidence of delayed restructuring of the enterprise sector resulting in poor economic performance of both countries. The wide gap between job turnover and very high labour turnover should thus be attributed to the excessive move of workers among low productive and poorly remunerated old jobs rather than to any positive reallocation of labour towards progressive industries and enterprises. Rather surprisingly, Poland was also close to these two slow reformers both in terms of low job turnover and its small contribution to labour mobility. The main reason seems to be the coverage of only large and medium-sized enterprises into the establishment survey used for calculating job turnover, which at that time faced serious economic problems due to pending privatization and structural reforms. Robust economic growth was mainly driven by newly established enterprises attracting many workers from ailing state firms but their job creation capacity is not reflected in our estimation of job turnover. This is also confirmed by the difference between accession and separation rates taken from establishment and labour force surveys, as presented earlier.

3.4 Pro- or counter-cyclical movement of labour turnover?

Labour turnover is obviously significantly affected by economic fluctuations. In times of economic upswing, enterprises are able to create new jobs and hire more people while separations for economic reasons moderate. This is also a favourable period for new enterprise start-ups and expansions. At the same time an increasing number of job opportunities encourages more people to change their jobs voluntarily. In contrast, in downswings, enterprises are forced to cut labour costs and frequently resort to lay-offs and to reducing new hires; workers are also more reluctant to quit their jobs.

Research undertaken for industrialized countries shows that labour turnover increases in periods of economic growth, as many new job opportunities attract newcomers to the labour market, increase hires of unemployed jobseekers and stimulate voluntary quits of workers to take up better jobs elsewhere which outnumber layoffs. Conversely, during economic downturns labour turnover declines both because of low hirings and a sharp reduction of voluntary quits which more than counterbalances an increase in layoffs. Labour turnover thus tends to develop procyclically (Boeri, 1995; ILO, 1996) and the reasons are more on the supply side, in the decision of workers to change jobs, rather than on the side of enterprises.

However, for transition countries the experience seems to be the contrary, as Figure 1 shows.

The correlation coefficients of labour turnover and both GDP and employment growth rates for the selected countries are presented in Table 5. There is always a certain time lag between a change in the economic performance of a country and its reflection in the economic situation of enterprises, which is reflected in the decision of enterprises to adjust their workforce and in the decisions of workers to change their jobs. Therefore we also calculated these correlations with GDP and employment growth rates time-lagged by one year. Cross-country comparisons are handicapped by the fact that the labour turnover data series are rather short for some countries and therefore the results have to be taken with caution.

Table 5: Correlations between GDP and employment dynamics (E) versus labour turnover (LT)

| Country | LT vs GDP | LT vs GDP (-1) | LT vs E | LT vs E (-1) |
|---------------------------|-----------|----------------|----------|--------------|
| Bulgaria | 0.1977 | 0.0257 | -0.0757 | 0.3342 |
| Czech Republic | 0.0572 | -0.4832 | 0.0102 | - 0.5652 |
| Estonia | -0.4616 | -0.7574 | - 0.4926 | - 0.7512 |
| Poland (ES) | 0.4927 | 0.2650 | 0.4023 | 0.2717 |
| Russian Federation | - 0.3993 | -0.2789 | - 0.2709 | 0.0684 |
| Slovenia | -0.0382 | -0.4673 | -0.3998 | - 0.5107 |
| Ukraine | - 0.7266 | -0.6367 | 0.6049 | 0.1322 |

Source: Own calculations based on data from Table 3 (labour turnover) and UNECE, 2000 (GDP).

Correlation coefficients of GDP and labour turnover in the second column of Table 5 indicate a negative correlation for Ukraine, Estonia and the Russian Federation, the latter two being not very strong, and a positive correlation for Poland. For other countries there seems to be no correlation between the two indicators. However, when considering lagged GDP rates with labour turnover, the correlation becomes negative for almost all the countries – with the exception of Bulgaria and Poland (establishment survey data) – and generally stronger.

Table 5 presents also the correlations of labour turnover and employment growth (see last two columns). As labour supply was generally in excess of labour demand in all countries in our sample after 1990, employment was mainly determined by demand for labour. Logically, one would expect a strong relationship between economic growth and employment and therefore the same type of correlation between employment and labour turnover as that between GDP and labour turnover. However, the reality has not always been so clear-cut. First of all, there is always a certain gap between economic fluctuations and their reflection in employment developments. This is the consequence of labour market regulation (protection of workers against employment termination) but also of non-negligible costs of staff training which force employers to look for other solutions before making decisions on recruitments or separations. As described above, in the specific conditions of transition the link between economic growth and employment has been weaker in a number of countries, due to extensive labour hoarding, technological changes and labour market and social policies promoting labour supply reductions.

When comparing the results, the same strength and negative correlations exist between employment and labour turnover and between economic growth and labour turnover in Estonia. In Poland also, similarly strong, but this time positive correlations occur between employment and labour turnover and between GDP and labour turnover. This suggests a stronger relationship of economic and employment developments in both countries. In the case of Ukraine, the signs are opposite and therefore the link between GDP and employment developments is rather peculiar. When a time lag is introduced, labour turnover becomes strongly negatively correlated with the employment rate in Estonia, Slovenia and the Czech Republic. As the same relationship has been found also for GDP and labour turnover in the case of these three countries, it indicates a strong link between economic growth and employment development. For Poland and Ukraine, correlations become insignificant for both countries. In Box 1, we propose some possible explanations of these results by country.

The calculations presented in Table 5 permit the tentative conclusion that *labour turnover tends to have a counter-cyclical development in transition countries*, which indeed contrasts with the situation in developed countries. The explanation should be sought in accumulated structural imbalances under the command system due to distorted relative prices and low economic effectiveness of many investment projects. Hence, when these economies were suddenly opened to global competition, industries with excessive capacity or non-competitive industries were hard hit while underdeveloped services and competitive productions expanded. Outcome differed country by country, depending on the initial economic conditions, the adequacy of economic reforms undertaken and some other factors. Nevertheless, unlike industrialized countries, labour reallocation has in general been more driven by the demand side than by voluntary decisions of workers. More evidence of this is provided in Part 4.

Box 1: Labour turnover in the 1990s

According to the figures shown in Table 5, **Estonia** is the most flexible country in our sample, with the highest correlation coefficients, regardless of whether the time lag is considered or not. This result is not surprising. The Estonian Government's policy let the negative market factors fully affect the enterprise sector, which was forced to reduce excess capacities and, very often with the help of foreign investment, to restructure and technologically upgrade production. As a result, economic recession stimulated structural changes and labour reallocation. This in turn promoted economic development and accelerated economic growth in the subsequent period, while labour mobility declined as enterprises stabilized their personnel and workers were reluctant to change jobs because of declining employment and increasing open unemployment.

Development in **Slovenia** confirms the same relationship between economic growth and labour turnover. While transition crisis accelerated labour mobility in the early 1990s, economic recovery was associated with stabilization of labour market flows. The remarkable stability of economic growth and smooth structural development of Slovenia since 1993 has been achieved through gradual privatization of large state enterprises using traditional methods, unlike many other transition countries experimenting with voucher privatization. Even though the state sector has remained substantial, compared with these countries, what has really made a difference was the economic environment, forcing all types of enterprises to adjust to new market conditions, including the number and structure of their workforce. Thus, structural reforms have been slower but efficient in Slovenia. Nevertheless, many economists now accentuate the necessity of new structural reforms – without which the economy will lose its dynamics.¹²

In **Bulgaria**, the deep economic crisis between 1990 and 1992 forced enterprises into mass redundancies and accelerated labour turnover. With economic recovery, labour mobility moderated considerably and this lower level persisted even in 1996, when the country fell into a new economic recession as a result of accumulated structural imbalances in the economy. However, the introduction of the currency board a year later, aimed at stabilizing the economy, stimulated the necessary structural changes. They were reflected in a new increase in reallocation of labour, further accelerating with recent recovery of the economy. Nevertheless, due to uneven time lags and a sharply declining coverage of the national economy according to our data, labour turnover has been weakly correlated with economic cycle.

In **Poland**, the relationship between economic growth and labour turnover has also been rather ambiguous. Similar to other countries, the initial economic recession elevated structural changes and labour mobility. However, even when the economy recovered, labour turnover remained high. Mass voucher privatization of large enterprises in 1995-96 speeded up labour turnover and had an evident positive effect on economic growth. Since 1998, economic growth has slowed down while labour turnover has – after a short downturn – again increased. One possible explanation is that the national economy has recently been confronted with a new structural barrier of extensive, low effective and heavily subsidized coal mining, metallurgy and agriculture, adversely affecting economic growth. In order to address this problem, the Government has launched restructuring programmes for coal mining and steel production, resulting in mass layoffs. Simultaneously, strong inflow of FDI has created new jobs and stimulated recruitments. Also, the expiry of dismissal bans in privatization agreements has accelerated redundancies. All these factors have contributed to increasing labour mobility.

¹² See e.g. ECE (2000).

Despite the particular nature of labour reallocation in the **Russian Federation**, as explained in Section 3.2, economic growth and labour turnover also tend to be negatively correlated over the major part of the 1990s. The latter was particularly high in economic downturns and moderated a bit when the economy showed signs of recovery. However, with positive economic growth since 1999 labour turnover has markedly increased, which is mainly connected with stronger job creation. This could indicate that the Russian Federation has finally reached the stage of real economic upswing and that positive restructuring has indeed started. Nevertheless, more structural changes are to be expected in order to make it sufficiently high and sustainable.

