Worker Insecurities in Ukrainian Industry: The 1999 ULFS

by

Guy Standing and László Zsoldos

International Labour Office, Geneva
April, 2000

ISBN 92-2-112099-6

First published 2000

Printed by the International Labour Office. Geneva, Switzerland

Contents

Foreword

This is the first report of results from the sixth round of the Ukrainian Enterprise Labour Flexibility Survey, carried out in 1999. The ULFS is the first comprehensive assessment of what is happening in the industrial labour market of this major European country of 51 million people. It tells a worrying story, about factories struggling to survive and produce, about workers in their many thousands faced by chronic insecurity, affected by wage cuts, loss of benefits, and so-called "administrative leave", while threatened by the fact that those factories have already lost many thousands of jobs.

All views and conclusions are those of the authors only and not necessarily the ILO's. Thanks are due to the Ukrainian Ministry of Statistics, which was responsible for the fieldwork, Nadezhda Grigorovich and Natalya Vlasenko, colleagues in UNDP, Kiev, which helped finance the survey, and Igor Chernyshev, of the ILO's Bureau of Labour Statistics.

1. Introduction

Ukraine, as part of the Soviet economic system, was severely affected by its dissolution. Previously integrated into the Soviet 'military-industrial complex', after Independence in 1991, its economy plunged into what is best described as *hyper-stagflation*. Output over the remainder of the decade shrunk by over 50%. Inflation in 1993 alone was over 10,000%. In 1994, the worst effects of the price liberalisation wore off, but still the annual inflation rate exceeded 500%. In the ensuing six years the essential restructuring of production and distribution was almost paralysed, with modest reforms in some areas being held back by inertia elsewhere. In 1998, consumer prices rose by 100% for the eighth year in succession.

The economic depression had wrought terrible social consequences. After a decade of continuous decline in living standards, in 1999 average monthly income per capita was 103 UAH – about US$25 at the current exchange rate – in real terms down from the 91 UAH ($37) in 1998. Many observers claim that the informal and black economy has grown substantially, which is surely true. But even if one assumes that such activities account for a third of total income, average incomes would still be extremely low and inadequate, especially bearing in mind that the poor often have least chance to indulge in concealed income-earning activities.

More telling is the pattern of demographic developments. Since Ukraine became an independent nation, the population has shrunk in the wake of a substantial decline in life expectancy. After approaching 52 million earlier in the decade, in 1999 the population fell below 50 million. Average male life expectancy at birth had fallen to 62 years, while for women it was just over 73.

For restructuring to arrest the decline and to begin a process of economic regeneration, what happens at the level of the enterprise is crucial. Little is known about the impact of the economic changes and restructuring on industrial enterprises, or about the impact on employment and labour practices. Raising productivity will be a key to economic regeneration, and it is generally recognised that labour productivity in Ukrainian industry has been very low and declining. Official data suggest that although employment has declined, it has done so by much less than output. And, unbelievably, although it rose thereafter, even in 1995, the registered unemployment rate remained below 0.5%. By 1999, it was hovering below 5%. The unreliability of such figures and related labour market trends are considered elsewhere.[1] In reality, there is reason to think that unemployment has long been very high and that the labour market deterioration has continued.

As part of its work, in 1994 the ILO and the Department of Statistics conducted the first round of the Ukraine Labour Flexibility Survey (ULFS1), a survey of industrial establishments in six regions – Kiev City, Kiev Region, Donetsk, Kharkov, Lvov and Nikolaev.[2] It covered a random sample of establishments giving a cross-section of

[1] ILO-CEET, *The Ukrainian Challenge: Reforming Labour and Social Policy* (Budapest and Kiev, ILO-CEET and UNDP, 1998).

[2] For an analysis, see G. Standing, "Labour market dynamics in Ukrainian industry in 1992-94: Results from the ULFS", *ILO-CEET Report*, No.11 (Budapest, ILO Central and Eastern European Team, September 1998).

industries in each region.[3] As in related flexibility surveys in Bulgaria, Hungary, Russia and elsewhere outside the region, the methodology involved interviews with senior managers and two questionnaires, one completed by the establishment, the other administered orally in discussion with managers, often accompanied by senior staff.[4]

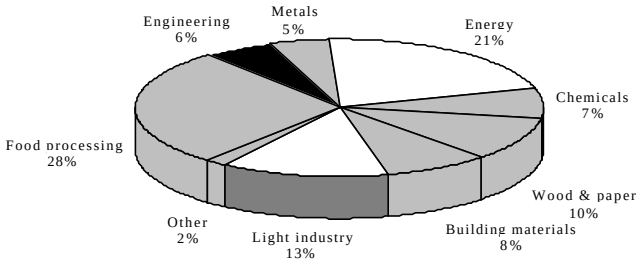
In 1999, the ULFS6 involved the same methodology, applied to all 27 regions of the country, covering 690 industrial firms employing 583,855 workers. It is the largest and most comprehensive survey of developments in the industrial labour market ever conducted in the country.

This is the first report of findings from the ULFS6, with emphasis on aspects of restructuring, labour surplus and labour shedding. Other papers will go into more detail on the more important topics raised in the following. We begin with a brief review of the main signs of restructuring in industrial firms in the late 1990s.

2. Structural Characteristics of Ukrainian Industry in 1999

Food processing accounted for the largest share 27.5% of firms covered by ULFS6, 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 (Figure 1).

Figure 1: Industrial Distribution of Establishments, 1999, All Regions



Source: ULFS6, n = 690

Ukrainian industry has been regarded as monopolistic, in keeping with the Soviet system, in which it was common for a single enterprise to dominate a whole town or region and sector. Although one must be cautious about interpreting the data, it seems that is changing. According to managements, in 1999 9.4% of all factories were a **monopoly** in their sector, with a further 7.3% believing they had a monopoly in some of their products, not all. About 19% of state establishments believed they were monopolists, while 13.7% of all firms with more than 1,000 workers did so.

The **employment size** distribution showed that 41.7% had fewer than 250 workers and 20.3% had more than 1,000, with the share of the larger establishments being much less than was the case in earlier rounds of the survey. Overall, the mean average size of establishment was 846 workers, the average ranging from 2,325 in

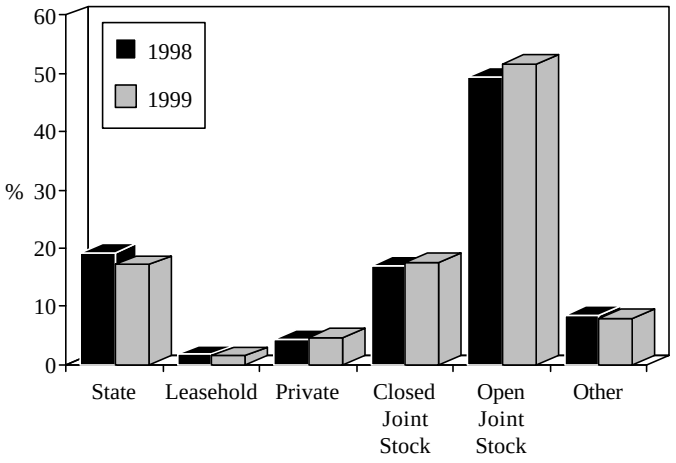
[3] The unit of the survey was an *establishment*, which statistically should be distinguished from an *enterprise*, which consists of one or more establishments. The average size of establishment, in terms of capital, employment, sales, etc, is considerably smaller than for enterprises.

[4] We wish to acknowledge with gratitude the cooperation and assistance of the Ministry of Statistics of Ukraine, which handled the fieldwork with considerable expertise.

metals and 1,617 in the chemicals sector to 311 in wood and papers, reflecting the large-scale nature of industrial production in Ukraine, even in 1999. The largest average size was in Donetsk (2,820), followed by Lugansk (2,015); the smallest was in Kiev (286).

In terms of **property form**, there had been considerable restructuring. By 1999, only 19.1% of all firms were state-owned, compared with 32.3% four years earlier. The categories that had come to predominate were closed and open joint stock enterprises, particularly the latter (Figure 2). Again, this was similar to the changes that had taken place in Russian industry.

Figure 2: Property Form Distribution of Establishments, 1998-99, All Regions

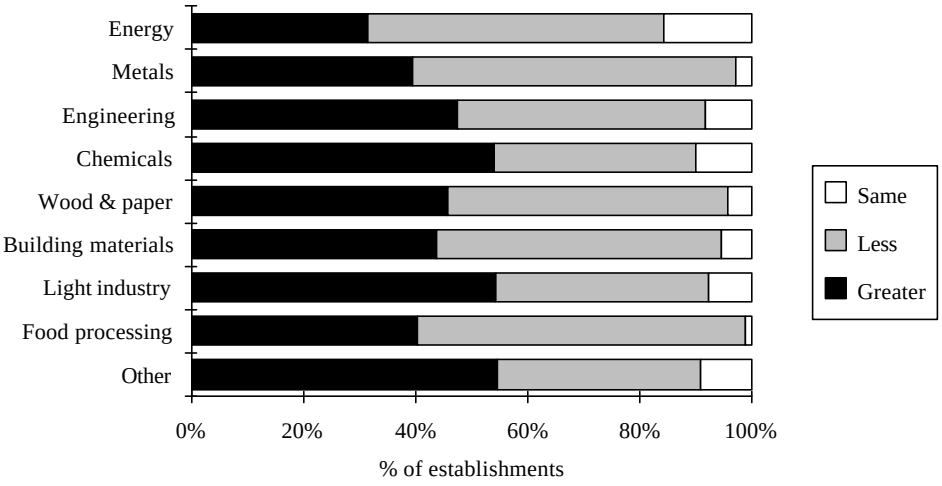


Source: ULFS6, n = 690

Property restructuring was continuing. Thus, 7.2% of all firms planned or expected to change property form in 2000, and 40% of leaseholdings and 7.7% of state enterprises planned to do so. Most of those planning to change expected to become open or closed joint stock companies.

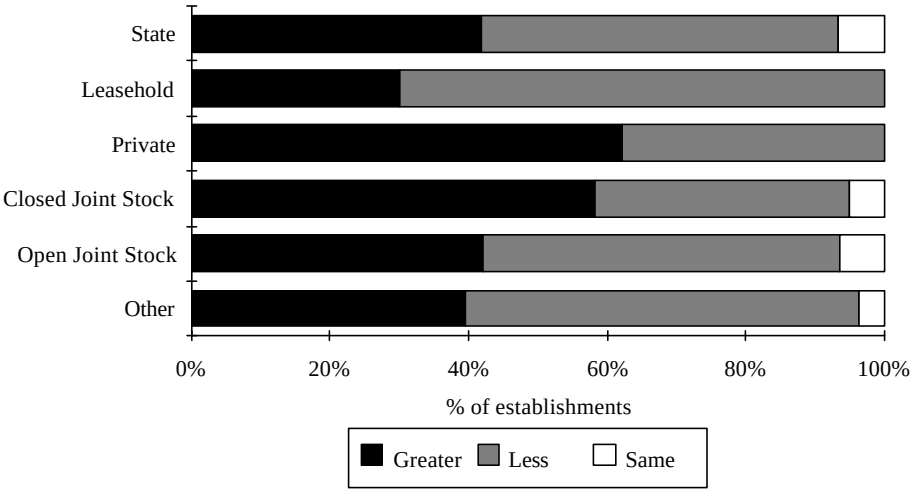
Even after a decade, there was little sign of economic revival, after all the years of intended reform. In terms of economic performance, all manufacturing sectors had fared badly in the recent past, with 48.6% of all establishments reporting that **sales** in real terms had declined over the past two years, and a further 5.8% reporting no change (Figure 3). State enterprises and leaseholdings were relatively likely to have experienced a decline in sales, and the small private sector an increase (Figure 4).

Figure 3: Change in Sales in Real Terms, 1996-98, by Industry, All Regions



Source: ULFS6, n = 687

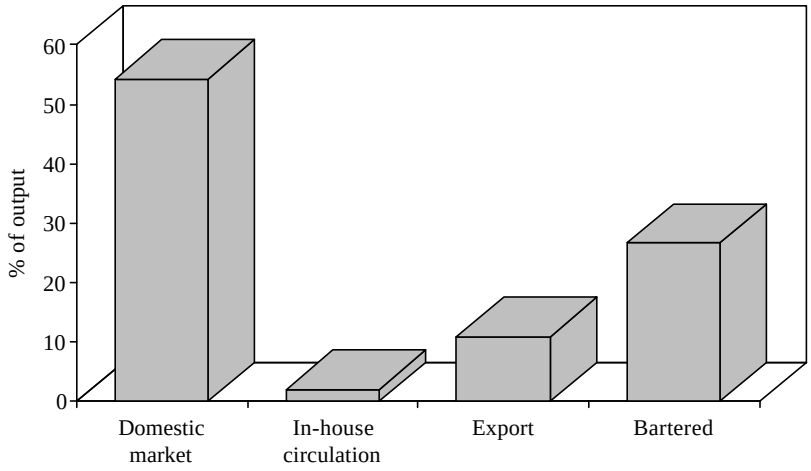
Figure 4: Change in Sales in Real Terms, 1996-98, by Property Form of Establishment, All Regions



Source: ULFS6, n = 686

In terms of **distribution of output**, Ukrainian industry has remained heavily oriented to the domestic market, which accounted for 54.2% of sales in 1998 (Figure 5). The proportion of firms exporting some of their output had increased, but on average only 10.9% of total output was exported. State enterprises actually exported more of their output than other firms.

Figure 5: Distribution of Output, 1997-98, All Regions



Source: ULFS6, n = 647

There was one ominous change that deserves to be highlighted. Much more was being **bartered** – 26.6% of total output compared with about 7% five years earlier. Both the number of firms bartering and the percentage of output bartered had increased since 1992. Similarly, more firms sold output to their workers and more gave output to their workers than was the case five years earlier. The latter two forms of distribution accounted for over 3% of total output, with a further 1.9% going for in-house circulation.

As for other signs of restructuring, the survey considered three forms of innovation – product, capital and work process. Over 16% had reduced their **product range** over the past two years, compared with 42% that had increased it, with state establishments being slightly more likely than others to have reduced the range. Over 43% had made some **technological change** in production, with state enterprises being the least innovative in that respect. And 31% had made some definable change in **work organisation**, with fewer state enterprises having done so than joint stock firms (Table 1). So, in terms of technology there were signs of change; later papers will consider the quality and impact of those changes.

Table 1: Technological Innovation, by Property Form of Establishment, 1996-98, All Regions
(% of establishments having made a change)

Property Form	Change in range of products		New techno-logy	Change in work org.
	Increase	Decrease		
State	30.2	9.5	33.6	30.7
Leasehold	40.0	20.0	30.0	10.0
Private	54.8	6.5	58.1	32.3
Closed Joint Stock	45.8	11.7	44.2	33.3
Open Joint Stock	41.1	20.7	45.3	31.0
Other	59.6	17.3	38.9	30.2

Source: ULFS6, n = 682

Senior managements were asked to identify the "main economic difficulty" faced by their firms in the previous six months. The most common response was lack of sales 47.7%, followed by high taxes (19.5%) and their customers' inability or unwillingness to pay (11.8%). These demand factors were followed by lack of raw materials (9.8%), and their suppliers' financial position (5.7%).

One creeping structural change has been in 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] Marking a significant change from the mid-1990s, in only 16.7% of establishments were top managers appointed by a line **Ministry.** In 34.2% that had been done, formally at least, by the **work collective**, in 22.1% by **enterprise boards**, and in 2.5% by **local authorities;** the remainder were appointed by several methods. This represented a 50% decline in the role of line Ministries since the mid-1990s, coupled with an increase in the role of boards of directors.

In the 'heavy' industries of energy, metals and engineering, managers were more likely to have been appointed by Ministries, whereas in 'light' industry and food processing they were more likely to have been appointed by work collectives. Some 16.2% of managers were appointed for two years or less (usually on a one year contract), 19.9% were appointed for three or four years, 45% were appointed for five years, 0.1% for longer, and 18.5% were appointed without a fixed term or formal contract. Managerial appointments, on average, had become shorter than in the early 1990s, as recorded in ULFS1. And many more managers are now on formal employment contracts.

One old, widely-criticised 'structural' feature of Ukrainian enterprises was dependency on government **subsidies**. However, remarkably – given the image of factories being maintained by state assistance – 97.2% reported that they were not receiving a subsidy for production purposes, and only in the energy sector did many

[5] Issues of corporate governance have attracted considerable discussion in the context of the transformation of soviet-style enterprises. For one perspective, see G. Standing, "Promoting the "Human Development Enterprise": Enterprise restructuring and corporate governance in Russian industry", *Labour Market Papers*, No.8 (Geneva, ILO, October 1995).

firms appear to be receiving subsidies. Anecdotal evidence suggests that the primary reason for this virtual disappearance has been the lack of financial resources.

