Labour Market Dynamics in Ukrainian Industry in 1992-94: Results from the ULFS

by

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This is a draft; comments would be welcome. All views and conclusions are those of the author only and should not be attributed to the ILO.

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Labour Market Dynamics in Ukrainian Industry in 1992-94: Results from the ULFS

1. Introduction

Ukraine was a crucial part of the Soviet economic system, and as such was severely affected by its dissolution. It was particularly integrated into the 'military-industrial complex', although across most industrial sectors the degree of backward and forward linkages was considerable. Since Independence in 1991, Ukraine's economy has plunged into what might be described as *hyper-stagflation*, in which output has shrunk by up to 50% and in which inflation in 1993 alone was over 10,000%. To many observers, during this period policymaking for the essential restructuring of production and distribution seemed almost paralysed, with some modest reforms in some areas being held back by inertia elsewhere.

For economic restructuring to succeed in arresting the decline and in beginning the long process of economic regeneration, what happens at the micro-economic level of the enterprise is crucial. Relatively little is known about the impact of the economic changes and limited restructuring policies on industrial enterprises, and in particular little is known about the impact on employment and labour practices, or of what changes are most urgently required in the labour market sphere. Raising productivity will be a key to economic regeneration, and it is widely recognised that labour productivity in Ukrainian industry has been very low and declining. Official data have suggested that although employment has declined, it has done so by much less than output. And, unbelievably, as of mid-1994, the registered unemployment rate had remained below 1%. The reliability of such figures and related labour market trends are considered in detail elsewhere.[1] Whatever they reveal, there is ample scope for concern that labour market deterioration is accelerating.

As part of ILO-CEET's work in Ukraine, in early 1994 we carried out a detailed survey of industrial establishments in six regions of the country — Kiev City, Kiev Region, Donetsk, Kharkov, Lvov and Nikolaevsk. The resultant Ukraine Labour Flexibility Survey (ULFS) covered a random sample of establishments selected to give a cross-section of industries in each of the six regions.[2] The fieldwork was carried out in collaboration with the Ministry of Statistics of Ukraine, as one of ILO-CEET's series of enterprise surveys in countries of the region. The completed sample was 348 establishments, covering a total of 372,772 workers and employees. As in our related labour flexibility surveys in Bulgaria, Hungary, Russia and elsewhere outside the region, the methodology involved interviews with senior managements and two questionnaires, one statistical part delivered to the establishment management to be completed by various sections of the establishment and another administered orally in discussion with managers, often accompanied by senior staff and union representatives.

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[1] ILO-CEET, The Ukrainian Challenge: Reforming Labour and Social Policy (Budapest, ILO-CEET and UNDP, 1994).

[2] The unit of the survey was an *establishment*, which statistically should be distinguished from an *enterprise*, which consists of one or more estalishments. The average size of establishment, in terms of capital, employment, sales, etc, will be considerably smaller than for enterprises.

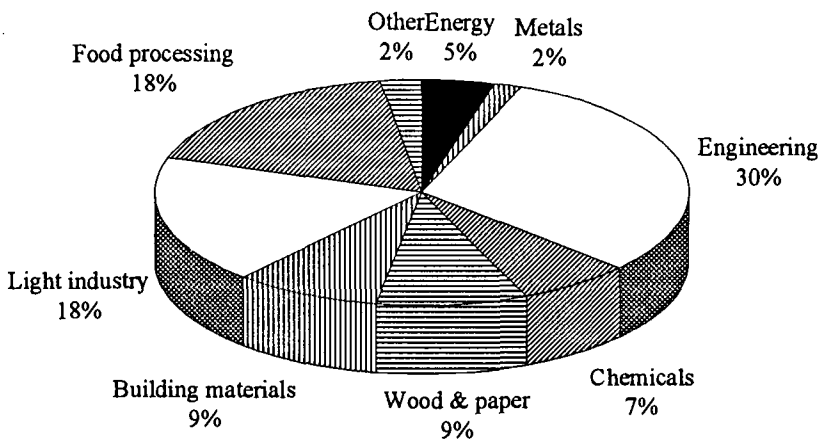
This is the first report of findings from the ULFS, with emphasis on aspects of restructuring, labour surplus and labour shedding. Other papers will follow going into more detail on the more important topics raised in the following.

2. Structural Characteristics of Ukrainian Industry in 1994

As in the equivalent Russian surveys, engineering accounted for the largest share (30.5%) of the establishments covered by the ULFS, followed by the category designated in Ukrainian statistics (and used here for convenience) as "light industry", which comprised textiles, garments, leather, glassware and china production; the third most numerous was food processing (Figure 1).[3]

The employment size distribution showed that less than one-third of the factories had fewer than 250 workers and that over one quarter had more than 1,000 (Figure 2), with the share of the larger establishments being greater than was in the case in the 1993 round of the Russian survey and being closer to the pattern found in the 1992 round, which suggests that restructuring might be one or two years behind in Ukraine. Overall, the mean average size of establishment was 1,071 workers and employees, with the average ranging from 3,637 in the energy sector to 512 in wood and paper products, reflecting the large-scale nature of industrial production in Ukraine, even in early 1994. The largest average size was in Kiev (2,310), followed by Donetsk (1,863), and the smallest was in Lvov (336). These figures seem to be a reflection of the large-scale nature of industrial production in Ukraine, not a statistical artifact.

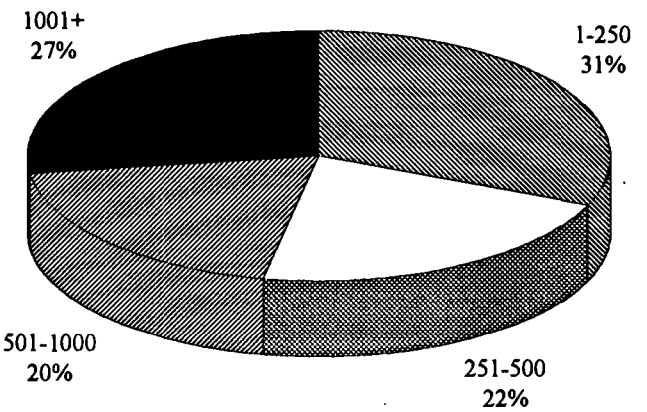
Figure 1: Industrial Distribution of Establishments, All Regions, 1994, Ukraine



n = 348
Source: ULFS1

[3] The industrial distribution was, coincidentally and not by design, remarkably similar to that of the third round of the Russian Labour Flexibility Survey, probably reflecting the similarity of industrial structure in the two economies. On the RLFS3, see G.Standing, Labour Market Dynamics in Russian Industry in 1993: Results from the Third Round of the RLFS (Budapest, ILO-CEET, Report No.2, 1994).

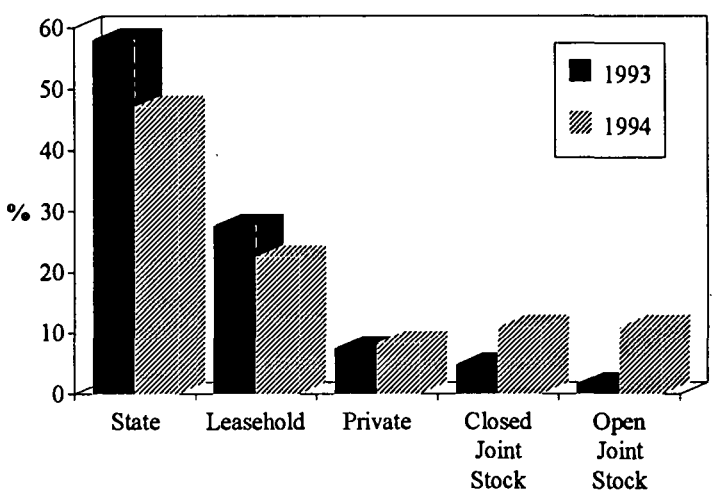
Figure 2: Employment Distribution of Establishments, All Regions, 1993-94, Ukraine



n = 348
Source: ULFS1

In terms of **property form** distribution, at the time of the survey in early 1994, 47.1% of all establishments were state enterprises. By contrast, 58.1% had been state-owned and state-managed one year earlier, implying some property restructuring. In 1994, the second most numerous form was leaseholding (orenda), although this had declined from 27.7% to 22.5% of the total. As can be seen from Figure 3, the categories that had grown most were closed joint stock and open joint stock

Figure 3: Property Form Distribution of Establishments, All Regions, 1993-94, Ukraine

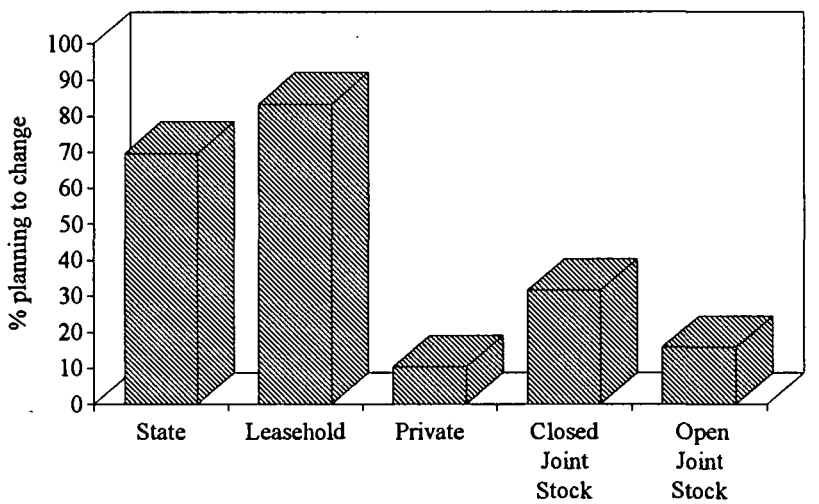


n = 346
Source: ULFS1

enterprises, particularly the latter.[4] Again, this was similar to the pattern of change that has taken place in Russian industry, although the degree of change was smaller in Ukraine. State establishments were easily the largest, in terms of estimated value of fixed assets and in terms of sales volume.

The limited property restructuring seemed to be accelerating. Thus, 57.6% of all establishments reported that they planned or expected to change property form, and 83.3% of leaseholdings and 69.6% of state enterprises planned to do so (Figure 4). Most of those planning to change expected to become open or closed joint stock companies. Of state enterprises planning a change, 55% expected to become open joint stock, while among leaseholdings planning a change 67.2% expected to become closed joint stock and 26.6% to become open joint stock companies. Of all those planning or expecting to change property form, over 77% expected that to occur within the next 12 months, suggesting that managements were more prepared for (or perhaps resigned to) restructuring than some observers believed.

Figure 4: Plans to Change Property Form, by Current Property Form, 1994, Ukraine

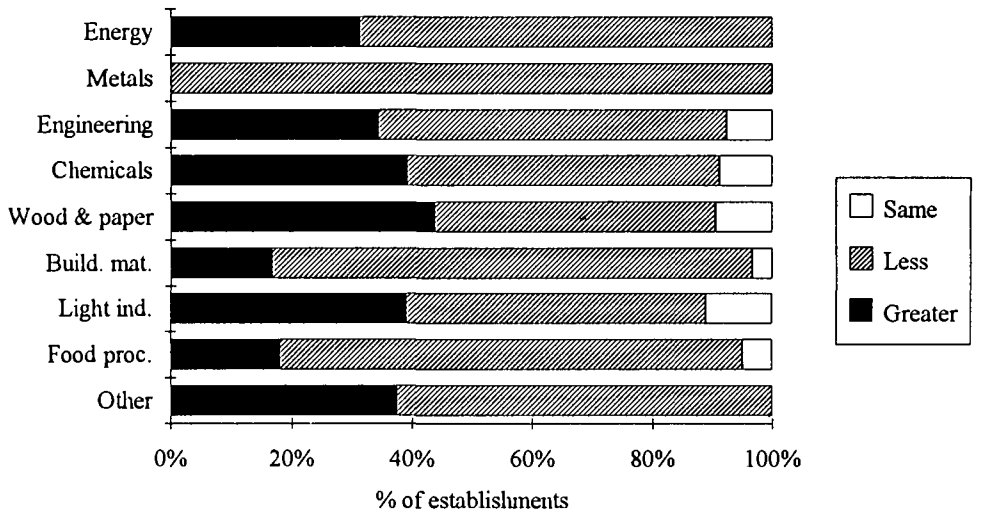


n = 344
Source: ULFS1

In terms of economic performance, all manufacturing industry had fared badly in the recent past, with 61.6% of all establishments reporting that their **sales** in real terms had declined compared with two years previously, with a further 7.2% reporting no change. It was actually somewhat surprising that nearly a third reported that their sales had improved in that period, due to relatively strong performances in wood products, light industry and chemicals (Figure 5). State enterprises and leaseholdings were relatively likely to have experienced a decline in sales, and the small private sector an increase (Figure 6).

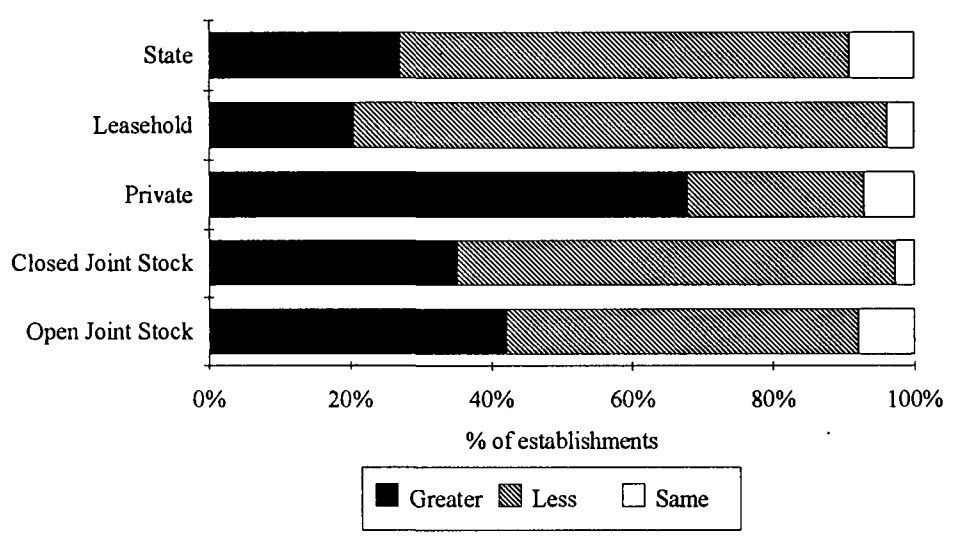
[4] *Closed joint-stock firms* consists of those in which the workers and managers were the 'owners' of a majority of shares, which could not be sold or given to outsiders. *Open joint-stock firms* consists of those in whcih at least a proportion of the shares provided to workers could be sold or transferred to outsiders. In 1994, among closed joint-stock establishments, on average workers owned 86.7% of the shares, compared to 61.3% in open joint-stock firms.

Figure 5: Change in Sales in Real Terms, 1991-93, by Industry, Ukraine



n = 346
Source: ULFS1

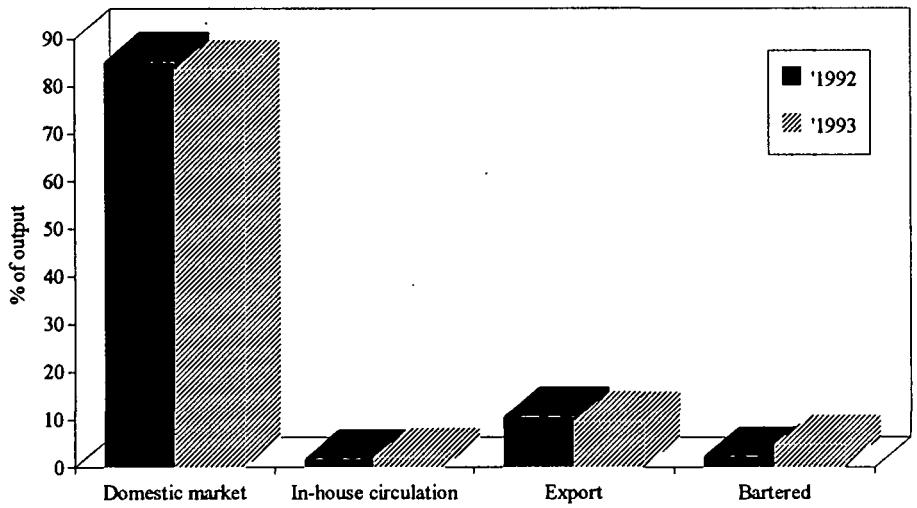
Figure 6: Change in Sales in Real Terms, 1991-93, by Property Form of Establishment, Ukraine



n = 344
Source: ULFS1

In terms of distribution of output, Ukrainian industry was heavily oriented to the domestic market, which accounted for 83.5% of sales in 1993, which was slightly down from the preceding year (Figure 7). The number of establishments that exported some of their output had increased, although on average **exports** accounted for less than 10%. Overall, the share of output that was exported had declined over 1992 and 1993, reflecting the sharp drop in exports of engineering products. State establishments exported slightly more than others (11.7% on average, compared with 9.7% for all firms).

Figure 7: Distribution of Output, 1992-93, Ukraine



n = 348
Source: ULFS1

A significant amount of output was **bartered**, and both the number of firms bartering and the percentage of output bartered increased in 1992-93. Similarly, in 1993 more firms had sold output to their workers and more had given output to their workers than was the case in 1992.

As for other signs of restructuring, the survey considered three forms of innovation — product, capital and work process. Just over a third (33.7%) of all establishments reported that they had reduced their **product range** over the past two years, compared with 26.2% that had increased it, with state enterprises being slightly more likely than others to have reduced the product range. The net reduction in product range was probably a reflection of economic difficulties. Yet greater specialisation could be desirable in Ukrainian industry, since many large monopolistic enterprises seem to have been producing more products for which they have little expertise.

Over 62% claimed to have had made some definable **technological change** in the production process, with state enterprises being the least innovative in that respect. And 62.8% had made some definable change in **work organisation**, with fewer state enterprises having done so than joint stock firms (Table 1).

Table 1: Technological Innovation, by Property Form of Establishment, Ukraine, 1991-93 (% have made a change)

Property Form	Change in range of products		New techno-logy	Change in work org.
	Increase	Decrease		
State	21.7	36.0	30.1	28.8
Leasehold	25.6	33.3	34.6	44.9
Private	41.4	20.7	37.9	20.7
Closed Joint Stock	28.9	34.2	60.5	52.6
Open Joint Stock	33.3	36.1	52.6	45.9

n = 345
Source: ULFS1

Senior managements were asked to identify the "main economic difficulty" faced by their firms in the previous six months. The most common response was their customers' inability or unwillingness to pay, which was given by 30% of all firms. The second most common response was lack of sales or lack of demand for the output (24.8%). These demand factors were followed by lack of raw materials (19%), suppliers' financial position (16.1%) and high taxes (7.2%). The first two demand factors were relatively more common among firms in engineering and wood and paper products, and were relatively least likely to have been the main problem in light industry, in which managers were far more concerned about their suppliers' financial position. the chemicals sector was the one most concerned about raw materials.

Several other structural factors are worth mentioning at this stage, for their relevance to later analysis. Potentially the most important is the means by which managers are appointed, since the mode of "corporate governance" could be an important determinant of the firm's performance and approach to restructuring.[5] According to the managers themselves, in 40.7% of establishments top managers were appointed by a line Ministry, in 36.7% that was done, formally at least, by the work collective, in 19.9% by enterprise boards, and in 2.7% by local authorities.

