

PART II:

EMPLOYMENT PROSPECTS:  
UNEMPLOYMENT AND  
UNDEREMPLOYMENT



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## RAPID CHANGES IN LABOR MARKET SEGMENTATION AND THE RISK OF UNEMPLOYMENT

Following the breakdown of communist rule in Eastern Europe, the alleged “scientific” allocation of human and material resources gave way to new types of rules of production and distribution. Prior to 1989, socialist governments forced the economy to reject any risk of individual unemployment and created an occupational structure comprised of redundant bureaucratic jobs and politically based status hierarchies, which aimed at minimizing gender differences. Rapid economic restructuring in post-communist societies, however, reformed the labor market (hereafter LM), such that earnings inequality changed from a product of politics to one rooted primarily in private property, profit, and competition (see Slomczynski 2000; Slomczynski and Lee 1993). Moreover, combined with the withdrawal of welfare state provisions, the restructuring of the economy increased gender inequality in the labor force, as it led women to temporarily or permanently exit the LM.

Under post-communist socioeconomic conditions all workers risk unemployment. It is reasonable to expect, however, that the extent of the unemployment threat will vary depending on people’s experience with the particular segments of the “old” and “new” LM and their history of mobility between these segments, as well as their demographic characteristics,

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especially gender and age. To assess whether this is the case, I use event history analysis on panel data from Poland in 1988–2003. Since the data offer information on respondents’ employment histories over a fifteen-year period, event history analysis is well-suited to the task: by taking time into account explicitly, it allows me to focus on the factors that statistically determine experiencing unemployment after first job loss. Poland offers an ideal socioeconomic and political environment for this analysis because, as in all communist economies, central planning represented the primary base of production and distribution of resources within society, and official unemployment did not exist; and following 1989, free-market economic principles replaced the logic of central planning, engendering significant consequences for the Polish labor market structure.

## Theory and Hypotheses

A look at Eastern European countries’ organization prior to 1989 reveals that the two most noticeable forces differentiating the socialist LM were the *nomenklatura* system and state glorification of *heavy industry* (see Domański 1990; Slomczynski and Lee 1993).<sup>1</sup> *Nomenklatura* refers to the network of citizens within a communist society who were either members of the communist party or were personally sponsored by a party member. Within the allegedly classless system, the *nomenklatura* were particularly advantaged, as they were well protected from outside LM competition and earned significantly more than non-*nomenklatura*, controlling for education, party membership, work complexity, work experience, and firm size (Mach and Slomczynski 1995; Slomczynski and Lee 1993). Since entry into and exit from the *nomenklatura* system depended on the party-state, occupational mobility largely occurred within positions set aside for the *nomenklatura*. In practice, this system led to the segmentation of the socialist LM into positions reserved for party appointees on one hand, and everybody else on the other. Its persistence for roughly five decades enabled *nomenklatura* members to achieve a privileged status within the socialist society, as well as to translate some of the political capital into economic assets after the end of communism (see Szelenyi and Szelenyi 1995).

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<sup>1</sup> Labor markets are “arenas in which one or more of the following are similarly structured: employment, movement between jobs, development and differentiation of job skills, or wages (in their own right or as functions of skills, social status experience and other determinants)” (Althauser and Kalleberg 1981: 121).

Hypothesis 1: In societies moving from a socialist to a capitalist economy, members of the former *nomenklatura* system will be less exposed to the risk of experiencing unemployment, because their ability to translate political assets into economic ones continues to help them reduce the risk of job loss.

Centralized economic planning and an ideology that workers in heavy industry are the economic and social foundation of the communist party-state placed factory workers in an advantaged position. Beginning with the 1950s, countries in Eastern Europe adopted massive industrialization as a major means of rapid economic development and the building of a new, communist society. To attract the needed labor force, the state offered relatively high wages as well as special social status to workers directly involved in production. Previous research indicates that employees in heavy manufacturing received the highest earnings and faced one of the lowest premium values for each additional level of schooling (see Domański 1988), while their “privileged position did not result from better qualifications or occupational experience connected with age” (Domański 1990: 431). The fact that powerful lobbies in the government allowed heavy industry to preserve wage discrepancies over time (Wesolowski 1988) explains how heavy industry came to represent the other major dimension of the socialist LM (see Domański 1990).

