

LABOR-MARKET DEVELOPMENT: REALITIES AND PROSPECTS

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Abstract

After a lapse of twelve-years of economic reforms it is now possible to talk about the appearance of a specific "Kyrgyz model" of the labor market. What distinctive features does it have? Did it contribute to successful market reform or, on the contrary, did it impede the process? Is the model of labor relations adequate to task? This issue is of great importance to economic growth? Currently in our opinion, there is an urgent need both for overcoming the distorted ideas on the current situation of the Kyrgyz labor market and the adequate estimation of the prospects for its future development. It suggests a "mixed strategy" for Kyrgyzstan's labor market development.

1. New features of the national labor market

In foreign transitional research the widely accepted thesis is that there exist two alternative models of the "transitional" labor market. The first model exists in the Central and East European countries (CEE) while the second model in Russia and other post-soviet republics (Baltic states) is usually considered a special intermediate case.

The evolution of labor relations in the post-socialist states largely and generally corresponded to the initial expectations that accompanied the beginning process of market reforms. All these states with certain variations (more or less significant) reproduce the type of labor market, which is well represented in the leading West European states (Belgium, Germany, Spain, France, Sweden, etc.). In this case, we are dealing with markets with a high degree of employment protection, complicated mechanisms of collective agreements, significant segmentation of the labor force, steady and lasting unemployment.

From the beginning, following the practice of reformed economies, Kyrgyzstan began "to import" the standard set of statues operating in this sphere. The legislative minimum of wages was introduced, the unemployment insurance system, strike activities were legalized, the complicated multistage system of collective negotiations, taxes on the remuneration for labor fund, the policy of the tax limitation of incomes and first attempts were made on indexing of wages, etc.

Let us emphasize that there was nothing "nonstandard" in these steps. Hence, it is completely reasonable to expect that the labor market in Kyrgyzstan will work approximately the same as the labor markets in other

post socialist states. However, taking into consideration the depth of the transformation crisis in 1992 - 1996, it would be possible to assume that the scale and the acuteness of the problems will prove to be different: active "discharge" of the labor force by the enterprises, increased level of unemployment, growth of working conflicts in number, and the degree of inflationary pressures due to the expenses of the labor force.

But how has the Kyrgyz labor market actually behaved under the conditions of the transition period? Let us try to present its schematic portrait.

1. Employment in the national economy proved to be resistant and not too sensitive to the shocks of the transition process. Within the entire post-reform period employment decreased by 10 to 12 per cent and it was disproportionate to the fall in GDP, which reached 40 per cent (at the lowest point of crisis) according to the official estimations. Employment in Kyrgyzstan has been failing less than in other CEE countries, in spite of the fact that transitional crisis was considerably deeper and longer here.

2. The nature of unemployment was very uncommon for transitional economies: the unemployment level never reached the peak figures typical of the large number of other post socialist states. Judging from the current situation on the labor markets in terms of higher rates of either general or recorded levels of unemployment, it turns out that Kyrgyzstan with its contingent of 8 per cent unemployed together with Hungary and Czech Republic, are the three successful economies representing the transitional economies.

The reasons for the appearance of this phenomenon, in our opinion, consisted of the following. The first reason is preservation of the governmental sector in the economy. At the beginning of the market reforms, government ownership prevailed and government proceeded with supporting enterprises, including unprofitable enterprises an inflationary decline of wages

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were developed spontaneously by the market agents in order to react efficiently to the unexpected changes in the economic and institutional environment.

Certainly they were also present in other transitional economies but in different modifications and combinations. However, they were not so wide-spread and they did not vary greatly in other places, concentration was not so intense and they were not so rooted as in Kyrgyzstan.

As a result, such methods for the adaptation began to be observed as a daily routine of conventional practice and standard working relations. In this case, it is not occasional or accidental. In certain years almost one fourth of all personnel of large and medium enterprises were transferred into underemployment or they left for administrative leave. According to the statistics, 10 to 15 per cent of those occupied had some additional sources of extra earnings. Almost every fifth worker had been occupied with informal working activities (out of the enterprises and organizations). Three fourths of all working population of the country experienced a delay in wage payments during the peak years. Non-official wages, according to the estimations of the National Statistics Committee, constituted 40 per cent of the official wages.

One important feature that united all these nonstandard mechanisms is the informal or semi-formal nature of the mechanisms. Usually, they either acted around or contrary to the laws, rules and other formal limitations. The late and concealed labor remuneration, incomplete and secondary employment lead to the personalization of the working relations between the workers and the employers. Consequently, explicit working contracts yielded to implicit labor contracts.