In 'heavy' industries, managers were more likely to be appointed by Ministries, whereas in 'light' industry and food processing they were relatively more likely to be appointed by work collectives. A little over 10% of managers were appointed for two years or less (usually on a one year contract), a little over 16% were appointed for three or four years, 42% were appointed for five years, about 1% for longer, and about 30% were appointed without a fixed term or without a formal contract.

Another 'structural' feature is dependency on government **subsidies**. It may be that the question asked allowed for some omission of what were subsidies. However, remarkably, given the image of factories being maintained through state assistance, 94.3% of establishments reported that they were not receiving a subsidy for production purposes, and only in the energy and metals sectors was receipt of subsidies a

[5] Corporate governance has attracted theoretical discussion in the context of the transformation of soviet-style enterprises. For one perspective, see E.S.Phelps, R.Frydman, A.Rapaczynski and A.Shleifer, Needed mechanisms of corporate governance and finance in eastern Europe (London, European Bank for Reconstruction and Development, Working Paper No.1, March 1993).

prominent phenomenon, in which 62.5% and 33.3% respectively reported receiving a subsidy.

As expected, receipt of a government subsidy was only common in state establishments, with over one in every ten receiving financial assistance. Most subsidies came from the national budget (76.5%), the remainder coming from regional budgets.

Finally, in no less than 27.3% of the factories managers believed there was a strong possibility that their firm would go **bankrupt** in the next 12 months, with a further 24.4% being uncertain. Managers in the energy sector were most pessimistic, although they were closely followed by those in construction materials. By contrast, firms in food processing and wood and paper products were most sanguine about prospects. State establishments were, if anything, more inclined to anticipate bankruptcy than others. The most mentioned main reasons for expecting bankruptcy were rising prices of raw materials and other inputs (44.6%), and by difficulties in selling their output (34.8%). Other factors fairly widely mentioned were their outstanding debt (7.6%) and cuts in subsidies (6.5%). In sum, there was widespread pessimism about their establishment's prospects, and the reasons seemed realistic.

The composite picture of the establishment structure of Ukrainian industry is one of structural crisis and some restructuring, in terms of property forms and some managerial diversity. A period of transformation had begun, although so far the changes had been hesitant, limited and mainly defensive.

3. Capacity Utilisation in 1992-94

With the economic decline in the country, it was not surprising that the level at which factories were operating in early 1994 was well below capacity, and that this was sharply down from 1993, which in turn was down from 1992.

Overall, according to the firms' estimates, they were operating at 77.7% capacity in early 1992, 67.3% in early 1993, and merely 58.0% in early 1994. This is extraordinarily low by international standards and by comparison with the low levels recorded in Russian industry in 1993.[6]

The lowest levels in 1994 were in chemicals (as in Russia), the highest in the energy sector, followed by light industry. The biggest decline between 1992 and 1993 had come in construction materials (Figure 8). However, what was perhaps most interesting was that in the past year alone capacity utilisation levels had fallen most sharply in food processing plants — by 14.7% on average, compared with 9% overall — almost certainly reflecting the inability of people to afford to buy food in the hyper-inflationary circumstances of 1993, when there was apparently widespread resort to private small-scale farming and consumption and sale of home-grown food.[7]

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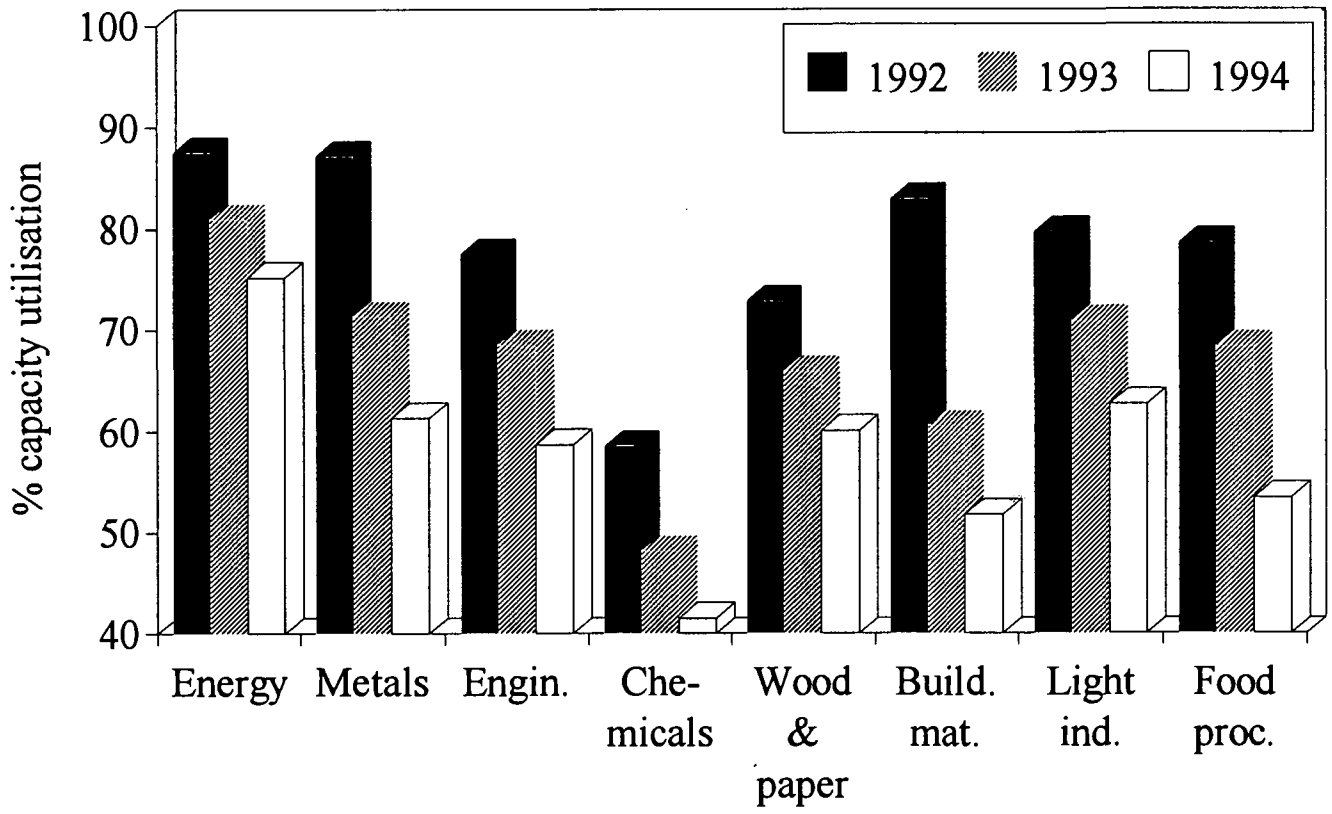
[6] Standing, 1994, op.cit., p.9. According to the RLFS3, Russian industry was operating at about 70% capacity on average in 1993. The figures in the text are unweighted mean averages.

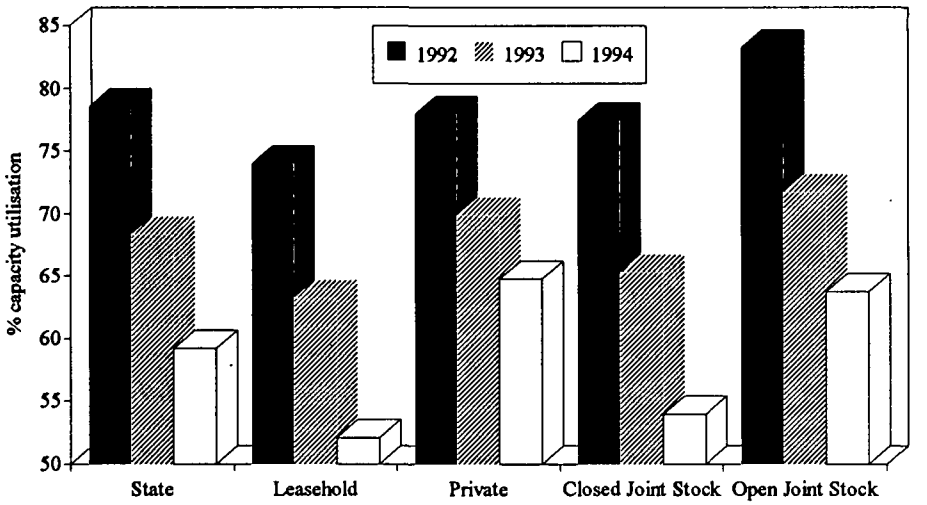
[7] Between 1985 and 1993, the number of city residents' plots of land doubled, reaching 6.8 million units for an urban population of 35.4 million. V.Yatsenko, "Employment policy in Ukraine in 1991-94", paper presented to ILO Conference on Employment Policy and Programmes, Budapest, June 2-3, 1994, p. 22.

Figure 8: Capacity Utilisation, 1992-94, by Industry, Ukraine



n = 340
Source: ULFS1

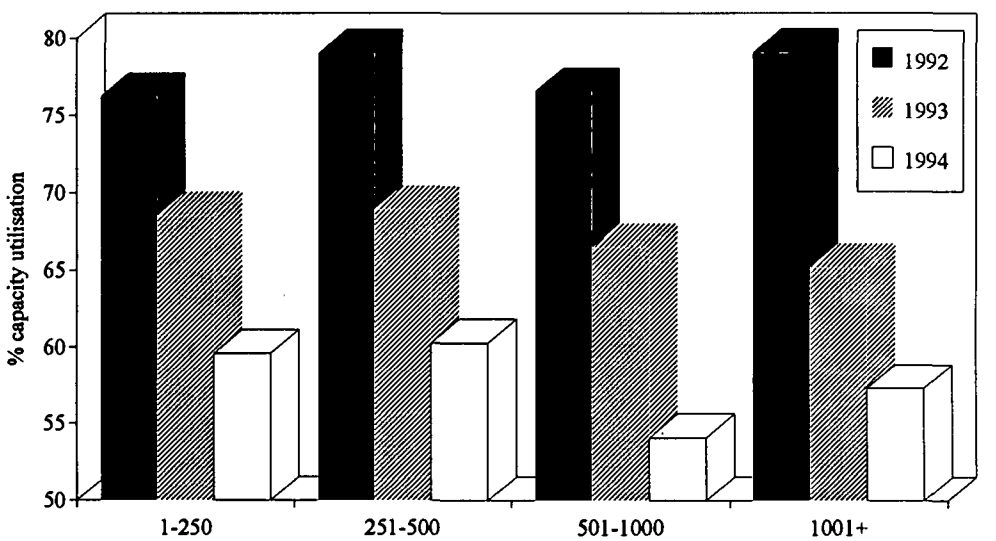
Figure 9: Capacity Utilisation, 1992-94, by Property Form, Ukraine



n = 340
Source: ULFS1

Comparing forms of ownership, the lowest capacity utilisation levels were in leaseholdings, the highest in private establishments (Figure 9), although they had declined in all forms over the previous two years. Between size categories, there was a suggestion that declines had been greater in larger establishments (Figure 10). Across regions, declines seemed greatest in the Donetsk region, probably due to the industrial structure there (Figure 11).

Figure 10: Capacity Utilisation, 1992-94, by Employment Size, Ukraine



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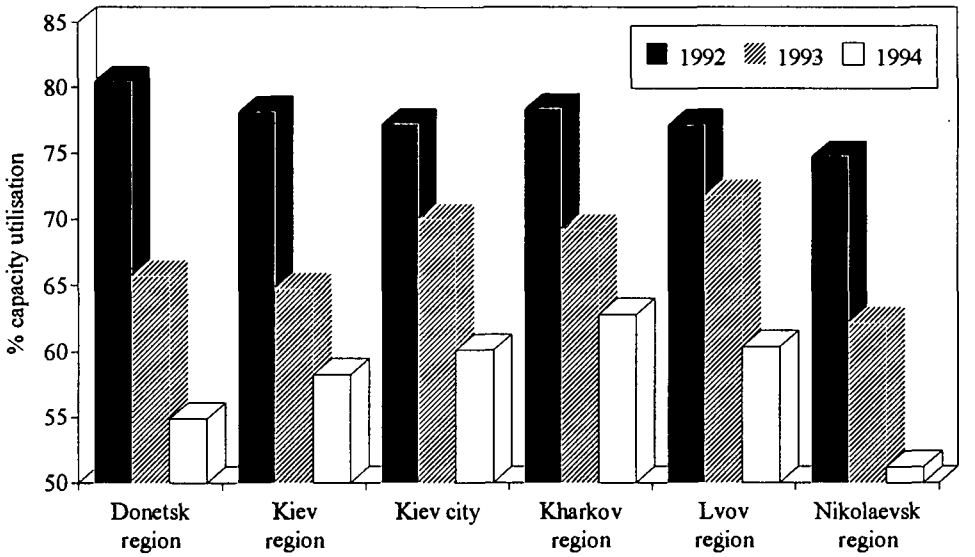
Source: ULFS1

Figure 11: Capacity Utilisation, 1992-94, by Region, Ukraine



n = 340
Source: ULFS1

One complication in interpreting the changes in capacity utilisation arises from the tendency during a period of restructuring for large-scale establishments in difficulty to opt for the practice of **restructuring by divesting**, by detaching production units, either closing them, transferring them to other managements or selling them or their equipment and facilities. Given the huge size and highly integrated character of 'Soviet' enterprises, such divesting is a potentially desirable aspect of restructuring, and according to the ULFS, about 10% of all establishments had detached some production unit over the past two years, with the practice being relatively common in engineering plants and in light industry. This phenomenon has not been considered in many studies of restructuring in countries of the former Soviet Union.

Overall, those that had detached units had experienced a statistically significant greater decline in capacity utilisation than those that had not done so, suggesting that both divestment and declining capacity were complementary symptoms of the economic malaise of the establishment, rather than divesting being a means of sustaining reasonably high rates of capacity utilisation of the plant as a whole.

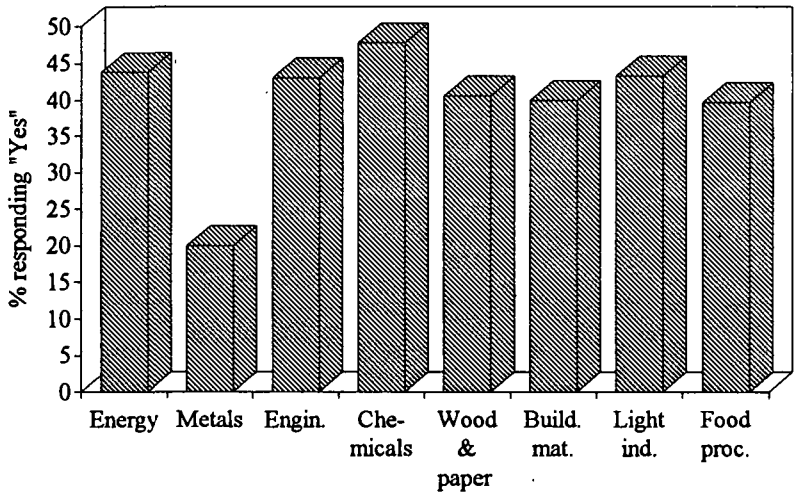
In sum, declines in capacity utilisation rates indicate the enormous degree of economic slack in the Ukrainian economy in 1994. No doubt much of the 'unused capacity' was largely obsolete, and was never likely to be restored to operation. However, to write off over 40% of capacity at a time of extremely low and declining living standards would surely be too draconian for the economic well-being of Ukraine. In the longer-term, that would almost certainly be desirable, but — without arguing for or against 'gradualism' over 'radicalism' — for the next few years a slightly slower pace of phasing out that capacity would be more prudent and feasible. More relevant to the present analysis is the impact of those changes on employment and labour utilisation.

4. Labour Surplus and "Hidden Unemployment" in Ukrainian Industry

While capacity utilisation rates were crashing, in early 1994 over 43% of firms reported that they could produce the same level of output with fewer workers than they were employing. This was widely reported across the spectrum of industries, supporting the view that it was a generalised low level of demand that was driving the productive performance of industry (Figure 12). The figures actually underestimate the degree of labour slack, since larger firms were far more likely to report that they could cut employment without affecting output (Figure 13). There was no simple correlation between ownership-management form and this measure of labour surplus or labour hoarding, although perhaps closed joint stock establishments were most inclined to report having surplus labour and state enterprises the least inclined (Figure 14).

Those operating at very low levels of capacity utilisation did not seem to have surplus workers to a greater extent than those operating at somewhat higher levels, although very high capacity utilisation was associated with a lower probability of having surplus workers (Figure 15). And, as should be expected, those in which capacity utilisation had fallen sharply were most likely to report being able to produce the same output level with fewer workers (Figure 16).