As expected, receipt of a government subsidy was more common in state establishments, although even here there had been a strong decline in the share receiving such assistance. Half the subsidies had come from the national budget, the remainder coming from regional and local authority budgets.

A final structural feature worth stressing is that 18.5% of factory managers believed there was a strong possibility that the firm would go **bankrupt** in the next 12 months, with a further 21.9% being uncertain. Managers in the building materials sector were particularly pessimistic, whereas firms in chemicals and metals were most sanguine. Leasehold, private and open joint-stock establishments were most inclined to anticipate bankruptcy. The most mentioned main reason for expecting bankruptcy was difficulty in selling the output (36.3%), followed by indebtedness (16.1%), and rising prices of raw materials and other inputs (15.3%). The growing fear associated with debt deserves to be emphasised.

In sum, there was widespread pessimism about economic prospects, and managers seemed realistic. While property form restructuring had occurred on a wide scale, and while there had been a corresponding shift in forms of managerial appointments, the continuing decline in sales highlights the persistent structural crisis.

3. Capacity Utilisation in 1998-99

With the continuing economic slump in the country, it was not surprising that the level at which factories were operating in early 1999 was well below capacity, and that this was down from 1998, which in turn was down from the mid 1990s.

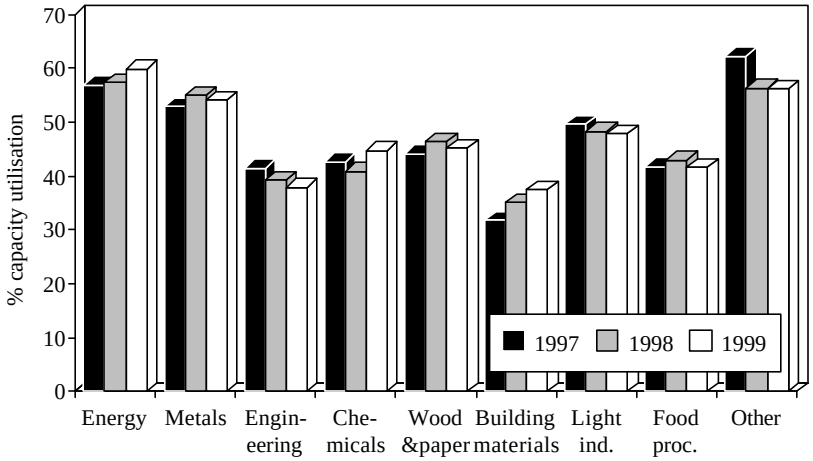
Overall, according to the firms' estimates, in early 1998 they were operating at 44% capacity, and by 1999 this had fallen to merely 43.8% – over 22% below what had been the level in 1993. This is extraordinarily low by international standards and even by comparison with the low levels recorded in Russian industry.[6]

The lowest levels in 1999 were in engineering and building materials, the highest in the energy sector followed by metals (Figure 6). The biggest decline since 1993 had been in food processing, almost certainly reflects the inability of people to afford food, bearing in mind that there has been widespread resort to private small-scale farming and consumption and sale of home-grown food.[7]

[6] G. Standing, Enterprise Restructuring and Russian Unemployment: Reviving Dead Souls (Basingstoke, Macmillan, 1996). The figures in the text are unweighted mean averages.

[7] Between 1985 and the mid 1990s, the number of city residents' plots of land doubled, reaching 6.8 million units for an urban population of 35.4 million.

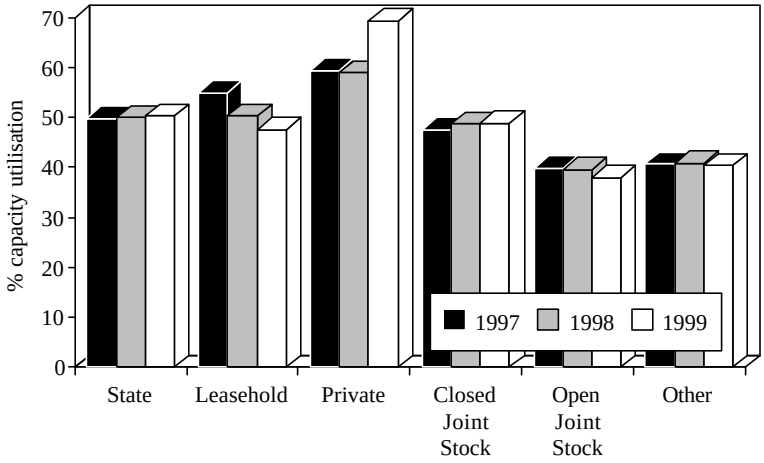
Figure 6: Capacity Utilisation, 1997-99, by Industry, All Regions



Source: ULFS6, n = 662

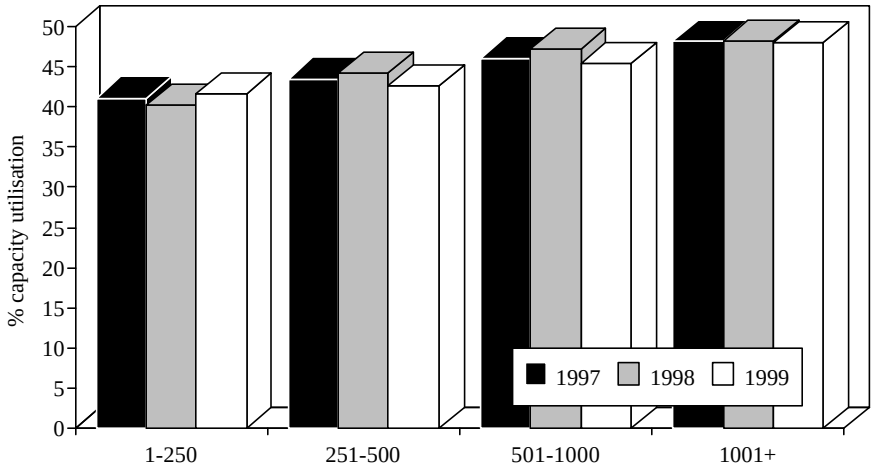
Private firms tended to be operating at relatively high capacity (Figure 7), although utilisation had declined in all property forms since the mid 1990s. There was no apparent relationship between size of establishment and capacity utilisation (Figure 8). And declines had continued in most regions (Figure 9). All these figures suggest that the decline in output was due to demand factors, *not* to restructuring.

Figure 7: Capacity Utilisation, 1997-99, by Property Form, All Regions



Source: ULFS6, n = 662

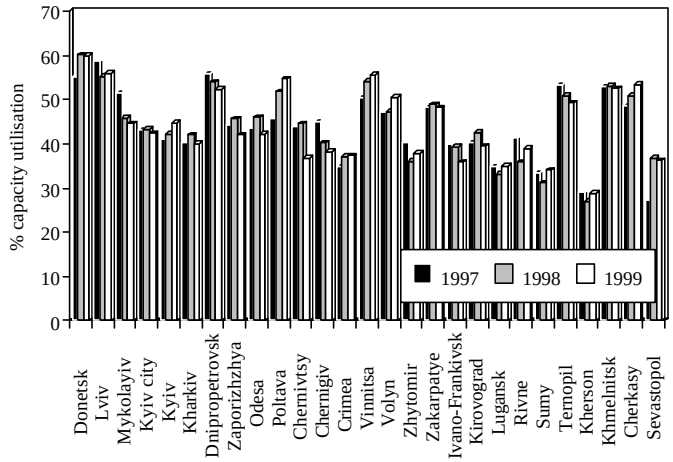
Figure 8: Capacity Utilisation, 1997-99, by Employment Size, All Regions



Source: ULFS6, n = 672

One complication in interpreting changes in capacity utilisation arises from a tendency for large-scale establishments in difficulty to opt for **restructuring by divesting**, by detaching production units, closing or transferring them to other managements or selling them or their equipment and facilities. Given the huge size of 'Soviet' enterprises, such divesting is a potentially desirable aspect of restructuring. According to ULFS6, 12.5% of all firms had detached a production unit over the past two years, with that being relatively common in engineering plants and in light industry. However, there was no sign that this was associated with variations in capacity at which firms were operating.

Figure 9: Capacity Utilisation, 1997-99, by Region



Source: ULFS6, n = 672

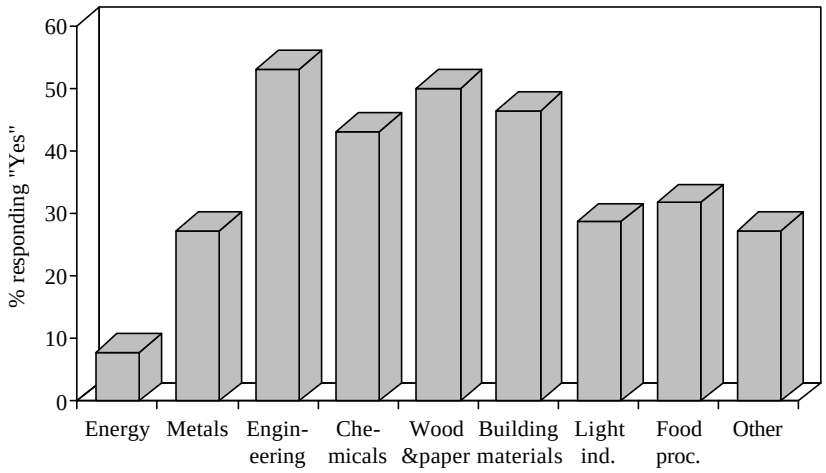
In sum, declines in capacity utilisation indicate further highlights the enormous slack in the Ukrainian economy, which was even worse than in the mid 1990s. No doubt much of the 'unused capacity' was obsolete, and was unlikely to be restored to

operation. However, to write off over 50% of capacity at a time of extremely low and declining living standards would be too draconian for the economic well-being of Ukraine. In the longer-term, that would be desirable, but – without arguing for or against 'gradualism' over 'radicalism' – for the next few years phasing out that capacity at a slower pace would be more prudent.

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

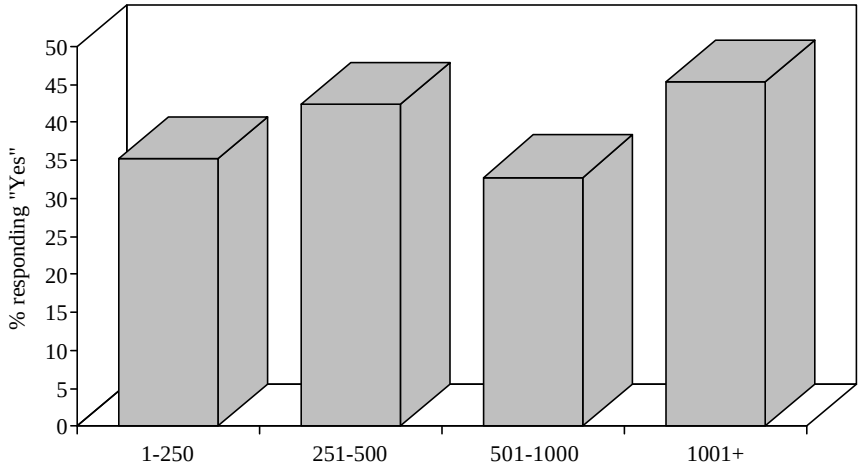
While capacity utilisation rates were crashing, by 1999 over 38% of firms reported that they could maintain their production with fewer workers, with a further 8% being unsure. With the exception of the energy sector, this was widely reported across all industries, supporting the view that it was the low level of demand that was driving the dismal industrial performance (Figure 10). The figures actually underestimate labour slack, since larger firms were more likely to report being able to cut employment (Figure 11). There was no simple correlation between ownership-management form and this measure of labour surplus, although perhaps open joint stock establishments were most inclined to report it (Figure 12).

Figure 10: Percent of Establishments that Could Maintain Output with Fewer Workers, by Industry, 1999, All Regions



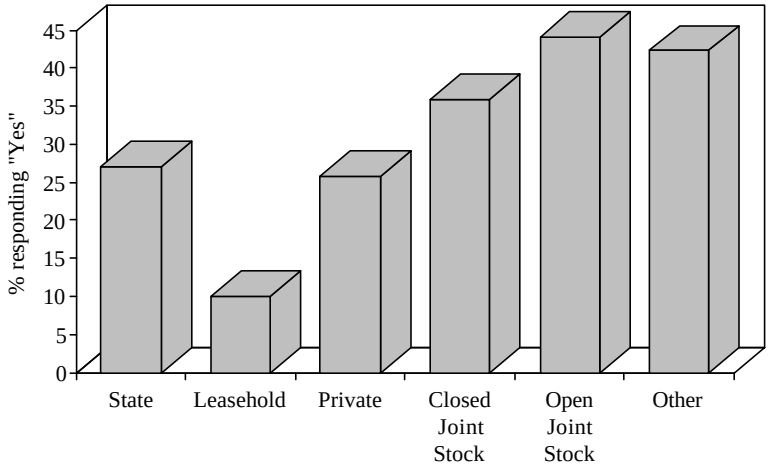
Source: ULFS6, n = 679

Figure 11: Percent of Establishments that Could Produce Same Output with Fewer Workers, by Employment Size, 1999, All Regions



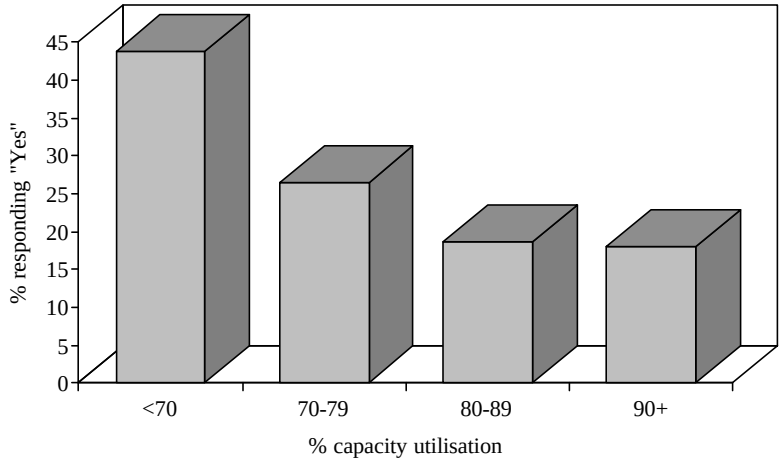
Source: ULFS6, n = 679

Figure 12: Percent of Establishments that Could Maintain Output with Fewer Workers, by Property Form, 1999, All Regions



Source: ULFS6, n = 679

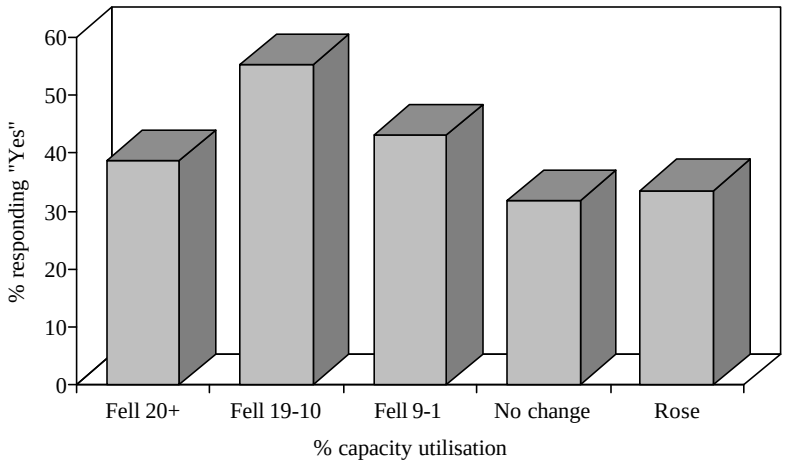
Figure 13: Percent of Establishments that Could Maintain Output with Fewer Workers, by Capacity Utilisation, 1999, All Regions



Source: ULFS6, n = 653

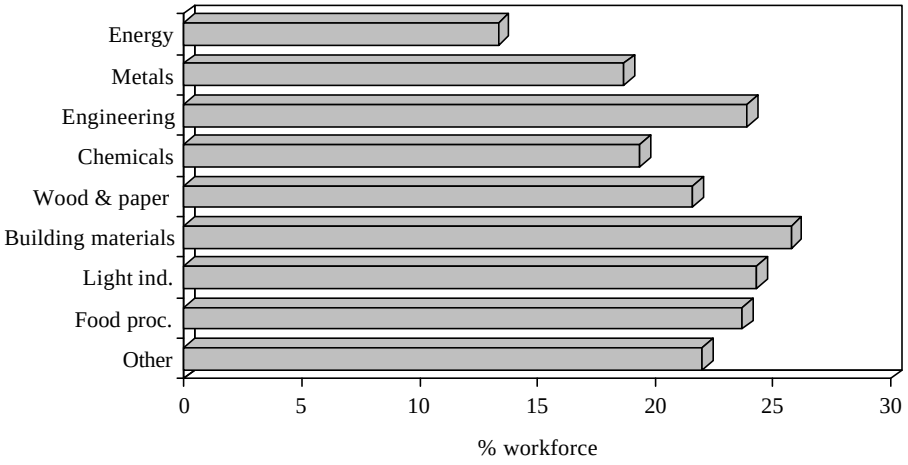
Those operating at very low levels of capacity utilisation were most likely to have surplus workers (Figure 13). And those in which capacity utilisation had fallen sharply were most likely to report this (Figure 14). Perhaps more surprisingly, those that had cut employment were more likely than others to estimate that they could cut employment, although 33.6% of those that had *raised* employment over the past year also felt they could produce the same amount with fewer workers.

