Labour Market Performance in the CIS after Two Decades of Transition: do institutions matter?

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Abstract
In this paper we examine the post-socialist transformations of labour market institutions in the CIS and compare their performance after about 15 years of transition. During this period many CIS labour market institutions suffered a massive decay. We argue that this attrition was due to policy choices made early on in the transition when the CIS countries originally adopted models of public employment services and labour market policies funded through insurance-based schemes, without taking into account that unemployment was not an insurable risk ahead of their major transitional recessions. We also examine the links between labour market performance, types of labour market institutions, and the prevailing type of strategic coordination in the economy as classified within a varieties of capitalism framework. Initially we do not find an unambiguous link among the three and we conclude that the diversity of institutional setup in the CIS poses serious challenges to their classification within the existing varieties of capitalism framework. A deeper probe into labour aspects of production regimes including new variables capturing the lobbying power of labour market agencies, availability of budgetary funds, and the ability of countries to follow a consistent reform path could shed more light on the issues of strategic coordination and institutional complementarities in the CIS.

Keywords: post socialism, transition economies, labour market institutions, labour market policies

JEL codes: P21, J08

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Introduction

In the 1990-ties the prevailing terminology in the economic literature used the term economic transition, implying that the former socialist countries were transiting to some well-defined state at the opposite side of the iron curtain. The term transformation became more popular recently, capturing the complexity of the post-socialist transitional process. It seems that a time horizon of almost two decades was not sufficient for the Commonwealth of Independent States (CIS) countries to converge to any well-defined type of capitalism so far.¹ The increasingly divergent paths of the post-socialist countries attract the attention of many social scientists who attempt to classify the emerging production regimes, type of coordination and other institutional aspects of their transformation in the frameworks of institutional economics.

Our motivation for studying labour market institutions in the CIS is three-fold. Firstly, the phenomenon of the so-called jobless growth that these countries (as well as many developed countries) exhibited towards the end of the 20th century is a source of concern, notably when the growth was driven by the exports of fuels, as was the case of several fast-growing CIS economies. Secondly, while most of the approaches towards typologies of capitalism are built predominantly around the relationships among firms and the coordination of the related production processes, a deeper probe into labour market institutions is needed to explore the world from the perspective of workers and households, and the institutions and mechanisms available to them when searching for jobs. The same sin of neglecting the labour supply side seems to have been committed also by the economists modelling the transition during 1990s. As Boeri puts it in introduction to his seminal book on labour markets in transition: “Surprisingly enough, labour supply is absent from the models developed by the scholars of transition. The labour force is assumed to be fixed; all the action takes place at the demand side. However, the transitional countries entered the 1990s with participation rates - notably the participation rates for women - significantly higher than those of countries at comparable stage of development and are now displaying employment rates in some cases lower than those of nations with similar per capita levels”.² Thirdly, it seems that it is essentially the labour-social nexus that adds the diversity to the post-socialist landscape, in particular when compared to the developed high income countries.³ We would like to contribute to the body of literature on transition

¹ See for example Kornai (2008) for assessment of the time horizon and the main features of the CEE transformation processes
³ This argument is based on the work by Knell and Srholec and their classification of both CIS and high income economies with regard to the prevailing type of coordination of their production systems (market
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and institutional economics, but also to draw reader’s attention to the fact that the labour market and social experiments that occurred during the transition process in several CIS countries led to the marginalisation of vast parts of their populations. It is important to note that the paper draws on author’s previous work that was published in Lubyova (2009)4 and contains rather extensive and detailed description of labour market policies and institutions developments in the selected CIS countries during the examined period. We refer to this paper here as a background reading where interested readers can find more details about institutional background and history. In the current paper the most robust trends and findings are used as a background for the analysis.

Our paper consists of three sections. In the first section we trace the labour market institutions in the CIS towards their origins in the early 1990-ties and describe their transformations during about 15 years of the transitional process. In the second section we examine the labour market performance of these CIS countries based on their employment services performance indicators and unemployment rates. In the third section we try to conceptualize our findings by describing the relationship among labour market performance, labour market institutions, and the prevailing type of coordination in the framework of institutional complementarities and varieties of capitalism (VoC) approaches5, as furthered to the post-socialist countries by Knell and Srholec (2007).

