

Chapter 2. Informal jobs

Around one in seven jobs in the EBRD regions are still informal, lacking a written contract, while 25 per cent of jobs do not afford access to annual leave, 30 per cent do not involve sick leave, and over a third of jobs do not provide access to social security or pensions. Informality is particularly common in the southern and eastern Mediterranean (SEMED) and sectors such as agriculture, construction, services and sales. Younger people, those with lower-paid jobs, individuals working for smaller firms and people employed in the private sector also tend to have access to fewer benefits. Women tend to have lower-paid jobs than men, but more generous benefits and lower incidence of long working hours.

Introduction

Most people spend a substantial amount of time at work and work for a significant percentage of their lives. Consequently, various characteristics of the jobs they do – besides the pay – are important determinants of their wellbeing. Annual leave, sick leave, pension benefits, unemployment insurance, medical insurance and other benefits are all important for a person's wellbeing, productivity and participation in the labour force, as are formal and stable contractual arrangements and decent working conditions.

While data on pay are relatively abundant, consistent cross-country data on other characteristics of jobs tend to be more limited. With that in mind, this chapter builds on the responses to a special set of questions included in the fourth round of the Life in Transition Survey, hoping to contribute to a better understanding of the employment landscape in the EBRD regions.

Analysis of LiTS IV data suggests that greater access to benefits such as sick leave and increased job security based on formal contractual arrangements are both associated with better mental health and greater satisfaction with life (when controlling for individual characteristics, the characteristics of jobs and country of residence).

However, many jobs remain informal or insecure. A total of 14 per cent of all jobs in the EBRD regions are not governed by a written contract, while 25 per cent do not afford access to annual leave and 30 per cent do not involve sick leave. Over a

third of all jobs do not provide access to pensions or social security. At the same time, working conditions can pose physical health risks or entail excessive working hours, resulting in undue physical and mental strain.⁴⁴

Informality tends, in general, to be greater in poorer economies. However, the economies of the SEMED region stand out in this regard, with levels of informality that are high even when accounting for their GDP per capita. Across the EBRD regions, informality is also concentrated in particular sectors and occupations, with the highest levels being seen in the agriculture, construction, services and sales sectors and among workers in agricultural and elementary occupations. Jobs in those sectors are not automatically informal, though: in Germany, for instance, they are just as formal as jobs in other sectors.

Lower-paid jobs in the EBRD regions tend to offer less access to benefits (such as pensions, annual leave and sick leave) than higher-paying jobs. In Germany, by contrast, access to benefits (with the exception of parental leave) does not systematically increase or decrease with pay. At the same time, there may be trade-offs between pay and other attributes of jobs, such as access to benefits, stability and working conditions. For instance, in the EBRD regions, women tend to have lower-paid jobs than men, but more generous benefits and lower incidence of long working hours.

In the EBRD regions, younger people tend to have less secure jobs with fewer benefits, and – unlike in Germany – smaller firms are less likely to provide access to benefits such as pensions, social security and leave. Public-sector jobs have better access to benefits and greater stability than those in the private sector, while average pay is comparable.

In economies with rapidly growing labour forces, there may be trade-offs between the creation of new jobs (for young entrants to the labour market) and efforts to ensure that existing jobs afford certain protections and benefits (for those already in employment). There is a case for gradually shifting the focus of labour market institutions from employment protection legislation to unemployment insurance. This should be accompanied by complementary policies that help to reduce informality, such as the streamlining of regulatory and tax systems (including for small firms) and efforts to improve the efficiency of public revenue collection and enforcement.

Trade-offs between the quantity and quality of jobs may be less pronounced in economies with shrinking labour forces, where a greater focus on the attributes of jobs for young workers may be called for. Here, too, informality should be reduced, as pensions and social security coverage are even more important in rapidly ageing populations. While informality can be expected to decline as economies develop, tight labour markets may provide an opportunity to accelerate this process.

⁴⁴ See Fields (2012).

This chapter begins by looking at the importance of jobs' characteristics for mental health. It then provides an overview of the characteristics of jobs across countries, sectors and occupations, considers trade-offs between pay and benefits, and looks at how jobs' characteristics vary depending on the age of the respondent, the size of the firm and whether the person is employed in the public or the private sector.

Stability of jobs, access to benefits and working conditions matter

Workers in the EBRD regions spend an average of 38 hours a week at work, and they are spending an increasingly large share of their adult lives in paid work. Consequently, the precise nature of that work is important – both for individual workers and for the economy as a whole.

The quality of jobs matters when people are deciding whether or not to work (thus impacting labour force participation), as well as affecting people's productivity, so it has a clear impact on a country's economic performance.⁴⁵

Interestingly, 54 per cent of LiTS IV respondents in the EBRD regions believe that the most important characteristic of a "good job" is sufficient income, while 23 per cent emphasise stability, 11 per cent focus on good working conditions and 5 per cent prioritise benefits.

The jobs that people do are also an important determinant of their wellbeing. There is a large body of literature documenting the role that work plays in mental health and satisfaction with life beyond the provision of income.⁴⁶ Indeed, discussions on the impact that specific characteristics of jobs have on mental health can be traced all the way back to early sociologists.⁴⁷

A number of recent empirical studies have confirmed that non-pecuniary attributes of jobs – including working conditions, job security and the type of contract, working hours and flexibility, the type of work and the degree of autonomy – are closely correlated with physical and mental health outcomes and satisfaction with life.⁴⁸