Similarly, in **Ukraine** – characterized by persisting economic recession combined with lower and stable labour mobility – fluctuations in economic performance were rather strongly negatively correlated with labour turnover. A likely explanation is that in periods of particularly deep economic decline, enterprises turned to extended short-time work and delayed wage payment (rather than to job destruction) so that more workers voluntarily quit their jobs to find better income in the informal sector or through (usually temporary) work migration abroad. The positive economic growth foreseen in the near future will probably also accelerate structural changes and reallocation of labour, although it is now connected with higher job generation and recruitments by expanding industries.

4. Evaluation of employment stability on the basis of job tenure

Job tenure – the length of time currently employed individuals have spent with their present employer – is a commonly used variable in labour market studies that focus on labour market stability. The average job tenure and the distribution of employment by job tenure are used as indicators of job stability. The results presented below are based on an exploitation of data provided by EUROSTAT complemented by national data. Unfortunately, data on job tenures are scarce, only available for a few countries and only for the past three years (except for the Czech Republic, Poland and Slovenia). Therefore, in the following assessment we mainly focus on cross-country comparisons. We analyze the level and the distribution of average job tenure across age groups and gender but also by industry, group of occupations and qualification levels.

4.1 A cross-country comparison

The distribution of employment by job tenure, as well as average tenures provide a broad summary of job stability across countries. Table 6 presents the tenure distribution and the average job tenure for 1999 in six Central European countries. Average job tenure for our group of countries was 9.3 years in 1999, slightly below the average of 10.5 years of the “triad” (the European Union, the United States and Japan). This finding is not surprising, considering the high labour turnover that characterizes the majority of labour markets in transition economies. As mentioned previously, this high turnover is a legacy of the past which structural changes, stimulated by economic reforms have accelerated further. Table 6 shows the differences between countries in average tenure. The two Baltic States have the lowest job tenure of 6.9 years for Estonia and 7.6 years for Lithuania (close to the US level of 6.6 years) followed by the Czech Republic and Hungary with tenures below 10 years (levels similar to Denmark, the Netherlands and the United Kingdom). The longest average tenures are found in Poland and Slovenia.

Table 6: Distribution of employment by job tenure, 1999 (percentage)

| | Czech Rep ^(a) | Estonia | Hungary | Lithuania | Poland | Slovenia | Un-weighted average | Standard Deviation | Selectec OECD ^(b) |
|-------------------------------|--------------------------|-------------|-------------|-------------|-------------|-------------|---------------------|--------------------|------------------------------|
| Job Tenure (%) | | | | | | | | | |
| Less 6 months | 6.3 | 10.4 | 6.1 | 12.8 | 5.1 | 12.0 | 8.8 | 3.4 | 8 |
| 6 to 11 months | 8.3 | 8.0 | 6.5 | | 5.4 | | 7.1 | 1.3 | 7 |
| 1 to less than 2 years | 18.4* | 6.7 | 11.3 | 9.2 | 10.4 | 5.1 | 8.6 | 2.6 | 8 |
| 2 to less than 5 years | 15.3** | 31.1 | 20.0 | 29.0 | 14.0 | 18.2 | 22.5 | 7.3 | 15 |
| 5 to less than 10 years | 26.2 | 23.9 | 25.3 | 24.8 | 20.8 | 16.5 | 22.9 | 3.6 | 19 |
| 10 to less than 20 years | 12.3 | 10.8 | 17.9 | 14.5 | 22.3 | 23.6 | 16.9 | 5.3 | 21 |
| More than 20 years | 13.2 | 9.1 | 13.0 | 9.6 | 22.0 | 24.6 | 15.2 | 6.5 | 19 |
| Sum | 100 | 100 | 100 | 100 | 100 | 100 | 100 | | 10 |
| Average tenure (years) | 8.2 | 6.9 | 8.8 | 7.6 | 11.9 | 12.1 | 9.3 | 2.2 | 10 |
| Under 1 year (%) | 14.6 | 18.4 | 12.6 | 12.8 | 10.5 | 12.0 | 13.5 | 2.7 | 16 |
| Over 10 years (%) | 25.5 | 19.9 | 30.9 | 24.1 | 44.2 | 48.2 | 32.1 | 11.5 | 40 |

(a) The breakdown provided by the Czech Statistical Office slightly differs for two sub-periods, as it refers to */ 1-3 years and **/ 3-5 years. The corresponding figures for average and standard deviation for these two categories therefore do not include Czech data.

(b) 1998: For average tenure: European Union, the United States and Japan; for the distribution of employment by tenure: European Union and the United States.

Sources: EUROSTAT; Czech data from the Statistical Yearbook of the Czech Republic, 2000.

Average job tenure results both from hires (inflows into employment) and separations (outflows from employment), as well as the duration of individual employment with the same employer. This implies that changes in hiring and firing affect the aggregate distribution of job tenure, which therefore will depend, among other factors, on the business cycle. One could assume that job tenure increases in boom periods (since in a buoyant period firms are more inclined to offer stable jobs) and decreases in recession periods (as people are laid off and general economic uncertainty induces firms to increase the flexibility of their workforce).

Yet several factors affect the cyclical behaviour of job tenure: when employment growth recovers, more jobs are created and more people are hired which automatically reduces the average job tenure (as people are arriving with zero tenure). Moreover, voluntary quits also increase, because of more and perhaps better opportunities. These two effects tend to decrease average job tenure. But, at the same time, layoffs are reduced, which on the contrary lengthens tenure. So the resulting effect will also depend on the separation rate and the layoff rate. In industrialized countries, the “lowering” effect of voluntary quits offsets the “increasing” impact of layoffs, thus generating a *counter-cyclical* behaviour for job tenure (a decline in tenure during economic upswings).¹³

¹³ See Auer, Cazes (2000).

The opposite appears true of transition economies where, during downturns, average tenure seems to decrease because the reduction in voluntary quits does not offset the increase in layoffs due to major structural changes induced by a deep transition crisis. Hence, it is important to consider the distribution and composition of these inflows into and outflows from employment and the relationship between voluntary and involuntary quits – but, also, whether the “core” group of workers changes over time or not, which is reflected in the distribution of job tenure. Moreover, labour market institutions should also be taken into account, notably regarding dismissals. For example, while there is usually an explicit or implicit rule of seniority applied (last in, first out), early retirement schemes may reverse the situation. Other influences include changes in social policy matter, such as the extension of parental leave in some countries and the abolition of guaranteed employment after its termination.

The low level of average job tenure in Estonia, for example, should be analysed in light of the very high separation rates that prevailed until 1994, as well as the high proportion of workers with tenure less than one year (18.4 per cent in 1999). In Slovenia, the higher average job tenure is probably due to the low level of both separations and short-term turnover, associated with rather strict dismissal regulation. In Poland, similarly high job tenure may be explained by the large and stable agriculture sector and the existence of a strong insider power in Polish firms (being to a certain extent also the case of Slovenia).

Cross-country differences are more pronounced when the distribution of employment across some job tenure classes is considered, and notably the share of workers with long tenures.¹⁴ There are significant differences in the proportion of workers with ten or more years of tenures, between for example Slovenia and Poland (48.2 per cent and 44.3 per cent respectively, for 1999) and Estonia and the Czech Republic (19.9 per cent and 25.5 per cent respectively, for the same year). The share of workers with long tenure is particularly low in Estonia and the Czech Republic, even below the US figure (25.8 per cent in 1998). These striking differences can be partly explained by the sectoral distribution of job tenure (see below).

4.2 Changes over time

While it is interesting to ponder the differences between countries with regard to job tenure and respective balances of stability and flexibility, the more relevant question for an assessment of the assumed change in labour markets is that of evolution of tenure over time. Data over the 1990s are only available for the Czech Republic, Poland and Slovenia; the other three countries in Tables 7a and 7b only provide data for the last 2-3 years.

Table 7a: Average job tenure in selected transition countries, 1993-1999 (years)

| Country | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|-----------|------|------|------|------|------|------|------|
| Czech R. | 8.4 | 8.1 | 8.3 | 8.4 | 8.5 | 8.2 | 8.2 |
| Estonia | | | | | 7.1 | 7.0 | 6.9 |
| Hungary | | | | | 8.3 | 8.6 | 8.8 |
| Lithuania | | | | | | 7.7 | 7.6 |
| Poland | | 11.5 | | 11.1 | 11.4 | 11.5 | 11.9 |
| Slovenia | 12.6 | 12.6 | 12.3 | 12.2 | 12.0 | 12.4 | 12.1 |

¹⁴ Standard deviation is particularly high for the two groups of workers with long tenure.

Table 7b: Average job tenure by sex in selected transition countries, 1993-1999 (years)

| Country | 1993 | | 1994 | | 1995 | | 1996 | | 1997 | | 1998 | | 1999 | |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| | M | F | M | F | M | F | M | F | M | F | M | F | M | F |
| Cz Rep. | 8.5 | 8.2 | 8.3 | 7.9 | 8.3 | 8.2 | 8.4 | 8.3 | 8.4 | 8.3 | 8.3 | 8.0 | 8.4 | 7.8 |
| Estonia | | | | | | | | | 6.4 | 7.9 | 6.4 | 7.7 | 6.3 | 7.6 |
| Hungary | | | | | | | | | 8.0 | 8.6 | 8.3 | 9.0 | 8.6 | 9.1 |
| Lithuania | | | | | | | | | | | 6.9 | 8.5 | 6.9 | 8.3 |
| Poland | | | 11.1 | 12.0 | | | 10.6 | 11.7 | 10.8 | 12.1 | 11.0 | 12.1 | 11.4 | 12.3 |
| Slovenia | 12.6 | 12.6 | 12.3 | 12.9 | 12.0 | 12.6 | 12.0 | 12.3 | 11.5 | 12.5 | 11.9 | 12.9 | 11.7 | 12.5 |

Sources: EUROSTAT, for the Czech Republic and Slovenia national data; for Poland, Lehmann and Wadsworth (2000).