1. Labour market institutions and the rationale for reforms

In this section we briefly describe the main changes that occurred in the course of the transition from a common starting point that was given in early in the 1990ties. When confronted with opened unemployment, the CIS countries had to install institutions able to deal with this new phenomenon. Inspired and guided by the labour market institutions and policies of high income countries (notably the EU models) and the flexicurity debates (that aimed to add more flexibility to the EU labour markets perceived by many as rigid ones), the CIS countries opted for the models of public employment services funded through employment insurance schemes, and for labour market programs aimed at activization of labour force (“into-employment” measures). Schemes funded through social insurance

5 For example, Hall and Soskice (2001), Hall and Gingerich (2004)
contributions are known for being deficient during the times of rising unemployment and falling employment, as the declining contribution base has to cover the increasing expenditures on labour market programs. This is essentially what happened in the CIS where the degree of informalization of the economies was in general much higher than in the CEE, and enforcement and governance mechanisms were weaker.

The degree of informalization and weak enforcement of rules combined with the rising unemployment and falling employment base in the CIS made it impossible to increase the intake into their Employment Funds. Thus the first immediate response of the authorities was aimed at balancing the funds through cutting down expenditures. This was achieved partially by decreasing the benefit replacement ratios, but mainly through imposing dramatic restrictions on the eligibility to labour market programs and to unemployment benefits. The so-called “status of registered unemployed” was introduced as a category typical for the CIS that denoted the unemployed who registered with the labour offices and fulfilled the eligibility criteria to participate in active labour market programs. And only a subset of the registered unemployed with the status were eligible for passive labour market programs, i.e. unemployment benefits. Thus access to both passive and active labour market programs was cut off for many of the CIS unemployed. The magnitude of the resulting effects on the coverage of total unemployed population in the CIS by the labour market programs and its very low extent are illustrated in Table 1. Box 1 provides explanatory information.

Here it is important to note that from the overall institutional point of view, public institutions are not the only option and in many countries private coordinating mechanisms are in place also for labour market. However, for the CIS the extent and coordination of labour market outcomes through private mechanisms is very weak (for detailed description of the situation the interested reader can consult Lubyova (2009)). In general, the private mechanisms are rudimentary and concentrated on the viable labour markets if large cities that generate enough profit. In many cases they operate in the informal economy and thus their functioning is difficult to measure. Last but not least, the private agencies often operate in legal vacuum or not well defined legal environment for their activities, which hampers their possibilities to become important players. For example, amongst the countries depicted in table 2 only Georgia ratified the ILO Convention 181 on Private Employment Agencies and even there the implementation of its provisions has not been achieved.

6 An example of such a severe restriction was exclusion from the “registered unemployment status” of persons who possessed a small plot of land, without taking into consideration whether the person had an employment record in the past, or whether the person was able to derive any income from the land. This measure was not consistent with the insurance spirit of the systems. In many countries it resulted in throwing millions of persons out of the scope of labour market programs, as many owned small land-pies after the transitional land reforms.

7 Among the main obstacles for ratification or implementation of the Convention is the requirements to regulate its functioning and the prohibition to get payments from job seekers (only payments from employers should be allowed).
Table 1  Ratio of registered unemployed to total unemployed and ratio of unemployment benefit recipients to total unemployed

<table>
<thead>
<tr>
<th>Country</th>
<th>Azerbaijan</th>
<th>Russia</th>
<th>Tajikistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registered unemployed</td>
<td>0,08 0,14 0,16</td>
<td>0,15 0,14 0,35</td>
<td>0,21 0,19</td>
</tr>
<tr>
<td>Unemployment benefits</td>
<td>0,004 0,008 0,01</td>
<td>0,10 0,12 0,29</td>
<td>0,003 0,001</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
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<td>0,29</td>
<td>0,003</td>
<td>0,001</td>
</tr>
</tbody>
</table>

Note: Total unemployment refers to the ILO definition of unemployment  
Source: Data on registered unemployment and numbers of UB recipients come from public employment services or the relevant Ministries. Data on total unemployment come from the labour force surveys or similar household surveys, for Azerbaijan 1999 from the Population Census.

However, even after these severe restrictions on access to labour market programs, their budgets and the providing labour market institutions continued to find themselves under budgetary pressures. At the same time, it was obvious that the degree of protection or assistance that they could realistically provide to the population was rather low. That was the starting point for further reforms and the actual turning point after which the attitudes of authorities in various countries towards their labour market institutions started to diverge, thus leading to various reform paths. In order to provide a typology of the labour market reform paths in the CIS, we have to look at two aspects: the evolution of institutions responsible for delivering labour market programs, and the way how they were funded.

