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Employment Problems under Socialism

by Gernot Gutmann, Cologne *

States with socialist economic systems also suffer from employment problems, a fact which is frequently passed over in silence by the critics of our market economic order. Professor Gernot Gutmann analyses its magnitude and causes.

Under economic aspects a state of underemployment is one in which part of the available production factor labour is – voluntarily or involuntarily – not being used productively. The underemployment may be a quantitative phenomenon – when persons willing to be employed are not working at all or not during the whole working period – or a qualitative one – when workers are in employment but performing activities which make a smaller contribution to the national product than their intellectual and physical abilities would allow. In neither case is the full potential of the available manpower being utilized.

It follows that underemployment does not necessarily reveal itself in the overt form of statistically recorded unemployment. The unemployment statistics and unemployment rates usually published often register only part of the actual underemployment. For, the unused segment of the manpower potential and thus the real level of underemployment are also affected by the number of workers who stay in their jobs even when they are not needed for the current volume of production (so-called hidden unemployment). Account must also be taken of workers who, having lost their jobs, take on alternative work which requires lower qualifications. Further, the level of underemployment is affected by the number of persons who would like to work although not previously employed but are kept from looking for work and registering with the labour exchanges by the apparent lack of suitable job opportunities¹. Finally, it is an indication of underemployment if people unable to find employment in their own country choose jobs abroad; this too will not always show in the national unemployment statistics. It is often impossible to quantify underemployment which takes one of these forms; it is therefore not, or at least not adequately, reflected by the statistics.

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¹ Cf. Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung (Board of Experts for Assessment of Overall Economic Trends), Jahresgutachten 1967/68 (Annual Report 1967/68), Stuttgart – Mainz 1967, Numeral 78, p. 41 f.

When inquiring into underemployment in national economies with a collectivist economic order one must therefore – just like in economies with a market-economic order – not be content with an examination of their statistics to establish the number of jobless and the rate of unemployment. One has to delve a little deeper in order to determine the full extent of the problem.

Employment Problems in Yugoslavia

The employment problems in Yugoslavia shall be considered here first. Yugoslavia followed the Soviet example in establishing a centrally administered economy after the Second World War and restructured this in two reformatory phases – in 1950–1955 and in 1960–1965 – as a market-socialist order. A comparison for 1965–1970, i.e. the years following the second phase of this transformation, of the registered number of gainfully employed persons (not counting persons in private employment) with the number of registered unemployed indicates a provisional annual average unemployment rate of 7.3%².

This unemployment rate deduced from the statistical records needs however correcting on several counts to give an at least approximate indication of the actual underemployment in Yugoslavia during those years. For one thing, public labour exchanges are still partly unknown in the underdeveloped regions of the country; for another, the unemployment figures include persons who have gone back to work long ago but failed to notify the labour exchanges. Allowance has also to be made for the hidden unemployment in agriculture which Yugoslav experts estimate at about 1,000,000 persons. This alone raises the underemployment rate from the recorded average of

² Cf. M. Hagemann, Allokationsprobleme im System der Arbeiterselbstverwaltung (Allocation problems in the system of workers' self-administration), in: M. Hagemann, A. Klemenčič (eds.), Die sozialistische Marktwirtschaft Jugoslawiens (The socialist market economy of Yugoslavia), Stuttgart 1974, p. 193 ff., and the sources mentioned by him.

7.3% to about 16%. The figure has also to be revised upwards for Yugoslav workers who have taken jobs abroad, mostly in Western Europe, for most of these did so only because they could not find work in their own country. In March 1971 they numbered about 700,000, raising the underemployment rate to 22%. Finally, hidden unemployment is also encountered in Yugoslav industry; in "Borba" this was put at 300,000, which brings the true rate of underemployment to about 25%. Thus, when allowing for all these various factors, it becomes obvious that in 1971/72 about one-quarter of the population of working age was not productively engaged.