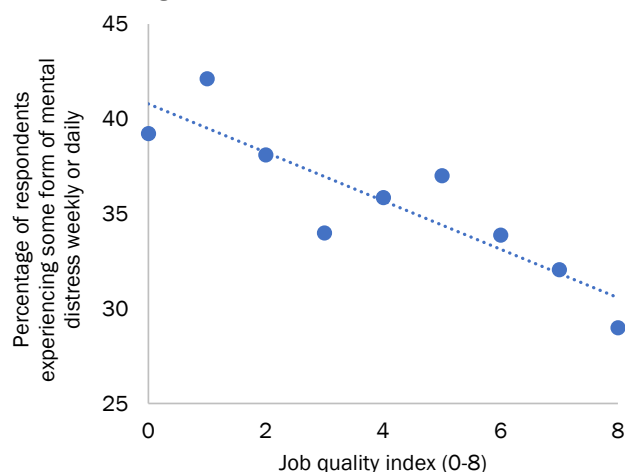
Strikingly, studies have found that people with the lowest-quality jobs (jobs with low levels of autonomy, high demands, significant insecurity and low "job esteem") are similar to unemployed people in terms of the prevalence of common mental health disorders; what is more, transitioning to such a low-quality job is associated with an even stronger decline in mental health than transitioning to unemployment or remaining unemployed.⁴⁹

Analysis of LiTS IV data confirms these patterns. Greater access to benefits (such as sick leave) and increased job security based on formal contractual arrangements are both associated with better mental health (see Chart 2.1), as well

as greater satisfaction with life, when controlling for individual characteristics (including income) and country of residence.

Individuals with jobs that offer greater stability and access to more comprehensive benefits are also more likely to be able to save and weather unexpected financial shocks, even when controlling for income (see Box 2.1 on the economic impact of the Covid-19 crisis, which compares the pandemic with the global financial crisis).

Chart 2.1. Higher-quality jobs (in terms of stability and access to benefits) are associated with lower levels of mental distress when controlling for income



Source: LiTS IV and authors' calculations.

Note: The job quality index (which ranges from 0 to 8) is derived from a series of dummies indicating whether respondents have access to a pension, social security, annual leave, sick leave or parental leave, feel that they are unlikely or very unlikely to lose their job in the next six months, and have a written or permanent contract. This binned scatter plot shows the percentage of respondents within each job quality score who report experiencing at least one of depression, sadness, anxiety and apathy weekly or daily, based on an individual-level regression controlling for age, gender, level of education, children in the household, location (urban or rural), household income decile and country fixed effects.

However, consistent data enabling measurement of non-pecuniary attributes of jobs across economies (in terms of access to benefits, stability and working conditions) are limited. Global studies across countries have typically relied on a single indicator, such as the existence of formal contractual arrangements. A few multi-country studies have examined multiple characteristics of jobs, but they have usually focused on a single region (such as Latin America, Europe or Africa) because of the difficulty of harmonising microdata across countries.⁵⁰

The analysis that follows seeks to contribute to our understanding of the various attributes of jobs in the EBRD

⁴⁵ See World Bank (2012).

⁴⁶ See, for instance, Braverman (1998), Thomas et al. (2005) and Ford et al. (2010).

⁴⁷ See Marx (1991) on the theory of alienation, Fryer (1986) on the agency restriction theory and Warr (1999) on the vitamin model.

⁴⁸ See Barnay (2016) for a review. See also Kalliath and Brough (2008), Butterworth et al.

(2011), Cottini and Lucifora (2013), Bannai and Tamakoshi (2014), Angrave and Charlwood

(2015), LaMontagne et al. (2016), Dinh et al. (2017), Cottini and Ghinetti (2017, 2018), Chandola and Zhang (2018), Henseke (2018), Inanc (2018) and Chandola et al. (2019).

⁴⁹ See Leach et al. (2010) and Butterworth et al. (2011, 2013).

⁵⁰ See Bocquier et al. (2010), Brummund et al. (2018), Leschke and Watt (2014) and Sehnbruch et al. (2020).

regions by examining aspects other than income: access to benefits (such as pensions, social security, annual leave and sick leave), stability (whether the job is governed by a written contract, whether the contract is permanent and the perceived risk of losing that job) and working conditions (such as excessive hours).⁵¹

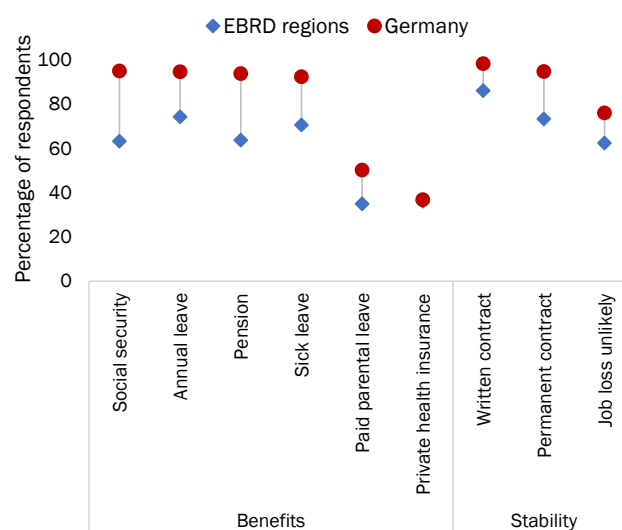
The approach adopted in this chapter follows international conventions as regards the selection of characteristics of jobs. For instance, the International Labour Organization (ILO) defines “decent work” as productive work that delivers a fair income with workplace security and social protection, prospects for development and social integration, freedom to organise and equality of opportunity (see also Chapter 1 as regards the last of those).⁵²

Significant numbers of jobs in the EBRD regions remain informal

A considerable share of the jobs in the EBRD regions remain informal, and many offer limited access – if any – to benefits: 14 per cent of all jobs in the EBRD regions are not governed by a written contract, 25 per cent do not afford access to annual leave, 30 per cent do not involve sick leave, and over a third of jobs do not provide access to pensions or social security (see Chart 2.2).⁵³

In general, the relatively low incidence of paid parental leave in the EBRD regions reflects generous maternity leave provisions, but limited paternity leave. In contrast, there is no gender gap in Germany. In the EBRD regions, the share of women with access to paid parental leave is about 14 percentage points higher than the equivalent share for men. Equal rights to paid parental leave for mothers and fathers are relatively rare in the EBRD regions: typically, the mother has many more weeks than the father (and in some countries, such as Azerbaijan, the Kyrgyz Republic and Lebanon, the father has zero entitlement).

Chart 2.2. A significant percentage of jobs in the EBRD regions remain informal or offer limited access to benefits



Source: LiTS IV and authors' calculations.

