

LABOUR MARKET
PAPERS

12

**Labour market crisis
in Ukrainian industry:
The 1995 ULFS**

Guy Standing and Laszlo Zsoldos

Employment Department
International Labour Office Geneva

Copyright © International Labour Organization 1995

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to the Publications Branch (Rights and Permissions), International Labour Office, CH-1211 Geneva 22, Switzerland. The International Labour Office welcomes such applications.

Libraries, institutions and other users registered in the United Kingdom with the Copyright Licensing Agency, 90 Tottenham Court Road, London W1P 9HE (Fax: +44 171 436 3986), in the United States with the Copyright Clearance Center, 222 Rosewood Drive, Danvers, MA 01923 (Fax: +1 508 750 4470), or in other countries with associated Reproduction Rights Organizations, may make photocopies in accordance with the licences issued to them for this purpose.

ISBN 92-2-110061-8
ISSN 1020-2633

First published 1995

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications can be obtained through major booksellers or ILO local offices in many countries, or direct from ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. A catalogue or list of new publications will be sent free of charge from the above address.

Contents

Foreword	v
Part I.	1
1. Introduction	1
2. Structural Characteristics of Ukrainian Industry in 1995	2
3. Capacity Utilisation in 1993-95	8
4. Labour Surplus and "Hidden Unemployment" in Ukrainian Industry	11
5. Redundancies and Employment Decline	18
6. Concealed Unemployment in Ukrainian Industry	26
7. Vacancies and Labour Turnover	31
8. Job Restructuring	33
9. The Changing Position of Women: Prospects of Marginalisation	34
10. The Impact of Restructuring on Older Workers	40
11. Changes in Wages, Earnings and Benefits	42
12. Skill Formation and the Erosion of Training	53
13. Concluding Remarks	54
Part II.	57
14. Promoting the "Human Development Enterprise" in Ukraine	57
15. HDE1: Enterprise Training	57
16. HDE2: Incorporating Social Equity	58
17. Incorporating Work Security	59
18. Economic Equity in Enterprises	60
19. The Economically Democratic HDE	61
20. Identifying the Human Development Enterprise in Ukraine	63
21. Economic Performance and the HDE	70
22. Conclusions	76

Foreword

This is a first report of results from the second round of the Ukrainian Enterprise Labour Flexibility Survey, carried out in the spring of 1995. The ULFS is the first comprehensive assessment of what is happening in the industrial labour market of this major European country of 52 million people. It tells a worrying story, about factories struggling to survive and produce, about workers in their many thousands affected by wage cuts and loss of benefits, and threatened by the fact that those factories have already lost many thousands of jobs.

The second part of the paper is normative in character. It sets out to identify the labour and employment practices of firms – in the specific circumstances of Ukraine in 1995 – that are relatively exemplary. In doing so, it conceptualises what is called a Human Development Enterprise and four HDE Indexes to distinguish the better firms from the rest. It is suggested that this approach would provide a useful guide for enterprise restructuring.

The survey has been carried out as part of the Labour Market Policies Branch's work programme on enterprise labour flexibility surveys (ELFS), which have been or are being conducted in many ILO member countries. Those interested in other results are welcome to contact us.

All views and conclusions are those of the authors only and not necessarily the ILO's. Thanks are due to the Ukraine Ministry of Statistics, which was responsible for the fieldwork, in particular special thanks to Irina Hainatska, Nadezhda Grigorovich and Natalya Vlasenko. We are also grateful to Stephen Browne and his colleagues in UNDP, Kiev, which helped finance the survey, and Igor Chernyshev, of the ILO's Bureau of Labour Statistics, for comments and advice.

Guy Standing
Labour Market Policies Branch
Employment Department
International Labour Office

Part I.

1. Introduction

The ILO has been monitoring the development of the labour market in Ukraine since 1993, and as part of that process carried out a representative survey of industrial enterprises in 1994, as well as a comprehensive assessment of labour and social policies. This report presents results from the enlarged Ukraine Enterprise Labour Flexibility Survey (ULFS2) carried out in 1995. The survey covers the 12 major industrial regions of the country and a total of 566 enterprises, employing 538,679 workers and employees. It is the largest and most comprehensive survey of developments in the industrial labour market ever conducted in the country.

Ukraine, as a crucial part of the Soviet economic system, was severely affected by its dissolution. It was integrated into the 'military-industrial complex', although across most industrial sectors the degree of backward and forward linkages was considerable. Since Independence in 1991, Ukraine's economy has plunged into what might be described as *hyper-stagflation*, in which output has shrunk by up to 50% and in which inflation in 1993 alone was over 10,000%. In 1994 the worst effects of the price liberalisation wore off, but still the annual inflation rate exceeded 500% while output continued to shrink. To many observers, it seemed that until 1994 policymaking for the essential restructuring of production and distribution was almost paralysed, with modest reforms in some areas being held back by inertia elsewhere.

For economic restructuring to arrest the decline and to begin the long process of economic regeneration, what happens at the micro-economic level of the enterprise is crucial. Relatively little is known about the impact of the economic changes and limited restructuring policies on industrial enterprises, and little is known about the impact on employment and labour practices, or of what changes are most urgently required in the labour market sphere. Raising productivity will be a key to economic regeneration, and it is widely recognised that labour productivity in Ukrainian industry has been very low and declining. Official data suggest that although employment has declined, it has done so by much less than output. And, unbelievably, as of mid-1995, the registered unemployment rate had remained below 0.5%. The unreliability of such figures and related labour market trends are considered in detail elsewhere.¹ In reality, there is reason to think unemployment is already high and that the labour market deterioration is continuing.

As part of the ILO's work, in early 1994 we conducted a detailed survey of industrial establishments in six regions of the country – Kiev City, Kiev Region, Donetsk, Kharkov, Lvov and Nikolaev.² This first round of the Ukraine Labour Flexibility Survey (ULFS1) covered a random sample of establishments selected to

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

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 1994).

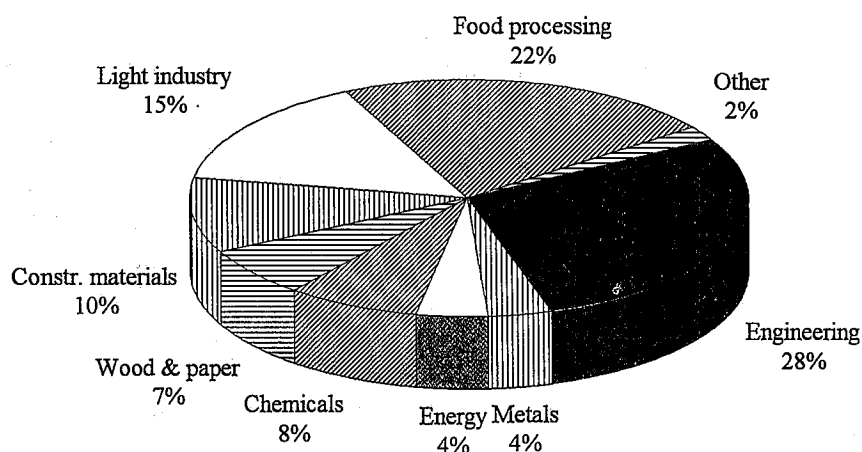
give a cross-section of industries in each of the six regions.³ The fieldwork was carried out in collaboration with the Ministry of Statistics of Ukraine, as one of ILO's series of enterprise surveys in countries of the region. The completed sample was 348 establishments, covering a total of 372,772 workers and employees. As in our related labour flexibility surveys in Bulgaria, Hungary, Russia and elsewhere outside the region, the methodology involved interviews with senior managements and two questionnaires, one statistical part delivered to be completed by various sections of the establishment and another administered orally in discussion with managers, often accompanied by senior staff and union representatives.⁴

The ULFS2 involved the same methodology, applied to the same enterprises and an additional 218 enterprises drawn from six other regions. This is the first report of findings from the ULFS2, with emphasis on aspects of restructuring, labour surplus and labour shedding. Other papers will go into more detail on some of the more important topics raised in the following.

2. Structural Characteristics of Ukrainian Industry in 1995

As in the first round (ULFS1) and in equivalent Russian surveys, engineering accounted for the largest share (28%) of the establishments covered by ULFS2, followed by food processing and 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).⁵

Figure 1: Industrial Distribution of Establishments, 1995, All Regions



Source: ULFS2, n = 566

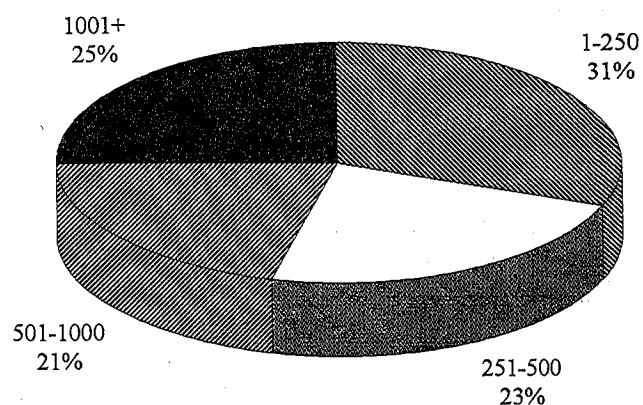
- ³ The unit of the survey was an *establishment*, which statistically should be distinguished from an *enterprise*, which consists of one or more establishments. The average size of establishment, in terms of capital, employment, sales, etc, will be considerably smaller than for enterprises.
- ⁴ We wish to acknowledge with gratitude the cooperation and assistance of the Ministry of Statistics of Ukraine, which handled the fieldwork with considerable expertise.
- ⁵ The industrial distribution was, coincidentally and not by design, remarkably similar to that of the third round of the Russian Labour Flexibility Survey, probably reflecting the similarity of industrial structure in the two economies. On the RLFS3, see G. Standing, *Labour Market Dynamics in Russian Industry in 1993: Results from the Third Round of the RLFS* (Budapest, ILO-CEET, Report No.2, 1994).

Ukrainian industry has been regarded as highly monopolistic, in keeping with the Soviet system, in which it was typical for a single enterprise to dominate a whole town or region and a particular sector. One must be cautious about interpreting the data, but it seems that pattern was changing. According to the management perspective, 18.3% of all factories were a **monopoly** in their sector, with a further 1.3% believing that they had a monopoly in some of their products, not all. Nearly a quarter of state establishments believed they were monopolists, and nearly a third of those with more than 1,000 workers did so.

The **employment size** distribution showed that, as in ULFS1, less than one-third had fewer than 250 workers and one quarter had more than 1,000 (Figure 2), with the share of the larger establishments being greater than was in the case in the 1993 and 1994 rounds of the Russian survey and being closer to the pattern found in 1992 in Russia, which suggests that restructuring may be one or two years behind in Ukraine. The share of large establishments had declined from 27% in early 1994. Overall, the mean average size of establishment was 952 workers and employees, with the average ranging from 3,060 in metals and 1,885 in the energy sector to 437 in food processing, reflecting the large-scale nature of industrial production in Ukraine, even in early 1995. The largest average size was in Kiev (2,073), followed by Donetsk (1,709), and the smallest was in Lvov (301).

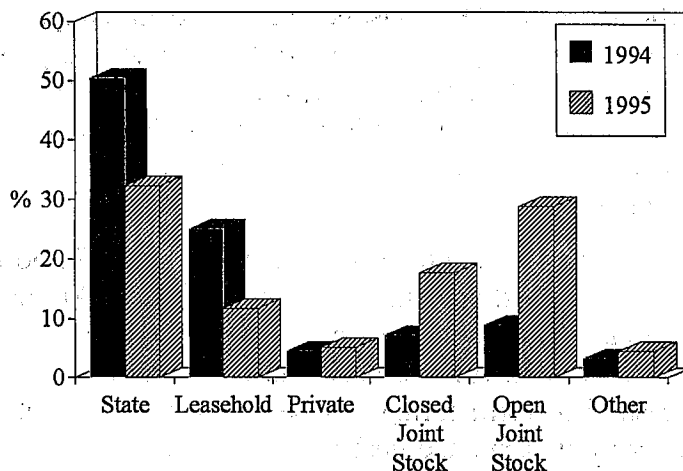
In terms of **property form** distribution, there had been a considerable process of restructuring. At the time of the survey, 32.3% of all establishments were state enterprises. By contrast, 50.5% had been state-owned and state-managed one year earlier. In 1994, the second most numerous form was leaseholding, but this had declined to a small proportion of the total. As can be seen from Figure 3, the categories that had grown most were closed joint stock and open joint stock enterprises, particularly the latter. Again, this was similar to the pattern of change that has taken place in Russian industry, although the degree of change was smaller in Ukraine.

Figure 2: Employment Distribution of Establishments, 1994-95, All Regions



Source: ULFS2, n = 566

Figure 3: Property Form Distribution of Establishments, 1994-95, All Regions

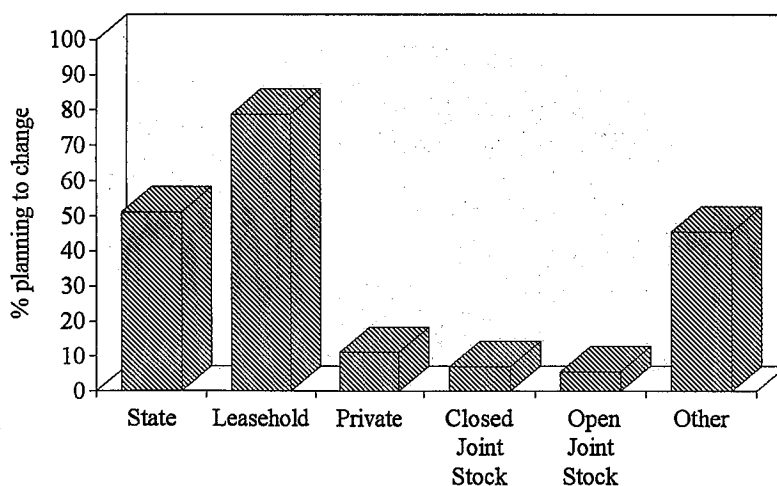


Source: ULFS2, n = 566

Property restructuring seemed to be accelerating. Thus, 31% of all establishments reported that they planned or expected to change property form, and 78.8% of leaseholdings and 51.1% of state enterprises planned to do so (Figure 4). Most of those planning to change expected to become open or closed joint stock companies. Of state enterprises planning a change, 77% expected to become open joint stock, while among leaseholdings planning a change 32% expected to become closed joint stock and 58% to become open joint stock companies. Of all those planning or expecting to change property form, 72% expected that to occur within the next 12 months, suggesting that managements were more prepared for restructuring than some observers believed.

