

nate—toward cash crops. In Côte d'Ivoire women's relative lack of education placed them at a disadvantage, and in Egypt women were hurt by lengthening waiting lists for government employment and by their more limited private sector alternatives. Women played a distinct role during the transition in Asian countries as well. Although Vietnamese women faced particular challenges resulting from the collapse of childcare services provided by cooperatives, their overall position improved in line with economic growth, and female-headed households are now no poorer than those headed by men.

The evidence on the effect of adjustment on women in the former centrally planned economies is mixed, but their situation is clearly not as gloomy as is usually portrayed. On the one hand, women have shifted out of the labor force at a higher rate than men, starting from very high participation levels compared with other countries. They also exhibit slower transition rates out of unemployment. On the other hand, studies in the Czech Republic and Slovenia indicate that, when individual characteristics are controlled for, women have actually gained relative to men in both wages and employment, either because women are better educated (and returns to education have risen) or because they disproportionately occupy jobs in sectors that have been hurt less by labor demand shocks, especially services and labor-intensive industries.

Skilled and unskilled workers

The burden of adjustment falls most heavily on the unskilled and uneducated in both former centrally planned and market economies in transition. These workers are more vulnerable to structural change because they are less

able to adjust to a changing environment and to take advantage of new job opportunities. In former centrally planned economies there is a strong inverse correlation between skill levels and the probability of sliding into poverty. The relative position of manual workers and low-skilled clerical staff, often with only a vocational education or less, has deteriorated more than any other group during the transition, whereas returns to education increased sharply in Slovenia and Poland. In some market economies such as Chile and Mexico the relative wage structure has also shifted in favor of the more highly skilled, possibly as a consequence of trade liberalization. In Viet Nam and Mongolia the largest wage gains have taken place in the booming services sector, which employs increasing numbers of skilled workers who have moved out of the shrinking industrial sector.

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Severe shocks to the economy can create opportunities for some workers and have wrenching effects on others. Transformation follows diverse patterns in different countries, but it always involves a marked acceleration in the destruction of unviable jobs and the creation of new ones. That process is almost always accompanied by macroeconomic decline, requiring a reduction in the demand for labor and a fall in real wages. The net effects are often large drops in labor incomes, rising unemployment, and a shift from the formal to the informal sector. Even the best-designed reform produces gainers and losers in the short term, with losers particularly concentrated among the unskilled and formal sector workers in urban areas. Moving the economy as quickly as possible to the new growth path is key to limiting welfare losses, whereas giving up halfway hits poor workers hardest.

CHAPTER 17

Employment Restructuring

MAJOR TRANSFORMATIONS ARE ASSOCIATED with massive employment restructuring—many jobs must be destroyed and many new ones created. Both hires and separations increase dramatically during periods of major change, creating turmoil in the labor market and uncertainty for workers. In former centrally planned economies, as well as in many ad-

justing Latin American and Middle Eastern countries, formal employment has fallen by 5 to 15 percent, and real wages by more than 40 percent in extreme cases, before recovering. Some workers can gain immediately if they move quickly to expanding sectors. But many suffer losses associated with falls in wages, shifts into lower paying jobs in the informal sector, or unemployment. The shock is short-lived for those who regain employment and wages when the

economy takes off. But other workers suffer permanent losses, either because they lack skills or because they were earning high wages in protected sectors before reform.

From the perspective of workers, regaining and sustaining growth are key to a successful transformation. And although the timing and design of macroeconomic reform have a powerful influence on the speed at which labor demand recovers, labor market policies can also have a big impact. What can government do to speed the transition and ease the plight of displaced workers, both those looking to move into new sectors and those who risk permanent

losses? This chapter examines the effectiveness of four types of policy response: those aimed at reducing the labor market rigidities that can stall recovery; those that assist workers by equipping them to adapt to change; those that provide transfers to reduce income losses; and those designed to deal with mass layoffs.