Figure 12: Percent of Establishments that Could Produce Same Output with Fewer Workers, by Industry, 1994, Ukraine



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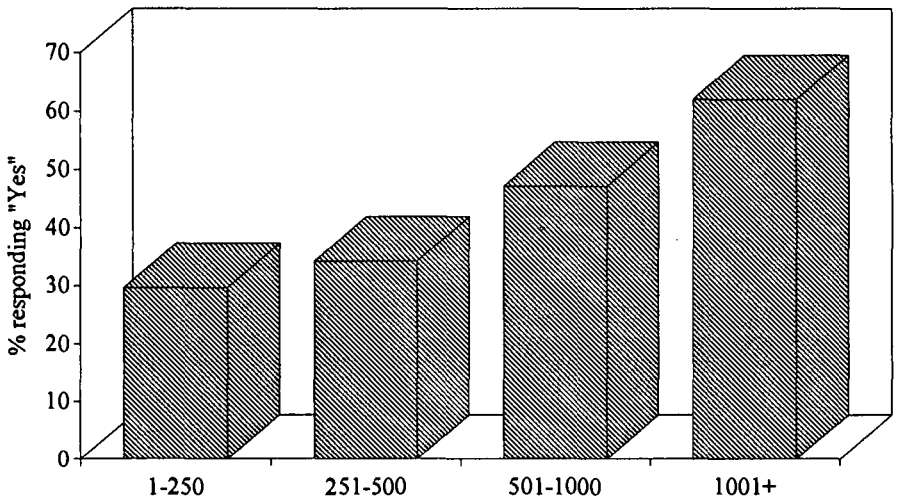
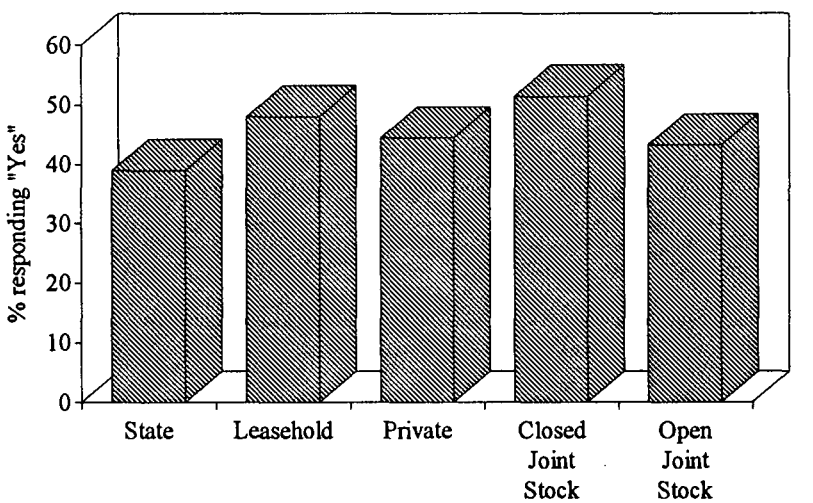
Source: ULFS1

Figure 13: Percent of Establishments that Could Produce Same Output with Fewer Workers, by Employment Size, 1994, Ukraine



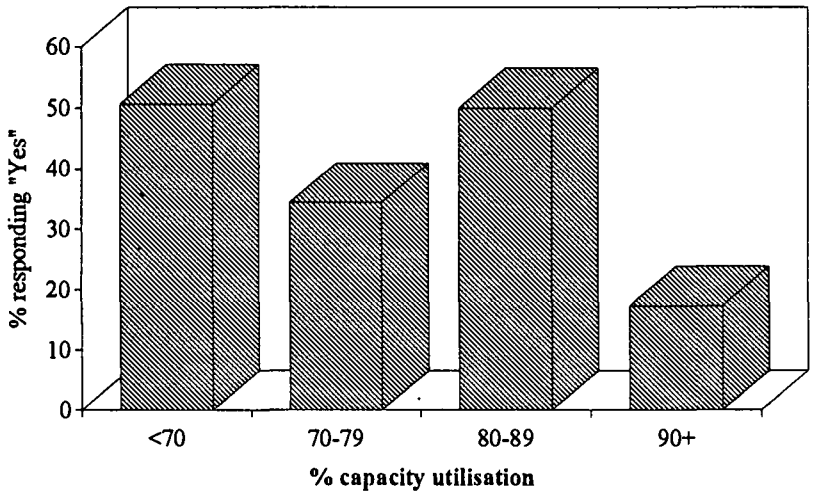
n = 334
Source: ULFS1

Figure 14: Percent of Establishments that Could Produce Same Output with Fewer Workers, by Property Form, 1994, Ukraine



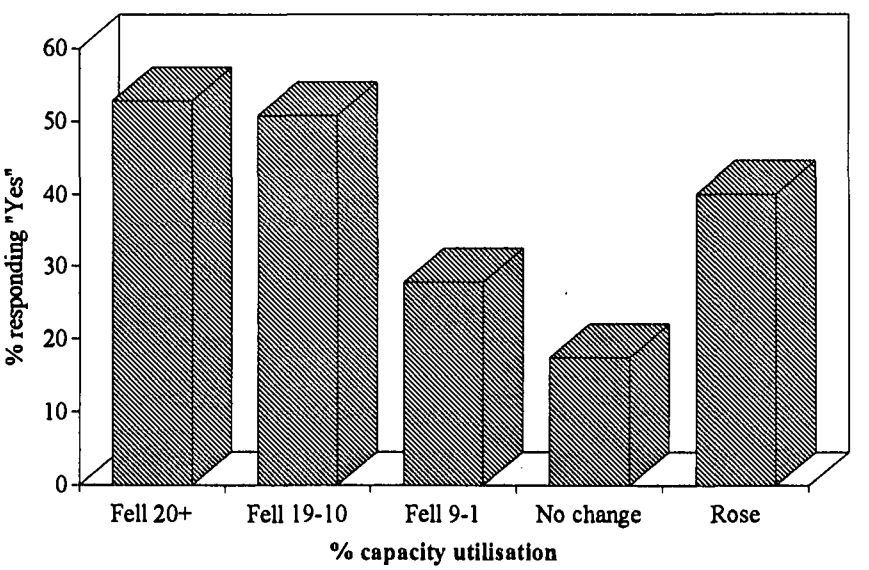
n = 333
Source: ULFS1

Figure 15: Percent of Establishments that Could Produce Same Output with Fewer Workers, by Capacity Utilisation, 1994, Ukraine



n = 329
Source: ULFS1

Figure 16: Percent of Establishments that Could Produce Same Output with Fewer Workers, by Change in Capacity Utilisation, 1992-94, Ukraine

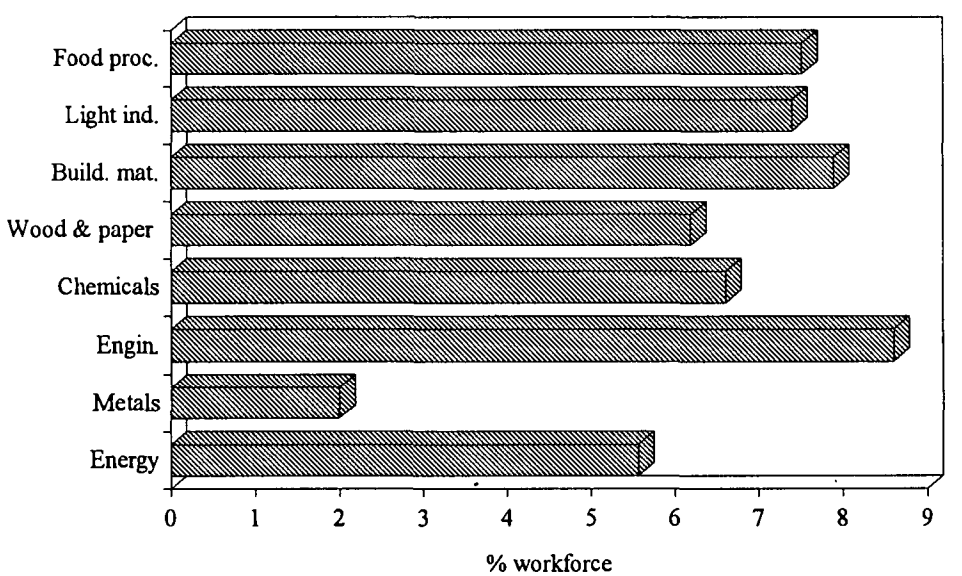


n = 324
Source: ULFS1

Those firms that reported that they could produce the same level with fewer workers were asked to estimate what percentage of the workforce they could cut without reducing output, other things equal. Counting those firms that reported that they could not — or were unsure of whether they could — cut the workforce without affecting output as having no surplus labour in this sense of the term, then according to managements, *Ukrainian factories would have been able to cut employment by 7.6% without affecting their current level of output.* Of just those that reported being able to reduce employment without affecting output, the figure was 17.6%.

This form of labour surplus, or what is sometimes called "labour hoarding", was highest in engineering (Figure 17), and it was strongly and positively related to the employment size of establishment (Figure 18). The latter implies that the overall average seriously understated the actual surplus. As far as different property forms are concerned, state establishments reported having less surplus labour than other types of firm (Figure 19). This is a subjective estimate, and it should be recognised that it may say as much about managerial attitudes as about what could be achieved.[8] We may guess that the data give lower bounds for the employment that could be cut, given the prolonged period in which employment cuts were not contemplated at all.

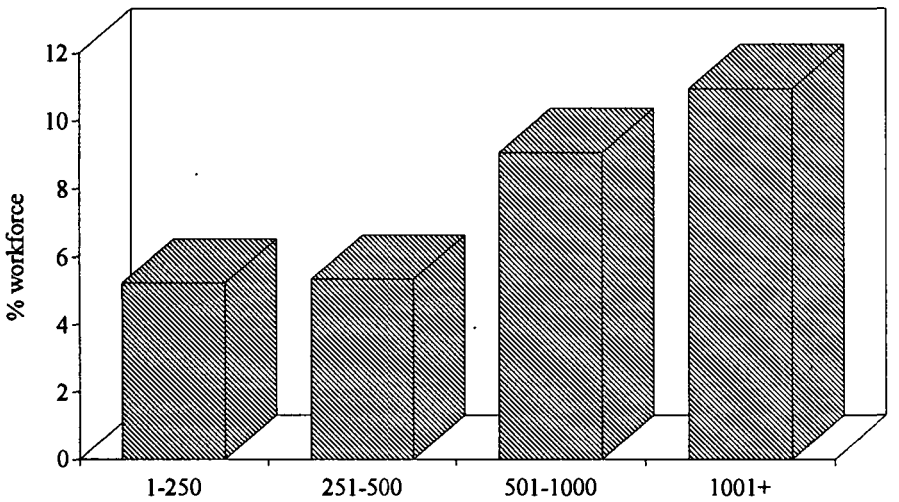
Figure 17: Percent of Workforce to Cut Without Affecting Output, by Industry, 1994, Ukraine



n = 332
Source: ULFS1

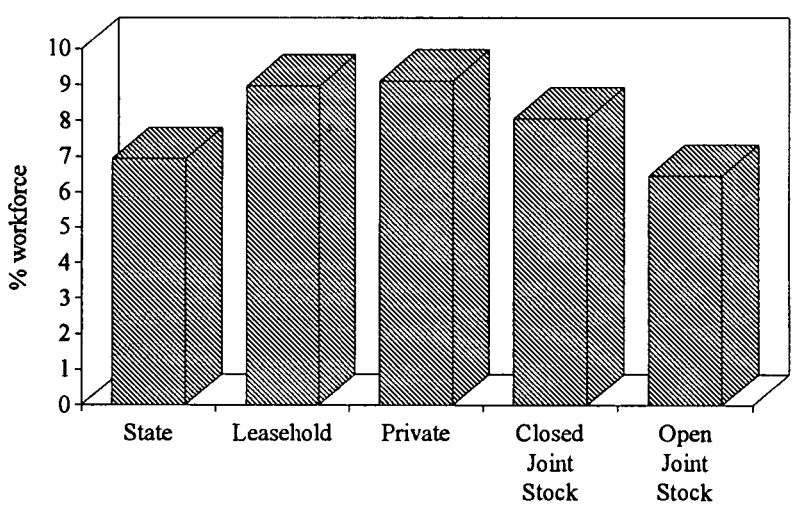
[8] Managers appointed by, or in their minds responsible to, work collectives seemed more likely to report that they could cut employment without affecting output. Those firms receiving subsidies were also more likely to report surplus labour.

Figure 18: Percent of Workforce to Cut Without Affecting Output, by Employment Size, Ukraine



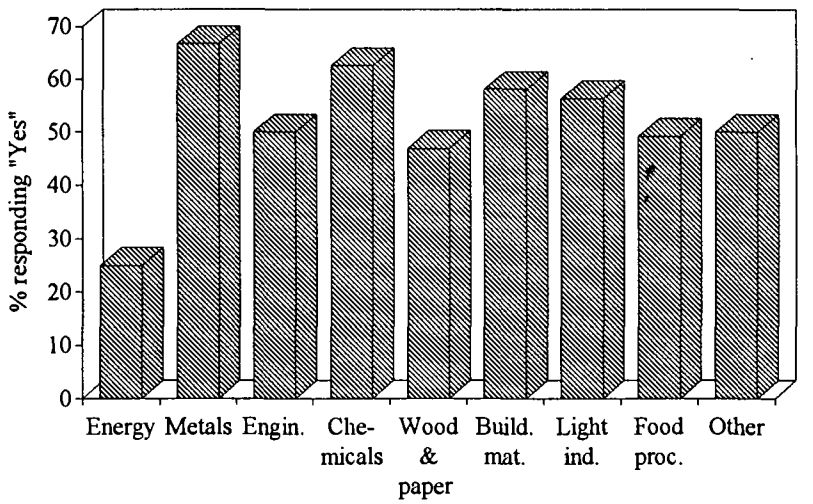
n = 332
Source: ULFS1

Figure 19: Percent of Workforce to Cut Without Affecting Output, by Property Form, Ukraine



n = 331
Source: ULFS1

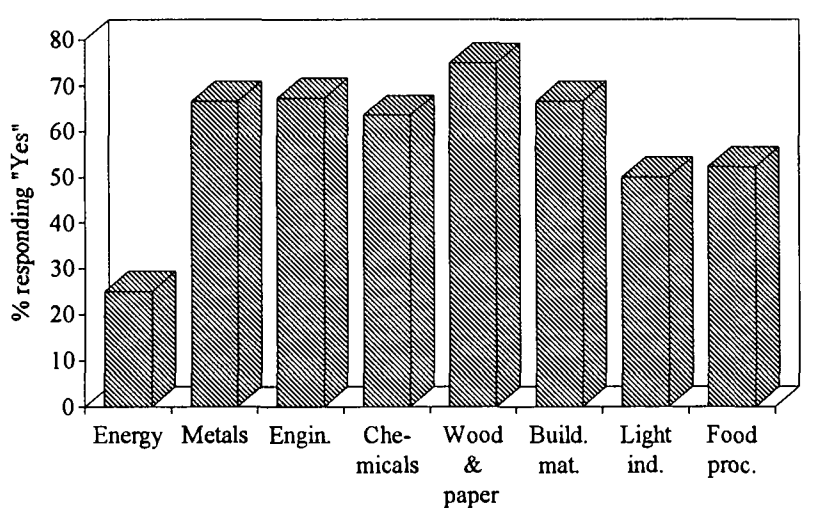
Figure 20: Percent of Establishments having Too Little Work for Workforce in 1992-93, by Industry, Ukraine



n = 348
Source: ULFS1

Several other indices of surplus labour are measurable through the ULFS. Managements were asked whether they had experienced a period in the past six months in which they had too little work for their workforce lasting for two weeks or more. This proxy measure for labour surplus was used primarily to lead to questions about managerial reactions. Overall, 51.4% had experienced this form of surplus labour situation, with particularly high levels in chemicals, metals and building materials (Figure 20). It was relatively uncommon in small-scale firms, defined as those with fewer than 250 workers. Managements had reacted to this type of situation in various ways, but the main measure had been to put workers on *unpaid administrative leave*, which was reported as the main response by 47.8% of all establishments, and by 27.2%

Figure 21: Percent of Establishments Making Internal Transfers to Limit Redundancies, by Industry, 1993-94, Ukraine



n = 289
Source: ULFS1

of those that gave a second main response as well as their main one. Cutting hours and stopping production altogether were also common responses, but much less prominently. A majority of firms had also made *internal transfers* of workers to avoid or limit redundancies (Figure 21).

What the figures in Table 2 imply is that about half of all industrial establishments had resorted to unpaid or partially paid leave in the past six months, an issue to which we will return.

Table 2: Main and Second Measures Taken In Response to Surplus Labour besides Retrenchments and Transfers, Ukraine, 1992-94

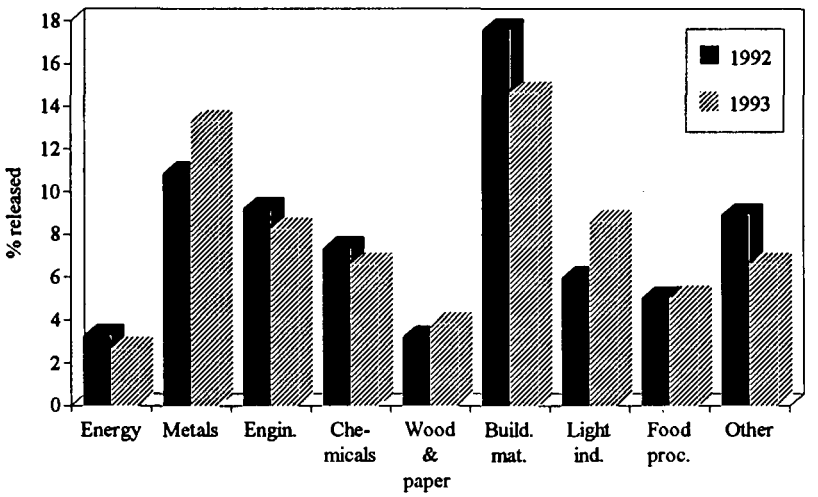
	Main measure	2nd main measure
None	1.7	1.9
Cut normal hours	14.0	13.3
Cut overtime	0.0	1.3
Encourage resignation	0.6	3.8
Increase paid leave	0.0	1.9
Unpaid leave	47.8	27.2
Partial paid leave	11.2	8.9
Offered early retirement	0.6	9.5
Cut wages	1.1	1.3
Stop production	12.9	11.4
Transfer	9.0	17.7
Other	0.6	0.0
Do not know	0.6	1.9

n = 178
Source: ULFS1

5. Redundancies and Employment Decline

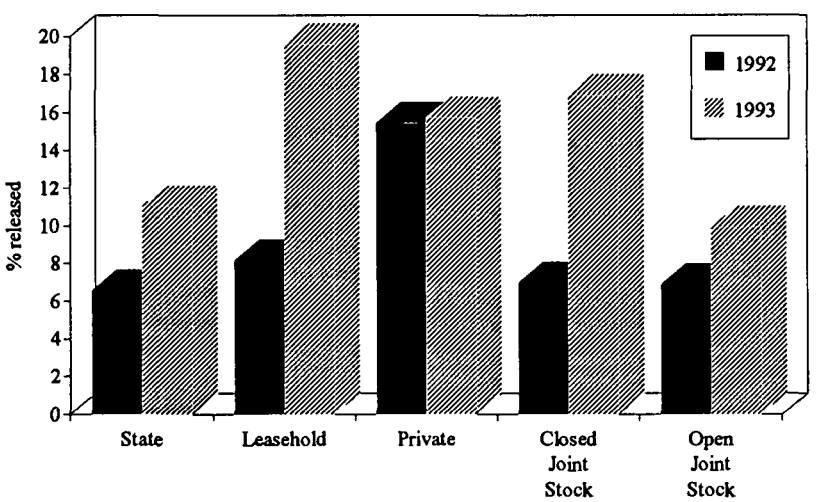
This leads to consideration of the extent of *redundancies*. There has been a common perception that factories in Ukraine have been unwilling to make workers redundant. In fact, *nearly two-thirds had resorted to some redundancies in the past year*, and of those, the average number of workers made redundant was 12.2% of the workforce in 1993, slightly down on the 13.3% recorded for 1992. These levels are substantial, given that they exclude those workers who had left the firms by other means, including those who had been 'induced to resign'. Small-scale firms had released relatively high percentages of their workforces, and among industries, building materials' plants had released no less than 20% of their workers in the past year (Figure 22). And private firms had released many more proportionately than state establishments (Figure 23).