The available data show that job stability followed different patterns over the last decade. In the Czech Republic, average tenure tends to be positively correlated with economic growth: first declining in the period of initial structural changes stimulated by economic reforms, then increasing in the more buoyant 1994-1997 period and again slightly falling during economic recession. In contrast, after an initial decline it has risen in Poland while having a decreasing tendency in Slovenia (Table 7a).

An analysis of job tenure data by sex indicates that in Estonia and in the Czech Republic, women tend to be the first hit by economic crisis. For example, there has been considerable change for women after the Czech economic recession in 1997, while average tenure for men remained stable over the whole decade (Table 7b). A recent study on labour mobility in Czech labour market found that gender and education level were strong determinants of individual tenures. Female and less educated workers have a higher probability of losing their jobs and are less likely to be hired if they are unemployed or out of the labour force (Sorm and Terrell, 1999). In Poland, the patterns of job stability tend to develop similarly for men and women, even if their *levels* differ. This contrast with Slovenia where the average job tenure for women remained almost at the same level while the decline by one year concerned mainly male workers.

A remarkable feature in most of the transition countries is the lower level of job tenure of male workers compared to female workers, except for the Czech Republic (where it is the opposite but the difference is not big). It clearly reflects the lower labour turnover of women compared to men, which may be partly explained by the higher attachment of women to their jobs in fear of re-employment difficulties. Women are also less mobile because they are overrepresented in the low paid but more secure public sector and have therefore a lower probability pattern of job change. Moreover, men are generally more mobile in the transition economies and are tapping on new job opportunities in expanding sectors that have emerged with economic reforms.

Table 8: Distribution of employment by job tenure for the Czech Republic, Poland and Slovenia, 1993-1999 (percentages)

| Country | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Czech Republic* | | | | | | | |
| Under 6 months | 11.0 | 10.9 | 8.4 | 7.6 | 7.0 | 7.0 | 6.3 |
| 6 to 11 months | 11.2 | 8.4 | 7.7 | 7.1 | 6.3 | 9.1 | 8.3 |
| <i>Under 1 year</i> | 22.2 | 19.3 | 16.1 | 14.7 | 13.3 | 16.1 | 14.6 |
| 10 to 20 years | 16.0 | 14.3 | 14.1 | 14.0 | 13.8 | 12.2 | 12.3 |
| Over 20 years | 16.7 | 15.8 | 15.4 | 15.0 | 14.9 | 14.0 | 13.2 |
| <i>Over 10 years</i> | 32.7 | 30.1 | 29.5 | 29.0 | 28.7 | 26.2 | 25.5 |
| | | | | | | | |
| Poland | | | | | | | |
| <i>Under 1 year</i> | <i>n.a.</i> | 13.8 | <i>n.a.</i> | 14.3 | 15.7 | 14.6 | 10.5 |
| 10 to 20 years | <i>n.a.</i> | 22.1 | <i>n.a.</i> | 20.6 | 20.0 | 20.1 | 22.3 |
| Over 20 years | <i>n.a.</i> | 24.9 | <i>n.a.</i> | 23.8 | 21.0 | 21.4 | 22.0 |
| <i>Over 10 years</i> | <i>n.a.</i> | 47.0 | <i>n.a.</i> | 44.4 | 41.0 | 41.5 | 44.3 |
| | | | | | | | |
| Slovenia | | | | | | | |
| <i>Under 1 year</i> | 5.2 | 10.4 | 11.7 | 9.8 | 12.6 | 13.5 | 12.0 |
| 10 to 20 years | 29.2 | 28.4 | 28.0 | 26.5 | 24.3 | 23.7 | 23.6 |
| Over 20 years | 24.9 | 26.1 | 25.2 | 25.5 | 25.7 | 25.2 | 24.6 |
| <i>Over 10 years</i> | 54.1 | 54.5 | 53.2 | 52.0 | 50.0 | 48.9 | 48.2 |

*Czech Republic: For 1993, 1994, 1995, 1996 and 1997: December to February of the following year; for 1998 and 1999: October to December.

n.a. = not available.

Sources: EUROSTAT for Slovenia national data; EUROSTAT for Czech Republic national data; for Poland Lehmann and Wadsworth (2000).

As noted earlier, the evolution of the distribution of employment by job tenure is very important to detect any changes in job stability. Data were only available for the Czech Republic, Poland and Slovenia (see Table 8). Again, data reveal wide diversity across countries. First, the share of workers with short-term tenures was much higher in the Czech Republic in the first years of economic transition, compared to Poland and even more to Slovenia. This contrasts with the widespread view that relatively low unemployment in the Czech Republic related mainly to delayed enterprise restructuring, thus encouraging labour hoarding. This is only partly true. A high share of workers with short-term tenures of under 1 year in this country shows that labour mobility and flexibility were actually high until 1994 and significantly contributed towards moderation of labour market pressures and smooth reallocation of workers to expanding sectors offering better jobs. With economic stabilization, the percentage of workers with tenure less than 1 year also markedly declined from about 22 per cent at the end of 1993 to 13.3 per cent at the end of 1997. In 1998, following the economic recession, the proportion of workers who changed their jobs rose rather sharply again. In contrast, in Poland and particularly in Slovenia, the proportion of short tenure workers was increasing over the period analysed. However, this proportion has recently declined in all three countries, most markedly in Poland, from 15.7 per cent in 1997 to 10.5 per cent in 1999.

Also, the percentage of workers with tenure less than 1 year includes both new

hires and new entrants (mainly school leavers) but also workers in temporary assignments. In Slovenia, for example, the significant increase of short-tenure workers after 1996 does not reflect an increase in hires as much as a substantial increase of temporary workers (as will be seen in Section 5). The pattern observed in Slovenia for short-tenure workers suggests that that country seems to have made considerable progress in increasing labour market flexibility and moderating rigidities, as witnessed also by a decline in the particularly high percentage of workers with long tenure. Interestingly, the share of long-tenure workers also decreased in the Czech Republic while, surprisingly, it increased in Poland after 1997, despite the earlier mentioned stronger structural changes associated with the restructuring of large enterprises in coal mining and the steel industry.

These patterns over time have to be analysed more carefully as the evolutions of job tenure may also reflect changes in the *demographic composition* of employment and in the economic cycle. The aggregate job tenure in an economy is indeed highly dependent on the demographic structure of the working population. As workers change jobs more often when they are young¹⁵ and since employers tend to first fire young workers in periods of economic slump, an economy with a relatively young working population will exhibit shorter average tenures than an economy with an ageing population.¹⁶ The same phenomenon is true over time: given that older workers have longer tenure on average, an ageing population could be masking a shift towards less secure jobs.

Indeed, significant demographic changes took place in the transition countries with rather opposite effects on their labour markets. On the one hand all these countries are confronted with population ageing; the share of persons above 45 has considerably increased over the 1990s.¹⁷ While older workers tend to have more stable employment, once they lose their job they find it difficult to become re-employed. Moreover, persons at or close to retirement age have often been forced to resign – although recent pension reforms have introduced a gradual extension of retirement age and partly compensated for a decline in participation rates of these age groups. On the other hand, transition countries recorded a significant increase in their labour supply due to larger entries of young people from strong age groups and women in the labour market in the first half of the 1990s.¹⁸ With the exception of Poland, this phenomenon had already faded after 1995.¹⁹ It can thus be concluded that the demographic factor could play a certain role in an increase in short-term job tenures in the three countries in the first years of economic reforms and later diminishing. However, a sharp decline in longer-term job tenures is evidence of growing employment instability for older workers. The process of population ageing will thus become an important factor of future labour supply contributing to labour

¹⁵ Young people seek to accumulate diverse experience; their moves are also often associated with promotion, more responsibility and higher financial reward.

¹⁶ See Section 4.3.

¹⁷ The share of persons above 45 increased in the Czech Republic from 34.4 per cent in 1990 to 39.7 per cent in 1999, in Poland from 29.8 per cent to 34.9 per cent in the same period and in Slovenia from 36.8 per cent in 1991 to 38.2 per cent in 1999.

¹⁸ Because of lower fertility rates, fewer women are on maternity leave.

¹⁹ The share of persons between 15 and 24 increased from 14.9 per cent of total population over 15 in 1990 to 16.7 per cent in 1995 and declined afterwards to 15.5 per cent in 1999. In Slovenia the analogous figures are, respectively, 14.7, 15.8 and 14.8 per cent. Only in Poland has the proportion of this age group in the population over 15 constantly increased over the 1990s - from 14.1 per cent in 1990 to 16.9 per cent in 1999.

shortages and mismatches in the labour market.

The business cycle also affects average job tenure, as mentioned previously. Surprisingly, unlike industrialized countries, *average job tenure tends to be pro-cyclical in transition economies*. The increase in job tenure observed in recent years seems to reflect economic stabilization and recovery that has taken place after the transition crisis. Moreover, when the Czech Republic experienced an economic recession after 1997, accelerating structural changes negatively affected the average job tenure, and this decline was again in line with the pro-cyclical trend of tenure. Nevertheless, since 1998 the relationship between average job tenure and economic growth seems to start reversing in Poland and Slovenia.