High Underemployment Rate

By the mid-seventies conditions in Yugoslavia had apparently not improved. L. Sirc, the Yugoslav economist, reports that according to "Ekonomiska politika" of May 23, 1977 4,925,000 persons in Yugoslavia were gainfully employed in 1976 while 665,000 persons were unemployed. According to a statement by the Yugoslav Finance Minister there were, besides, 1,100,000 persons working abroad in 1975³. Assuming that their number did not change in 1976, 6,690,000 persons were available for employment in that year while — adding the number of Yugoslav guest workers abroad to the number of jobless inside Yugoslavia — 1,765,000 had found no employment in their own country. This gives a total unemployment rate — without the hidden unemployment in industry and agriculture — of 26.4%. Assuming that the 1971 figures of hidden unemployment in agriculture (1,000,000) and industry (300,000) were still valid in 1976, the underemployment rate was a great deal higher still, namely over 45%.

Although the figures used here are certainly in some respects inexact and defective, and therefore unsatisfactory, they indicate a high degree of underemployment in the market-socialist economy of Yugoslavia. It exists overtly as shown by the statistics and covertly as hidden unemployment. The reasons cannot be analysed here in detail but it need not be demonstrated circumstantially that structural changes, cyclical fluctuations and voluntary movements to other jobs — causing structural, cyclical and frictional underemployment — occur also in Yugoslavia with its socialist version of a market economy. These factors do not however explain the vast extent of the problem in Yugoslavia. There is enough evidence in the economic literature⁴ to show that the great employment problem of the country is deeply rooted

³ L. Sirc, *Ausgewählte Angaben über die jugoslawische Wirtschaftsentwicklung* (Selected data on the Yugoslav economic development), unpublished material presented with a lecture in the seminar for economic policy of Cologne University on Nov. 22, 1977.

in specific features of the existing economic order, especially in regard to ownership rights and industrial management and to the formal objectives of enterprises springing from these. It is certainly not caused entirely by the fact that some of the republics making up Yugoslavia resemble developing countries and encounter their typical employment difficulties.

Employment Problems in the Soviet Union

As for the employment problems in the centrally administered socialist economies, it is often thought that those of the Soviet type have a special advantage in that the central planning and control of the economic processes and the deployment of the labour force in accordance with the manpower supply and demand in the economy ensure stability of employment and rule out underemployment. In actual fact the Soviet Union and the other centrally administered economies in Eastern Europe have even today still a considerable measure of underemployment which however does not manifest itself entirely in overtly recorded unemployment but often takes the form of statistically unrecognizable overt unemployment or of hidden unemployment.

Owing to historical, economic and natural conditions the regional manpower distribution in the Soviet Union is often such that certain areas are acutely short of labour while there is unemployment in others; this problem was brought out especially clearly by a comparison of the eastern and western territories of the Soviet Union in the sixties⁵. In addition there are wide labour fluctuations, with a consequent high degree of frictional unemployment⁶. The magnitude of the working-time losses due to these fluctuations has been

⁴ Cf. H. J. Hof, U. Wagner, *Probleme der Beschäftigungspolitik bei Arbeiterselbstverwaltung* (Problems of employment policy under workers' self-administration), in: L. H. Hamel (ed.), *Arbeiterselbstverwaltung in Jugoslawien. Ökonomische und wirtschaftspolitische Probleme* (Workers' self-administration in Yugoslavia. Economic and economic-policy problems), Munich 1974, p. 108-134; U. Wagner, *Das Zielsystem der selbstverwalteten Unternehmung und sein Einfluß auf Beschäftigung und Beschäftigungspolitik* (The system of objectives of the self-administered enterprise and its influence on employment and employment policy), in: Ch. Watrin (ed.), *Studien zum Marktsozialismus. Schriften des Vereins für Sozialpolitik, new sequence, Vol. 86*, Berlin 1976, p. 35-60; by the same author, *Dritter Weg? Das Jugoslawische Modell und die Wirklichkeit* (Third Way? The Yugoslav model and reality), in: *Kirche und Gesellschaft*, published by Katholische Sozialwissenschaftliche Zentralstelle Mönchengladbach, No. 35, Cologne 1976; M. Hagemann, *op. cit.*, p. 196 ff. Cf. also G. Gutmann, *Das Beschäftigungsoptimum für den Produktionsfaktor Arbeit in der marktsozialistischen Unternehmung. Eine modelltheoretische Betrachtung* (The employment optimum for the production factor labour in the market-socialist enterprise. A model-theoretical view), in: Ch. Watrin (ed.), *Studien zum Marktsozialismus* (Studies on market socialism), *op. cit.*, p. 9-34.

