Labour Market Transitions of Individuals in Eastern and Western Europe

Grogan, L.A.

Citation for published version (APA):
Chapter 6

Conclusions

In this thesis, I have applied reduced form and structural econometric models in order to investigate several aspects of the labour market trajectories of individuals. The four subjects which I have dealt with include: (i) transitions of individuals between jobs in different sectors and the unemployment pool, (ii) the influence of demographic characteristics on unemployment durations, (iii) changes in wage structure and sectoral choice following labour market deregulation (iv) explaining gender wage differentials using a general equilibrium job search framework. I have used data from several national labour force surveys and household panels to situate the findings of each of these national studies in the international context. In this chapter, I briefly review the main findings of each investigation.

6.1 Summary of the findings

Chapter 2 contains one of the first econometric studies of job durations and transitions in post-Soviet Russia. Information on durations of job tenure and types of transitions came from two sources: the 1994-1996 Russian Longitudinal Monitoring Survey (RLMS) and from retrospective work history responses to the Institute for Labour Relations Research (ISITO) 1998 household survey. Levels of inflows into new jobs were compared with those observed in the 1990’s for several EU and Central European countries. Competing risks models for durations of job tenure with multiple destination states were estimated. The results of the study strongly rejected the common characterisation of the Russian labour market as a stagnant pool in which labour reallocation has been averted by a large fall in real wages.
Worker flows in Russia were higher than in the relatively successful transition economies of Central Europe and EU countries during the 1990's.

The evidence on worker flows in Chapter 2 concurs with evidence from other countries in finding that rapid ownership and price reforms are correlated with high levels of turnover on the labour market. Gross job reallocation rates in countries where a rapid approach to reform was taken, such as Estonia, have been found in several studies to be higher than in countries such as Slovenia, where reform has been more gradual. However in the Russian case, it does not appear that high flow rates indicate success in the reallocation of human resources to areas of higher productivity, or in shedding excess labour.

In Chapter 2 it was found that, amongst individuals employed in January 1991, job-to-job transitions outnumber job-to-non-employment transitions by a factor of two to one. This suggests that the high worker flow rate in Russia is primarily due to individuals quitting jobs rather than to their being dismissed. However, the results of the study suggest that high job turnover in the Russian context is not an indicator of imminent improvements in labour productivity. In Russia, a substantial fraction of job movement is into jobs where workers soon experience wage arrears or payment in the form of goods. The considerable portion of transitions made into less-skilled and lesser paid jobs suggests that unobserved factors such as perceived job security, regularity of wage payments and the provision of fringe benefits may be primary factors in governing the behavior of workers in Russia. In light of these findings, it appears that regulations which would keep workers at a firm, such as severance pay requirements, are not the main reason for continued excess labour supplies within firms.

In the study of Russian worker flows I found that that long-time community residents are relatively likely to exit to jobs in the private (former state) and *de novo* (new enterprise) sectors. If personal connections are indeed a key matching mechanism in the Russian labour market, they may act as a barrier to geographic mobility. The importance of personal connections in obtaining jobs may offer a partial explanation for why low inter-regional labour mobility in Russia coexists with large wage and unemployment level differences between regions.

The results of the study in Chapter 2 are of relevance for the design of policies to eliminate labour hoarding and wage arrears. Possible results
of continued large flows of workers into low-quality jobs will be the pro-
longation of inefficient resource use within firms, the continued existence of
unprofitable firms, and the failure of the wage mechanism to lure workers
into jobs where their productivity is the highest. Yet workers will not be able
to reject such jobs so long as a survival level of unemployment benefits is
absent, there is no common standard of prompt wage payments, jobs are al-
located through informal contacts, and most communities have no profitable
private sector.

In Chapter 3, written with Gerard van den Berg of the Vrije Universiteit
Amsterdam, longitudinal survey data was used to assess factors affecting the
duration of unemployment in Russia. Four types of marginalised labour force
participants were distinguished using ILO guidelines and survey responses.
Models for the duration of unemployment were estimated for each of the
four types of unemployed individuals.

There were two formidable obstacles to the implementation of the es-
timation with data from the RLMS. First, a mechanical application of the
unemployment definitions that are used in studies with data from OECD
countries, at best, captures only part of the Russian unemployment prob-
lem. Second, the data did not always enable a precise reconstruction of the
lengths of the spells of unemployment and underemployment.

The estimation results suggested that the duration effects of explanatory
variables (like personal characteristics) were qualitatively very similar across
the different types of unemployment, and were robust to different model
specifications. In addition, the results regarding the effects of the explanatory
variables are robust with respect to the treatment of imperfectly observed
spells, for each unemployment type.

In Chapter 3 it was found that highly-educated workers who left jobs
after October 1994 have shorter unemployment and underemployment du-
rations than their less educated compatriots. The level of unemployment
amongst the higher-educated group was also relatively low. This result con-
in which relatively high expected durations were found for more educated
workers. This suggests that demand-side factors have turned in favor of the
better educated over time.