Note: This chart shows the percentages of respondents who have access to the various benefits indicated, have a written contract, have a permanent contract and report that they are unlikely or very unlikely to lose their job in the next six months.

Informality remains especially high in the SEMED region

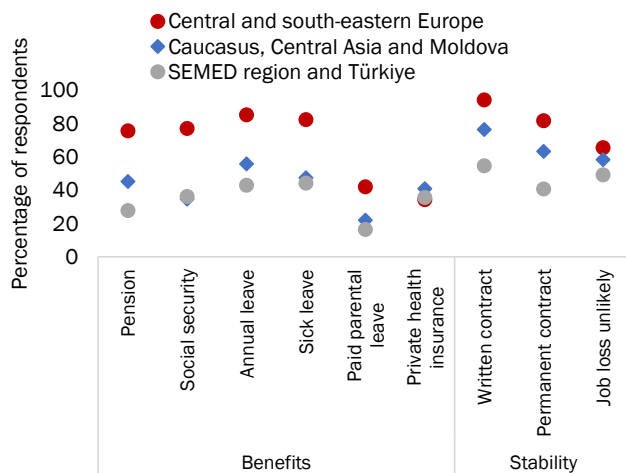
Informality is more common in the SEMED region, and the stability of jobs is also lower in those economies (see Chart 2.3): 45 per cent of all respondents in that region report having jobs that are not governed by a written contract. Meanwhile, 64 and 72 per cent lack access to social security and pensions respectively, and 56 and 57 per cent do not have access to annual leave and sick leave respectively. Economies in the Caucasus and Central Asia are also lagging behind their peers in central and south-eastern Europe and advanced economies in terms of access to social security.

⁵¹ See also Hovhannisyan et al. (2022) for similar analysis looking at other emerging markets and developing economies.

⁵² See ILO (2020).

⁵³ Please note that the self-employed are not included in any of the analysis of jobs in this chapter.

Chart 2.3. Informality remains especially high in the SEMED region

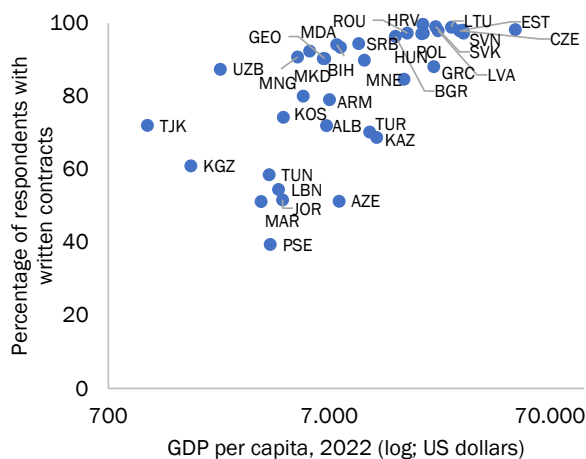


Source: LiTS IV and authors' calculations.

Note: This chart shows the percentages of respondents who have access to the various benefits indicated, have a written contract, have a permanent contract and report that they are unlikely or very unlikely to lose their job in the next six months.

Informality tends, in general, to be greater in poorer economies (see Charts 2.4 and 2.5). However, the economies of the SEMED region stand out in this regard, with high levels of informality relative to their GDP per capita. For instance, while 91 per cent of jobs in Mongolia are governed by a written contract, the same is true of only 52 per cent of jobs in Jordan, despite those two economies having broadly comparable income per capita at market exchange rates (see Chart 2.4). At the same time, access to benefits in Central Asia and the Caucasus is lower than one would expect on the basis on those economies' GDP per capita (see Chart 2.5).

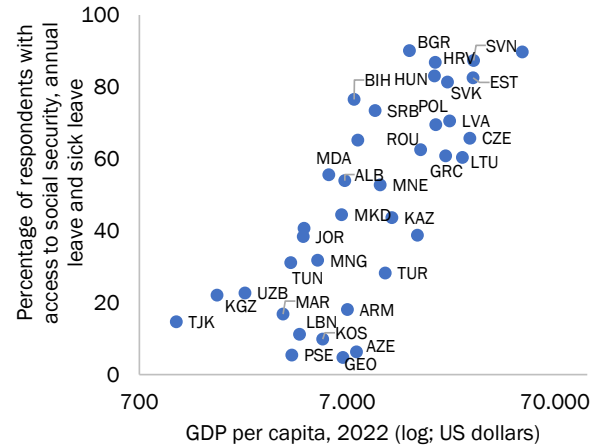
Chart 2.4. Jobs in poorer economies are less likely to be governed by written contracts



Source: World Bank WDIs, LiTS IV and authors' calculations.

Note: The horizontal axis shows the log of GDP per capita in 2022 in US dollars at market exchange rates.

Chart 2.5. Jobs in poorer economies are less likely to provide access to social security, annual leave and sick leave



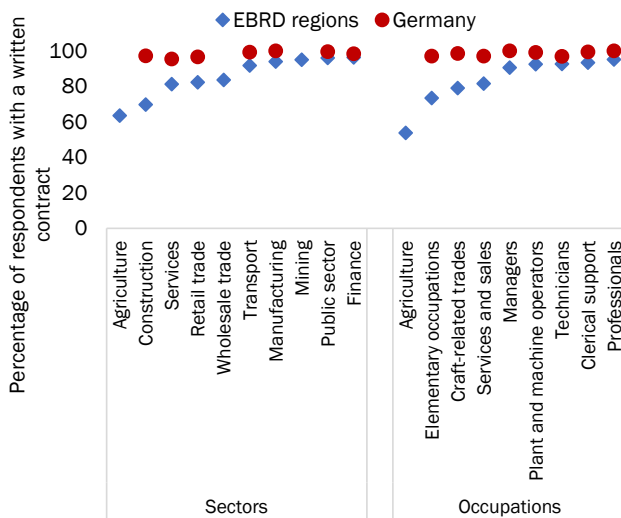
Source: World Bank WDIs, LiTS IV and authors' calculations.

Note: The horizontal axis shows the log of GDP per capita in 2022 in US dollars at market exchange rates.

