26 How Much Unemployment is Needed for Restructuring? The Russian Experience (1995)*

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1 INTRODUCTION

Transferring labour from old to new jobs is a major problem in any country; in a post-communist country it is even more difficult. There are clearly two ways through which it can be done – the ‘pull’ route involving direct moves from old to new jobs, and the ‘push’ route, where displaced workers first enter the pool of unemployment before being hired into new activities. The two routes are illustrated in Figure 26.1.

When Communism fell and Western economists began to think about the process of redeployment, nearly all of them thought of unemployment as a key transfer mechanism.1 Subsequent experience has cast doubt on this approach – especially experience in Russia.

The original consensus centred around four propositions.

1 To have enough labour available to fill new jobs, there would have to be a substantial pool of unemployed.
2 Old state enterprises should, therefore, be encouraged to lay off workers during the transition, at rates higher than is usually observed in the West.
3 Unemployment would thus build up rapidly to high levels, and then fall as the need for further restructuring diminished.
4 Since high unemployment would be temporary, a suitable form of temporary Western aid would be support for the social safety net.

* Economics of Transition, 3(1) (March, 1995), pp. 39–58.
In practice, events have not followed this pattern.

1 Most jobs in the new private sector have been filled by people who were still in work rather than unemployed. They reach their new jobs by being 'pulled' out of old ones, rather than by first being 'pushed' into unemployment. Also, most of the unemployed are eventually rehired in old state enterprises rather than in the new private sector.

2 There have been substantial falls in employment in old state enterprises, but these have mainly occurred not through lay-offs but through non-replacement of workers who leave (that is, through natural wastage). As