Labour market flexibility in the transition countries: How much is too much?

Sandrine CAZES* and Alena NESPOROVA**

Amidst widespread media reports of a worldwide trend towards higher job instability driven by globalization and technological change, numerous studies have addressed the questions of job stability/flexibility, employment security and labour market regulation in the industrialized countries. But few have covered the transition countries, for several reasons. First and foremost, all of these countries have been confronted with a deep transition crisis, resulting in significant employment losses and soaring unemployment. Economic recovery has often proved elusive or unsustainable once achieved, with further negative consequences for employment. Priority is then typically given to combating unemployment, notably by preserving existing jobs, while the issues of employment quality, flexibility and the effects of labour market regulation are considered less important. A second reason is the lack of comprehensive data documenting these changes, because labour market statistics in transition countries have been undergoing a lengthy process of conceptual and methodological revision.

However, the social partners in the transition countries now also understand that without competitive enterprises, which can adjust the size, structure and quality of their workforce to market conditions, employment performance will be poor. And yet workers need reasonable employment and income security as an incentive for accepting higher mobility and flexibility, for increasing their productivity and for becoming more open to change. In each of these countries, the social partners will thus need to reach a viable compromise between labour market flexibility and employment security that is acceptable to both sides and beneficial to the national economy.

* International Institute for Labour Studies, Geneva. ** Employment Strategy Department, ILO, Geneva.

Against this background, this article begins by analysing the extent and causes of labour turnover[1] in Bulgaria, the Czech Republic, Estonia, Hungary, Lithuania, Poland, the Russian Federation, Slovenia and Ukraine since 1990. How has the transition process accelerated labour adjustment in firms? Has it led to more unstable and insecure employment than was the case under the former system of central planning? After addressing such questions, the article goes on to examine job stability on the basis of job tenure data[2] and separation rates to determine the extent to which the past model of secure long-term jobs has disappeared.

By focusing on labour transitions (through turnover and tenure data), the analysis is largely restricted to numerical (external) flexibility, leaving aside other types of flexibility, such as functional flexibility, wage flexibility or flexibility in working hours. The overall aim is to examine labour market dynamics in selected transition countries and their relation to economic and employment developments. While the analysis investigates differences in employment stability by sex, education, economic sector and enterprise size, the effects of employment protection legislation, social dialogue and labour market and social policies are considered external factors and are therefore not discussed here (although they are possible determinants of inter-country differences).[3] Finally, it should be noted that this analysis deals strictly with enterprises and workers in the formal sector, although the strong growth of the informal sector can also be seen as part of the process of labour market flexibilization.

Labour dynamics in the 1990s

Labour turnover trends

The system of central planning fostered lifelong employment in a single firm, usually in a single occupation for which education or initial training was gained at the beginning of the worker's career and developed on the job. While labour mobility was encouraged at the time of labour market entry, it was discouraged in the later stages of a career (for a detailed presentation of the system, see Cazes and Nesporova, 2001). Despite such strong support for employment stability, the majority of central and eastern European countries

[1] Labour turnover relates 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 could also be described as the sum of hiring and separation rates at enterprise level, including self-employment, though only enterprises above a certain size tend to be counted in practice. Labour turnover should be distinguished from job turnover, which relates to jobs and is empirically measured as the sum of enterprise-level employment changes.

[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 article will use the term "job tenure" in accordance with common usage (see also Auer and Cazes, 2000, p. 380, note 2).

[3] 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 regional study.

experienced surprisingly high labour turnover prior to their transition (albeit mainly restricted to the workers' region of residence, partly because of the system of residence permits in force in some countries). Widespread labour shortages provided many workers with an opportunity to earn more by changing employers, rather than by relying on internal promotion. Separations from enterprises were thus almost exclusively voluntary. Concurrently, enterprises operated under "soft" budget constraints with ever-increasing production targets and little motivation for structural adjustment and cost reduction. Jobs remained fairly stable for long periods of time. The centrally planned economies thus combined high labour turnover with low job turnover.

The policy of extreme employment security and "excessive" job stability[4] was challenged when economic reforms opened up the national economies of transition countries to world competition. Employment became much less secure, and open unemployment increased very rapidly throughout the region, remaining at persistently high levels ever since. Underemployment too has become substantial in many countries.[5] In addition, a proportion of redundant workers and new labour market entrants have great difficulty in finding employment and "solve" the problem by resorting to inactivity (particularly young people without work experience, older workers, mothers with small children, workers with low or obsolete skills, disabled persons and other vulnerable groups). Many young people extend their studies, while older and disabled persons retire, and others, discouraged by unsuccessful job searches, turn to some form of informal activity after exhausting their income support. Labour market participation rates have thus declined significantly in all the transition countries since 1990 (Nesporova, 1999).

Available data on the countries under review[6] point to a substantial increase in labour turnover after 1989 (see table 1). This reflects not only a reduction of the formerly widespread practice of labour hoarding as enterprises cut their labour costs, but also the growing incidence of voluntary quits by people deciding to start their own business or to join a newly established firm. This initial phase of intensive labour reallocation occurred in the first couple of years following the introduction of economic reforms — in 1990-92 in central and south-eastern Europe and about two years later in the countries of the former USSR. During that phase separation rates markedly exceeded hiring rates, indicating widespread downsizing in large and medium-sized enterprises. It should also be noted that downsizing was often connected with the splitting of large enterprises into two or more new firms

[4] The idea of "excessive" job stability should be understood in terms of the very slow pace of structural changes within enterprises due to the lack of modernization pressures from customers in the supplier-dominated market, combined with the central planning system.

[5] Underemployment refers to economically driven cuts in working time, administrative leave, involuntary part-time employment, etc.

[6] For information on the quality of data, see Cazes and Nesporova (2001).

Table 1. Labour turnover, accession and separation rates for selected transition countries, 1990-2000 (%)

Country	Source	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Accession rates												
Bulgaria	ES	20.0	14.7	12.6	15.4	18.1	20.9	21.3	27.4	26.0	27.6	...
Czech Republic	LFS	...	...	...	22.6	18.6	14.5	12.2	12.6	10.5	...	...
Estonia	LFS	14.9	18.0	23.0	25.6	27.6	15.8	20.8	17.7	16.0	...	...
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	...	...
Russian Fed.	ES	...	...	22.9	21.1	20.8	22.6	18.9	19.9	21.0	24.2	...
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	...
Separation rates												
Bulgaria	ES	28.9	36.2	31.1	29.6	25.8	22.5	24.8	31.9	29.8	39.9	...
Czech Republic	LFS	...	...	...	22.0	17.5	15.8	12.6	12.2	11.8	...	...
Estonia	LFS	15.9	20.4	31.4	30.0	27.7	16.2	22.1	18.5	19.0	...	...
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	...	...
Russian Fed.	ES	...	...	26.9	25.1	27.4	25.7	23.9	24.5	24.9	24.5	...
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	22.0	20.6	19.8	20.7	...
Labour turnover												
Bulgaria	ES	48.9	50.9	43.7	45.0	43.9	43.4	46.1	59.3	55.8	67.5	...
Czech Republic	LFS	...	...	...	44.5	36.1	30.3	24.8	24.7	22.3	...	...
Estonia	LFS	30.8	38.4	54.4	55.6	55.3	31.0	42.9	36.2	35.0	...	...
Poland	ES	35.2	42.9	40.3	41.6	41.7	45.2	47.3	37.1	47.4	...	...
Poland	LFS	...	...	35.7	44.1	54.2	47.1	53.4	40.1	38.2	...	...
Russian Fed.	ES	...	...	49.8	46.2	48.2	48.3	42.8	44.4	45.9	48.7	...
Slovenia	ES	27.1	34.2	31.6	32.2	32.0	31.4	31.2	29.3	28.8	31.1	30.1
Ukraine	ES	...	...	...	...	...	38.8	37.6	35.3	35.2	37.4	...

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

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

and with the outsourcing of production support services and services for workers.

Labour turnover subsequently declined and stabilized, though all countries have since continued to experience periodic surges in labour turnover (as did Bulgaria in 1997 and 1999 and the Czech Republic after 1998, for example). These reflect further structural changes connected with economic imbalances and remedial policy packages. The Russian financial crisis of 1998 caused a considerable economic shock, with particularly adverse consequences for countries such as Estonia and Ukraine on account of their substantial trade with the Russian Federation. This too increased labour turn-

over.[7] The Kosovo crisis had a negative impact on Bulgaria and contributed to accelerating separations from larger enterprises.