Females in the flow sample appeared to have relatively short unemploy-
ment durations. However, additional tests showed that married females have
significantly longer durations than married males, while unmarried females have significantly shorter durations than unmarried males. It would appear that unmarried females search more intensively than married females, have lower reservation wages, or that marital status counts against females in recruitment. Of female respondents in the 1995 RLMS survey, 74% are married.

Longer unemployment durations were observed amongst residents of small towns in the two larger subgroups. This suggests that there are strong distinctions between rural and suburban unemployment experience. Unemployed individuals in Moscow and St. Petersburg generally exit the unemployment pool much more quickly than individuals in other regions of Russia. No significant differences in hazards of exit amongst searching unemployed individuals of different age groups were found. The estimation results suggest a higher unemployment incidence for younger workers, many of whom are likely first-time job seekers.

The results of this study may be of use for the implementation of policies directed towards the reduction unemployment durations of particularly marginalised sections of the labour force. Prerequisite to implementing such programs (like regular job search advice, job application training, and other training programs), is convincing unemployed job seekers to register as unemployed. Such policies may focus on these problematic groups of individuals. Employment agencies may screen individuals and subsequently allocate those with unfavourable characteristics to certain training programs. Targeted programs to reduce employment durations might focus on (unmarried) men, individuals with low education, and individuals living outside of the largest cities.

Chapter 4 contains one of the first micro-econometric investigations of changes in wage structures and shifts in composition of the state and non-state sectors in Russia between 1992 and 1998. The importance of sector-specific skills premiums in determining sectoral choice was investigated for the period immediately following labour market deregulation, and then six year later. Large changes in rewards to observable characteristics between 1992 and 1998 were found for both sectors. Mean log wages were significantly higher in the state sector than the non-state sector in both 1992 and 1998. Using an endogenous switching model framework, modified to take account of the wage arrears crisis, it was found that most of this wage gap
SUMMARY

was attributable to differences in returns to characteristics, rather than to differences in the composition of the sectors. These key results were found to be robust to the treatment of the wage arrears question.

The finding that mean wages were higher in the state than the non-state sector in both 1992 and 1998 contrasts with the findings of similar analysis for other countries. For example, in Poland in the mid 1990's, there was a private sector earnings advantage, and one which was relatively large for individuals with university-level education. In contrast, I have found in this study that there is a large premium in the Russian state sector in 1998 for individuals who have completed higher education, but no significant premium to education in the non-state sector.

While women tended in 1992 and 1998 to select state sector employment in Russia, gender wage differentials were also far greater in this sector. This evidence concurs with that of the multiple destination state job duration models estimated in Chapter 2. There, I found that women made fewer transitions into all forms of non-state enterprises, and that they were relatively unlikely to make transitions from the jobs which they had held in 1991.

The results of this study suggest that differences in wage structure between the state and non-state sectors will have long term effects on sectoral composition. There is strong evidence that differences in expected wages between the sectors play a role in determining sectoral choice. It is foreseeable that the importance of compositional effects on wage differentials between the sectors will increase over time, due to individual self-selection into sectors.

In Chapter 5 of the thesis, written with Audra Bowlus of the University of Western Ontario, the relationship between the labour force behaviour of women in their childbearing years, and gender wage differentials was investigated. A general equilibrium job search model was estimated using data from the BHPS. In this search model, non-participation was included as a distinct labour market state. Wage differentials between similarly-educated men and women were decomposed into fractions attributable to job search behavior and fractions attributable to productivity differences on the job.

Search behavioural differences were found to play an important role in explaining gender wage differentials in the UK for lower educated workers, but only a minor role for higher educated workers. For both groups, however,
productivity differences are found to be the greatest factor determining the gender wage gap. It was also found that the level of search friction is lower in the UK than in the US. The lower search friction level in the UK is primarily attributable to very low job destruction rates.

Our comparison with the work of Bowlus (1997) suggests that the labour market behaviour of women in the UK during their child-bearing years is substantially different from women in the same age/education cohort in the US. In particular, women in the UK are more likely to exit the labour market during their child-bearing years than their US counterparts.

The UK displays much larger differences in the reservation wages of men and women than does the US. In the UK, unlike in the US, reservation wage differentials are of a very similar magnitude to mean earnings differentials. The large reservation wage differences in the UK do not seem to be supported by the job search model's predictions for other features in the data, especially for women with higher education.

According to our data, the British are more likely to make job-to-job transitions than are Americans. This is a feature of the data that the model can't seem to match. The British also exhibit much lower unemployment rates and for the higher rates of exit into non-participation for women.