⁵ Cf. B. Lewyitzkyi, *Einige Probleme der Arbeitskräfteversorgung im laufenden sowjetischen Fünfjahresplan* (Some problems of labour supply under the current Soviet five-year plan), in: *Osterreichische Östhefte*, No. 5/1969, p. 335-342, see p. 335.

⁶ Cf. H.-H. Höhm ann, G. Seidenst echer, *Beschäftigungsstruktur und Arbeitskräftepolitik in der Sowjetunion* (Employment structure and manpower policy in the Soviet Union), in: H.-H. Höhm ann (ed.), *Arbeitsmarkt und Wirtschaftsplanung. Beiträge zur Beschäftigungsstruktur und Arbeitskräftepolitik in Osteuropa*, Cologne — Frankfurt 1977, p. 34 f.

indicated in Soviet studies. Between 1968 and 1972 176,000,000 working days were lost on average each year by changing of jobs and search for new jobs. On an annual average, one out of every five workers reportedly changed his job. With the average fluctuation-related absence from work lasting for about 30 working days the resulting loss of labour was stated to equal the output of about 1,700,000 workers per annum.

Pretension and Reality

Disparities in the geographical distribution of production plants and labour force are not the only cause of employment problems in the centrally administered economies. Technological progress also leads to redundancy even though compared with the western industrialized countries advances in this direction are rather tardy. The introduction of new technologies by the enterprises has in effect become a cardinal problem of these economies, giving rise to frequent complaints in official reports⁷. Among its causes, which cannot be specified here⁸, is the particular way in which production achievements are rewarded by reference to the plan figures and their fulfilment. This way of measuring performance and awarding bonuses greatly lessens the interest of the enterprises in process and product innovations. Where innovations are nevertheless introduced they lead to underemployment of the labour force just as happens in the market economies. Whether this is recorded openly in the statistics or takes the form of statistically unrecorded or hidden unemployment is for the present immaterial.

Among the cardinal theses of polit-economics are the so-called "Basic Economic Law of Socialism" and the "Law of the Systematic (Proportional) Development of the Economy" which are claimed to apply under the conditions of the socialist order of economy and society. While the essential features and requirements of the "Basic Economic Law of Socialism" supposedly consist in "...safeguarding the maximum satisfaction of the steadily growing material and cultural needs of the whole society through uninterrupted growth and constant perfection of production on the basis of the most highly developed technology"⁹, the "Law of the Systematic (Proportional) Development of the Economy" is assumed to regulate the use of the means of production and

labour in the economy in such a way as to ensure the break-through of the Basic Economic Law. This "Law of the Systematic (Proportional) Development of the Economy" is described as an objective economic law operating under socialism irrespective of the awareness and wishes of the people and enabling the organs of the state to plan the collective production correctly. To turn this possibility into reality one need only learn how to apply this "Law" by the preparation of plans fully reflecting its requirements. The systematic slump-proof development of the economy attainable through observance of the requirements of this supposed "Law" is, according to the Soviet textbook on polit-economics, "...the greatest advantage of socialism over capitalism, for it ensures a saving of resources beyond the capabilities of the bourgeois order and opens all opportunities for swift and all-sided growth of production in the interest of the masses of the people"¹⁰.