Figure 14: Percent of Establishments that Could Maintain Output with Fewer Workers, by Change in Capacity Utilisation, 1997-99, All Regions



Source: ULFS6, n = 643

Figure 15: Percent of Workforce That Could Be Cut Without Affecting Output, by Industry, 1999, All Regions



Source: ULFS6, n = 255

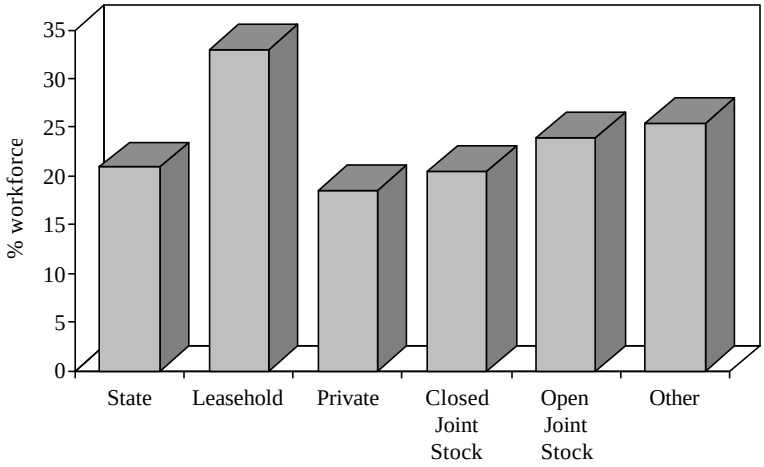
Those firms reporting that they could produce the same with fewer workers were asked to estimate what percentage of the workforce they could cut without reducing output, other things equal. If we assume all other firms had no surplus labour in this sense, we find that, according to the managements, *Ukrainian factories could have cut employment by 8.7% without affecting output*. Of just those that reported being able to reduce employment without affecting output, the figure was 23%.

This form of "labour hoarding" was spread across most industries, regardless of size and property form (Figures 15-16). It is a subjective estimate, and may say as much about managerial attitudes as about what could be achieved.[8] We guess that the data give lower bounds for the number of jobs that could be cut, given the prolonged period in which managements were attuned to maximising employment.

Those managers who reported that their firms could cut employment were asked what had been their main response to surplus labour, besides making retrenchments. No less than 35.2% said they had put workers on unpaid leave, and a further 5.4% said that their main response had been to put workers on partially paid leave. This would have understated the incidence of such responses, because others resorted to them as a secondary response.

[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.

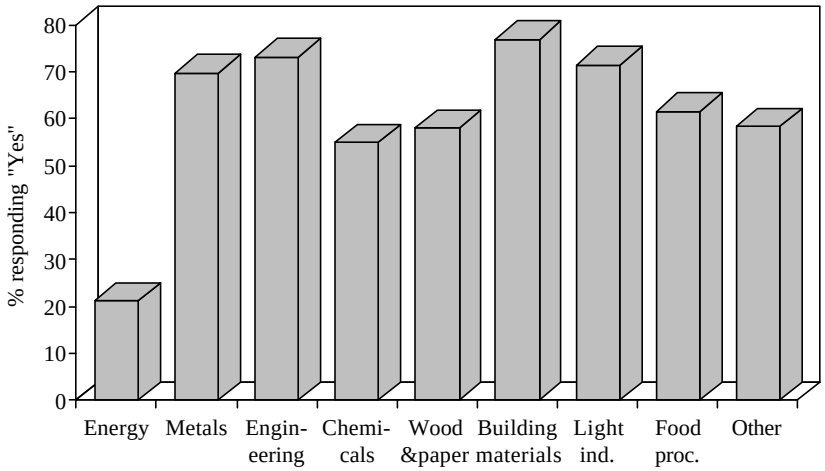
Figure 16: Percent of Workforce That Could Be Cut Without Affecting Output, by Property Form, All Regions



Source: ULFS6, n = 255

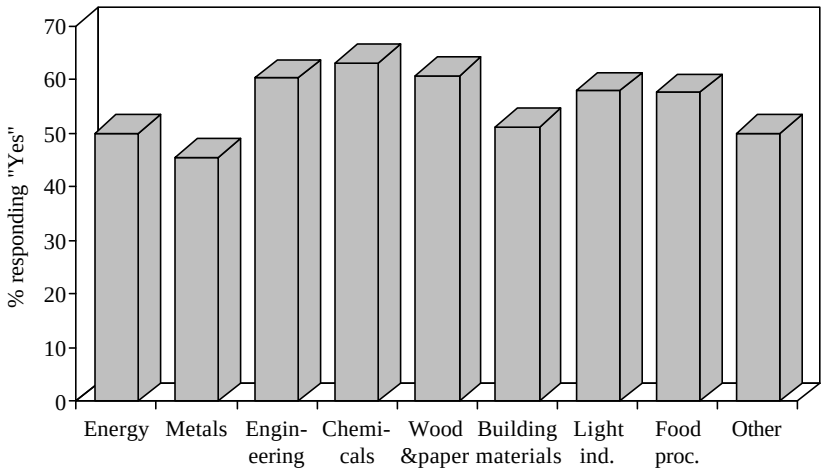
Managements were also asked whether they had experienced a period in the past six months in which they had too little work for their workforce lasting for two weeks or more. This proxy measure of labour surplus was used primarily to lead to questions about managerial reactions. Overall, 63.8% had experienced this, with high levels in all sectors except energy (Figure 17). It was relatively common in firms with fewer than 500 workers. Managements had reacted in various ways, but more than a third of all firms reported that the main measure had been to put workers on *unpaid administrative leave* (Table 2). This was substantially more likely as the main response than in the mid-1990s. Cutting hours and putting workers on partially paid leave were also common responses. A majority of firms (57.2%) had also made *internal transfers* of workers to avoid or limit redundancies (Figure 18).

Figure 17: Percent of Establishments having Too Little Work for Workforce in 1998-99, by Industry, All Regions



Source: ULFS6, n = 682

Figure 18: Percent of Establishments Making Internal Transfers to Limit Redundancies, by Industry, 1998-99, All Regions



Source: ULFS6, n = 414

Table 2: Main Measure Taken In Response to Surplus Labour besides Retrenchments and Transfers, All Regions, 1998-99 (percentage of establishments taking specified measure)

Main measure	%
None	1.2
Cut normal hours	13.9
Unpaid leave	35.2
Partial paid leave	5.4
Stop production	4.3
Other	2.2
Do not know	0.1

Source: ULFS6, n = 431

5. Redundancies and Employment Decline

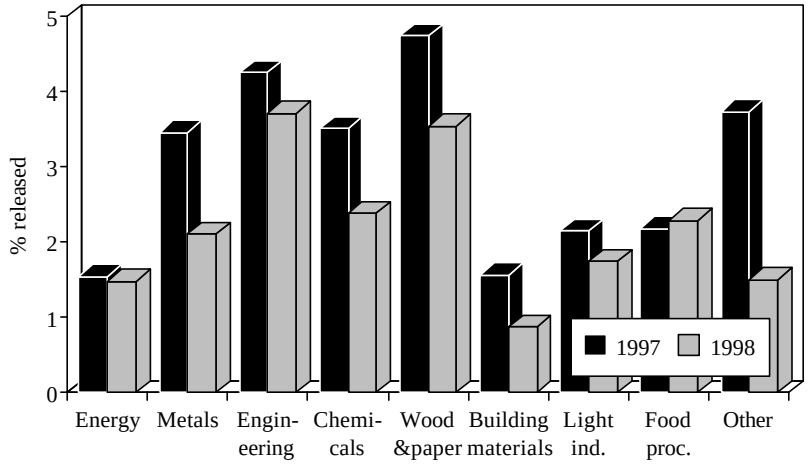
In Ukraine, it is little use relying on conventional ideas about labour market reactions to an economic depression. Textbooks indicate that if demand falls, employment should fall too. Standard statistics in Ukraine suggest that employment has fallen by much less than output. Some observers attribute this to enterprise rigidities, and to "soft budget constraints". The reality is that they have been able to rely on less costly ways of reducing employment than by cutting employment. They can just put workers on "unpaid leave", or simply not pay wages. This may have concealed the depth of labour market decline, but it is building up a crisis of enormous proportions.

There has been a common perception that Ukrainian factories have been unwilling or unable to make workers redundant. In fact, even in the early 1990s redundancies occurred. According to ULFS1, nearly two-thirds resorted to redundancies in 1993-94. This has continued. In 1999, *46.1% had made redundancies*

in the past year, accounting for 4.2% of all jobs. These levels are substantial, given that they exclude workers who had left by other means, including those 'induced to resign'.

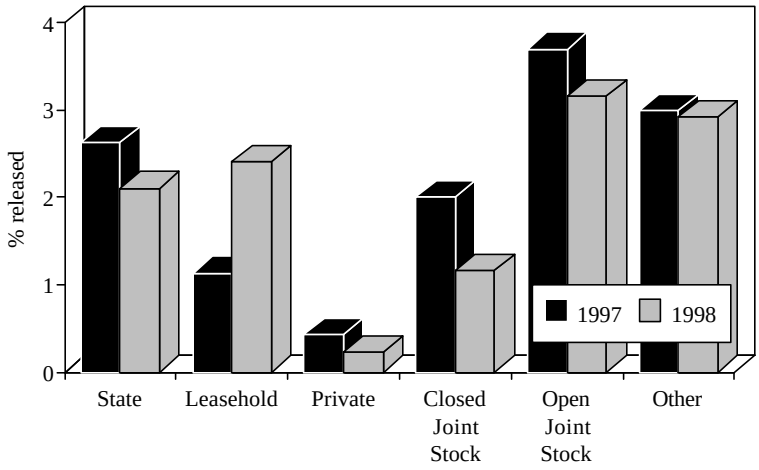
In 1998-99, in the 690 factories, **employment was cut by 24,520, or by 4% over one year**. Employment declined in most regions and industries, and in all size-categories of firm (Figures 19-23). It stabilised only in firms in which sales in real terms had grown. Notable is that state enterprise managers were no more inclined to hold rigidly onto their workforces than others. Those that had cut jobs most also tended to report they could cut employment by relatively large numbers without affecting output.

Figure 19: Percent of Workforce Released, 1997-98, by Industry, All Regions



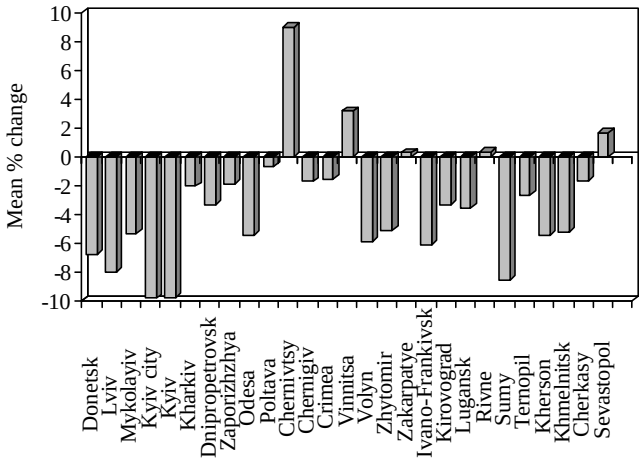
Source: ULFS6, n = 690

Figure 20: Percent of Workforce Released, 1997-98, by Property Form, All Regions



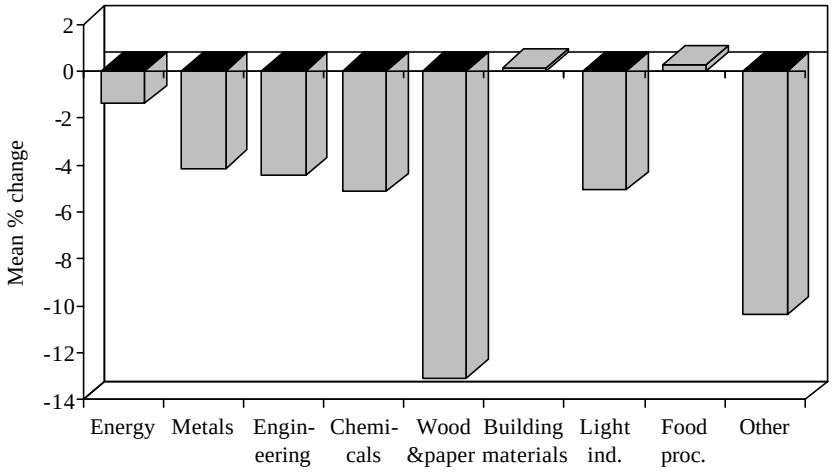
Source: ULFS6, n = 689

Figure 21: Percent Employment Change, by Region, 1998-99



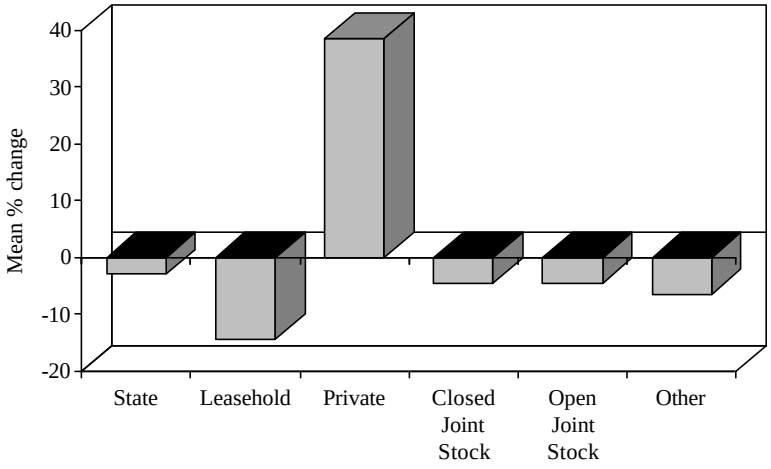
Source: ULFS6, n = 690

Figure 22: Percent Employment Change, by Industry, 1998-99, All Regions



Source: ULFS6, n = 690

Figure 23: Percent Employment Change, by Property Form, 1998-99, All Regions



Source: ULFS6, n = 690

Managements were asked what impact sales changes had on employment in the past two years. Of those that had experienced declining sales in real terms, 48.6% said that the main result had been a cut in employment, 18.6% that it had been reduced work intensity. In those in which sales had grown, 45.5% had increased employment as a result, while 17.7% had merely increased work intensity. One can take these results as further testimony of labour slack. State establishments seemed no more or less likely to have cut employment as a result of declining sales than other firms.

The perceived impact on employment of structural changes are also worth noting. Of those that had changed property form, 6.9% estimated that the change had resulted in lower employment, compared to 10.3% that believed it had raised employment. In firms that had narrowed the range of products, 77.3% said that they believed that had resulted in a cut in employment, whereas 44.3% of those that had increased the product range believed that had increased employment. In establishments that had made some technological innovation in production, 23.4% believed that it had raised employment, 12.4% that it had been labour displacing. And of those that had made work reorganisation to improve efficiency, 25.4% believed that it helped to raise employment, while 21.3% thought it had resulted in labour displacement.