Informality is highest in agriculture, construction, services and sales

Within individual economies in the EBRD regions, informality is heavily concentrated in certain occupations and sectors (see Chart 2.6): 37 per cent of all respondents working in agriculture, 30 per cent of those employed in construction and almost 20 per cent of those working in services and retail trade report not having a written contract. A similar picture emerges in terms of occupations: 46 per cent of respondents with agricultural occupations and 21 and 27 per cent of those with elementary occupations and craft-related trades respectively report not having written contracts. Such informality is not universal, however: in Germany, for instance, these sectors are just as formal as other sectors.

Chart 2.6. Jobs without written contracts are concentrated in agriculture, construction, services and sales

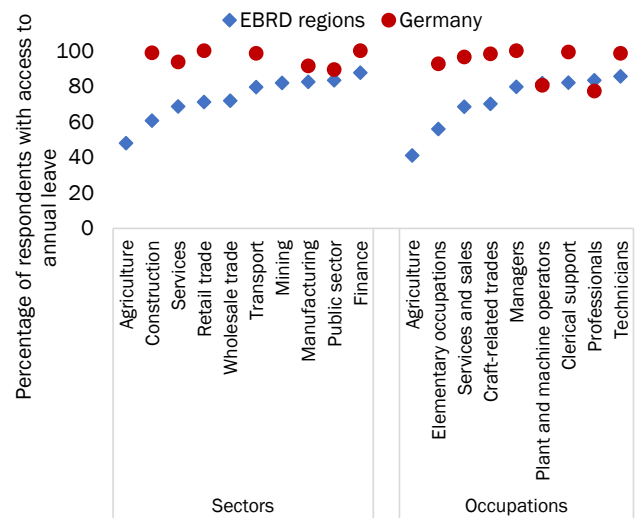


Source: LiTS IV and authors' calculations.

Note: "Agriculture" includes forestry and fishing. Sectors/occupations with fewer than 20 observations have been omitted, as have the armed forces.

Jobs in these sectors – agriculture, construction, services and sales – also provide more limited access to other benefits, such as annual leave (see Chart 2.7). Between 31 and 52 per cent of respondents working in agriculture, construction, services and sales in the EBRD regions do not have access to annual leave. Again, similar patterns can be seen when looking at occupations: for instance, 59 per cent of respondents with agricultural occupations and 44 per cent of those with elementary occupations do not have access to annual leave. A similar picture can be observed for other benefits, such as sick leave.

Chart 2.7. Jobs in agriculture, construction, services and sales also provide more limited access to annual leave

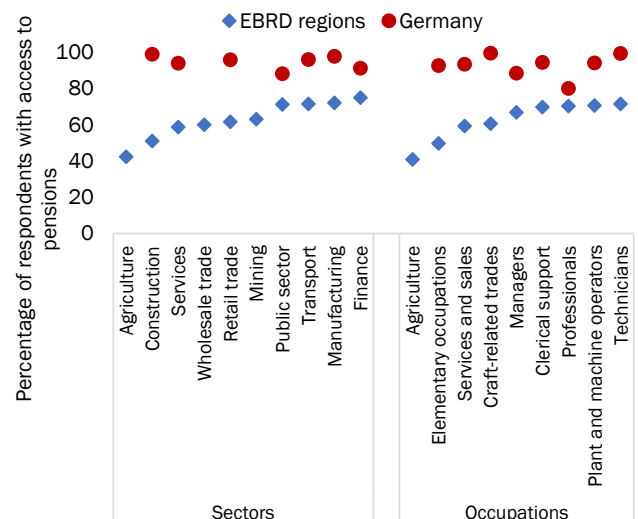


Source: LiTS IV and authors' calculations.

Note: "Agriculture" includes forestry and fishing. Sectors/occupations with fewer than 20 observations have been omitted, as have the armed forces.

Furthermore, these sectors are also characterised by limited access to pensions and social security (see Chart 2.8). This is of particular concern in economies in emerging Europe, where populations are ageing rapidly.

Chart 2.8. Jobs in agriculture, construction, services and sales also provide more limited access to pensions



Source: LiTS IV and authors' calculations.

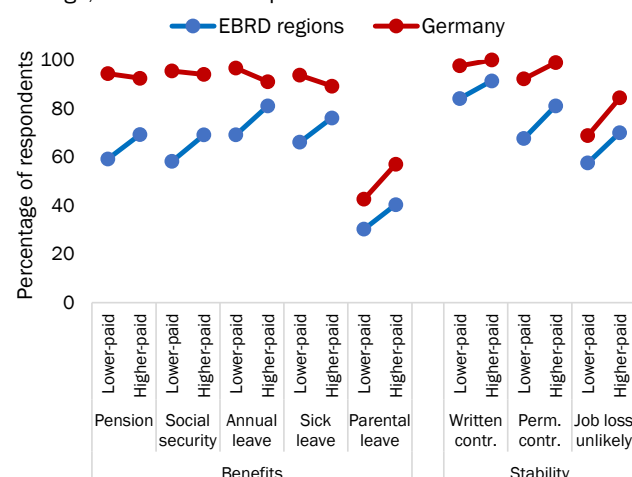
Note: "Agriculture" includes forestry and fishing. Sectors/occupations with fewer than 20 observations have been omitted, as have the armed forces.

Lower-paid jobs offer more limited access to benefits and are less secure

Generally speaking, lower-paid jobs in the EBRD regions tend to offer less access to benefits than higher-paying jobs (see Chart 2.9). In Germany, by contrast, access to benefits such as pensions, annual leave and sick leave does not systematically increase or decrease with pay (with the exception of parental leave). In the EBRD regions, lower-paid jobs are also less likely to be governed by a written or permanent contract. In both the EBRD regions and Germany, lower-paid jobs tend to be regarded as less secure (which is measured here by asking respondents how likely it is that they will lose their job in the next six months).