9. Taking into consideration the crisis which the national economy survived in the 1990's, it would be natural to expect a wave of sharp and protracted working conflicts. However, the protest actions were maintained at a relatively low level. In the 1990's, the losses from protest actions were approximately 3 to 5 working days per thousand occupied workers. This level is moderate according to the international standards. Moreover, the majority of actions were of a demonstrative nature and did not last for more than two or three days. Thus, the functioning of the Kyrgyz labor market was characterized by relatively small losses, moderate unemployment, flexible labor time, over-flexible wages, intensive mobility of the labor force, general spread of nonstandard working relations and finally, by low strike activity.

As a result, it proved to be well adapted to ameliorating the numerous shocks that accompanied the system transformation. Adaptation was achieved, first of all, due to the change in labor price and the duration of the adaptation process and only in a very limited degree it resulted from the changes in employment.

2. Ways to adapt to new challenges

There is no doubt that the main answer to the challenges related to the implementation of new technologies and the growing globalization must be the development of educational standards and improvement of the professional labor force. Knowledge, skills and habits of graduate students must have practical application and be utilized. Thus, higher professional education must be oriented toward the labor market and the requirements of social and economic development of the country. The problems of employment and unemployment can be solved only in the general context of a **national strategy for development**. The most acceptable for Kyrgyzstan is the **"mixed strategy of development with the strong government control"**.

This strategy proceeds from the **dualistic nature** of the economy. Dualism in the economic spheres is inherent in almost any social and economic system. Due to two important circumstances, one side the lack of goods of domestic manufacture and on the other side the increase of unemployment and its numerous negative consequences, dualistic development during transition in Kyrgyzstan is strong in comparison to the countries with stable market economies.

It will require a dual approach regarding employment. From one side, Kyrgyzstan undoubtedly needs to intensify its efforts to develop new products. It is also needed to maintain any economic forms which ensure employment to unemployed and new entrants into the labor market. Concerning this question, support for the different forms of activity of the self-employed population take on specific importance.

Under the present economic and social conditions in Kyrgyzstan, mass development of small enterprises' viability and other forms of self-employment are the most operational instruments for mitigation of unemployment, solution of the youth's employment problem and creation of favorable social climate in the populated areas, especially alpine areas. Strategically, development of the independent economic activity among the population in Kyrgyzstan is considered to be an urgent need. Firstly, because of the heterogeneous production structure instead of the monolithic structure that prevails in the transition period. Secondly, more harmonious and more stable social structure, the important component of which in the market-oriented economy is a middle class that balances social interests in the society.

Other characteristics of the "mixed strategy" are:

1. The need for preservation of the government sector as the bases to control the economic processes in the country particularly using "funds for stabilization".
2. Increase in the degree of system integration including territorial integration. According to the academician T.

K. Koichuev: "the economy of Kyrgyzstan must be characterized not simply by national status but by international status. It must become an international economy" [4].

3. Maintenance of the social equilibrium in society by achievement of a balance of interests.

In the light of two factors namely, the degree of Kyrgyzstan's "readiness" for market management from one side and the extreme situation that Kyrgyzstan experiences from another side, the possibilities and limitations in market regulation of employment must be also considered. First of all, the institutional "unreadiness" of Kyrgyzstan should be noted, particularly the indeterminate relations between the basic participants in the economic process. In a conference on the new structure of the government, the President of Kyrgyz Republic, Mr. Akayev emphasized that "One of the key factors to develop a favorable investment climate is liberalization of the market for labor and working relations. The existing Labor Code does not satisfy the requirements of a dynamically developing market..." [5].

The program of reforms must combine steps on deregulation with measures for strengthening the enforcement mechanisms. If we consider the labor market in different countries, what are the institutional options for the national labor market over the long term?

Table 1. Typology of the labor markets

Restrictiveness of the legislative and administrative labor market regulation	Efficiency of controlling mechanisms over the implementation of laws and contracts	
	High	Low
Strong	1	2
Weak	3	4

Table 1 represents the simplest typology of the labor markets depending on two key parameters: restrictive legislative and administrative regulation of the mechanisms to control the implementation of the law and contracts. The labor market in the USA can be considered as the closest analogue of the model 3 (flexible system for regulation of the control of the implementation of the law and contracts), while the closest analogue of model 1 (inflexible system of the employment protection/effective control over the implementation of the law and contracts) – are West European labor markets. The diagram reveals that the cell 2, or the super-strict system for executive regulation, corresponds to a national labor market under the extremely ineffective mechanisms of enforcement. The strategy for its reform must to follow the direction of model 3, without sacrificing its ability for flexible adaptation but converting it to qualitatively different state. The above diagram has been simplified and does not consider many other important details. Nevertheless, it provides a clear presentation of the bifurcation in the system of labor relations and also helps to discern alternative ways of its possible evolution both productive and deadlock.

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