To examine employment change more systematically, a multiple regression was estimated in which the dependent variable was the percent employment change over the past year. The following was estimated by ordinary least squares regression:

$$\mathbf{PEMPCHG} = \mathbf{a} + \mathbf{b_1}\Sigma\mathbf{(IND)} + \mathbf{b_2EMPSIZE} + \mathbf{b_3}\Sigma\mathbf{(PROP)} + \mathbf{b_4}\Sigma\mathbf{(REG)} + \mathbf{b_5CHCAP} + \mathbf{b_6CHSALES} + \mathbf{b_7\%BC} + \mathbf{b_8\%FEM} + \mathbf{b_9\%LVE} + \mathbf{b_{10}\%MAT} + \mathbf{b_{11}SUB} + \mathbf{e}$$

where the independent variables are:

Σ(IND)	=	binaries (1,0) for industrial sector, the omitted category being the energy sector;
EMPSIZE	=	employment size of establishment in mid 1998;
Σ(PROP)	=	binaries for property form of establishment, the omitted category being state establishments;
Σ(REG)	=	set of binaries for region in which establishment located, the omitted region being Donetsk;
CHSALES	=	percent change in sales 1998-99;
CHCAP	=	percent change in capacity utilisation rate 1998-99;
%BC	=	percent of workforce classified as manual workers (skilled, semi-skilled, unskilled) in 1998;
%FEM	=	percent of workforce in establishment consisting of women in 1998;
%LVE	=	percent of workforce on administrative leave as of March 1999;
%MAT	=	percent of women workforce on maternity leave, March 1999;
SUB	=	dummy, 1 if establishment was receiving state subsidy, 0 otherwise;
e	=	error term.

The results of this function are presented in Table 3. It shows that firms had adjusted employment to demand, as measured by changes in sales.

As for employment expectations, given the widespread labour surplus, it was not surprising that many managements were pessimistic about employment prospects. Nearly 23% expected to cut jobs in the next 12 months, and only 2.7% expected employment to grow (Figure 24). Expectations of cuts did not seem to vary by property form (Figure 25), but the larger the factory, the more likely the expectation of job cuts (Figure 26). And the greater the employment decline in the past year, the higher the probability of expecting a decline.

Although useful for indicating the pattern of expected employment, these figures should be interpreted as overly optimistic, if the results from the past rounds of the survey are any guide. In both Ukrainian and Russian industry, during the 1990s many more firms cut jobs than had anticipated doing so, and far fewer of those that had expected to increase employment subsequently did so.

In sum, employment had shrunk further in 1998-99 and managements expected it to continue to shrink. It would be a mistake to characterise Ukrainian industry as rigid in terms of employment or hoarding labour to the point of providing an explanation for the misleadingly low official rate of unemployment in the country.

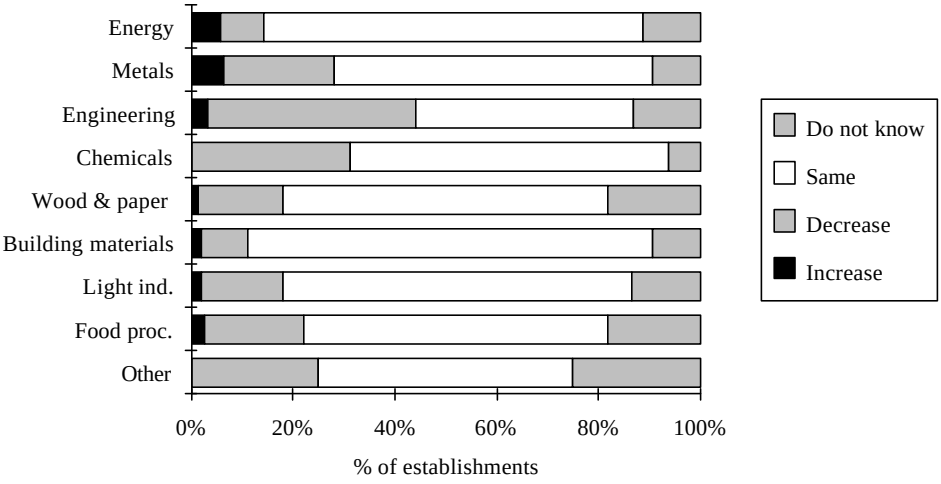
Table 3: Percent Employment Change, 1998-99, All Regions

Variable	Coefficient
(Constant)	39.2895
Industry	
Metals	-0.9056
Engineering	-9.8306 *
Chemicals	-4.9411
Wood & paper	-7.1612
Building materials	-3.4983
Light industry	-4.0344
Food processing	1.3018
Other	-12.6120
Property Form	
Leasehold	-4.2640
Private	2.4398
Closed Joint Stock	4.1794
Open Joint Stock	-1.8453
Region	
Kiev Region	4.5065
Kiev City	0.6860
Kharkov Region	2.9132
Lvov Region	5.0463
Nikolaevsk	19.6411 ***
Dnepropetrovsk	14.4235
Zaporoz	9.0428
Odessa	2.1209
Poltav	4.6984
Chernovitz	6.6815
Chernigovsk	6.0851
Crimea	2.8292
Vinnitsa	9.4997
Volyn	4.0040
Zhytomir	6.2991
Zakarpatye	6.9376
Ivano-Frankivsk	2.1847
Kirovograd	9.7731
Lugansk	3.9581
Rivne	10.6713
Sumy	12.1464 *
Ternopil	10.1455
Kherson	3.1311
Khmelnitsk	5.1842
Cherkasy	4.9829
Sevastopol	4.6596
Employment Size	0.0000
% Change in Capacity Utilisation	0.0554

% Sales Change '97-98	0.0868 ***
% Manual Workers '98	-0.3450 **
% Unionised '99	-10.3222
R^2 =	0.1435
F =	2.0218

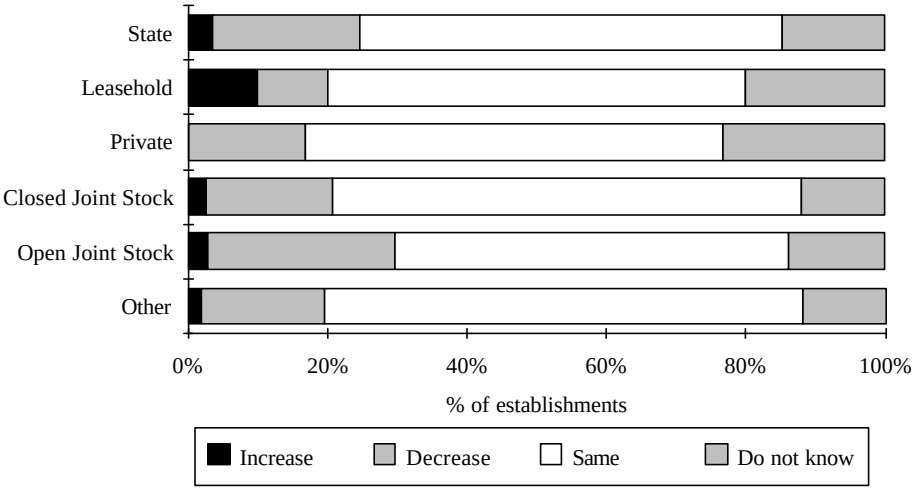
Source: ULFS6, n = 690

Figure 24: Expected Employment Change in Next Year, by Industry, 1999, All Regions



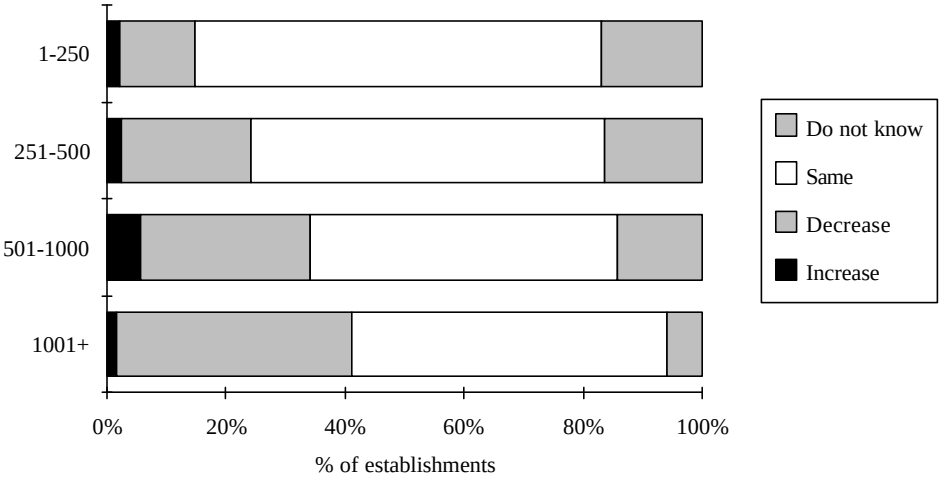
Source: ULFS6, n = 658

Figure 25: Expected Employment Change in Next Year, by Property Form, 1999, All Regions



Source: ULFS6, n = 657

Figure 26: Expected Employment Change in Next Year, by Employment Size, 1999, All Regions



Source: ULFS6, n = 655

6. Concealed Unemployment in Ukrainian Industry

We alluded earlier to the incredibly low "registered" unemployment in Ukraine. There are many reasons for being sure that official figures chronically understate actual unemployment. Among them are the unemployment benefit system, which has scarcely provided the unemployed with decent benefits or *any* benefits, and the undeveloped nature of the employment exchanges. Also important are behavioural reactions by firms restricting the emergence of unemployment in its conventional form. The following considers the extent of invisible or concealed unemployment.

a. Unemployment as Administrative Leave

One way by which Ukrainian firms have responded to the economic slump is by placing workers on "administrative leave", mostly unpaid although in few 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 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 for economic or 'organisational' reasons, the monthly amount being equivalent to the average wage received by the worker over the previous three months. By putting workers on administrative leave, they not only avoid severance pay but may succeed in inducing unwanted workers to leave the establishment "voluntarily".[9]

Under the **Employment Law**, a worker on unpaid leave – or in the three months during which he or she is paid severance pay – cannot receive unemployment benefits, and also has no incentive to register at an employment exchange, given the very low probability of finding a job through a local exchange. As a result, they would not be

[9] 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., chapter 2.

counted as unemployed. Indeed, those on unpaid leave are counted as employed, even if they had been on such "leave" for many months.

Second, managements were encouraged to resort to this practice by the wage tax, or the 'tax-based incomes policy', by which firms raising money wages above a certain amount were penalised by a tax.[10] By putting some workers on unpaid or partially paid leave the average wage is lowered, as is the wage bill, allowing workers actually working to be paid higher wages while lowering the amount paid as wage tax.

Third, for workers it has been rational to remain on administrative leave rather than quit to become unemployed, because there remains a possibility that the leave is temporary and access is retained to some of the enterprise's social security and benefits, such as healthcare and use of the firm's social amenities. Quitting would mean loss of severance pay and temporary loss of entitlement to unemployment benefits.

These factors have surely created the unfortunate situation of extensive administrative leave, eroding the workers' income and employment security. It is also economically inefficient because it restricts labour market mobility, and it gives an artificially inflated image of the level of employment.

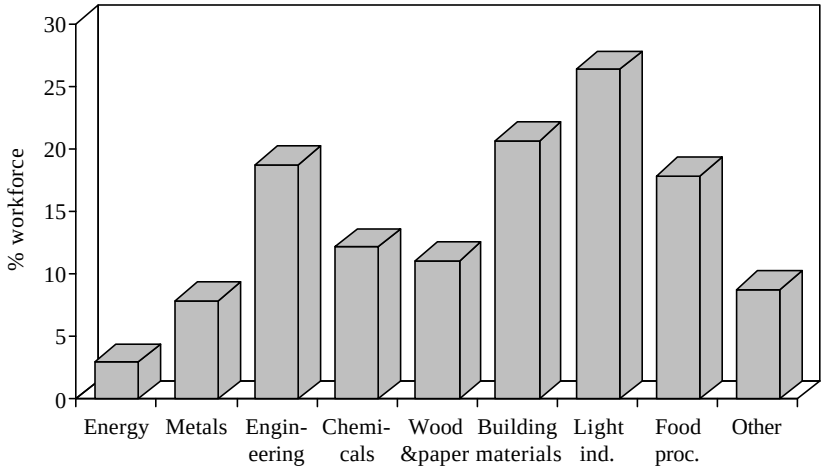
The data show that unpaid and partially paid administrative leave – or in conventional international parlance "lay-offs" – had increased considerably since the mid-1990s. In March 1998, 49.6% of all factories had some workers on administrative leave; in September 1998, the share was 48.8%; in March 1999, it was back to 49.3%. This refers to full-time administrative leave, and does not include workers put on short-time work or sent on prolonged holidays, which were symptoms of the same phenomenon.

Of firms that resorted to administrative leave or lay-offs, the average share of the workforce affected was 9.2% in March 1998, 14.9% in September 1998 and 23.8% in March 1999. So, while the incidence was spreading to more firms the depth of the practice was also increasing. Most 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 1998 and 65.1% in March 1999. In both cases, the remainder were classified as on "partially paid" administrative leave, almost certainly receiving no more than the minimum wage (an amount well below a subsistence level of income).

In late 1998 and 1999, the depth as well as the incidence of administrative leave continued to grow. *These workers are classified as employed, but should be counted as unemployed, given their low probability of recall. Taking all firms, including those that did not resort to lay-offs, 16.8% were on unpaid leave in March 1998, 18% in November 1998 and 17.5% in March 1999. In early 1999, 16.5% of workers in large-scale factories with more than 1,000 workers were on unpaid leave, and in the region of Chernivtsy 38.2% of all industrial workers were laid-off.*

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

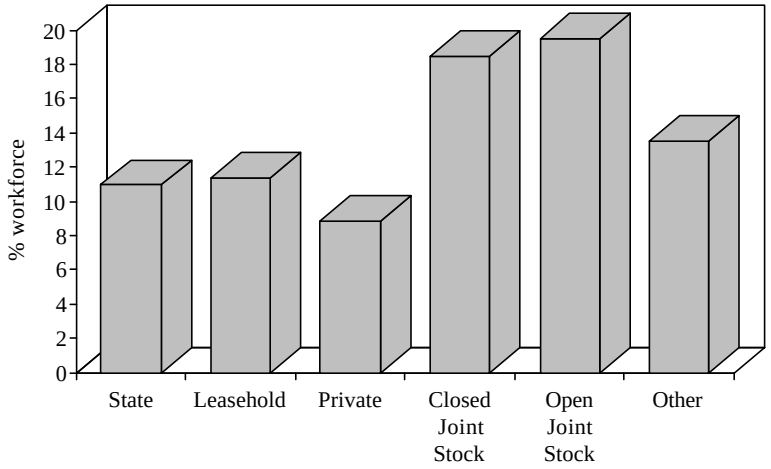
Figure 27: Unpaid and Partially Paid Administrative Leave, by Industry, 1999, All Regions



Source: ULFS6, n = 685

In March 1999, the industries with the largest share of establishments resorting to lay-offs were light industry and building materials (Figure 27). The practice was greatest in joint stock firms, suggesting that workers' voice in ownership was limiting retrenchments (Figure 28). Finally, in terms of incidence of firms affected, lay-offs were most extensive in in Chernivtsy, followed by Ivano-Frankivsk.

Figure 28: Unpaid and Partially Paid Administrative Leave, by Property Form, 1999, All Regions



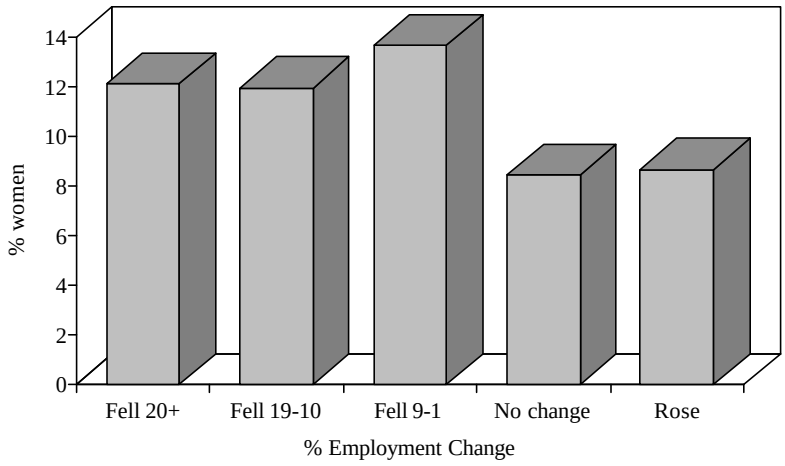
Source: ULFS6, n = 684

b. "Maternity" Leave

A peculiar phenomenon observed in early rounds of the ULFS was the high level of maternity leave. This has continued, and should be seen in the context of the *extremely* low and declining fertility rate in Ukraine. It seems women workers have

been encouraged to extend maternity leave for two or three years, as a result of *either* overt encouragement by managements, *or* by their perception of the prospect of very low incomes if they returned to their jobs, *or* because they were under no pressure from managements to return.