These findings are in line with the results of recent studies on advanced economies such as the United Kingdom.⁵⁴ Those studies show that higher and lower-paid jobs tend to differ from each other when it comes to flexible working (which is defined here as a working arrangement where the timing of work is not fixed in the contract and has to be agreed at a later date between the employer and the employee). With higher-paid jobs and more skilled occupations, that flexibility is typically a positive feature that reflects workers' demand for work-life balance (the flexibility to work when they want to, allowing more freedom to arrange work around business needs or family commitments, but without any associated uncertainty regarding earnings). With lower-paid jobs and lower-skilled occupations, by contrast, flexible working often reflects employers' desire to cut costs by shifting risk onto employees (as in the case of zero-hour contracts, where people do not know how much they will be working from one day to the next), resulting in uncertainty over earnings.

Chart 2.9. In the EBRD regions, lower-paid jobs tend, on average, to offer less comprehensive benefits



Source: LiTS IV and authors' calculations.

Note: "Lower-paid" and "higher-paid" denote pay that is below and above the median respectively. This chart shows the percentages of respondents who have access to the various benefits indicated, have a written contract, have a permanent contract and report that they are unlikely or very unlikely to lose their job in the next six months.

However, there may be trade-offs between pay and benefits

Notwithstanding the strong association between pay and benefits, there may, for some workers, be trade-offs between pay and non-pecuniary attributes of jobs, such as access to benefits, stability and working conditions. For instance, in the EBRD regions, women tend to have lower-paid jobs than men, but more generous benefits and lower incidence of long working hours (see Chart 2.10), benefiting from non-pecuniary attributes of jobs in exchange for lower pay. Indeed, 16 per cent of male respondents in full-time employment in the EBRD regions work more than 50 hours a week, compared with 9 per cent of female respondents. Long hours are concentrated in the agriculture, construction, services and sales sectors – which, as indicated above, also tend to be characterised by more limited access to benefits and higher degrees of informality. (The survey did not ask respondents whether the long hours were their own choice.)

On average, the gender pay gap in the EBRD regions amounts to about 12 percentage points of the distribution of wages in a given economy. It is smaller for women under 30 relative to women over 30, reflecting the "motherhood penalty" – the fact that wage gaps start to widen around the time that women have their first child. This estimated differential is not driven by women working part time: a similar gender pay gap can be observed when the sample is restricted to full-time employees.

Gender pay gaps persist in most industrialised countries despite convergence in the education levels of men and

⁵⁴ See, for instance, Adams-Prassl et al. (2020).

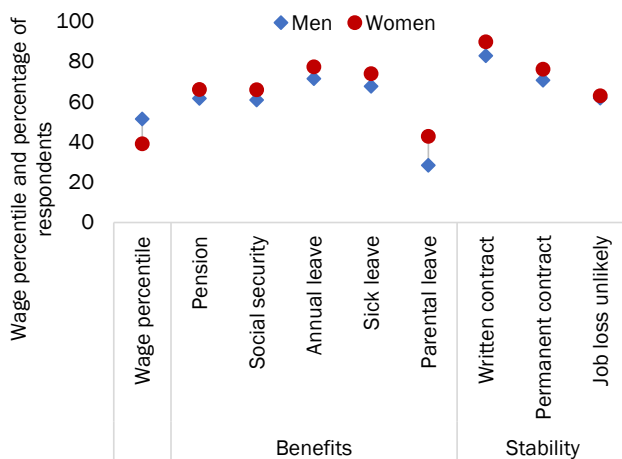
women. At lower levels of the skill distribution, gaps have been closed; however, in highly skilled work, large gaps remain, strongly related to disparities in promotions.

Recent work has, for instance, used detailed long-term data from an international financial institution to show that appointments to project team leadership positions (a “promotable” task) are crucial in explaining disparities in promotions and affect long-term career trajectories.⁵⁵

Furthermore, recent research on the United States shows that, in many professions, women work for firms or institutions that are less demanding of their time, enjoying various benefits, but earning less.⁵⁶ Thus, “greedy professions” – which pay disproportionately more for long hours and weekend work – perpetuate disparities between the earnings of women and men.

A recent study based on Danish data on job applications also showed that women systematically target non-pecuniary characteristics of jobs, being more likely to apply for jobs that are part time, require a shorter commute and involve working for family-friendly firms.⁵⁷ These jobs also tend to pay lower wages.

Chart 2.10. Women tend to have lower-paid jobs than men, but more generous benefits



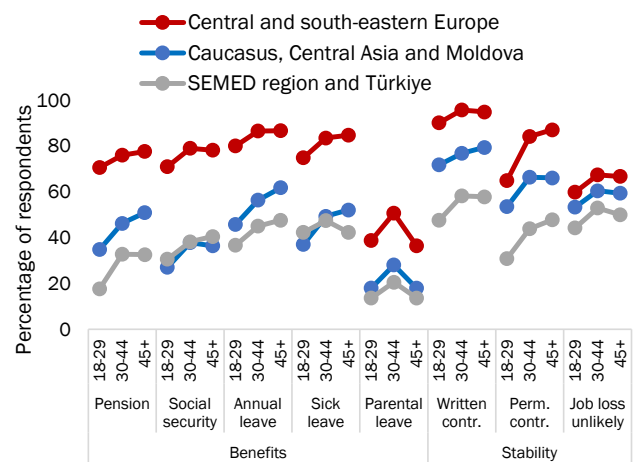
Source: LiTS IV and authors’ calculations.
Note: This chart shows average wage percentiles and the percentages of respondents who have access to the various benefits indicated, have a written contract, have a permanent contract and report that they are unlikely or very unlikely to lose their job in the next six months.

Younger people have less secure jobs with fewer benefits

Younger people in the EBRD regions tend to have less secure jobs with fewer benefits. Such age-based disparities are especially pronounced in the SEMED region and Türkiye (see Chart 2.11).

In economies with rapidly growing labour forces, there may be trade-offs between the creation of new jobs (for young entrants to the labour market) and efforts to improve job protection and access to benefits for those already in employment. Such trade-offs may be less pronounced in economies with shrinking labour forces, where a greater focus on the attributes of jobs for young workers may be called for.