Increasing labor market adaptability

Adaptable labor markets are essential if workers are to benefit quickly from economic recovery (Table 17.1). Increasing labor market flexibility—despite the bad name it has

Governments can facilitate labor market restructuring and dampen the cost of adjustment for workers.

Table 17.1 Policies that ease employment restructuring

Policy	Effectiveness and recommendations
<i>Increasing labor market adaptability</i>	
Facilitating labor mobility	Residence permits and restrictive job security regulations should be lifted.
Wage flexibility	Increased relative wage flexibility is key to sectoral employment adjustment and can reduce the decline in aggregate employment.
Reducing disincentives to change jobs	Delinking social services from employment is important in former centrally planned economies. Reform of other markets, especially housing, is essential.
<i>Equipping workers for change (active policies)</i>	
Retraining	Robust evaluations of its effectiveness are few, even in industrial countries. State financing (but rarely provision) is desirable in some cases for those hurt by changes, at least on welfare and political grounds.
Job search assistance	Inexpensive and often effective in industrial countries in increasing job placements, although relevant only for a fraction of job seekers. May help in former centrally planned economies.
Wage subsidies	Expensive and often risky, with only minor net effects in industrial countries. Can risk undermining reforms. May make sense if tightly targeted, for example to one-company towns.
Allowances (grants, loans, or prepayment of benefits) to support business start-ups	Administratively intensive. Net employment effects have rarely been properly evaluated. Can only reach a small minority of workers.
Public employment for disadvantaged youth and public support of apprenticeships	Mixed results. Programs have rarely been properly evaluated. Some positive effects have been found for programs carefully targeted to dropout minorities, when combined with on-the-job training. Administratively intensive and difficult to implement outside industrial countries.
<i>Providing transfers (passive policies)</i>	
Unemployment benefits	Useful in first stages of transition from central planning. Disincentive effects of long-duration benefits have been found in industrial countries. Benefit administration should be simple.
Severance pay	Often part of formal sector labor contracts; can be key to downsizing public sector.
Old age and disability pensions	Constitute a major cash benefit scheme in former centrally planned economies. Often used in lieu of unemployment benefits. Often require immediate cost containment on fiscal grounds. Long-term reform toward funded arrangement is desirable.
Social assistance and family benefits	Can reduce the poverty of those hurt in transition. Means testing can be difficult. Family benefits are generous in former centrally planned economies and may need to be cut back on fiscal grounds.
Public works	Effective antipoverty and relief measure if wages are kept low.

acquired as a euphemism for pushing wages down and workers out—is essential in all regions of the world undergoing major reforms. In the former centrally planned economies there are still large groups of workers stuck in unviable jobs—estimates put this labor hoarding at 20 percent of the work force or higher. China and the South Asian countries have rigid and highly protected public sectors, although they are small compared with the economy as a whole. In Latin America, and in the Middle East and North Africa, numerous regulatory restrictions impede labor adjustment. And most Sub-Saharan African countries have overstaffed, underpaid, and unproductive public sectors. Many of the necessary reforms will involve large, one-time layoffs or liberalization of complementary markets, especially the housing market. But the most important reforms involve lifting constraints on labor mobility and wage flexibility, as well as breaking the ties between social services and labor contracts.

Facilitating labor mobility

Substantial constraints on labor mobility hamper labor markets in many reforming countries. Most of these constraints originate outside the labor market: in legal restrictions still in place in many parts of the former Soviet Union, in well-entrenched habits, in poorly functioning housing markets, or in the idiosyncrasies of land tenancy institutions in, for example, Mexico. Lifting these restrictions and reforming other markets can provide a boost to labor mobility. China's recent economic growth was fueled by millions of rural workers moving to take advantage of new employment opportunities. Liberalization of hiring and firing practices in Peru in the early 1990s markedly increased job creation.