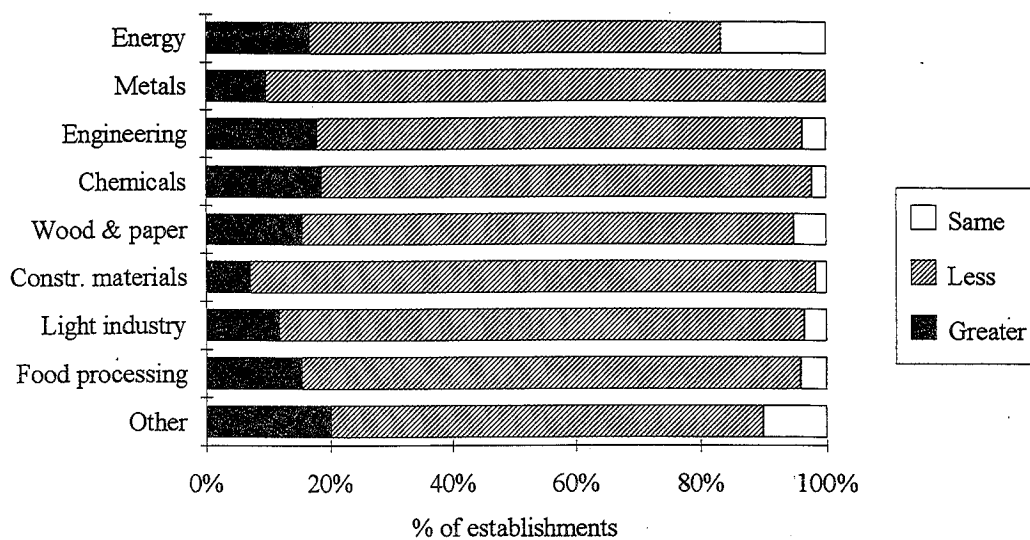
In terms of economic performance, all manufacturing sectors had fared badly in the recent past, with an extraordinary 81% of all establishments reporting that their sales in real terms had declined compared with two years previously, with a further

Figure 4: Plans to Change Property Form, by Current Property Form, 1995, All Regions



Source: ULFS2, n = 562

Figure 5: Change in Sales in Real Terms, 1992-94, by Industry, All Regions

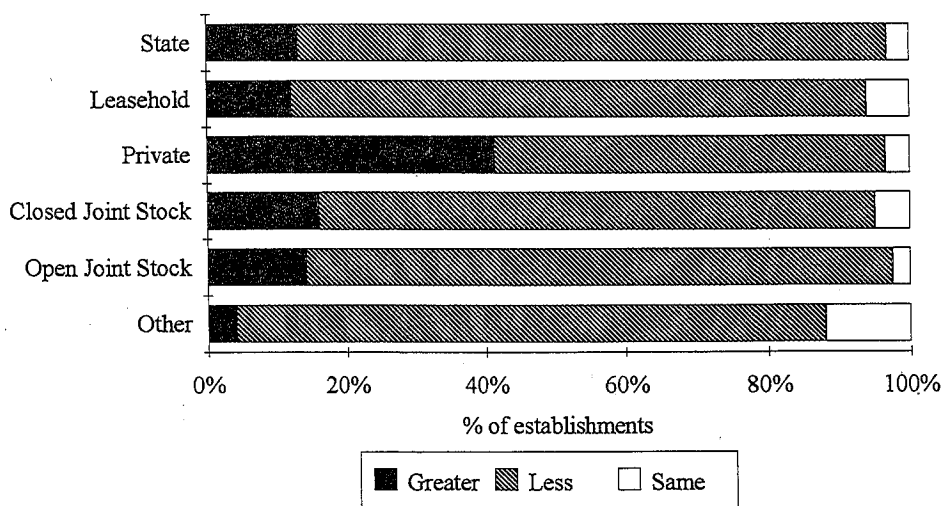


Source: ULFS2, n = 566

2.5% reporting no change. Thus, in 1994-95 there was an even more widespread decline in sales than in 1993-94. Only 15% reported that their sales had improved, with no sector being prominent (Figure 5). State enterprises and leaseholdings were relatively likely to have experienced a decline in sales, and the small private sector an increase (Figure 6).

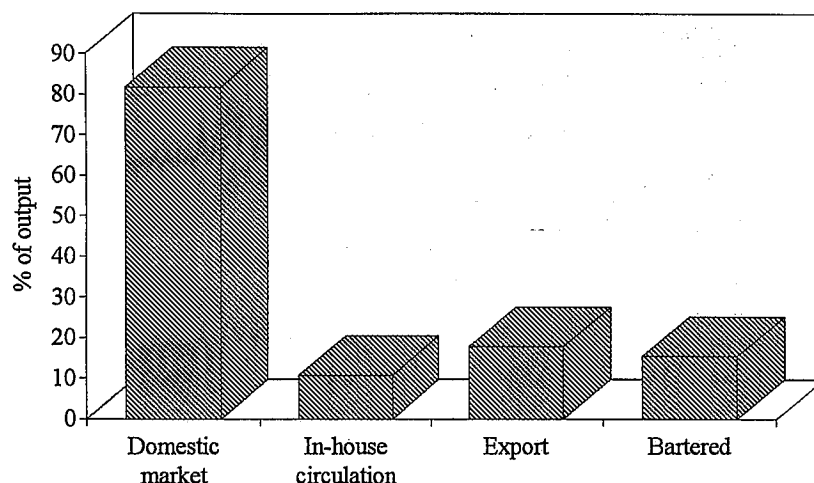
In terms of **distribution of output**, as shown in Figure 7, Ukrainian industry has remained heavily oriented to the domestic market, which accounted for 81.4% of sales in 1994, which was slightly down from the preceding year. The proportion of establishments that exported some of their output had increased, although only 8.9% was exported on average, and overall the share of output exported had declined since 1992 and 1993, reflecting the sharp drop in exports of engineering products. State

Figure 6: Change in Sales in Real Terms, 1992-94, by Property Form of Establishment, All Regions



Source: ULFS2, n = 566

Figure 7: Distribution of Output, 1993-94, All Regions



Source: ULFS2, n = 260

enterprises seemed to export a greater proportion of their output, particularly compared to private firms.

A significant amount of output was **bartered**, 6.9% of total output; both the number of firms bartering and the percentage of output bartered had increased since 1992. Similarly, in 1994 more firms sold output to their workers and more gave output to their workers than was the case in 1992 and 1993. The latter two forms of distribution accounted for nearly 2% of total output, with a further 1% going for in-house circulation.

As for other signs of restructuring, the survey considered three forms of innovation – product, capital and work process. Over a third (34.3%) reported that they reduced their **product range** over the past two years, compared with 25.3% that increased it, with state establishments being slightly more likely than others to have reduced the range. This meant that for the past three years there has been a shrinkage in the product range of output.

Table 1. Technological Innovation, by Property Form of Establishment, 1992-94, All Regions
(% of establishments having made a change)

Property Form	Change in range of products		New technology	Change in work org.
	Increase	Decrease		
State	15.3	36.1	25.1	20.2
Leasehold	25.8	40.9	41.5	35.9
Private	27.6	24.1	17.2	17.2
Closed Joint Stock	26.3	30.3	39.4	32.3
Open Joint Stock	35.0	33.1	43.6	39.9
Other	28.0	36.0	36.0	31.8

Source: ULFS2, n = 345

Over 35% had made some definable **technological change** in the production process, with state enterprises being the least innovative in that respect. And 30% had made some definable change in **work organisation**, with fewer state enterprises having done so than joint stock firms (Table 1).

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, followed by their customers' inability or unwillingness to pay, which was given by 21% of all firms. These demand factors were followed by lack of raw materials (19.7%), their suppliers' financial position (14.0%) and high taxes (8.9%).

Several other structural factors are worth mentioning at this stage, for their relevance to later analysis. Potentially the most important is the means by which managers are appointed, since the mode of "corporate governance" could be an important determinant of the firm's performance and approach to restructuring.⁶ Most significantly, according to the managers themselves, in 32% of establishments top managers had been appointed by a line **Ministry**, whereas in 36.5% that had been done, formally at least, by the **work collective**, in 19.3% by **enterprise boards**, and in 3.7% by **local authorities**. This represented a decline in the role of line Ministries.

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 relatively more likely to be appointed by work collectives. About 12% of managers were appointed for two years or less (usually on a one year contract), 17% were appointed for three or four years, 48.5% were appointed for five years, about 1% for longer, and about 22% were appointed without a fixed term or without a formal contract. These figures indicate that managerial appointments, on average, had become shorter than one year earlier, as recorded in the first round. And it indicates that more managers had been put on formal employment contracts.

Another, widely-reported 'structural' feature has been dependency on government **subsidies**. Perhaps the question asked in the interviews allowed for some omission of subsidies. However, remarkably – given the image of factories being maintained through state assistance – 95.7% of establishments reported that they were not receiving a subsidy for production purposes, and only in the energy sector was receipt of subsidies a prominent phenomenon, where half reported receiving a subsidy.

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 of firms receiving financial assistance in that way. Half the subsidies had come from the national budget, the remainder coming from regional and local authority budgets.

The final structural feature worth stressing is that in 23.7% of the factories managers believed that there was a strong possibility that their firm would go **bankrupt** in the next 12 months, with a further 19.5% being uncertain. Managers in the building materials sector were particularly pessimistic, as they had been in early

⁶ Issues of corporate governance have attracted considerable theoretical 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 Labour Market Policies Branch, October 1995).

1994. By contrast, firms in chemicals and metals were most sanguine about future prospects. State establishments were more inclined to anticipate bankruptcy than joint-stock firms. The most mentioned main reason for expecting bankruptcy was rising prices of raw materials and other inputs (42.3%), followed by difficulties in selling the output (33.1%). Other factors fairly widely mentioned were debt (14.6%) and cuts in subsidies (3.8%). The growing fears associated with indebtedness deserves to be emphasised.

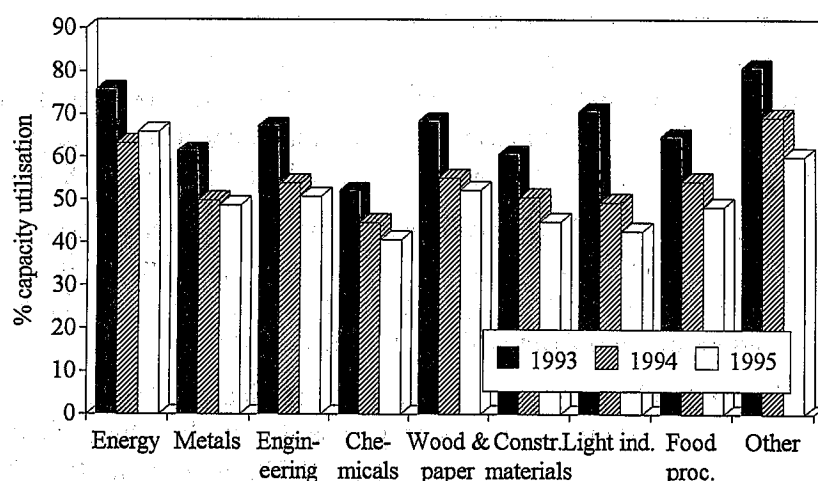
In sum, there was widespread pessimism about economic prospects, the reasons were fundamental, and they seemed realistic. While property form restructuring had occurred on a wide scale, and while there had been a corresponding shift in forms of managerial appointments, the continuing decline in sales point to a deepening of structural crisis.

3. Capacity Utilisation in 1993-95

With the continuing economic slump in the country, it was not surprising that the level at which factories were operating in early 1995 was well below capacity, and that this was sharply down from 1994, which in turn was down from 1993 and from 1992.

Overall, according to the firms' estimates, in early 1993 they were operating at 66.0% capacity, in early 1994 the average had fallen to 52.9%, and by early 1995 this had fallen to merely 48.5%. This is extraordinarily low by international standards and even by comparison with the low levels recorded in Russian industry in 1994.⁷

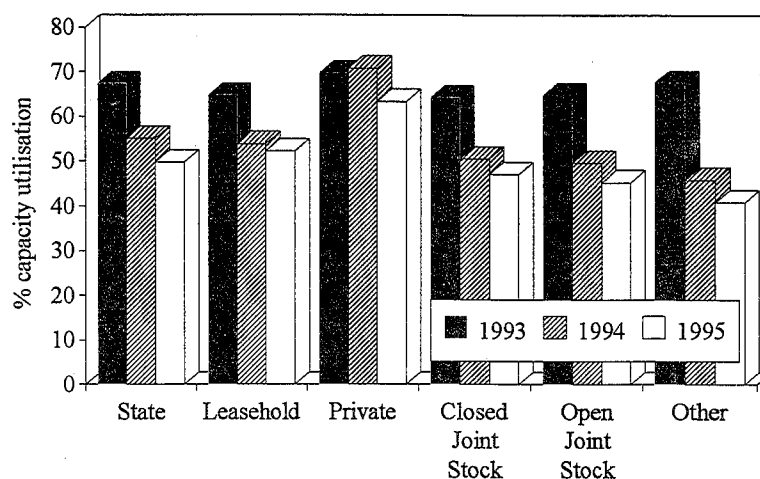
Figure 8: Capacity Utilisation, 1993-95, by Industry, All Regions



Source: ULFS2, n = 542

⁷ G. Standing, "Enterprise restructuring in Russian industry and mass unemployment", *Labour Market Papers*, No.1 (Geneva, ILO Labour Market Policies Branch, Feb.1995), p.21. According to the RLFS4, Russian industry was operating at about 57% capacity on average in 1994. The figures in the text are unweighted mean averages.

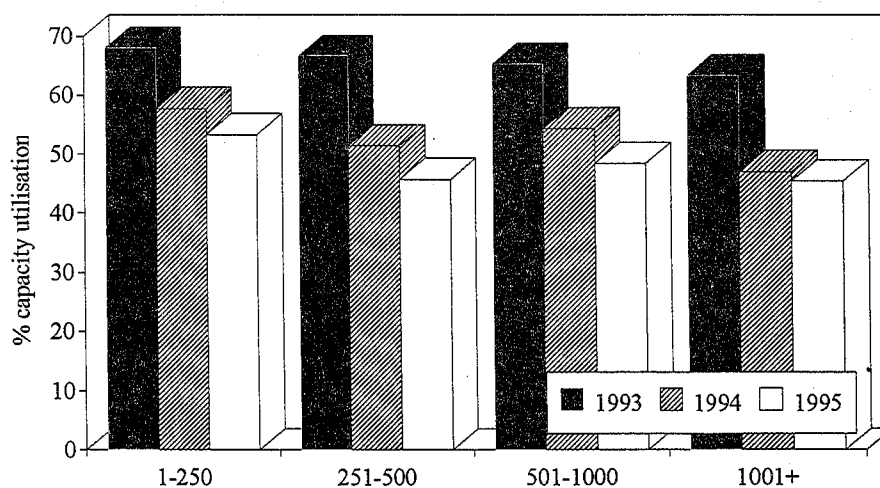
Figure 9: Capacity Utilisation, 1993-95, by Property Form, All Regions



Source: ULFS2, n = 542

The lowest levels in 1995 were in chemicals (as in Russia), the highest in the energy sector, followed by light industry. The biggest decline between 1993 and 1995 was in food processing (Figure 8). This almost certainly reflects the inability of people to afford to buy food in the stagflationary circumstances, bearing in mind that there has been a widespread resort to private small-scale farming and consumption and sale of home-grown food.⁸

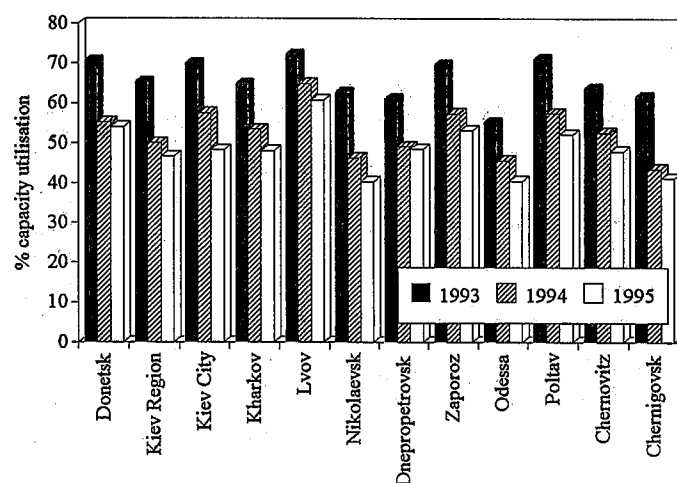
Figure 10: Capacity Utilisation, 1993-95, by Employment Size, All Regions



Source: ULFS2, n = 542

⁸ Between 1985 and 1993, the number of city residents' plots of land doubled, reaching 6.8 million units for an urban population of 35.4 million. V. Yatsenko, "Employment policy in Ukraine in 1991-94", paper presented to ILO Conference on Employment Policy and Programmes, Budapest, June 2-3, 1994, p. 22.

Figure 11: Capacity Utilisation, 1993-95, by Region



Source: ULFS2, n = 542

Comparing forms of ownership, the highest levels were in private establishments (Figure 9), although capacity utilisation had declined in all property forms over the previous two years. Clearly, so-called “privatisation” was no panacea in operational terms. There was no apparent relationship between size of establishment and capacity utilisation (Figure 10). Declines had occurred in all regions, although the 1994-95 decline may have been greatest in Kiev City (Figure 11). These figures suggest that the decline in output was due to demand factors, *not* to restructuring.

One complication in interpreting the changes in capacity utilisation might arise from a tendency for large-scale establishments in difficulty to opt for the practice of **restructuring by divesting**, by detaching production units, either closing or transferring them to other managements or selling them or their equipment and facilities. Given the huge size and integrated character of ‘Soviet’ enterprises, such divesting is a potentially desirable aspect of restructuring, and according to the ULFS2, 6.4% of all establishments had detached a production unit over the past two years, with that being relatively common in engineering plants and in light industry.