In order to compare the countries’ labour market performance and the related institutions, in Table 2 we summarize the institutional setup of the selected CIS countries with regard to the discussed labour market institutions and programs as of the year 2007.
Box 1  Illustration of the low coverage of CIS unemployed by the labour market programs and assistance of public employment services

In order to provide an illustration of the very low extent of the coverage of CIS labour markets by the public employment services, we use two ratios:

(a) ratio of registered unemployment to total unemployment

(b) ratio of unemployment benefit recipients to total unemployment

where registered unemployment measures job seekers who applied to employment services and received the “status of registered unemployed” (i.e. they met eligibility criteria) and thus were eligible for participation in active labour market programs. Total unemployment represents total unemployment in the economy according the ILO definition, as measured by labour force surveys or population censuses.

For depicting development of the two above mentioned ratios in Table 1 we selected the following three countries to span our group geographically and also performance-wise: Russia, Azerbaijan, and Tajikistan. Russia is the largest and also best performing CIS country in this regard, Azerbaijan from the South Caucasus region is a mid-performer, and Tajikistan from Central Asian region ranks amongst the worst performing countries. Table 1 shows that the ratio of registered unemployment to total unemployment in 2009 reached 35 per cent in Russia, 16 per cent in Azerbaijan and 19 per cent in Tajikistan. These figures show that the magnitude of the registered unemployment captured by employment services is at best only about one third of the total magnitude of unemployment at the CIS labour markets. The figures also illustrate the limited access of job seekers to employment services, as in the conditions of permanent budget deficiency labour market programs were in general available only to the registered unemployed with the “status”.

Another observation from our group of countries is that the ratio had in general increasing tendency between 1990-ties and after the year 2000, which shows that the coverage of unemployed albeit modest, has increased.

The second ratio depicted in Table 1 is the ratio of registered unemployed with unemployment benefits to total unemployment (as measured by LFS). While in 2009 the ratio in Russia was close to one third, in Azerbaijan it reached only about 1 per cent and in Tajikistan only about 0.1 per cent. The dynamics in the former two countries was also rather worrying, as the ratio has declined recently. This second ratio illustrates the extremely low coverage of job seekers by passive labour market policies in many of the CIS countries.
Table 2  
Overview of labour market institutions in selected CIS countries as of 2007

<table>
<thead>
<tr>
<th>Country</th>
<th>Public Employment Service</th>
<th>Employment or Social Insurance Fund</th>
<th>Primary source of LMP funding</th>
<th>Unemployment benefit scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARM</td>
<td>+</td>
<td>+</td>
<td>Social Insurance Fund</td>
<td>+</td>
</tr>
<tr>
<td>AZE</td>
<td>+</td>
<td>+</td>
<td>Social Protection Fund</td>
<td>+</td>
</tr>
<tr>
<td>BEL</td>
<td>+</td>
<td>+</td>
<td>Employment Fund</td>
<td>+</td>
</tr>
<tr>
<td>GEO</td>
<td>-</td>
<td>-</td>
<td>Ad hoc, Private sector</td>
<td>-</td>
</tr>
<tr>
<td>KAZ</td>
<td>Decentralized a</td>
<td>-</td>
<td>Regional budgets</td>
<td>-</td>
</tr>
<tr>
<td>KYR</td>
<td>+</td>
<td>+</td>
<td>Employment Fund</td>
<td>+</td>
</tr>
<tr>
<td>TAJ</td>
<td>+</td>
<td>+</td>
<td>Employment Fund</td>
<td>+</td>
</tr>
<tr>
<td>UZB</td>
<td>+</td>
<td>+</td>
<td>Employment Fund</td>
<td>+</td>
</tr>
<tr>
<td>UKR</td>
<td>+</td>
<td>+</td>
<td>Social Unemployment Insurance Fund</td>
<td>+</td>
</tr>
<tr>
<td>RUS</td>
<td>Decentralized b</td>
<td>-</td>
<td>Federal budget</td>
<td>+</td>
</tr>
</tbody>
</table>

Notes: “+” denotes the case when institution exists, “-” when it does not exist  
LMP = labour market programs  
(a) Kazakhstan: full decentralization - implementation and funding of labour market programs fully decentralized to regional administrations (akimats)  
(b) Russia: partial decentralization – implementation of labour market programs decentralized to the regional administrations, funding continued to be provided from the federal budget  
(c) In 2008 Kyrgyz authorities considered the possibility of replacing the UB scheme by a large-scale public works program