Hypothesis 2: Economic restructuring following the end of communist rule will affect the risk of unemployment. Specifically, people who worked in the heavy industry sector prior to the systemic change will have a higher risk of job loss, given the reliance of the “new” economy on market principles rather than on the logic of central planning.

In sum, under communism two types of dimensions segmented the labor market in East European countries: a political dimension, in which the *nomenklatura* operated, and an economic dimension, in the sense of different rules of hiring, firing, and/or rewarding employees in heavy industry versus the rest of the economy. With the demise of communism, these “old” LM segments were, at least theoretically, no longer privileged. Instead, new markets in terms of private businesses opposed to state firms became the major division of the economy in terms of hiring, firing, and rewarding.

Hypothesis 3: Flowing from the previous premises, mobility from the “old” LM segments, the *nomenklatura* and heavy industry, into the newly privatized economy are likely to significantly alter one’s risk of experiencing first unemployment.

Of course, when examining the effects of LM segmentation on unemployment one must also account for individuals' personal characteristics, especially gender and age. Research on the former socialist countries of Central and Eastern Europe shows that economic restructuring and a decrease in welfare state provisions since 1989 have affected women disproportionately (Bretherton 2001; Pollert 2003), and have led to their temporary or permanent exit from the labor force. This, combined with the fact that the state no longer guarantees jobs for everyone at the time of their completion of educational training leads to the assumption that the risk of unemployment will be different for men and women and for different age groups.

## Data and Methods

All analyses in this chapter are based solely on the panel participants. Moreover, the sample has been restricted to respondents who were working or were students in 1988. This resulted in a sample of people who were all exposed to the risk of experiencing job loss after 1988 ( $n = 1,047$  observations).

## Methods

The POLPAN panel survey offers information on respondents' employment histories between 1988 and 2003. Thus, I use event history analysis to model the relationship between individual- and structural-level characteristics and the risk of experiencing job loss (see Allison [1984] for an introduction to event history). Specifically, I choose the Cox regression model because the particular form of the baseline hazard for experiencing unemployment may assume a variety of forms, and I am primarily interested in the ordered duration times rather than the exact times of occurrence.

The Cox model is a proportional hazard model in which the particular form of the baseline hazard rate is assumed to be unknown and is left unparameterized (thus, no intercept).<sup>2</sup> Because the Cox model uses only "part" of the available data, its likelihood function is a partial likelihood function. The partial likelihood method is based on the assumption that the intervals between successive duration times (or failure times) contribute no information regarding the relationship between the covariates and the hazard rate

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<sup>2</sup> The hazard rate at time  $t$  is defined as the probability that an event will occur at time  $t$ , given that it has not already occurred (Box-Steffensmier and Jones 2004).

(i.e., it is the ordered failure times, rather than the interval between failure times, that contributes information to the partial likelihood function). Hence, the issue of ties becomes important. I rely on the Efron method to account for this potential shortcoming (see Box-Steffensmeier and Jones [2004] on the advantages of using Efron).

In Cox models, the hazard rate is a function of the baseline hazard function, multiplied by the covariates and regression parameters.

$$h_i(t) = h_0(t) \exp(\beta'x)$$

where:

$h_i(t)$  = hazard at time  $t$

$h_0(t)$  = baseline hazard at time  $t$

$x$  = covariate matrix

## Variables

The duration variable is the number of years between a person's age upon entering the labor force and his/her age at the time of first job search following unemployment. I calculated this variable by subtracting 18 from the respondent's age at first job search. The rationale for choosing 18 years lies in the fact that it represents the age at which the majority of young adults in Poland start working or enter college. For those respondents who did not experience unemployment by the survey's last wave, the duration variable was calculated as respondent's age in 2003 – 18. The duration variable ranges from 6 to 63. The dependent variable is first job search following unemployment, constructed as a dummy (event = 1). Although a person can be at risk of job loss multiple times, for the present analysis the event is treated as non-repeated. In other words, I am examining first entry into the unemployment state.