Overall, those that had detached units had experienced a statistically significant greater decline in capacity utilisation than those that had not done so (17%), suggesting that both divestment and declining capacity were complementary symptoms of the economic malaise of the establishment, rather than divesting being a means of sustaining reasonably high rates of capacity utilisation of the plant as a whole.

In sum, declines in capacity utilisation indicate the enormous degree of slack in the Ukrainian economy in 1995, which was even worse than in early 1994. 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 and feasible.

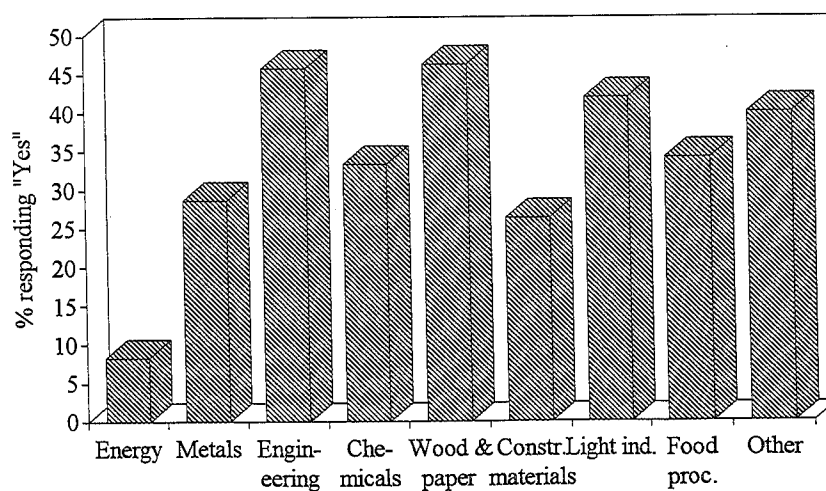
More relevant to the present analysis is the impact of those changes on employment and labour utilisation.

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

While capacity utilisation rates were crashing, by 1995 over 37% of firms reported that they could produce the same level of output with fewer workers than they were employing, with a further 7% being unsure. With the exception of the energy sector, this was widely reported across the spectrum of industries, supporting the view that it was a generalised low level of demand that was driving the productive performance of industry (Figure 12). The overall figures actually underestimate the degree of labour slack, since larger firms were more likely to report that they could cut employment without affecting output (Figure 13). There was no simple correlation between ownership-management form and this measure of labour surplus, although perhaps closed joint stock establishments were most inclined to report having it, and state enterprises the least inclined (Figure 14).

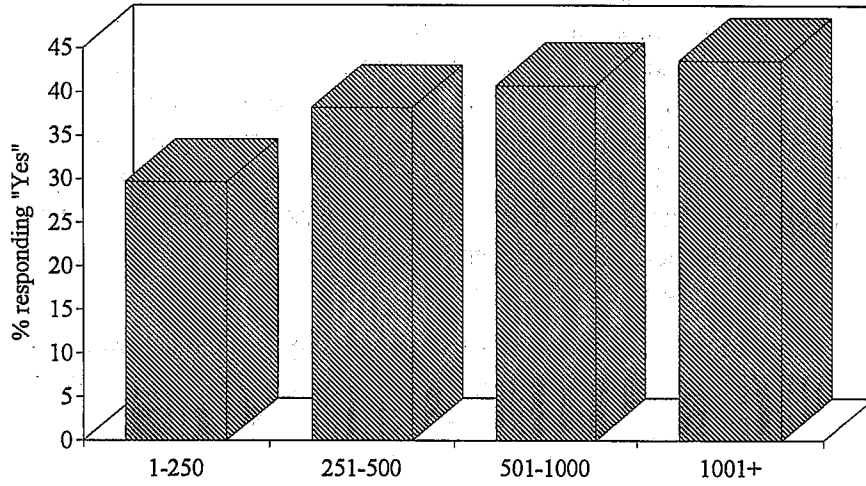
Those operating at very low levels of capacity utilisation were most likely to have surplus workers (Figure 15). And, as should be expected, those in which capacity utilisation had fallen sharply were most likely to report being able to produce the same level of output with fewer workers (Figure 16). Perhaps more surprisingly, those that had cut employment were more likely than others to estimate that they could cut employment without affecting output, although it is interesting that over one-third of those that had *raised* employment over the past year also felt that they could produce the same amount with fewer workers.

Figure 12: Percent of Establishments that Could Produce Same Output with Fewer Workers, by Industry, 1995, All Regions



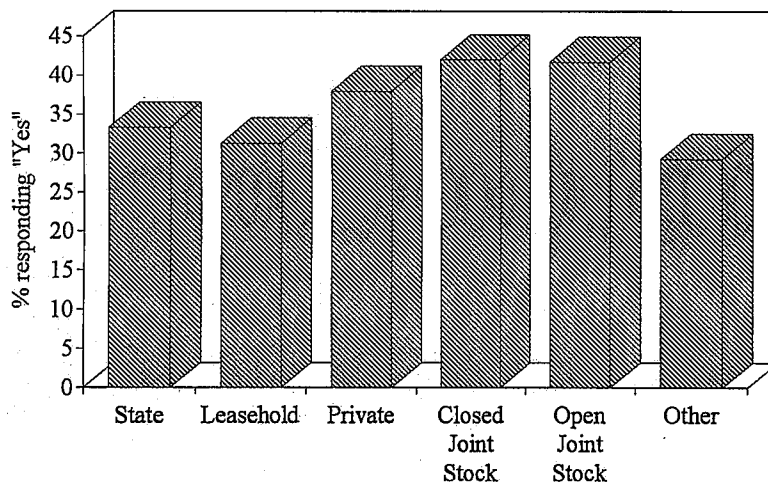
Source: ULFS2, n = 564

Figure 13: Percent of Establishments that Could Produce Same Output with Fewer Workers, by Employment Size, 1995, All Regions



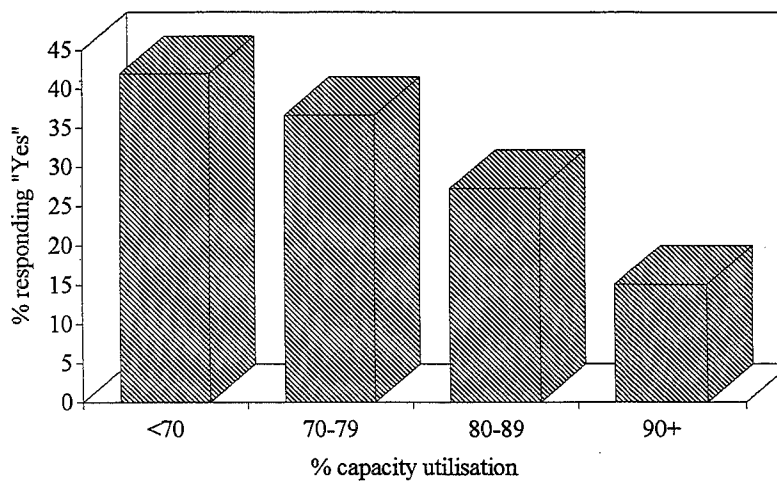
Source: ULFS2, n = 564

Figure 14: Percent of Establishments that Could Produce Same Output with Fewer Workers, by Property Form, 1995, All Regions



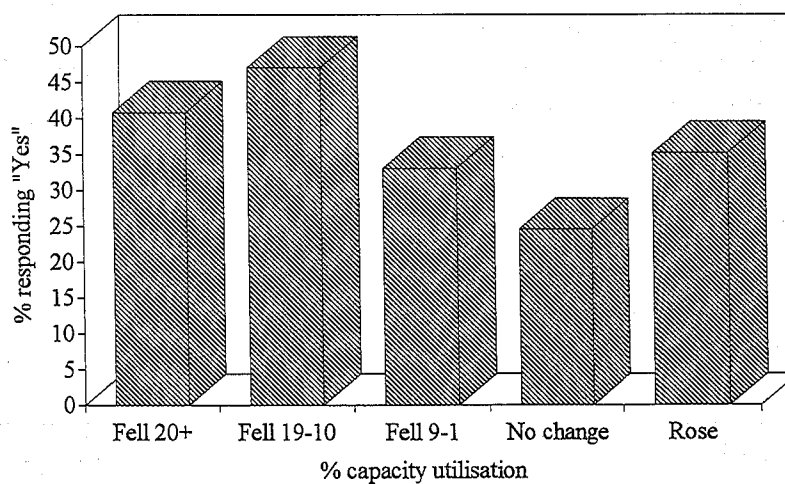
Source: ULFS2, n = 564

Figure 15: Percent of Establishments that Could Produce Same Output with Fewer Workers, by Capacity Utilisation, 1995, All Regions



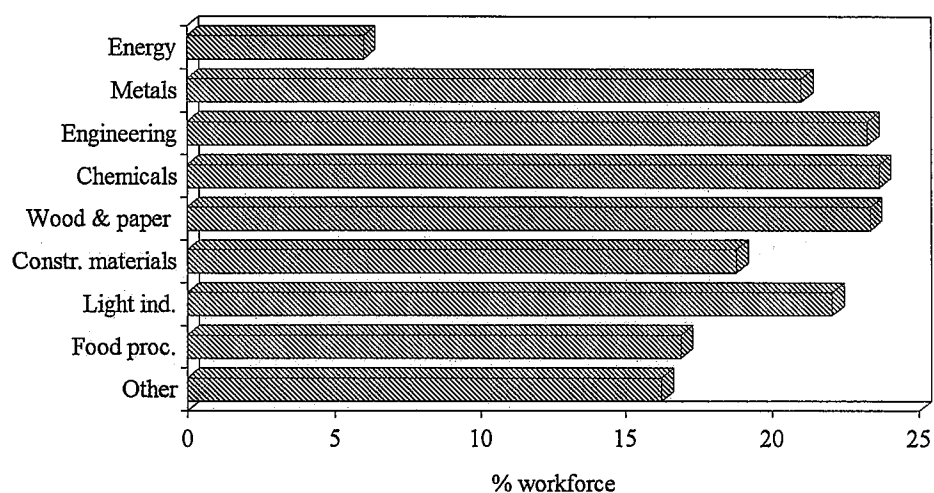
Source: ULFS2, n = 541

Figure 16: Percent of Establishments that Could Produce Same Output with Fewer Workers, by Change in Capacity Utilisation, 1993-95, All Regions



Source: ULFS2, n = 536

Figure 17: Percent of Workforce to Cut Without Affecting Output, by Industry, 1995, All Regions



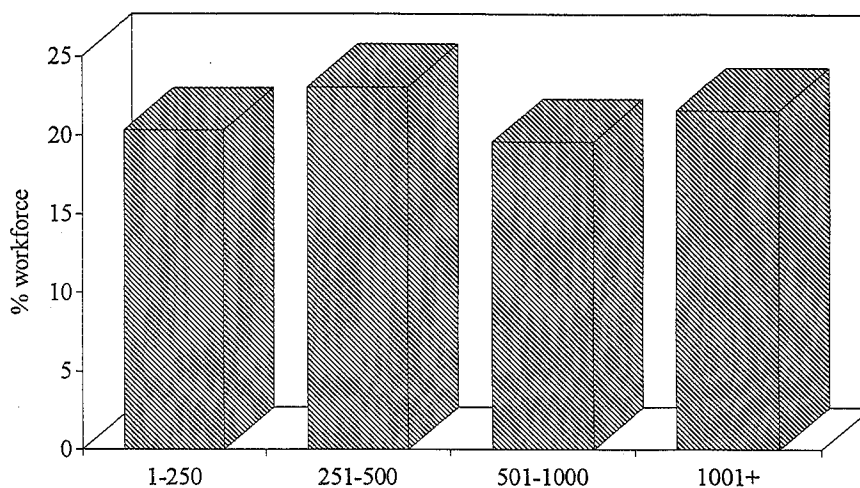
Source: ULFS2, n = 209

Those firms that reported that they could produce with fewer workers were asked to estimate what percentage of the workforce they could cut without reducing output, other things equal. We assume that those firms that reported that they could not cut the workforce without affecting output (or were unsure) had no surplus labour in this sense of the term. Taking this conservative approach, we find that, according to the managements themselves, *Ukrainian factories could have cut employment by 7.8% without affecting their current level of output*. If we omit those that were unsure, the figure was 8.4%. Of just those that reported being able to reduce employment without affecting output, the figure was 21.2%.

This form of labour surplus, or what is sometimes called “labour hoarding”, was highest in engineering (Figure 17), and it was strongly and positively related to the employment size of establishment (Figure 18). The latter implies that the overall average seriously understated the actual surplus. As far as different property forms are concerned, state establishments actually reported having less surplus labour than other types of firm (Figure 19). This measure of surplus is a subjective estimate, and may say as much about managerial attitudes as about what could be achieved.⁹ We guess that the data give lower bounds for the employment that could be cut, given the prolonged period in which managements were attuned to maximising employment.

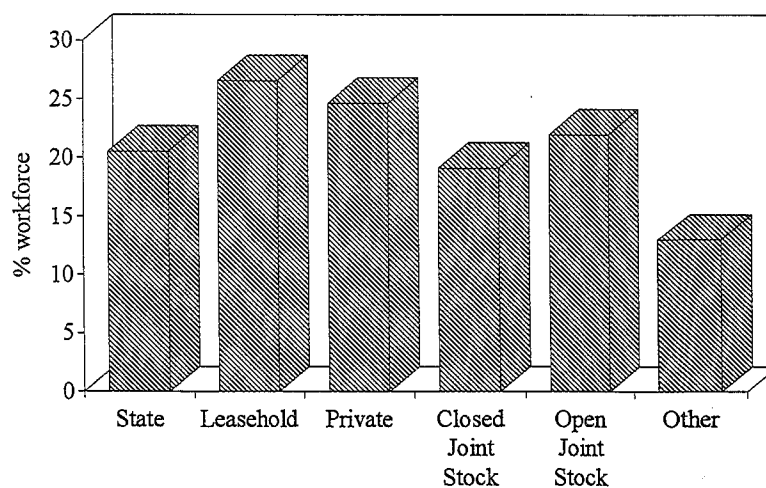
⁹ Managers appointed by, or in their minds responsible to, work collectives seemed more likely to report that they could cut employment without affecting output. Those firms receiving subsidies were also more likely to report surplus labour.

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



Source: ULFS2, n = 209

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



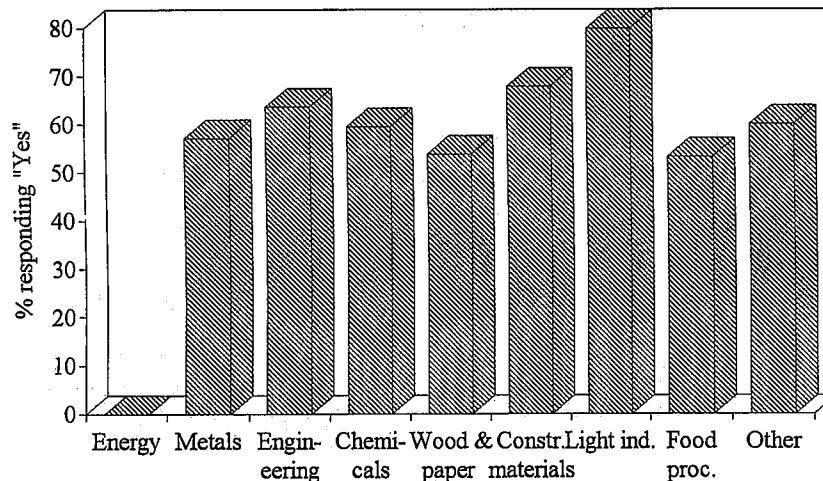
Source: ULFS2, n = 209

Managers were asked what had been their main response to surplus labour, besides making any retrenchments. No less than 58% said that they had put workers on

unpaid leave, and a further 14.5% said that their main response had been to put workers on partially paid leave. This would have understated the incidence of such responses, because no doubt others resorted to these measures as a secondary more limited response. In addition, in answer to a separate question, 65.6% of firms reported that they had transferred workers within the establishment or enterprise to limit or avoid redundancies.