Figure 22: Percent of Workforce Released, 1992-93, by Industry, Ukraine



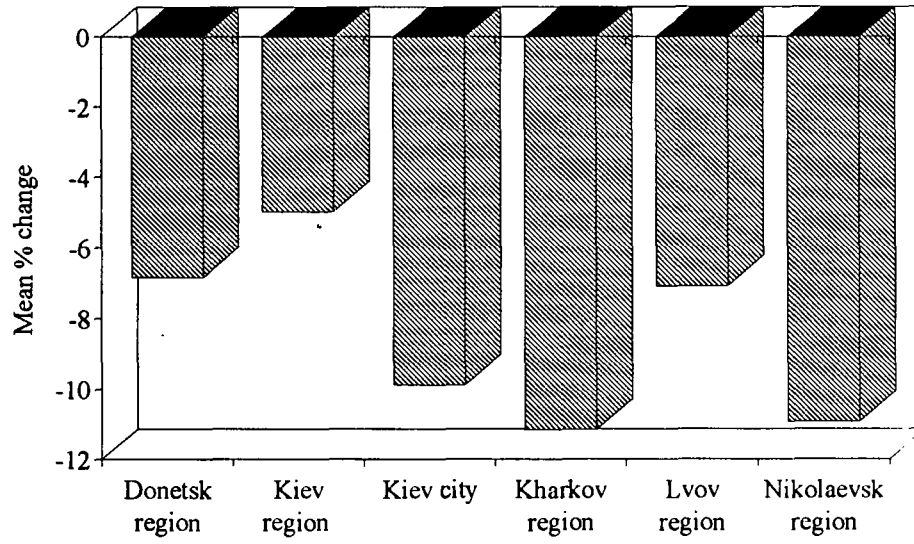
n = 345
Source: ULFS1

Figure 23: Percent of Workforce Released, 1992 and 1993, by Property Form, Ukraine



n = 345
Source: ULFS1

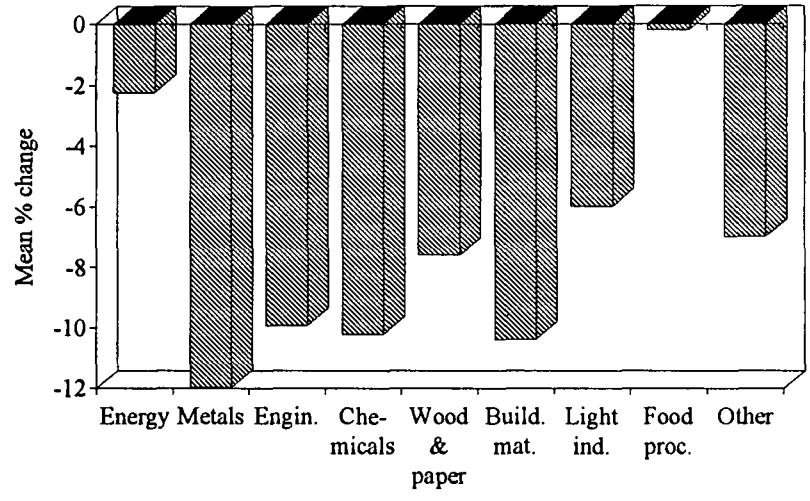
Figure 24: Percent Employment Change, by Region, 1992-93, Ukraine



n = 348
Source: ULFS1

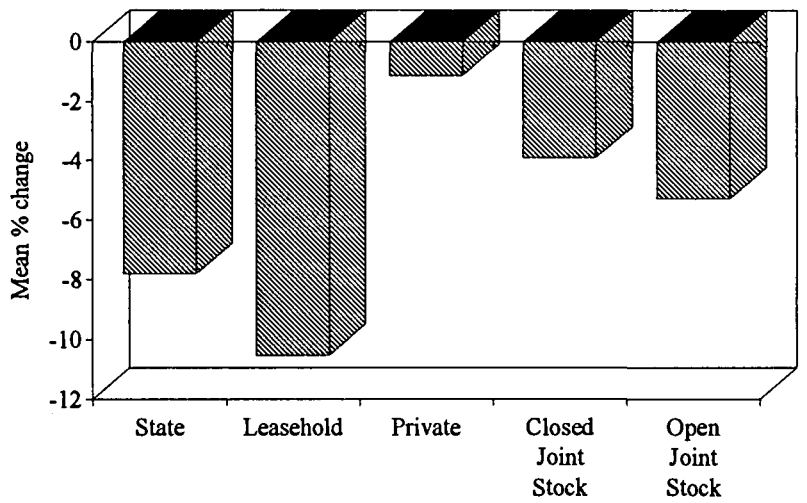
As for the overall change, in the 348 factories covered by the survey, **employment fell by 29,666 in 1993-94 or 8% of total employment in one year. Employment declined in all regions, in all industries, in all size-categories of establishment and in firms in which sales in real terms had grown as well as in those in which they had declined** (Figures 24-28).

Figure 25: Percent Employment Change, by Industry, 1992-93, Ukraine



n = 348
Source: ULFS1

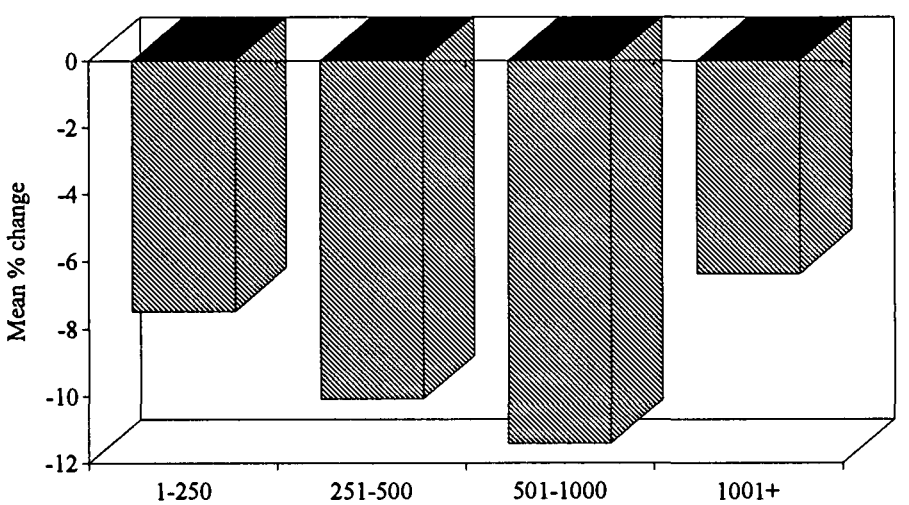
Figure 26: Percent Employment Change, by Property Form, 1992-93, Ukraine



n = 348
Source: ULFS1

Particularly notable is that state establishments had cut employment by more than joint stock or private firms, suggesting (although not proving) that state enterprise managements were no more inclined to hold rigidly onto their workforces than others.[9] Those that had cut employment the most also tended to report that they could cut employment by relatively large numbers without that affecting output.

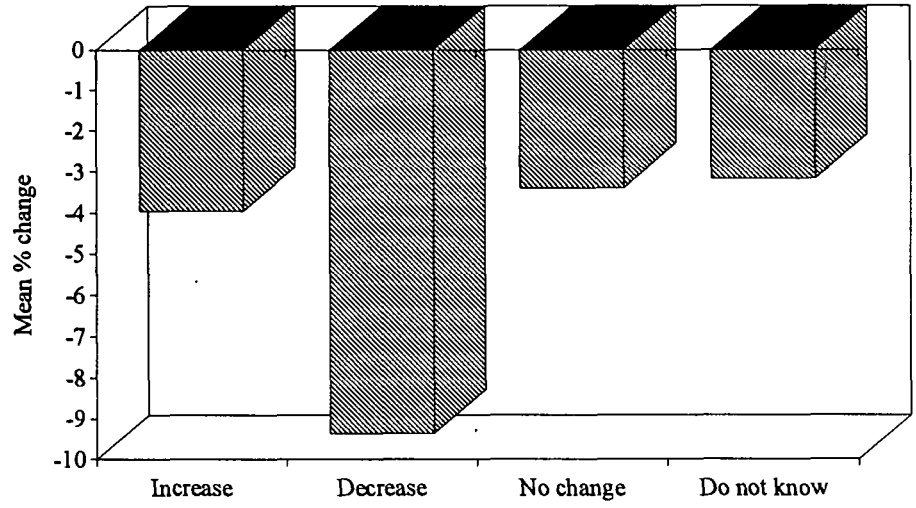
Figure 27: Percent Employment Change, by Employment Size, 1993-94, Ukraine



n = 348
Source: ULFS1

[9] This pattern among ownership forms was also found in Russian factories in 1993. Standing, 1994, op.cit., p.17. Unexpectedly, in Ukraine, of those establishments planning or expecting to change proprty form, 39.6% expected that to result in increased employment, compared with 4.7% who thought that change would result in lower employment. Given the surplus labour, this seemed to indicate the unrealism about the nature of 'privatisation'.

Figure 28: Percent Employment Change, by Change in Sales in Real Terms, 1993-94, Ukraine



n = 348
Source: ULFS1

Managements were asked what had been the employment impact of sales changes in the past two years. Of those that had experienced declining sales in real terms, 52% said that the main result had been a cut in the level of employment, whereas in those establishments in which sales had grown, only 26% had increased employment as a direct result, while 45.3% had merely increased work intensity. One can take these results as further testimony of the deep-seated labour slack in Ukrainian industry. State establishments seemed to be no more or less likely than others to have cut employment as a result of declining sales, while closed joint stock companies — in which workers may have a greater Voice in managerial decisions — seemed less likely to have cut employment.

Table 3: Perceived Employment Impact of Sales Change in Past Two Years, 1992-94, Ukraine

Employment Impact	Sales	
	Rose	Fell
None	7.5	6.2
Increased employment	26.4	0.5
Decreased employment	3.8	52.1
Decreased work time	0.9	17.5
Increased work intensity	45.3	0.9
Decreased work intensity	2.8	19.0
Introducing manpower saving technology	4.7	0.5
Reorganising work	6.6	2.4
Do not know	1.9	0.9

n = 317
Source: ULFS1

The perceived impact on employment of other structural changes are also worth noting. In firms that had narrowed the range of products, 75.6% said that they believed that had resulted in a cut in employment, whereas only 34.4% of those that had increased the product range believed that had resulted in an increase in employment (Table 3).

Finally, to assess the structural factors affecting employment change, a multiple regression function was estimated in which the dependent variable was percent employment change in the past year. The following function was estimated:

$$\%\text{Emp.Change} = a + b_1\Sigma(\text{IND}) + b_2\Sigma(\text{SIZE}) + b_3\Sigma(\text{PROP}) + b_4\Sigma(\text{CHPROP}) + b_5(\%\text{CHCAP}) + b_6(\%\text{CHSALES}) + b_7(\%\text{BC}) + b_8(\%\text{LEAVE}) + b_9(\%\text{MATERN}) + b_{10}(\text{SUBSIDY}) + e$$

where the independent variables were as follows:

- Σ(IND) = a set of binaries (0,1) for the industry of establishment, the omitted reference category being the energy sector;
- Σ(SIZE) = a set of binaries for employment size of establishment (251-500, 501-1000, 1000+ workers), the omitted category being those with up to 250 workers;
- Σ(PROP) = a set of binaries for the property form of establishment, the omitted category being state enterprises;
- Σ(CHPROP) = a set of binaries (0,1) for property form changes in past year:
  1 if changed from state to non-state, 0 otherwise,
  1 if changed from orenda to open or closed joint stock,
  0 otherwise,
  1 if changed from closed joint stock to open joint stock,
  0 otherwise;
- %CHCAP = percent of change in capacity utilisation level 1992-1993;
- %CHSALES = percent change in sales in real terms in past year;
- %BC = percent of workforce in establishment classified as manual workers (skilled, semi-skilled, unskilled) in 1993;
- %LEAVE = percent of workforce on administrative leave (lay-off) as of March 1994;
- %MATERN = percent of women on maternity leave in 1994;
- SUBSIDY = 1 if establishment received state subsidy, 0 otherwise;
- e = error term.

The results of this exploratory function are presented in Table 4. The amount of variance explained by the equation is quite good for this type of function, although no doubt more detailed exploration of the form of relationships would improve the overall result. What taking account of the various influences suggests is that **property form restructuring was the most significant factor in employment decline**, even though employment declined more in state enterprises than in others. Thus the shift from leasehold to closed or open joint stock or private led to substantial employment cuts, as did a shift from state ownership to any other form. Among those enterprises that were unchanged, state enterprises cut employment relatively the most.

Table 4: Percent Employment Change, 1993-94, Ukraine

Variable	Coefficient
(Constant)	148.338
Industry	
Metals	-13.0913
Engineering	-17.2149
Chemicals	-10.6312
Wood & paper	2.1576
Building Materials	-1.4988
Light industry	18.5075
Food processing	7.7377
Other	-8.4968
Employment Size	
251-500	-9.9933
501-1000	-9.7034
1000<	-5.2044
Property Form	
Leasehold	-0.3362
Private	23.7228 **
Closed Joint Stock	26.8790 ***
Open Joint Stock	27.5155 ***
Change in Property Form	
State ⇨ non-State	-20.3789 ***
Leasehold ⇨ non-Leasehold	-31.2037 ***
Closed Joint Stock ⇨ Open Joint Stock	-17.8143
Change in Capacity util.	-0.0021
% Sales Change '93-94	-0.0009
% Manual Workers '93	-1.8008 ***
% Leave '94	-0.0260
% Maternity leave	-0.2759
Subsidies	7.2919

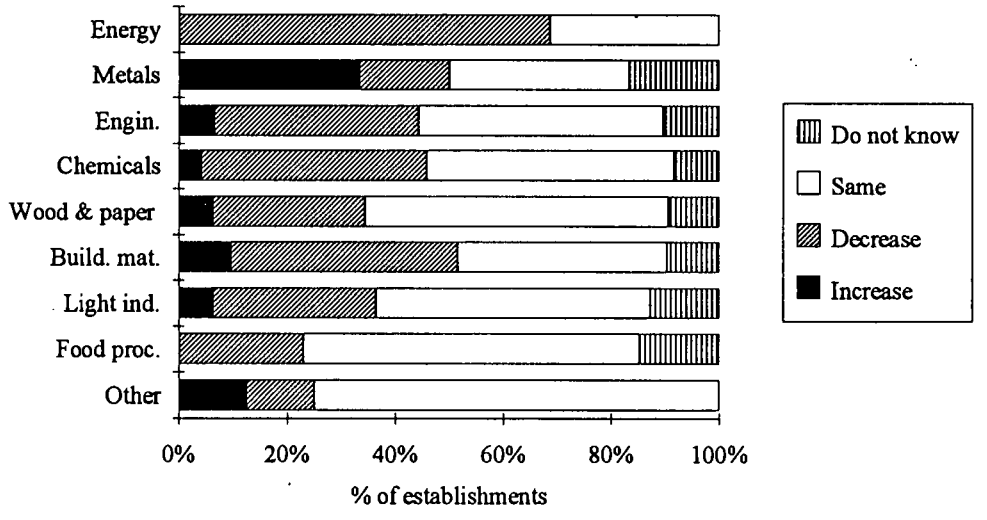
R^2	=	0.2544
F	=	4.2215

n = 348

Source: ULFS1

Note: Asterisks mean that the coefficient is statistically significant at the following probability levels: *** = below 1%; ** = below 5%; *= below 10%.

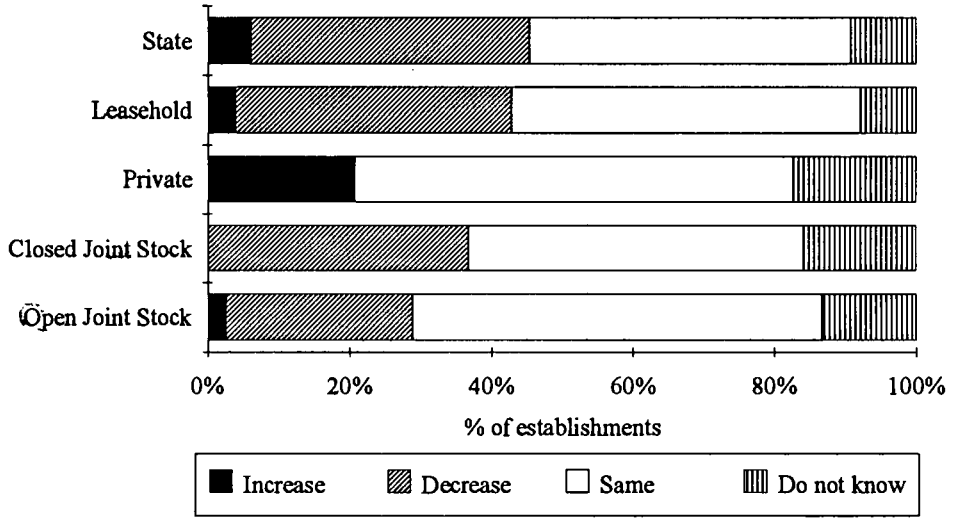
Figure 29: Expected Employment Change in Next Year, by Industry, 1994, Ukraine



n = 345
Source: ULFS1

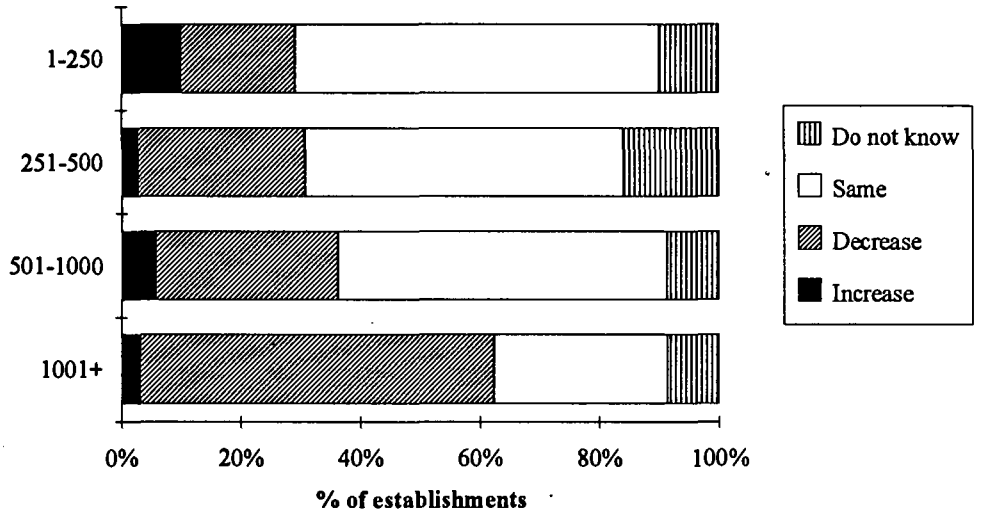
Given the widespread labour surplus observed earlier, it was not surprising that many managements were pessimistic about employment prospects in their establishments. Over a third of them expected to cut employment in the next 12 months, and only about one in every twenty firms expected employment to grow (Figure 29). State establishments were most likely to expect to cut employment (Figure 30), supporting the point about the new-found propensity of state enterprises to reduce employment. Also, the larger the factory, the more likely they were to expect to cut jobs, (Figure 31) and the greater the employment decline in the past year, the higher the probability of expecting a decline in the coming year.

Figure 30: Expected Employment Change in Next Year, by Property Form, 1994, Ukraine



n = 345
Source: ULFS1

Figure 31: Expected Employment Change in Next Year, by Employment Size, 1994, Ukraine



n = 347
Source: ULFS1

Although useful for indicating the pattern of expected employment, these figures should be interpreted as overly optimistic, if the results from the first three rounds of the Russian Labour Flexibility Survey are any guide. In Russian industry, many more cut jobs than had anticipated doing so, and far fewer of those that had expected an expansion subsequently actually raised employment.[10] This can be expected to be similar in Ukraine.

In sum, employment had shrunk and was expected to continue to shrink. Accordingly, it would be a mistake to characterise Ukrainian industry as either rigid in terms of employment or in terms of hoarding labour to the point of providing an explanation for the absurdly low official rate of unemployment in the country.

6. Visible Underemployment

(a) Unemployment as Administrative Leave

One way by which Ukrainian enterprises could respond to the economic slump is to place workers with no work to do on "administrative leave", typically unpaid, although in some cases with something like a minimum wage income provided from the firm's wage fund. There are various reasons for managers to prefer to put workers on leave rather than release them or to cut the working time of the whole work force or to cut wages.

First, by doing that, they avoid having to pay severance pay. Under Ukraine's Employment Law, employers must pay three months of severance pay to any worker released by them for economic or 'organisational' reasons, the monthly amount being equivalent to the average wage received by the worker over the previous three months.

[10] G. Standing, "Labour Market Dynamics in Russian Industry: Results from the Second Round of the RLFS", Paper No.11, presented at the Conference on Employment Restructuring of Russian Industry, Moscow, October 1992

By putting workers on administrative leave, they not only avoid severance pay but may succeed in inducing unwanted workers to leave the establishment "voluntarily".[11] If they achieve the latter, they can avoid costs, both in terms of labour relations and in terms of actual payments in severance payments.

Under the Employment Law, a worker on unpaid leave or during the three months of receiving severance pay cannot receive unemployment benefits, and has no incentive to register at an employment exchange, given the very low probability of finding a job through a local exchange.[12] As a result, they were not counted as unemployed. Indeed, those on unpaid leave are counted as employed, even if they had been on unpaid leave for three months or more.