To examine whether changes in the LM structure following rapid systemic transformations are important for risk of unemployment, this analysis included variables representative of the "old" as well as the "new" LM segmentation. Informed by previous research, privileged position in the pre-1989 economy is captured by a person's belonging to the *nomenklatura* system or to the heavy industry sector (see Domański 1990; Slomczynski and Lee 1993). Both of these variables were constructed as dummies. To capture the new division of the LM succeeding decentralization and privatization of the Polish economy, I constructed the dichotomous variable "newly privatized economy," which includes respondents who in 1993 were employees in privatized firms outside of agriculture, as well as entrepreneurs

(employers and self-employed outside of agriculture). To examine whether unemployment risk affects women and men differently under conditions of rapid change in LM segmentation, I included a dichotomous variable for gender (male = 1). Furthermore, the regression equation includes respondent's age in 2003, as well as a quadratic term for age. Observations were right-censored if respondents did not experience a job search by 2003. Left censoring in the present analysis is not an issue because of the social conditions in communist Poland (no unemployment).<sup>3</sup>

## Findings

Table 8.1 presents the descriptive statistics for the dependent variable, the duration variable, and the covariates. Since first search for a job following unemployment represents the event, persons either experienced the event (event = 1) or did not (event = 0). For this analysis, the youngest age at first job search is twenty-four, and the maximum, in 2003, is seventy-two years. Respondents' ages in 2003 range from thirty-seven to eighty-one.

**Table 8.1.** Descriptive Statistics for Variables

Variable	<i>N</i>	Mean	SD	Min.	Max.
First job search (event)	1,047	0.307	0.461	0	1
Duration variable	1,047	34.279	12.307	6	63
Gender (male = 1)	1,047	0.529	0.499	0	1
Labor market segments					
Old:					
<i>Nomenklatura</i>	1,047	0.116	0.320	0	1
Heavy industry	1,047	0.254	0.436	0	1
New:					
Newly privatized economy*	1,047	0.179	0.383	0	1
Age at first job search	321	41.803	8.629	24	72
Age in 2003	1,047	54.716	10.590	37	81

\* Newly privatized economy refers to employees in privatized firms outside of agriculture and entrepreneurs (employers and self-employed outside of agriculture).

<sup>3</sup> Right censoring means that by the time of the interview the event had not yet been experienced; left censoring means that the event did occur before the interview, but one does not know when (Box-Steffensmier and Jones 2004).

Before addressing the issue of the relationship between changes in the structure of the Polish economy and unemployment risk, it is interesting to assess the extent to which people belonging to LM segments privileged under communism succeeded in moving to the newly privatized market.

Table 8.2 shows that people within the labor markets privileged under communism fared better in terms of mobility to the post-1989 private sector. In accordance with previous arguments about the *nomenklatura*'s ability to convert political assets into economic assets (see Mach and Slomczynski 1995; Szelenyi and Szelenyi 1995), Table 8.2 shows a large degree of mobility among members of the *nomenklatura* system: 27 percent of them moved to the newly privatized economy, compared with 21 percent of workers in heavy industry. Moreover, among people belonging to segments of the communist labor market other than the privileged ones, only 15 percent made the move to the newly privatized economy.

**Table 8.2.** Mobility from “Old” to “New” Labor Market Segments, Polish Panel Study, 1988–2003

Old labor market segments	New labor market segments		Total <i>n</i> = 100%
	newly privatized economy (%)	other (%)	
<i>Nomenklatura</i>	27.3	72.7	121
Heavy industry	21.1	78.9	266
Other	15.3	84.7	668
Total	17.9	82.1	1,047

As a first step in examining the impact of the transforming Polish labor market structure on one’s risk of experiencing unemployment, Table 8.3 presents the uncontrolled effects of the “old” and of the “new” LM segments.

**Table 8.3.** Uncontrolled Effects of “Old” and “New” Labor Market Segments on Risk of Unemployment, Cox Model (variance corrected)

Independent variables	Coeffi-cie nt <sup>a</sup>	SE	Hazard ratio	Coeffi-cie nt <sup>b</sup>	SE	Hazard ratio	Coeffi-cie nt <sup>c</sup>	SE	Hazard ratio
<i>Nomenklatura</i>	-0.522**	0.191	0.593**						
Heavy industry				0.624***	0.119	1.867***			
Newly privatized economy							-0.121	0.147	0.886

<sup>a</sup> *N* = 1,047; censored observations = 720; log pseudolikelihood = -2,121.864; Wald  $\chi^2(1) = 7.44$ .

<sup>b</sup> *N* = 1,047; censored observations = 720; log pseudolikelihood = -2,112.863; Wald  $\chi^2(1) = 27.56$ .

<sup>c</sup> *N* = 1,047; censored observations = 720; log pseudolikelihood = -2,125.429; Wald  $\chi^2(1) = 0.68$ .

\*\*\**p* < 0.001; \*\**p* < 0.01.