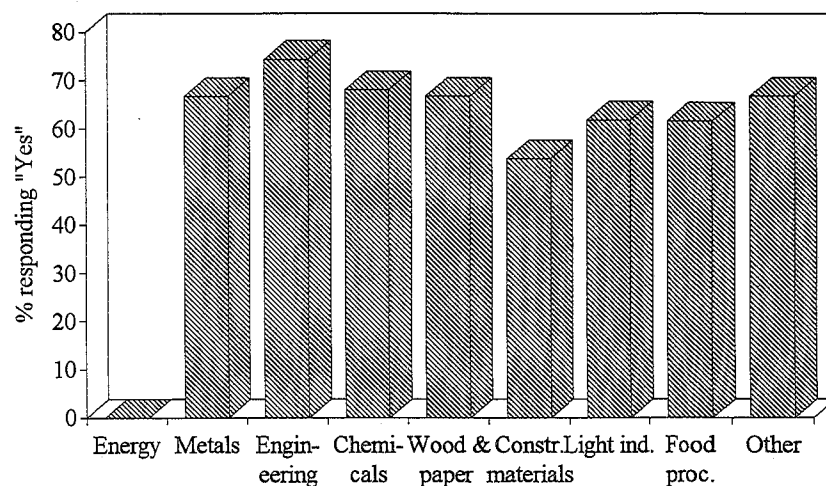
Several other indices of surplus labour were measurable through the ULFS2. Managements were asked whether they had experienced a period in the past six months in which they had too little work for their workforce lasting for two weeks or more. This proxy measure for labour surplus was used primarily to lead to questions about managerial reactions. Overall, 60% had experienced this form of surplus labour situation, with particularly high levels in light industry and building materials (Figure 20). It was relatively uncommon in small-scale firms, defined as those with fewer than 250 workers. Managements had reacted to this type of situation in various ways, but the main measure had been to put workers on *unpaid administrative leave*, which was reported as the main response by 58% of all establishments. This had become substantially more likely as the main response since 1994. Cutting hours and partially paid leave were also common responses, but much less prominently. A majority of firms had also made *internal transfers* of workers to avoid or limit redundancies (Figure 21).

Figure 20: Percent of Establishments having Too Little Work for Workforce in 1993-94, by Industry, All Regions



Source: ULFS2, n = 562

Figure 21: Percent of Establishments Making Internal Transfers to Limit Redundancies, by Industry, 1994-95, All Regions



Source: ULFS2, n = 337

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

Table 2. Main Measure Taken In Response to Surplus Labour besides Retrenchments and Transfers, All Regions, 1993-95 (percentage of establishments taking specified measure)

Main measure	%
None	0.3
Cut normal hours	14.5
Increase paid leave	1.2
Unpaid leave	58.0
Partial paid leave	14.2
Offered early retirement	0.3
Cut wages	0.3
Stop production	8.0
Transfer	2.4
Seeking outside orders	0.3
Do not know	0.6

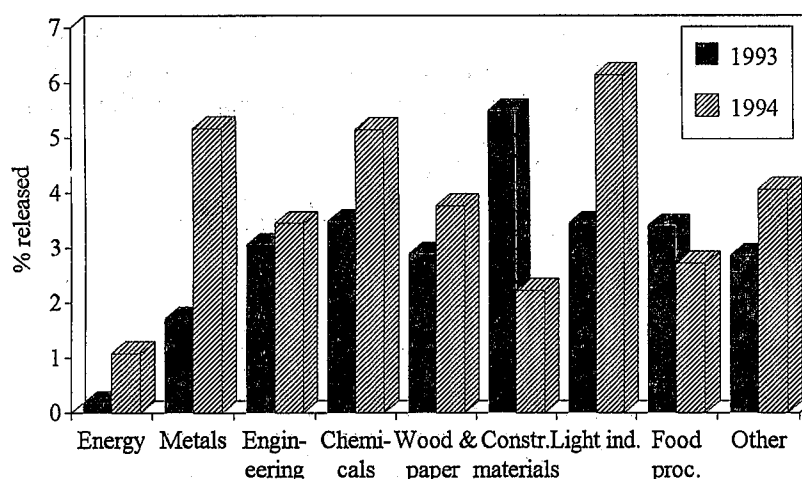
Source: ULFS2, n = 178

5. Redundancies and Employment Decline

This leads to the extent of *redundancies*. There has been a common perception that factories in Ukraine have been unwilling to make workers redundant. In fact, according to the first round of the survey, nearly two-thirds had resorted to some redundancies in 1993-94, and of those, the average number of workers made redundant was 12.2% of the workforce in 1993, slightly down on the 13.3% recorded for 1992. In 1995, *51.2% had made some redundancies in the past year, accounting for a further 3.3% of all jobs*. These levels are substantial, given that they exclude workers who had left the firms by other means, including those 'induced to resign'. Small-scale firms had released relatively high percentages of their workforces (Figure 22). And private firms had released many more proportionately than state establishments (Figure 23).

As for the overall employment change, in the 566 factories covered by the survey, **employment was cut by 39,872, or by 7.4% over one year, which is substantial as an overall average**. Employment declined in all regions, in all industries, in all size-categories of establishment, and in all property forms. Only in firms in which sales in real terms had grown had employment levels stabilised (Figures 24-28). Particularly notable is that state establishments had cut employment by as much as joint stock or private firms, suggesting (although not proving) that state enterprise managements were no more inclined to hold rigidly onto their workforces than others.¹⁰ Those that had cut employment the most also tended to report that they could cut employment by relatively large numbers without that affecting output.

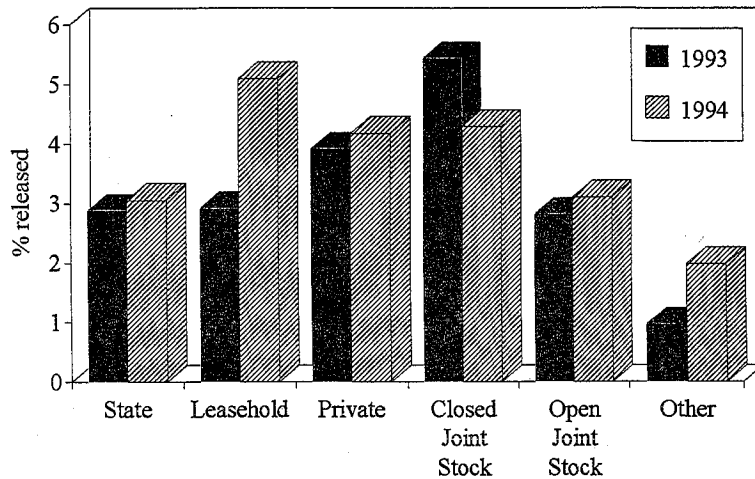
Figure 22: Percent of Workforce Released, 1993-94, by Industry, All Regions



Source: ULFS2, n = 333

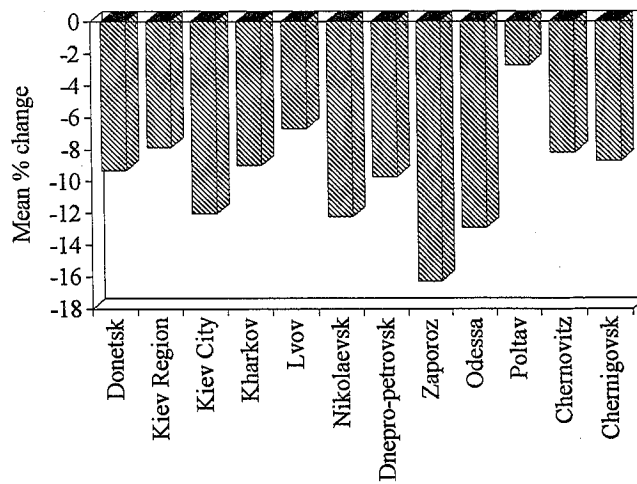
¹⁰ This pattern among ownership forms was also found in Russian factories in 1993. Standing, 1994, op.cit., p.17.

Figure 23: Percent of Workforce Released, 1993 and 1994, by Property Form, All Regions



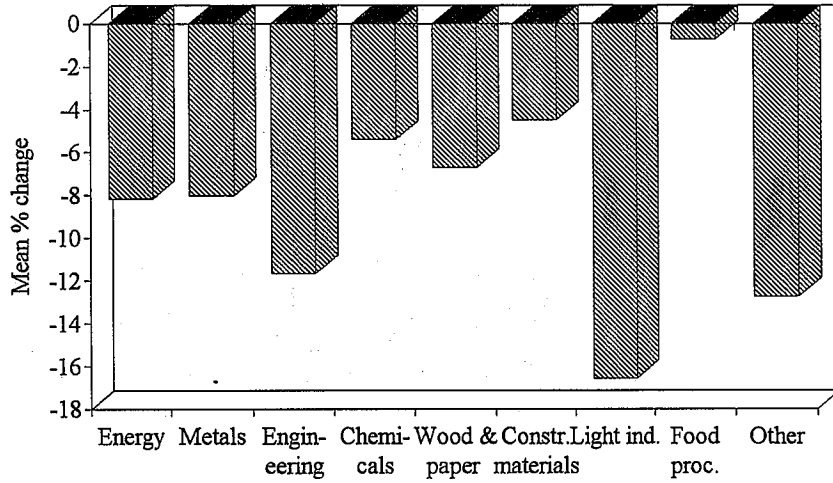
Source: ULFS2, n = 333

Figure 24: Percent Employment Change, by Region, 1993-94



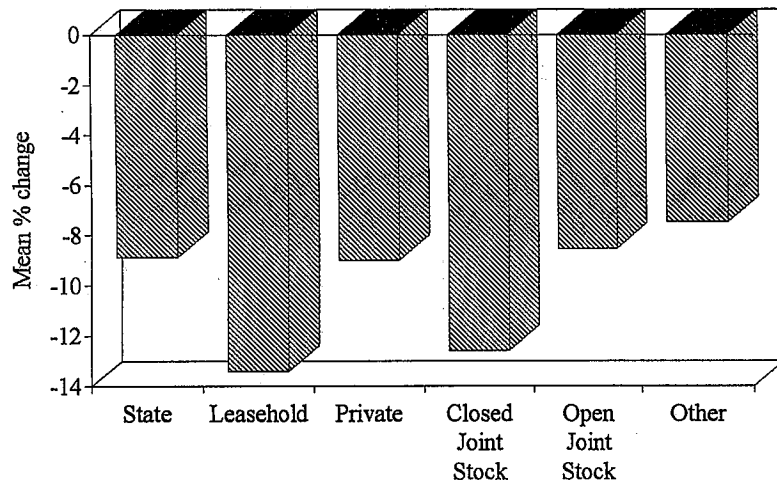
Source: ULFS2, n = 566

Figure 25: Percent Employment Change, by Industry, 1993-94, All Regions



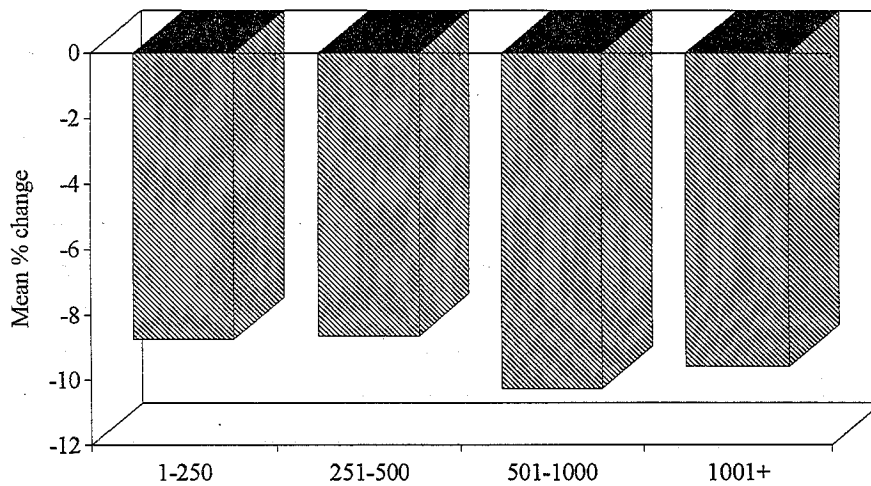
Source: ULFS2, n = 566

Figure 26: Percent Employment Change, by Property Form, 1993-94, All Regions



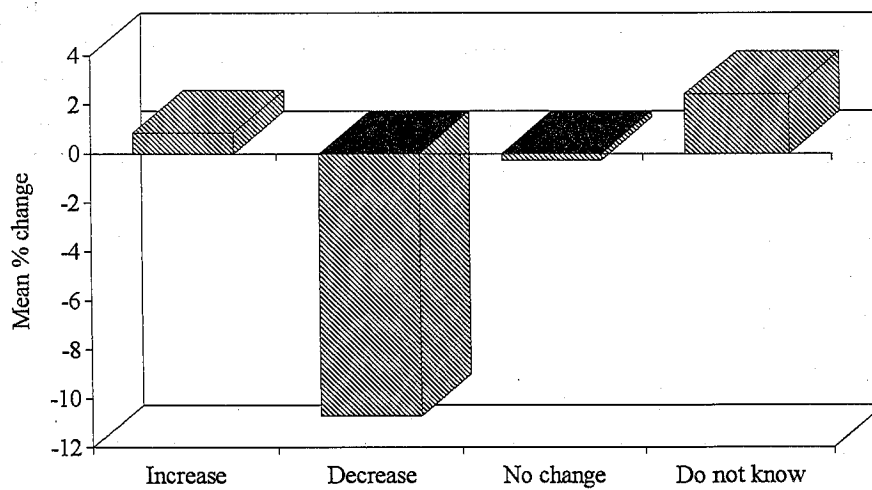
Source: ULFS2, n = 566

Figure 27: Percent Employment Change, by Employment Size, 1994-95, All Regions



Source: ULFS2, n = 566

Figure 28: Percent Employment Change, by Change in Sales in Real Terms, 1994-95, All Regions



Source: ULFS2, n = 566

Table 3. Perceived Employment Impact of Sales Change in Past Two Years, 1993-95, All Regions

Employment Impact	Sales	
	Rose	Fell
None	8.5	8.3
Increased employment	31.7	0.7
Decreased employment	4.9	47.8
Increased work time	1.2	0.2
Decreased work time	0.0	15.9
Increased work intensity	41.5	1.5
Decreased work intensity	0.0	17.7
Introducing manpower saving technology	2.4	1.1
Reorganising work	6.1	5.0
Do not know	3.7	1.7

Source: ULFS2, n = 317

Managements were asked what employment impact sales changes had in the past two years. Of those that had experienced declining sales in real terms, 47.8% said that the main result had been a cut in the level of employment, whereas in those establishments in which sales had grown, only 31.7% had increased employment as a direct result, while 41.5% had merely increased work intensity (Table 3). One can take these results as further testimony of the deep-seated labour slack in Ukrainian industry. State establishments seemed to be no more or less likely to have cut employment as a result of declining sales.

The perceived impact on employment of other structural changes are also worth noting. Of those that had changed property form, 29% estimated that the change had resulted in a cut in employment, compared to 7% that believed it had raised employment. In firms that had narrowed the range of products, 82% said that they believed that had resulted in a cut in employment, whereas only 35.9% of those that had increased the product range believed that had resulted in an increase in employment. In establishments that had made some technological innovation in production, 13.8% believed that had raised employment, 14.4% that it had been labour displacing. And of those that had made some work reorganisation to improve efficiency, 15.8% believed that it helped to raise employment, while 19.2% thought it had resulted in labour displacement.

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

$$\text{PEMPCHG} = a + b_1\Sigma(\text{IND}) + b_2\text{EMPSIZE} + b_3\Sigma(\text{PROP}) + b_4\Sigma(\text{REG}) + b_5\text{CHCAP} + b_6\text{CHSALES} + b_7\%BC + b_8\%FEM + b_9\%LVE + b_{10}\%MAT + b_{11}\text{SUB} + e$$

where the independent variables are:

- $\Sigma(\text{IND})$ = binaries (1,0) for industrial sector, the omitted category being the energy sector;
- EMPSIZE = employment size of establishment;
- $\Sigma(\text{PROP})$ = binaries for property form of establishment, the omitted category being state establishments;
- $\Sigma(\text{REG})$ = set of binaries for region in which establishment located, the omitted region being Donetsk;
- CHSALES = percent change in sales 1994-95;
- CHCAP = percent change in capacity utilisation rate 1994-95;
- $\%BC$ = percent of workforce in establishment classified as manual workers (skilled, semi-skilled, unskilled) in 1994;
- $\%FEM$ = percent of workforce in establishment consisting women in 1994;
- $\%LVE$ = percent of workforce on administrative leave as of March 1995;
- $\%MAT$ = percent of women workforce on maternity leave, March 1995;
- SUB = dummy, 1 if establishment was receiving state subsidy, 0 otherwise;
- e = error term.