4.3 Tenure profile of different types of workers

Table 9 presents the average job tenure by demographic group, occupation, sector and educational attainment. As already highlighted, comparing unweighted averages across countries, women have longer tenure than men (except in the Czech Republic), and, not surprisingly, tenure rises sharply with age. Little difference is to be found among countries for youth; young workers have average job tenure of about 2 years (slightly above the average for Western industrialized countries) although in Slovenia, Poland and Estonia, this age group has a lower average tenure. This probably does not reflect labour supply behaviour, as youth unemployment rates are significantly higher than the national average in these countries. (The unemployment rate for young people aged 15-19 was 45.6 per cent in Poland in 1999 and 29.7 per cent for those aged 20-24 (Statistical Yearbook of Poland, 2000)). These countries also tend to be characterized by higher shares of part-time and temporary youth employment.

The average tenure of workers over 45 for the six countries is below the average job tenure of Western industrialized countries (15 years against 18 years). Yet, there is a great variation across countries for workers over 45 years: in Estonia, the average job tenure was about 10 years for this age group in 1999 (compared to 11 years in the United States), whereas it was twice as high in Slovenia and Poland. This heterogeneity across countries reflects, first of all, the extent of structural changes that took place particularly during the first phase of the reforms. Second, it reveals differences in employment protection of older workers by country, depending on trade union power, seniority rules and employers' preferences, and how labour market pressures have been solved at the cost of elderly workers. In all countries reviewed, the activity rate of older workers sharply declined after the introduction of early retirement schemes (except for the Baltic States), pressures on working pensioners to withdraw from the labour market, and the resignation of many older workers on economic activity (usually through early retirement, invalidity pensions or other social welfare provisions).²⁰

The distribution of job tenure also varies considerably across industries: the highest tenures are found in mining and quarrying, and electricity, gas and water supply. Workers in the education and health sectors also have longer tenures (around 11 years in 1999). The fact that the latter two sectors mainly employ women could partly explain why female tenure was higher than male tenure. Long tenure also tends to characterize the agricultural sector. However, these data should be interpreted with

²⁰ Interestingly, the decline in the participation rates was more profound in the case of men over 45, compared with women of the same age group for all the transition countries analysed, the only exception being the Czech Republic.

caution, as they indicate a great diversity across countries (24 years in Slovenia against 7 years in the Baltic States). In Slovenia, there was little change in ownership in agriculture while in other countries agricultural cooperatives were dissolved or transformed into joint-stock companies, limited liability companies or cooperatives of farmers (e.g. previously workers on state farms), leading to massive job changes even for workers continuing to do the same work.²¹

The shortest job tenures are generally to be found in expanding industries such as financial intermediation, the tourism sector (hotels and restaurants – only 4.7 years on average in 1999) and business support services. Private households' workers as well as wholesale and retail trade (which tends to employ a large number of young people) are also characterized by short average tenures. This breakdown by sector does reveal some similarities with Western industrialized countries (see Auer, Cazes, 2000). However, the so-called small privatization, the restitution of nationalized property as well as the expansion of small enterprises initiated by economic reforms, accelerated changes in job-tenure distribution in sectors such as community and personal services, trade, hotels and, in part, also construction. Differences in manufacturing reflected the extent of structural changes by country connected with actual privatization (as opposed to the initially formal one, as in the Czech Republic) and economic cycle (except for Slovenia).

²¹ Unfortunately these data were not available for Poland, but considering its large number of family farms, one may assume that the agriculture sector would be characterized by long average tenure as well (see below, job tenure by occupation).

Table 9: Average job tenure by sex, age, sector, occupation and education, 1999 (years)

| | Czech Rep.* | Estonia | Hungary | Lithuania | Poland | Slovenia | Average | Std Dev |
|--|-------------|------------|------------|------------|-------------|-------------|------------|----------|
| Total | 9.0 | 6.9 | 8.8 | 7.6 | 11.9 | 12.1 | 9.4 | 2 |
| Men | 9.3 | 6.3 | 8.6 | 6.9 | 11.4 | 11.7 | 9.0 | 2 |
| Women | 8.8 | 7.6 | 9.1 | 8.3 | 12.3 | 12.5 | 9.8 | 2 |
| Age | | | | | | | | |
| 15-24 | 2.5 | 2.1 | 2.6 | 2.3 | 2.1 | 1.9 | 2.2 | 0 |
| 25-44 | 7.2 | 5.5 | 7.6 | 5.8 | 8.6 | 9.3 | 7.3 | 1 |
| 45 + | 13.9 | 10.1 | 13.6 | 12.3 | 19.0 | 20.8 | 14.9 | 4 |
| Sector | | | | | | | | |
| Agriculture, hunting and forestry | 12.9 | 7.1 | 10.6 | 6.8 | | 24.6 | 12.4 | 6 |
| Fishing | 5.4 | 8.2 | 8.9 | 5.9 | | 4.3 | 6.5 | 1 |
| Mining and quarrying | 13.9 | 13.1 | 11.4 | 11.2 | | 13.1 | 12.5 | 1 |
| Manufacturing | 10.1 | 7.0 | 9.1 | 9.2 | | 11.8 | 9.4 | 1 |
| Electricity, gas and water supply | 11.7 | 10.8 | 12.2 | 10.8 | | 13.4 | 11.8 | 1 |
| Construction | 7.0 | 5.0 | 6.2 | 6.2 | | 10.1 | 6.9 | 1 |
| Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods | 5.4 | 4.2 | 6.2 | 4.0 | | 9.0 | 5.8 | 1 |
| Hotels and restaurants | 4.5 | 2.9 | 5.2 | 4.0 | | 6.8 | 4.7 | 1 |
| Transport, storage and communication | 11.6 | 7.6 | 11.1 | 7.4 | | 11.7 | 9.9 | 2 |
| Financial intermediation | 6.7 | 4.6 | 6.8 | 4.4 | | 9.6 | 6.4 | 1 |
| Real estate, renting and business activities | 6.4 | 5.4 | 6.2 | 7.0 | | 6.7 | 6.3 | 0 |
| Public administration and defence; compulsory social security | 9.4 | 5.8 | 8.9 | 6.6 | | 9.9 | 8.1 | 1 |
| Education | 12.9 | 10.4 | 11.6 | 11.3 | | 11.9 | 11.6 | 0 |
| Health and social worker | 10.4 | 10.1 | 11.3 | 10.3 | | 12.4 | 10.9 | 0 |
| Other community, social and personal service | 7.1 | 7.6 | 8.2 | 8.2 | | 10.0 | 8.2 | 1 |
| Private household and employed persons | 1.6 | 1.6 | 5.6 | 1.5 | | 5.1 | 3.1 | 1 |
| Occupation | | | | | | | | |
| Armed forces | 14.7 | 3.6 | 10.2 | 7.6 | | | 9.1 | 4 |
| Legislators, senior officials and managers | 8.9 | 7.4 | 10.4 | 8.5 | 10.4 | 9.5 | 9.2 | 1 |
| Professionals | 10.3 | 9.6 | 10.8 | 11.3 | 11.4 | 10.3 | 10.6 | 0 |
| Technicians and associated professionals | 10.1 | 7.8 | 10.1 | 8.6 | 11.6 | 10.9 | 9.8 | 1 |
| Clerks | 8.9 | 7.5 | 9.5 | 8.9 | 10.7 | 11.3 | 9.5 | 1 |
| Service workers, shop and market sales workers | 5.9 | 4.4 | 6.2 | 5.1 | 6.0 | 9.2 | 6.1 | 1 |
| Skilled agricultural and fishery workers | 10.1 | 6.4 | 8.7 | 6.0 | 21.8 | 25.2 | 13.0 | 8 |
| Craft and related trade workers | 9.1 | 6.4 | 8.5 | 7.1 | 9.6 | 10.3 | 8.5 | 1 |
| Plant and machine operators and assemblers | 10.2 | 7.5 | 9.1 | 8.4 | 10.3 | 11.9 | 9.6 | 1 |
| Elementary occupations | 8.0 | 5.5 | 6.6 | 5.7 | 7.7 | 10.2 | 7.3 | 1 |
| Education | | | | | | | | |
| Low | 10.0 | 6.9 | 8.8 | 7.0 | 19.7 | 18.6 | 11.8 | 5 |
| Medium | 8.9 | 6.4 | 8.4 | 6.4 | 10.2 | 10.5 | 8.5 | 1 |
| High | 9.8 | 7.9 | 10.3 | 8.8 | 10.6 | 9.6 | 9.5 | 1 |

* Data for the Czech Republic can not be compared with the previous figures, as they only refer here to workers with permanent contracts.

Data for sector and occupation use the national classification systems and are regrouped to correspond approximately to NACE (Rev.1) and ISCO-88.

Source: EUROSTAT.

Generally, skilled white-collar occupations, such as professionals and technicians have the highest job tenure (above 10 years on average), while semi- and

unskilled manual jobs as well as lower-skilled white-collar occupations (e.g. service workers, shop and market sales workers) have shorter tenures (around 6 years). Particularly high tenures are to be found for “skilled agricultural and fishery workers” for two countries: Poland (22 years) and Slovenia (25 years). This is consistent with our previous results from the analysis by sector and can be attributed to the fact that no significant changes in ownership in agriculture took place in Poland and Slovenia, contrary to other countries. It also reflects that agriculture offers low skilled and stable jobs performed mainly by older persons (this factor is particularly strong in Poland). The relatively higher tenures for the “plant and machine operators” in the Czech Republic, Poland and Slovenia again point to slower changes in the manufacturing sector. Interestingly, the degree of dispersion of job tenure by industry and occupation across countries is similar, i.e. dependent on the nature of the job.²²

Average job tenures by educational attainment do not show a consistent pattern across countries: in the Baltic States and Hungary, highly educated workers have longer tenures than workers with lower education (Table 9). This could be explained by more numerous outflows from employment of lower educated workers following the downsizing in manufacturing and agriculture. In contrast, for the Czech Republic, Poland and Slovenia, the reverse is true due to delays in enterprise restructuring in industry.