In the UK highly-educated women stay in non-participation for shorter periods of time than O-level educated women when they have a child. The reverse is true in the US. Women in the UK are also more likely to go into non-participation than in the US for both groups. We anticipate that extending the model to endogenenise exits to non-participation around child-birth will allow more of these differences between US and UK women to be accounted for within the model.

Our thought experiments suggested that changing to male productivity levels almost completely eliminates the wage differentials between the sexes. Relatively small fractions of the wage differentials were eliminated when females in either group were given male search parameters. In light of these results, we concluded that behavioral differences account for a smaller fraction of wage differentials between the sexes in the UK than in the US.
6.2 Final remarks

Although I have focused in this thesis on the estimation of micro-econometric models of labour market dynamics, the results raise several theoretical issues. In this closing section, I would like to offer some thoughts on questions which have puzzled me while writing this thesis.

Many of the oft-mentioned propositions about labour markets in transition economies have not been supported by the empirical evidence in the chapters of this thesis. Unemployment pools in transition economies were not more stagnant than those in EU countries during the 1990’s, according to the household panel and labour force survey information used in this analysis. Nor were unemployment to non-participation transitions substantially higher amongst Eastern than amongst Western European countries. While there may have been an initial high, transitory outflow into non-participation following the collapse of communism, by the mid-1990’s outflows were not lower than in EU countries. Neither was the fraction of non-participants in the working-age population consistently higher in Eastern than Western European countries.

As well, it was found that outflows from non-participation were not smaller in Eastern than Western European countries during the mid 1990’s. Considerable year-on-year movements from non-participation and unemployment into employment were found in both East and West. Amongst Eastern European countries, there was not a clear correlation between the success achieving post-transition growth and transition intensities across labour market states.

Levels of job-to-job transitions were found in the preceeding studies to be far higher than predicted either by models of transitional labour markets developed in the early 1990’s, or by the general equilibrium job search models estimated. In addition, a large fraction of job-to-job transitions observed in each of the countries for which data is available did not involve improvements in remuneration. In general, there does not appear to be a clear link between the levels of flows of workers into new jobs in a country, and levels of economic growth. For example, a large fraction of the high levels of worker transitions measured for Russia appear to be “churning”, in the sense that they are of lower skill level and/or lower pay than previous employment. As such, it does not appear that the speed of movement of workers through the labour market, per se is a good measure of the efficiency
of labour reallocation in a country.

While flexibility is good (as it should improve the quality of job-employee matches over the medium term), churning may have negative consequences for labour productivity in the long run. Employers may have little incentives to make costly investments in training (job-specific or general) in situations where turnover is very high. Still, it is debatable whether policies that increased hiring or firing costs would result in even greater efficiency losses.

As well, the extreme downwards flexibility of real wages which accompanied market deregulation in the Russian case may well result in firms substituting (cheap) labour for (expensive) capital. Increasing the extensive use of labour can hardly be expected to improve labour productivity in the long run. The studies of Russian labour market dynamics contained in this volume certainly suggest that residual distortions in other markets (the credit market, property markets, the intermediate goods market) have a negative influence on the types of firm-employee matches made.

In Russia, generally characterised as the most extremely sclerotic labour market amongst Eastern European countries, labour supply appears to be very dynamic. Amongst the post-1994 inflow into unemployment, expected unemployment durations were shorter than those in the UK for the same period. These findings concur with evidence of Commander et al. (1995) from aggregate data for the first two years of economic transition. Despite such evidence, the Russian labour market is continually characterised as being extremely stagnant. While labour productivity may be stagnant, workers themselves are not. Such a result may suggest that labour productivity is unlikely to grow substantially in Russia in the absence of substantial improvements to capital.

The finding that a large fraction of job-to-job movements occur for reasons other than remuneration, and the finding that (in both the Eastern and Western European countries for which data was available) a majority of job ends are to another job have strong implications for theories of labour market dynamics. The complete deregulation of labour markets cannot be expected to be an efficient reallocation mechanism in situations where workers optimise according to a broader set of criteria than wages, and where the nature of jobs can change only much more slowly than skills prices. As such, and also given the fact that longitudinal data on wages is often not included in work history data, it seems relevant to focus attention on devel-
oping econometric models of labour market behaviour which do not require data on wages for identification (for a recent example of such a structural model, see Teulings and van der Ende (2000)).

Using a three-state general equilibrium job search framework to explain gender wage differentials in the UK, we found that search behaviour contributed only a small fraction to overall gender wage differentials. However, this result may be partly due to the restrictive behavioral assumptions of the model, and to the limited nature of the type of search information used. For example, household surveys generally pose questions to non-working respondents about the extent and nature of their job search efforts in the period immediately prior to interviews. We are able to observe search much more directly than by relating observed transitions to underlying behavioural assumptions. The inclusion of more flexibility in modeling equilibrium job search would be a challenging direction for future research.

Louise Grogan