Second, enterprise managements were encouraged to resort to this practice by the wage tax, or the 'tax-based incomes policy', by which rising money wages could be taxed at a high rate if they exceeded a certain amount.[13] By putting some workers on unpaid or partially paid leave the average wage is lowered as is the wage bill, thus allowing workers actually working to be paid higher wages and lowering the wages tax.

Third, on the worker's side it would be rational to remain on administrative leave rather than quit to become unemployed because there would remain a possibility that the leave is temporary and he would retain access to at least some of the enterprise's social security and benefits, such as healthcare and use of social amenities, whereas quitting would result in loss of severance pay and temporary loss of entitlement to unemployment benefits.

These factors are likely to create an unfortunate situation of extensive administrative leave, which erodes the workers' income and employment security, which is economically inefficient because it restricts labour market mobility and which gives an artificially inflated image of the level of employment.

The data from the ULFS show that unpaid and partially paid administrative leave — or in conventional international parlance "lay-offs" — had increased considerably over the past year. In March 1993, 24.1% of all factories had some workers on administrative leave, and in September 1993 the share had risen to 27.3%. In March 1994, it had risen to 42.5% of all factories. This refers to full-time administrative leave, and does not include workers put on short-time working or sent on prolonged holidays, which were symptoms of the same phenomenon.

Of those establishments that resorted to administrative leave or lay-offs, the average percentage share of the workforce affected was 9.2% in March 1993, 14.9% in September 1993 and 23.8% in March 1994, so that while the incidence was spreading to more firms the depth of the practice was also increasing. Most of the layoffs were in the form of unpaid leave, although the share receiving some token pay had risen. Thus, the completely unpaid share was 88.8% in March 1993 and 65.1% in March 1994. In both cases, the remainder were classified as on "partially paid"

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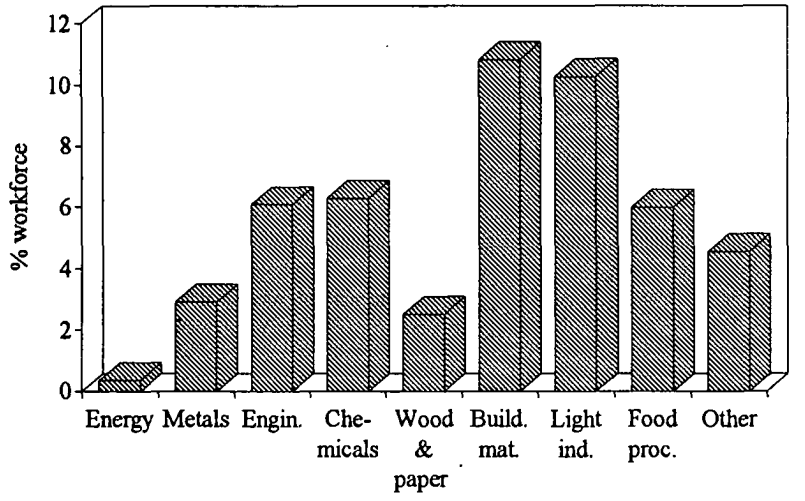
[11] This may explain the high level of 'voluntary' departures from employment recorded in official statistics in Ukraine. For an analysis, see ILO-CEET, 1994, op.cit., ch.2.

[12] According to data from the National Employment Service, in April 1994 less than 13% of those on the register of jobseekers were placed in jobs.

[13] For a review of this policy in Ukraine, see ILO-CEET, 1994, op.cit., chapter 4.

Figure 32: Unpaid and Partially Paid Administrative Leave, by Industry, 1994, Ukraine

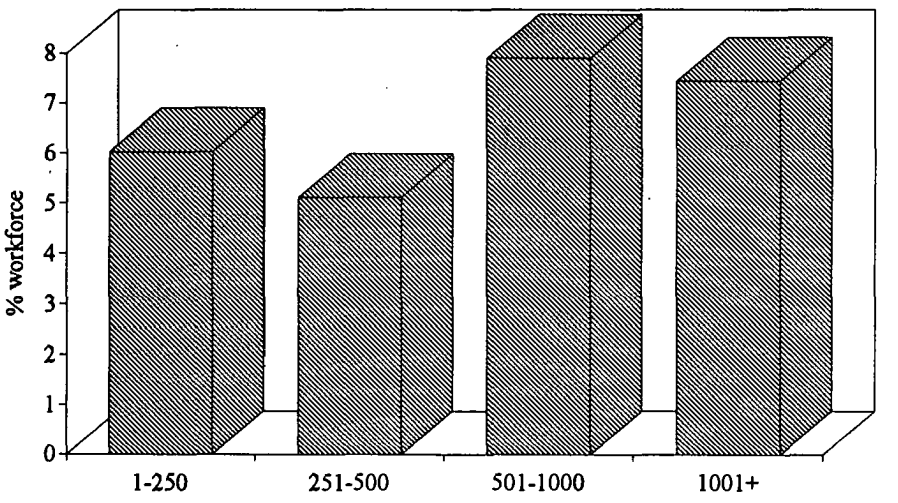


n = 348
Source: ULFS1

administrative leave, almost certainly receiving no more than the minimum wage, if that.

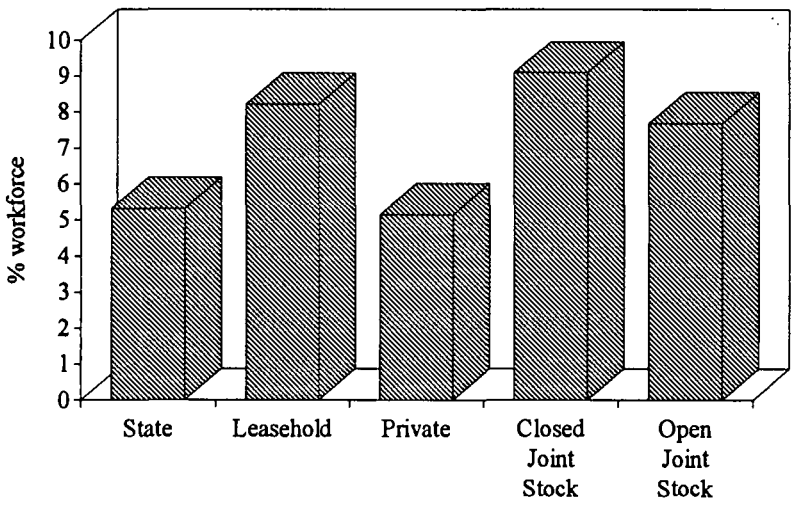
In March 1994, the industries with the largest share of establishments resorting to lay-offs were light industry and building materials, although chemicals' plants were the most affected, with nearly one-third of their workforce on such leave (Figure 32). The practice was greater in large-scale firms (Figure 33). Although it was apparently lower in state establishments than in other forms (Figure 34), the extent of it had probably increased most in state establishments. Finally, in terms of the incidence, such lay-offs were most extensive in Kiev oblast, with over 17% on average in early 1994, followed by Kiev City.

Figure 33: Unpaid and Partially Paid Administrative Leave, by Employment Size, 1994, Ukraine



n = 348
Source: ULFS1

Figure 34: Unpaid and Partially Paid Administrative Leave, by Property Form, 1994, Ukraine

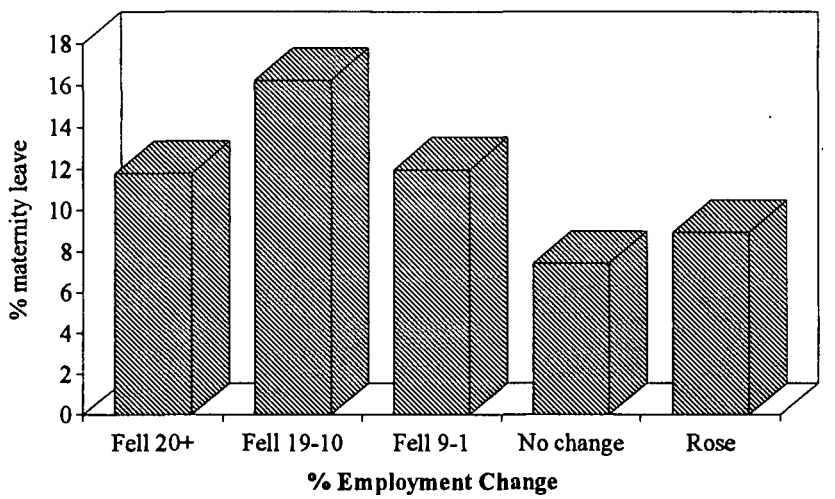


n = 346
Source: ULFS1

Finally, it is likely that many of the large number of women on *maternity leave* had been encouraged to extend that leave, either overtly encouraged by management or by their own perception of the prospect of very low incomes if they returned to work or because there was no pressure for them to return. *No less than 11.9% of all women workers were classified as absent on maternity leave.*

Those factories that had cut employment had higher proportions of women workers on maternity leave than those in which employment had been constant or in which it had risen (Figure 35). This strongly suggests that maternity leave was being used as a mechanism for dealing with surplus labour.

Figure 35: Percent of Employed Women on Maternity Leave, 1994, by Percent Employment Change, 1993-94, Ukraine



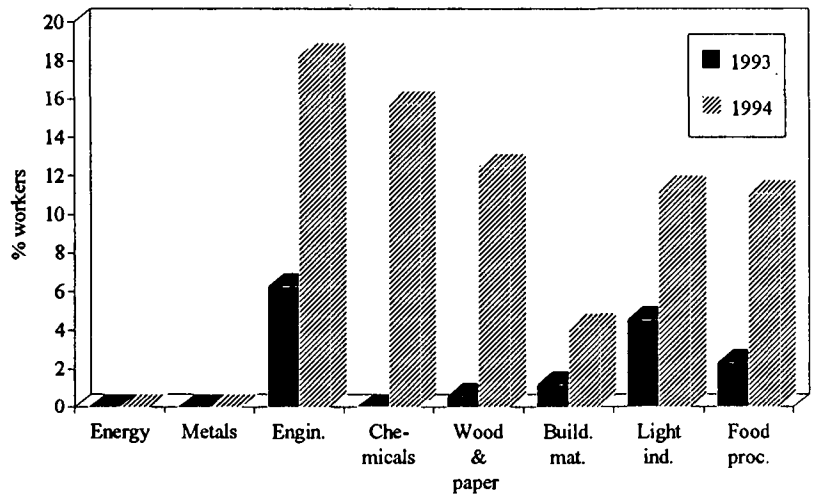
n = 344
Source: ULFS1

(b) Short-Time Work

Labour surplus also takes the form of working for fewer hours or days per week than normal, or for less time than contracted. This in turn can take several forms: short-time working, when workers are formally put on short-time, and lost working time due to working less than the standard working week.

As far as *short-time working* is concerned, this had increased substantially, with 12.5% of firms reporting that workers were on short-time in March 1994, compared with 3.3% a year earlier. Of those firms resorting to this, 37.5% of workers were on short-time, the average working time lost amounting to eight hours per worker per week. Perhaps surprisingly, neither energy nor metals seemed to resort to short-time working (Figure 36). By contrast, it was very extensive in engineering plants.

Figure 36: Percent of Workforce on Short-Time, by Industry, 1993-94, Ukraine



n = 348
Source: ULFS1

As far as working less than standard hours is concerned, actual average working time per worker was 33.3 hours per week and 35.0 for employees, excluding those on short-time or administrative leave, so implying a further form of labour surplus, given that the standard working week averaged 39.6 for workers in March 1994 and 39.8 for employees. Although this form of non-working existed in all industries, it was greatest in light industry and engineering, in which weekly non-working time averaged 4 and 4.3 hours respectively.

Thus, we have a picture of numerous complementary forms of labour surplus amounting to a situation in which a deluge of job-shedding could follow the disemployment that has already occurred.

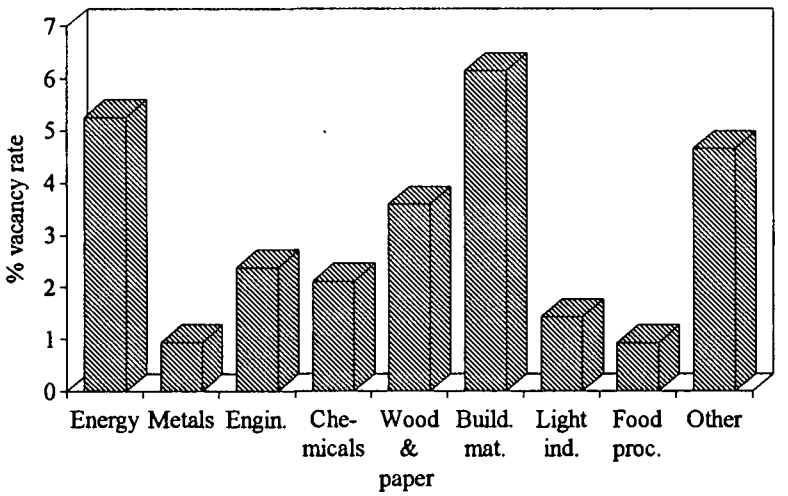
7. Vacancies and Labour Turnover

With substantial labour surplus and declining employment, it was not surprising that the *vacancy rate* was low, with the average being 2.2% of total employment (Figure 37). One should always be cautious about interpreting vacancy statistics, since the concept is notoriously complicated. Nevertheless, the data suggest that there were very few job openings in Ukraine factories in early 1994.

Even so, *labour turnover* was high throughout Ukrainian industry, which was contrary to the image — or traditional pattern — of low labour mobility by international standards, although it was consistent with analysis showing that turnover had increased since 1991.[14] According to the ULFS, it was highest in plants producing building materials and lowest in the energy sector (Figure 38). Although in this respect state establishments seemed no different than other forms on average, private firms seemed to have higher than average turnover (Figure 39).

These figures relate to all forms of departure from firms. Within the total numbers, there were some *internal transfers* (i.e., movement of workers from one establishment of an enterprise to another unit), which accounted for 1.6% of total employment, a slightly higher *retirement* rate, of 1.8%, a high *"resignation"* rate, of 8.8% overall, with 12.9% in building materials, a negligible *dismissal* rate, of 0.9%, and a modest *release* or redundancy level, of 1.7%, leaving 2.4% as unclassified or unclear. In each case, there are conceptual ambiguities, yet overall the labour turnover rate indicates a reasonably high degree of employment flexibility.

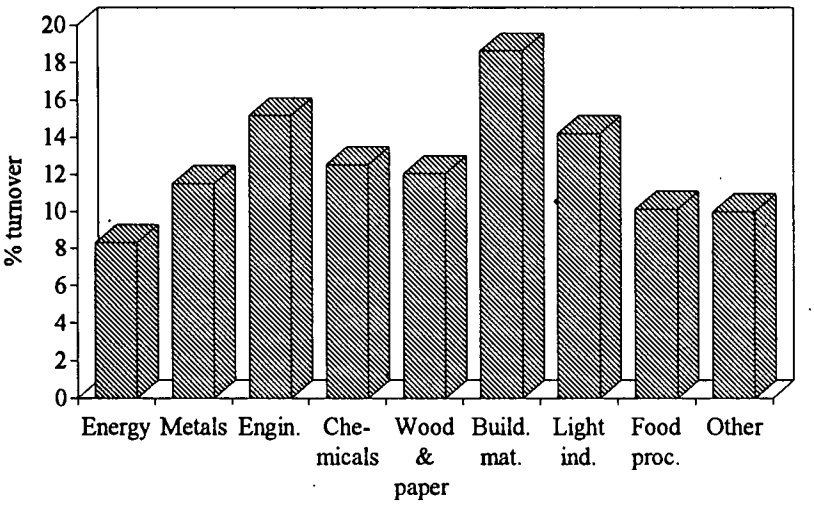
Figure 37: Vacancy Rate, by Industry, 1994, Ukraine



n = 348
Source: ULFS1

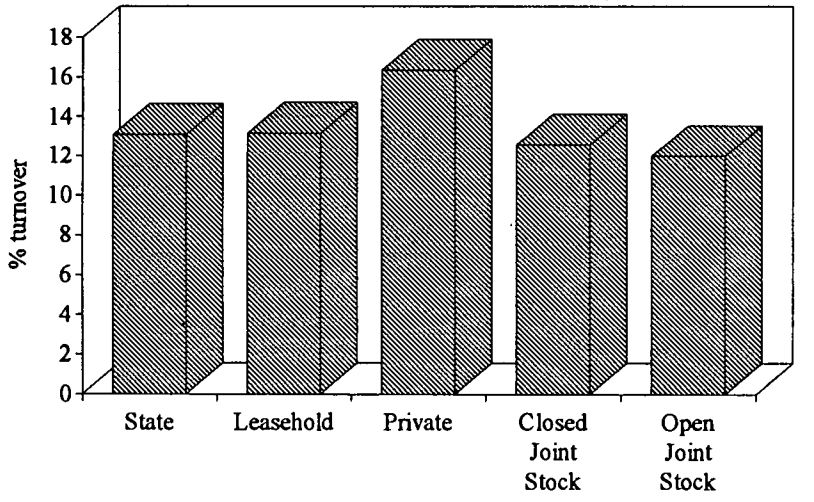
[14] ILO-CEET, 1994, op.cit., chapter 2.

Figure 38: Labour Turnover, by Industry, 1993-94, Ukraine



n = 348
Source: ULFS1

Figure 39: Labour Turnover, by Property Form, 1993-94, Ukraine



n = 346
Source: ULFS1

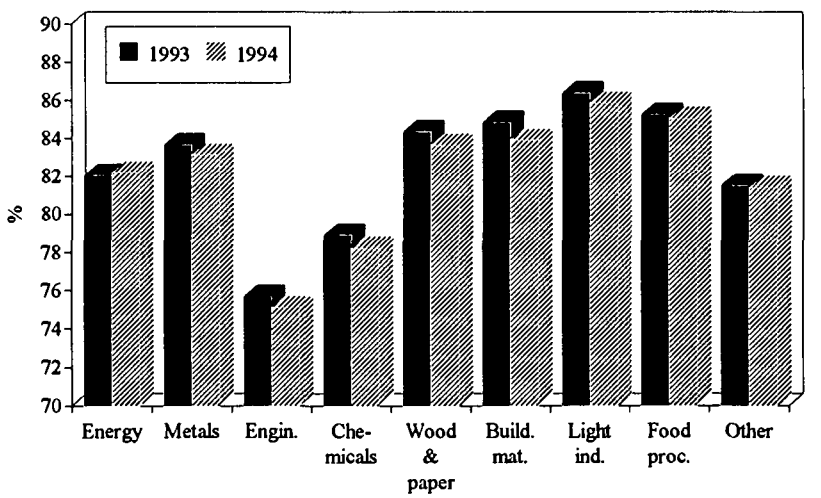
8. Job Restructuring

Traditionally, 'Soviet' industry relied heavily on a technical division of labour that produced a structure of employment that by international standards was "distorted", involving an excessively high and almost static share of manual, semi-skilled jobs, whereas the international trend has been towards much greater reliance on non-manual, technical labour. To the extent that Ukrainian industry was overweighted towards manual labour, it will have to change rapidly if economic restructuring is to succeed.

As expected, the data from the ULFS showed that the share of manual workers was high, with so-called "skilled" and "semi-skilled" jobs accounting for about 70% of total employment and "unskilled" jobs for a further 8%.[15] By comparison with Russian industry, there seemed to be far fewer 'general service' and 'administrative' employees in Ukrainian industry. This might reflect some unperceived differences in the survey, although that seems unlikely in that the concepts adopted were identical.