2. Labour market performance

Before classifying the main features and transformations of labour market institutions in the selected CIS countries into a more general typology, we need to examine and compare also their labour market performance. In Table 3 we document the performance of public employment services (PES) achieved in 2007. We take 2007 as the year by which about 15 years of transformation elapsed in the selected countries, but also on the grounds of data availability and the fact that 2007 captures the situation before the labour markets were shaken by the consequences of the financial crisis. We measure the performance by the following characteristics: the ratio of registered job-seekers to registered vacancies (U/V), the ratio of unemployment benefit (UB) recipients to total registered unemployment, the ratio of job placements by employment services to the total number of job-seekers, and the unemployment rate. The former three indicators can be perceived as internal factors to employment services, capturing their own functioning. The U/V ratio provides an indicator of the tightness of registered labour market. It also reflects the
conditions and the functioning of the PES, which act mainly in the “registered” part of the labour market. Functions pertaining to passive labour market policies, notably administering unemployment benefits are measured by the ratio of their recipients to the total registered unemployed. Finally and most importantly, the implementation of active labour market programmes and job mediation, notably getting job-seekers into jobs, can be captured by the ratio of placements to the number of job-seekers. Unemployment rate can be perceived as both internal and external factor for employment services, depending on the degree to which the employment services can actually influence the labour market situation. Therefore, we use both registered unemployment rate that is more closely linked to the PES realm, as well as the total unemployment rate in the economy as measured by labour force surveys. From the discussion in the previous section it is obvious that the total unemployment rate can be assumed a truly exogenous factor to public employment services in most CIS countries.

As can be seen from Table 3, the U/V ratio seemed to be tightest in Armenia and Kyrgyzstan (95 and 21, respectively). At the opposite end of the continuum were Belarus, Russia and Kazakhstan, with relatively low U/V ratios (less than 3 unemployed per vacancy), and Ukraine and Azerbaijan with about 4 unemployed per vacancy. Russia, Ukraine and Belarus had substantially larger coverage of registered unemployed by unemployment benefits than other countries (84, 73 and 54 %, respectively), while Armenia reached just over 20%. The rest of the countries had very negligible shares (under 5 %), and Georgia and Kazakhstan did not provide unemployment benefits at all. In terms of job mediation and placements of job seekers to jobs, again Kazakhstan, Russia and Ukraine had the highest ratios (95 %, 84 % and 67 % respectively), Azerbaijan, Kyrgyzstan and Belarus were in mid-range (between 50 % and 65 %), while Tajikistan and Armenia occupied the lower end (with less than 30 %).

We ranked the countries according to their labour market performance based on the above-mentioned three indicators of employment services performance and the unemployment rates. In Table 3 we depict the results of three rankings: ranking 1 is based solely on the three employment services performance indicators, ranking 2 adds the registered unemployment rate, and ranking 3 uses LFS-based unemployment rate instead of the registered one. The three rankings partition our group of 9 countries quite robustly into 3 blocks. The best performers are Russia, Belarus and Ukraine. The worst performers are Armenia, Tajikistan and Kyrgyzstan. Kazakhstan, and Azerbaijan remain in the medium performance segment. We could not fully rank Uzbekistan and Georgia because of the lack of data on PES performance. In Georgia the PES structure did not exist at the time, while Uzbekistan did not make the PES performance indicators available to a broader public. Therefore, we placed the two countries into the ranking tentatively, based on the employment rate indicators only.
Table 3  Ranking of employment services performance in CIS as of 2007