This may seem surprising, as less qualified people might be expected to have worse job stability. Empirical research based on a disaggregated analysis of the evolution of job tenure found results consistent with the previous findings for Western countries.²³ However, a multivariate analysis for countries of the European Union reveals that, controlling for differences in gender and age distributions, individuals with the lowest level of education have the shortest job tenure, while those with a middle level of education have the longest (OECD, 1997). Thus the previous findings seem mainly to emphasize that both labour demand and labour supply determine job tenure. The implication is that, relative to individuals with no qualifications, people with higher levels of education tend to move between jobs more frequently as they find more and better job opportunities.

Another interesting breakdown refers to the average job tenure by enterprise size, as shown in Table 10. The distribution suggests an analogous picture across countries, as job tenure is clearly increasing with enterprise size in almost all countries under review. The employees in larger establishments (enterprises with 50 or more workers) have significantly longer job tenure (11.4 years on average in 1999) in comparison to employees in establishments with less than 10 workers (7.2 years on average). In Poland, however, the influence of enterprise size is not monotonic: 9.5 years for enterprises with less than 10 employees, against 7.2 years for enterprises with 11 to 19 employees, 9.2 years for enterprises with 20 to 49 employees and 13 years for enterprises with 50 or more employees.²⁴

There is some evidence on job tenure in Western European countries that employees stay longer in larger establishments and in production sectors (Bellman, et al., 2000, and Burgess et al., 1997). The pattern by enterprise size may also be partly explained by the fact that employment protection legislation is much less enforced for

²² This is consistent with results for OECD countries (Auer and Cazes, 2000).

²³ Burgess and Rees (1998) found e.g. that post-compulsory educational qualifications in Britain are associated with shorter job tenures for both men and women.

²⁴ Figures for Poland should be interpreted with caution, as the distribution is likely to be biased by the agriculture sector.

very small firms, which thus feel less constrained in their layoffs. This may also reflect that many of these enterprises have been established more recently. Generally, these findings are much in line with the experience of many Western countries.

Table 10: Average tenure by enterprise size, 1999 (years)

| | Czech Rep | Estonia | Hungary | Lithuania | Poland | Slovenia | Average | Std dev |
|---------------------|-----------|---------|---------|-----------|--------|----------|---------|---------|
| Number of employees | | | | | | | | |
| 1 to 10 | 7.3 | 5.0 | 6.5 | 4.4 | 9.5 | 10.4 | 7.2 | 2.4 |
| 11 to 19 | 8.2 | 5.5 | 7.7 | 6.0 | 7.2 | | 6.9 | 1.2 |
| 20 to 49 | 9.4 | 6.9 | 8.8 | 8.2 | 9.2 | 10.6 | 8.8 | 1.2 |
| 50 or more | 11.9 | 9.1 | 10.8 | 10.2 | 13.0 | 13.3 | 11.4 | 1.7 |

Source: EUROSTAT

4.4 Labour turnover and job tenure

Section 3 indicated a tendency towards a counter-cyclical development of labour turnover in the selected transition countries, in particular those more advanced in economic reforms. This section also demonstrated average job tenure as having a pro-cyclical development trend in these countries. These findings are compatible, if one argues that an increase in labour turnover leads to a shortening of average job tenure, while moderating labour turnover means stabilization of the labour market and an increase in job tenure.

However, this time-consistent picture for each of the countries studied is at odds with the cross-country comparison. Based on the above argument, it would follow that the higher labour turnover in a given country is, the lower the average job tenure. A comparison of Tables 3, 6 and 7a, however, conflicts with this logic. The order of countries with regard to their levels of labour turnover in the second half of the 1990s starts with the Czech Republic (lowest), followed by Slovenia, Estonia and Poland (highest). The order of these same countries in average job tenure is Slovenia (highest), followed by Poland, the Czech Republic and Estonia.

Two factors may explain this seeming paradox. First, Poland and Slovenia seem to have a highly segmented labour market. On the one hand both countries have a large proportion of workers with long job tenure (almost untouched by economic transition as far as their employment is concerned), which increases their average job tenure figures. On the other hand, a high share of workers have lost their jobs. In Poland and Slovenia a proportion of workers made redundant seem to get into precarious jobs, resulting in much higher labour turnover for this group of workers, compared to other groups. At least for Slovenia this is clearly reflected in the high share of temporary workers (see Table 15 in Section 5). Many of these workers have also become unemployed or inactive in Poland, which has not been so much the case in the Czech Republic.

Another factor is the methodological differences²⁵ in labour statistics across transition countries, as well as the difficulty of obtaining reliable data on irregular

²⁵ The annual data on labour turnover for Poland are calculated on the basis of quarterly data, so that any multiple changes of labour market status in the course of the year are counted while for the other three countries this is not the case. This increases the Polish data on labour turnover, compared to those for Estonia and Slovenia (which are collected once a year and therefore do not include multiple changes within one year) and concerns the group of workers in precarious jobs. For the Czech

forms of employment. Cross-country comparisons should therefore be interpreted with caution.

Republic, as already mentioned in Section 2, available data underestimate actual labour turnover both on the side of accession and separation, due to incomplete inclusion of job-to-job moves.

5. Job security versus job stability

In Section 4, job tenure was used to assess job stability. However, since average tenure is determined by both voluntary and involuntary turnover, it provides ambiguous information about job security per se. Moreover, while average job tenure emphasizes the evolution of stable jobs, short-term jobs or labour market churning are best described by separation rates.²⁶ Data on outflows from employment that identify or reflect the reasons for job changes (layoffs, plant closures, voluntary quits, or retirement and other “natural” separations) are necessary to make proper inferences about job security. This is important because workers leaving voluntarily are likely to improve their well-being, whereas involuntary separations are more likely to make workers worse off, especially when faced with difficulties to re-enter the labour market. In developed countries, as explained in Section 3.4, voluntary quits are more significant for determining fluctuations of labour turnover than layoffs: in periods of economic upswing they accelerate while layoffs are rather modest, and during economic recession their decline is sharper than the increase in redundancies.

5.1 Analysis of reasons for separation

Two types of data on separations are available for selected transition countries: separations by reason (usually termination by employer, voluntary separation and separation for other reasons) and separations by destination (exit to another job, to unemployment and to inactivity). The former is based on establishment data and the latter on labour force surveys.

Table 11 disaggregating the separation rate by reason reveals that economic reasons in general contributed much less to total separations in all the countries covered during the transition period than is usually expected. This contribution increased between 1991 and 1993, i.e. in the period of strong structural shifts for the countries of Central and South-Eastern Europe but remained below 40 per cent of all separations. For this group of countries there is a clear correlation between economic fluctuations and the share of redundancies, the latter increasing in periods of economic recession (or significant economic slowdown) while declining with economic recovery. In contrast, in the case of the CIS countries, the share of redundancies has always been a fraction of total separations. The difference between the two sub-regions is even more striking for voluntary quits. Although these data are available only for Poland and the Russian Federation, they show that the number of voluntary quits has always been below that of redundancies in Poland while being the most frequent form of separations in the Russian Federation.

²⁶ The separation rate is the ratio of the total number of workers having left or lost their job during a given period (a month, a year) to the total number of the workers at the beginning of the period.

Table 11: Separation rates by reason of separation (percentages)

| Country | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|--|------|------|------|------|------|------|------|------|------|------|
| A/ Termination by employer | | | | | | | | | | |
| Bulgaria | 3.2 | 10.9 | 11.7 | 11.7 | 7.3 | 3.7 | 4.2 | 6.0 | 5.0 | 5.7 |
| Poland | 1.5 | 6.6 | 5.9 | 6.4 | 5.4 | 4.9 | 4.1 | 3.0 | 4.3 | |
| Russian F. | | | | 1.5 | 2.2 | 1.6 | | | | |
| Ukraine | | | | | | | 2.2 | 2.8 | 1.9 | 1.9 |
| B/ Voluntary quits and other reasons for separation | | | | | | | | | | |
| Bulgaria | 25.7 | 25.3 | 19.4 | 17.9 | 18.5 | 18.8 | 20.6 | 25.9 | 24.8 | 34.2 |
| Poland | | | 6.0 | 3.8 | 4.2 | 4.5 | 3.7 | 2.9 | 3.5 | |
| Russian F. | | | | 23.6 | 25.2 | 24.1 | | | | |
| Ukraine | | | | | | | 15.5 | 14.0 | 15.8 | 16.8 |
| C/ Of B/ only voluntary quits | | | | | | | | | | |
| Poland | | | 6.0 | 3.8 | 4.2 | 4.5 | 3.7 | 2.9 | 3.5 | |
| Russian F. | | | | 16.3 | 17.6 | 17.6 | | | | |

Source: National statistics (the data are based on establishment surveys).