Greater labor mobility is also important for overcoming geographical imbalances. Labor markets are usually geographically segmented, and different regions fare differently. Regional unemployment in 1993 ranged from 7 to 46 percent in Hungary, and from 3 to 22 percent even in small Latvia. In Mexico in 1992 the unemployment rate in the city of Matamoros was twice the national average and nearly five times that in Orizaba. In extreme cases, when long-lasting regional disparities are reinforced by a major regional shock, even high mobility may not be enough, and public investment may be needed to aid the regional economy, especially in areas with great potential but weak infrastructure.

Making relative wages more flexible

Inflexible relative wages can undermine employment restructuring, even if other markets function well. When wages for different industries and occupations and in different regions are not free to vary, wage structures cannot provide the right incentives for labor to move from less

productive to more productive jobs. Prior to reform, the former centrally planned economies had very rigid wage structures. This is changing, but even in a liberalized environment there are often constraints on wage flexibility that can seriously slow down employment restructuring. These constraints can be the result of collective agreements with unions, as in Mexico in the early 1980s, or of penalty tax-based incomes policies aimed at containing nominal wage growth in a period of stabilization, as in a number of Central and Eastern European countries (for example, in the former Czechoslovakia, Latvia, and Poland). In Mexico relative wage inflexibility probably delayed employment restructuring compared with Chile, which had a more flexible wage-setting mechanism after the removal of generalized wage indexation in 1982. In Central and Eastern Europe there was a conflict between wage flexibility and stabilization objectives in 1990–92, which was rightly solved in favor of the latter. Since then, however, most of the Central and Eastern European countries have replaced the penalty tax on excess wage fund growth with other, more flexible mechanisms, such as negotiated average wage increases, or have abolished incomes policies altogether. The Czech Republic has been particularly successful in retaining relative wage flexibility within a centralized bargaining framework. This has helped contain unemployment at low levels.

Minimum wage policy is also important. Too high a minimum wage puts a floor beneath the wage distribution and prevents wages from being set at market-clearing levels. That can price low-skilled or young workers out of a formal sector job. In practice, however, most reforming governments, particularly in the former Soviet Union, have allowed minimum wages to drop faster than average wages (Figure 17.1).

Breaking the link between social services and employment

Enterprises in former centrally planned economies, and large public enterprises elsewhere, provide extensive non-wage social benefits such as housing and some education and health care. Some enterprises, in particular in the former Soviet Union and China, also supply services and infrastructure such as sewerage and hospital buildings to the entire local community. In extreme cases non-wage benefits and services may amount to some 35 percent of total enterprise labor costs. Non-wage benefits hinder labor mobility, because changing jobs means losing access to many of these benefits, at least temporarily, and because enterprises are reluctant to hire workers from certain groups, such as women with children. Competition is distorted because the net burden of services falls differently on different enterprises.

Governments can help by transferring provision of social services and benefits from enterprises to local governments. The gains in labor market efficiency from such a

Countries often allow the minimum wage to fall in periods of major economic change.