Labour turnover in selected transition countries in the 1990s

There are significant inter-country differences, both in rates of labour turnover and in the relationship between accession and separation rates. An outstanding example is **Poland,** where high labour turnover throughout the decade suggests intensive structural adjustment at enterprise level.[8] While Polish enterprises significantly reduced their workforce until 1993, hirings have outnumbered separations since 1994, reflecting net job creation in the economy, not only in large and medium-sized enterprises but also in small ones. This differentiates Poland from all the other transition countries in the sample. However, the data series does not extend beyond 1998 and therefore fails to capture the recent reversal of this positive trend since 1999, as reflected in Poland's rising unemployment.

Surprisingly, of all the countries reviewed, the **Russian Federation** experienced the highest labour mobility (at a relatively stable level) over the 1990s. This also could indicate extensive structural changes; but a significant decline in GDP argues against any massive restructuring for higher efficiency in the allocation of labour. In the case of the Russian Federation, large-scale labour reallocation is partly a legacy of the past when workers moved between existing jobs in order mainly to improve their wages slightly and to gain access to enterprise-provided services. 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. As a result, they usually quit the enterprise voluntarily in order to find a financially more secure job (see Gimpelson and Lippoldt, 1997). But since new job creation has been very limited until recently, they mostly ended up in a similar type of job. Since 1999, more economically sound jobs have been created and positive structural changes seem to be taking hold. This is also reflected in an increase in the accession rate, which moved closer to the level of the separation rate and matched it in 1999.

Labour turnover in **Ukraine** has been much lower than in the Russian Federation, although both countries share the same problems of high underemployment and non-payment of wages, creating incentives for workers to

[7] For the Czech Republic and Estonia, the data for 1999 are unfortunately not available, but a sharp increase in their unemployment rates offers indirect evidence of higher labour turnover.

[8] The two labour turnover series show substantial differences, however: according to ES data, labour turnover declined significantly after 1991 with a new upswing in 1995-1996 and again in 1998; the LFS data indicate a rapid increase after 1992, well above 50 per cent, and a similarly steep decline after 1996. This reflects the significant difference between the development of large and medium-sized enterprises and that of newly created, smaller firms. Before 1994, labour market changes were mainly determined by large enterprises, whereas after that date the strong economic recovery offered market opportunities for new, small enterprises. Since 1998, the restructuring of large enterprises in coal mining and the steel industry has again dominated labour market dynamics, as measured by the enterprise survey.

move among existing jobs. The lower level of mobility in Ukraine is best explained by that country's much deeper economic recession which has made workers more reluctant to leave their poorly paid jobs. The wide gap between hiring and separation rates, which still shows no sign of closing, points to a severe limitation of new job creation. On both indicators, Ukraine compares negatively with other transition countries — evidence of very slow redeployment of labour to more economically viable sectors, which has contributed to the country's negative economic growth since the start of the reform process.

Bulgaria witnessed very high rates of labour mobility in the first two years of reform, indicating massive job destruction in large and medium-sized enterprises which peaked in 1991. Between 1992 and 1996, labour turnover decreased, mainly as a result of a substantial decline in separation rates, while the hiring rate gradually recovered. However, the country's financial collapse in 1996 resulted in a steep upswing of labour mobility with a one-year lag. The Currency Board established in 1997 cut almost all subsidies to large state enterprises and forced the Government to accelerate their privatization. This led to their restructuring and large-scale downsizing, particularly in 1999. Simultaneously, the hiring rate increased substantially, pointing to the strengthening of structural changes, with a positive effect on economic growth.

In **Estonia**, the Government's very liberal approach to reform stimulated massive restructuring of enterprises and extensive reallocation of labour. Between 1992 and 1994, labour turnover reached the highest level recorded among all transition economies, with high rates of hiring and separations alike. Following this period of accelerated restructuring, the labour market gradually stabilized. However, with separations still exceeding recruitments, the overall effect of structural changes on employment has been negative for the whole transition decade.

Slovenia offers a somewhat different picture. Stimulated by economic reforms in the early 1990s, its labour turnover increased and then stabilized, albeit still at a fairly low level compared with the other countries. The first three or four years of transition were marked by a wide gap between separation and accession rates: enterprises had accumulated excess labour which they were forced to shed under the impact of economic reforms, while new hirings were limited. Between 1994 and 1997, both rates converged, though separations still outnumbered hirings. Since 1998, recruitments have accelerated and finally exceeded separations, with a positive impact on overall employment.

The **Czech Republic** recorded high labour turnover in the initial phase of transition. Unfortunately, the available data cover only the end of this phase. However, rapid changes in the sectoral structure of employment, together with declining participation rates and increasing unemployment, provide clear evidence of extensive labour reallocation in this period. Since 1993, labour turnover has declined considerably, indicating rapid stabilization of the labour market. Renewed structural changes in response to econ-

omic recession after 1997 are, unfortunately, not covered by the available data. It is also important to note that labour turnover data for the Czech Republic are not fully comparable with those available for other countries, as they underestimate job-to-job moves.[9] Moreover, unlike Poland, where calculations sum up quarterly flows, the data for the Czech Republic (and for Estonia) are annual and do not take into account multiple changes during the year. The data therefore underestimate aggregate labour market flows.

Labour turnover vs. job turnover: A comparative analysis of the pace of restructuring

Labour turnover reflects the speed of labour reallocation in the economy. It results from the dynamics of job creation and job destruction, as well as from moves by employed persons among existing jobs and moves from unemployment or inactivity to employment and vice versa. In theory, structural changes relate only to the process of job creation and 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 determine the extent of labour reallocation linked to structural changes by looking at the share of job turnover in labour turnover. It is also interesting to compare the ratio of job to labour turnover as between the transition countries and the OECD countries, where it ranged from 25 to 40 per cent over the late 1980s and early 1990s (see OECD, 1994 and 1996).[10]

Job creation, job destruction and the resulting job turnover are usually calculated on the basis of enterprise surveys as the sum of changes in the number of jobs in individual enterprises, i.e. the sum of all employment gains from new or expanding enterprises and all employment losses from closed or downsized enterprises. Such data are not officially collected in any of the countries under review. However, a rough estimate of job turnover in selected transition countries can be derived from the enterprise databases maintained by chambers of commerce and industry or similar institutions, and from enterprise surveys undertaken by statistical offices.[11] Faggio and Konings (2000) and Gimpelson and Lippoldt (1997) provide such estimates for five countries: Bulgaria, Estonia, Poland and Slovenia over the period 1994-97, and the Russian Federation in 1994-95, i.e. the period of relative economic stabilization and recovery that followed the initial, turbulent stage of transformation. The rates of job turnover and labour turnover are given in table 2.

[9] For methodological reasons it was not possible to separate job-to-job moves from continuous employment for some 20 per cent of the persons covered by the LFS (see Vecernik, 2001).

[10] Boeri (1996) puts the ratio of job to labour turnover for the OECD countries at between one-third and half.

[11] Such surveys and databases cover only large and medium-sized enterprises and may not include newly established (particularly private) enterprises. Nor do they consider employment losses in closed-down enterprises.

Table 2. Labour turnover and job turnover in selected transition economies, 1994-1997 (%)

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

* This is the difference between job turnover and the absolute value of the net employment growth rate. It can be used as an indicator of the extent of restructuring. ** Only 1994-1995.

Sources: For labour turnover data, see table 1; job turnover data for Bulgaria, Estonia, Poland and Slovenia from Faggio and Konings (2000), and for the Russian Federation, from Gimpelson and Lippoldt (1997).

Table 2 shows significant inter-country differences. Estonia, for example, is characterized by relatively high job turnover, accounting for almost 40 per cent of overall labour mobility in the period under review. This confirms that liberal economic reforms have accelerated structural adjustment of the Estonian economy, resulting in the highest economic dynamics achieved in the region. Slovenia, although often criticized for the slow restructuring of its large state-enterprise sector, actually boasts the second highest rate of job creation/destruction among the transition countries under review. Structural changes also explain this country's satisfactory economic performance in the 1990s, which has puzzled many experts who took its low labour turnover for a symptom of slow economic transformation.