Figure 29: Percent of Employed Women on Maternity Leave, 1999, by Percent Employment Change, 1998-99, All Regions



Source: ULFS6, n = 631

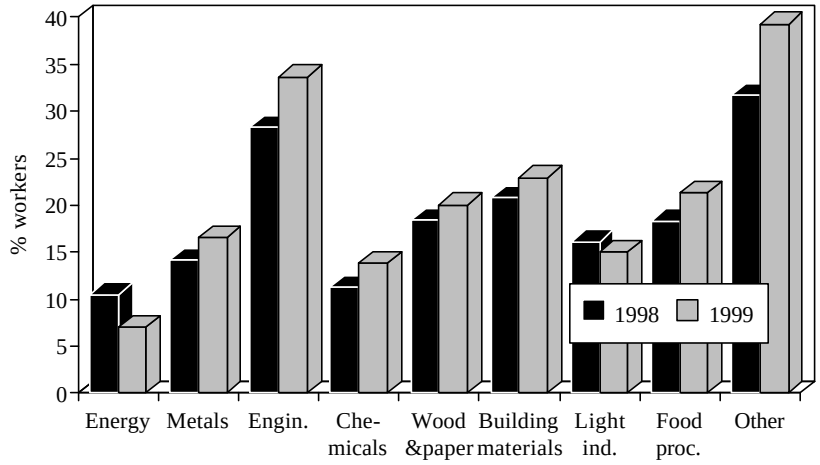
In 1999, expressed as a weighted average share of employment, 11.8% of all women workers were supposedly on maternity leave, amounting to 5.4% of the total male and female workforce. In official statistics, they were classified as employed, but we may surmise that most should not have been counted as such in line with international definitions or national practices in western European countries.

Firms that had cut employment had higher proportions of women on maternity leave than others (Figure 29). Unless one believes that employment cuts were associated with rising fertility, this suggests that maternity leave was being used as a mechanism for limiting dis-employment, or for concealing unemployment. This was accentuated by the regulation blocking firms from discharging women when they were on maternity leave. This could be regarded as *regulation failure.*

c. Short-time Working

Another means by which unemployment is disguised is by resort to short-time working. This too had increased, with 10.1% of firms reporting that workers were on short-time in March 1999, compared with 7.4% a year earlier. Of those resorting to short-time, 20.4% (weighted average) of their workforce was on short-time, the average time lost amounting to eight hours per worker per week. Perhaps surprisingly, neither energy nor metals seemed to resort much to short-time working (Figure 30). In terms of the total workforce in all industrial firms, in early 1998 an average of 19.4% of workers were put on short-time, and by early 1999 this had risen to 21.8%.

Figure 30: Percent of Workforce on Short-Time, by Industry, 1998-99, All Regions



Source: ULFS6, n = 690

Actual average working time was 31.5 hours per week for workers and 33.4 for employees, excluding those on short-time or administrative leave, implying a further form of labour surplus, given that the standard working week averaged 39.7 for workers and employees in March 1999. Although this form of non-working existed in all industries, it was greatest in energy and construction materials, in which weekly non-working time averaged 13.6 and 13.5 hours respectively. These figures also indicate that working time had shrunk during 1998-99.

c. Summary of Labour Slack

Thus, as summarised in Table 4, there are complementary forms of labour surplus. Taken together, they paint a picture that should fill policymakers with foreboding. Limiting the job cutting over several years has built up a backlog that could become a deluge of job-shedding. Holding onto surplus workers is not just an artificial way of preserving jobs. It is a factor undermining the long-term viability of firms, demoralising all workers and making productivity so low that profitability and investment are almost impossible.

There are two related aspects of this. First, employment insecurity has been growing. Significantly, 57.2% of firms (more than three times as many as in 1995) reported that they had converted some jobs from permanent (regular) to temporary or casual. Second, this implies that the employment elasticity with respect to further economic downturn could be expected to grow. When the deluge comes, it could be an avalanche.

Table 4: Indicators of Surplus Labour, or "Concealed Unemployment", in Ukrainian Industry, ULFS6, 1999

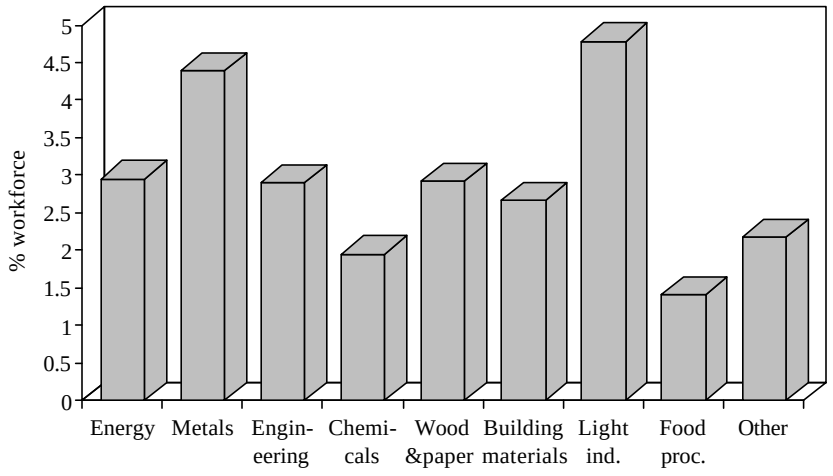
Indicator % of employment*	
1. Could produce same with fewer workers	38.1
— % employment cut possible, if yes	23.0
— % employment cut possible, all firms	8.7
2. Unpaid administrative leave	14.5
3. Partially paid administrative leave	2.4
4. Fully paid administrative leave	0.1
5. Short-time, working fewer days or hours per day	20.4
6. Maternity Leave	
— % of women	11.8
— % of all workforce	5.4
7. Percent of establishments having wage arrears	79.7

Note: * In full-time equivalent numbers for all firms, including those with zero. All figures are weighted estimates for size of firm, as of May 1999.

7. Vacancies and Labour Turnover

With the very substantial labour surplus and declining employment, it was not surprising that the *vacancy rate* was low, the average being 2.9% of total employment (Figure 31). Although one should always be cautious about interpreting vacancy statistics, since the concept is notoriously complicated, the data suggest that there were very few job openings in Ukraine factories in 1999.

Figure 31: Vacancy Rate, by Industry, 1999, All Regions

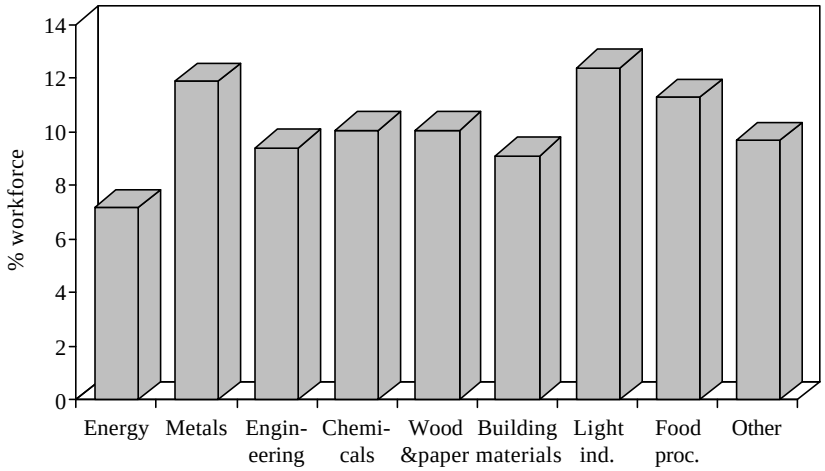


Source: ULFS6, n = 251

Even so, *labour turnover* was high throughout Ukrainian industry. This is contrary to the image – misleading – of low labour mobility by international standards. According to the ULFS6, it was highest in light industry and lowest in the energy sector

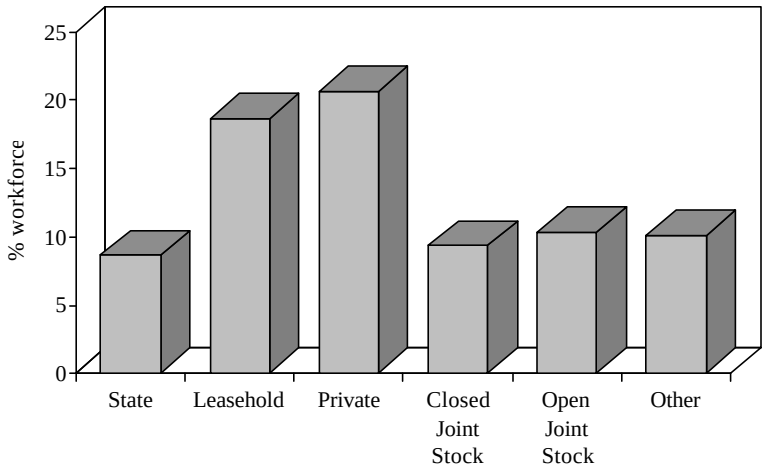
(Figure 32). Although in this respect state establishments were no different than others on average, private firms seemed to have above average turnover (Figure 33).

Figure 32: Labour Turnover, by Industry, 1998-99, All Regions



Source: ULFS6, n = 668

Figure 33: Labour Turnover, by Property Form, 1998-99, All Regions



Source: ULFS6, n = 667

Turnover figures relate to all forms of departure from firms. Within that total, there were some *internal transfers* (i.e., movement of workers from one establishment of an enterprise to another unit), which accounted for 1% of total employment, a slightly higher *retirement* rate, of 1.3%, a high "*resignation*" rate, of 6.7% overall, with 9.2% in light industry, a low *dismissal* rate, of 0.6%, and a modest *release* or redundancy level, of 2.4%, leaving 2% as unclassified or unclear. Although there are conceptual ambiguities in each of these categories, the general picture is that there was no impediment to labour turnover.

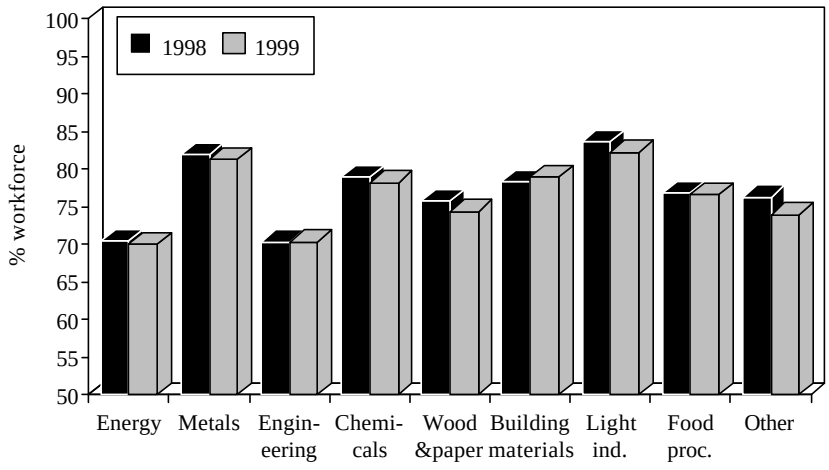
8. Job Restructuring

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

The data from ULFS6 show that in 1999 the share of manual workers had remained high, with so-called "skilled" and "semi-skilled" jobs accounting for 67.4% of total employment, and "unskilled" jobs for a further 11%.[11]

Comparing the job structures in 1999 with those in 1998, there was no sign of any significant restructuring (Figure 34). Actually, the percentage of unskilled jobs increased slightly. The share of management and 'specialist' employees and technicians increased, whereas the share of supervisory grades and 'general service' employees stayed about the same. The skilled worker share declined in most industries. The manual worker share tended to be higher in large-scale establishments. Although the manual shares were similar in the various property forms, private firms seemed to have lower 'skilled' shares and higher 'unskilled', had cut the skilled worker share considerably in 1997-98, and had increased their share of managerial and specialist employees. Perhaps private firms were regrading some jobs as unskilled to lower wages, a feature of privatisation in other central and eastern European countries. One might hypothesise that the economic restructuring will tend to produce a more dualistic job structure, and by this means fuel the growth of income inequality in the labour market.

Figure 34: Manual Worker Share of Employment, by Industry, 1998-99, All Regions



Source: ULFS6, n = 690

[11] The conventional 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 'competencies', which may be more or less technical and complex than required in the jobs.

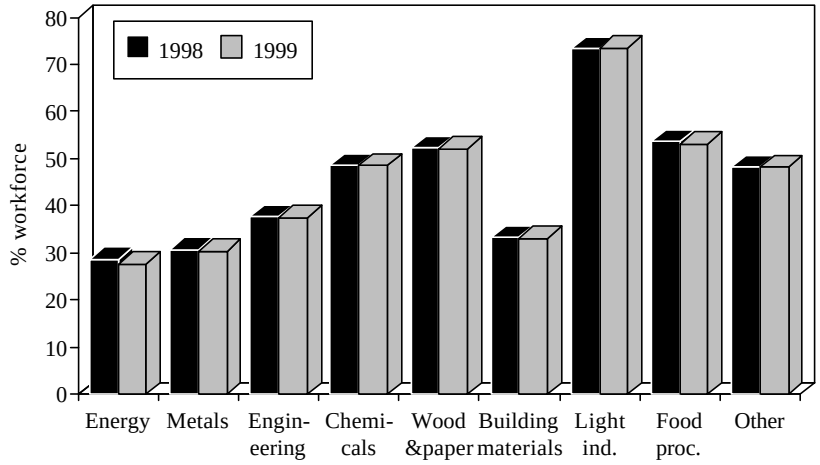
9. The Changing Position of Women: Prospects of Marginalisation

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 vulnerable groups would be 'marginalised' by rising unemployment and employment restructuring.

In Ukrainian in 1999, women comprised about half of all industrial employment, although their share varied from three-quarters in light industry to just under a third in the energy sector (Figure 35). Although the industrial ranking is similar to the international pattern, the overall level is remarkably high by international standards.

The first rounds of the survey showed that, as in Russian industry and contrary to popular assertions, in the early phase of restructuring *women's share of industrial employment actually increased.*[12] *In 1998-99, their share remained at that level*. This position may be eroded if market mechanisms coincide with the growth of various forms of discrimination and disadvantage. Accordingly, it is worth examining the nine main means by which women might be disadvantaged in the process of restructuring.

Figure 35: Women's Share of Employment, by Industry, 1998-99, All Regions



Source: ULFS6, n = 684

(i) Disadvantaged by industrial restructuring?

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

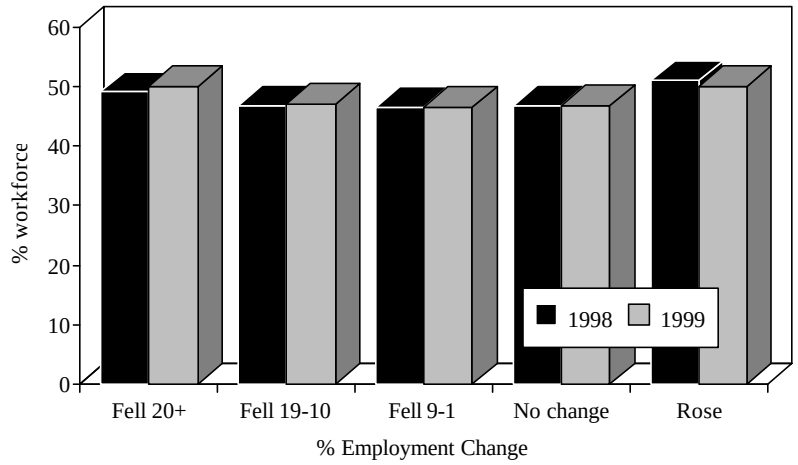
[12] G. Standing, "The position of women in Russian industry: Prospects of marginalisation?", *World Development*, Vol., No., Feb.1994, pp.

(ii) Disadvantaged by employment restructuring?

Women could be adversely affected by the size restructuring of employment. The data indicate that in 1999 women comprised a majority in medium-sized firms, and lower shares in large-scale and small-scale firms, where their share was relatively low (46% in 1998, 45.9% in 1999, both slightly lower than in 1994-95).

However, there was no relationship between women's share and changes in total employment (Figure 36). This implies that employment decline, in itself, would not disadvantage women since men would be just as likely to lose jobs, unless women were disproportionately selected for retrenchment.

Figure 36: Women's Share of Employment, by Employment Change, 1998-99, All Regions



Source: ULFS6, n = 684

(iii) Disadvantaged by property-form restructuring?

