

Macroeconomic and structural properties of the Russian labor market: A cross-country comparison

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Abstract

We suggest a new way to identify salient features of the Russian labor market. Parameters of basic macroeconomic models pertinent to the Russian labor market are compared to a sample of other countries. We find that estimated values of Okun's coefficient and the elasticity of real wages to labor productivity in Russia are typical for emerging markets. What really distinguishes the labor market is that the elasticity of real wages relative to unemployment in Russia is very high by international standards. The overall conclusion is that the Russian labor market can be characterized by a combination of serious structural problems (such as low employee mobility, the significant size of the shadow sector, etc.) and solid macroeconomic performance, verified by the persistently low rate of unemployment in recent years.

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1. Introduction

At first glance, the Russian economy has rather standard general characteristics. In a sample of 20 large economies (including 10 developed countries and emerging markets), Russia ranked 14th in average unemployment (7.0%) and 11th in the coefficient of variation for this indicator (21%) for the period 2000 to 2016 (Fig. 1).

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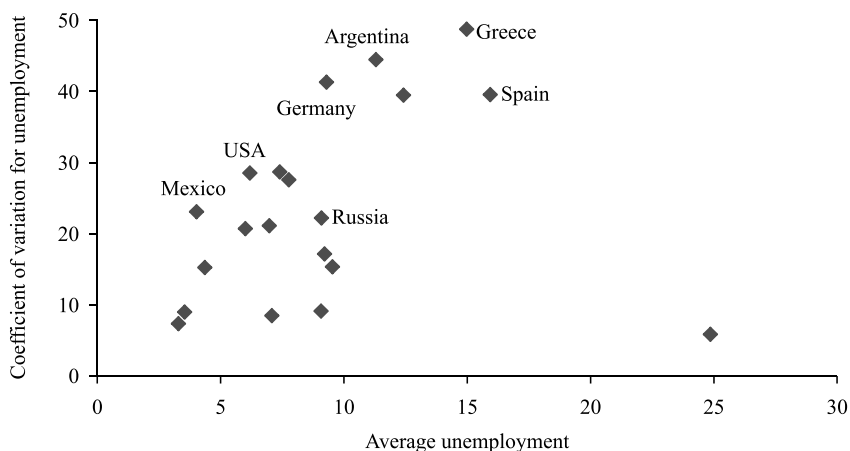


Fig. 1. Average rate and coefficient of variation for unemployment, 2000 through 2016 (%).

Source: Authors' calculations based on IMF data.

However, we can investigate Russia's specific features further if we switch from examining "static" characteristics to examining "dynamic" ones that demonstrate its labor market reaction to shocks. For example, Fig. 2 represents the scale of production shocks for the same sample of countries during the "great recession" and the labor market reaction to them. These indicators were calculated based on Okun's law: the horizontal axis represents changes in the GDP growth rate; the vertical axis represents the acceleration (or deceleration) of unemployment trends (2009 compared to 2008 in both cases). Russia's economy experienced the greatest deceleration in growth among all of the sampled countries, with its growth rate declining by 13.1 percentage points (p.p.), while unemployment demonstrated moderate acceleration (rising by 2.0 p.p. in 2009 compared to 0.2 p.p. in 2008). A simplified calculation (based on two points) of Okun's coefficient (see Section 3.1), correlating unemployment rates with economic growth rates shows that the absolute values for only two countries in the sample (Italy and Malaysia) were lower than in Russia.

Of course, these calculations are more illustrative in nature; for example, they do not take into account changes in the average hours worked by employees. Some countries actively used this mechanism to adapt to the crisis, but in Russia, this was used only to a small extent. According to the OECD, the average Russian employee worked 1.3% fewer hours in 2009 than in 2007, whereas this workload dropped by 3.3% in Germany, and 4.1% in the U.S. Moreover, the countries differed slightly on indicators such as when production began to decline and the scale of anti-crisis programs related to the labor market, among others. Nevertheless, Fig. 2 demonstrates that the Russian labor market is notable regarding the nature of its reaction to negative shocks. As a result, the question remains: was Russia's reaction too weak or was the reaction in other countries too strong? The Okun coefficient calculated for Russia (-0.14) does not seem to be abnormally low in terms of long-term relationships, whereas for some countries this indicator is close to or even above one (in absolute value), which appears to be an excessively strong reaction. Still, it is unclear how these estimates should be interpreted, as the observed labor market trends include both long- and short-term relationships.

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