In Bulgaria and the Russian Federation, by contrast, low job turnover is clear evidence of delayed restructuring of enterprises, resulting in poor economic performance for both countries. The wide gap between job turnover and labour turnover thus reflects the unduly high incidence of workers' moves among "old" jobs with low productivity and remuneration, rather than any positive reallocation of labour to new industries and enterprises. Rather surprisingly, Poland comes close to these two slow reformers in terms of both low job turnover and the latter's small contribution to labour mobility. The main reason seems to be that the enterprise survey used for calculating job turnover covered only large and medium-sized enterprises which, at the time, faced serious economic problems due to pending privatization and structural reforms. Robust economic growth was mainly driven by newly established enterprises, which attracted many workers from ailing state firms, but their contribution to job creation is not reflected in the available estimation of job turnover. That such is the case is confirmed by the difference between the accession and separation rates taken from enterprise and labour force surveys, as presented earlier.

Labour turnover and the economic cycle

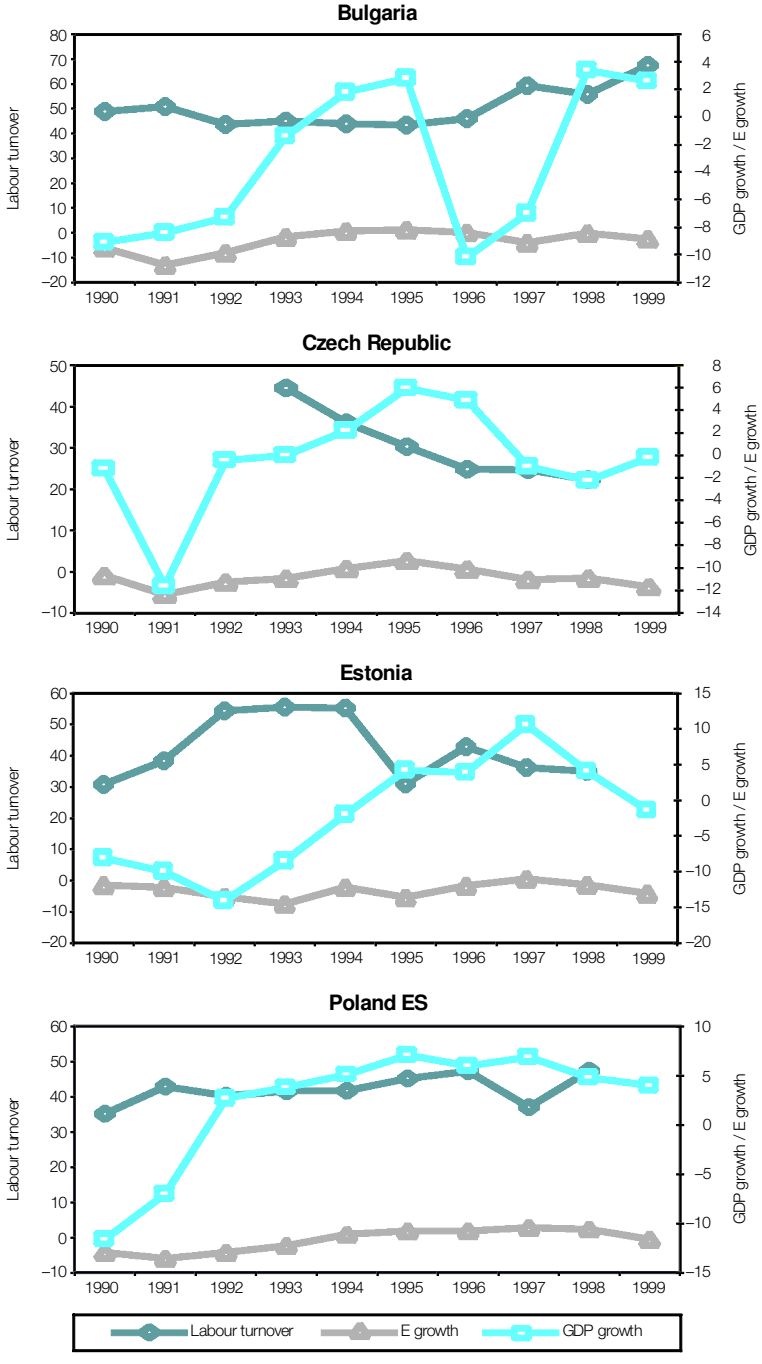
Labour turnover is of course significantly affected by economic fluctuations. In industrialized countries, it typically accelerates in periods of economic growth: enterprise start-ups and expansions create new jobs, attracting newcomers to the labour market and increasing hires of unemployed jobseekers. At the same time, though dismissals for economic reasons abate, the growing number of job opportunities encourages more people to change their jobs voluntarily. In economic downturns, by contrast, labour turnover declines: enterprises seek to cut costs by reducing new hires and by resorting to redundancies, yet the consequent sharp reduction of voluntary quits more than counterbalances the increase in dismissals. Largely for supply-side reasons, labour turnover thus tends to behave pro-cyclically (Boeri, 1996; ILO, 1996). In the transition economies, however, this pattern appears to be reversed, as shown in figure 1.

The correlation coefficients of labour turnover to both GDP and employment growth rates for the selected countries are presented in table 3. Yet there is always a time lag between a change in a country's economic performance and the translation of that change into decisions by enterprises to adjust their workforce and decisions by workers to change their jobs or stay put. The same correlations have therefore also been calculated with a time lag of one year. Cross-country comparisons are impaired by the fact that the labour turnover data series are rather short for some countries. The results therefore have to be interpreted with caution.

The correlation coefficients of labour turnover to GDP in the second column of table 3 indicate a negative correlation for Ukraine, Estonia and the Russian Federation — albeit not very strong in the latter two cases — and a positive correlation for Poland. For the other countries, there seems to be no correlation between the two indicators. However, the time-lagged coefficients in the next column show the correlation to be negative and generally stronger for almost all of the countries — the exceptions being Bulgaria and Poland (establishment survey data).

Table 3 also presents the correlations of labour turnover with employment growth (see last two columns). As labour supply generally exceeded demand in all the countries of the sample after 1990, employment was mainly determined by demand for labour. Logically, one would thus 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 situation is not necessarily that straightforward. Indeed, the translation of economic fluctuations into employment changes is always delayed because of labour market regulations (protecting workers against dismissal) and the significant costs of training which induce employers to look for other solutions before they decide to recruit or dismiss workers. As explained above, the link between economic growth and employment has been comparatively weak in

Figure 1. Labour turnover, GDP and employment growth in selected countries, 1990-1999



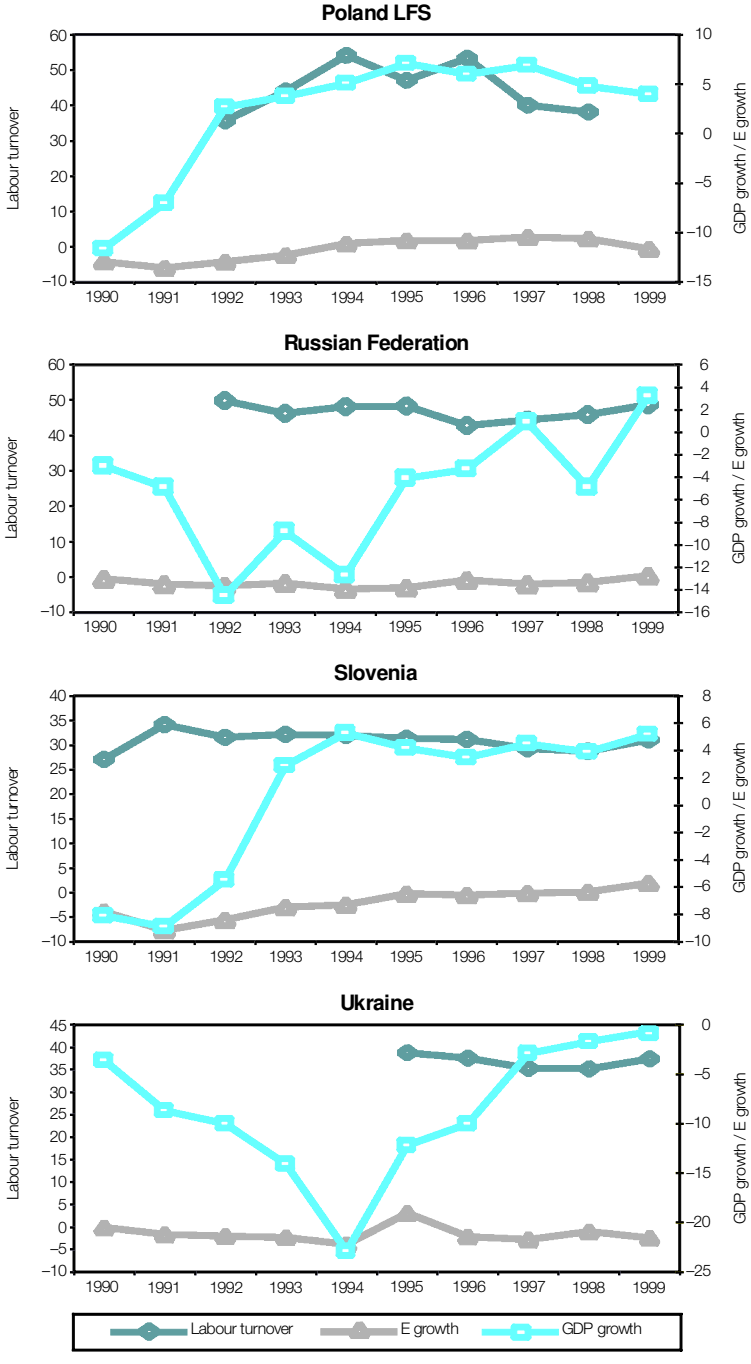

Poland LFS
Russian Federation
Slovenia
Ukraine
Labour turnover
GDP growth / E growth
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
Labour turnover
E growth
GDP growth