The results of this function are presented in Table 4.

As for employment expectations, given the widespread labour surplus, it was not surprising that many managements were pessimistic about employment prospects in their establishments. Nearly 27% expected to cut employment in the next 12 months, and only about one in every fifty firms expected employment to grow (Figure 29). Expectations of employment cuts did not seem to vary by property form (Figure 30), supporting the point about the propensity of state enterprises to reduce employment. The larger the factory, the more likely the expectation of job cuts (Figure 31), and the greater the employment decline in the past year, the higher the probability of expecting a decline.

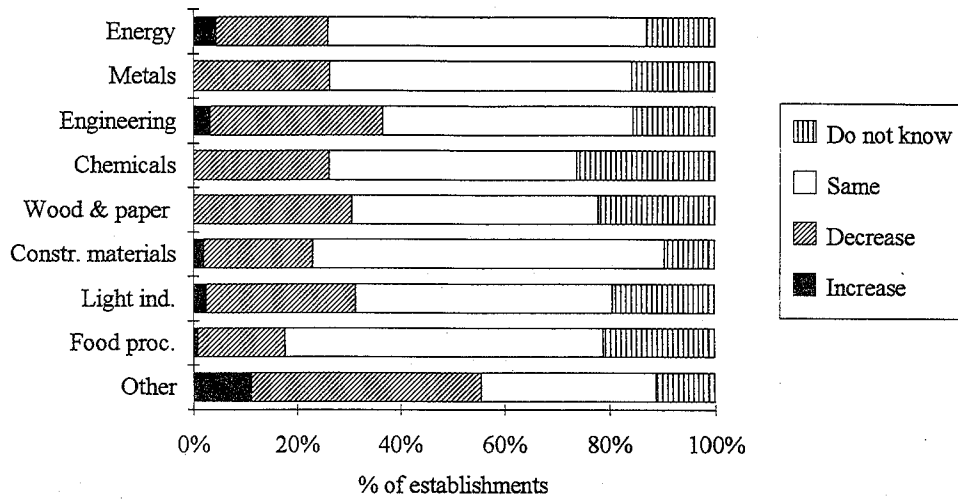
Although useful for indicating the pattern of expected employment, these figures should be interpreted as overly optimistic, if the results from the Russian Labour Flexibility Survey are any guide. In Russian industry, many more firms cut jobs than had anticipated doing so, and far fewer of those that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

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

Table 4. Percent Employment Change, 1994-95, All Regions

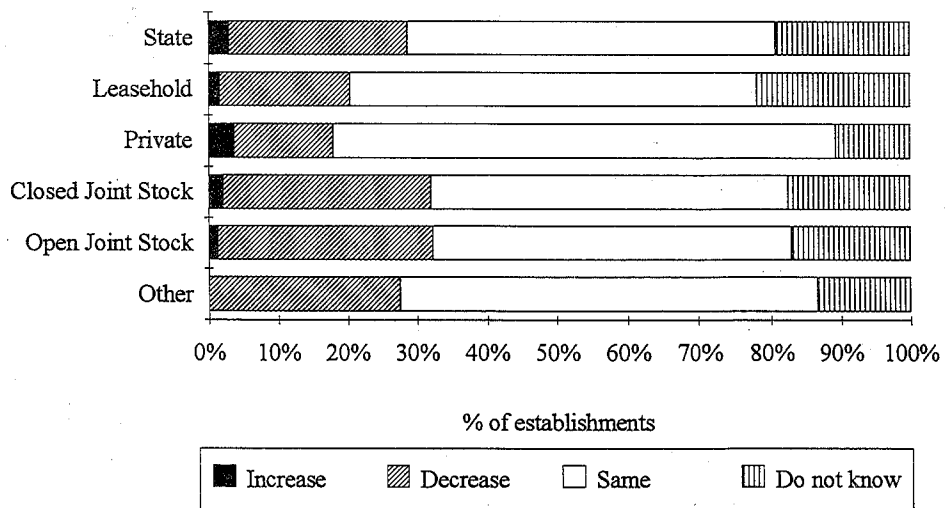
Variable	Coefficient
(Constant)	17.4324
Industry	
Metals	-10.5246 **
Engineering	-12.5743 ***
Chemicals	-6.3943 *
Wood & paper	-4.8361
Constr. materials	-3.7607
Light industry	-9.6262 **
Food processing	3.0410
Other	-2.6170
Property Form	
Leasehold	-0.6525
Private	-0.0471
Closed Joint Stock	0.4892
Open Joint Stock	3.6364 *
Region	
Kiev Region	1.1240
Kiev City	-1.7578
Kharkov Region	-1.1214
Lvov Region	0.9460
Nikolaevsk	-1.4277
Dnepropetrovsk	-0.8349
Zaporoz	0.0266
Odessa	-1.3440
Poltav	1.2204
Chernovitz	-0.8944
Chernigovsk	1.7897
Employment Size	0.0003
% Change in Capacity Utilisation	0.1105 ***
% Sales Change '94-95	0.0190 ***
% Manual Workers '94	-0.1621 *
% Women '94	-0.1160 **
% on Leave	-0.0077
% on Maternity Leave	-0.7245 ***
Receiving subsidy	3.1708
R ² =	0.2899
F =	6.2954
Source: ULFS2, n = 566.	

Figure 29: Expected Employment Change in Next Year, by Industry, 1995, All Regions



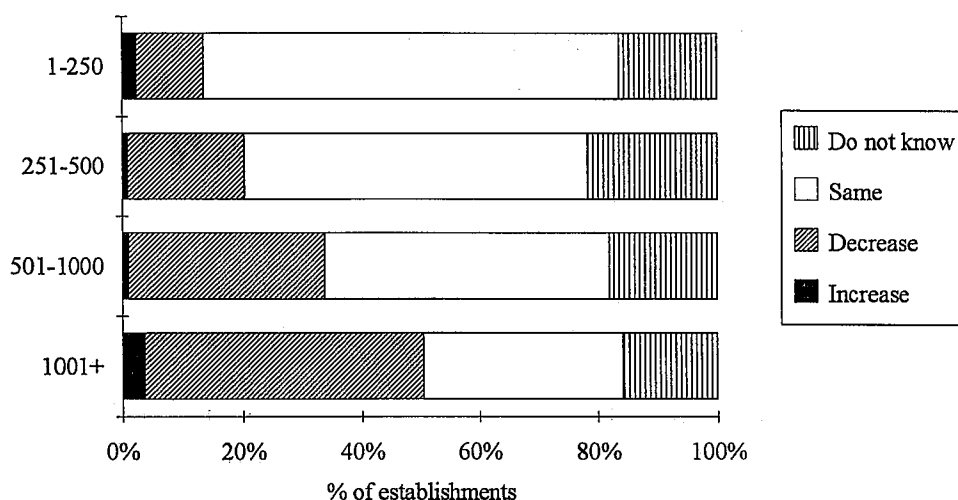
Source: ULFS2, n = 543

Figure 30: Expected Employment Change in Next Year, by Property Form, 1995, All Regions



Source: ULFS2, n = 543

Figure 31: Expected Employment Change in Next Year, by Employment Size, 1995, All Regions



Source: ULFS2, n = 543

6. Concealed Unemployment in Ukrainian Industry

We alluded earlier to the incredibly low rate of “registered” unemployment in Ukraine. There are many reasons for being confident that the official figures chronically understate the extent of actual unemployment. Among these are features of the unemployment benefit system and the undeveloped nature of the employment exchanges. Also important are behavioural reactions by firms that have restricted the emergence of unemployment in its conventional form. In the following, an estimate is made of invisible or concealed unemployment.

a. Unemployment as Administrative Leave

One way by which Ukrainian enterprises have been responding to the economic slump is by placing workers on “administrative leave”, typically unpaid although in some cases with something like a minimum wage income provided from the firm’s wage fund. There are various reasons for managers to prefer to put workers on leave rather than release them or to cut the working time of the whole work force or to cut wages.

First, by doing that, they avoid having to pay severance pay. Under Ukraine’s **Employment Law**, employers must pay three months of severance pay to any worker released by them for economic or ‘organisational’ reasons, the monthly amount being equivalent to the average wage received by the worker over the previous three months. By putting workers on administrative leave, they not only avoid severance pay but may succeed in inducing unwanted workers to leave the establishment “voluntarily”.¹¹

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 has no incentive to register at an employment exchange, given the very low

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

probability of finding a job through a local exchange; as a result, they were not counted as unemployed. Indeed, those on unpaid leave are counted as employed, even if they had been on unpaid leave for three months or more.

Second, enterprise managements were encouraged to resort to this practice by the wage tax, or the 'tax-based incomes policy', by which rising money wages could be taxed at a high rate if they exceeded a certain amount.¹² By putting some workers on unpaid or partially paid leave the average wage is lowered as is the wage bill, thus allowing workers actually working to be paid higher wages and lowering the wages tax.

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

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

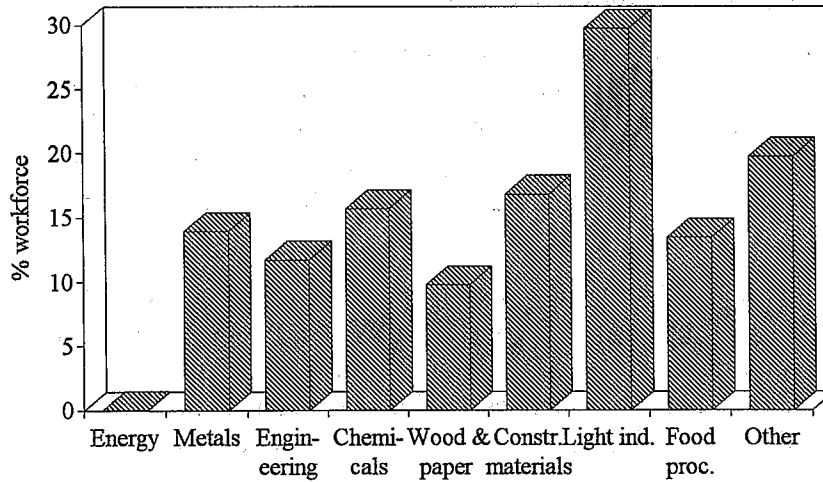
The data from the ULFS1 and ULFS2 show that unpaid and partially paid administrative leave – or in conventional international parlance "lay-offs" – had increased considerably in 1993-95. According to the first round, in March 1993, 24.1% of all factories had some workers on administrative leave, and in September 1993 the share had risen to 27.3%; in March 1994, it had risen to 42.5% of all factories. This refers to full-time administrative leave, and does not include workers put on short-time working or sent on prolonged holidays, which were symptoms of the same phenomenon. According to ULFS2 – with a larger sample and therefore not directly comparable with ULFS1 – *in November 1994 42.2% of the firms had workers on unpaid leave, and in March 1995 the share had risen to 44.5%.*

Of those establishments in ULFS1 that resorted to administrative leave or lay-offs, the average percentage share of the workforce affected was 9.2% in March 1993, 14.9% in September 1993 and 23.8% in March 1994, so that while the incidence was spreading to more firms the depth of the practice was also increasing. Most of the layoffs were in the form of unpaid leave, although the share receiving some token pay had risen. Thus the completely unpaid share was 88.8% in March 1993 and 65.1% in March 1994. In both cases, the remainder were classified as on "partially paid" administrative leave, almost certainly receiving no more than the minimum wage, if that.

In late 1994 and 1995, according to the second round of the survey, the depth as well as the incidence of unpaid leave continued to grow. Thus, of the firms resorting to the practice, in November 1994 33.3% of all workers were laid off, and in March 1995 *an extraordinary 34.2% of all workers were on unpaid leave. These workers are officially 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-*

¹² For a review of this policy in Ukraine, see ILO-CEET, 1994, op.cit., chapter 4.

Figure 32: Unpaid and Partially Paid Administrative Leave, by Industry, 1995, All Regions

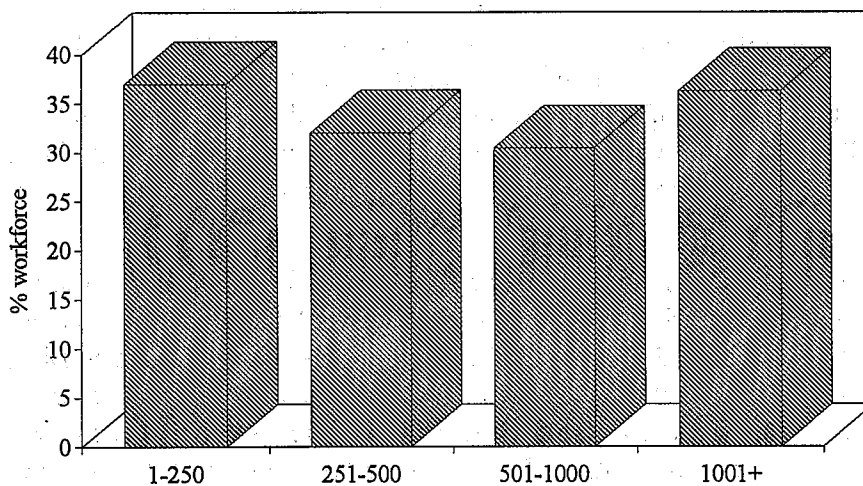


Source: ULFS2, n = 566

offs, 11.4% were on unpaid leave in March 1994, 14.1% in November 1994 and 15.2% in March 1995. In early 1995, 17.7% of workers in large-scale factories with more than 1,000 workers were on unpaid leave, and in the region of Zaporozie over one quarter of all workers throughout the industrial sector were on such lay-off.

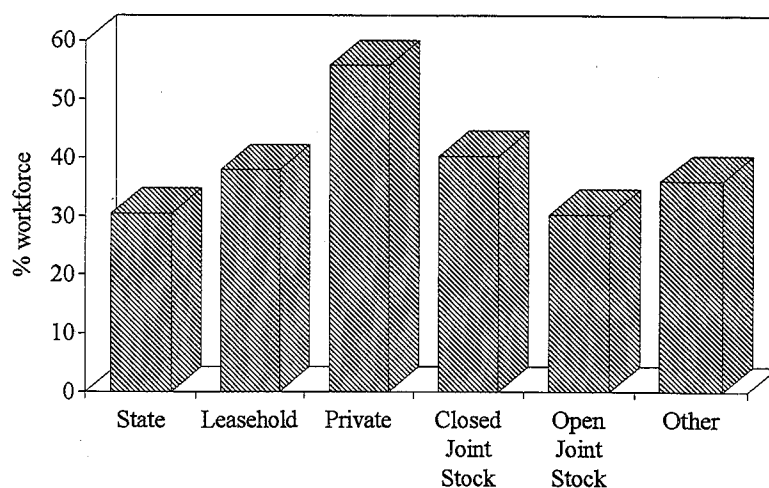
In March 1995, the industries with the largest share of establishments resorting to lay-offs were light industry and building materials, although chemicals' plants were the most affected, with nearly one-third of their workforce on such leave (Figure 32). The practice was greater in large-scale firms (Figure 33). Although it was apparently lower in state establishments than in other forms (Figure 34), its extent had probably increased most in state establishments. Finally, in terms of incidence of firms affected, lay-offs were most extensive in Kiev oblast, with over 17% on average in early 1994, followed by Kiev City.