Chart 2.11. Younger people tend to have less secure jobs with fewer benefits, particularly in the SEMED region and Türkiye



Source: LiTS IV and authors’ calculations.
Note: This chart shows, for each of the three age groups, the percentages of respondents who have access to the various benefits indicated, have a written contract, have a permanent contract and report that they are unlikely or very unlikely to lose their job in the next six months.

Small firms provide more limited access to benefits

In contrast with Germany, people working for small firms in the EBRD regions (defined as those with fewer than 20 employees) are less likely to have access to benefits such as pensions, social security and leave, and less likely to have a written or permanent contract (see Chart 2.12). In both the EBRD regions and Germany, people working for small firms feel that they are more likely to lose their job.

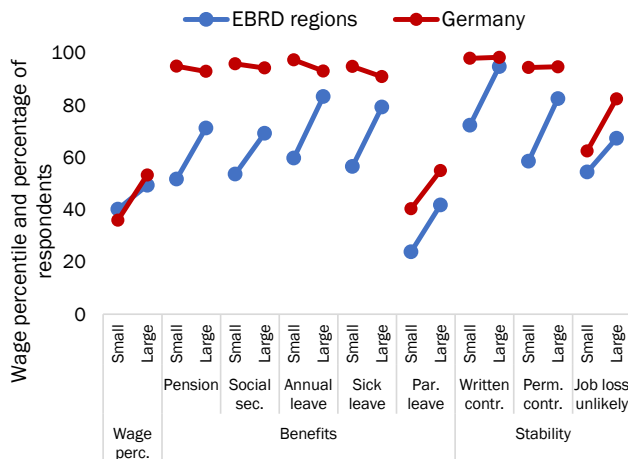
In the EBRD regions, the difference between large and small firms tends, overall, to be greater in terms of benefits than it is in terms of pay. In Germany, the opposite is true: the pay gap tends to be more significant than the difference in access to

⁵⁵ See Bircan et al. (2024).
⁵⁶ See Goldin (2021).

⁵⁷ See Fluchtman et al. (2024).

benefits. The similarity between small and large German firms in terms of access to benefits could be explained by a combination of two factors: (i) the fact that such access is regulated and provided through country-wide social safety nets; and (ii) the fact that Germany has much lower levels of informality among small firms.

Chart 2.12. In the EBRD regions, people working for small firms tend to have more limited access to benefits



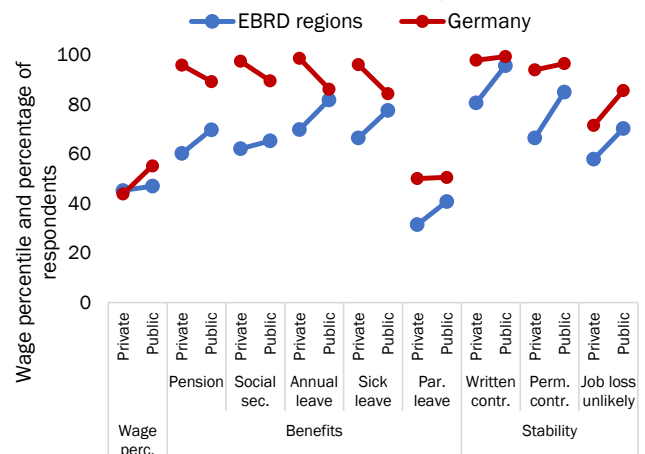
Source: LiTS IV and authors' calculations.

Note: This chart shows average wage percentiles and the percentages of respondents who have access to the various benefits indicated, have a written contract, have a permanent contract and report that they are unlikely or very unlikely to lose their job in the next six months.

Public-sector jobs provide better access to benefits and are more secure

In the EBRD regions, respondents working in the public sector are more likely to have access to a pension, annual leave, sick leave and parental leave than respondents with private-sector jobs (see Chart 2.13). They are also more likely to have a written contract and a permanent contract, with no significant differences being observed between public and private-sector jobs in Germany in these two respects. In both the EBRD regions and Germany, jobs in the public sector are considered to be more secure, with public-sector workers feeling that they are less likely to lose their job in the next six months.

Chart 2.13. In the EBRD regions, public-sector workers have better access to benefits and more secure jobs



Source: LiTS IV and authors' calculations.

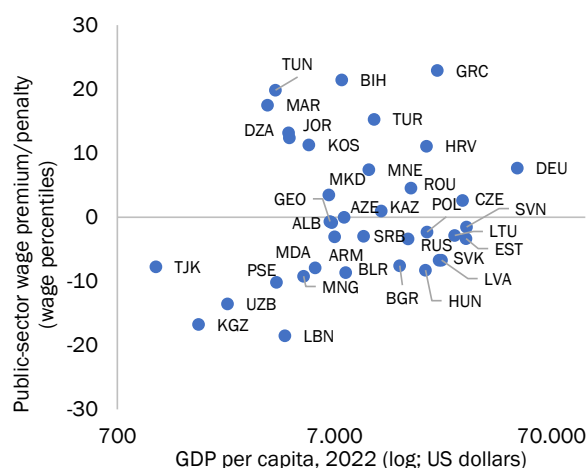
Note: This chart shows average wage percentiles and the percentages of respondents who have access to the various benefits indicated, have a written contract, have a permanent contract and report that they are unlikely or very unlikely to lose their job in the next six months.

In the EBRD regions, there are, on average, no significant differences between public and private-sector pay when it comes to wage employees (that is to say, when the self-employed are excluded). When the self-employed are included, the average wage percentile of respondents working for the public sector is 2.3 percentiles lower than the equivalent figure for the private sector.

These averages conceal substantial heterogeneity across countries. In some economies (including a number of economies in south-eastern Europe and the SEMED region), respondents working in the public sector report higher average pay than peers working in the private sector, but public-sector respondents in other economies (such as countries in Central Asia) report a combination of lower average pay and more comprehensive benefits.

As Chart 2.14 shows, there does not generally appear to be a strong relationship between public-sector wage premiums/penalties in the EBRD regions and economies' levels of development (unlike the positive correlation between the prevalence of formal jobs and per capita income). Furthermore, there are no significant differences between the various age groups in terms of the wages reported by public and private-sector employees. These results are in line with the findings of Gindling et al. (2020), who also show that low-skilled workers tend to earn public-sector wage premiums, while more highly skilled professionals are likely to accept public-sector wage penalties relative to similar jobs in the private sector.