Table 3. Correlations between labour turnover (LT) and GDP and employment dynamics (E)

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: Authors' calculations based on data from table 1 (labour turnover) and UNECE, 2000 (GDP).

a number of transition countries, because of extensive labour hoarding, technological changes and labour market and social policies that tend to reduce labour supply.

In Estonia, the same strong negative correlations exist between employment and labour turnover, on the one hand, and between economic growth and labour turnover, on the other. The same goes for Poland, though the correlations are in this case positive. This pattern suggests a strong relationship between economic and employment developments in both countries. For Ukraine, by contrast, the correlations are respectively positive and negative, suggesting a rather peculiar link between GDP and employment developments.

When a time lag is introduced, a strong negative correlation emerges between labour turnover and the employment rate in Estonia, Slovenia and the Czech Republic. That the same relationship occurs between GDP and labour turnover as well indicates a strong link between economic growth and employment developments in these three countries. For Poland and Ukraine, however, the correlations become insignificant.[12]

Overall, the calculations presented in table 3 invite the tentative conclusion that labour turnover tends to follow a counter-cyclical pattern in the transition countries, which indeed contrasts with the situation in the advanced industrialized countries. The explanation lies in the structural imbalances accumulated under the system of central planning because of the distortion of relative prices and poor economic performance of many investment projects. As a result, when these economies were suddenly opened up to global competition, industries with excessive capacity or non-competitive industries were hard hit, while underdeveloped services and competitive manufacturing expanded. Outcomes have differed by country, depending inter alia on initial economic conditions and the adequacy of subsequent economic reforms. But unlike what typically happens in industrialized countries, labour reallocation has generally been driven more by the demand side than by workers' voluntary decisions. Further evidence of this will be provided below.

[12] For possible explanations of these results by country, see Cazes and Nesporova (2001).

What do job-tenure data tell us about employment stability?

Job tenure — the length of time that currently employed individuals have spent with their present employer — is a variable commonly used in studies that focus on labour market stability. Average job tenure and the distribution of employment by class of job tenure are used as indicators of job stability. The results presented below are based on an exploitation of EUROSTAT data, complemented by national data. Unfortunately, data on job tenure are scarce, available only for a few countries and only for the past three years (except for the Czech Republic, Poland and Slovenia). The following assessment therefore focuses mainly on cross-country comparisons. It analyses the length and distribution of average job tenure across age groups by sex, industry, occupational group and qualification level.

A cross-country comparison

Average tenures and the distribution of employment by class of job tenure provide a general picture of job stability across countries. Table 4 presents these indicators for six central European countries in 1999. Average job tenure in these countries was then 9.3 years, slightly below the 10.5 years averaged by the European Union, the United States and Japan. This finding is not surprising, given the high labour turnover that characterizes the majority of transition economies. The two Baltic States have the lowest job tenure, with 6.9 years for Estonia and 7.6 years for Lithuania (close to the United States average of 6.6 years), followed by the Czech Republic and Hungary with average tenures below 10 years (similar to those of Denmark, the Netherlands and the United Kingdom). The longest average tenures are found in Poland and Slovenia.

Average job tenure is a function of hires (inflows into employment) and separations (outflows from employment), and of the duration of individual employment with the same employer. The fact that changes in hiring and firing affect the aggregate distribution of job tenure makes the latter sensitive to the business cycle. One might indeed assume that job tenure increases in boom periods (since a buoyant economy makes firms more inclined to offer stable jobs) and decreases in recession periods (as workers lose their jobs 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 hired, which automatically reduces average tenure (because new recruits start with zero tenure). Moreover, voluntary quits also increase, because of more and perhaps better job opportunities elsewhere. This also tends to reduce average job tenure. At the same time, however, the incidence of dismissals declines, which has the contrary effect of lengthening tenure. In industrialized countries, the "shortening" effect of voluntary quits offsets the "lengthening" effect of reduced dismissals, thereby generating a *counter-cyclical*

Table 4. Average tenures and distribution of employment by class of job tenure, 1999

Job tenure (% of total employment)	Czech Rep.[a]	Estonia	Hungary	Lithuania	Poland	Slovenia	Unweighted average	Standard Deviation	Selected OECD[b]
Less than 6 months	6.3	10.4	6.1	...	5.1	...	8.8	3.4	8.5
6 to 11 months	8.3	8.0	6.5	12.8	5.4	12.0	7.1	1.3	7.8
1 to less than 2 years	18.4*	6.7	11.3	9.2	10.4	5.1	8.6	2.6	8.8
2 to less than 5 years	15.3**	31.1	20.0	29.0	14.0	18.2	22.5	7.3	15.0
5 to less than 10 years	26.2	23.9	25.3	24.8	20.8	16.5	22.9	3.6	19.0
10 to less than 20 years	12.3	10.8	17.9	14.5	22.3	23.6	16.9	5.3	21.9
More than 20 years	13.2	9.1	13.0	9.6	22.0	24.6	15.2	6.5	19.0
Sum	100.0	100.0	100.0	100.0	100.0	100.0	100.0	...	100.0
Average tenure (years)	8.2	6.9	8.8	7.6	11.9	12.1	9.3	2.2	10.5
Under 1 year (%)	14.6	18.4	12.6	12.8	10.5	12.0	13.5	2.7	16.3
Over 10 years (%)	25.5	19.9	30.9	24.1	44.2	48.2	32.1	11.5	40.9

[a] The breakdown provided by the Czech Statistical Office differs slightly for two sub-periods: * refers to 1-3 years and ** to 3-5 years. The corresponding figures for average and standard deviation for these two classes therefore do not include Czech data.
[b] 1998 data. 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.

pattern of job tenure, i.e. a decline in tenure during economic upswings (see Auer and Cazes, 2000).

The opposite appears true of transition economies, where average tenure seems to decrease during downturns because the reduction in voluntary quits does not offset the increase in dismissals due to major, transition-induced structural changes. It is therefore important to consider not only the distribution and composition of these inflows into and outflows from employment and the relationship between voluntary and involuntary quits, but also whether or not the "core" group of workers changes over time, as reflected in the distribution of job tenure. Moreover, labour market institutions also need to be taken into account, notably as regards dismissals. For example, while dismissals are typically subject to an explicit or implicit rule of seniority (last in, first out), early retirement schemes may produce the opposite effect. Other influences include changes in social policy, such as the extension of parental leave in some countries or the abolition of guaranteed redeployment for workers made redundant.

The shortness of average job tenure in Estonia, for example, should be analysed in light of the very high separation rates that prevailed until 1994 and the high proportion of workers with less than one year's tenure (18.4 per

cent in 1999). Slovenia's high average tenure is probably due to the low level of both separations and short-term turnover, associated with rather strict rules governing dismissals. In Poland, similarly long job tenure may be explained by the large size and stability of the agricultural sector and the existence of strong insider power in Polish firms (which, to a certain extent, is also the case in Slovenia).

Cross-country differences are more pronounced when the distribution of employment across job tenure classes is considered, especially as regards the share of workers with long tenures.[13] There are significant differences in the proportion of workers with ten or more years of tenure between, say, Slovenia and Poland (48.2 and 44.3 per cent, respectively) and Estonia and the Czech Republic (19.9 and 25.5 per cent, respectively). In the latter two countries, the share of workers with long tenure is indeed particularly low, even below the corresponding figure for the United States (25.8 per cent in 1998). These striking differences can be partly explained by the sectoral distribution of job tenure (see below).

