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Executive Summary
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THE PACE AND PROCESS OF RESTRUCTURING: COAL MINES IN TRANSITION
COUNTRIES

By Jan Bruha, Delia Ionascu, and Byeongju Jeong

Restructuring an inefficient state firm often poses difficulty, in particular when it involves laying off a large number of workers. The laying-off may be delayed, carried out only partially, or even reversed on occasion. In this research we conducted a case study of such an episode in restructuring coal mines in the Ostrava region in the Czech Republic and the Jiu Valley region in Romania. We evaluated the efficiency of the restructuring paths in the 1990s, and assess the reasons for any inefficiency. Our analysis adds to our knowledge of reforming transition economies, and at a larger scale contributes toward understanding how and why some industries or economies transform while others do not.

At the beginning of the 1990's, both of the two regions went through a sharp decline in coal production as the national industrial drive had ceased. Gradual restructuring, mostly downsizing of employment, followed in the Ostrava region. In the Jiu Valley region, on the other hand, there was no restructuring at all until 1997, followed by a massive layoff over two years. The layoff created a crisis in the regional labor market. The extreme swings of the Jiu Valley restructuring in contrast to the steady pace of the Ostravian restructuring provide an excellent case for inquiry in understanding the pace and process of restructuring state firm and of transforming regional economy.

We conducted a quantitative exercise in order to assess the efficiency of the restructuring paths in the two regions. We estimated the value of the (laid-off) miners' labor both inside and outside mining for various restructuring paths. We took the discounted sum of this value to be the measure of efficiency. In both regions the most efficient path would have been a large-scale layoff over the first few years. The actual restructuring path of Ostrava was not far from the most efficient one whereas that of Jiu Valley was very much so: the efficiency-loss (i.e., the efficiency-gap between the most efficient and the actual paths) was 9% versus 27%.

The central question that arose from our quantitative exercise was: why was restructuring delayed in Jiu Valley? The proximate reason is that the Romanian government of the early 1990s was ambivalent about restructuring and the miners were an active anti-reform force in national politics. At a deeper level, our study of the period reveals three key factors. First, there was a great deal of uncertainty about optimal policy in the early 1990s, which led to a genuine policy mistake. Second, the conservative faction of the government wanted to keep miners as a useful political force. Third, miners were behaviorally conditioned to fight against any erosion of the status-quo. These factors complement, rather than substitute, each other to form an explanation for the delayed restructuring.