Perhaps reflecting the industrial distribution of firms in different property forms, women comprised a relatively low share of employment in state establishments (42.4%). So, in itself property form restructuring could enhance their share of employment. As suggested below, there are other reasons for expecting this to be the case.

(iv) Disadvantaged by discrimination in recruitment?

The most common notion of 'discrimination' in labour markets relates to recruitment practices. In this regard, the majority of industrial managements reported that in recruiting *workers* they had no particular preference for men or for women. However, there appeared to have been a growth in discrimination since the early 1990s. In 1994, 18.9% claimed to prefer to recruit men, whereas in 1999 24% did so, and whereas in 1994 7.2% said they preferred to recruit women, only 4.4% did so in 1999. As in 1994, firms favouring women were concentrated in light industry (Table 5). The overall picture is that overt discrimination was not as strong as in many countries, but that the trend should cause some concern.

Table 5: Gender Preference in Recruiting Workers and Employees, by Industry, 1998-99, All Regions

	for Workers			for Employees		
	Men	Women	No diff.	Men	Women	No diff.
Energy	51.3	0.0	41.7	10.5	2.6	86.8
Metals	45.5	0.0	42.9	18.8	6.3	75.0
Engineering	35.2	0.7	77.8	12.4	1.4	86.2
Chemicals	29.4	3.9	76.7	13.7	0.0	86.3
Wood & paper	24.3	0.0	87.2	11.4	1.4	87.1
Building materials	37.9	0.0	59.6	17.2	1.7	81.0
Light ind.	6.5	18.5	79.1	3.3	9.8	87.0
Food processing	9.6	5.3	90.3	4.3	2.7	93.1
Other	8.3	0.0	90.0	8.3	0.0	91.7
Total	24.4	4.4	71.6	9.1	3.5	87.7

Source: ULFS6, n = 686

As for *employees ("white-collar")*, there was less overt discrimination in recruitment, with 9.5% reporting a preference for men and 3.1% for women, which reflected a net shift in favour of men over the past five years. In sum, while recruitment preferences might have contributed to industrial segregation, in the main there did not yet appear to be strong discriminatory preferences among managements.

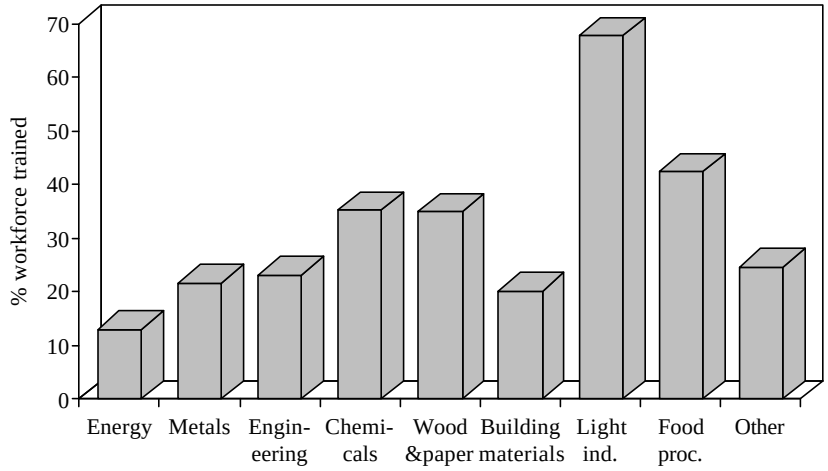
(v) Disadvantaged by training practices?

For women to retain their high share of employment in the process of restructuring, they will surely need to have equal access to vocational and job training, within and outside enterprises. In this respect, women might suffer from a mix of *structural disadvantage* (through being concentrated in firms or sectors not providing training) and *overt discrimination* in the allocation of training, coupled with *behavioural adaptation* on the part of women workers themselves.

What is the evidence? As far as training practices are concerned, there *appeared* to be a slight tendency within firms to discriminate against women, in so far as on average the share of women among those having received training in the past year (36.9%) was less than the female share of employment, and their share had declined since 1995. Although the overall difference was moderate, their low share should be a source of concern in some industries (Figure 37). However, in terms of overt discrimination, it was at least encouraging that few managers (9.4%) stated that they preferred to provide men with training; an even smaller number (3.4%) who said they preferred to give training to women, so that overtly at least there was little sign of gender discrimination.

Perhaps more surprising was that women's share of employment in firms that provided training was higher than in firms where there was no training (Table 6), implying that *if* there were discrimination against women in training it was offset by their concentration in firms providing training. In that sense, as shown in all rounds of the survey, women have had a slight structural advantage. This does not justify any discrimination, but may help reduce an important source of gender-based inequality.

Figure 37: Female Share of Workers Trained, by Industry, 1998, All Regions



Source: ULFS6, n = 465

Table 6: Women's Share of Employment, by Provision of Training, 1999, All Regions

Type of Training	Yes	No
Entry Level Training	47.9	47.6
Retraining for Performance	48.6	45.6
Retraining for Upgrading	48.2	46.4

Source: ULFS6, n = 688

(vi) Disadvantaged by labour surplus conditions?

Women could also be adversely affected by the incidence of labour surplus or by discriminatory treatment when it comes to making redundancies. Given the fact that their share of employment rose as employment declined, there is no strong evidence to suggest discriminatory treatment in this regard so far.

However, in 1999 women comprised roughly the same share of employment in firms with surplus labour, i.e., in those reporting that they could produce the same level of output with fewer workers, as in others. They accounted for 47.3% in factories with surplus labour compared with 48.7% in others. They also made up a similar share in factories reporting that they had too little work for their workforce as in others (48% vs. 47.8%). Thus, this does not appear to have been a source of structural disadvantage so far.

(vii) Disadvantaged by industrial segregation?

Women could also be adversely affected by being increasingly concentrated in a few industrial sectors, a pattern of "industrial segregation" that could accentuate other labour market disadvantages. In Ukraine, such segregation has been pronounced. However, there is no sign of *growing* segregation, merely evidence that to achieve a more balanced labour force in a market-oriented economy, policymakers should redress a long-standing pattern of segregation that shows no signs of diminishing.

(viii) Disadvantaged by occupational segregation?

Perhaps the most pronounced structural form of labour market disadvantage faced by women in all central and eastern European economies inherited from the Soviet era has been the pattern of *occupational segregation.* This should be a long-term concern.

As in most countries, in 1999, women made up a minority of supervisory and managerial groups and of skilled workers, whereas they made up a substantial majority of general service and 'specialist' employees and technicians. In 1998-99, there was no slippage in their occupational profile; if anything, it had shifted in the direction of less segregation and some upgrading (Table 7). Moreover, their share of managerial employees had increased steadily since 1993, as shown in ULFS1, and their share of unskilled workers had declined, while their share of total employment had risen. Although within-group shifts may have been unfavourable (which we simply do not know), these figures do not point to any deterioration in the extent of occupational segregation.

Table 7: Women's Share of Occupational Categories, 1998-99, All Industries, All Regions

% share	1998	1999
Managers	35.7	36.6
Specialists	71.0	70.0
Gen. Service	85.0	84.9
Supervisors	26.8	27.5
Technicians	62.4	61.4
Skilled workers	42.0	41.8
Unskilled workers	59.4	58.8

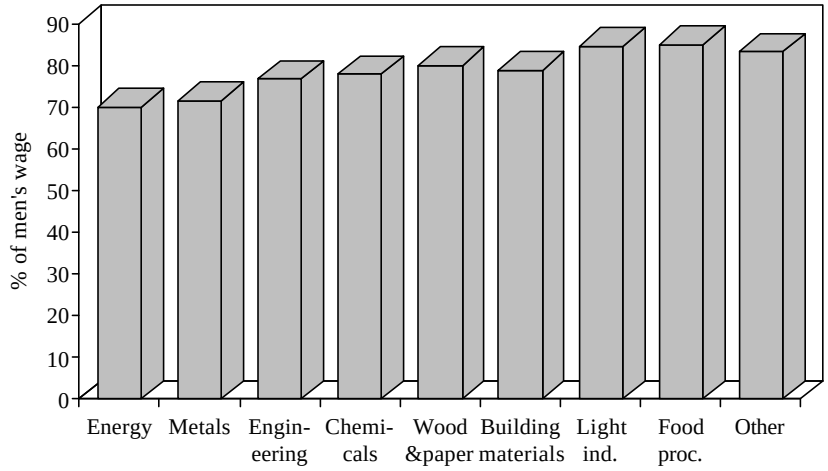
Source: ULFS6, n = 566

(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 are affected by differences in duration in jobs and working time variations. With those caveats, the data suggest that women do face some income disadvantage.

On average, according to management estimates, in 1999 women's wages were 80% of men's, varying from 70% in energy firms to 84.9% in food processing and 84.4% in light industry (Figure 38). If anything, there had been a very small fall in women's relative wages since 1993, notably in light industry. Although they need to be supplemented by more refined data, the figures suggest that women's relative wages have not improved, although the differentials compare favourably with those found in many market economies. The challenge will be to ensure that they do not deteriorate, so that the gap is narrowed rather than widened.

Figure 38: Estimated Women's Average Wage as Percentage of Men's, by Industry, 1998, All Regions

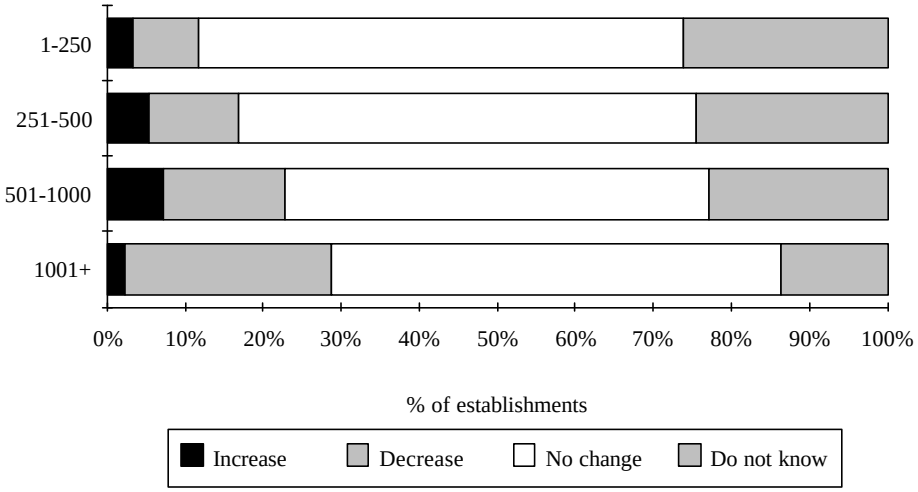


Source: ULFS6, n = 678

Finally, three times as many firms (14.2%) expected women's share of employment to fall over the coming year as expected it to rise (4.6%). Expectations of a decline were above average in the chemicals industry, and in larger firms (Figure 39). Even here one must be cautious, since the proportion expecting the share to decline was less than in 1994, and the proportion expecting it to rise was greater. Similar negative expectations were not borne out in 1994 and 1995.

In sum, while there are several warning signals that should be monitored, women's situation in the industrial labour market has not deteriorated dramatically.

Figure 39: Expected Change in Women's Share of Employment, by Employment Size, 1999, All Regions

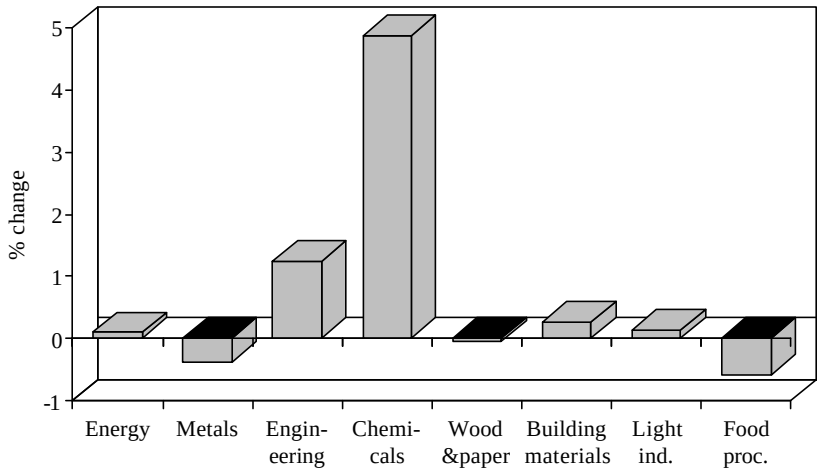


Source: ULFS6, n = 675

10. The Impact of Restructuring on Older Workers

Another group of workers threatened by restructuring consists of workers in their 50s and 60s. Throughout central and eastern Europe, in spite of – and in part because of – the early age at which older workers have been eligible for state pensions, large proportions of workers continued to work well past the standard retirement age. However, since 1990 their displacement from employment has been substantial in most parts of the region. Ukraine seems reticent to move in that direction.

Figure 40: Change in Pensioner Share of Workforce, 1998-99, by Industry, All Regions



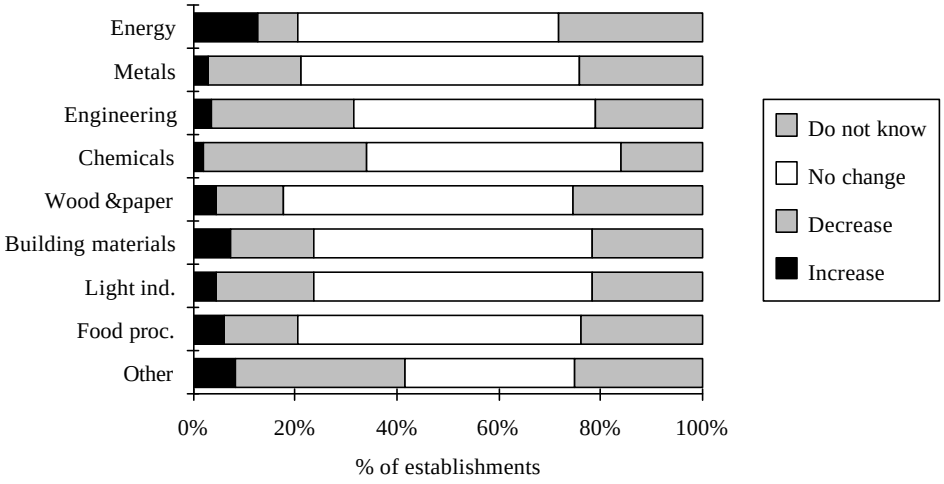
Source: ULFS6, n = 663

As in 1994, there continue to be many pensioners working in Ukrainian industry. According to ULFS6, they accounted for 12.6% of total employment. Their share was particularly high in the metals sectors, and in large-scale firms. There had been minimal change – a *rise* of 0.5% overall – although this reflected considerable inter-sectoral variations (Figure 40).

Perhaps change will accelerate. 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 that to happen (Figure 41). Newly privatised, private and large-scale firms were more inclined to expect to cut than other firms. A similar tendency was found in the first round of the survey, and as we see older workers had not experienced a net displacement.

In brief, the position of older workers had not deteriorated, although one could expect that many will be eased out of jobs as the overall decline in employment accelerates.

Figure 41: Expected Change in Pensioner Share of Workforce in Next Year, by Industry, 1999, All Regions



Source: ULFS6, n = 666

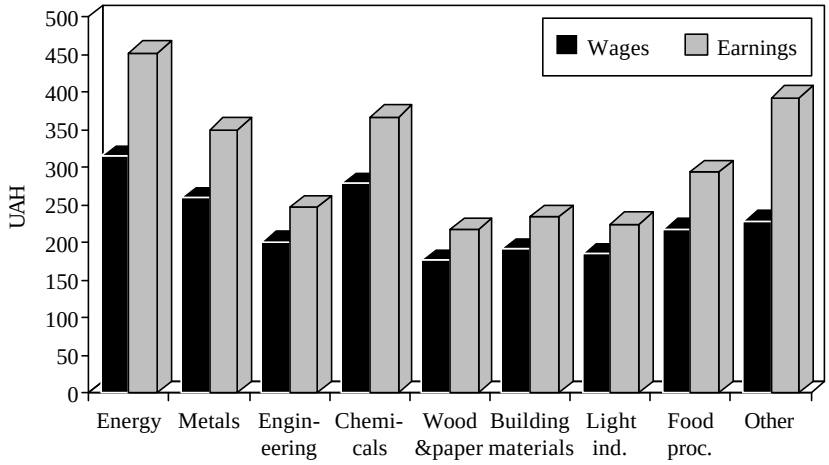
11. Changes in Wages, Earnings and Benefits

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

In Ukrainian industry, as of early 1999, the average monthly wage was 4,850,336 karbovanets (Kbv) or 216.2 UAH, and average earnings were 7,073,005 Kbv, or 281 UAH.[13] As they were one year earlier, average wages and earnings were highest in the energy sector and lowest in wood and paper products and light industry (Figure 42). Once the clear wage leader, the engineering sector had declined to be one of the lowest paying.