Changes over time

While it is interesting to ponder the differences between countries with regard to job tenure and their respective balances of employment stability and flexibility, the more relevant question for an assessment of labour market change is that of the evolution of tenure over time. The relevant data for the 1990s are available only for the Czech Republic, Poland and Slovenia; for the other three countries in tables 5a and 5b, only data for the last 2-3 years can be provided.

The available data show that job stability followed different patterns at country level over the past decade. In the Czech Republic, average tenure tends to be positively correlated with economic growth: after declining in the period of initial structural changes brought about by economic reforms, it increased in the more buoyant 1994-97 period and then declined again slightly during the economic recession that followed. In contrast, it has increased after an initial decline in Poland and shows a tendency to decline in Slovenia (table 5a).

An analysis of job tenure data by sex indicates that women tend to be disproportionately affected by economic crisis in Estonia and in the Czech Republic. In the latter country, for example, there has been a significant decline in women's average tenure since the economic recession of 1997, while average tenure for men remained stable over the entire decade (table 5b). A recent study of labour mobility in the Czech Republic found sex and education to be 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, job stability has tended to follow similar

[13] Standard deviation is particularly high for the two groups of workers with long tenure.

Table 5a. Average job tenure in selected transition countries, 1993-1999

Country	1993	1994	1995	1996	1997	1998	1999
Czech Republic	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

Table 5b. 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
Czech Republic	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; national data for the Czech Republic and Slovenia; and Lehmann and Wadsworth (2000) for Poland.

patterns for men and women, even if their respective average tenures differ. This contrasts with Slovenia, where women's average tenure remained almost constant, while men's declined by almost one year over the decade.

A remarkable feature of most of the transition countries is that the job tenure of male workers tends to be shorter than that of female workers, except in the Czech Republic (where the pattern is reversed, albeit with a small male/female differential). This clearly reflects the lower labour turnover of women compared to men, which may be partly explained by women's stronger attachment to their jobs in fear of re-employment difficulties. Women are also less mobile because they are over-represented in the low-paid but more secure public sector, while men are generally more attracted to new job opportunities in expanding sectors that have emerged with economic reforms.

As noted earlier, the evolution of the distribution of employment by job tenure over time is very important for identifying any changes in employment stability. Though the required data are available only for the Czech Republic, Poland and Slovenia (see table 6), these reveal wide diversity across countries. In particular, the share of workers with short tenures in the first years of economic transition was much higher in the Czech Republic than it was in Poland or Slovenia. This goes against the widespread view that the Czech Republic's relatively low unemployment is related mainly to delayed enterprise restructuring which, in turn, encouraged labour hoarding. This is only partly true. The large portion of workers with tenures under one year shows

Table 6. Distribution of employment by class of job tenure for the Czech Republic, Poland and Slovenia, 1993-1999 (%)

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
Under 1 year	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
Over 10 years	32.7	30.1	29.5	29.0	28.7	26.2	25.5
Poland							
Under 1 year	...	13.8	...	14.3	15.7	14.6	10.5
10 to 20 years	...	22.1	...	20.6	20.0	20.1	22.3
Over 20 years	...	24.9	...	23.8	21.0	21.4	22.0
Over 10 years	...	47.0	...	44.4	41.0	41.5	44.3
Slovenia							
Under 1 year	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
Over 10 years	54.1	54.5	53.2	52.0	50.0	48.9	48.2

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

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

that labour mobility and flexibility were actually high until 1994 and contributed significantly to the smooth redeployment of workers to expanding sectors offering better jobs. With economic stabilization, however, that proportion declined markedly, 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 Poland and particularly in Slovenia, by contrast, the proportion of short-tenured workers increased over most of the period reviewed, though it 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).

The percentage of workers with less than one year's tenure includes not only new hires and new labour market entrants (mainly school leavers), but also workers on temporary assignments. In Slovenia, for example, the significant increase in the proportion of short-tenured workers after 1996 partly reflects a substantial increase in the use of temporary workers (as will be seen below). Indeed, the pattern observed in Slovenia suggests that this country has made considerable progress towards increasing labour market flexibility and moderating rigidities, as witnessed also by the decline in its particularly high percentage of workers with long tenure. Interestingly, the proportion of long-tenured workers declined in the Czech Republic as well

while, surprisingly, it increased in Poland after 1997 despite the strong structural changes associated with the restructuring of large enterprises in the coal mining and steel industries.

These developments over time have to be analysed with care because changing patterns of job tenure may also reflect changes in the age structure of the working population and in the economic cycle. As workers change jobs more often when they are young[14] and since employers tend to fire young workers first 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. Conversely, since older workers have longer tenure on average, population ageing could mask a shift towards less secure employment.

The transition countries have indeed witnessed significant demographic changes with rather conflicting effects on their labour markets. On the one hand, all these countries are confronted with population ageing.[15] While older workers tend to have more stable employment, once they lose their job they find it difficult to be re-employed. Moreover, those at or close to retirement age have often been forced to quit their jobs — although recent pension reforms have introduced a gradual extension of retirement age and partly compensated for a decline in the participation rates of this age group. On the other hand, the transition countries have recorded a significant increase in their labour supply due to young people and women entering the labour market in large numbers in the first half of the 1990s.[16] With the exception of Poland, this phenomenon had already tailed off by 1995.[17] The point is that demographic factors may have played a part in increasing the proportion of short tenures in the three countries within the first years of economic reform and in reducing it later on. However, the sharp decline in the proportion of longer job tenures is evidence of growing employment instability for older workers. The process of population ageing will thus become an important factor in future labour supply, contributing to labour shortages and mismatches in the labour market.

The business cycle also affects average job tenure. As mentioned earlier the transition countries, unlike the advanced industrialized countries, tend to

[14] Young people seek to diversify their working experience; their career moves are also often associated with promotion, more responsibility and higher financial reward.

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

[16] Because of lower fertility rates, fewer women are on extended childcare or parental leave beyond statutory maternity leave.

[17] The share of persons aged between 15 and 24 increased from 14.9 per cent of total population over age 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 aged over 15 constantly increased over the 1990s — from 14.1 per cent in 1990 to 16.9 per cent in 1999.

display a *pro-cyclical* pattern of average job tenure. The lengthening of job tenure observed in recent years thus seems to reflect the economic stabilization and recovery that have taken place since the transition crisis. And when the Czech economy went into recession after 1997, the acceleration of structural changes had a negative impact on average job tenure; this too was in line with the pro-cyclical pattern of tenure. Since 1998, however, the relationship between average tenure and economic growth seems to have been reversed in Poland and Slovenia.

Tenure profiles of different categories of workers

Table 7 presents average tenure by sex, age group, sector and educational attainment. As pointed out above, the unweighted averages across countries show that women have longer tenure than men (except in the Czech Republic) and that tenure increases sharply with age. There is also little difference between countries as to the tenure of young workers: the average is about two years (slightly above the industrialized country average), although Slovenia, Poland and Estonia have a slightly lower average tenure for this age group. This probably does not reflect labour supply behaviour, as youth unemployment rates are significantly higher than the average rates in these countries.[18] 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 the advanced industrialized countries (15 years against 18 years). Yet, there is considerable variation across countries for workers aged over 45 years: in Estonia, their average tenure was about 10 years in 1999 (compared to 11 years in the United States), but it was twice as high in Slovenia and Poland. First, this heterogeneity across countries reflects the extent of the structural changes that took place, particularly during the initial phase of reform. Second, it reveals inter-country differences in employment protection for older workers — depending on trade union power, seniority rules and employers' preferences — and how labour market pressures have been alleviated at the expense of older workers. In all the countries reviewed, the labour force participation rates of older workers declined sharply after the introduction of early retirement schemes (except in the Baltic States), coupled with pressures on working pensioners to withdraw from the labour market and on many older workers to give up economic activity (usually through early retirement, invalidity pensions or other social welfare provisions).[19]

Job tenure also varies considerably across industries: the longest tenures are found in mining and quarrying, and electricity, gas and water supply.

[18] 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).

[19] Interestingly, the decline in participation rates was more pronounced among men over 45, than it was among women in the same age group, for all the transition countries analysed; the only exception is the Czech Republic.