<table>
<thead>
<tr>
<th></th>
<th>U rate</th>
<th>U rate registered</th>
<th>UB coverage</th>
<th>Placement rate</th>
<th>U/V</th>
<th>Rank1</th>
<th>Rank2</th>
<th>Rank3</th>
</tr>
</thead>
<tbody>
<tr>
<td>RUS</td>
<td>6,1</td>
<td>2,1</td>
<td>84</td>
<td>84,2</td>
<td>1,5</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>BEL</td>
<td>1</td>
<td>1</td>
<td>54</td>
<td>61,4</td>
<td>0,9</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>UKR</td>
<td>6,4</td>
<td>2,3</td>
<td>72,9</td>
<td>67</td>
<td>3,9</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>AZE</td>
<td>6,5</td>
<td>1,2</td>
<td>5</td>
<td>65,4</td>
<td>4,1</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>KAZ</td>
<td>5,1</td>
<td>0,7</td>
<td>1</td>
<td>94,9</td>
<td>2,6</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>UZB</td>
<td>5</td>
<td>0,3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TAJ</td>
<td>11,5</td>
<td>2,3</td>
<td>5,3</td>
<td>23,9</td>
<td>4,7</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>ARM</td>
<td>8,2</td>
<td>7</td>
<td>20,1</td>
<td>27,8</td>
<td>95,1</td>
<td>6</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>KYR</td>
<td>8,2</td>
<td>3</td>
<td>4,8</td>
<td>50,2</td>
<td>20,9</td>
<td>7</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>GEO</td>
<td>13,3</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Notes: Ranking 1 is based solely on the three employment services performance indicators, ranking 2 adds the registered unemployment rate, and ranking 3 uses LFS-based unemployment rate instead of the registered one. “n.a.” denotes unavailability of data due to non-existence of institutions: Georgia had neither a PES nor unemployment benefit scheme, Kazakhstan did not have unemployment benefit scheme (although a very limited UB program was re-introduced with coverage estimated by MoL at less than 1 per cent) “-“ denotes unavailability of data for performance indicators of PES of Uzbekistan

Sources: CIS Statistical Committee, National Statistical Committees, TRANSMONEE database, World Bank Development Indicators Database.

3. Main types of labour market reforms

In this section we make an attempt to classify the CIS labour market reform paths described above into a more general typology using two criteria that were discussed in the previous sections: the institutional outcomes (shapes of institutions and policies as summarized in Table 2), and the related labour market performance (based on indicators and rankings summarized in Table 3). Thus we can classify the selected CIS countries into three main groups as described below and later summarized in Table 4:

**Group 1  Stable institutions and funding sources**
Countries that maintained public employment services and active and passive labour market programs, which continued to be funded primarily through insurance-based sources. Most CIS countries belong to this group and they can be further split into two subgroups based on their labour market performance:

**1A  Good performers: Belarus and Ukraine** – countries where the authorities were able to maintain relatively well performing employment services (as captured by our indicators and compared to the rest of CIS). Azerbaijan and Uzbekistan can be tentatively
considered also as members of this group based on their labour market institutions and unemployment rates although their employment service performance was somewhat weaker in the case of Azebaijan and so far we were not able to measure in the PES performance fully in the case of Uzbekistan.

1B  Bad performers: Armenia, Kyrgyzstan, Tajikistan – countries where the performance of employment services was trailing far behind the rest of the CIS

Group 2  Decentralized institutions and reformed funding
Countries that maintained public employment services and passive and active labour market programs, but their funding was transferred from insurance-based sources to taxation sources administered within general budgets. Members of this group are Russia and Kazakhstan. Further similarity between the two and distinctive feature of this group is the decentralization of employment services and labour market programs.

2A  Partial decentralization
Russia decentralized its public employment service and the implementation of labour market programs to the regions (the so-called subjects of federation). However, the funding of labour market programs continued to be provided by the federal budget with the aim to secure the social coherence of the federation. It kept rudimentary central employment service with mainly supervisory functions at the federal level.

2B  Full decentralization
Kazakhstan’s decentralization was more profound and resulted in the elimination of the central body of the employment service, decentralization of labour market programs to the regional administrations (akimats) and switching the funding to the regional budgets. This resulted in incoherent implementation of labour market programs at the regional level. The impossibility to guarantee at the regional level the payments of unemployment benefits led to the cancellation of unemployment benefit scheme. Unemployment benefits were to some extent replaced by income-tested targeted social assistance. Later a UB scheme was re-introduced by the authorities, but its eligibility and coverage remained very restrictive estimated by the MoL as less than 1 per cent of unemployed.

Group 3  Liquidation of institutions, ad hoc funding
Finally, the most extreme outcome occurred in Georgia where insurance based funding was dismantled and public employment service and labour market programs were liquidated (including unemployment benefit scheme). Some rudimentary labour market programs
could still be implemented by government agencies or through private sector initiatives (for example subsidised on-the-job-training for school leavers or unemployed), but these were non-systematic ad hoc measures that clearly cannot substitute for labour market policies per se.