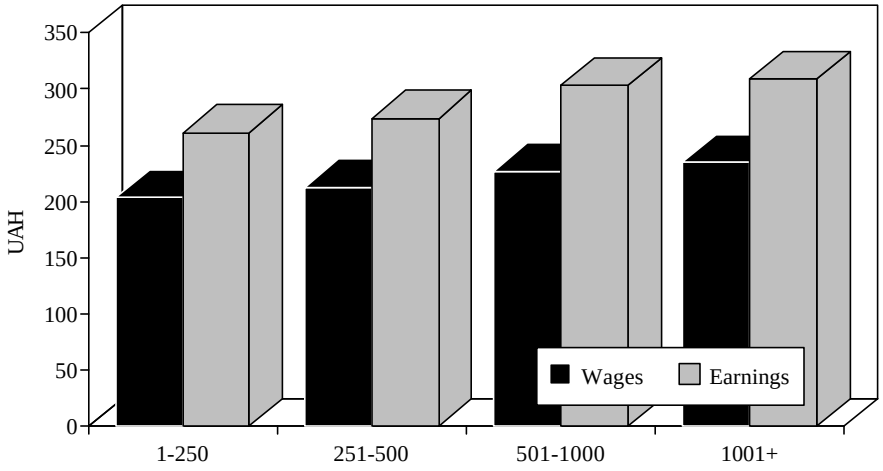
[13] At prevailing exchange rates, those figures represented about $44 and $61, respectively. The data on wages and earnings should be interpreted as approximations, since reporting such data has been a sensitive matter, especially given the tax-based incomes policy, which encouraged under-reporting, and the difficulties many firms had in paying wages. The wage reported was often not the wage paid, because of non-payment and "wage arrears".

Figure 42: Average Monthly Wage and Earnings, by Industry, 1999, All Regions



Source: ULFS6, n = 670

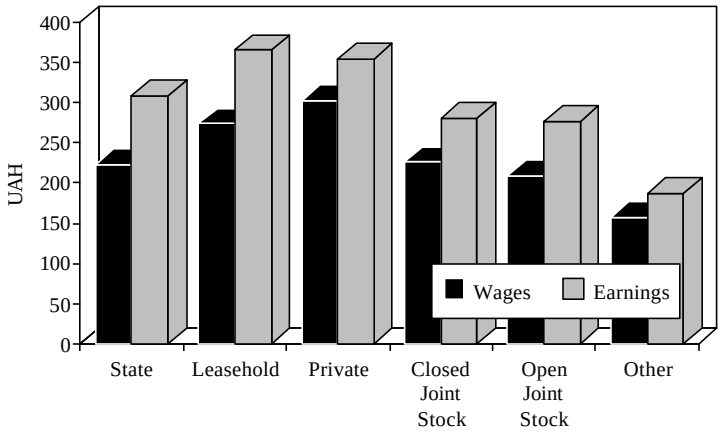
Figure 43: Average Monthly Wage and Earnings, by Employment Size, 1999, All Regions



Source: ULFS6, n = 670

Across regions, average wages were lowest in Ivano-Frankivsk, Chernigiv and Kiev, probably reflecting the industrial structure in those regions. Across size categories, they were lowest in small-scale establishments (Figure 43), and across property forms they were highest in private firms (Figure 44). In each case, the observed pattern might reflect the effect of other characteristics of the firm, which will be considered in a more detailed analysis of wage determination.

Figure 44: Average Monthly Wage and Earnings, by Property From, 1999, All Regions



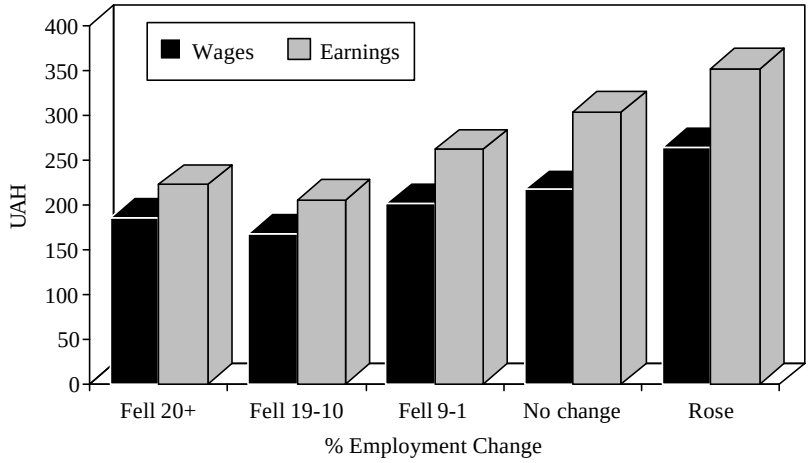
Source: ULFS6, n = 669

Average wage and average earnings functions were estimated in which the dependent variables were logarithms of the average wages or earnings and in which structural characteristics and economic performance variables were the independent variables. Although more formal models could be estimated, OLS regressions showed the following statistically significant relationships:

- Firms in engineering, metals, chemicals, building materials, wood products, light industry and food processing sectors all paid lower wages than in energy;
- There were substantial regional variations in wages;
- Private firms paid higher average wages than state firms, but not higher earnings;
- Firms that had cut employment had lower average wages and earnings than others; there was an inverse relationship between employment change and wages;
- There was no relationship between the female share of employment and wages or earnings;
- Firms operating some form of "profit sharing" scheme were paying below-average wages and earnings;
- Presence of a trade union was associated with lower wages and earnings.

Average wages and average earnings were positively correlated with employment change, with wages and earnings being lowest in firms that had cut employment by over 10% (Figure 45). This was also found in 1994 and *suggests* that the labour market was beginning to operate in the way that one would expect in a market-oriented economy.

Figure 45: Average Monthly Wage and Earnings, by Employment Change, 1999, All Regions

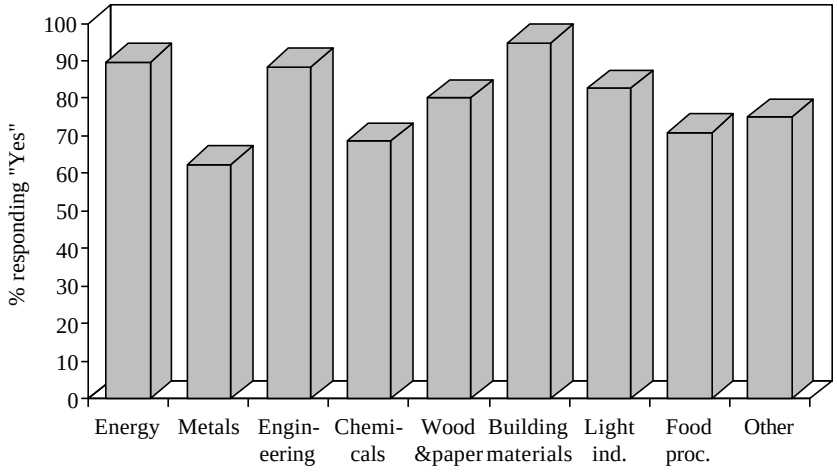


Source: ULFS6, n = 666

There is one way in which one would say precisely the opposite, and it is a development with far-reaching and negative consequences. As in 1994 and 1995, in 1999 one of the most notable aspects of the Ukrainian labour market was that many firms were unable to pay their wages, or at least had such difficulty in doing so that they were delaying payments or were paying only part of them. This applied just as much to those firms that had put workers on unpaid leave as those that had not.

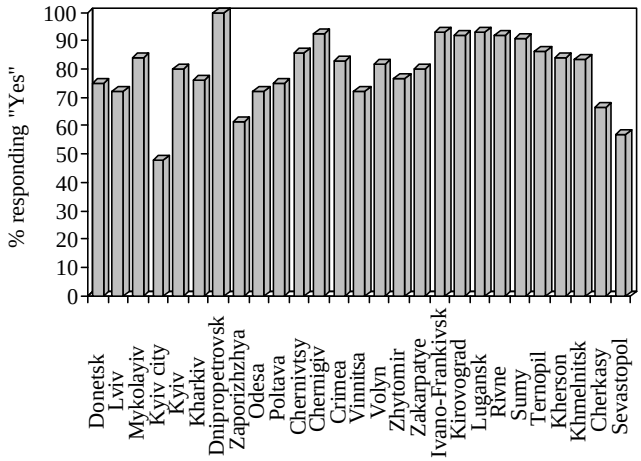
According to ULFS6, in 1999 over 80% of all factories reported that they had great difficulty, which was the case in nine out of every ten firms in several industries (Figure 46). The difficulty was found in all parts of the country, although firms in the capital, Kiev, were least likely to have the problem (Figure 47).

Figure 46: Difficulty in Paying Wages, by Industry, 1999, All Regions



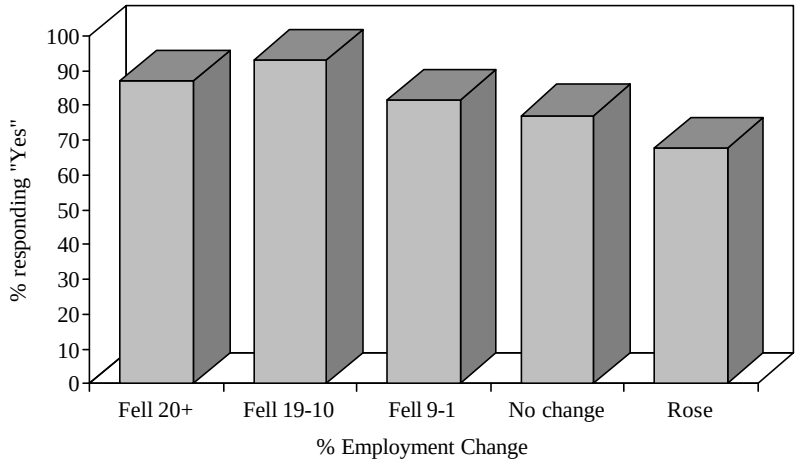
Source: ULFS6, n = 688

Figure 47: Difficulty in Paying Wages, by Region, 1999, All Regions



Source: ULFS6, n = 688

Figure 48: Difficulty in Paying Wages, by Employment Change, 1999, All Regions



Source: ULFS6, n = 684

Large-scale establishments were the most likely to be affected, but there was little difference by property form. It was more common in firms that had cut employment, although even 67.9% of those that had increased employment had experienced difficulty in paying wages (Figure 48).

The difficulty had led to the most contentious issue of all. *Four out of every five (79.7%) factories had not paid contractually agreed wages, in all or part, and on average they had not paid wages for 20.3 weeks – over five times as long as had been the case with firms in wage arrears in 1995, when the phenomenon was in its*

infancy. In an inflationary economy, wages delayed are wages cut. Wages not paid at all imply that the worker is redundant in all but name.[14]

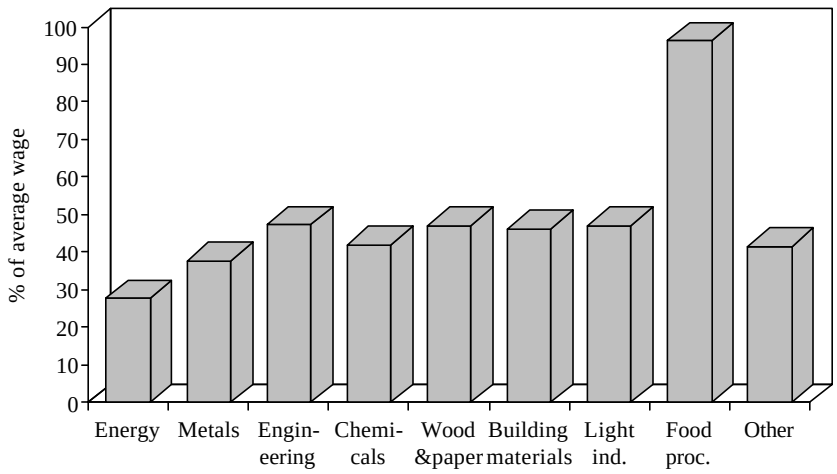
In spite of the widespread difficulty in paying wages, which had led to "wage arrears" and non-payment of contractual wages, money wages had risen in 1997-98 to offset inflation, even though they fell in real terms. In the survey managements were asked what, beside prices, had determined wage rises granted in the period. Over half (59.2%) of the firms reported that no other factor had been important.

A related change was the growth in *wage differentials*, an important aspect of industrial and labour market restructuring. Wage data were obtained for broad occupational groups, and also on minimum levels of remuneration in the plant. The latter were collected because in the pilot for ULFS1 we found that some groups were being paid extremely low wages, to enable the management to pay higher wages for other groups and to keep the average wage down so as to limit wage tax obligations.

Whatever the reasons, with decentralisation of enterprise management and erosion of the old wage tariff system, a category of *impoverished industrial workers* has emerged. This contrasts with the former system, in which there was emphasis on "levelling", which meant there were neither very high-paid nor very low-paid workers. By the mid 1990s, a category of lower paid workers had emerged, and by 1999 the data are telling a sad story of an impoverished minority of workers in most firms.

Managements were asked to identify the lowest paid group in the plant. On average, these were receiving about a third of the average wage, or just over one-quarter of the average earnings (Figure 49). In absolute terms, they received 1,824,377 Kbv (97 UAH) per month (or about $17 at the prevailing exchange rate), which was below the official subsistence income.[15]

Figure 49: Lowest Wage as Percent of Average Wage, by Industry, 1999, All Regions



Source: ULFS6, n = 662

[14] Some economists have tried to interpret the apparent fact that wages have fallen more than employment as indicating desirable wage flexibility. This is simply silly.

[15] The officially estimated subsistence income at the time was just over 2 million Kbv.

The lowest average minimum was in engineering (Table 8). Overall, about 6% of the workforce were on the minimum level, with above-average proportions in small-scale establishments. In terms of property forms, the proportions were highest in open joint-stock firms and were lowest in closed 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.

Table 8: Minimum Actual Wage as Percent of Average Wage, by Industry, 1998-99, All Regions

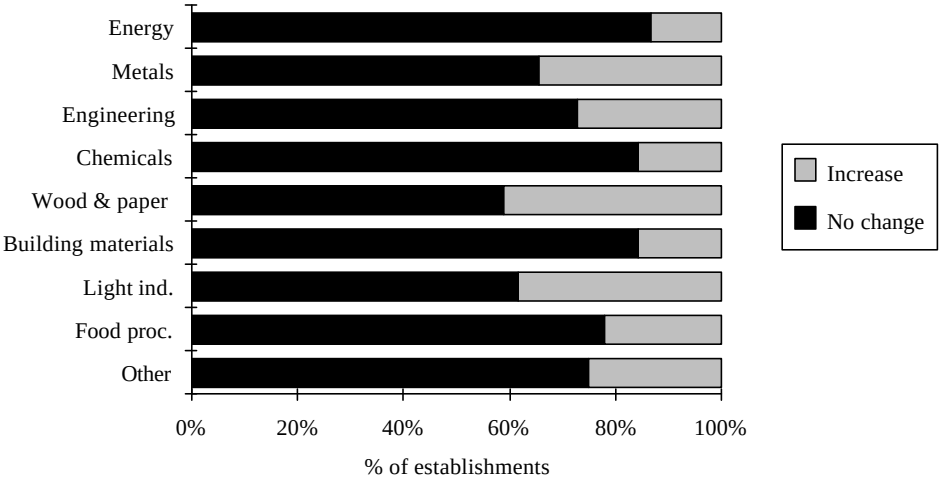
	Minimum payment (UAH)	Minimum as % of Average	% workers receiving minimum payment	
			Nov. 1998	Feb. 1999
Energy	81	25.7	7.1	2.6
Metals	86	33.0	4.7	4.6
Engineering	72	35.8	7.0	8.0
Chemicals	106	38.0	7.7	3.8
Wood & paper	74	42.0	5.3	4.6
Building materials	79	41.3	4.9	5.7
Light industry	77	41.8	4.5	6.5
Food process.	144	65.9	6.6	6.3
Other	79	34.4	3.1	2.8

Source: ULFS6, n = 650

We also asked managers about the perceived impact of changes of the *statutory minimum wage* on wages in the firm. Because of the wage tariff system, changes in the minimum wage traditionally had a positive impact on wages, and this persisted into the 1990s, even though the minimum wage shrunk to only a tiny fraction of the average wage and to well below the official subsistence income.[16] By 1999, changes in the minimum wage were having little effect. Over 72% reported that changes in the minimum wage had no effect on the average wage (Figure 50). The minimum was less likely to be linked to the average wage in relatively small firms, and was less likely to be linked in non-state firms than in state firms (Figure 51). In over three-quarters of the factories, it was reported that the minimum wage had no influence on *wage differentials*, showing that the old link to other wages through the wage tariff had disappeared (Figure 52). In 1994, over three-quarters of firms had reported that the minimum wage influenced wages and over a third reported that it influenced differentials.