Table 7. Average job tenure by sex, age, sector and education, 1999 (years)

	Czech Rep.*	Estonia	Hungary	Lithuania	Poland	Slovenia	Average	Standard deviation
Total	9.0	6.9	8.8	7.6	11.9	12.1	9.4	2.1
Men	9.3	6.3	8.6	6.9	11.4	11.7	9.0	2.1
Women	8.8	7.6	9.1	8.3	12.3	12.5	9.8	2.3
Age								
15-24	2.5	2.1	2.6	2.3	2.1	1.9	2.2	0.3
25-44	7.2	5.5	7.6	5.8	8.6	9.3	7.3	1.5
45 +	13.9	10.1	13.6	12.3	19.0	20.8	14.9	4.1
Sector								
Agriculture, hunting and forestry	12.9	7.1	10.6	6.8	...	24.6	12.4	6.5
Fishing	5.4	8.2	8.9	5.9	...	4.3	6.5	1.7
Mining and quarrying	13.9	13.1	11.4	11.2	...	13.1	12.5	1.1
Manufacturing	10.1	7.0	9.1	9.2	...	11.8	9.4	1.6
Electricity, gas and water supply	11.7	10.8	12.2	10.8	...	13.4	11.8	1.0
Construction	7.0	5.0	6.2	6.2	...	10.1	6.9	1.7
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	1.8
Hotels and restaurants	4.5	2.9	5.2	4.0	...	6.8	4.7	1.3
Transport, storage and communication	11.6	7.6	11.1	7.4	...	11.7	9.9	2.0
Financial intermediation	6.7	4.6	6.8	4.4	...	9.6	6.4	1.9
Real estate, renting and business activities	6.4	5.4	6.2	7.0	...	6.7	6.3	0.6
Public administration and defence; compulsory social security	9.4	5.8	8.9	6.6	...	9.9	8.1	1.6
Education	12.9	10.4	11.6	11.3	...	11.9	11.6	0.8
Health and social worker	10.4	10.1	11.3	10.3	...	12.4	10.9	0.8
Other community, social and personal service	7.1	7.6	8.2	8.2	...	10.0	8.2	1.0
Private household and employed persons	1.6	1.6	5.6	1.5	...	5.1	3.1	1.9
Education								
Low	10.0	6.9	8.8	7.0	19.7	18.6	11.8	5.8
Medium	8.9	6.4	8.4	6.4	10.2	10.5	8.5	1.8
High	9.8	7.9	10.3	8.8	10.6	9.6	9.5	1.0

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

Note: Data by sector and occupation are based on the national classification systems and have been regrouped to correspond approximately to NACE (Rev.1) and ISCO-88.

Source: EUROSTAT.

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 longer than male tenure. The

agricultural sector also tends to be characterized by long tenure. In this case, however, the data should be interpreted with caution, as they reflect great diversity across countries (e.g. 24 years in Slovenia against seven 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. former state-farm workers), leading to extensive job changes even for workers who continued to do the same work.[20]

The shortest job tenures are generally found in expanding industries such as financial intermediation, the tourism sector (with only 4.7 years on average in hotels and restaurants in 1999) and business support services. Private household workers as well as those in 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 the patterns identified in the advanced industrialized countries (see Auer and Cazes, 2000). However, so-called small-scale privatization, together with the restitution of nationalized property and the development of small enterprises initiated by economic reforms, accelerated changes in job-tenure patterns in sectors such as community and personal services, trade, hotels and, to some extent, also in construction. Inter-country differences in length of tenure in manufacturing reflected the extent of structural changes by country connected with actual privatization (as opposed to the initially formal privatization that took place in, say, the Czech Republic) and economic cycle (except for Slovenia).

The distribution of tenure by occupation is consistent with the analysis by sector. Generally speaking, skilled white-collar occupations (e.g. professionals and technicians) have the longest job tenures, while semi-skilled and unskilled manual jobs and lower-skilled white-collar occupations (e.g. service workers, shop and market sales workers) have shorter tenures. Particularly long tenures are found among "skilled agricultural and fishery workers" in Poland (22 years) and Slovenia (25 years). This can be attributed to the fact that no significant changes in ownership in agriculture have taken place in these two countries, contrary to what happened elsewhere. It also reflects the fact that agriculture comprises a large proportion of low-skilled and stable jobs typically performed by older workers (this factor is particularly strong in Poland). Interestingly, the patterns of job tenure by industry and occupation are similar across countries, i.e. dependent on the nature of occupations.[21]

Average job tenures by educational attainment, however, do not show a consistent pattern across countries. In the two Baltic States and Hungary, highly educated workers have longer tenures than workers with lower education,

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

[21] This is consistent with earlier findings on the OECD countries (see Auer and Cazes, 2000).

whereas the reverse holds true of the Czech Republic, Poland and Slovenia (table 7). The explanation may be that while the first three countries experienced more redundancies among less educated workers as a result of downsizing in manufacturing and agriculture, the other three countries delayed enterprise restructuring in industry. The resulting pattern of tenure may seem surprising, as less qualified people might be expected to have less job stability. Yet empirical research based on a disaggregated analysis of the evolution of job tenure found results consistent with the previous findings for Western countries.[22]

Another interesting breakdown refers to average tenure by enterprise size, as shown in table 8. The distribution suggests a consistent picture across countries: job tenure clearly increases with enterprise size in almost all of the countries under review. The employees of larger establishments (enterprises with 50 or more workers) have significantly longer job tenure (11.4 years on average in 1999) than those in establishments with fewer than ten workers (7.2 years on average). In Poland, however, the influence of enterprise size is not monotonic: it is 9.5 years for enterprises with fewer than ten employees, 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.[23]

Evidence from western European countries suggests that employees stay longer in larger establishments and in production sectors (Bellman, Bender and Hornsteiner, 2000; Burgess, Pacelli and Rees, 1997). In the transition countries, the pattern may also be partly explained by the fact that enforcement of employment protection legislation is much weaker in very small firms, which thus feel less constrained in deciding to dismiss workers. Another possible factor is that many of these enterprises were established only recently. Generally, these findings are largely in line with the experience of western European countries.

Labour turnover and job tenure

The first section of this article identified a tendency towards a countercyclical pattern of labour turnover in the selected transition countries — particularly those more advanced in economic reforms — while this section has so far shown average job tenure to be pro-cyclical. These findings are compatible with the argument that an increase in labour turnover tends to shorten average tenure, while slower turnover means labour market stabilization and a lengthening of job tenure. However, this consistent picture for each of the countries studied is at odds with the findings of a cross-country comparison. From the above argument, it should indeed follow that the higher a country's

[22] For example, Burgess and Rees (1998) found that post-compulsory educational qualifications in the United Kingdom are associated with shorter job tenures for both men and women.

[23] Figures for Poland should be interpreted with caution, as the distribution is likely to be biased by the agricultural sector.

Table 8. Average tenure by enterprise size, 1999 (years)

No. of employees	Czech Republic	Estonia	Hungary	Lithuania	Poland	Slovenia	Average	Standard deviation
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.

labour turnover, the shorter its average job tenure. However, a comparison of tables 1, 4 and 5a conflicts with this logic. The ranking of countries by rate of labour turnover in the second half of the 1990s starts with the Czech Republic (lowest), followed by Slovenia, Estonia and Poland (highest). Yet the ranking by average job tenure is Slovenia (longest), followed by Poland, the Czech Republic and Estonia.

Two factors may explain this apparent paradox. The first is that Poland and Slovenia seem to have highly segmented labour markets. On the one hand, both countries have a large proportion of workers with long tenures — almost unaffected by economic transition as far as their employment is concerned — which increases these countries' average job tenure figures. On the other hand, a high proportion of workers in Poland and Slovenia lost their jobs, and many of these redundant workers seem to have moved into precarious employment, 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 employment (see table 11 below). Many of these workers have also become unemployed or inactive in Poland, which has not been so much the case in the Czech Republic.

The second factor is a combination of methodological differences in labour statistics across transition countries[24] and of the difficulty of obtaining reliable data on atypical forms of employment. Cross-country comparisons should therefore be interpreted with caution.

Job security vs. job stability

In the preceding section, job tenure was used to assess job stability. However, since average tenure is determined by both voluntary and involuntary moves, it provides ambiguous information about job security per se.

[24] The annual data on labour turnover for Poland are calculated on the basis of quarterly data, so that multiple changes of labour market status in the course of the year are counted. This increases Poland's rate of labour turnover — particularly in respect of workers in precarious employment — compared to that for Estonia and Slovenia (which is based on data collected once a year and therefore does not include multiple changes within one year). For the Czech Republic, as already mentioned, available data underestimate actual labour turnover due to incomplete inclusion of job-to-job moves.