In accordance with my hypotheses, results indicate that, in the absence of any other information, being part of the *nomenklatura* political labor market decreases one’s hazard of experiencing unemployment by 40 percent.<sup>4</sup> Further on, without controlling for other aspects, having worked in heavy industry increases a person’s hazard of experiencing unemployment by 87 percent. While the “newly privatized economy” coefficient and hazard ratio are not statistically significant, the negative relationship is as expected. Individuals who start their work experience in the private sector under rules of competition are likely to have more transferable skills than those who formerly worked in state enterprises. In addition, when certain types of economic activities collapse within the nationalized sector, given the latter’s more monopolistic trends and the larger size of its enterprises, a much larger proportion of employees is affected.

Table 8.4 presents the results of the Cox regression of experiencing first unemployment on *nomenklatura*, heavy industry, and the newly privatized economy. Two models are included, Model 1 without corrections for the standard errors, and Model 2 with corrections, to account for possible multicollinearity in the sample.

**Table 8.4.** Cox Regression of Experiencing Unemployment on “Old” and “New” Labor Market Segments, with and without Corrected Standard Errors

Independent variables	Model 1 (without corrections) <sup>a</sup>			Model 2 (with corrections) <sup>b</sup>		
	coefficient	SE	hazard ratio	coefficient	SE	hazard ratio
“Old” labor market segments						
<i>Nomenklatura</i>	-0.388 <sup>+</sup>	0.204	0.678 <sup>+</sup>	-0.388*	0.196	0.678*
Heavy industry	0.597***	0.120	1.816***	0.597***	0.121	1.816***
“New” labor market segments						
Newly privatized economy	-0.1490	0.153	0.861	-0.150	0.151	0.860

<sup>a</sup>*N* = 1,047; censored observations = 720; log likelihood = -2,110.141; LR  $\chi^2$  (3) = 31.23; *R*<sup>2</sup> analog = 0.03 (to calculate *R*<sup>2</sup> analog 1 use the formula *R*<sup>2</sup> = 1 - exp(-L / n).

<sup>b</sup>*N* = 1,047; censored observations = 720; log pseudolikelihood = -2,110.141; Wald  $\chi^2$  (3) = 31.26.

\*\*\**p* < 0.001; \*\**p* < 0.01; \**p* < .05. +*p* < 0.1, one-tailed test.

<sup>4</sup> To make interpretation more meaningful, I calculate the  $(e^{\text{beta}} - 1) * 100$  value for the hazard ratios and/or the coefficients.

**Table 8.5.** Cox Regression of Experiencing Unemployment on “Old” and “New” Labor Market Segments, and on the Interaction Between “Old” and “New” Labor Market Segments, with Corrected Standard Errors

Independent variables	Coefficient	SE	Hazard ratio
“Old” labor market segments			
<i>Nomenklatura</i>	-0.358	0.227	0.699
Heavy industry	0.754***	0.131	2.126***
“New” labor market segments			
Newly privatized economy	0.199	0.184	1.220
Interaction terms			
<i>Nomenk</i> *Newly Private	-0.148	0.449	0.863
Heavy Ind*Newly Private	-0.982**	0.332	0.374**

$N = 1,047$ ; censored observations = 720; log pseudolikelihood =  $-2,105.744$ ; Wald  $\chi^2(5) = 42.45$ .  
 \*\*\* $p < 0.001$ ; \*\* $p < 0.01$ .

Comparing (a) the coefficient magnitudes, directions of influence, and significance levels, (b) coefficient standard errors, and (c) the hazard ratios in Table 8.4 indicates very small differences across the models, thus suggesting that multicollinearity is not an issue. Nonetheless, I take a conservative approach to this problem, and keep the corrected standard errors approach throughout this analysis.

With regard to the effects of the different types of LM segments, one can see from Table 8.5 that, controlling for heavy industry and the newly privatized economy, *nomenklatura* has a negative, statistically significant effect on risk of unemployment. People who have worked in heavy industry, on the other hand, are punished under the post-communist LM structure. They have 81 percent greater chances of experiencing unemployment than people who, prior to 1989, belonged to economic sectors other than heavy industry.

Next I am interested in whether moving into the newly privatized economy further affects the risk of unemployment for former *nomenklatura* members and heavy industry workers. Two interaction terms, (a) between *nomenklatura* and newly privatized economy, and (b) between heavy industry and newly privatized economy should capture this relationship. Table 8.6 presents the results.