Comparison with the OECD States

Contrary to this supposition which is also entertained by broad circles in the West however this alleged "Law" is in reality far from engendering an economic development characterized by an absence of disproportions between the various sections of the economy and by continuous increase of the real national product. This is proved by the — in part considerable — fluctuations of the rates of growth of the national income and its individual components such as investment and others. It is impossible to refer here to the many descriptions of this phenomenon and the attempts to explain it theoretically. In a study published in 1964 in which fluctuations of industrial, agricultural, construction and aggregate production in the CMEA countries in the years from 1950 to 1960 were compared with the corresponding development in the OECD countries over the same period G. Staller reached the following conclusion: "In all these comparisons the recorded average fluctuations of all four aggregates turned out to be larger in the communist bloc than in the OECD countries. Only in the sphere of industrial production approached the mean of the planned economies the average of the free market economies."¹¹

Such variations in economic activity in the centrally administered economies are however regularly attended by corresponding fluctuations of the rate at which the production potential, including the labour potential, is utilized. Whether

⁷ XXVth CPSU Congress, Documents, German translation, (East) Berlin 1976, p. 19 f.

⁸ Cf. J. R ö p k e, Der importierte Fortschritt. Neuerungsimporte als Überlebensstrategie zentralkoordinierter Systeme (The imported progress. Innovation imports as survival strategy of centrally coordinated systems), in: ORDO, Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft, Vol. 27, Stuttgart — New York 1976, p. 223-241.

⁹ Politische Ökonomie (Political economy), textbook published by the USSR Academy of Sciences, Institute for Economics, (East) Berlin 1955, p. 471.

¹⁰ Ibid., p. 486.

¹¹ G. J. Staller, Fluctuations in Economic Activity: Planned and Free-Market Economies, 1950-1960, in: American Economic Review, Vol. 54, June 1964, p. 389.

these fluctuations show up as an increase or decrease of the number of registered unemployed or change the extent of hidden unemployment is left open.

Statistical Problems

Seasonal, structural, cyclical and frictional factors obviously bring about underemployment situations in the centrally administered economies of the Soviet type. It is however even more difficult to obtain adequate figures on this point in these countries than is the case in states with a market-economic order. In the market economies the underemployment which shows up as overt unemployment can be identified at least to some extent although they have also to cope with statistical problems and inaccuracies. The official statistics of the centrally administered economies — with the exception of Poland — contain as a rule no unemployment figures.

In Poland a comparison of the number of registered unemployed shown in the statistics with the number of vacancies indicates distinct phases in which the former exceeded the latter. They did so in 1959, 1963–1965 and 1969–1970¹². The number of registered unemployed in the statistics is however certainly not correct. The actual number of persons looking for work and the effective unemployment is much higher, for many jobless do not register with the labour exchanges. Unemployed workers do not have to register, and in the absence of unemployment benefits there is no material incentive for registration¹³. According to expert estimates the number of registered unemployed men and women for 1964 for instance must be multiplied by a factor of 4–6 and 6–8 respectively in order to arrive at an approximately correct figure for the actual job-seekers. The true

¹² Cf. U. Fox, Beschäftigungsstruktur und Arbeitskräftepolitik in Polen (Employment structure and manpower policy in Poland), in: Arbeitsmarkt und Wirtschaftsplanung. Beiträge zur Beschäftigungsstruktur und Arbeitskräftepolitik in Osteuropa, op. cit., p. 183-246.

¹³ Ibid., p. 217 f.

¹⁴ Cf. A. S. W. Koch, P. Unger, Arbeitslosigkeit in einem sozialistischen Land? Analyse der Erwerbslosigkeit in der Volksrepublik Polen (Unemployment in a socialist country? Analysis of unemployment in the People's Republic of Poland), in: Sozialer Fortschritt, 23rd year, No. 7-8/1974, p. 176-185, see p. 182.

¹⁵ Cf. B. Lewytzkij, op. cit., p. 335 and the source mentioned there.

unemployment rate in 1964 is therefore estimated to have been between 3.4 and 4.6 %¹⁴.

The centrally administered economy of Poland is not the only one to suffer from underemployment in the form of unemployment. It exists, at least at certain times, also in the Soviet Union although the official statistics do not show it. Lewytzkij reported for the mid-sixties that the one-sided investment and location policy of the preceding years had led to mounting unemployment in the smaller Soviet towns. According to the well-known Soviet economist Aganbegian about 8% of the inhabitants of working age in the big towns and as many as 20–30% of those in the small and medium towns were in those years without jobs¹⁵.