This difference seems to indicate that the Polish labour market is much tighter than that of the Russian Federation. Polish workers are apparently reluctant to change their job unless they already have a new one. Structural changes have increasingly been solved by measures other than redundancies (retirement, out-of-job training, maternity leave, etc.). In contrast, the Russian labour market would seem to offer many opportunities. However, research provides another explanation. Facing economic problems, Russian employers prefer methods other than redundancy to cut labour costs, such as administrative leave, extended maternity leave, short-time work, real wage cuts or non-payment of wages. As a rule, older workers or women with small children, especially in regions with few good job opportunities in the market, accept such solutions while relying on other sources of income. Younger persons solve the situation by quitting in the hope of finding something better. The research revealed that the actual reason for departure was economic in 83 per cent of cases (including both redundancies and quasi-voluntary quits).²⁷

A steeply increasing proportion of separations other than redundancies in Bulgaria since 1997 (while terminations by employers went up only slightly) could indicate that employers sought agreement with redundant workers with the aim of avoiding long notice periods or severance pay and they more often switched to temporary contracts. Evidence for this explanation will be provided in Section 6. According to Table 12, which shows separations by destination, outflows from employment to inactivity significantly exceeded outflows to unemployment. This indicates that labour market pressures were primarily solved at the expense of older workers, by pushing them to accept regular or early retirement (the achievement of retirement age does not automatically mean the termination of the contract), and of some other vulnerable groups. Also, resignations were more frequent in the first difficult period of economic transition while easing later. In Estonia and Slovenia the shares of withdrawals from employment to inactivity were several times higher than

²⁷ A survey undertaken among registered jobseekers in 1996 revealed that out of each 100 interviewed jobseekers, 38 were made redundant, 5 completed their fixed-term contract and 11 left voluntarily while 45 jobseekers quit because of very low wages, regular non-payment of wages, unpaid administrative leave or remoteness of the job from home and high transportation costs (Tchetvernina, 1998).

outflows to unemployment in the initial stage of economic reforms. For other countries, the data before 1993 are not available but rapidly declining participation rates in this period would indicate the same tendency as in Estonia and Slovenia. While Estonia rapidly closed the gap and even reversed this relation after 1997, in all the other countries under review the outflow to unemployment remained lower than the exit to inactivity.

Table 12: Separation rates by destination of outflows from employment (percentages)

| Country | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|------|------|------|------|------|------|------|------|------|------|------|
| A/ Employment to unemployment (EU) | | | | | | | | | | | |
| Czech Rep. | | | | 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 |
| B/ Employment to inactivity (EI) | | | | | | | | | | | |
| Czech Rep. | | | | 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 |
| C/ Employment to employment (EE) | | | | | | | | | | | |
| Czech Rep. | | | | 14.9 | 11.8 | 9.0 | 7.1 | 6.5 | 5.0 | | |
| Estonia | 9.7 | 12.2 | 16.5 | 17.0 | 16.1 | 9.0 | 12.2 | 9.8 | 8.4 | | |
| Poland | | | | | 6.5 | 6.4 | 10.4 | 6.0 | 5.2 | | |
| Slovenia | 5.0 | 4.9 | | 5.3 | 5.7 | 5.4 | | | | | |

Source: Labour Force Surveys.

There was a remarkable difference among the four countries in job-to-job moves, which were particularly high in Estonia and above the average also in the Czech Republic. In Estonia, job-to-job flows much exceeded the other two destinations of separated workers for the whole transition period and confirm an exceptionally high mobility of labour supported, as mentioned earlier, by massive structural changes. The available data for the Czech Republic give a similar evidence of high mobility of workers among jobs, notably for the period until 1995, when labour reallocation needs could relatively easily be solved without longer unemployment spells. This contrasts with the situation in Poland where direct job-to-job moves were at the same level as redundancies (and before 1995 even seemed to be lower) while withdrawals from employment to inactivity were consistently higher, in particular prior to 1996, the only exception being one year – 1996. Until 1995, the situation in Slovenia had resembled that of Poland as outflows from employment to inactivity had exceeded job-to-job moves. After 1995, stricter conditions for early retirement contributed to a sharp deceleration of the former flow indicator.

5.2 Correlation of employment outflows with business cycle

Job-to-job moves as well as exits from employment to unemployment and inactivity are obviously affected by economic performance of the country. As already mentioned, in industrialized countries in periods of economic upswing, demand for labour increases and employers tend to offer higher wages in order to attract new and more qualified workers. These are more inclined to use better job opportunities so that, besides new labour market entries and re-employment of previously unemployed persons, job-to-job moves also accelerate. In contrast, in periods of economic decline workers become more hesitant to change their jobs voluntarily in fear of eventually remaining jobless. Enterprises endeavour to cut production costs in order to maintain or restore their competitiveness, including if necessary redundancies, use of early retirement schemes and similar measures to cut their workforce.

Evolution of GDP and employment outflows including job-to-job moves for four transition countries is depicted in Figure 2. In these graphs, E-U stands for flow from employment to unemployment, E-OLF for flow from employment to inactivity and E-E for job-to-job moves.

In order to reveal the strength of the correlation between GDP growth rates and flows from employment to each of the three destinations, we computed correlation coefficients (see Table 13a. We assumed that job-to-job moves are usually voluntary (unlike in the CIS countries as mentioned above), while outflows from employment to unemployment are usually involuntary, which is the case, to a large extent, also for flows from employment to inactivity (forced withdrawals from employment, de-registration from unemployment, early retirement, etc.). Therefore, positive correlation of the former flow (between jobs) and negative correlation of the two latter flows (to unemployment and inactivity) with economic cycle could be expected. Moreover, while job-to-job moves can be realized without much delay, employment protection rules delay involuntary moves from employment to unemployment and to inactivity. Therefore we also correlated the latter flows with GDP growth rates preceding employment outflow data by one year. Correlations between employment dynamics and outflows from employment are also presented in Table 13b. Again, our results should be taken with caution, due to rather short and incomplete data series, with differences among countries as far as the coverage of the transition period is concerned.

Table 13a: Correlation coefficients of GDP and outflows from employment by destination for selected transition countries

| Country | EE vs GDP | EI vs GDP | EI vs GDP-1 | EU vs GDP | EU vs GDP-1 |
|----------------|-----------|-----------|-------------|-----------|-------------|
| Czech Republic | 0.1291 | 0.5020 | - 0.2511 | - 0.7847 | - 0.4126 |
| Estonia | - 0.6176 | - 0.8452 | - 0.6607 | 0.3771 | -0.0989 |
| Hungary | n.a. | -0.8409 | -0.8557 | -0.8532 | -0.9032 |
| Poland | 0.1245 | - 0.6721 | - 0.6338 | - 0.5748 | - 0.5987 |
| Slovenia | 0.9318 | - 0.7734 | - 0.5146 | - 0.5637 | - 0.8728 |

Table 13b: Correlation coefficients of employment growth and outflows from employment by destination

| Country | EE vs E | EI vs E | EI vs E-1 | EU vs E | EU vs E-1 |
|----------------|----------|----------|-----------|----------|-----------|
| Czech Republic | 0.0662 | - 0.4952 | - 0.1480 | - 0.6502 | - 0.4224 |
| Estonia | - 0.5675 | - 0.4528 | - 0.2182 | - 0.2338 | - 0.5400 |
| Hungary | n.a. | - 0.9809 | - 0.9022 | - 0.9803 | - 0.9504 |
| Poland | -0.2389 | - 0.8272 | - 0.9331 | - 0.7577 | - 0.8806 |
| Slovenia | 0.7288 | - 0.5231 | - 0.0373 | - 0.8173 | - 0.7138 |

E-E is a flow from one job to another, E-I a flow from employment to inactivity and E-U from employment to unemployment.

Source: Own computations based on Table 12.

Tables 13a and 13b show strong negative correlation between economic (and employment) developments and exits to inactivity for Estonia, Poland and Slovenia. This remains so for these countries even if exits to inactivity are correlated with lagged GDP. In contrast, in the Czech Republic, moves from employment to inactivity seem to be pro-cyclical but, if the correlation takes into consideration the time lag, then exits to inactivity also tend to be counter-cyclical (similarly to the other countries in our selection).

Also in line with expectations, outflows from employment to unemployment are strongly negatively correlated with economic cycle in the Czech Republic, Poland and Slovenia both when the time lag is and is not considered. For Estonia the relationship seems to be rather weak. One possible explanation could be that the results are to a certain extent affected by the first 3-4 years, when the behaviour of enterprises and workers was still much influenced by the past. Indeed, administrative leaves and short-time work as well as delays in wage payment were rather frequent at that time while dismissals were still quite rare and open unemployment very limited. This also explains negative correlation between GDP and job-to-job moves, as labour churning, well known from the CIS countries, was also typical for that period. Labour churning from the first years of economic transition contrasts sharply with lower voluntary job changes in the period of economic upswing, when workers seem to be more cautious about job-quitting.

These results are in conformity with our earlier conclusion on anti-cyclical movements of labour market flows: higher outflows from employment in periods of suppressed demand for labour and lower outflows during employment upswings. When demand for labour increases fewer people are laid off or are resigning (or pushed to “voluntarily resign”). Conversely, with declining labour demand, pressures on separations either to unemployment or to inactivity increase. In general, the signs and magnitudes of correlation between employment and all outflows from unemployment are very similar to those between GDP and employment outflows.

Of the other selected transition countries, only Slovenia confirms the hypothesis of a strong pro-cyclical development of job-to-job moves, even though absolute changes of job-to-job flows are very small (see Figure 2, graph 1). Our analysis thus suggests that in the transition countries, separations from employment have mainly been affected by forced resignations and involuntary quits for economic reasons in relation to the transition crisis, structural changes and the necessity of enterprises to reduce labour hoarding and cut labour costs. Again, this contrasts with developed countries, where the main reason for separations seems to be voluntary quits to better jobs in periods of economic upswing and their reduction in periods of economic recession.