### Table 4  Typology of labour market reforms in the CIS in the course of transition

<table>
<thead>
<tr>
<th>Group</th>
<th>Main features</th>
<th>LM performance</th>
<th>A</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Stayers</td>
<td>Institutional design of PES, LMPs</td>
<td>Funding of LMPs</td>
<td>A Better</td>
<td>B Worse</td>
</tr>
<tr>
<td></td>
<td>Maintained</td>
<td>Maintained funding primarily through social insurance schemes</td>
<td>1A Belarus, Ukraine, Uzbekistan Azerbaijan</td>
<td>1B Armenia, Tajikistan, Kyrgyzstan</td>
</tr>
<tr>
<td>2Movers</td>
<td>PES partially decentralized LMPs fully decentralized</td>
<td>Funding switched to federal state budget</td>
<td>2A Russia</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PES abolished PLMP (UB) abolished ALMP decentralized</td>
<td>Funding decentralized to local budgets</td>
<td>2A Kazakhstan</td>
<td></td>
</tr>
<tr>
<td>3 Destroyers</td>
<td>PES and LMPs abolished</td>
<td>Switch to ad hoc funding, budget or private</td>
<td>3B Georgia</td>
<td></td>
</tr>
</tbody>
</table>

Notes: PES = Public Employment Service; LMPs = Labour Market Programs; PLMPs = Passive Labour Market Programs; ALMPs = Active Labour Market Programs; UB = Unemployment Benefits

### 4. Institutional complementarities

In this section we try to find out whether there is an obvious relationship between the shape of institutions and performance in the spirit of works on institutional complementarities and coordination employed within the varieties of capitalism approach. Some empirical findings discussed below show that there is a relationship between the performance (e.g. economic growth) and the overall coordination of the economy as measured by the so called complementarity of institutions. For example, in an economy that is coordinated through market mechanisms, the institutions driven by market can achieve better performance than institutions that need to rely on a central planner or a strategic type of coordination, and vice versa. In other words, the higher degree of institutional complementarity (degree of coordination), the better performance outcomes can be achieved by the economy. The body of literature on the varieties of capitalism has recently expanded.
through the studies of the post-socialist transformations in the Central and Eastern Europe (CEE) and the CIS.

Inspired by the work of Hall and Soskice (2001) and Hall and Gingerich (2004), Knell and Srholec (2007) classify the CEE and CIS economies as well as those of selected high income countries according to the prevailing type of coordination of the production processes. They construct an index of coordination for these countries based on a number of indicators that are grouped through factor analysis into clusters characterising the following three areas: social cohesion, labour market regulation and business regulation. The index of coordination positions these countries on a continuous scale where negative values imply more market-driven coordination and positive values imply more strategic coordination of their production regimes. It is interesting to note that for the areas of social cohesion and business regulation the resulting values of coordination indices exhibited rather consistent patterns within the two groups of countries: high income group of countries exhibited a higher degree of social cohesion while the CEE-CIS group of countries exhibited a higher degree of business regulation. However, the coordination indices based on capturing labour market regulation indicators were much more divergent, thus adding the diversity to the overall index of coordination, but also ambiguity to its interpretation.

In order to test the importance of institutional complementarities with regard to the labour market segment of the economy, a hypothesis could be formulated that states that from the performance point of view, the type of labour market institutions is less important than their embedment within the overall coordination mechanism in the economy. In other words, labour market institutions tend to perform better if they are consistent with the prevalent type of economic coordination (or the type of capitalism) and thus are complementary with other institutions in other segments of the economy. Hybrid or mixed institutional setup would deliver lower performance.8

In this section we can examine such a statement based on the information we have so far: institutional characteristics of labour market segments as described in sections 1 and 3 and labour market performance indicators as described in section 2. In order to look at the institutional embedment of labour market institutions within the overall economic system, we will employ the classification and the related coordination indices for the CIS economies as computed by Knell and Srholec (2007) and described above.

The labour market indicators used by Knell and Srholec were based on the characteristics of hiring and firing processes, which capture only certain aspects of the

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8 An empirical result in favour of this hypothesis was the U-shaped relationship between the economic growth and the degree of overall coordination in the economy as observed for OECD countries by Hall and Gingerich (2004).
labour market. In order to further explore the institutional complementarities with regard to labour market segment, in this section we take a closer look on the labour market segment of CIS economies as captured by the labour market institutions and performance discussed in the preceding sections, shedding more light on the relationship between these and the prevailing type of coordination (overall coordination index) by Knell and Srholec. In Table 5 we put together our labour market performance rankings from Table 3 (clustered into five segments in Table 5 for easier interpretation) with basic labour market institutions as summarized in Table 2, and the values of the coordination indices by Knell and Srholec (2007). We take both overall coordination index and the labour market regulation index in order to explore the divergent behaviour of the latter.