Figure 33: Unpaid and Partially Paid Administrative Leave, by Employment Size, 1995, All Regions



Source: ULFS2, n = 252

Figure 34: Unpaid and Partially Paid Administrative Leave, by Property Form, 1995, All Regions

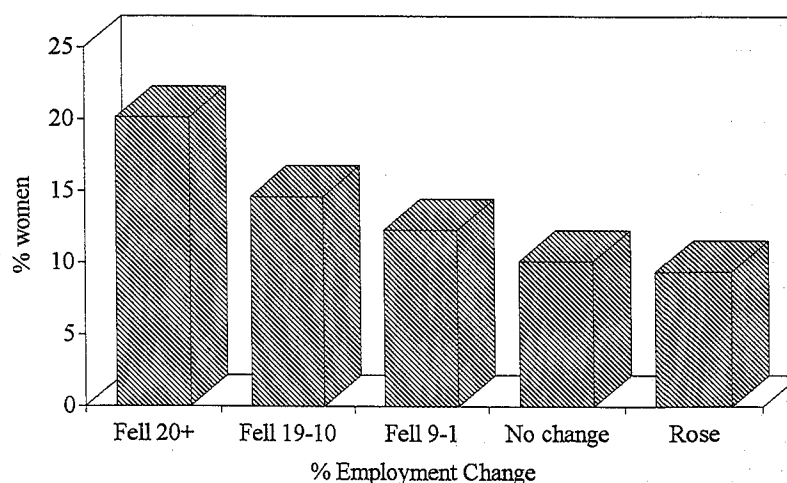


Source: ULFS2, n = 252

b. “Maternity” Leave

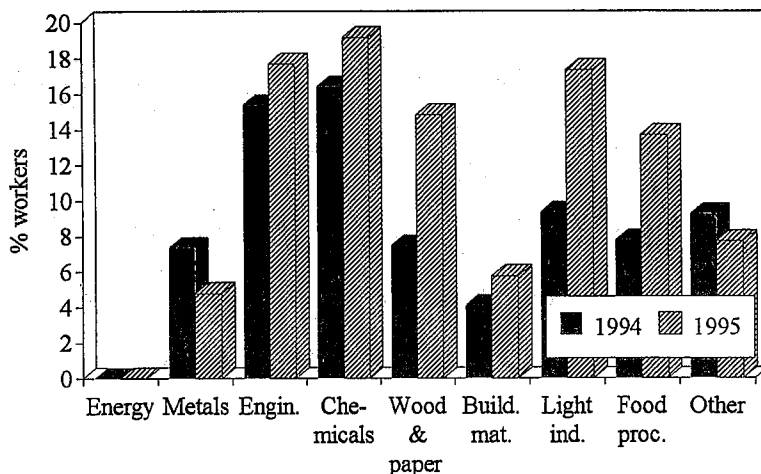
Another peculiar phenomenon observed in the first round of the ULFS was the high level of maternity leave. This has to be seen in the context of the *extremely* low and declining fertility rate in Ukraine. It seems that women workers have been encouraged to extend maternity leave for two or three years, as a result of either overt encouragement by managements, *or* by their own perception of the prospect of very low incomes if they returned to work, *or* because they were not under pressure from managements to return.

Figure 35: Percent of Employed Women on Maternity Leave, 1995, by Percent Employment Change, 1994-95, All Regions



Source: ULFS2, n = 535

Figure 36: Percent of Workforce on Short-Time, by Industry, 1994-95, All Regions



Source: ULFS2, n = 566

In 1995, expressed as a weighted average, an extraordinary 14.7% of all women workers were supposedly on maternity leave, amounting to 7.1% of the whole male and female workforce. In official statistics, they were classified as employed, but a good deal of them should not have been counted as such in line with international definitions and national practices adopted in western European countries.

An indicator of the underlying reality is that establishments that had cut employment had higher proportions of women on maternity leave than those in which total employment had been constant or had risen (Figure 35). Unless one were to believe that employment cuts were associated with rising fertility, the pattern suggests that maternity leave was being used as a mechanism for concealing unemployment, especially bearing in mind that firms were not supposed to release women when they were on maternity leave.

c. Short-time Working

Another means by which unemployment is disguised is by resort to short-time working. We find that this too had increased, with 10.1% of firms reporting that workers were on short-time in March 1995, compared with 7.4% a year earlier. Of those firms resorting to short-time, a massive 56.6% of the workforce was on short-time, the average working time lost amounting to eight hours per worker per week. Perhaps surprisingly, neither energy nor metals seemed to resort much to short-time working (Figure 36). In terms of the total workforce in all industrial firms, in early 1994 an average of 10.1% of workers were put on short-time, and by early 1995 this had risen to 14%.

Actual average working time per worker was 31.9 hours per week and 33.8 for employees, excluding those on short-time or administrative leave, so implying a further form of labour surplus, given that the standard working week averaged 39.5 for workers in March 1995 and 39.7 for employees. Although this form of non-working existed in all industries, it was greatest in light industry and engineering, in which weekly non-working time averaged 8 and 6.5 hours respectively. These various working time figures all indicate that working time had shrunk during 1994-95.

Thus, as summarised in Table 5, there are numerous complementary forms of labour surplus amounting to a situation in which a deluge of job-shedding could follow the considerable disemployment that has already occurred. On top of that, 17.6% of firms reported that they had converted some jobs from permanent (regular) to temporary or casual, implying that the employment elasticity with respect to any further economic downturn could be expected to grow.

Table 5. Indicators of Surplus Labour, or "Concealed Unemployment", in Ukrainian Industry, ULFS2, 1995

Indicator % of employment*	
1. Could produce same with fewer workers	
- % employment cut possible, if yes	21.2
- % employment cut possible, all firms	7.9
2. Unpaid administrative leave	11.7
3. Partially paid administrative leave	3.9
4. Fully paid administrative leave	0.0
5. Short-time, working fewer days or hours per day	12.9
6. Maternity Leave	
- % of women	14.7
- % of all workforce	7.1
7. Percent of establishments having wage arrears	66.5

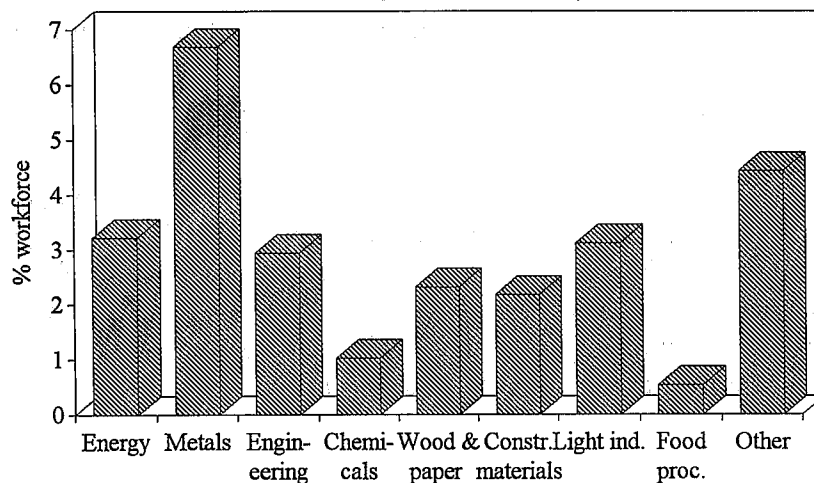
Source: ULFS2, n = 566

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 1995.

7. Vacancies and Labour Turnover

With substantial labour surplus and declining employment, it was not surprising that the *vacancy rate* was low, with the average being 2.3% of total employment (Figure 37). Although one should 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 1995.

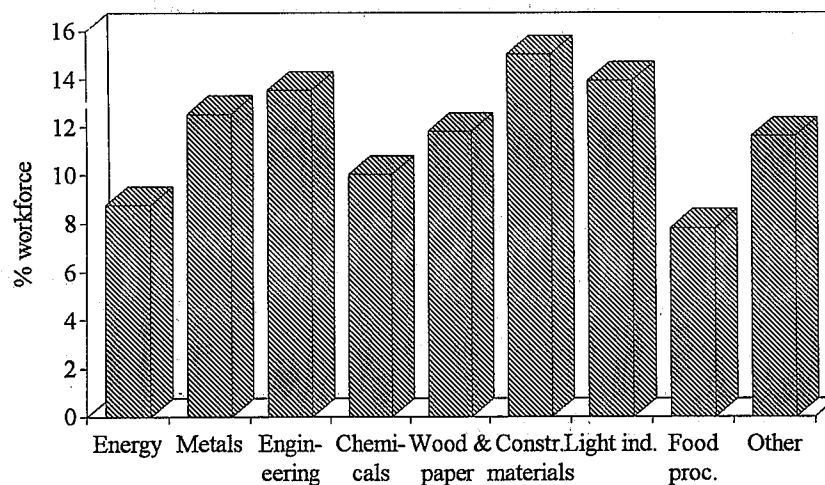
Figure 37: Vacancy Rate, by Industry, 1995, All Regions



Source: ULFS2, n = 566

Even so, *labour turnover* was high throughout Ukrainian industry, which was contrary to the image – or traditional pattern – of low labour mobility by international standards, although it was consistent with analysis showing that turnover had increased since 1991.¹³ According to the ULFS2, it was highest in plants producing building materials and lowest in food processing and the energy sectors (Figure 38). Although in this respect state establishments seemed no different than other forms on average, private establishments seemed to have higher than average turnover (Figure 39).

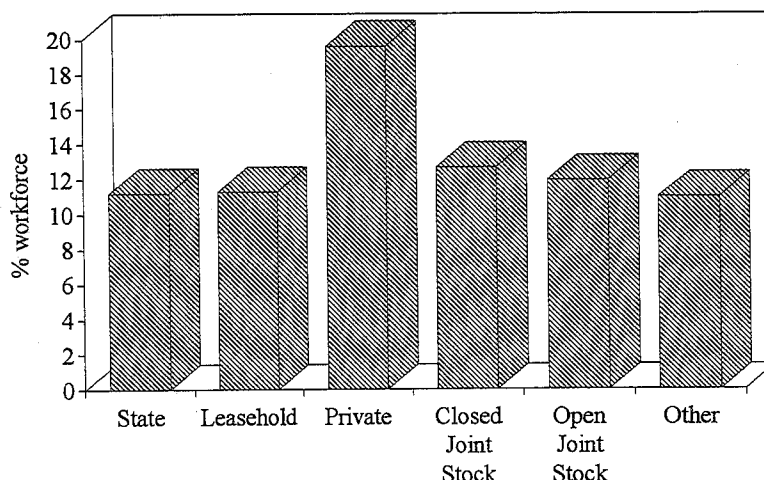
Figure 38: Labour Turnover, by Industry, 1994-95, All Regions



Source: ULFS2, n = 566

¹³ ILO-CEET, 1994, op.cit., chapter 2.

Figure 39: Labour Turnover, by Property Form, 1994-95, All Regions



Source: ULFS2, n = 556

These figures relate to all forms of departure from firms. Within the total numbers, there were some *internal transfers* (i.e., movement of workers from one establishment of an enterprise to another unit), which accounted for 0.30% of total employment, a slightly higher *retirement* rate, of 0.93%, a high "*resignation*" rate, of 8.21% overall, with 10.5% in building materials, a low *dismissal* rate, of 0.49%, and a modest *release* or redundancy level, of 0.58%, leaving 1.32% 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

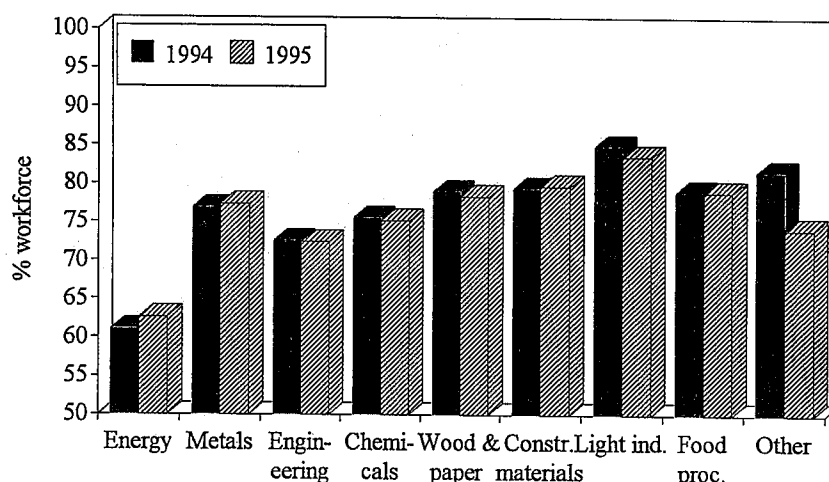
Traditionally, 'Soviet' industry relied heavily on a technical division of labour that produced a structure of employment that by international standards was "distorted", involving a share of manual, semi-skilled jobs at an excessively high level, whereas the international trend has been towards much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

As expected, the data from the ULFS2 showed that the share of manual workers was high, with so-called "skilled" and "semi-skilled" jobs accounting for about 70% of total employment and "unskilled" jobs for a further 9%.¹⁴ By comparison with Russian industry, there seemed to be far fewer 'general service' and 'administrative' employees in Ukrainian industry.

Comparing the job structures in 1995 with those in 1994, there was no sign of any significant restructuring (Figure 40). Actually, the percentage of unskilled workers increased very slightly. The shares of management and 'specialist' and 'general service' employees increased, as did the share of supervisory grades and technicians among workers. The skilled worker share declined in most industries. The manual worker

¹⁴ 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 'competences', which may be considerably more or less technical and complex than required in the jobs.

Figure 40: Manual Worker Share of Employment, by Industry, 1994-95, All Regions



Source: ULFS2, n = 566

share tended to be higher in large-scale establishments. Although the manual shares were similar in the various property forms, private establishments seemed to have lower 'skilled' shares and higher 'unskilled', had cut the skilled worker share considerably in 1993-95, and had increased their share of managerial and specialist employees. Perhaps such managements were regrading some jobs as unskilled, which has been a feature of privatisation in other central and eastern European countries.

These results *suggest* that privatisation and enterprise restructuring (notably involving a break up of large-scale establishments) may lead to a shift from manual workers to technicians and managerial employees.

9. The Changing Position of Women: Prospects of Marginalisation

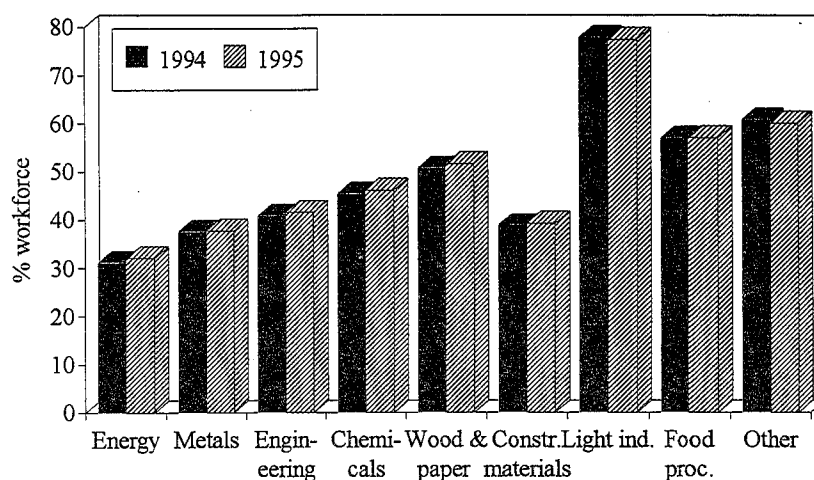
One issue of employment restructuring to have attracted considerable attention throughout central and eastern Europe has been its impact on the status and economic roles of women. A widely held view is that women and other socially vulnerable groups would be 'marginalised' by rising unemployment and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

In Ukrainian industry, according to ULFS2, women comprised just over one half of all industrial employment, although their share varied from over three-quarters of total employment in light industry to just under a third in the energy sector (Figure 41). Although the industrial ranking is similar to the international pattern, the overall level is remarkably high by international standards.

The first round of the survey showed that, as in Russian industry and contrary to popular assertions, in the early phase of employment restructuring and decline *women's share of industrial employment increased in 1993-94.*¹⁵ *In 1994-95, women's share of employment remained at that level.* This strong position may be

¹⁵ G. Standing, "The position of women in Russian industry: Prospects of marginalisation?", *World Development*, Vol., No., Feb.1994, pp.

Figure 41: Women's Share of Employment, by Industry, 1994-95, All Regions



Source: ULFS2, n = 561

eroded if a growth of market mechanisms coincides with the growth of various forms of discrimination and disadvantage. Accordingly, it is worth examining what we identify as the nine means by which women might be disadvantaged in the looming phase of restructuring.

(i) Disadvantaged by industrial restructuring?

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

(ii) Disadvantaged by employment restructuring?