The interaction “*Nomenk*\*Newly Private” is not statistically significant, but the interaction between heavy industry and newly privatized economy is. For those who worked in heavy industry prior to 1989 but managed to move into the private sector after the systemic change, the risk of unemployment is

62 percent lower than for people who continue working in heavy industry, for those who began their work history in the newly privatized sector, and for those belonging to other segments than the two just discussed. Hence, the results suggest that moving into the newly privatized economy overrides the negative effect of having worked in heavy industry during communism.

**Table 8.6.** Cox Regression of Experiencing Unemployment on Selected Independent Variables, with Corrected Standard Errors

Independent variables	Model 1 <sup>a</sup>			Model 2 <sup>b</sup>		
	coefficient	SE	hazard ratio	coefficient	SE	hazard ratio
"Old" labor market segments						
<i>Nomenklatura</i>	-0.243	0.213	0.784	-0.231	0.213	0.794
Heavy industry	0.364*	0.15	1.438*	0.360*	0.151	1.434*
"New" labor market segments						
Newly privatized economy	-0.113	0.182	0.893	-0.098	0.183	0.909
Interaction terms						
Heavy Ind*Newly Private	-0.896**	0.354	0.408**	-0.909**	0.357	0.403**
Gender (male = 1)	0.215 <sup>+</sup>		1.246 <sup>+</sup>	0.230 <sup>+</sup>	0.132	1.255 <sup>+</sup>
Age	-0.160***	0.010	0.852***	-0.266***	0.064	0.767***
Age <sup>2</sup>				0.001 <sup>+</sup>	0.0006	1.001 <sup>+</sup>

<sup>a</sup>  $N = 1,047$ ; censored observations = 720; log pseudolikelihood =  $-1,921.101$ ; Wald  $\chi^2(6) = 439.19$ .

<sup>b</sup>  $N = 1,047$ ; censored observations = 720; log pseudolikelihood =  $-1,920.123$ ; Wald  $\chi^2(7) = 571.66$ .

\*\*\* $p < 0.001$ ; \*\* $p < 0.01$ ; \* $p < .05$ ; <sup>+</sup> $p < 0.1$ .

To examine whether experiencing unemployment under conditions of changing LM structures differs for women and men, and for people of different ages, Table 8.6 adds gender and age into the equation. In addition, to account for the potentially nonlinear impact of age, Model 2 in Table 8.6 includes a quadratic form for age.

The coefficient for gender, statistically significant one-tailed, shows that men are 26 percent more likely than women to experience unemployment, other factors being accounted for. This result needs to be understood in the context of post-communist Polish society, where economic restructuring and insufficient welfare provisions led women to exit the labor market. Hence,

men's risk of experiencing unemployment after job loss is assessed in comparison with those women who remain or decide to reenter the labor force, and who have skills that allow them to be competitive in the LM. The effect of age is more intuitive: younger people are more exposed to the risk of job loss, but as they get older, it diminishes. Model 2 in Table 8.6 further suggests that this relation may be nonlinear.

Adding gender and age to the model does not significantly alter the basic relationship between "old" and "new" LM segments and one's risk of job loss. Controlling for age and gender decreases the impact of heavy industry on the risk of unemployment, but the effect is still substantial and statistically significant. This negative effect, however, is largely overridden by moving into the newly privatized economy after the fall of communism. For heavy industry employees who succeeded in moving into the newly privatized economy after 1989, the risk of job loss is 60 percent less than it is for those who continued to work in heavy industry, for individuals who began their work history in the newly privatized sector, and for people belonging to sectors other than the two just discussed. The *nomenklatura* variable, on the other hand, loses statistical significance once I controlled for both gender and age. A regression equation including all variables discussed previously except for age (results not reported) shows that, controlling for gender, *nomenklatura* decreases the risk of unemployment (alpha level of 0.05).

Finally, I am interested in whether crucial variables for characterizing the Polish LM—that is, the *nomenklatura*, heavy industry, and the private sector have different effects for men and women, and for different age groups. To examine this possibility, I performed Cox regression analysis with appropriate interaction terms. Since none of the interaction terms involving gender was significant, I conclude that the LM characteristics considered here act in the same way on women and men.

With respect to age, I found one significant interaction, that involving *nomenklatura* (Table 8.7). *Nomenklatura* as such continues to decrease the risk of unemployment, but when considered together with age, it becomes apparent that the older *nomenklatura* members are the more vulnerable they are to unemployment. The situation, however, is opposite for younger *nomenklatura* members.