5.3 Temporary employment

Temporary employment, which includes workers on fixed-term contracts, agency workers, seasonal workers and other irregular forms of work (mainly so-called civil contracts), is another form of labour market flexibilization. The popular perception is that temporary employment has dramatically increased during the transition period, as employers prefer to have a free hand in laying-off redundant workers. This fear is mainly expressed by trade unions, which in some countries, for instance the Russian Federation, have successfully achieved the restriction of fixed-term contracts to cases when the worker explicitly prefers a temporary contract, or is performing seasonal or temporary work (limited to 3 months) or for certain professions explicitly stipulated in the Labour Code (Tchetvernina et al., 2001). In some countries, for example the Czech Republic, temporary contracts cannot be offered to school graduates from secondary vocational schools and universities, apprentices or young people below 18, even if the skill requirements of the job correspond with their qualifications, unless they themselves ask for temporary employment (Vecernik, 2001).

Information on temporary employment is scarce, is available for only some countries and may not be fully reliable and comparable in reflecting seasonal and temporary work or civil contracts. Table 14 shows that the share of temporary employment in total employment is rather low in transition countries. Only Slovenia records a remarkably higher proportion of temporary employment; although it remains below the 15 per cent level in most EU countries (for the latter see Auer and Cazes, 2000). Only Slovenia has demonstrated an increasing incidence of temporary employment, while it remains almost stable for all other countries under review. However, some sources estimate the proportion of temporary employment beyond the above-mentioned 15 per cent limit for certain countries in transition. For example, no official statistics on temporary employment is available for Bulgaria. However, the Bulgarian trade union confederation has recently reported that 680,000 employees – or 1 in 3 workers – are on short-term contract according to its survey.²⁸ Similarly, the National Labour Market Centre estimated the share of workers on fixed-term contracts at some 600,000 in Hungary in 1998, which would correspond to about 16 per cent of total employment (Laky, 1999).

Table 14: Temporary employment in selected transition countries as a percentage of total employment

| Country | 1992 | 1994 | 1996 | 1998 | 1999 |
|--------------|------|------|------|------|------|
| Czech Rep. | | 7.1 | 7.6 | 6.1 | 6.9 |
| Estonia | 4.2 | 6.3 | 4.8 | 4.4 | |
| Hungary | | | | | 5.9 |
| Poland | 5.4 | 5.8 | 5.3 | 5.8 | |
| Slovenia | | 8.3 | 8.8 | 12.0 | 11.0 |
| Ukraine | | | | | 3.0 |
| Russian Fed. | | | | | 5.9 |

Temporary employment = fixed-term contracts, agency and seasonal work and other forms of irregular work.

Source: National statistics.

With the exception of Slovenia, national statistical data do not confirm a clear tendency towards more flexible forms of employment, at least in the formal sector for most transition countries. However, problems with data reliability on temporary and irregular employment collected by labour force surveys imply that this conclusion may be doubtful. Some evidence like the two mentioned above on Bulgaria and Hungary may indicate that in reality the incidence of temporary employment may be much higher.

5.4 Short-term instability

The initial phase of a new employment relationship for a worker who has moved from a previous job, returned from unemployment or come from outside the labour market is an important step towards long-term integration in a stable job. An (un)successful job match will affect job (in)stability at an early stage. Following the work of Gregg and Wadsworth (1995) and OECD (1997), the “failure rate of new job matches” can be calculated for the interval between 1 and 2 years of tenure. This measure is based on a comparison of the number of workers with less than 1 year’s

²⁸ Newspaper *Trud*, 10 April 2000.

tenure relative to the number of those with 1-2 years' tenure.²⁹ Table 15 presents the "1-2 years failure rates" for most of the countries under review. At a first glance, two groups of countries can be distinguished: one, which includes the majority of the countries under review, with rates of around 30 per cent, and a second group, including Estonia and Slovenia, with rates of up to 62-65 per cent. Figures for OECD countries do not show much cross-country variation, at around 30-40 per cent for most of the countries under review but high percentages are also to be found in Spain (63.1 per cent in 1998) and in the United States (65.9 per cent in 1995).

The interpretation of the rates is straightforward: it means for example that in Slovenia and Estonia, respectively, 63 per cent and 65 per cent of workers with tenure of less than 1 year in 1998 "failed" to stay beyond 2 years within the same firm. These figures are consistent with Slovenia's relatively high level of temporary work (see Table 15) and with Estonia's comparatively high percentage of workers with short tenure (19.2 per cent of workers with tenure of less than 1 year in 1998). Interestingly, these two countries are also the ones characterized by relatively high job turnover, which contributed 30-40 per cent to overall labour mobility in the period under review. This may suggest that economic transformation driven by newly established enterprises may generate initial mismatch problems at entry to a new job.

A high incidence of failures may already occur in the probation period, which usually ranges from 2 to 6 months in transition countries, especially if the labour market is tight. In addition, a large number of temporary jobs with tenure less than 6 months point to labour market segmentation in a given country when a significant group of workers is locked into short-term unstable jobs. Thus, we also calculated a similar measure comparing the number of workers with 6 or less months of tenure relative to those 6-12 months tenure. Again, caution is necessary when interpreting this indicator, as it is highly sensitive to the business cycle. Bearing this caveat in mind, we can compare the rates of "short-term failure" across countries (second column, Table 15).

The figures for Estonia confirm the high failure rate of new matches and suggest that one component of job instability comes very early into the job match (Table 15). Estimates for Poland and the Czech Republic do however differ from the previous "1 to 2 years" rates and reveal different patterns. In Poland, there seems to be a significant labour churning and short-term instability (17.5 per cent of the workers with tenure of less than 6 months in 1998 "failed" to stay less than 1 year with the same firm). The figure for the Czech Republic is negative, since there were more workers with tenure between 6-12 months than those with tenure less than 6 months. This reflects that in the unfavourable economic situation after 1997, employers were chary of hiring new workers and also reduced the number of short-term workers in order to cut labour costs.

However, it is difficult to draw firm conclusions about these data because they are very sensitive to the business cycle; moreover, we do not have evidence over time to detect any trend towards more or less insecurity. The data in Table 15 suggest that many job matches "fail" very early and that the incidence of such failures varies widely across countries. Nevertheless, it is unequivocal that the high proportion of job matches that fail early affects individual perceptions of insecurity.

²⁹ This measure should be interpreted with caution, as it can be subject to considerable measurement error. Moreover, it does not capture a number of separations that occurred during the course of the first year. However, it does provide a rough assessment of short-term labour turnover.

Table 15: Measures of labour turnover, 1998

| Country | Job tenure < 1 year (%) | Failure rates from 1 year to 2 years (%) ^(a) | Failure rates from 6 months to 1 year (%) ^(b) |
|-----------------|-------------------------|---|--|
| Czech Republic* | 12.4 | 26.1 | -2.7 |
| Estonia | 19.2 | 64.9 | 23.5 |
| Hungary | 14.3 | 20.6 | 4.5 |
| Lithuania | 12.5 | 26.4 | n.a. |
| Poland | 14.6 | 28.6 | 17.5 |
| Slovenia | 13.5 | 62.4 | n.a. |

(a) The rates are calculated as the difference between the number of workers with tenure of less than 1 year in year t, which represents the source population, less the number of workers with 1 year and less than 2 years tenure in year t +1, as a percentage of the source population.

(b) The rates are calculated as the difference between the number of workers with tenure of less than 6 months, which represents the source population, less the number of workers with more than 6 months and under 1 year tenure, as a percentage of the source population.

* The figure on job tenure under 1 year (and related computations) differs from that in Table 8 as it refers only to permanent workers. We used it for comparability reasons (the EUROSTAT source gives the proportion of permanent workers with job tenure between 1 and 2 years while the Czech Statistical Yearbook provides this share for all workers but for job tenure between 1 and 3 years).

Source: EUROSTAT.

6. Conclusions

The introduction of economic and social reforms initiated long-delayed structural adjustment of the former command economies to world markets and facilitated it by significant changes in labour legislation and labour market institutions. The weaknesses of newly established or refurbished institutions further enhanced adjustment flexibility for firms, which used not only direct staff cuts and real wage reduction but also shortening of working time, delayed wage payment or informal work. The protection of workers at enterprise level was considerably reduced and ought to be compensated by institutional assistance, labour market policy and social protection. As a result of these reforms and the underdeveloped enforcement mechanisms, insecurity of employment and income has sharply increased in transition economies, compared with the past.

While legislative and institutional reforms in most transition countries were influenced by the West European approach, the reality has been more diverse, depending on economic performance, trade union power and the importance of social dialogue as well as national culture. Hence, the Central European countries, including the Baltic States, have moved towards flexibility/protection patterns applied by EU countries, further supported by the EU accession process. In the Balkan States, adversely hit by war conflicts and economic losses due to inconsistent reforms, certain rigidities have persisted, along with weak employment and income security for workers. In the CIS countries, the adaptability of firms tends to be more internally constrained rather than blocked by external regulations. For historic-cultural reasons, employment protection (combined now with meagre protection of earnings) is still tied to companies while broader labour market protection and income protection are exceedingly weak.

