



**"Uluchay" Social-Economic Innovation Center**  
**COVID-19 and the Growth of Social-Democratic Capitalism.**  
**Shaki-Zagatala Regional Unemployment Analysis**

2020

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## **1. INTRODUCTION AND OVERVIEW**

- **International Economic Commercial Opportunities**

According to the information dated November 4, 2020, there are more than 47 million infection cases and more than 1 million deaths worldwide. For Azerbaijan these figures were published as 57,000 infection and 753 death cases.<sup>1</sup>

Two scenarios are implemented on economic impact of COVID-19 pandemic. Under the best-case scenario, defined as a two-month travel prohibition and a sharp drop in domestic demand, the global Gross Domestic Product (GDP) is expected to lose about 76.7 billion (-0.54%) US dollars. Under the worse-case scenario defined as six-month travel prohibition, the global GDP is expected to lose about 346.98 billion (-2.43%) US dollars (Duffin, 2020). And this case is characterized by the International Monetary Fund (IMF) as greater than the slowdown during the financial crisis in 2008 (IMF, 2020).

International Labor Organization estimates that business income losses (excluding income support measures) decreased by 10.7 percent or 3.5 trillion US dollars in the first three quarters of 2020 (compared to the same period in 2019). This volume is equal to 5.5% of global GDP for the first three quarters in 2019<sup>2</sup>. According to CEIC, unemployment level for Azerbaijan increased from 4.91% to 6.46% in June compared to March, 2020<sup>3</sup>. This unemployment rate of 6.46% is the highest since 2008.

- **Requirement to Social Planning**

In most countries, including the Republic of Azerbaijan, the end of state socialism (collapse of the Soviet system) was the beginning of reforms leading to a market economy and democratic governance. However, the way of interpretation of how to apply the market economy has significantly changed from country to country (Hirt, 2015). Attempts to move from the system with zero unemployment rate and where each and every detail of economy is planned to capitalistic

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<sup>1</sup> Covid-19 statistics, WHO, 4.11.2020, <https://covid19.who.int/region/euro/country/az>

<sup>2</sup> Covid-19 and workforce statistics, ILO, 4.11.2020, <https://ilostat.ilo.org/topics/covid-19/>

<sup>3</sup> Azerbaijan unemployment statistics, CEIC, 4.11.2020, <https://www.ceicdata.com/en/indicator/azerbaijan/unemployment-rate>

system, created a mixed-type system in most countries. Dependence of this system on the economic planning remains high, thus, "liberal" economies with a lack of planning face serious unemployment and high export thresholds.

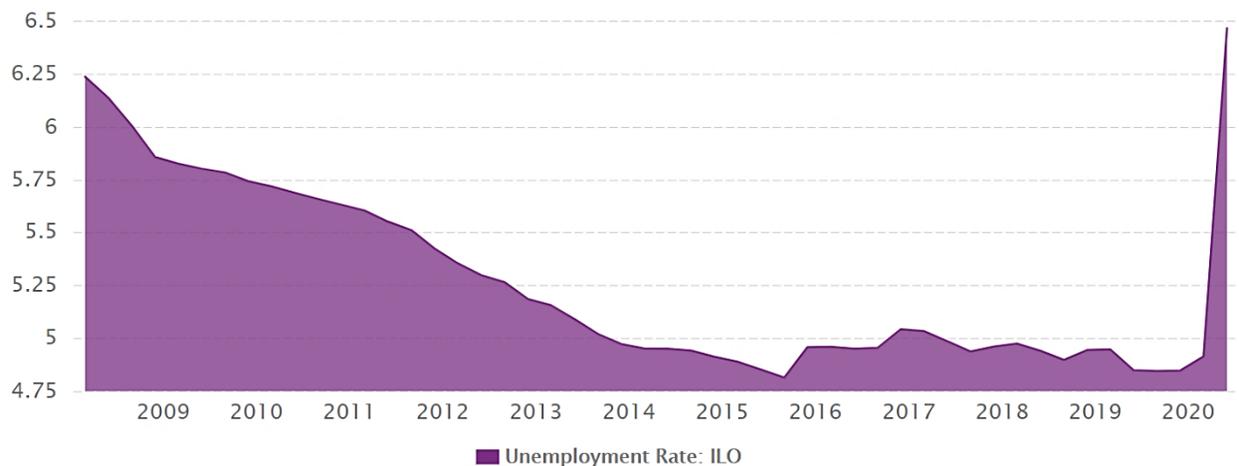
Social planning is also significant for countries beyond the post-Soviet ones. Negative impact of COVID-19 on international economy, especially, on unemployment, significantly increased the interest on the theory of Social Democratic Capitalism. The theory sees the rise of capitalist societies, which have been successfully developing to this present time, in 4 main factors. They are democratic political system, good primary and secondary schools, large social state and public employment services (Kenworthy, 2019). The last factor regarding employment policy is important in solving the problem of unemployment caused by the pandemic with minimal economic damage. The first version of employment policy was suggested by J.M. Keynes during the economic crisis in 1929 and was successful in its solution.

This policy note analyzed the impact of pandemic on unemployment rate and social care in Shaki-Zagatala. Details of Social Democratic Capitalism according to the analysis have been revealed and its applicability to the region has been evaluated. An offer plan has been developed to help to minimize unemployment, which is a loss of both human and financial resources, within the framework of Sustainable Development Objectives. An experience of social planning of the Republic of Azerbaijan has been taken into consideration in development of the offer plan.