This effect is definitely substantively and statistically significant. In a sense, it calls for reinterpretation of the results from Table 8.6, as it would be misleading to assume that the effect of *nomenklatura* becomes negligible when age is accounted for. What happens is that membership in the *nomenklatura* acts differently for different age groups.

**Table 8.7.** Cox Regression of Experiencing Unemployment on Selected Independent Variables, with Corrected Standard Errors

Independent variables	Coefficient	SE	Hazard ratio
Gender (male = 1)	0.233 <sup>+</sup>	0.132	1.263 <sup>+</sup>
Age	-0.165 <sup>***</sup>	0.008	0.848 <sup>***</sup>
“Old” labor market segments			
<i>Nomenklatura</i>	-3.831 <sup>**</sup>	1.360	0.022 <sup>**</sup>
Heavy industry	0.352 <sup>*</sup>	0.151	1.422 <sup>*</sup>
“New” labor market segments			
Newly privatized economy	-0.106	0.181	0.899
Interaction terms			
<i>Nomenk</i> *Age	0.066 <sup>**</sup>	0.023	1.068 <sup>**</sup>
Heavy Ind*Newly Private	-0.919 <sup>**</sup>	0.355	0.399 <sup>**</sup>

$N = 1,047$ ; censored observations = 720; log pseudolikelihood =  $-1,917.993$ ; Wald  $\chi^2(7) = 458.66$ .

\*\*\* $p < 0.001$ ; \*\* $p < 0.01$ ; \* $p < 0.05$ ; + $p < 0.1$ .

## Conclusions and Discussion

The purpose of this chapter was to investigate the occurrence of first unemployment through individuals' careers under conditions of systemic change. Posing the general question of whether the hazard of losing one's job varies in terms of shifts in LM segmentation following the fall of communism, this analysis tested three main hypotheses. The first hypothesis proposed that in societies moving from a socialist to a capitalist economy, the risk of unemployment would be lower for members of the former *nomenklatura* system because of their ability to translate political assets into economic ones. The second hypothesis assumed a higher risk of job loss for people who worked in the heavy industry sector prior to the systemic change, given the reliance of the “new” economy on capitalist market principles rather than the politics and ideology of the communist party-state. Flowing from these theoretical premises, the next question asked whether mobility from the “old” LM segments, the *nomenklatura* and/or heavy industry, into the newly privatized economy would be likely to significantly alter one's risk of experiencing first unemployment. I answered these questions considering workers' demographic characteristics, especially gender and age.

The results of this analysis support the research expectations. Changes in the labor market structure due to the end of central planning and the move toward a free-market economy directly affect people's risk of unemployment. Nonetheless, this risk differs based on one's position in the "old" labor market segments. Former *nomenklatura* members have a much lower hazard of experiencing unemployment, but having worked in the socialist heavy industry sector significantly increases one's likelihood of job loss. Not surprisingly, mobility from the socialist LM segments to the newly privatized economy is greatest among the *nomenklatura*. Further on, as the state ceases to provide jobs at the completion of educational training, we see a greater risk of experiencing unemployment for the young. The impact of age seems to be nonlinear, however.

With respect to gender, results show that under the conditions of LM restructuring, men are more likely to experience unemployment than women. While this result seems counterintuitive at first, one needs to remember that in post-communist Polish society, economic restructuring and the reduction of welfare provisions led many women to leave the labor force. It is reasonable to assume that those who remain in the LM have various special skills, and it is in comparison with this group that men face greater chances of job loss.

The most interesting finding in this analysis pertains to the gains that moving into the newly privatized economy bring to socialist heavy industry employees. Although in general the post-1989 restructuring of the economy increased the risk of unemployment for heavy industry workers, this disadvantage (i.e., coming from heavy industry) is overridden for those who succeed in moving to the newly privatized sector. Not only is their risk of experiencing job loss much lower than that of people who continue working in heavy industry—moving to private industry from heavy industry brings more advantage than not having been in heavy industry to begin with.

In conclusion, this study demonstrates that LM segmentation before and after 1989 has a long-lasting effect on people's risk of unemployment, with the *nomenklatura* system retaining its significant effect when its interaction with age is considered. The results go beyond the obvious, namely, that human capital is inversely related to the risk of unemployment, and point to the importance of social capital in the transforming societies of Central and Eastern Europe.