Hidden Unemployment

However, as in the market economies, overt unemployment, whether shown in the statistics or not, is only a part of the actual underemployment. There is besides the hidden underemployment which in the centrally administered economies is of special gravity. As an illustration a report by the Soviet economist Florya on the extent of hidden unemployment in the kol'khozes of the Moldavian Soviet Republic in the mid-sixties may be quoted: "Of the total working time of kolkhoz members available in 1955 no more than 62.1% — and in some kolkhozes as little as 44.1% — was actually turned to use. There are still many kolkhoz members who are able to work but for a number of reasons take no part at all in the collective production. According to the year-end reports of the kolkhozes there were 63,500 kolkhoz members in 1964 and 37,000 in 1965 who were able to work but did not do a single day's work."¹⁶

The phenomenon of hidden unemployment is also encountered in manufacturing industry. The production manager of an enterprise in one of the East European centrally administered economies

¹⁶ A. M. Florya, Problemy povysenija zanjatosti trudovykh resursov, na primere sel'skogo chozjajstva Moldavii (Problems of more intensive employment of the labour resources — the example of Moldavian agriculture), in: Vestnik Moskovskago universiteta, serija ekonomika, 4/1968, p. 67-73, quoted from the translation of excerpts in Europa Archiv, Year 1969, p. A 282 — A 285, see p. S 284.

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told the author in a personal conversation that his enterprise could achieve its current output in the available plant with 1,700 workers but had 3,000 workers on its pay-roll. This information was given in a perfectly credible manner; it is not claimed however that these particular figures are of general validity.

The hidden unemployment in the centrally administered economies has many causes. Among the most important are probably the difficulties which arise when technological advances are introduced, and these have to do with the way in which performance awards are made. It induces the enterprises on a large scale to procure hidden reserves of materials and labour in order to attain more easily the quantitative plan targets on which the awards hinge¹⁷.

Low Productivity of Labour

Hoarding of labour by the enterprises reduces the supply of labour and thus betokens a labour shortage which does not in fact exist to the indicated extent, and at the same time increases the demand for labour. The manpower scarcity supposed to exist in the Soviet Union and in the GDR at present is, paradoxical though it may seem at a first glance, at least to some extent an indicator of underemployment coupled with low labour productivity and inadequate technical progress.

Investigations have shown that the productivity of labour in the GDR economy is about two-thirds to three-quarters of that in the Federal Republic. B. Gleitze has therefore reached this interesting conclusion: "An abrupt productivity increase in the GDR to the present level in the Federal Republic would as a matter of course make 20% of the workers in the GDR redundant; for any productivity lag and also any temporary falling-off of productivity masks a corresponding measure of (latent) unemployment. ... Put differently, in the Federal Republic there would have to be an unemployment rate of about 25% or a corresponding amount of short-time working to occasion as low a rate of utilization of the available manpower as prevails currently in the GDR in spite of all the advances ..."¹⁸.

¹⁷ Cf. U. Wagner, *Interessenkonflikte zwischen politischer Führung und Betriebsleitungen in sowjetischen Zentralverwaltungswirtschaften, dargestellt am Beispiel der Industrie Mitteldeutschlands* (Conflicts of interest between political leadership and managements of enterprises in Soviet-type centrally administered economies, shown by the example of the industry in Central Germany), dissertation, Marburg 1967. Cf. also G. Gutmann, *Funktionsprobleme der sowjetischen Zentralverwaltungswirtschaft* (Functional problems of the centrally administered Soviet economy), in: *ORDO, Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft*, Vol. 28, Stuttgart - New York 1977, p. 78 to 107, see p. 102 ff.

¹⁸ B. Gleitze, *Die Produktionswirtschaft der DDR im Wettbewerb mit der westlichen Industrielwelt* (The GDR production economy in competition with the industrialized western world), in: B. Gleitze et al. (eds.), *Die DDR nach 25 Jahren*, Berlin 1975, p. 13-64, see p. 62 f.

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