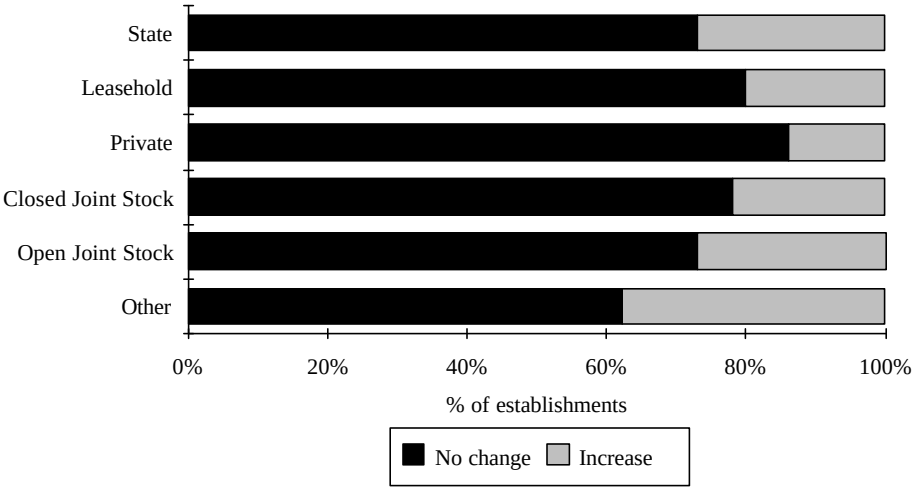
[16] In 1999, the statutory minimum wage was still only 60,000 Kbv, which was about 3% of the official poverty line.

Figure 50: Effect of Minimum Wage Rise on Average Wage, by Industry, 1999, All Regions



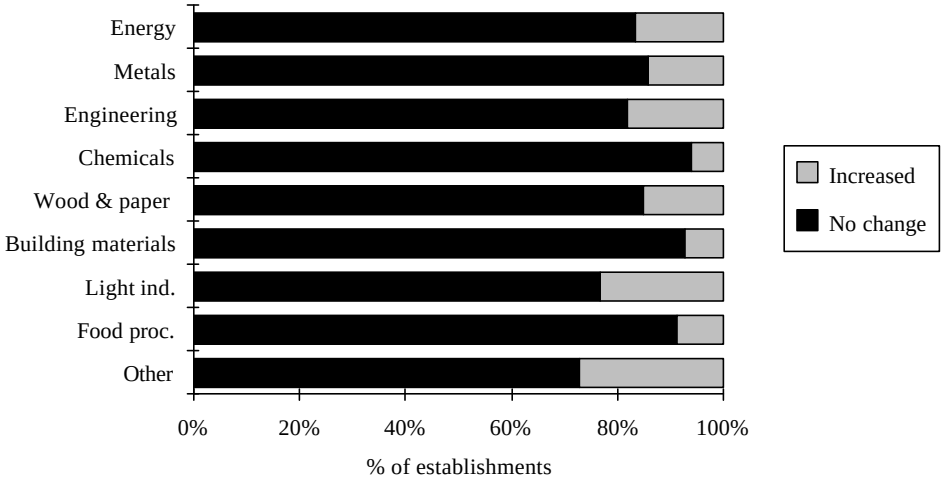
Source: ULFS6, n = 682

Figure 51: Effect of Minimum Wage Rise on Average Wage, by Property Form, 1999, All Regions



Source: ULFS6, n = 681

Figure 52: Effect of Minimum Wage Rise on Wage Differentials, by Industry, 1999, All Regions



Source: ULFS6, n = 674

Both the wage tariff system and the statutory minimum wage have played 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 aspect of enterprise and labour market restructuring. Wage flexibility can be excessive for both efficiency and equity objectives. Yet without some flexibility, labour mobility, incentives and productivity will suffer, and labour market adjustments will be slowed.

Although there is a long process of wage reform ahead in Ukraine, the data suggest there is considerable wage flexibility already, some of it perverse. This is shown by the finding that the more flexible share of total cash remuneration was fairly high, in that "bonuses" comprised 14% of total earnings, ranging from 25% in the energy sector to a low of 12% in light industry.[17] The bonus share was lower in small-scale than large-scale firms. Intriguingly, the share was highest in state establishments and lowest in private firms, which might reflect the existence of other forms of remuneration, or simply that remuneration was genuinely more flexible in them.

Another traditional aspect of the wage system has been that a large part of worker remuneration has been in non-monetary form. For various reasons, the *ratio of non-wage benefits to wages* was high in the Soviet system. Yet for the wage to function as a mechanism for work motivation and mobility, the real wage needs to rise. In 1999, as in 1995, wage "distortion" remained considerable. In fact, while money and real wages were low and had fallen substantially in real terms, most firms provided a wide range of fringe benefits and services – one reason for doubting a conventional image that service employment has been low in countries such as Ukraine, because many service functions were internalised in manufacturing enterprises.

Most firms provided managerial employees and regular wage workers with entitlements to a wide range of benefits, whereas non-regular workers – casual labour,

[17] These were lower than the corresponding figures in Russian industry, although there the bonus share had been rising. Standing, 1996, op.cit.

those on fixed-term contracts, and so on – had a severe disadvantage, as shown in Table 9. The figures raise two concerns.

First, if enterprises in some sectors and in the core of the economy provide a wide range of benefits while others cannot do so and while more workers are locked out of that relatively privileged core, then the pattern of benefit provision will contribute to the growth of socio-economic inequality. *Enterprise-based benefits may become a bigger factor in the growth of inequality than wage differentials. Indeed, although much has been made of the enormous growth in income inequality in countries of the former Soviet Union, if the changing incidence of enterprise benefits were taken into account, growth in inequality would be much greater. It is therefore pertinent that firms with below-average wages were less likely to be providing various benefits than those with above-average wages (Table 10). The pattern of enterprise benefits has tended to worsen income inequality very considerably.*

Table 9: Percent of Establishments Providing Benefits, All regions, 1999, All Regions

	Emp-loyees	Regular workers	Non-regular workers
Paid vacation	97.8	97.7	44.4
Additional vacation	40.8	46.7	10.3
Rest houses	52.8	52.5	15.9
Sickness benefit	91.2	91.2	53.6
Paid health services	21.1	21.9	9.3
Subsidised rent	7.3	7.6	2.3
Subsidies for kinder gardens	14.6	14.8	5.0
Bonuses	68.4	70.8	36.9
Profit sharing	47.5	45.4	13.0
Loans	77.0	77.7	28.7
Retiring assistance	65.5	65.6	11.9
Supplementary pension	6.8	7.4	1.6
Possibility for training	42.5	43.4	5.7
Interest-free loans	24.4	24.3	3.6
Subsidy for canteen or benefit for meal	25.3	27.9	16.1
Subsidised consumer goods	15.5	15.5	10.9
Transport subsidies	18.8	19.6	10.5

Source: ULFS6, n = 566

Table 10: Percent of Establishments Providing Benefits, by Average Wages, 1999, All Regions

Benefit	Employees		Regular workers		Non-regular workers	
Average wage	Below	Above	Below	Above	Below	Above
Paid vacation	97.1	99.2	96.9	99.2	44.0	46.8
Additional vacation	39.5	43.4	43.9	52.2	10.9	10.2
Rest houses	47.6	61.1	47.1	61.1	15.0	16.7
Sickness benefit	90.1	93.3	90.0	93.3	52.1	55.5
Paid health services	16.6	28.7	17.2	29.9	7.0	12.0
Subsidised rent	6.2	9.3	6.5	9.7	2.2	2.6
Subsidies for kinder gardens	11.4	20.5	11.2	21.3	3.7	7.0
Bonuses	59.3	84.9	62.7	85.7	32.4	45.2
Profit sharing	45.7	52.4	43.6	50.2	13.0	12.9
Loans	71.5	86.2	72.1	86.6	26.7	31.4
Retiring assistance	61.9	71.9	62.2	71.5	13.9	9.0
Supplementary pension	4.2	11.4	4.5	12.6	0.8	3.1
Possibility for training	32.2	59.4	32.5	60.8	4.6	7.5
Interest-free loans	16.6	38.0	16.4	38.0	2.4	5.4
Subsidy for canteen or benefit for meal	22.8	30.0	25.8	32.0	14.5	19.0
Subsidised consumer goods	15.8	14.6	15.6	15.0	10.4	11.1
Transport subsidies	16.0	22.8	16.8	23.2	9.7	11.0

Source: ULFS6, n = 666

Firms that provided housing to their workers had a statistically significantly higher average wage and earnings than those that did not. And the average wage and earnings of firms that admitted to having abandoned social facilities was lower than those that had not done so.[18]

Second, if Ukrainian industry moves towards the international pattern in which enterprises resort increasingly to non-regular labour, or in pursuit of *external labour flexibility*, then a growing number of workers will be disentitled to occupational or enterprise welfare.

In respect of both these concerns, in 1998-99 the proportion of firms paying for or providing most forms of benefit to workers and employees declined. There were two exceptions. An increasing share of firms provided vacation and financial assistance for retirement, both reflecting the need to cut employment.

One cause of the high incidence of benefits is the tax-based incomes policy, since high taxes on money wages encourage managements and unions to favour a shift from money wages to non-monetary forms of remuneration. Economic stagflation and the difficulty in paying wages also encouraged them. *Any trend away from money wages is potentially damaging for productivity and labour mobility. For that reason alone, policies should be introduced to encourage enterprises to shift "social service" functions to district authorities*, so that those outside firms (notably large, older firms)

[18] Average earnings in factories that provided workers with housing was 360 UAH, compared with 257 UAH for those that did not do so. The average for those that had abandoned social facilities was 294 UAH and for those that had not done so it was 275 UAH.

may have access to benefits and services, and so that money wages may be raised as an incentive to work and a means of promoting labour mobility.

In that context, recent trends are intriguing. In spite of the parlous state of most enterprises, and to some extent perhaps because of that, 3.6% of establishments had extended the range of benefits provided to their workers during the past year, compared with 6.2% that had curtailed or ended a benefit, mostly subsidies of some sort. The benefit most commonly added during 1998-99 was "additional leave", whereas during the mid 1990s compensatory payments or provision in kind were made to compensate for high food prices. But the additional benefits mentioned was ingenuous, including free bakery products, interest-free loans, travel subsidies, child sickness benefits, funeral, wedding and childbirth grants and free healthcare.

The most common benefit cut or reduced was provision of food and housing subsidies for workers, so that while some firms were adding them others were removing them. Among other benefits that a few firms were cutting were subsidised accommodation and preferential access to housing. About 10.8% of the factories had transferred some social facilities to local authorities in the past year, and 27.1% of large-scale firms had done so.

In sum, fringe benefits remain a very important component of workers' remuneration, and represent a means of accentuating socio-economic inequality.

A form of "benefit" is good safety and healthy working conditions. In 1999, nearly 26.9% of all firms had safety committees, 54.5% had a safety department, 14.2% had both; in 4.5% there were neither.

There has been concern about safety procedures, but there has been little evidence that these have collapsed. Perhaps this reflects the effect of regulations and union pressure.

12. Skill Formation and the Erosion of Training

To promote labour market and employment restructuring and labour mobility, worker training is important. In Soviet industry enterprises provided much of the training that was undertaken. Whether or not that imparted much skill is debatable. Nevertheless, training was a part of the enterprise culture.

To examine the extent and forms of training in Ukrainian industry, we considered the three levels – entry-level *training*, that is for workers newly recruited, *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 or status of a worker.

As in Russian industry, a majority of firms (80.3%) provided some training for newly hired workers. However, the figures look less impressive when we realise that this was down on 1994 and that in 70.9% of all firms providing training, it was informal and on-the-job. Only 8.7% provided classroom training in the enterprise and 5.1% provided such training off the premises. Moreover, with "privatisation" and restructuring, there could be a decline in training, for it was less often provided in private and small-scale firms.

Overall, more than three-quarters of firms provided such training. Small-scale firms were less likely to do so than large-scale. And those firms that had cut employment the most (more than 20%) were the least likely to be providing training. These are signs that accelerated restructuring could lead to erosion in the provision of entry-level training.

For retraining for job performance, which was provided in 83.7% of firms, 13.8% of establishments provided formal classroom teaching on the premises and 4.9% did so off them. Surprisingly, more (80.3%) provided retraining for upgrading than training for newly 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 training was 'formal', involving classroom and off-the-premises courses, but still most was 'informal' and on-the-job.

What should be of more concern is that, although 29.6% had increased them, 14.4% had cut training programmes, in their entirety or partially, over the past year. Cutting training was particularly common in the building materials, light industry and chemicals. During the 1990s, there was a massive erosion in industrial training.

Traditionally, industrial enterprises set up and operated training institutes. But in 1999, only 16.2% were paying for a training institute (down on 1994), 24.8% were paying institutes for training workers sent for training (up on 1994), and 6.4% were paying grants to trainees while on training courses (also up). This compares 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 judgment. What should be a source of concern is that 69.4% of the firms that had done so were no longer paying for training institutes, and 16.5% of those paying for institutional training were planning to stop, with a further 23.4% contemplating doing so.

So, there was a situation in which there was considerable informal training and an erosion in the provision of institutional training and retraining, at a time when more formal off-the-job training was required to facilitate enterprise and job mobility.

13. Concluding Remarks

In 1999, industrial enterprises in Ukraine were in structural crisis, even more so than revealed in the first round of the Ukraine Enterprise Labour Flexibility Survey. Contrary to some representations, there had been a substantial cut in employment and the job cuts were continuing. There was no evidence that there were institutional barriers to such cuts. However, the extent of concealed unemployment was very considerable, and it has increased.

It is important for commentators to appreciate that the concealed unemployment is as bad for those affected as open unemployment, since the absence of wage income means that poverty is almost guaranteed, even if they might have access to some residual enterprise benefits. They do not have access to unemployment benefits or labour market policies to assist them to obtain alternative livelihoods. Moreover, the phenomena means that the actual unemployment is doubly underestimated, because the concealed unemployed are not added to the openly unemployed and because they are counted as employed, thus lowering the numerator and raising the denominator in calculations of the unemployment rate.

It would be wrong to describe Ukrainian enterprises as rigid, although the forms of labour market flexibility have scarcely been typical of a market-oriented economy.

Although the enterprises have responded to the depression by cutting employment, they have turned far more to unpaid and partially paid administrative leave, short-time working and "unpaid employment" involving wage arrears or the non-payment of contractual wages. The result is that the system has experienced a perverse form of *wage flexibility*. Indeed, the paradox is that **wage flexibility has been excessive**.

This is not the conventional view of labour market mechanisms in countries of the former Soviet Union. There are two orthodox interpretations. The first is that open unemployment has remained low because of the persistence of a "soft budget constraint" in enterprises, in which lack of financial discipline and accountability leads managements to retain excess workers, despite the cost of doing so. The second is that the labour market is highly flexible, so that workers prefer to take wage cuts and do so, rather than become unemployed. Both variants are misleading.

The fact is that in Ukraine labour has become a highly variable production cost, not a fixed cost as labour is often characterised in market economies where employment contracts preclude the Ukrainian practice of putting workers on unpaid leave or the convenience of simply not paying workers when they cannot or do not wish to do so. The result is extreme wage flexibility. A cost is considerable *employment inflexibility*. Sooner or later the latter will collapse, and then there will be a deluge of job losses. That will be harder to handle for policymakers than if the real unemployment problem was recognised now.

It is recommended that in Ukraine, as in the Russian Federation, the authorities should take measures to tighten the "wage constraint" and reduce wage flexibility, to oblige enterprises to pay contractually agreed wages and benefits. Only by doing so will they foster efficient employment restructuring, and only then will there be a chance that national and international agencies will devote adequate attention to the enormous unemployment crisis. Further postponement of employment restructuring will impede economic reform and precipitate a labour market crisis sooner or later. Above all, concealing unemployment through excessive wage flexibility has had profound social consequences, measured ultimately in the lower life expectancy, rising poverty and growing inequality that disfigured Ukraine in the 1990s. Conventional statistics and conventional interpretations have hindered a proper understanding of those linkages. If proper policies are to emerge, that must change.