As can be seen from Table 5, more complex labour market institutions and programs funded through insurance-based sources tend to deliver better labour market performance in the countries with more strategic type of coordination (Belarus, Ukraine) and worse labour market performance in the countries with more market-driven type of coordination (Armenia, Kyrgyzstan: We add also Uzbekistan to the former group as it matches the institutional reform type (labour market performance will be further documented in the revised version if the paper) and Tajikistan to the latter group based on its labour market performance and institutional reform type. Thus it seems that a full-fledged setup of labour market institutions and programs funded through insurance-based sources tends to deliver better labour market performance in the economies with strategic type of coordination than in those with market type of coordination. Thus the hypothesis regarding institutional complementarities could be confirmed as long as we could assume that such labour market institutional setup is complementary with the strategic type of overall coordination in the economy.9

Two important extremes are Russia and Georgia. Russia as the country with strong market type of coordination eliminated the insurance-based funding and largely decentralized its public employment service and labour market programs, which resulted in the best labour market performance among the examined countries. Again, this could be interpreted as evidence in favour of the institutional complementarities hypothesis as long as we can assume that such institutional labour market setup is complementary with prevailing market type of coordination.

Georgia that also ranks among the countries with prevailing market type of coordination dismantled its public employment service as well as the system of labour market programs. It is thus impossible to rank its labour market performance within the framework defined in this paper. It is also noteworthy that the labour market index of coordination by Knell and Srholec (2007) reached the value of 0.8, which implies more

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9 For more details see Lubyova (2009).
strategic than market type of coordination. At the same time, the country’s Labour Code has been notoriously criticized for its liberal spirit (allowing, for example, for oral form of employment contract). This variability could be explained by the large degree of inconsistency of Georgian institutions and reforms as discussed Christophe (2008). We rank Georgia as the worst performer simply out of conviction that some employment services and labour market programs should exist in a modern economy. Private employment agencies in Georgia do not provide a substitute for the public employment services, nor do they provide a viable mechanism for job mediation in the economy.

Another observation in favour of interlocking complementarities and path dependence is the fact that measures such as elimination of insurance based funding, cancellation of unemployment benefit schemes, and major transformations of the original labour market institutions occurred mainly in the countries that tend to develop towards the market type of coordination (notably Russia, Georgia, and Kazakhstan) while in most of the countries that tend to develop towards the strategic coordination, the original and more complex architecture of labour market institutions was retained to a high extent. Furthermore, within the latter group these institutions delivered better labour market performance in the countries with strategic type of coordination (notably in Belarus, Ukraine, Uzbekistan, and to an extent also in Azerbaijan) and worse labour market performance in the countries with market type of coordination (Armenia, Kyrgyzstan, to an extent Tajikistan).

However, the medium segment of countries (Kazakhstan, Azerbaijan and Moldova) and two important extremes (Russia and Georgia) imply that such a simplistic interpretation may be premature and a deeper probe into labour market institutions and their functioning is necessary to explain the related institutional complementarities within the CIS economies.

Before gathering more data and proceeding to a more rigorous analysis, one can assume that among other key factors determining the labour market performance is the ability of labour market agencies and authorities to secure funding for labour market policies amongst other competing requirements, as well as the factual possibility of spending. The former factor hinges on the lobbying power of the labour market institutions, notably the labour ministries within the broader setup of government agencies. It is noteworthy that in several CIS countries the labour ministries underwent mergers with other agencies to the detriment of the labour agenda (see Lubyova, 2009 for more details). The possibility of spending on labour market programs crucially depends on the availability of financial means. To this end, some CIS countries are in better position due to income from exports or transit of natural resources, notably oil and gas. Adding these factors to the analysis could shed more light on the labour market performance in the CIS.

Finally, the issues of coordination and institutional complementarities critically
depend on the ability of the countries to choose consistent reform paths and their economic systems to evolve on the basis of some objective criteria. These conditions were not fulfilled in many CIS countries due to internal conflicts and external influences (international organizations, donors). Such factors also crucially influence the institutional setup in the CIS and thus need to be reflected in the future analysis.

