

# **Labor Market Adjustment in Transitional Economies**

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November 1992

## **Abstract**

This paper outlines the principal labor market developments in the transitional (formally centrally planned) economies, presents a framework for conceptualizing the functioning of these markets and draws conclusions with respect to public policy in the labor market. It assesses the effect of transition on wages, employment, and trade unions. The paper observes that although wage controls played an important role in stabilizing these economies, they also maintained and aggravated major distortions. The paper recommends the imposition of hard budget constraints and proposes that profitable enterprises in the business of producing tradables be permitted to set their own wages. With rapidly rising unemployment, the reallocation of redundant labor requires immediate attention. The paper argues that social--rather than private--welfare criteria should guide the behaviour of state enterprises. Finally, trade unions and other employee institutions have not been involved in the formulation and implementation of market-oriented reforms. Although they have been amenable so far, the danger is that mounting job losses and economic hardship could turn these organizations into formidable adversaries of the transition powers.