Moreover, while average job tenure emphasizes the trends in stable employment, short-term jobs or labour market churning are best described by separation rates.[25] Data on outflows from employment that identify or reflect the reasons for job changes — i.e. dismissals, 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 likely to make workers worse off, especially if they face difficulties in re-entering employment. In developed countries, as explained earlier, voluntary quits are more significant determinants of fluctuations in labour turnover than are dismissals: in periods of economic upswing they become more frequent, while the incidence of dismissals is rather modest, and during economic recession they decline more sharply than redundancies increase.

Outflows from employment

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

For all the countries covered , disaggregating the separation rate by reason reveals that economic reasons in general contributed much less to total separations during the transition period than is usually believed (for a detailed presentation of these data, see Cazes and Nesporova, 2001). The proportion of separations for economic reasons 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 proportion of redundancies, with the latter increasing in periods of economic recession (or significant economic slowdown) and declining with economic recovery. In the countries of the Commonwealth of Independent States (CIS), by contrast, redundancies have never accounted for more than a small fraction of total separations.

According to table 9, which shows separations by destination, outflows from employment to inactivity significantly exceeded outflows to unemployment. This indicates that labour market pressures were dealt with primarily at the expense of older workers[26] and other vulnerable groups. Also, resignations were more frequent in the initial difficult period of economic transition while their incidence declined later. In Estonia and Slovenia the shares of

[25] 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 in employment at the beginning of the period.

[26] By pushing them to accept regular or early retirement (the attainment of retirement age does not automatically mean termination of contract).

Table 9. Separation rates by destination of outflows from employment (%)

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
A. Employment to unemployment (EU)											
Czech Republic	...	...	...	1.7	1.4	1.2	1.5	1.8	3.0	...	...
Estonia	0.7	1.7	4.9	5.4	5.1	4.2	4.8	4.6	6.0	...	...
Hungary	...	...	...	4.7	2.8	2.8	2.2	2.2	1.7	1.4	1.2
Poland	...	...	7.9	8.4	8.1	6.8	6.2	5.0	5.0	...	...
Slovenia	2.3	4.1	...	3.3	2.3	2.2	2.7	2.4	2.5	2.8	1.8
B. Employment to inactivity (EI)											
Czech Republic	...	...	...	5.3	4.3	5.6	4.0	3.8	3.7	...	...
Estonia	5.6	6.4	10.0	7.5	6.5	3.0	5.0	4.0	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 Republic	...	...	...	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.

withdrawals from employment to inactivity were several times higher than those of outflows to unemployment in the initial stage of economic reform. For other countries, the data predating 1993 are not available, but rapidly declining participation rates in this period suggest the same pattern 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 that to inactivity.

There are remarkable differences between the four countries in job-to-job moves, with rates particularly high in Estonia and above average in the Czech Republic also. In Estonia, job-to-job flows exceeded by far the other two destinations of separated workers for the whole transition period. This confirms the country's exceptionally high labour mobility supported, as mentioned earlier, by massive structural changes. The data available for the Czech Republic give similar evidence of workers' high mobility, particularly up to 1995, over the period when labour reallocation needs could be met relatively easily without long spells of unemployment. This contrasts with the situation in Poland where the incidence of direct job-to-job moves was the same as that of redundancies (and probably even lower before 1995), while that of withdrawals from employment to inactivity was consistently higher, particularly prior to 1996 (1996 being the only exception). Until 1995, the situation in Slovenia resembled that of Poland, with outflows from employment to inactivity exceeding job-to-job moves. After 1995, however, stricter conditions for early retirement contributed to a sharp decline in moves to inactivity.

Correlation of employment outflows with business cycle

As explained above, demand for labour in the industrialized countries increases in periods of economic upswing. At such times, employers also tend to offer higher wages in order to attract new and more qualified workers. The latter, in turn, are more inclined to avail themselves of 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 for fear of eventually remaining jobless. Enterprises endeavour to cut production costs in order to maintain or restore their competitiveness, including, if necessary, by means of redundancies, early retirement schemes and other such measures to cut their workforce.

The evolution of GDP and employment outflows, including job-to-job moves, for four transition countries is shown in figure 2. In order to bring out the strength of the correlation between GDP growth rates and flows from employment to each destination, the corresponding correlation coefficients have been calculated as well (see table 10). The underlying assumption is 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 also largely applies to flows from employment to inactivity (forced withdrawals from employment, de-registration from unemployment, early retirement, etc.). One might therefore expect the incidence of job-to-job moves to be positively correlated to GDP growth and that of moves to unemployment and inactivity to be negatively correlated to it. Moreover, while job-to-job moves typically take place without much delay, employment protection rules delay involuntary moves from employment to unemployment and to inactivity. The latter flows are therefore also correlated to the GDP growth rates that preceded the employment outflow data by one year. Again, the results should be taken with caution, because the data series are rather short and incomplete, with differences between countries as far as coverage of the transition period is concerned.

Table 10 shows strong negative correlations between GDP growth and exits to inactivity for Estonia, Poland and Slovenia, even when exits to inactivity are time-lagged. In the Czech Republic, by contrast, moves from employment to inactivity seem to be pro-cyclical, though the time-lagged correlation tends to show a counter-cyclical pattern (similar to that observed in the other countries selected).

Also in line with expectations, outflows from employment to unemployment have a strong negative correlation with the economic cycle in the Czech Republic, Poland and Slovenia, regardless of whether the time lag is considered or not. For Estonia, however, the relationship seems to be rather weak, possibly because the results are to some extent affected by the first three or four years of the decade, when the behaviour of enterprises and workers was still strongly influenced by past practices. Indeed, administrative

Figure 2. GDP growth and separation rates by destination (EU = to unemployment; EI = to inactivity; EE = job-to-job moves), 1990-1999 (%)

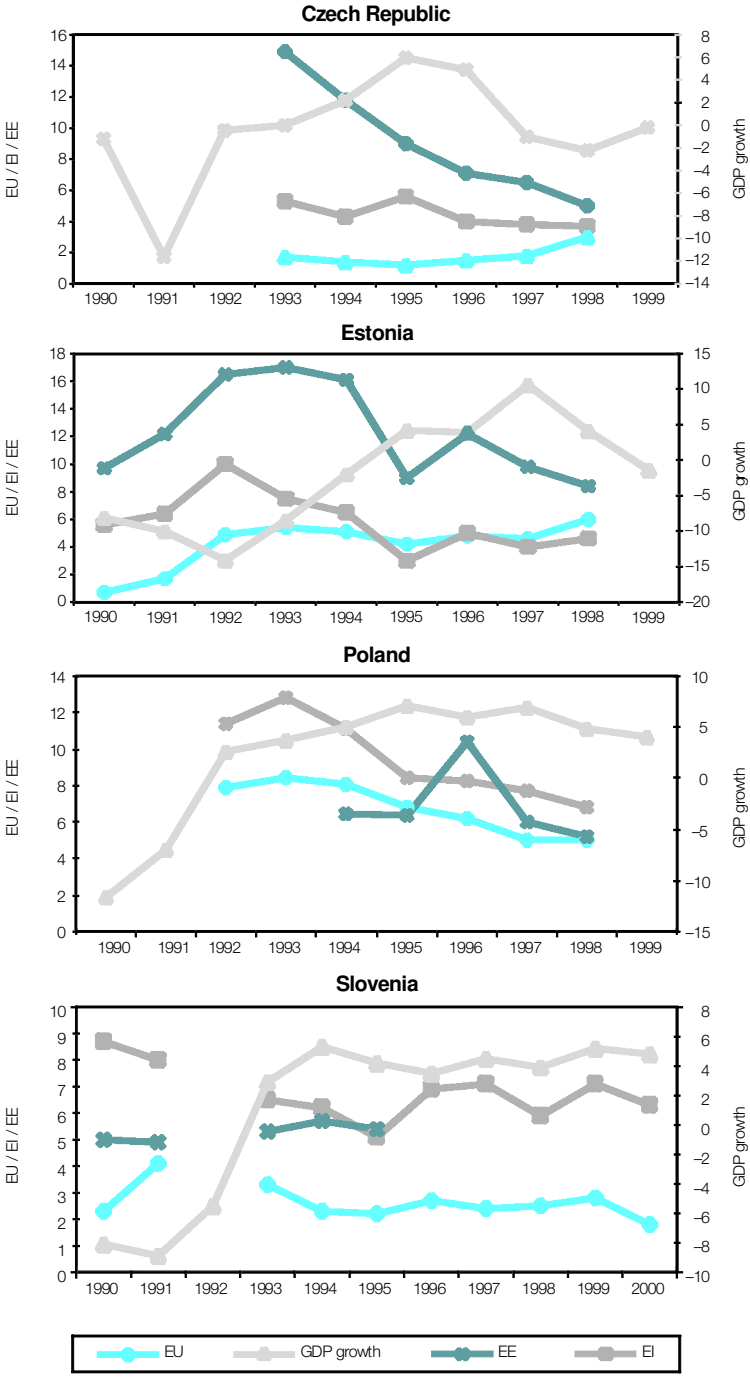


Table 10. Correlation coefficients of GDP growth and outflows from employment by destination* for selected transition countries

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	...	–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

* To another job (EE), to inactivity (EI) and to unemployment (EU).
Source: Calculed from the data and for the years given in table 9.

leave, short-time work and delays in wage payments were rather frequent at that time, while dismissals were still quite rare and open unemployment very limited. This also explains the negative correlation between GDP and job-to-job moves, as labour churning was typical of the CIS countries in that period. Labour churning in the first years of the economic transition contrasts sharply with the lower incidence of voluntary job changes in the period of economic upswing, when workers seem to have been more cautious about quitting their job.