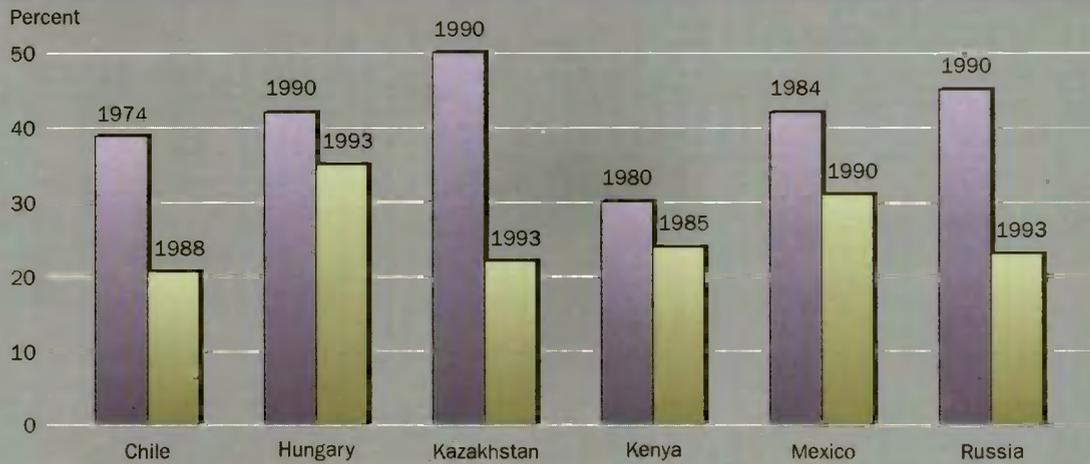


Figure 17.1 The minimum wage as a fraction of the average wage in selected reforming economies. The years selected for each country lie before and after the beginning of an episode of major reform. Source: World Bank staff estimates.

move depend heavily on reforms in the complementary markets, especially the housing market. Without them, enterprises will have to pay as much in local taxation to the government as they previously paid in direct costs.

Measures to increase flexibility can influence the overall trajectory and speed of recovery. They are therefore especially helpful for those workers who can expect to move into new employment and are unlikely to suffer permanent long-term losses. These measures are likely to be insufficient, however, for workers who are not prepared for change because of their inadequate skills or well-entrenched habits, or simply because the speed with which skills and habits change lags that of the changing pattern of labor demand.

Equipping workers for change

Making labor markets efficient and adaptable involves more than simply removing systemic barriers to mobility and ensuring that wages adjust quickly. Workers must also have the resources—the appropriate skills and job habits—to take advantage of new opportunities as they arise in fast-changing labor markets.

Skills imbalances

Jobs differ greatly in the skills they require, and often workers whose jobs disappear find that they lack the right skills for the jobs being created, or lack the basic education necessary to learn new skills quickly. Poorly educated workers

often get stuck in unemployment or must compete for a shrinking set of low-skill jobs, even when there are unfilled vacancies elsewhere.

The secular worldwide trend in labor demand toward workers with greater general skills and higher education is reinforced during major transformations. This means that the unskilled have less chance of escaping unemployment. For some—displaced rural Mexican laborers moving to Mexico City, for example—the skills required to find a new job are simply basic literacy and numeracy. Without these skills the migrant faces few job prospects outside the informal sector. This pattern holds throughout much of Latin America, where the unskilled account for the bulk of the unemployed. In former centrally planned economies the roots of the problem lie in premature and narrow specialization and in the inability of inherited vocational training to adapt to rapidly changing labor markets. Unemployment is already higher among semiskilled workers than among professional and managerial workers.

Most industrial countries run public retraining programs, as do many former centrally planned economies. Evidence of their effectiveness should be viewed with caution, because only a few thorough evaluations—based on controlled experiments with a random selection of participants or on carefully constructed comparison groups—have been done (Box 17.1). Overall, the evidence on public retraining is mixed. Results should in any case be interpreted as very country-specific, since retraining schemes

Box 17.1 How effective is public retraining?

Many countries operate public retraining programs, but only a few programs have been properly evaluated. Results are mixed. The bulk of the evidence from the industrial countries, mainly Canada and the United States, suggests that retraining can be modestly effective for some groups, such as disadvantaged adult women in the United States, but is completely ineffective for others, such as male youths. Recent evaluations of retraining schemes for displaced workers in Mexico and Hungary are equally ambiguous.

Mexico's PROBECAT program has provided short-term skills training to unemployed workers since 1984. Originally designed for displaced workers, the program has also attracted a large share of first-time job seekers. A recent evaluation found the program to be effective in shortening the duration of unemployment for trainees with previous work experience. The program has also helped raise the earnings of adult male trainees, especially those with six to twelve years of schooling, but it was completely ineffective for trainees with no previous work experience and for women who had reentered the labor force.

Hungary's retraining program appears to have had no significant impact on either the probability of reemployment or the earnings of the average trainee, once differences in observable characteristics of trainees and nontrainees are controlled for. However, the program appears to have been more effective in helping certain problem groups, such as older workers and those with less education, find a steady job. A possible conclusion from this experience is that public programs should target disadvantaged groups, while letting the private sector take over retraining for those displaced workers for whom the potential returns to training are higher.

