

Labor market

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The purpose of labor market reform is to limit government regulation and offer greater freedom to labor market participants. Relations between employers and employees should be governed by the law of supply and demand.

It is impossible to boost economic performance without giving employers and employees an opportunity to negotiate and conclude wage agreements.

The labor market policy should ensure:

- employment for job seekers;
- streamlining the employment structure;
- a free choice of occupation and job.

The labor market policy should incorporate the four pillars of the European employment strategy:

- employability;
- entrepreneurship;
- adaptability;
- equal opportunities.

In this respect, steps to be taken at the reform's first stage should be aimed at developing those labor market aspects that encourage occupational activity and high degree of employment.

In terms of steps to encourage occupational activity and employment, the prime necessity is to change labor legislation to limit government regulation of the labor market. Legislation at variance with market conditions may impair labor force mobility and obstruct the flow of labor force from the declining to growing industries.

Efforts to promote labor force mobility would be geared to:

- establish contractual working arrangements as the main mechanism to regulate relations between the employer and the employee;
- simplify employment and employee redundancy regulations (which should provide for collective, individual, written and oral agreements of limited duration, facilitate laying off workforce for employers, diminish

- the role of trade unions and employment centers in concluding employment contracts);
- enable flexible forms of employment (part-time, occasional employment, work from home, subcontracted employment etc.);
- abolish compensation capping in private companies;
- minimum compensation binding for all undertakings regardless of ownership status should be adjusted by government directives rather than automatically;
- abolish regulations that restrict companies' right to fix and adjust compensation. Wage increases should depend on labor productivity and financial position of firms;
- obligate the management, especially in large companies, to provide advance notice of planned closures or large-scale redundancies, so that measures could be taken to address unemployment;
- introduce a flat-rate income tax of 13–15 percent;
- cut indirect taxes on labor force to 30 percent, including those charged to employees;
- reduce job creation costs (especially costs of low-skilled jobs).

Development of SMEs

The small and medium-sized business sector can potentially create more jobs than any other sector of the economy.

The following steps should be taken to foster entrepreneurship:

- register new businesses pursuant to the principle of notification, rather than authorization;
- abolish the regulation preventing companies from registering official seat at residential premises (domicile);
- reduce the minimum capital requirement;
- lift restrictions on the maximum authorized number of employees hired by entrepreneurs in the small business sector;

- ensure that companies are registered with business regulation and tax authorities of the same location to reduce bureaucracy, and adopt a single list of documents to be attached to the business establishment application;
- abolish the regulation requiring firms to engage in all types of business activity referred to in the founding deed;
- enhance legal guarantees whereby companies may be closed by their owner's decision, by a body authorized by the owner, or by a court of law;
- set up regional centers for supporting SMEs and develop the micro-lending network;
- develop a system of financial incentives for those investing in human resources, including in employee training.

Flexibility of authorities (the Ministry of Labor and Social Security and state employment centers)

It is impossible to abandon administrative intervention in the labor market completely. The government's policy in this respect may be 'passive' or 'active'. The passive policy of mitigating unemployment is limited to traditional measures such as registering the jobless, paying unemployment benefits and running unemployment insurance schemes. The government should pay particular attention to monitoring the labor market, sharing information on labor market conditions and forecasting company closures and layoffs.

Active policies imply influencing the labor market by stimulating demand and adjusting supply.

Measures to address unemployment include:

- increased funding for training and retraining, youth employment programs and programs to avoid long-term unemployment;
- developing a community work plan for the jobless;
- offering loans to the unemployed wishing to start up a business;
- providing financial support to selected unprofitable enterprises to maintain a level of employment. Support should be limited for time and provided in areas with low labor force mobility (e.g. due to housing shortages) or for enterprises that play a key role in the local economy.

Employment centers should receive adequate funding irrespective of the number of applications from job seekers they handle.

Bolstering labor force mobility is crucial for a flexible labor market. The following steps should be taken:

- abolish the *propiska* system whereby state-owned enterprises and establishments cannot offer jobs to people coming from other locations, along with other regulations that limit employment opportunities;
- orientate the training and retraining system toward labor market demand. Retraining programs, especially ones that offer good employment prospects, should be partly financed by trade unions or trainees;
- limit the amount of compensation paid to laid-off workers.

Reform of the unemployment insurance system

Unemployment benefits and the procedure for receiving benefits should stimulate the jobless to searching jobs. The period of benefit payments should be limited to three or six months. A grant scheme may be introduced to replace benefits for those who wish to improve their skills.

Reform of social partnership (tripartite dialogue)

Work to develop and implement employment policies should involve the government, trade unions and employers. None of the parties involved should have exclusive decision-making rights. Negotiations should cover issues such as compensation, employment, training and retraining programs, and access to labor market statistics.

Yet, tripartite arrangements should not necessarily be given a prominent role as they may impair labor market flexibility.

Non-discrimination in the labor market

Efforts include promoting equality of men and women, encouraging employment of women, fostering an environment for active occupation of the disabled and women during and after maternity leaves.

The government's employment policies should be aimed at achieving higher living standards and human resources development in a highly performing economy.

Funds for employment programs should be transferred to local organizations responsible for their implementation. A special agency should coordinate all programs at the national level. Despite sizeable spending, results of labor market policies are not always visible. However, this does not diminish their role in combating unemployment, a phenomenon that humiliates people, breeds psychological problems for families of the jobless and stirs social unrest.

Decisions to earmark funds for a specific employment program should be made with due consideration of all possible benefits and problems. For instance, if a region with high unemployment has considerable economic potential, it makes sense to offer community work for the jobless to improve local infrastructure. If the potential is low, it is reasonable to subsidize employers to sustain the employment level.

The employment strategy should promote educated and highly skilled labor force, while the labor market should be responsive to economic changes.

All elements of the labor market policies, such as registration of job seekers, retraining and active forms of countering unemployment, should be closely inter-related and interface with other economic policies. The employment programs should not be in any way inferior to economic policies; instead, they should be part and parcel of the government's overall economic strategy.

The reform should shape a flexible labor market that is responsive to demand and supply changes. The labor market should create and eliminate jobs with as little government intervention as possible. It should not restrict occupational and geographic mobility of the labor force.