Comparing the job structures in 1993 with those in 1994, it did seem that there was a small shift away from manual labour. Thus, the shares of management and 'specialist' and 'general service' employees all increased, as did the share of supervisory grades and technicians among workers. In every industry, the share of skilled, semi-skilled and unskilled manual labour declined (Figure 40). At the time of the survey, the manual worker share seemed greater in large-scale establishments. Although the manual shares were similar in the various property forms, the private establishments seemed to have lower 'skilled' shares and higher 'unskilled', and they had cut the skilled worker share considerably in 1993-94; meanwhile, they had shifted to having more managerial and specialist employees. Perhaps private sector managements were regrading certain jobs as unskilled, which has been a feature of privatisation in other

Figure 40: Manual Worker Share of Employment, by Industry, 1993-94, Ukraine



n = 348
Source: ULFS1

[15] The conventional 'skill' terms are unsatisfactory, primarily because it is the jobs that should be labelled, not the workers, who may possess a wide range of 'skills' and 'competences', which may be considerably more or less technical and complex than required in the jobs.

central and eastern European countries.

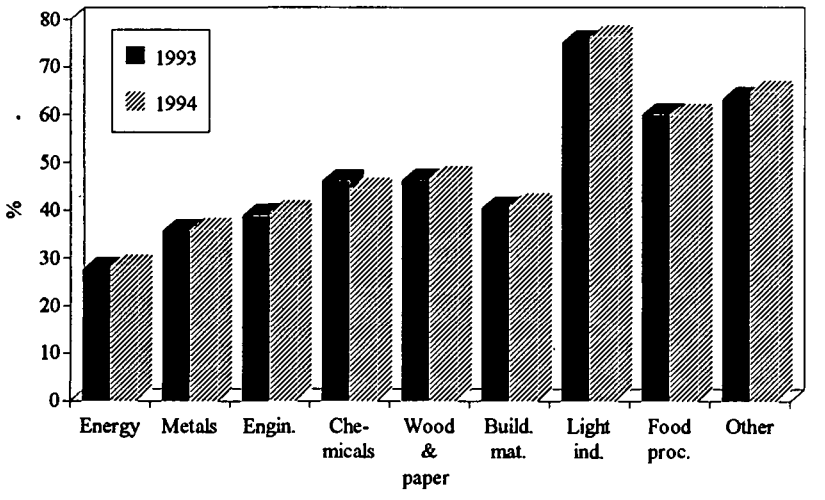
In short, these results *suggest* that privatisation and enterprise restructuring (notably involving a break up of large-scale establishments) should accelerate the shift from manual workers to technicians and managerial employees. In the development of labour market policies and training policy, it will be important to monitor the rate and pattern of occupational restructuring.

9. The Changing Position of Women: Prospects of Marginalisation

One issue of employment restructuring to have attracted considerable attention throughout central and eastern Europe has been its impact on the status and economic roles of women. A widely held view is that women and other socially vulnerable groups would be 'marginalised' by rising unemployment and employment restructuring.

In Ukrainian industry, according to the ULFS, women comprised one half of all industrial employment, although their share varied from over three-quarters of total employment in light industry to a little over a quarter in the energy sector (Figure 41). Although the industrial pattern is similar to the international pattern, the overall level is remarkably high by international standards, influenced in part by the very high number of women on maternity leave. As noted earlier, this accounted for 11.9% of all women in employment, ranging from 10.1% in those firms in which women accounted for less than 30% of total employment to 14% in those in which they accounted for over 60% of all workers.

Figure 41: Women's Share of Employment, by Industry, 1993-94, Ukraine



n = 343
Source: ULFS1

As in Russian industry, the early phases of employment restructuring and decline has shown that *women's share of industrial employment increased in 1993-94.*[16] The growth may be very small, yet it is contrary to the general impression. It may be reversed if a growth of market mechanisms coincides with the growth of various forms of discrimination and disadvantage. Accordingly, it is worth examining the prospects of the nine main means by which women can be disadvantaged in labour markets:

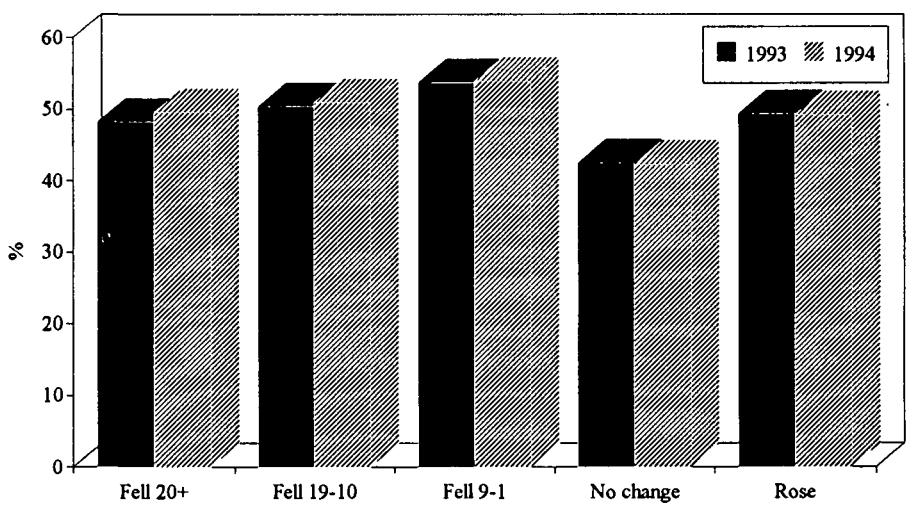
(i) Disadvantaged by industrial restructuring

Women's share of employment could rise or fall because of the changing industrial structure of employment within manufacturing. In fact, the actual pattern of industrial decline in employment that has been taking place should in itself promote women's employment, since the relatively rapid falls in total employment have been in sectors in which women comprised a minority of total employment, whereas they comprised a majority in light industry and food processing, which have been less hit by employment cuts.

(ii) Disadvantaged by employment restructuring

Women could be adversely affected by the size restructuring of employment. Here the picture is neutral. The ULFS data indicate that women comprised a majority of workers and employees in medium-sized firms, rather than large-scale establishments or those with fewer than 250 workers, where their share was relatively the lowest (44.3% in 1992, 45.4% in 1993).

Figure 42: Women's Share of Employment, by Employment Change, 1993-94, Ukraine



n = 343
Source: ULFS1

[16] G.Standing, "The position of women in Russian industry: Prospects of marginalisation?", World Development, Vol.22, No.2, Feb.1994, pp.271-83

More interestingly, women's share of employment was highest and, if anything, had risen slightly in firms where total employment had fallen, and their share had been static in those where total employment had not changed or had risen (Figure 42). This implies that employment decline, in itself, might disadvantage women *even though* men would be just as likely to lose jobs in any particular firm.

(iii) Disadvantaged by property-form restructuring

Perhaps reflecting the industrial distribution of firms in different property forms, women comprised a smaller share of employment in state establishments than in all other forms. So, in itself property form restructuring could enhance their share of employment, although one cannot discount the possibility of counterbalancing effect of related aspects of property form restructuring, such as the break-up of large enterprises and occupational shifts linked to privatisation.

(iv) Disadvantaged by discrimination in recruitment

The preceding forms of disadvantage relate to restructuring effects. However, there are also the various forms of 'discrimination' that women face in all types of labour market and that can become acute in periods of rising unemployment. The most common notion of discrimination in labour markets relates to recruitment practices.

In Ukraine, as far as *employees* are concerned, the vast majority of industrial managements reported that they had no particular preference for men or women, although 10.6% reported a preference for men and 1.7% for women. In the case of *workers*, there was somewhat more overt gender discrimination, although nearly three-quarters claimed to have no particular preference. In every industrial sector, except light industry, there was a net preference for men (Table 5). There was also somewhat

Table 5: Gender Preference in Recruiting Workers and Employees, by Industry, 1993-94, Ukraine

	for Workers			for Employees		
	Men	Women	No diff.	Men	Women	No diff.
Energy	68.8	0.0	31.3	37.5	0.0	62.5
Metals	33.3	0.0	66.7	0.0	0.0	100.0
Engineering	33.0	0.9	66.0	14.2	1.9	84.0
Chemicals	37.5	0.0	62.5	16.7	4.2	79.2
Wood & paper	18.8	3.1	78.1	12.5	0.0	87.5
Build. mat.	25.8	0.0	74.2	6.5	0.0	93.5
Light Industry	6.3	14.1	79.7	3.1	3.1	93.8
Food processing	8.2	1.6	90.2	3.3	1.6	95.1
Other	25.0	0.0	75.0	25.0	0.0	75.0
Total	23.6	3.4	73.0	10.6	1.7	87.6

n = 348
Source: ULFS1

more of this form of gender-based discrimination for both genders in large-scale establishments, a pattern found in similar surveys in Bulgaria, Hungary, Russia and other parts of the world.[17]

Thus, although there was not strong gender-based discrimination in recruitment preferences, at least not by comparison with that found in many countries, the evidence suggests that there was some cause for long-term concern, particularly in the context of rising unemployment, and a tendency for recruitment preferences to contribute to the strong industrial segregation of employment, in which men and women are concentrated in different sectors.

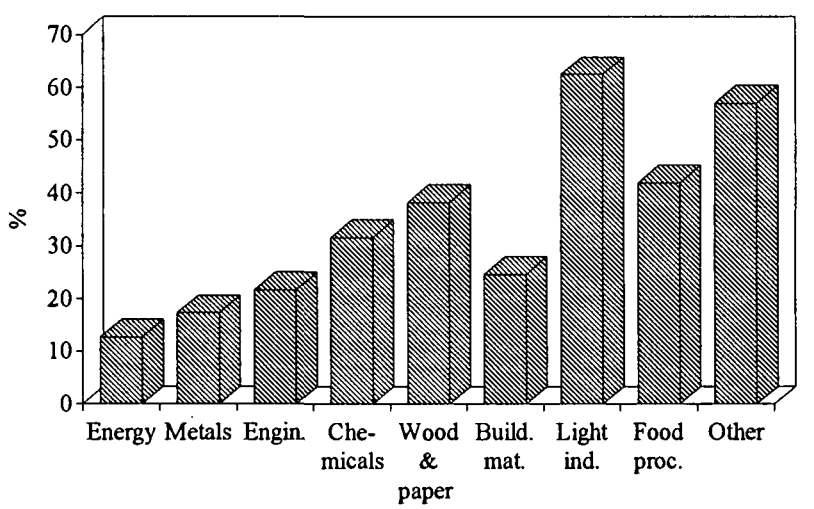
(v) Disadvantaged by training practices

For women to retain their high share of employment through the process of restructuring, they will surely need to have an equal share in the access to vocational and job training, within and outside enterprises. Here there might be a mix of structural disadvantage, overt discrimination and behavioural preferences on the part of women workers themselves.

As far as enterprise training practices are concerned, there appeared to be a slight tendency to discriminate against women, in that on average, of all those workers having received training in the past year women's share was less than their share of employment. Although the overall difference was slight, that should be a source of concern in some industries (Figure 43).

However, in terms of overt discrimination it was at least encouraging that very few managers (7.7%) stated that they preferred to provide men with training; an even smaller number (2.7%) said they preferred to give training to women.

Figure 43: Female Share of Workers Trained, by Industry, 1993, Ukraine



n = 348
Source: ULFS1

[17] See, for instance, G.Standing, Gy.Szirácczki and J.Windell, "Vulnerable groups in transitional labour markets: Bulgaria and Hungary", Paper No.7, presented at Conference on Labour Market Reforms in Bulgarian Industry, Sofia, May 18-20, 1993.

Table 6: Women's Share of Employment, by Provision of Training, All Regions, 1994, Ukraine

Type of Training	Yes	No
Entry Level Training	52.5	41.2
Retraining for Performance	52.8	45.9
Retraining for Upgrading	51.8	45.8

n = 346
Source: ULFS1

Perhaps more surprising than either of these findings was that women's share of employment in those firms that provided training for workers was much higher than in firms where no training was provided (Table 6), implying that even if there was a slight discrimination against women it would be counteracted by their relative concentration in firms providing training. In that sense, they could be said to have a slight structural advantage.

(vi) Disadvantaged by labour surplus conditions

A future structural disadvantage and discriminatory disadvantage could arise through the response to the growing perception of labour surplus. Women could be adversely affected by the distribution of labour surplus conditions or by discriminatory treatment in the selection of workers to be made redundant. In this regard, in Ukraine given the fact that their share of employment rose as employment declined, there is no evidence to suggest that there had been discriminatory treatment thus far.

However, women did comprise a relatively high percentage share of employment in firms with surplus labour, i.e., in those reporting that they could produce the same with fewer workers. They accounted for 52.9% of employment in factories with surplus labour compared with 49.7% in those claiming not to have surplus labour. And they made up a higher share in firms reporting that they had periods in which there was too little work for their workforce (52.9% versus 49.4%). Thus, to a small extent, one might be concerned that any tendency to shift surplus labour into disemployment would have an adverse effect on women's share of employment.

(vii) Disadvantaged by industrial segregation

Women could also be adversely affected by being increasingly concentrated in a few industrial sectors, a pattern usually described as "industrial segregation", which in the longer term could lead to other labour market disadvantages. In Ukrainian industry, industrial segregation has been pronounced, and it is clear that women's share of employment had grown in those sectors where they already had a large share of total employment. However, there was little sign of *growing* industrial segregation, merely evidence to suggest that to achieve a more balanced labour force in a market oriented economy, policymakers should wish to redress a long-standing pattern of segregation that shows no signs of diminishing.

(viii) Disadvantaged by occupational segregation

Perhaps most fundamental of the structural forms of labour market disadvantage in all central and eastern European economies has been the pattern of occupational

segregation. In that regard, there should be long-term concern about the situation in Ukrainian industry.

Women made up a minority among supervisory and managerial groups and among skilled workers, whereas they made up a substantial majority among general service and 'specialist' employees and technicians. However, in 1993-94 there was no slippage in their occupational profile; if anything, the profile had shifted in the direction of less segregation (Table 7).

Table 7: Women's Share of Occupational Categories, 1993-94, All Industries, Ukraine

% share	1993	1994
Managers	33.4	33.3
Specialists	70.0	70.3
Gen. Service	83.6	85.3
Supervisors	29.1	29.1
Technicians	64.7	64.4
Skilled workers	45.6	45.3
Unskilled workers	67.0	66.6

n = 348
Source: ULFS1

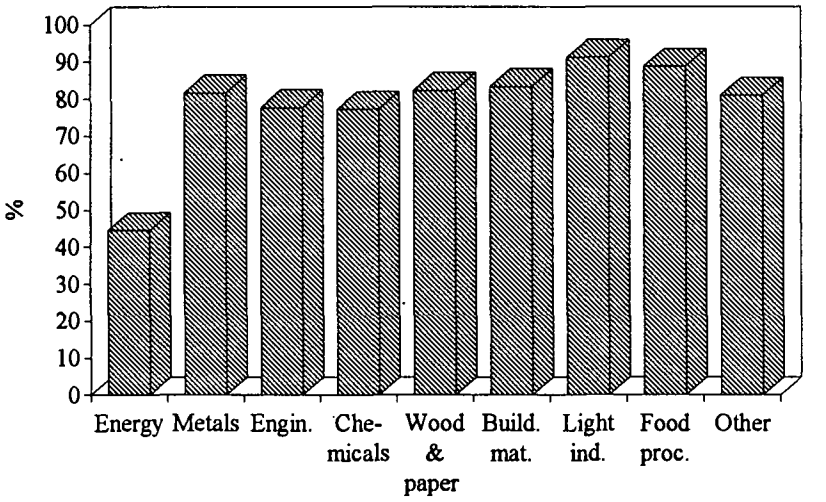
(ix) Disadvantaged by income

Finally, women could be disadvantaged by discrimination in terms of wages and earnings, and in particular could be adversely affected by a decline in their *relative* earnings. One must be cautious about interpreting the data on this issue, in part because of reporting difficulties, because traditionally Soviet industry never reported or collected earnings data on men and women separately, and in part because average wages and earnings data would have been affected by gender differences in duration in the jobs and working time variations. With those caveats, the data suggested that women faced some income disadvantage.

On average, according to managements' estimates, women's wages were 81.6% of men's, varying from about 44.6% in energy firms to over 91% in food processing (Figure 44). If anything, there had been a small rise in women's relative wages since 1992, with a notable improvement in light industry. So, although the figures may need to be supplemented by other data, they did not suggest that women's relative wages were worsening, and the observed differential compares favourably with that found in many market economies. If so, the challenge will be to ensure that they do not deteriorate and that the gap is narrowed rather than widened.

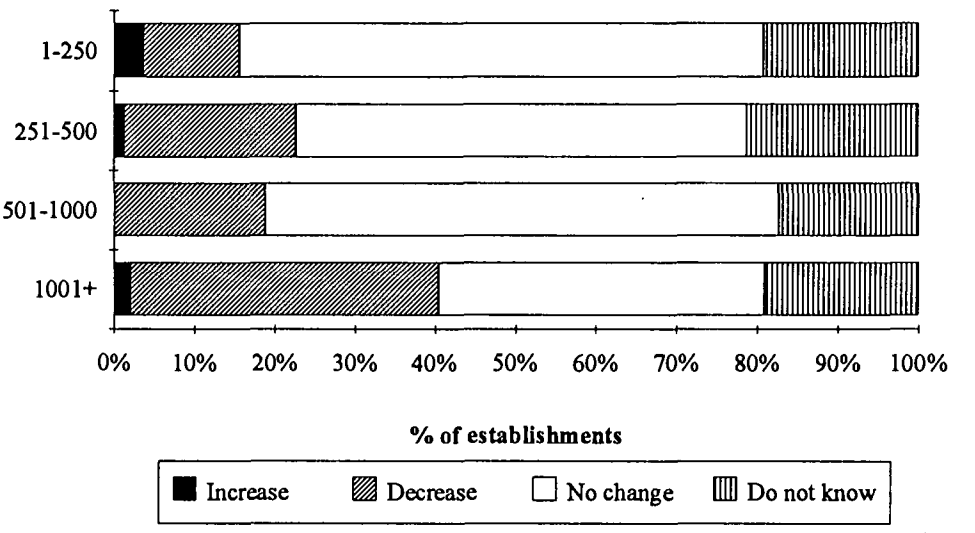
Finally, a substantial number of firms (22.5%) expected women's share of employment to fall, whereas only 2% expected their share to rise. Expectations of a decline were above average in chemicals, energy and engineering plants, and in larger firms (Figure 45). Thus, although their share had remained high, and some forms of restructuring did not appear to be disadvantaging them, these expectations suggest that there was a longer-term concern that should be addressed.