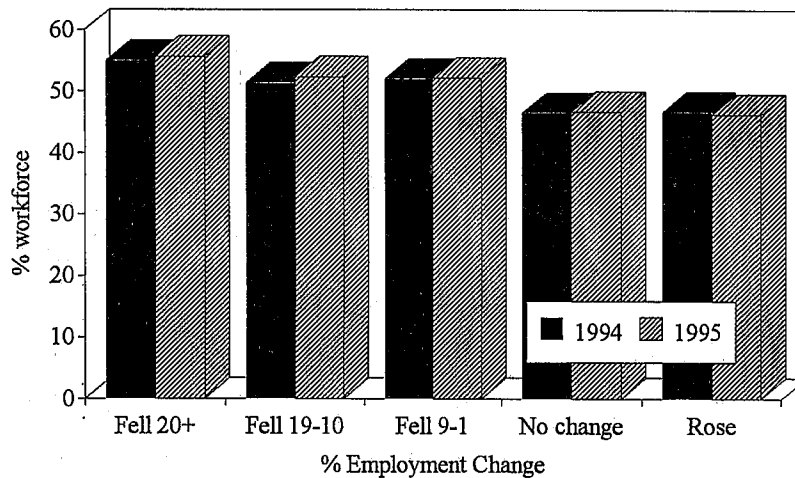
Women could be adversely affected by the size restructuring of employment. The data indicate that in 1995 women comprised a majority of workers and employees in medium-sized firms, rather than large-scale establishments or those with fewer than 250 workers, where their share was relatively low (48.7% in 1994, 48.8% in 1995).

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

(iii) Disadvantaged by property-form restructuring?

Perhaps reflecting the industrial distribution of firms in different property forms, women comprised a lower share of employment in state establishments (46.6%) than in all other forms. So, in itself property form restructuring could enhance their share of employment.

Figure 42: Women's Share of Employment, by Employment Change, 1994-95, All Regions



Source: ULFS2, n = 565

(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 Ukrainian industrial managements reported that in recruiting *workers* they had no particular preference for men or for women, although 18.9% claimed to prefer to recruit men and only 7.2% said they preferred to recruit women, with a relative majority favouring women being restricted to light industry (Table 6). There was more sign of gender-based discrimination – *for both genders* – in large-scale establishments. Perhaps most relevant was that the share of managers reporting a preference for men had declined over the past year, and the share reporting a preference for women had more than doubled.

Table 6. Gender Preference in Recruiting Workers and Employees, by Industry, 1994-95, All Regions

	For Workers			For Employees		
	Men	Women	No diff.	Men	Women	No diff.
Energy	58.3	0.0	41.7	6.7	0.0	3.3
Metals	57.1	0.0	42.9	19.0	4.8	76.2
Engineering	22.2	0.0	77.8	4.9	4.3	90.7
Chemicals	20.9	2.3	76.7	9.3	7.0	83.7
Wood & paper	10.3	2.6	87.2	7.9	2.6	89.5
Constr. materials	40.4	0.0	59.6	15.8	0.0	84.2
Light ind.	1.2	19.8	79.1	1.2	8.1	90.7
Food processing	5.6	4.0	90.3	3.2	1.6	95.2
Other	10.0	0.0	90.0	10.0	10.0	80.0
Total	18.9	7.2	76.9	6.7	3.9	89.4

Source: ULFS2, n = 565

As for *employees*, there was even less overt discrimination in recruitment, with 6.7% reporting a preference for men and 3.9% for women, which reflected a net shift in favour of women over the past year. In short, while recruitment preferences might have contributed to industrial segregation, in the main there did not appear to be strong discriminatory preferences among managements.

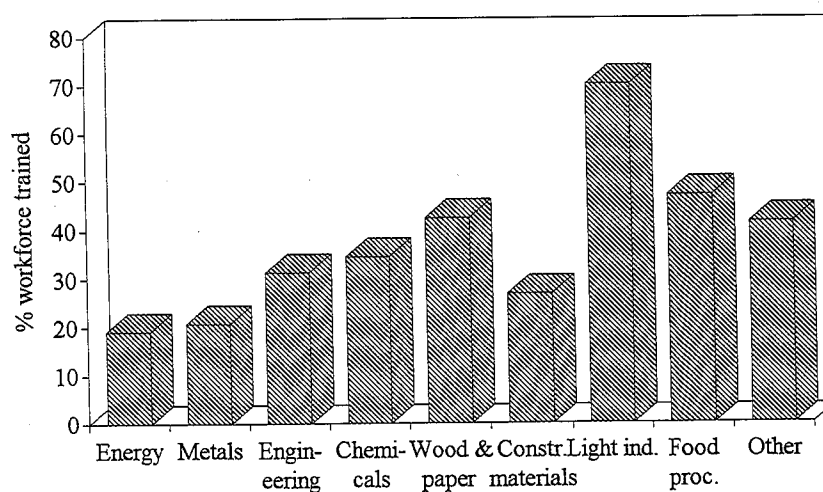
(v) **Disadvantaged by training practices?**

For women to retain their high share of employment in the process of restructuring, they will surely need to have an equal share in the 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, coupled with behavioural adaptation on the part of women workers themselves.

What is the evidence? As far as enterprise 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 (40.8%) was less than the female share of employment. Although the overall difference was moderate, their low share should be a source of concern in some industries (Figure 43). However, in terms of overt discrimination, it was at least encouraging that very few managers (6.3%) stated that they preferred to provide men with training; an even smaller number (2.9%) who said they preferred to give training to women, so that overtly at least there was little sign of gender discrimination.

Perhaps more surprising than either of these findings was that women's share of employment in those firms that provided training for workers was much higher than in firms where no training was provided (Table 7), thus implying that even *if* there were a slight discrimination against women in training that would be counteracted by their relative concentration in firms providing training. In that sense, as shown in both rounds of the survey, it could be argued that women have a slight structural advantage.

Figure 43: Female Share of Workers Trained, by Industry, 1994, All Regions



Source: ULFS2, n = 434

Table 7. Women's Share of Employment, by Provision of Training, 1995, All Regions

Type of Training	Yes	No
Entry Level Training	51.2	47.9
Retraining for Performance	51.4	49.1
Retraining for Upgrading	50.4	51.8

Source: ULFS2, n = 565

(vi) Disadvantaged by labour surplus conditions?

Women could be adversely affected by the incidence of labour surplus conditions 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, as in 1994, in 1995 women did comprise a relatively large 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. But the difference was not statistically significant. They accounted for 51.9% in factories with surplus labour compared with 50.1% in those claiming not to have surplus labour. They also made up a higher share in factories reporting that they had too little work for their workforce (53.5% vs.46.9%). Thus, to a small extent, one might be concerned that as enterprises transform surplus labour into more retrenchments women's share of employment in industry overall might fall.

(vii) Disadvantaged by industrial segregation?

Women could also be adversely affected by being increasingly concentrated in a few industrial sectors, a pattern usually described as "industrial segregation", which in the longer term could lead to other labour market disadvantages. In Ukrainian industry, industrial segregation has been pronounced. However, there was no sign of *growing* industrial 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. In fact, the only sector in which women's share of employment fell slightly was light industry, where their share was highest.

(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 has been the pattern of occupational segregation. As elsewhere, there should be long-term concern about the situation in Ukrainian industry.

In 1995, 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. However, in 1994-95 there was no slippage in their occupational profile; if anything, their occupational profile had shifted in the direction of less segregation and some upgrading (Table 8). Moreover, their share of managerial employees had increased steadily since 1993, as shown in ULFS1, and their share of unskilled workers had declined, at a time when their share of total employment had risen.

Table 8. Women's Share of Occupational Categories, 1994-95, All Industries, All Regions

% share	1994	1995
Managers	34.0	35.3
Specialists	69.8	69.2
Gen. Service	87.8	87.0
Supervisors	28.7	29.7
Technicians	64.0	64.4
Skilled workers	44.9	44.9
Unskilled workers	63.3	62.4

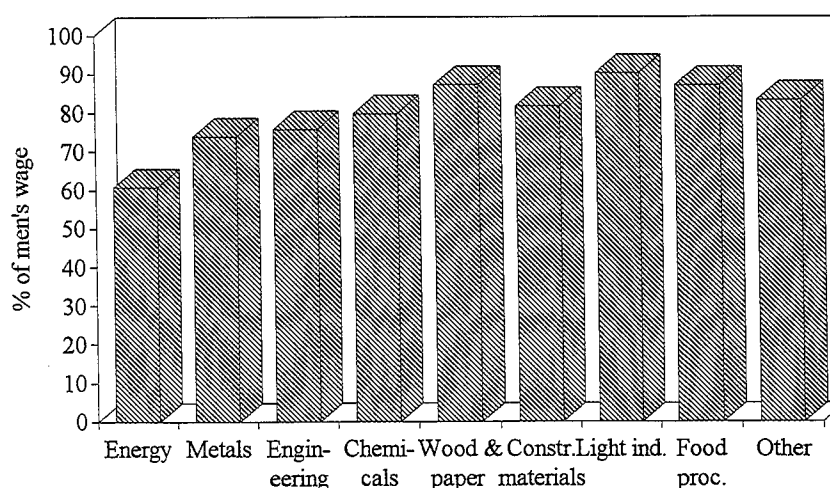
Source: ULFS2, n = 566

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

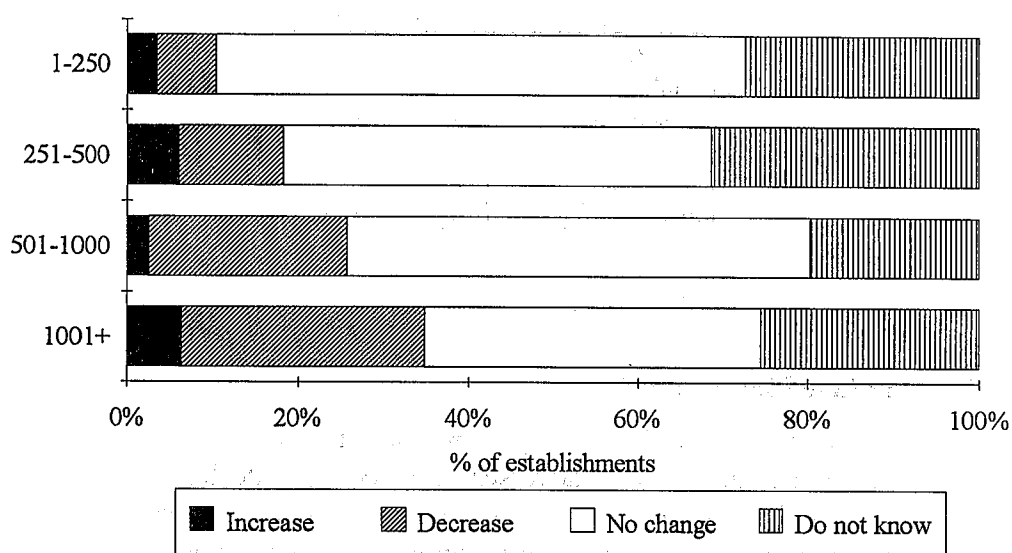
On average, according to managements' estimates, in 1995 women's wages were 80.8% of men's, varying from about 61.2% in energy firms to over 88% in wood products and 87% in light industry (Figure 44). If anything, there had been a small fall in women's relative wages since 1993, with a notable slippage in light industry. The figures need to be supplemented by other, more refined data, but they suggest that women's relative wages may be worsening, 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 44: Estimated Women's Average Wage as Percentage of Men's, by Industry, 1994, All Regions



Source: ULFS2, n = 562

Figure 45: Expected Change in Women's Share of Employment, by Industry, 1995, All Regions



Source: ULFS2, n = 561

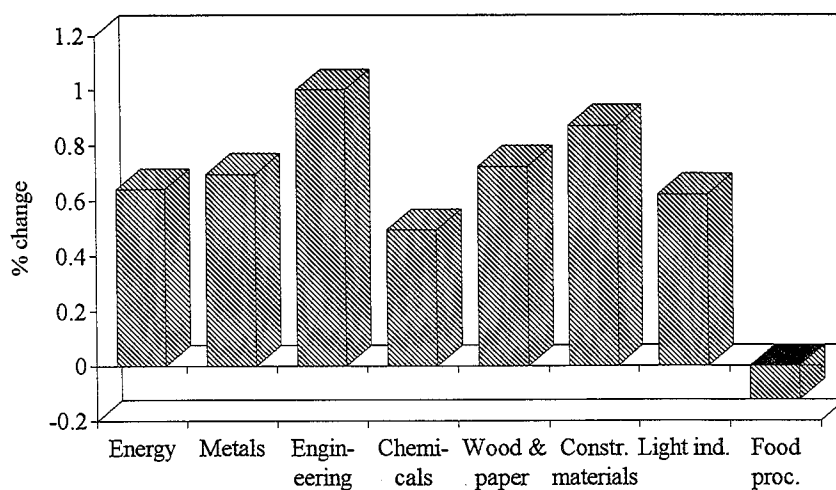
Finally, more firms (16.9%) expected women's share of employment to fall over the coming year, whereas only 4.6% expected their share to rise. Expectations of a decline were above average in light industry, and in larger firms (Figure 45). Even here one must strike a cautionary note, since the proportion expecting the share to decline was less than in 1994, and the proportion expecting it to rise was greater. And we have seen that the negative expectations had not been borne out in 1994 and 1995.

10. The Impact of Restructuring on Older Workers

Another group of workers threatened by restructuring consists of older 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, very 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 the same direction.

As in 1994, there were many pensioner workers in Ukrainian industry in 1995, and according to ULFS2 they accounted for over 14% of total employment. Their share was particularly high in the metals sector and in heavy industries, and in large-scale establishments. There had been minimal change over the past year – a *rise* in the share of 0.6% overall – with a decline being only in food processing (Figure 46). The older worker share had fallen most in those establishments that had cut their overall employment the most.

Figure 46: Change in Pensioner Share of Workforce, 1994-95, by Industry, All Regions

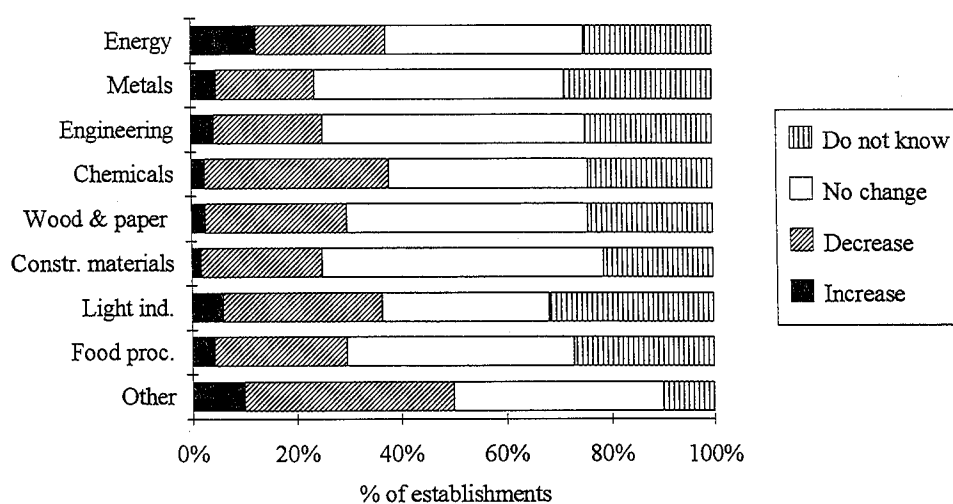


Source: ULFS2, n = 542

The most significant finding was that over a quarter of all establishments expected the pensioner share of employment to fall in the coming year, with particularly large numbers of firms in the chemicals industry expecting to cut their employment (Figure 47). And newly privatised and large-scale firms were more inclined to expect to cut than other firms. Again, this 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 47: Expected Change in Pensioner Share of Workforce in Next Year, by Industry, 1995, All Regions



Source: ULFS2, n = 553

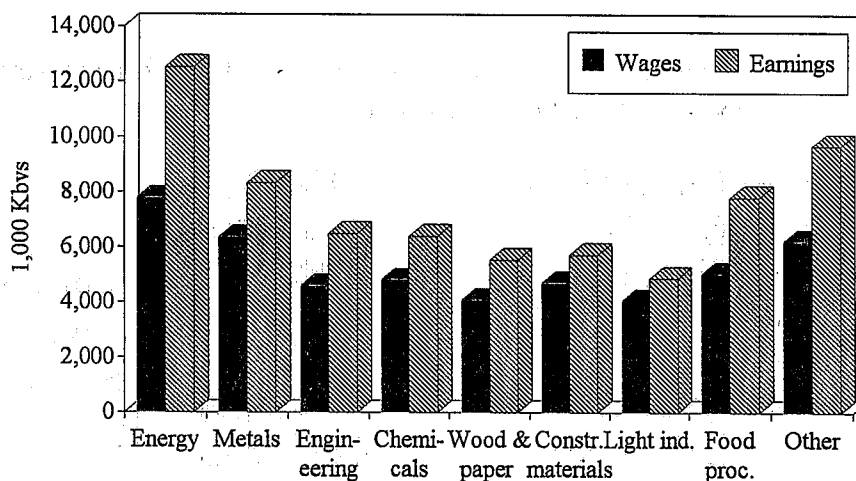
11. Changes in Wages, Earnings and Benefits

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 1995, the average monthly wage was 4,850,336 karbovanets (Kbv), and average earnings were 6,793,609 Kbv.¹⁶ 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 48). Once the clear leader in wages and earnings, the engineering sector had declined to be one of the lowest paying.