## **2. UNEMPLOYMENT AND ITS IMPACT**

Based on the decisions of the Task Force under the Cabinet of Ministers of the Republic of Azerbaijan taken on March, 2 - September, 8 and November, 2, function of intercity noncommercial vehicles as well as air vehicles with other countries except the Republics of Turkey and Pakistan, have been suspended. This decision makes the analysis of economics according to the Duffin's second scenario, important. Based on the information published by Azerbaijan Statistics Committee for January-September, the country's non-oil GDP decreased by 2.4% and total GDP by 3.9% compared to the last year. With reference to the Duffin's statistics, in accordance with the official data, it is inevitable that the negative impact of the pandemic on the country's economy will be higher than the world average.

## Unemployment rate in Azerbaijan



The first and sharp impact of the decline in economic growth is felt in the labor market. An obvious indication of this is higher rate of unemployment compared to the global crisis in 2008. The impact of pandemic is observed in retail, tourism, entertainment, wedding and funeral events management sectors. The contraction of economic activity in these sectors leads to the layoffs of unskilled workers (low-income) in these sectors.<sup>4</sup> It's obvious that unemployment rate will continue to increase during the pandemic period.

High rates of unemployment will lead to a serious contraction in demand in a short term, and a serious long-term contraction in production, and this contraction will obstruct the growth of the country's economy. As it's seen from the mechanism, unemployment is an "invisible hand" maintaining the balance in country's economy<sup>5</sup> and therefore it should be taken into account.

The simplest way to overcome short-term impacts is social aid to low-income families or unemployed people.<sup>6</sup> However, the existence of social aid as a part of laborless structure in return, leads to the waste of economic resources, such as the emergence of the ideology of getting unearned income and the exclusion of labor force. Avoiding waste and keeping demand equal to social aid makes social planning necessary.

<sup>4</sup> The negative impact of COVID-19 on low-income families is particularly acute, and this impact has halted significant progress achieved in reducing extreme poverty around the world since the 1990's (IMF, 2020).

<sup>5</sup> An "invisible hand" term was first introduced into the economic literature by Adam Smith as a balancing factor.

<sup>6</sup> For suggestions on solution of short-term impacts see: Tural Yusifzada (2020). Economic impact of Covid-19 pandemic. Shaki: Uluchay

### **3. SOCIAL PLANNING TO SOLVE THE UNEMPLOYMENT ISSUE**

It is obvious that the solution of unemployment issue, which is a requirement of the modern system changed by the pandemic, will not be sought in a free market economy. Notwithstanding with the fact that a number of countries around the world have decided to increase social public expenditures on this solution, in some countries special social planning has moved to the forefront. Such countries as Pakistan have taken an advantage of the situation and hired unemployed workers to plant trees in deforested, drought and depasturable areas. Pakistan's social planning has been quite successful - since the beginning of the coronavirus, workers have planted 30 million young plants from mulberry to acacia and moringa trees. The aim is to grow 50 million of planted trees till the end on 2020 (Rosenberg, 2020). Pakistan is tackling the country's lack of green space, unemployment and labor waste through a single and successful social planning.

Proceeding from Pakistani experience, to solve the unemployment and labor waste problems in Azerbaijan, social planning suggestions should be taken into account.<sup>7</sup> Due to Soviet planning experience, the probability of success of social plan to be adopted by the state in Azerbaijan should be considered very high.

#### **• SOCIAL PLAN IN SHAKI-ZAGATALA REGION**

First stage: Development of legal infrastructure. Age bracket of people to be hired under the social plan should be defined by law. Disability, marital status and other exceptions should be identified and assistance to people seeking social aid outside these exceptions should be discontinued.<sup>8</sup> Social aid (social income) should be paid to planned employees on a monthly basis, while half of the income from the social plan should be given to the employer in order to limit low-quality employment.<sup>9</sup>

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<sup>7</sup> The third problem must be identified by regional analysis. For instance, given the geographical and labor potential of Shaki-Zagatala region, the target problem of social planning should be concentrated in three sectors. These sectors are farming (cotton), livestock breeding and fruit (hazelnuts, mulberries for the development of cocoons) growing.

<sup>8</sup> This law will eliminate the opportunity for people to receive laborless aid and will accelerate the employment of people in need within the social plan.

<sup>9</sup> The rest of the received income should be used to meet the cost of the social plan and expand the scope of the plan.

Second stage: Human resources management. Regional Employment Committee should group people who apply for social aid or based on a social plan in accordance with their ability to work in agriculture, livestock breeding, or fruit plantations. According to this grouping, social income differences should be defined with respect to seasonal factors and the severity of the workload, and cross-sectoral seasonal job changes should be planned flexibly <sup>10</sup>.

Third stage: Reestablishment of Collective-farming control management system. "Transparent" collective-farming system, which will organize the investment management in all three sectors, the inspection of the work implemented and the consistency of communication with relevant government agencies, must be updated within the social plan. This system should carry out the sale of social plan products under the market economy rules and distribution of the gained income.

Final result of the plan: According to the plan, the growth of cotton fields, nuts, fruits and vegetables and exports to the global market in these areas, raising livestock to a level that meets the needs of the region, minimizing the level of unemployment under modern market rules and increasing economic activities in the region (money turnover and related GDP) are expected.

In case of success of this social plan, such changes as increase in quality in country's agricultural sector, increase in sales to worldwide market will be realized. These changes should not be considered only as the solution of unemployment, labor waste, agricultural issues, but also as a profitable plan for the country's economy. The last, fourth stage of the social plan suggests technological agriculture for improvement of profitable "additional goal". This suggestion supports scientific researches in agricultural sector.

## References

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<https://www.statista.com/statistics/1102971/covid-19-monetary-global-gdp-loss-scenario/>

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<sup>10</sup> As an example, due to the decline in agricultural employment in winter months, the relocation of workers in this sector to other sectors should be planned smoothly.

Hirt, S. (2015). *Planning During Post-Socialism*. Elsevier.

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