Chart 2.14. Public-sector wage premiums/penalties vary across economies



Source: World Bank WDIs, LiTS IV and authors' calculations.

Note: The horizontal axis shows the log of GDP per capita in 2022 in US dollars at market exchange rates.

Conclusions

Policy discussions and empirical research on developing economies have tended to focus on job creation, the formality of employment and the level of wages, with much less attention being paid to other characteristics of jobs. However, non-pecuniary attributes of jobs (such as access to benefits, stability and working conditions) have important implications for workers' wellbeing, so understanding such aspects of "job quality" is crucial when designing and implementing policies that seek to promote inclusive growth.

Analysis based on LiTS IV data suggests that informal jobs (that is to say, jobs that are not governed by a written contract) are still prevalent in the SEMED region, while jobs in some parts of the Caucasus and Central Asia (particularly Azerbaijan, Georgia and Tajikistan) provide limited access to benefits such as social security, annual leave and sick leave. Meanwhile, access to pensions is more limited in the agriculture, construction and services sectors and among young people in general (particularly in the Caucasus and the SEMED region).

Policymakers face the challenge of affording greater social protection to workers – in line with shifts in the policy preferences of their citizens – while preserving economic efficiency and growth. Balancing efficiency and equity may become even more challenging in the context of slowing productivity growth.⁵⁸

In this respect, advanced economies and emerging markets are increasingly facing similar challenges. However, as a result of their more limited administrative capacity, emerging

markets and developing economies typically end up with a more restricted set of policy choices than advanced economies, often leading to more distortive and less protective labour market policies.⁵⁹

In lower-income economies, insurance against income loss tends to rely more on overly stringent employment protection legislation (which protects only a fraction of formal regular workers), rather than on broad-based unemployment insurance. As economies develop and informality is reduced, there is a case for gradually rebalancing labour market institutions, shifting the focus from employment protection legislation to unemployment insurance – that is to say, expanding unemployment insurance while moving towards less stringent, simpler, more predictable employment protection legislation that applies more equally across sectors and across firms of different sizes.⁶⁰

These shifts should be complemented by policies that help to reduce informality, such as the streamlining of regulatory and tax systems (including for small firms), efforts to improve the efficiency of public revenue collection and enforcement, and improvements to the delivery and governance of public services. While administrative capacity is being enhanced, well-designed cash transfers (which do not involve complex monitoring and enforcement of job search and work availability criteria) can be a cost-effective way of providing targeted income support for the poor.⁶¹ Ensuring that pensions and social security have broad coverage is even more important when a population is ageing rapidly, as is the case in much of emerging Europe.⁶²

People working for small firms in the EBRD regions are less likely to have access to benefits than those working for large firms. This stands in contrast to the patterns observed in Germany, for instance. The similarity between small and large German firms in terms of access to benefits could be explained by a combination of two factors: (i) the fact that such access is regulated and provided through country-wide social safety nets; and (ii) the fact that Germany has much lower levels of informality among small firms. Thus, the streamlining of regulatory and tax systems for small firms in the EBRD regions could help to reduce informality and ensure compliance with country-wide regulations.

Young people working in the EBRD regions are less likely to have a written contract or access to annual leave or sick leave, particularly in the SEMED region – economies with relatively young and growing labour forces. Policies should thus encourage the creation of formal employment opportunities for the young, for example through active labour market programmes (government programmes that seek to help with job searches) and education and training initiatives, potentially in collaboration with the private sector.

⁵⁸ See Adler et al. (2017) and World Bank (2016), as well as Chapter 1 of this report.

⁵⁹ See Blanchard et al. (2013) for details of the design of such institutions in advanced economies; and see Duval and Loungani (2019) for analysis of emerging markets and developing economies.

⁶⁰ See Duval and Loungani (2019).

⁶¹ Ibid.

⁶² See also EBRD (2018).

In economies with rapidly growing labour forces, there may be trade-offs between the improvement of existing jobs (for people who are already in employment) and the creation of new jobs (for young entrants to the labour market). Such trade-offs may be less pronounced in economies with shrinking labour forces, where a greater focus on the attributes of jobs for young workers may be called for. Tight labour markets could help to accelerate the process of reducing informality. In Serbia, for instance, there is evidence that the decline seen in the country's shadow economy has been supported not only by policy reforms (such as the digitalisation of audit authorities, changes to the policy on penalties for non-compliance with tax regulations, a rise in cashless payments and a reduction in labour taxes), but also by tight labour markets, which have improved workers' bargaining positions.⁶³

Policies such as the expansion of childcare and parental leave could help to make the trade-offs around pay and benefits for mothers more of a choice and less of a necessity. Here, too, in economies with rapidly ageing populations and low fertility rates, there may be a stronger case for giving parents additional support, for example by extending paternal leave provisions.

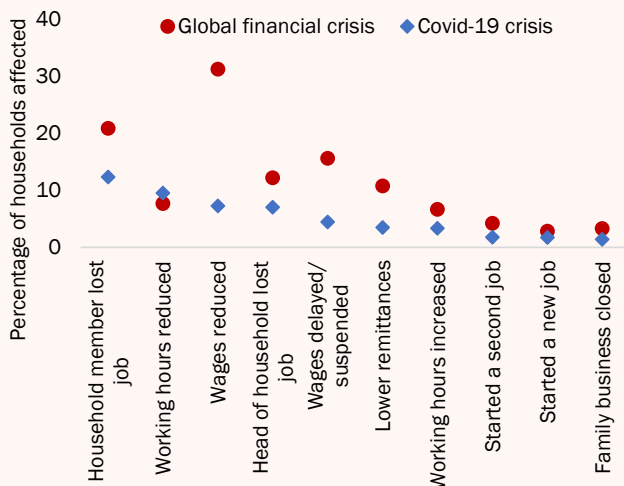
⁶³ See Randelović et al. (2024).