Taken together, these evaluations show that public retraining programs have helped some groups of workers in some countries escape from unemployment. Such programs are unlikely, however, to help the majority of workers. Careful targeting, monitoring, and evaluation of retraining schemes are key to ensuring their effectiveness and preventing the waste of scarce public resources.

seem to work differently for different groups of workers in different countries. Continuous evaluation of these programs—preferably through controlled experiments—is essential to ensure that they are cost-effective. Programs should be evaluated both for their relative efficiency, in increasing earnings or the probability of employment, and for their overall efficiency, that is, whether the benefits outweigh the costs.

Strengthening the private sector as a training provider can improve the effectiveness of retraining. As the Chilean experience demonstrates, systems based on distributing vouchers to targeted groups so that they can then buy training services in a competitive market can work well. But such a system may initially be less useful in former centrally planned economies that have no recent experience with private sector retraining. Government involvement may in any case be desirable to maintain support for reform and social stability. Where retraining is required because of a once-and-for-all aggregate shock to the economy, there may also be a public policy argument for government to take on some of the cost. Where banking systems and capital markets are inefficient, households and producers may be unable to finance labor retraining, and here too government support may be indicated.

Retraining of disadvantaged workers is one area where private provision and financing of retraining are unlikely to suffice. The economic returns to such training may be low,

even though the benefits to society in terms of improved social cohesion can be high. Governments should concentrate on supporting and regulating the private markets that provide retraining for displaced workers for whom the returns are potentially high, and reserve their direct involvement (and major subsidies) for disadvantaged groups such as single women with children and persons with disabilities.

Lack of information

Workers cannot take advantage of new job opportunities unless they know what jobs are available and the wages they pay. In developing countries workers rely almost entirely on informal exchange of information to find new jobs. In industrial and former centrally planned economies, however, job search assistance is often provided by a formal network of public and sometimes private offices. A limited number of evaluations of job search assistance in industrial countries suggest that it is quite effective. In the United States, for example, job search assistance has proved to be as effective as retraining in helping displaced workers find jobs, and much less costly.

Job search assistance, however, is an administration-intensive activity and is unlikely to be a solution for low- and many middle-income countries. Even in the industrial market economies only a small percentage of job seekers—usually no more than 10 to 15 percent—get their jobs through public employment offices. In Poland the share is

only 3 to 5 percent. But even if it turns out that *public* employment services are relevant only in industrial countries, allowing private employment services to operate makes sense under all circumstances.

Supporting entrepreneurship

Countries have often tried to assist job losers by providing support to those wishing to start their own businesses. Many countries have experimented with special credit schemes and other programs to encourage the development of microenterprises. Such schemes have seldom been evaluated rigorously, but experience with government-run special credit programs in Sub-Saharan Africa and Latin America suggests that they have rarely brought benefits. Privately run micro credit schemes have proved more effective, especially in rural communities. And in Poland a recent experiment with a start-up loan program seems to be functioning well. Nevertheless, these schemes have been shown to be of interest only to a very small subgroup of the unemployed (about 3 percent in industrial countries and about 1 percent in Poland).

Wage subsidies

Wage subsidies must be limited and well controlled if they are to play a positive role. In the industrial countries they have proved ineffective in speeding up adjustment, although they can help the long-term unemployed. There are substitution effects whereby workers whose wages are subsidized replace those whose wages are not. Moreover, wage subsidies can easily undermine reform by keeping unprofitable firms afloat. Wage subsidies should be considered only in special cases where targeting is easy, for example in one-company towns (see below). When they are well controlled, they can be a less expensive alternative to transfers and yield a better outcome in terms of social cohesion in isolated areas.