Figure 44: Estimated Women's Average Wage as Percentage of Men's, by Industry, 1993, Ukraine



n = 341
Source: ULFS1

Figure 45: Expected Change in Women's Share of Employment, by Industry, 1994, Ukraine



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Source: ULFS1

10. The Impact of Restructuring on Older Workers

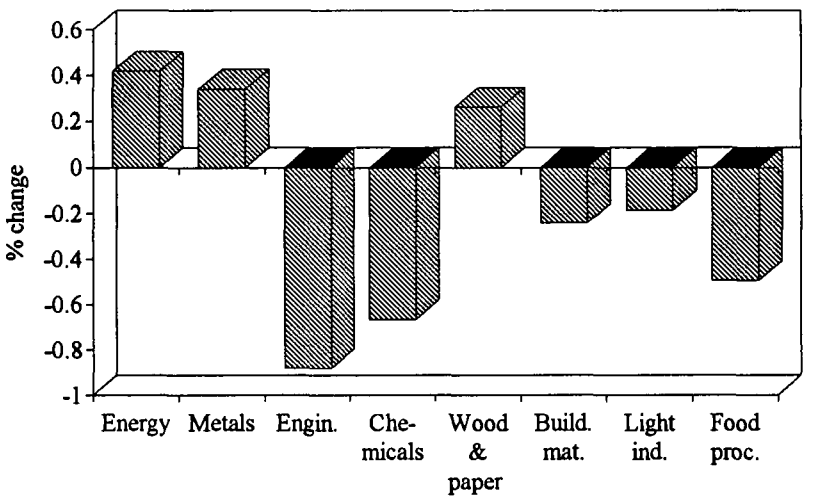
Another group whose employment is threatened by restructuring consists of older workers in their 50s and 60s. In many countries of central and eastern Europe their displacement from employment has been rapid and massive.

There were many pensioner workers in Ukrainian industry in 1994, and in the ULFS they accounted for over 12% of total employment. Their share was particularly high in the energy sector and in heavy industries, in state-run and in large-scale establishments. There had been minimal if any change over the past year — a fall in the share of 0.3% overall — with the decline being mainly in engineering and chemicals (Figure 46). The older worker share had fallen most in those establishments that had cut overall employment the most.

The most significant finding was that over a quarter of all establishments expected the pensioner share of employment to fall in the coming year, with particularly large numbers of firms in the chemicals industry expecting to reduce older worker employment (Figure 47). And larger-scale firms were more inclined to expect to cut than the smaller firms.

In brief, the position of older workers was beginning to deteriorate, and it could be expected that many would be eased out of employment as the overall decline in employment accelerated. With minimal chances of re-employment and with low pensions, their prospects were bleak.

Figure 46: Change in Pensioner Share of Workforce, 1993-94, by Industry, Ukraine



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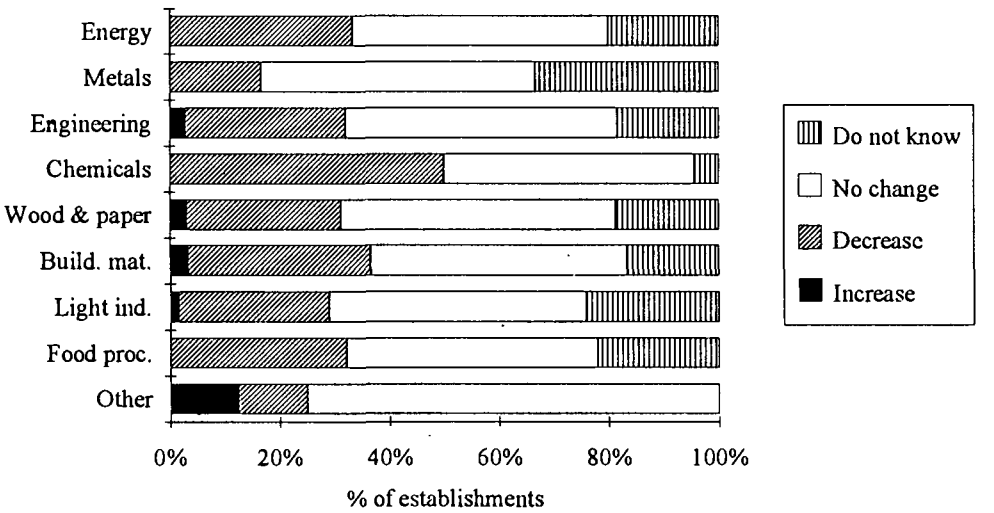
Source: ULFS1

Figure 47: Expected Change in Pensioner Share of Workforce in Next Year, by Industry, 1994, Ukraine



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Source: ULFS1

11. Changes in Wages, Earnings and Benefits

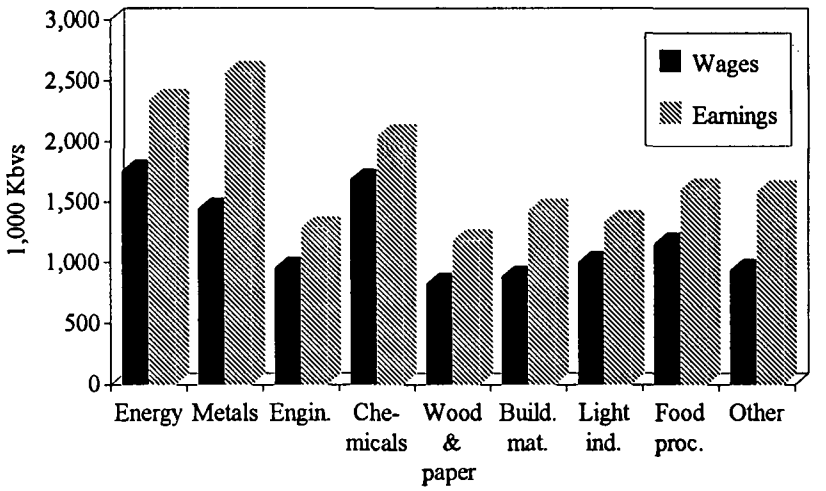
In the context of the stagflation in the Ukrainian economy, and the slump in industrial production and employment, wages and earnings were almost certain to have changed in many ways. They were also expected to change in the context of the gradual shift from the "wage tariff" system and from payment of wages based on allocations to industrial enterprises of "wage funds", supplemented by "social consumption funds".

In Ukrainian industry, as of early 1994, the average monthly wage was 1,074,052 karbovanets (Kbv), and average monthly earnings were 1,485,115 Kbv.[18] Average wages and earnings were highest in the energy and chemicals sectors and lowest in wood and paper products (Figure 48). Once the clear leader in wages and earnings, the engineering sector had declined to be the second lowest.[19]

[18] At prevailing exchange rates, those figures represented about $29 and $40, respectively. The data from the ULFS on wages and earnings should be interpreted as approximations, since reporting such data has been a sensitive matter in Ukraine, especially given the tax-based incomes policy that encouraged under-reporting and the difficulties many firms had in paying wages in 1993-94. Moreover, the wage reported may not have been the wage paid, since non-payment and "wage arrears" had become common. For an assessment of the tax-based incomes policy, see ILO-CEET, 1994, op.cit., chapter 4.

[19] National data from the Ministry of Statistics indicate that, in contrast to the whole economy and almost all other industrial sectors, production rose in the engineering sector in 1993. ILO-CEET, 1994, op.cit., chapter 4. This prompts two questions: Are those figures reliable? If so, what is the explanation?

Figure 48: Average Monthly Wages and Earnings, by Industry, 1994, Ukraine

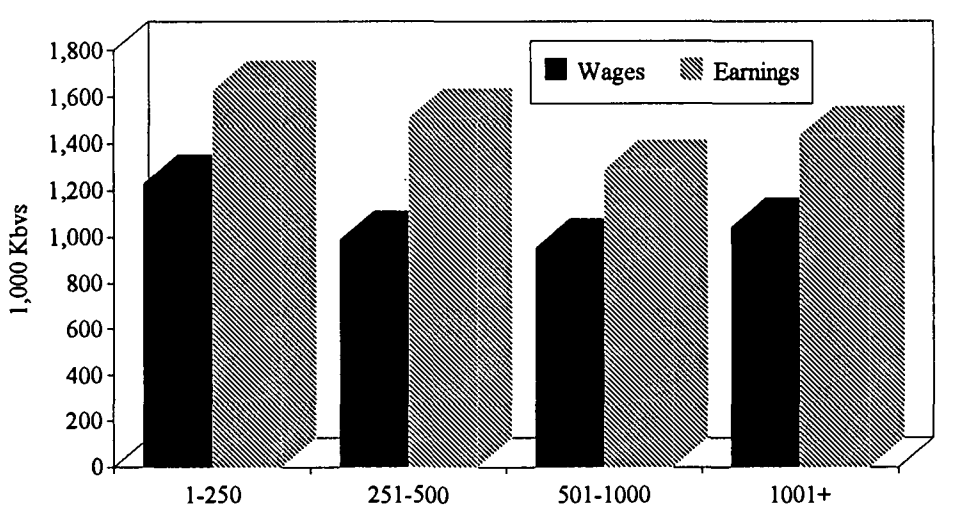


n = 348
Source: ULFS1

As for inter-regional differentials, average wages were lowest in the Kiev oblast and in Kiev City, probably reflecting the industrial structure there. It is unusual for wages in the capital city to be so low relative to the remainder of the country.

Surprisingly too, average wages were highest in small-scale establishments, followed by the largest (Figure 49), and less surprisingly were highest in private firms, followed by open joint-stock, with state establishments having the lowest (Figure 50). In each case, the observed pattern might reflect the effect of other characteristics of the firm, and this will be considered in a more detailed analysis of wage determination in a companion paper. Suffice it to note that factors associated with enterprise restructuring were also associated with above-average wages and earnings.

Figure 49: Average Monthly Wages and Earnings, by Employment Size, 1994, Ukraine



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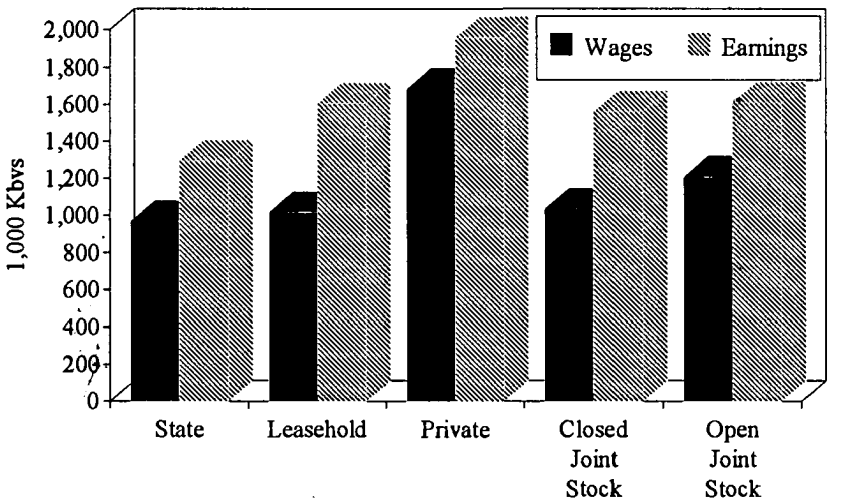
Source: ULFS1

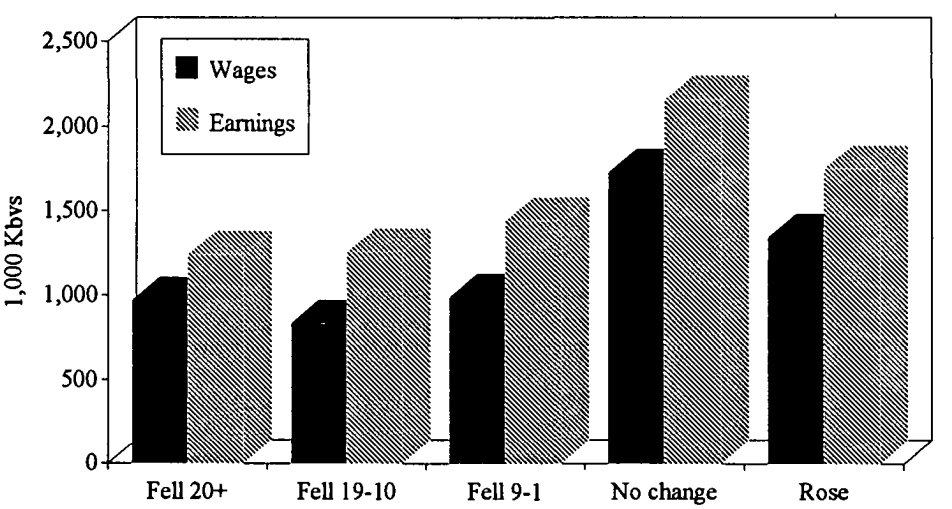
Figure 50: Average Monthly Wages and Earnings, by Property From, 1994, Ukraine



n = 343
Source: ULFS1

One further point that deserves to be emphasised is that average wages were positively correlated with employment change, with wages being lowest in firms that had cut employment by over 10% (Figure 51). This *suggests* that the labour market was beginning to operate in the way that one would expect in a normal market-oriented economy.

Figure 51: Average Monthly Wages and Earnings, by Employment Change, 1994, Ukraine



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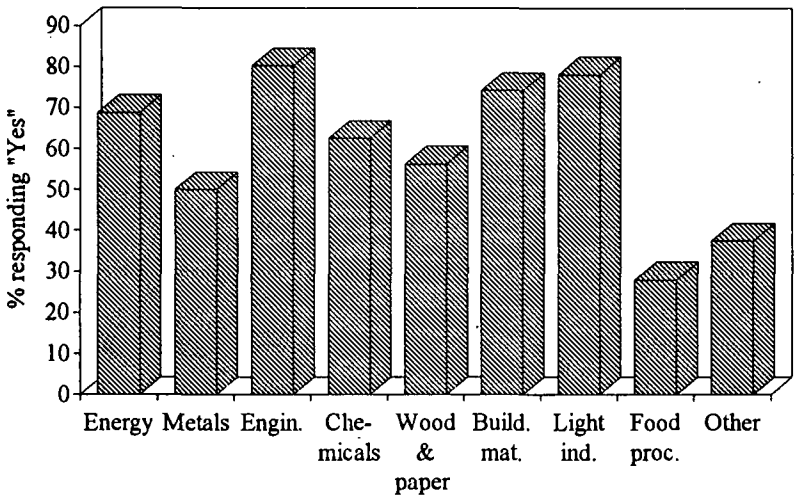
Source: ULFS1

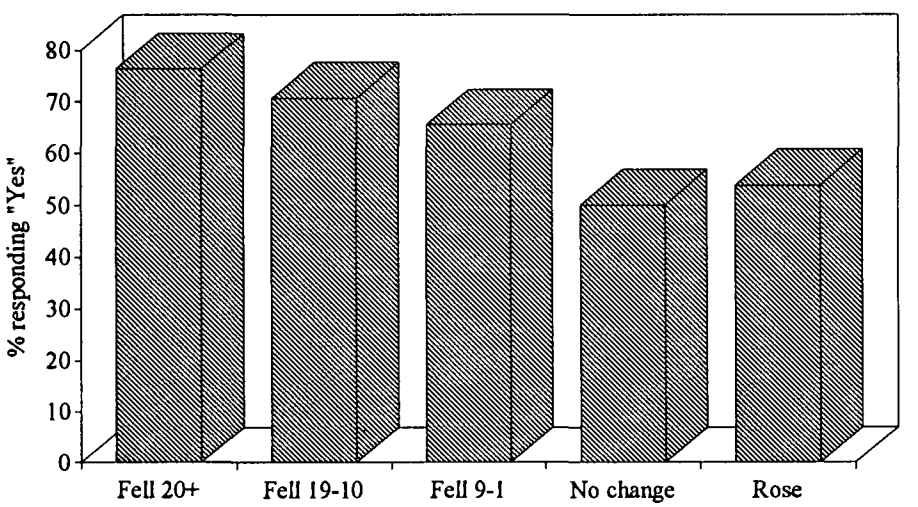
Figure 52: Difficulty in Paying Wages, by Industry, 1994, Ukraine



n = 348
Source: ULFS1

In 1993-94, one of the most striking aspects of the Ukrainian labour market was that many enterprises were unable to pay the agreed wages or had severe difficulties in paying them or any at all. According to the ULFS, this applied to nearly two-thirds of all factories, and to four out of every five engineering firms (Figure 52). Large-scale state-run and open joint-stock establishments were the most likely to be affected. And even though average wages were lowest in those regions, in Kiev oblast and Kiev City relatively large numbers of firms were having such difficulty. The problem was also more common in firms that had cut employment, although a majority of establishments that reported that they had increased employment also had difficulty paying wages, which is perverse (Figure 53).

Figure 53: Difficulty in Paying Wages, by Employment Change, 1994, Ukraine



n = 345
Source: ULFS1

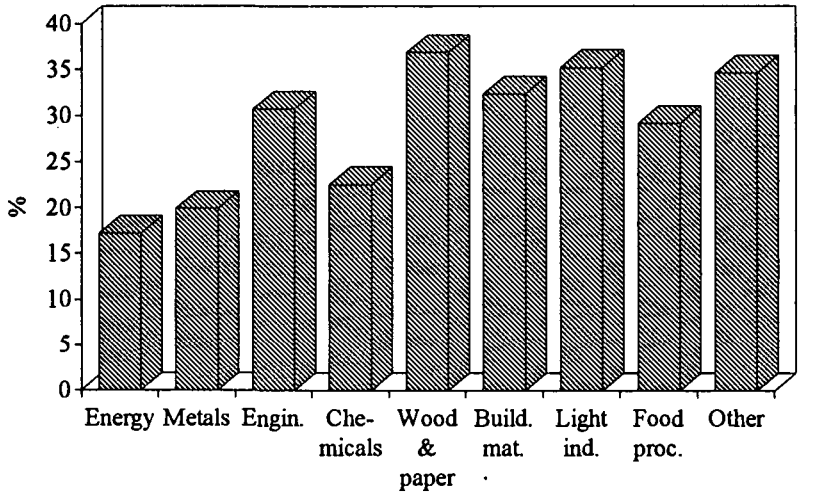
In spite of the widespread difficulty in paying wages, which led to the phenomena of "wage arrears" and non-payment of contractual wages, the level of contracted or committed money wages had risen sharply over 1993-94 to offset the massive price inflation. According to managements, beside the effect of price rises, little else had determined wages in the period. They merely raised money wages in response to price rises. About half the firms reported that no other factor had been important.

One partially related change was a growth in *wage differentials*. This issue is a critical aspect of industrial and labour market restructuring, and we will examine it in detail in the companion paper. However, it is worth noting that the ULFS obtained data on the average wages and earnings of occupational groups (classified at the three-digit level) and on minimum levels of remuneration in a plant. The latter were collected because in the pilot survey (when testing the questionnaire and training enumerators) we identified the phenomenon of certain groups of worker being paid very low wages, in part it seemed to enable the management to pay higher wages to other groups and to keep the average wage down so as to limit their wage tax obligations.

Whatever the reasons, a category of *impoverished industrial workers* was emerging, in contrast to the pattern that probably prevailed in the former system, in which there was heavy emphasis on "levelling", so that there were neither very high-paid nor very low-paid workers. By early 1994, a distinct category of lower paid workers had emerged.

On average over all establishments, **the lowest paid groups were paid less than a third of the firm's average wage** (Figure 54). Put in absolute terms, on average they were receiving 318,830 Kbv per month (or about $8 at the prevailing exchange rate), which was less than the officially designated subsistence income.

Figure 54: Lowest Wage as Percent of Average Wage, by Industry, 1994, Ukraine



n = 348
Source: ULFS1

Table 8: Minimum Actual Wage as Percent of Average Wage, by Industry, 1993-94, Ukraine

	Minimum payment (1,000 Kbvs)	Minimum as % of Average	% workers receiving minimum payment	
			Nov. 1993	Feb. 1994
Energy	302.3	17.2	2.0	2.1
Metals	288.0	19.9	2.8	3.3
Engineering	292.5	30.7	5.0	4.8
Chemicals	379.8	22.5	4.5	4.6
Wood & paper	303.7	36.9	8.2	8.3
Build. mat.	285.1	32.4	5.1	4.8
Light Industry	352.8	35.3	6.1	7.5
Food processing	336.6	29.2	4.5	3.7
Other	325.1	34.7	4.8	3.6

n = 347
Source: ULFS1

The lowest average minimum level was in building materials and engineering factories (Table 8). Overall, a little over 5% of the workforces of firms were on the minimum level of pay, with above-average proportions in small-scale establishments. In terms of property forms, the proportions on very low wages were greatest in private establishments and lowest in joint-stock enterprises, perhaps reflecting the 'solidaristic' influence of work collectives in the latter and a tendency for wage differentials to be wider in private firms.