Box 2.1. The economic impact of the Covid-19 crisis

This box compares the economic impact of the Covid-19 crisis with that of the global financial crisis of 2008-09, drawing on the results of the second and fourth rounds of the Life in Transition Survey. LiTS II, which was conducted in 2010, included a number of detailed questions on households' experiences in the aftermath of the global financial crisis. Similar questions were asked again as part of LiTS IV, focusing on respondents' experiences during the Covid-19 crisis.

Across the EBRD regions, more than a fifth of all respondents in LiTS II reported that a member of their household had experienced job loss during the global financial crisis. This was only the case for around 12 per cent of households during the Covid-19 crisis. Similarly, while 31 per cent of respondents reported that a member of their household had seen a fall in wages during the global financial crisis, this was only the case for around 7 per cent of households during the Covid-19 crisis (see Chart 2.1.1).

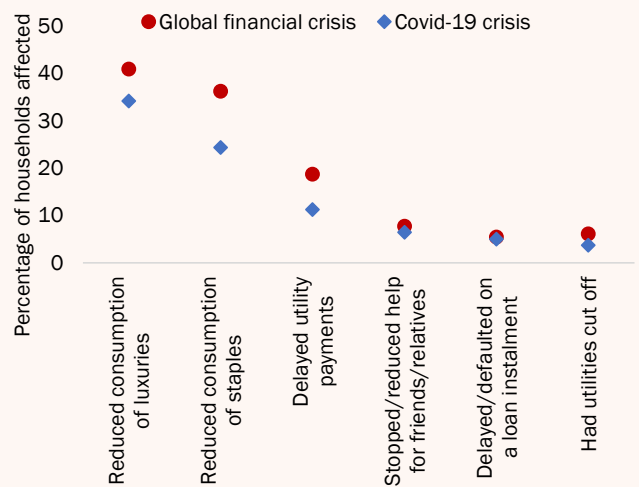
Chart 2.1.1. The Covid-19 crisis had a smaller impact on household finances than the global financial crisis



Source: LiTS II, LiTS IV and authors' calculations.
Note: The data in this chart are based on economies that were included in both LiTS II and LiTS IV.

Accordingly, the Covid-19 crisis also had a smaller impact on household consumption than the global financial crisis (see Chart 2.1.2). For instance, while 41 per cent of households reduced their consumption of luxury goods during the global financial crisis and 36 per cent reduced their consumption of staples, the equivalent figures for the Covid-19 crisis were 34 and 24 per cent respectively.

Chart 2.1.2. The Covid-19 crisis had a smaller impact on household consumption than the global financial crisis



Source: LiTS II, LiTS IV and authors' calculations.
Note: The data in this chart are based on economies that were included in both LiTS II and LiTS IV.

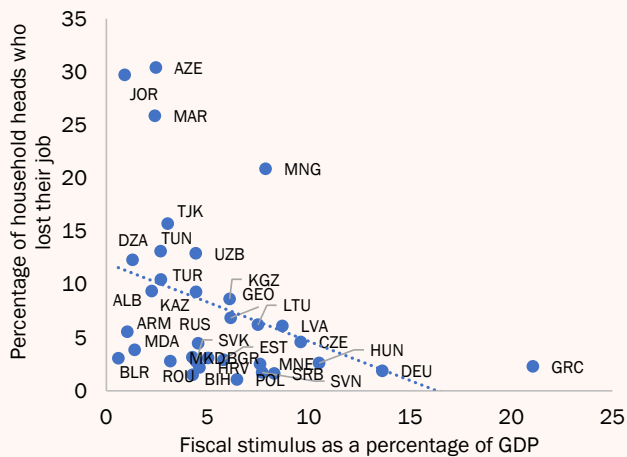
To a large extent, these differences between the two crises in terms of households' experiences reflect the generous government support that was provided during Covid-19 lockdowns. These measures, which included cash transfers, job retention schemes and tax incentives, helped to mitigate the economic impact on households and firms.⁶⁴ The Covid-19 crisis had less of an impact on household finances in economies where fiscal support packages were larger – that is to say, economies where additional public spending and forgone government revenue as a result of the pandemic were larger as a percentage of GDP (see Chart 2.1.3).

The response to the Covid-19 crisis highlighted citizens' growing expectations regarding the state's ability to reduce the health and economic risks that are faced by individuals.⁶⁵ Those high levels of demand for the socialisation of risks can, in part, be seen as a response to economic risks increasingly being shifted onto individuals with low earnings and less tolerance of risk. The crisis also revealed growing expectations regarding the services that the state should provide.

⁶⁴ See also EBRD (2020a).

⁶⁵ See EBRD (2020b).

Chart 2.1.3. The Covid-19 crisis had less of an impact in economies where fiscal support packages were larger



Source: IMF, LiTS IV and authors' calculations.

Note: Estimates of fiscal stimulus include cash transfers, job retention schemes and tax incentives, but exclude equity injections and loan guarantees.

That increase in demand for the socialisation of economic risks is a continuation of a longer-term trend. Since the middle of the 19th century, state spending has risen markedly as a share of GDP, reflecting the growing importance of providing education, healthcare and social safety nets.⁶⁶ The same is true of the state's share of total employment (although that peaked in the 1980s and has declined somewhat in recent decades).

Public support for state ownership of businesses and industry has also been growing, with surveys in post-communist economies suggesting that 45 per cent of people now favour an increase in public ownership. Similar trends can be observed in responses to the World Values Survey across a broad sample of advanced economies and emerging markets.⁶⁷

Recent research shows that crises do not just boost support for a larger state by increasing demand for redistribution and social safety nets; they also strengthen demand for secure employment.⁶⁸ Respondents whose household experienced job or income loss during the global financial crisis are more likely to prefer a secure job (even if it offers a lower salary). Meanwhile, those whose household experienced job or income loss during the Covid-19 crisis are more likely to think that the public sector should be responsible for providing jobs.

⁶⁶ Ibid.

⁶⁷ See EBRD (2020a) and Kóczán and Plekhanov (2023).

⁶⁸ See Kóczán and Plekhanov (2023).

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