Reducing insecurity through transfer programs

Workers face substantial risks during major transformations, the greatest being the risk of losing a job and a source of income. Even in stable industrial economies the risk of unemployment is very difficult to fully insure against (see Chapter 13). During periods of major change the operation of private insurance schemes is even more difficult, because with the fall in labor demand occurring throughout the economy, the probability of losing a job rises for all simultaneously. There is, therefore, a case for public action in providing some form of insurance and income security.

Permanent income security mechanisms such as those discussed in Chapter 13 can quickly become insufficient in transitions because of huge—albeit temporary—increases in the number of people unemployed or in the number of

households in poverty. Governments may also be concerned about losing political support for reforms if incomes fall too far, especially among the politically influential. Both considerations can lead to increased transfers. In those former centrally planned economies that have drastically cut subsidies to enterprises, increases in transfers are aimed at partially offsetting these cuts. In extreme cases—Bulgaria and Poland, for example—subsidies came down from a range of 12 to 15 percent of GDP to 1 to 2 percent. Meanwhile transfers increased by 5 to 8 percent of GDP.

Different countries are likely to implement different strategies, since they start out with huge differences in the importance of family support mechanisms and the size of the informal sector, as well as in expectations about state intervention. In general, the more industrialized the economy, the stronger the case for more use of public benefits, because of the greater availability of resources and the weakness of alternative informal support mechanisms. Not surprisingly, transfers are higher in Slovenia than in Uzbekistan, and higher in Argentina than in Bolivia.

Poverty relief is best accomplished by simple targeting mechanisms to reach those who lose out. Since unemployment and family status are most likely to be linked to poverty, former centrally planned economies in transition use both of them widely to alleviate the adverse effects of transition. More industrialized transitional economies try to supplement this targeting with a formal social assistance system based on means testing. But means testing has high administrative requirements and is difficult, and hence unlikely to work well outside the industrial world. Some countries use various forms of self-targeting, for example by conditioning benefits on participation in public employment. Although such schemes do not improve the long-term job prospects of participants, they can be useful during transitions not only as an effective self-selection mechanism, making targeting to the poorest possible, but also as a bridge between jobs. For instance, targeting of unemployment benefits in Estonia improved substantially when they were made conditional upon participation in part-time public employment schemes. Only the truly poor came forward to claim the benefits. In Albania public employment schemes are being widely used to cushion the transition between jobs. As discussed in Chapter 13, there are numerous other examples of public employment schemes working well in developing countries.

A second reason for increasing transfers is to maintain popular support for reform—which usually means ensuring support from the most influential groups. In many countries, and particularly in industrial former centrally planned economies, old age pensioners are a much more influential group than the unemployed. Social insurance schemes therefore played an important role as transfer mechanisms

in Central and Eastern Europe, and most reform strategies in these countries had to balance short-term objectives of poverty alleviation during the transition, which call for severance pay and unemployment benefits, against longer term objectives and permanent transfers such as pensions.

Income transfers to mitigate income and employment losses, especially unemployment benefits, are often labeled "passive" labor market policies, whereas those designed to equip workers for change are called "active" policies. In industrial countries the two types of measures are often considered substitutes for each other, with some studies claiming that increased spending on active measures is more efficient, because by getting people back to work it allows savings on transfers. However, active and passive measures are unlikely to be substitutes in transitional economies, where most people are likely to be unemployed because of low labor demand rather than ineffective supply.

Mass layoffs

Massive reductions in and restructuring of the public sector are common during major transformations. Large layoffs are expensive in the short run. If enterprises are potentially viable and can sooner or later be privatized, reforms can be relatively easy. In most cases, however, large state enterprises or even whole industries have to be downsized or closed. Examples include the downsizing of the Chilean public sector, the gradual retrenchment of workers in Spain's state-owned steel company, and Mexico's trimming of public enterprise employment before privatization. An example in the making is the restructuring of Russia's coal sector, where it is estimated that a viable industry would employ only 50 percent of the almost 800,000 mineworkers. The common denominator in these examples is that large numbers of workers are affected, often in one city or region, making it difficult for displaced workers to move easily into new occupations.