In the initial period of economic transformation, economic reforms stimulated restructuring connected with massive job destruction and reallocation of labour. After stabilization and recovery of the economy one might have expected fluctuations of labour market flows more in line with those prevalent in industrialized countries, i.e. increasing moves of people among jobs to capture better jobs with higher earnings,

besides more hires of people from the unemployment pool or previously inactive, and less redundancies and resignations. However, workers in transition countries behave differently and, even in an improved economic situation, many seem hesitant to quit their jobs voluntarily and move on to other jobs. The main reason is the heightened perception of job insecurity. Reluctance to voluntarily quit is justified by the fact that labour demand is in general weak, many large and medium-sized companies are still or again cutting staff, small firms are often fragile. Despite rather low average wage levels in all transition countries, a decline in income due to unemployment is critical and for the majority of unemployed persons it means a fall into poverty. This was confirmed by our findings of a tendency towards a counter-cyclical movement of labour turnover and a pro-cyclical development of job tenure in transition countries, which is opposite to developments in industrialized countries. However, since 1998 a new tendency towards a counter-cyclical movement of job tenure seems to be starting in Poland and Slovenia but its sustainability has yet to be proved. Also, in Slovenia, labour turnover seems to have change towards moving pro-cyclically since 1997. Significant differences remain among the countries under review. Estonia is clearly a leader in labour market flexibility and Lithuania seems to share many similarities concerning job stability. The Czech Republic and Hungary both tend to be characterized by a sharp increase in flexibility at the beginning of transition and some later stabilization. Economic recession, however, gave a new impetus to labour mobility in the Czech labour market after 1997.

Poland and Slovenia appear to have a highly segmented labour market: on the one hand, they feature a large share of working population in long tenure jobs and, on the other, some groups of workers in precarious jobs with a very high mobility. Nevertheless, both countries also have significant differences. In Poland we found a striking difference between labour turnover and job turnover, indicating considerable labour churning. Structural changes reflected in job creation and job destruction were surprisingly rather slow, contradicting the general perception of Poland as one of the fastest reformers. In contrast, Slovenia seems to be somewhere between the transition and industrialized countries. Its past legacy as a mixed economic system of the former Yugoslavia means that changes induced by economic transition and restructuring were less profound, including the attitudes and expectations of workers. This explains why labour turnover was rather moderate and stable in Slovenia in the 1990s, while at the same time job turnover was significantly contributing to labour mobility. Slovenia is also the only transition country where job-to-job moves have been strongly positively correlated with economic growth (as it is in industrialized countries), suggesting that its citizens have accustomed themselves to a market system and have higher confidence in labour market and social protection institutions.

Our findings for Ukraine, the Russian Federation and to some extent also Bulgaria are in line with their slower progress in economic transformation. Extensive labour mobility in these countries is mainly connected with labour churning among jobs of generally low quality, while new job creation is very limited. Structural changes seem passive in character, inferring a passive adaptation of firms and people to market challenges, while positive adjustment flexibility of enterprises as reflected in new, rapid job generation in accordance with emerging production and sales opportunities, is still low.

An analysis of tenure profile of different groups of workers also showed some interesting findings. First, the distribution of job tenure by industry in transition countries is very similar to that of industrialized countries. The sectoral structure of a

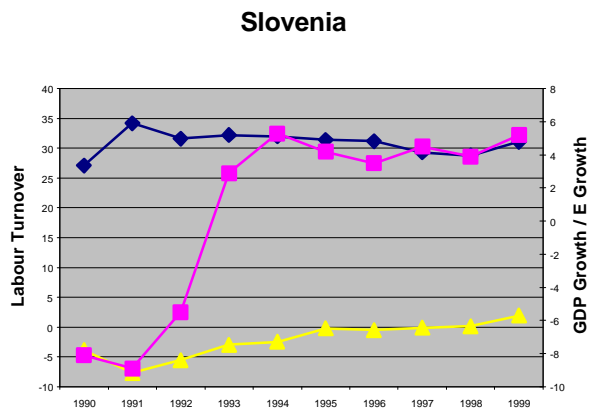
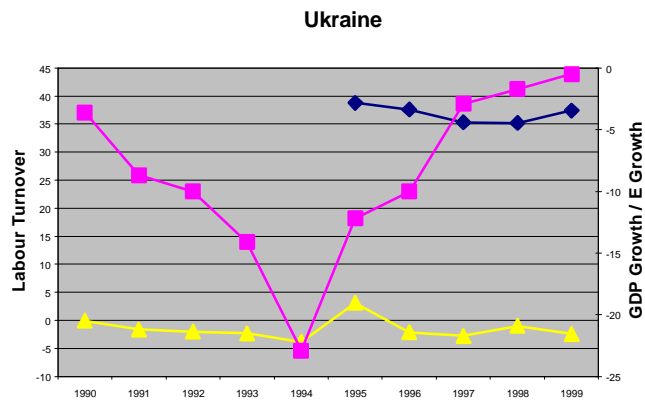
country and its changes produce a significant effect on the average job tenure of a country. In tendency, a higher share of personal, producer and distribution services contributes to greater instability of employment while countries with large shares of agriculture and higher proportions of civil and social services in employment tend to have longer average job tenures. Second, job tenure sharply increases with age in all countries reviewed. Hence, the demographic composition of the working population also partly explains differences in job stability by country. In the 1990s a lot of young people entered the labour market. This factor, linked to a sharp increase in resignations and the early retirement of older workers, contributed to a general decline in job stability. Third, women tend to have slightly higher job tenure than men in most transition countries, with the exception of the Czech Republic. This confirms that the gender in the availability and quality of employment has deepened during economic transition.

The aim of this study was to examine labour market dynamics in selected transition countries in the 1990s and their relation to economic and employment developments. Their links with employment protection legislation, the evolution of social dialogue and labour market policy will be explored in a detailed causal analysis in a separate follow-up study.

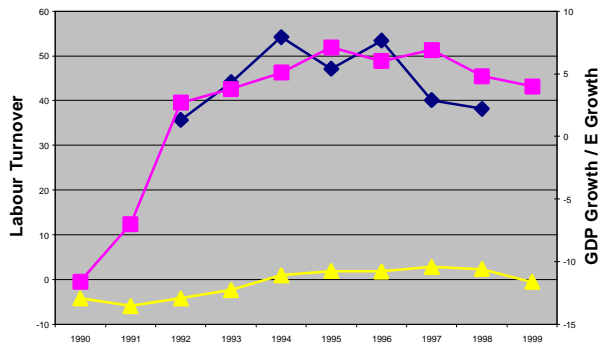
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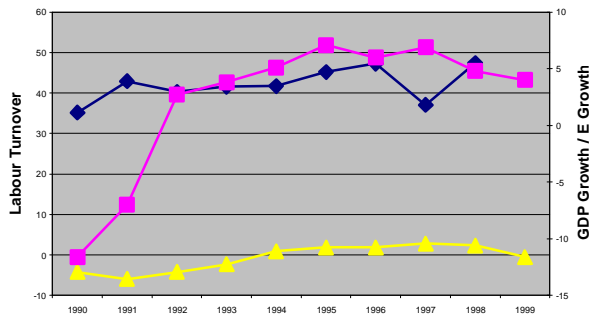
Figure 1



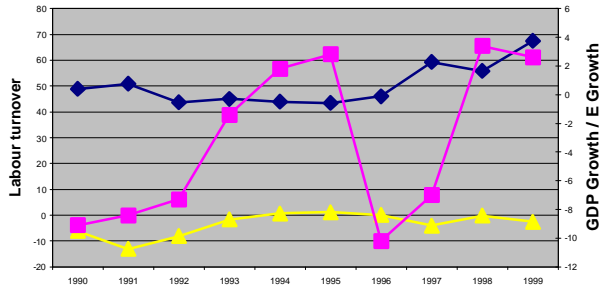
Poland LFS



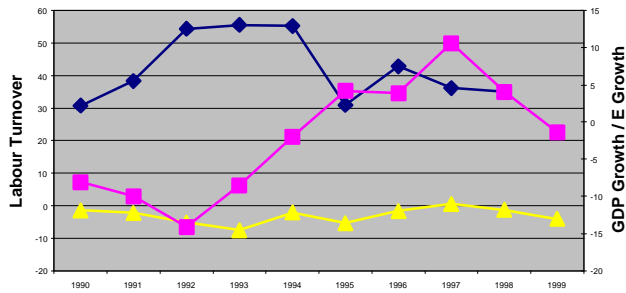
Poland ES



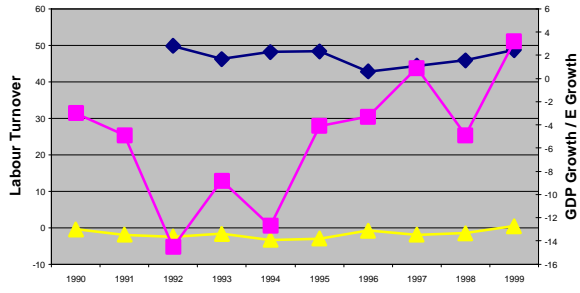
Bulgaria



Estonia



Russian Federation



Czech Republic

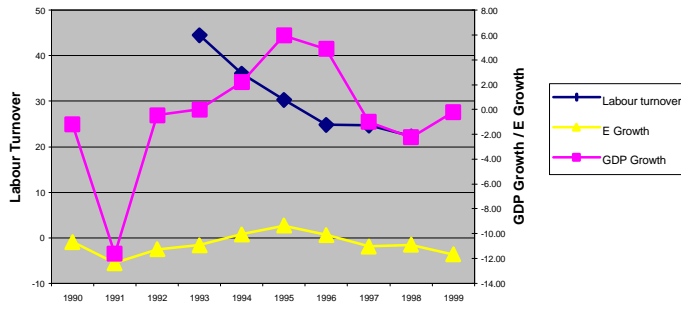


Figure 2