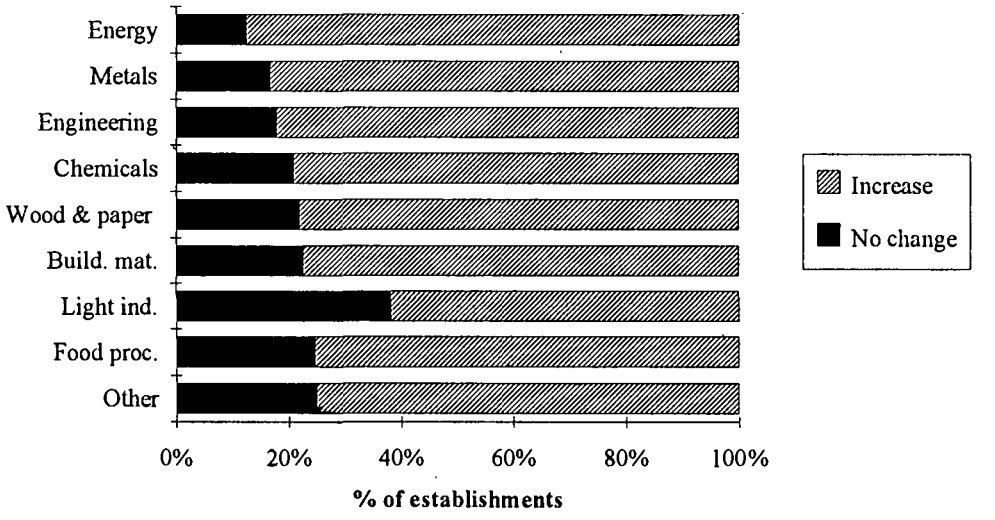
Also considered was the impact of changes of the *statutory minimum wage* on wages in the firm. Because of the nature of the wage tariff system, a rise in the nominal value of the statutory minimum wage was likely to have a positive influence on nominal wages, even though the actual level of the minimum wage was only a small fraction of the average wage and was well below the estimated subsistence income.[20] Thus, just over three-quarters of all establishments reported that changes in the minimum wage had led to an increase in the average wage in the factory (Figure 55). And in over a third of factories, the rise in the minimum wage had resulted in *wider wage differentials*, presumably because of the wage tariff system (Figure 56).

For workers, a rise in the minimum wage was apparently less likely to be linked to a rise in average wages in small firms (the link was observed in 64.5% of those with fewer than 250 workers, compared with 84% of those firms with more than 1,000 workers). And non-state firms were much less likely to report that a rise in the minimum wage raised average wages (Figure 57).

In the longer term, both the wage tariff system and the statutory minimum wage will play diminishing roles in the wage determination process in Ukrainian industry, and in the labour market in general. As in the international economy, there will be a growth of *wage flexibility*. That will also be an important aspect of enterprise and labour market restructuring. Wage flexibility can be excessive for both efficiency and equity objectives. Yet without some degree of flexibility, labour mobility, work incentives and

[20] ILO-CEET, 1994, op.cit., ch.4.

Figure 55: Effect of Minimum Wage Rise on Average Wage, by Industry, 1994, Ukraine



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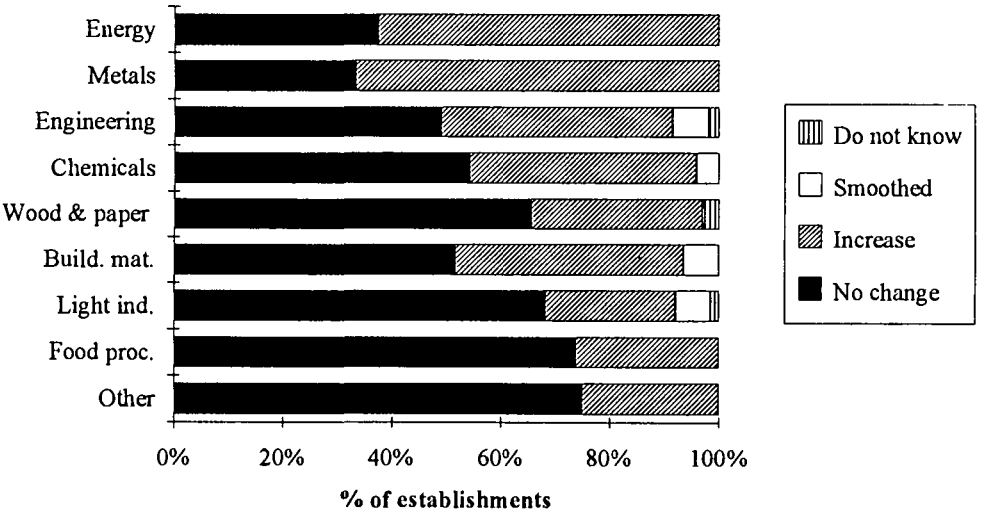
Source: ULFS1

Figure 56: Effect of Minimum Wage Rise on Wage Differentials, by Industry, 1994, Ukraine



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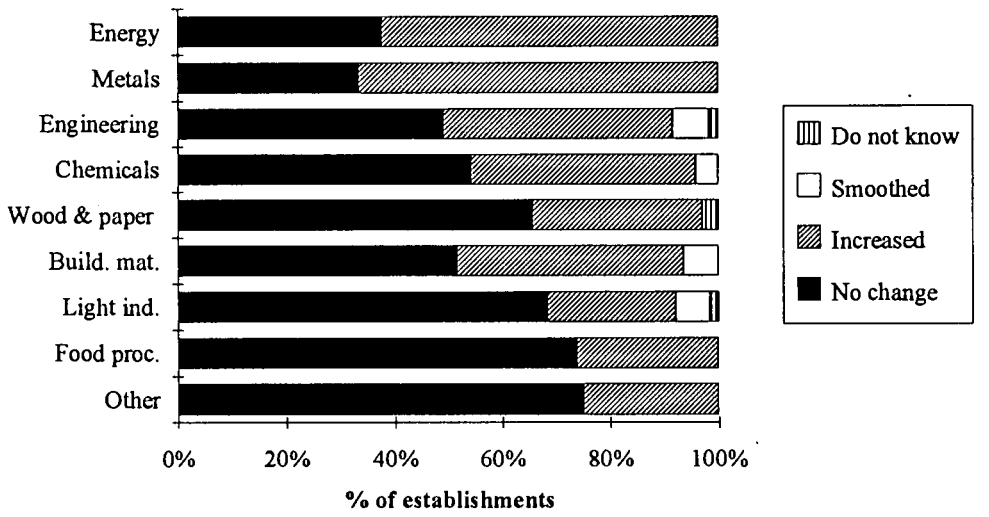
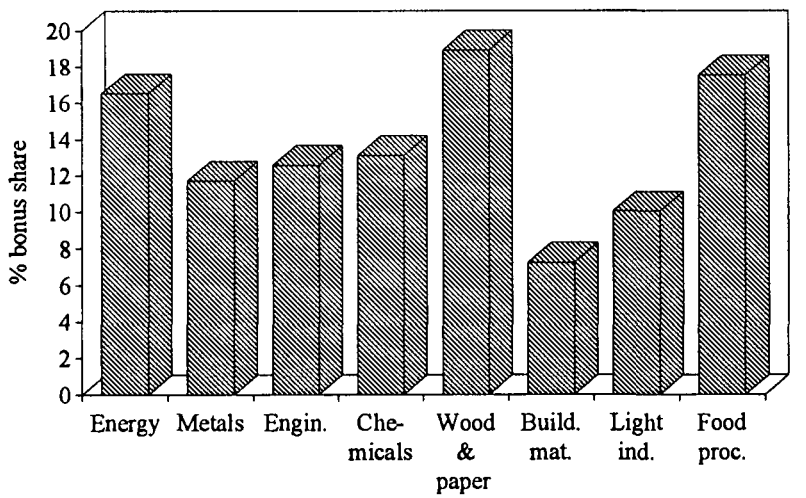
Source: ULFS1

Figure 57: Effect of Minimum Wage Rise on Wage Differentials, by Industry, 1994, Ukraine



n = 347
Source: ULFS1

Figure 58: Average Bonus Share of Earnings, by Industry, 1994, Ukraine



n = 345
Source: ULFS1

labour productivity are likely to suffer, and thus labour market adjustments will be slowed.

No doubt there is a long process of wage reform ahead in Ukraine. Yet the ULFS data suggest that there was a degree of wage flexibility already. This is shown, first, by the finding that the more flexible share of total cash remuneration was fairly high, in that "bonuses" comprised 13.4% of total earnings, which ranged from 18.9% in firms in the wood and paper products sector to a low of 7.2% in building materials (Figure 58).[21] The lowest bonus share was in small-scale firms. It was relatively high in state establishments and lowest in closed joint-stock companies, which might reflect the existence of other forms of remuneration in the latter, an issue to which we will return.

The bonus share scarcely varied across occupational groups within firms. On average, it comprised 13.4% of the earnings of managerial employees, 13% for 'specialists', 12.5% for general service employees, 13.5% for supervisory workers, 13.9% for technicians, 13.3% for skilled workers and 11.8% for unskilled workers. The lack of observable variation is striking, and is not a pattern typical of a market-oriented economy.

Another characteristic of any wage system is the *ratio of non-wage benefits to wages*. For various reasons (notably the desire to achieve a 'decommodification of labour') this ratio was high in the Soviet system. Yet for the wage to function as a mechanism for work motivation and mobility, the long-run need is for the real money wage to rise. In 1994, the 'distortion' of the wage system was still considerable. While money and real wages were very low, and had fallen very substantially in real terms over the previous three years, most firms in Ukrainian industry provided a very wide range of fringe benefits and services.[22]

Most establishments provided managerial employees and regular wage workers with entitlements to a wide range of benefits, whereas non-regular workers — casual labour, those on fixed-term contracts, and so on — had a severe disadvantage, as shown in Table 9. The figures raise two sources of concern.

First, if enterprises in certain sectors and in the core of the economy are able to provide such a wide range of benefits while others cannot do so and while more and more workers are locked out of that relatively privileged core, then in itself the pattern of benefit provision will contribute to the growth of social inequality. Indeed, the pattern of enterprise-based benefits may become a bigger factor in the growth of inequality than wage differentials per se.

Second, if Ukrainian industry moved towards the pattern found in the international economy in which enterprises resort increasingly to non-regular labour, or to what is called *external labour flexibility*, then a growing number of workers would be disentitled to occupational or enterprise welfare.

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[21] These figures were lower than the corresponding figures in Russian industry in 1993, although there the bonus share had been rising. Standing, 1994, op.cit., p.37.

[22] Incidentally, this is one reason for doubting the conventional image that the level of service employment has been low in countries like Ukraine. Many service functions were internalised in manufacturing enterprises and classified as part of industrial employment.

Table 9: Percent of Establishments Providing Benefits, All regions, 1994, Ukraine

	Admin. employees	Regular workers	Non-Reg. workers
paid vacation	98.8	99.4	16.4
additional vacation	74.8	87.0	6.0
rest houses	70.2	70.2	12.7
sickness benefits	91.1	91.9	39.7
health services	32.9	34.4	11.7
subsidised rent	20.0	22.6	1.8
subsidies for kinder gardens	25.9	28.0	8.4
bonuses	85.0	85.3	37.1
profit sharing	59.1	58.2	11.6
loans	91.4	91.1	17.9
retiring assistance	79.0	79.5	5.4
supplementary pension	11.0	11.0	0.6
possibility for training	70.8	72.8	8.7
subsidised food	32.7	32.9	19.8
subsidy for canteen or meals	45.4	48.8	22.8
subsidised consumer goods	22.5	22.8	13.2
transport subsidies	24.4	24.8	8.5

n = 348
Source: ULFS1

One factor in the high incidence of fringe benefits was the tax-based incomes policy, since high rates of tax on money wages must encourage managements and trade unions in the enterprises to shift from money wages into non-monetary forms of remuneration. With stagflation and the difficulty in paying wages, that trend would be encouraged anyway. *Any trend away from money wages is potentially damaging for productivity and labour mobility, and policies should be introduced to encourage enterprises to shift their "social service" functions to district authorities*, so that those outside firms (most of all out of the large-scale, older firms) may obtain access to them and so that money wages could be raised, to act as an incentive to work and to promote various forms of labour mobility.

In that context, the recent trends are intriguing. In spite of the parlous state of most enterprises, and to some extent perhaps because of that, 12.6% of the establishments had extended the range of social benefits provided to their workers during the past year, compared with 7.8% that had curtailed or ended a benefit. The two benefits most commonly added were the construction or provision of sanitoria and compensatory prices for food or a payment to compensate for high food prices. But the reported range of additional benefits was ingenuous, including entitlement to free bakery products, interest-free loans, travel subsidies, child sickness benefits, funeral, wedding and childbirth grants and free healthcare.

Some firms had cut fringe benefits. By far the most common of the benefits cut or reduced was the provision of food subsidies for workers, so that while some firms were adding them others were removing them. Among other benefits that some firms were cutting were subsidised accommodation and preferential access to housing.

The type of firm adding benefits was most typically state or leaseholding establishments, and large-scale; the type most inclined to cut benefits was also state or leaseholding, although they were much more likely to be the small-scale factories.

In sum, fringe benefits remained a very important component of workers' compensation, and almost certainly this had come to represent a means of accentuating socio-economic inequality.

12. Skill Formation and the Erosion of Training

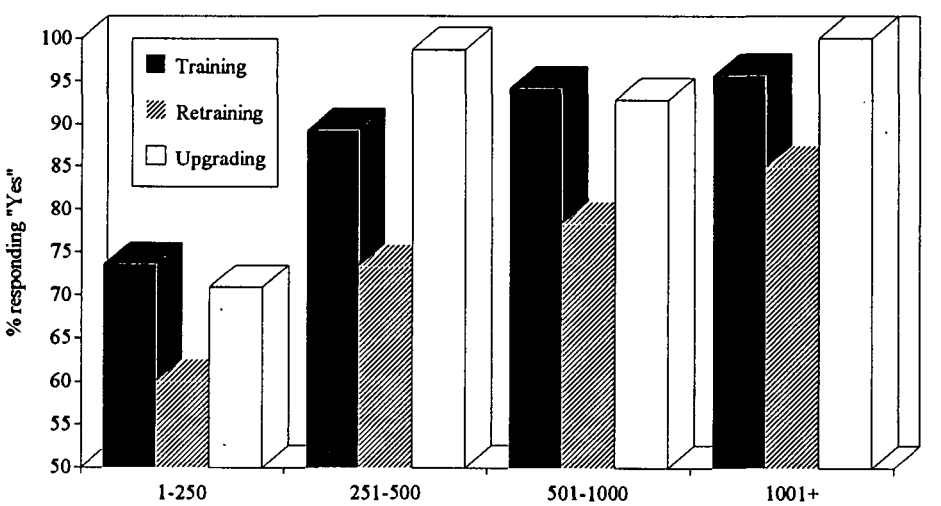
To achieve labour market and employment restructuring and the necessary labour mobility, worker training may be quite important. Traditionally, in Soviet industry enterprises provided much of the training that was undertaken. Whether or not the training imparted much skill is debatable. Nevertheless, training was an essential part of the enterprise culture.

To examine the extent and forms of worker training in Ukrainian industry, we considered three levels of training — entry-level *training*, that is for workers newly recruited by an establishment, *retraining* for improvement of performance in the job or to move workers between jobs with comparable ranges and levels of tasks, and training for *upgrading*, that is to raise the grade and status of a worker.

As in Russian industry, the majority of Ukrainian firms (87.1%) provided some training for newly hired workers. However, the figures look less impressive when we find that in nearly nine out of every ten establishments that provided training did so through 'informal' on-the-job methods; only 8.4% provided classroom training in the enterprise and about 4% provided similar training off the premises.

For retraining for job performance, somewhat more establishments provided formal classroom teaching on the premises (14.6%). Surprisingly, even more establishments (89%) provided retraining for upgrading than training for newly

Figure 59: Percent of Establishments Providing Initial Training, Retraining and Retraining for Upgrading, by Employment Size, 1994, Ukraine



n = 348
Source: ULFS1

recruited workers, again with private firms, small-scale establishments and those having cut employment by large numbers being much less likely to be providing such training. More of this form of training was 'formal', involving classroom and off-the-premises courses, but still in most factories it was 'informal' and on-the-job.

If the picture so far is mixed, what should be of more concern is that **nearly a third of all firms reported that they had cut training programmes, in their entirety or partially over the past year, while only 7% had increased them.** Cutting training was particularly common in the building materials, metals and engineering sectors.

Traditionally, many industrial enterprises set up and operated their own training institutes. We examined this from the point of view of financing. According to the ULFS data, 19.5% of establishments were paying for a training institute, 17.8% paid institutes for the full costs of training each worker sent for training, and 16.1% paid grants to trainees while they were attending training courses. This pattern compares quite favourably with the practice of firms in many countries, although one would have to probe into the quality of the training in order to make a judgement. What should be a source of concern is that about 56% of the establishments were not paying for training institutes at the time of the survey and 16.7% of those paying for institutional training were planning to stop doing so, with a further 12.3% uncertain.

Thus, in sum, while there was considerable informal training, there was an erosion in the provision of institutional training and retraining, just at a time when more formal off-the-job training was required to facilitate labour mobility between different types of job and different enterprises.

13. Concluding Remarks

The evidence from the Ukrainian Labour Flexibility Survey shows that in 1994 factories across Ukraine were in major structural difficulties. In 1992 and 1993 there had been some restructuring, although it was clear that by early 1994 much more was awaited and expected. Massive surplus labour had become widespread and employment cutting has been a growing feature of industry. Older workers rather than women workers were the group most threatened by the cuts in employment, although the prominent position of women might be undermined as redundancies accelerate.

It would be wrong to characterise industrial enterprises in Ukraine as rigid or inflexible, although the mechanisms for demonstrating labour market flexibility are not the conventional mechanisms of a market-oriented economy. The pattern of extensive unpaid administrative leave, short-time working and "wage arrears" means that the system has exhibited a perverse form of *wage flexibility,* which will be explored in a companion paper. This is not the conventional view of labour mechanisms in the countries of the former Soviet Union. The conventional view is that open unemployment is very low because of the continued operation of a "soft budget constraint" in enterprises, in which a lack of financial discipline on managements leads them to retain workers despite the cost of doing so. The fact is that labour is a highly variable cost, not a fixed cost of production, as it is often characterised to be in some more market-oriented economies in which genuine and binding (team) contracts preclude such practices as putting large numbers of workers on unpaid leave.

Ironically, and paradoxically, the Ukrainian labour market needs to be made less flexible if employment restructuring is to accelerate.

Employment flexibility, in the form of growing number of redundancies rather than wage flexibility in the form of "unpaid leave" and "wage arrears", is likely to develop at a rapid rate in 1995, and policy makers will have to be prepared for the deluge of job losses from industry that is the predictable outcome of the slump in output and sales.