Best practice in the area of mass layoffs varies with countries' level of development and the type of enterprise and its work force. In some cases governments should lay off redundant workers before privatization, as was done in Spain, to allow the new owners the greatest possible flexibility in restructuring the enterprise. Otherwise privatization can come first, leaving restructuring to the new owners. Often constraints on firing or on the level of wages will remain—this is generally the case in Central and Eastern Europe. In low- and middle-income countries, unions are rarely involved—exceptions are Ghana's public bus service and the preparation of the schemes in the transport sector in Mauritius and Yugoslavia, where union involvement was crucial for success. In contrast, in industrial countries such as Canada and Sweden, numerous cutbacks were carried out in close cooperation between unions, workers, and local communities. This appears to work best for more industrialized countries with stable and well-educated work forces.

Advance notice, choices for workers who lose their jobs, and a restructuring of pay systems for those who remain have been essential for efficiency in the wake of layoffs. Opposition can be reduced where the scheme is part of a broader effort at structural reform. In former centrally planned economies that had already experienced a few mass layoffs, the larger effort came in the form of a comprehensive shift from a socialist to a market economy. In the Ghanaian transportation sector it was part of a widespread reduction of excess labor in the civil and educational services and in some state-owned enterprises. In the bus sector in Sri Lanka it was part of a general reduction in the size of government.

There is no definitive evidence on whether the optimal severance payment should be a lump-sum payment, which laid-off workers can use to start their own businesses, or take the form of long-term periodic payments, thus providing sustenance over a longer period. The former is better for enterprising individuals, and the latter for those who are risk-averse. Allowing workers to self-select into one of these schemes may be the best general approach.

The following basic principles should guide retrenchment schemes. The less developed the economy, the simpler and more transparent the mechanisms should be. A special severance scheme that adds to existing nationwide severance schemes is better than an extension of unemployment benefits, because it is administratively simpler. To avoid introducing biases against labor demand, such special schemes ought not to be financed through payroll taxes. For reasons of fairness and efficiency, employees to be laid off should be offered a choice among several exit options. To reduce the danger that the best workers will leave, wage structures should be reformed in coordination with layoffs to tighten the link between performance and pay. Finally, rules requiring advance notice of layoffs may help workers adjust—but because advance notice can slow voluntary exit and encourage workers to wait for retrenchment packages, it may be appropriate to accompany the notice with lower remuneration for workers who remain. Other components of these schemes, popular in the industrial countries, such as on-site employment services, can only work if administrative capacity exists. They are unlikely to be useful in most developing countries but may prove relevant to some former centrally planned economies.

One-company towns pose a particular problem because of the lack of alternative opportunities. In the Russian coal sector, for example, a number of mines are located in isolated areas and often sustain the bulk of employment there. Ideally, governments should encourage change—migration, creation of new jobs and new firms—but this rarely solves the problem in the short run. When the prospects for change are limited, or when adjustment is bound to be slow, temporary policies aimed at sustaining existing enter-

prises may make sense under certain conditions. First, if the social or political costs of job destruction are high, maintaining the subsidies may actually hasten rather than impede the broader transition. Second, if the value of the firm's output exceeds the value of the inputs used, the scheme can be cost-saving if unemployment or social assistance benefits would otherwise have to be paid. The biggest problem in designing schemes to support enterprises in isolated areas is avoiding perverse incentives for more workers or companies to move there. Any industrial support scheme must be instituted for a limited period to ensure that enterprises use the support to restructure their activities rather than to perpetuate inefficiency.

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Adaptable labor markets are essential for a successful transition. Reforms to promote labor mobility, transfer programs, and policies to equip workers for change are all necessary to increase adaptability. Support for labor mobility is key, while transfers serve a dual role of cushioning falls in consumption and reducing the risk associated with job cuts. Active labor market measures to encourage job search are less useful in the early stages of transitions. But once the major shock is over, there is likely to be some substitution in resources from transfers to active policies, particularly in countries with the higher levels of administrative capability needed to run these programs successfully.