These results are in conformity with the counter-cyclical pattern of labour market flows identified above, namely, higher outflows from employment in periods of depressed demand for labour and lower outflows in times of employment growth. When demand for labour increases fewer people are made redundant or resign (or made to "resign voluntarily"). Conversely, when demand declines, pressures for separations either to unemployment or to inactivity increase. By and large, the signs and magnitudes of correlation between employment growth and all outflows from unemployment are very similar to those observed between GDP and outflows from employment.

Of the other countries examined here, only Slovenia confirms the hypothesis of a strong pro-cyclical pattern of job-to-job moves, although absolute changes in job-to-job flows are very small (see figure 2). The analysis thus suggests that separations from employment in the transition countries have mainly been the outcome of forced resignations and involuntary quits for economic reasons related to the transition crisis, structural changes and enterprises' need to reduce labour hoarding and cut labour costs. Again, this contrasts with the situation in advanced industrialized countries, where the dominant influences on overall flows seem to be voluntary quits for better jobs in periods of economic upswing and the reduction of such quits in periods of recession.

Temporary employment

Another source of labour market flexibilization is temporary employment, which includes workers on fixed-term contracts, agency workers, seasonal workers and those in other forms of irregular employment (mainly so-

Table 11. Ratio of temporary* to total employment in selected transition countries (%)

Country	1992	1994	1996	1998	1999
Czech Republic	...	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	...
Russian Federation	...	...	...	...	5.9
Slovenia	...	8.3	8.8	12.0	11.0
Ukraine	...	...	...	...	3.0

* Temporary employment includes fixed-term contracts, agency and seasonal work and other forms of irregular work.
Source: National statistics.

called civil-law contracts). The popular perception is that temporary employment has increased dramatically during the transition period, as employers prefer to have a free hand in deciding whether to make workers redundant. This fear is expressed mainly by trade unions which, in some countries like the Russian Federation, have successfully bargained for the restriction of fixed-term contracts to cases where the worker explicitly prefers a temporary contract or performs seasonal or temporary work (limited to three months), and to certain occupations expressly stipulated in the Labour Code (Tchetvernina et al., 2001). In some countries (e.g. the Czech Republic), temporary contracts cannot be offered to 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; it is available only for some countries and may not be fully reliable and comparable in reflecting seasonal and temporary work or the use of "civil-law contracts". Table 11 shows that the ratio of temporary to total employment is rather low in the transition countries. Only Slovenia shows a remarkably high proportion of temporary employment, although it remains below the 15-per-cent level obtaining in most countries of the European Union (on the latter, see Auer and Cazes, 2000). Similarly, only in Slovenia has the incidence of temporary employment been increasing, while remaining almost stable in all the other countries under review. However, some sources estimate the proportion of temporary employment to be well above 15 per cent in certain transition countries. For example, in the absence of official statistics on temporary employment, the Confederation of Independent Trade Unions of Bulgaria recently reported that 680,000 employees were on short-term contracts.[27] Similarly, Hungary's National Labour Market Centre estimated that some

[27] See *Trud* (Sofia), 10 April 2000.

600,000 workers were on fixed-term contracts in 1998, which would account for about 16 per cent of total employment (Laky, 1999).

With the exception of Slovenia, national statistics do not confirm any clear tendency towards more flexible employment, at least in the formal sector. However, problems with the reliability of labour force survey data on temporary and irregular employment rule out any definitive conclusion on this point, especially in the light of the above-mentioned reports on the incidence of temporary employment in Bulgaria and Hungary.

Concluding remarks

The introduction of economic and social reforms initiated long-delayed structural adjustment of the former centrally planned economies to world markets. This was facilitated by significant changes in labour legislation and labour market institutions as well. But while legislative and institutional reforms were influenced by the western European approach, the outcomes of the process have been diverse, depending on economic performance, trade union power, the importance of social dialogue, and national culture. Thus, the central European and Baltic countries, driven by the goal of accession to the European Union, have moved towards the flexibility/protection patterns found in the Union's existing Member States. In the Balkan States, adversely affected by military conflicts and economic losses due to the inconsistency of their reforms, certain rigidities have persisted, resulting in weak employment and income security for workers. In the CIS countries, the adaptability of firms tends to be more internally constrained than blocked by external regulations. For historical reasons, employment protection (now combined with meagre protection of earnings) is still tied to enterprises, 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. Economic stabilization and recovery might have been expected to bring fluctuations of labour market flows roughly into line with those prevalent in industrialized countries, i.e. increasing job-to-job moves by workers seeking better jobs with higher earnings, more hires of unemployed workers or previously inactive people, and fewer 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 quit voluntarily is justified by the fact that demand for labour is generally weak; many large and medium-sized companies are still or again cutting staff; small firms are often fragile. Given the rather low average wage levels of the transition countries, few workers can afford the decline in income that would come with unemployment which, for the majority, would mean falling into poverty. This is confirmed by this article's findings of a tendency towards a counter-cyclical pattern of labour

turnover coupled with a pro-cyclical pattern of job tenure, which is the opposite of what happens in industrialized countries. Since 1998, however, a counter-cyclical pattern of job tenure seems to be emerging in Poland and Slovenia, though its sustainability has yet to be tested. In Slovenia, labour turnover too seems to have shifted towards a pro-cyclical pattern since 1997.

Significant differences remain among the countries examined above. Estonia is clearly a leader in labour market flexibility, and Lithuania seems to share many similarities with it concerning job stability. The Czech Republic and Hungary both appear to be characterized by a sharp increase in flexibility at the beginning of transition and some stabilization later on. Economic recession, however, gave new impetus to labour mobility in the Czech market after 1997.

Poland and Slovenia appear to have highly segmented labour markets: on the one hand, a large share of the working population has long job tenures and, on the other, some groups of workers in precarious jobs display very high mobility. Nevertheless, there are also significant differences between these two countries. Poland features a striking difference between labour turnover and job turnover, indicating considerable labour churning. Structural changes as reflected in job creation and job destruction have, surprisingly, been rather slow, contradicting the general perception of Poland as one of the fastest reformers. In contrast, Slovenia seems to be somewhere between the transition countries and the advanced industrialized countries. As a result of its mixed-economy legacy from the former Yugoslavia, changes induced by economic transition and restructuring have been less profound, including in respect of workers' attitudes and expectations. This explains why labour turnover was rather moderate and stable in Slovenia in the 1990s, while at the same time job turnover contributed significantly to labour mobility. Slovenia is also the only transition country where job-to-job moves have shown a strong positive correlation with economic growth (as in the industrialized countries), suggesting that its citizens have accustomed themselves to a market system and have higher confidence in labour market and social protection institutions.

The findings on Ukraine, the Russian Federation and, to some extent, Bulgaria are in line with these countries' slower progress in economic transformation. Here, extensive labour mobility is mainly connected with labour churning among jobs of generally low quality, while new job creation has remained 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 creation in response to emerging production and sales opportunities — is still low.

An analysis of the tenure profiles of different groups of workers also produced 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 national economy and any changes therein

have a significant effect on average job tenure. A higher share of personal, production and distribution services thus tends to increase instability of employment, while a large proportion of agricultural employment or of employment in the civil and social services is conducive to longer average job tenures. Second, job tenure increases sharply with age in all the countries reviewed. In other words, the age structure of the working population also partly explains differences in job stability by country. In the 1990s, the fact that a lot of young people entered the labour market, coupled with 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 longer job tenures than men in the transition countries, with the exception of the Czech Republic. This confirms that sex has come to play a more decisive part in the availability and quality of employment during economic transition.

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