Table 5 Labour market performance, labour market institutions, and the prevailing type of coordination

<table>
<thead>
<tr>
<th></th>
<th>LM performance (a)</th>
<th>Primary source of LMP funding</th>
<th>Public Employment Service</th>
<th>UB scheme</th>
<th>Coordination index (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>RUS</td>
<td>Best</td>
<td>Federal budget</td>
<td>-</td>
<td>+</td>
<td>-2,3</td>
</tr>
<tr>
<td>BEL</td>
<td>Better</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>1,5</td>
</tr>
<tr>
<td>UKR</td>
<td>Better</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>5,2</td>
</tr>
<tr>
<td>UZB</td>
<td>Better</td>
<td>State budget supplements</td>
<td>+</td>
<td>+</td>
<td>-2,3</td>
</tr>
<tr>
<td>KAZ</td>
<td>Medium</td>
<td>Regional budgets</td>
<td>-</td>
<td>-</td>
<td>-2,3</td>
</tr>
<tr>
<td>AZE</td>
<td>Medium</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>0</td>
</tr>
<tr>
<td>TAJ</td>
<td>Worse</td>
<td>+</td>
<td>+</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>KYR</td>
<td>Worse</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>-0,7</td>
</tr>
<tr>
<td>ARM</td>
<td>Worse</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>-1,1</td>
</tr>
<tr>
<td>GEO</td>
<td>Worst</td>
<td>Ad hoc govt or private initiatives</td>
<td>-</td>
<td>-</td>
<td>0,8</td>
</tr>
</tbody>
</table>

Notes: (a) According to our 3 alternative rankings based on performance characteristics as explained in the text and Table 3 (Uzbekistan and Georgia are placed tentatively as they could be ranked on the basis of unemployment rate criteria only).

(b) Index that captures the prevailing type of coordination of the production process as estimated by Knell and Srholce (2007) ranks CEE countries on a continuous scale where negative values correspond to the “market coordination” and positive values to the “strategic coordination” (more details in the text).

LM = labour market, LMP = labour market programs, UB = unemployment benefits.

10 See for example Roland (2008) for the discussion of ineffectiveness of the transplation of best practises from other countries.
Conclusions

After two decades of transformation it seems that although overall performance of the CIS countries was characterized by relatively high rates of economic growth, their labour market performance as measured by the level of protection and assistance provided to unemployed and job seekers in general was trailing far beyond the CEE and the gap does not seem to be closing even recently.

At the onset of the transition, both CEE and CIS countries were inspired by the EU models, the European Employment Strategy and the concept of labour market flexicurity. CIS countries thus originally adopted models of public employment services and labour market policies funded through insurance-based schemes, without taking into account that unemployment was not an insurable risk ahead of their major transitional recessions. Consequently, many CIS transformational outcomes included severe restrictions on the eligibility to unemployment benefits, limited access to employment services, replacement of unemployment benefit schemes by targeted social assistance, liquidation of insurance-based employment funds and shifting labour market policies expenditures to state or local budgets, mergers or abolitions of labour market institutions. We argue that this attrition of labour market institutions in the CIS was due to policy choices made early on in the transition process with respect to their source of funding and their overall institutional design that did not take into consideration that unemployment was not an insurable risk ahead of major transitional recessions.

Following the initial restrictions on eligibility to labour market programs and benefit replacement rates, CIS countries adopted different reform paths that partition them into three reform groups – (i) countries that maintained institutional status quo and as of 2007 exhibited better labour market performance (Belarus, Ukraine, Uzbekistan, Azerbaijan) or worse labour market performance (Armenia, Kyrgyzstan, Tajikistan), (ii) countries that abandoned insurance-based principles and substantially reformed their labour market institutions and services (Russia that achieved the best labour market performance among the examined countries, and Kazakhstan with medium labour market performance), and (iii) Georgia that eliminated its public employment service as well as unemployment benefits and the system of labour market programs.

Referring to the varieties of capitalism framework and the institutional complementarities approach as reflected in the work on the prevailing type of coordination in the CIS and other economies (Knell and Srholec, 2007), labour market institutions and performance indicators examined in this paper do not seem to provide an unambiguous picture. A hypothesis that states that labour market performance is influenced by the
degree of complementarity between labour market institutions and other institutions and the prevailing type of coordination in the economy could be confirmed conditionally on the classification of certain labour market institutions as complementary with strategically or market coordinated production regimes. Within the defined framework, adding to the analysis other key factors such as the ability of the authorities to secure funding for labour market policies amongst other competing requirements (lobbying power of labour market institutions), the factual possibility of spending on labour market programs, and the ability of countries to choose their own consistent reform paths (controlling for internal conflicts and external influences of international organizations and donors) could shed more light on the issues of institutional complementarities of labour market institutions in the CIS.

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