Across regions, average wages were lowest in Chernovitz Kaya and Kiev Region, probably reflecting the industrial structure in those regions; across size categories, they seemed to be lowest in small-scale establishments, followed by the largest (Figure 49), and across property forms were highest in private firms, with state establishments also having above average (Figure 50). 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.

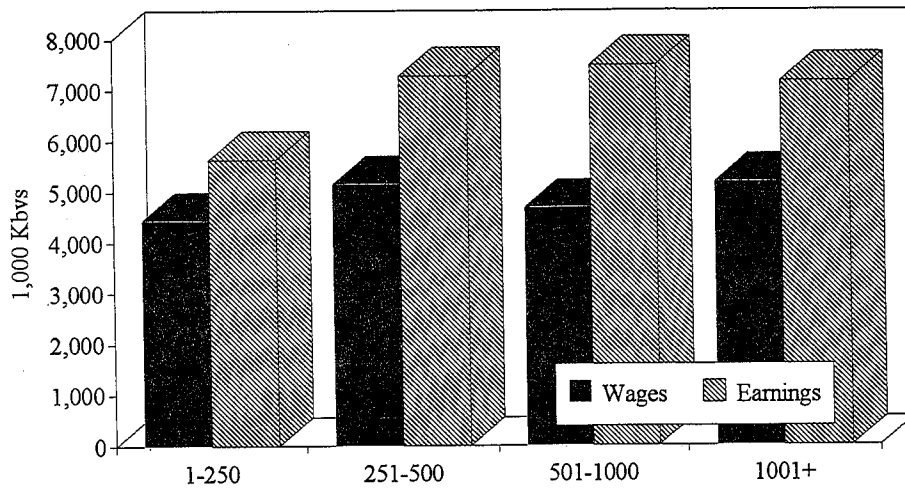
Figure 48: Average Monthly Wage and Earnings, by Industry, 1995, All Regions



Source: ULFS2, n = 545

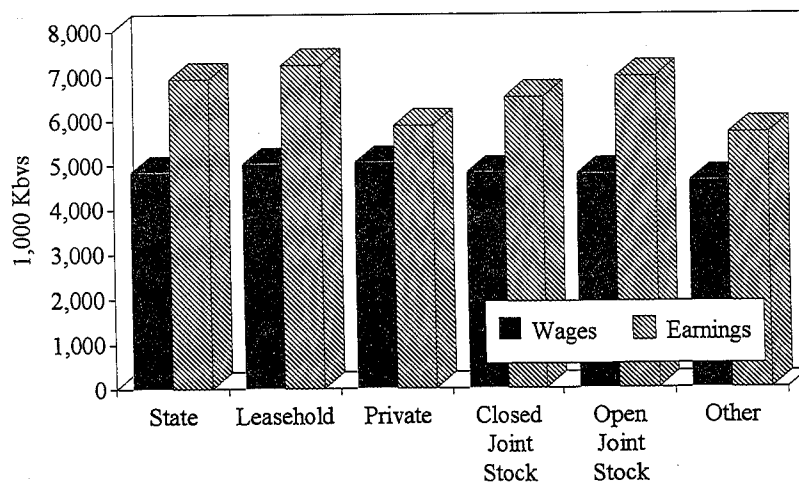
¹⁶ At prevailing exchange rates, those figures represented about \$44 and \$61, respectively. The data from the ULFS on wages and earnings should be interpreted as approximations, since reporting such data has been a sensitive matter in Ukraine, especially given the tax-based incomes policy that encouraged under-reporting and the difficulties many firms had in paying wages in 1993-94. Moreover, the wage reported may not have been the wage paid, since non-payment and "wage arrears" had become common.

Figure 49: Average Monthly Wage and Earnings, by Employment Size, 1995, All Regions



Source: ULFS2, n = 545

Figure 50: Average Monthly Wage and Earnings, by Property From, 1995, All Regions



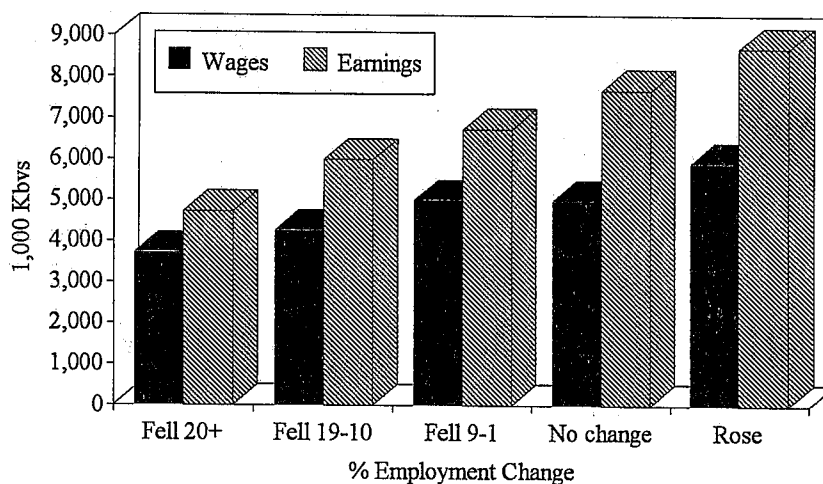
Source: ULFS2, n = 545

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, chemicals, building materials, wood products 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;
- Firms with relatively high proportions of women workers had lower wages and 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.

One point that deserves to be emphasised is that *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 51). 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 normal market-oriented economy.

Figure 51: Average Monthly Wage and Earnings, by Employment Change, 1995, All Regions



Source: ULFS2, n = 345

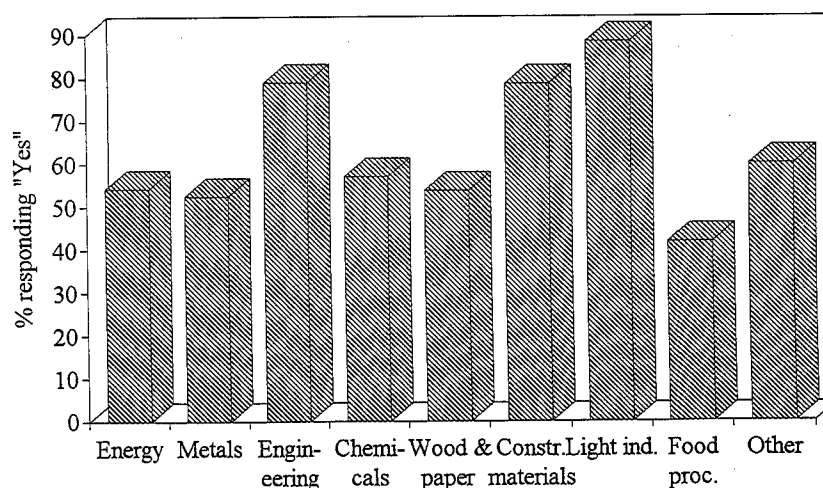
There is one way in which one would say precisely the opposite, and it is a development with far-reaching and negative consequences. As in 1993 and 1994, in 1995 one of the most notable aspects of the Ukrainian labour market has been that many firms have been unable to pay their wages, or at least have had such great difficulty in doing so that they have delayed payments or paid only part of them.

According to ULFS2, in 1995 two-thirds of all factories reported that they had such difficulty, which was the case in nine out of every ten firms in light industry (Figure 52). Over 60% of all factories had not paid contractually agreed wages, in all or in part, and on average they had not paid wages for 3.5 weeks. In an inflationary economy, wages delayed are wage cuts. Wages not paid at all imply that the worker is redundant in all but name.¹⁷

Large-scale establishments were the most likely to be affected, but there was no sign of any difference by property form. It was much more common in firms that had cut employment, although even 45.3% of those establishments that had increased employment had experienced difficulty in paying wages, which is perverse (Figure 53).

In spite of this widespread difficulty in paying wages, which had led to the twin phenomena of "wage arrears" and non-payment of contractual wages, the level of money wages had risen sharply in 1993-94 to offset the massive inflation, and continued to rise in 1994-95, even though they fell in real terms. In the survey managements were asked what, beside price rises, determined wage rises granted in the period. About half the firms reported that no other factor had been important.

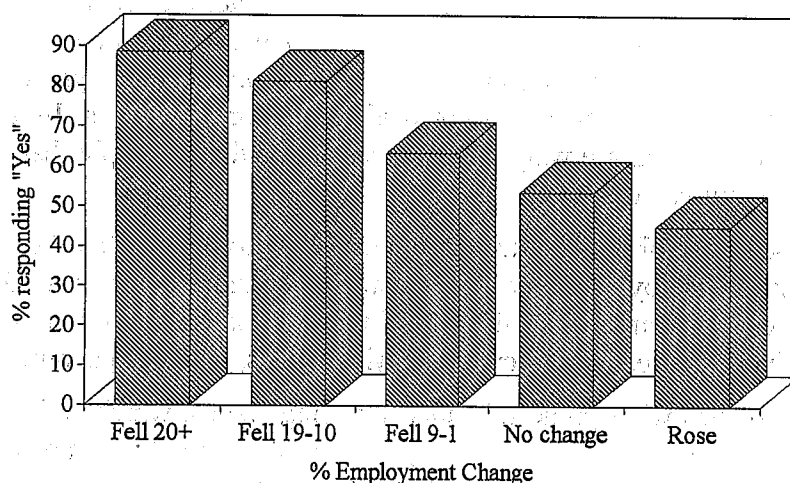
Figure 52: Difficulty in Paying Wages, by Industry, 1995, All Regions



Source: ULFS2, n = 561

¹⁷ 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.

Figure 53: Difficulty in Paying Wages, by Employment Change, 1995, All Regions



Source: ULFS2, n = 561

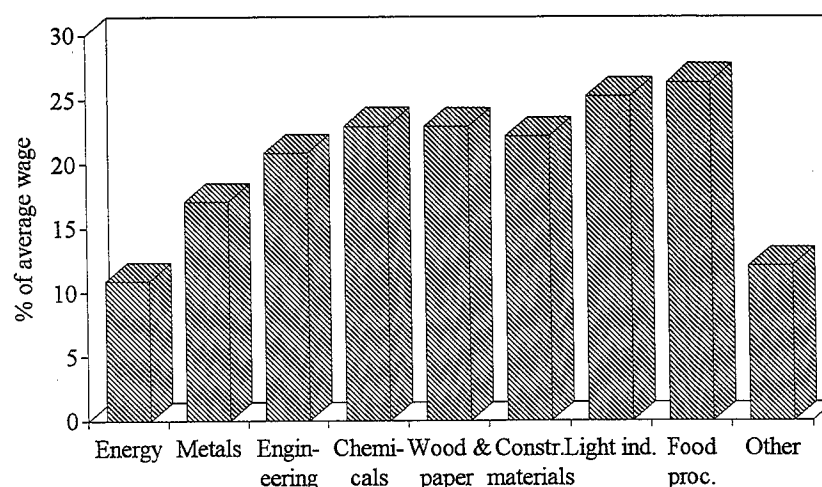
One partially related change was the growth in *wage differentials*. This issue is an important aspect of industrial and labour market restructuring, and we will examine it in detail in a companion paper. However, it is worth noting that wage data were obtained for broad occupational groups, and information was also acquired on the minimum levels of remuneration in a plant. The latter were collected because in the pilot for ULFS1 we found that certain groups were being paid very low wages, in part it seemed to enable the management to pay higher wages for other groups and in part to keep the average wage down so as to limit wage tax obligations.

Whatever the reasons, with the decentralisation of enterprise management and the erosion of the old wage tariff system, a category of what we call *impoverished industrial workers* has emerged in the Ukrainian labour market. This is in contrast to the pattern in the former system, in which there was emphasis on "levelling", such that there were neither very high-paid nor very low-paid workers. By early 1994, a distinct category of lower paid workers had emerged, and by 1995 the data are telling a sad story.

Managements identified the lowest paid in the plant. On average over all establishments, the lowest paid groups were receiving about a third of the average wage in those establishments, or just over one-quarter of the average earnings (Figure 54). In absolute terms, they were receiving 1,824,377 Kbv per month (or about \$17 at the prevailing exchange rate), which was below the officially designated subsistence income.¹⁸

¹⁸ The officially estimated subsistence income at the time was just over 2 million Kbv.

Figure 54: Lowest Wage as Percent of Average Wage, by Industry, 1995, All Regions



Source: ULFS2, n = 531

The lowest average minimum level was in building materials and engineering factories (Table 9). Overall, a little over 6% of the workforces of firms were on the minimum level of pay – a 20% increase since early 1994 – with above-average proportions in small-scale establishments and in the hard-hit food processing sector. In terms of property forms, the proportions were easily the highest in private establishments (as in 1994) and were lowest in joint-stock enterprises, perhaps reflecting the ‘solidaristic’ influence of work collectives in the latter and a tendency for wage differentials to be wider in private firms.

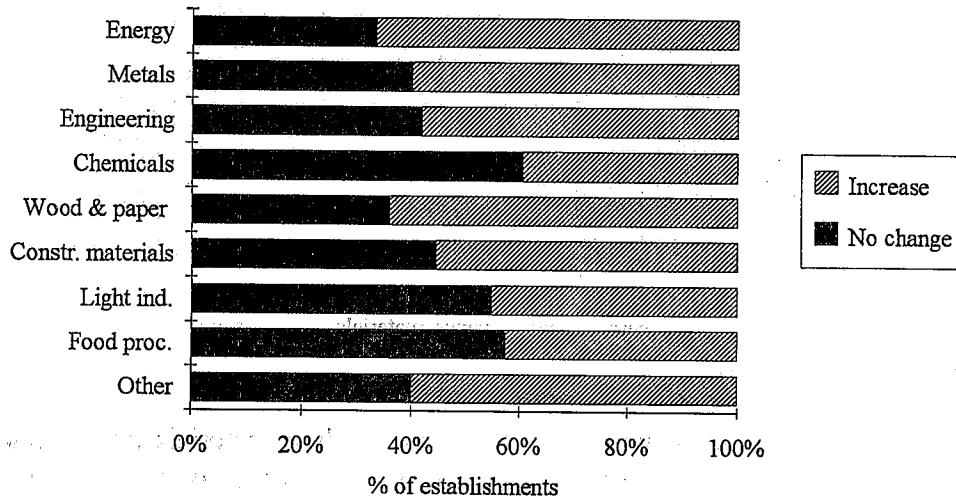
We also asked managers to indicate the perceived impact of changes of the *statutory minimum wage* on wages in the firm. Because of the nature of the wage tariff system, changes in the minimum wage traditionally had a positive influence on wages, and this has persisted into the 1990s, even though the actual level of the minimum

Table 9. Minimum Actual Wage as Percent of Average Wage, by Industry, 1994-95, All Regions

	Minimum payment (1,000 Kbps)	Minimum as % of Average	% workers receiving minimum payment	
			Nov. 1994	Feb. 1995
Energy	1,789	22.9	4.4	4.7
Metals	1,991	31.3	3.7	4.0
Engin.	1,540	33.5	5.4	5.1
Chemicals	2,147	44.5	7.0	5.8
Wood & paper	2,678	65.6	5.3	4.4
Build. mat.	1,858	39.4	6.1	6.2
Light ind.	1,542	37.9	6.7	6.8
Food proc.	2,009	39.9	8.9	8.3
Other	1,642	26.4	2.9	1.9

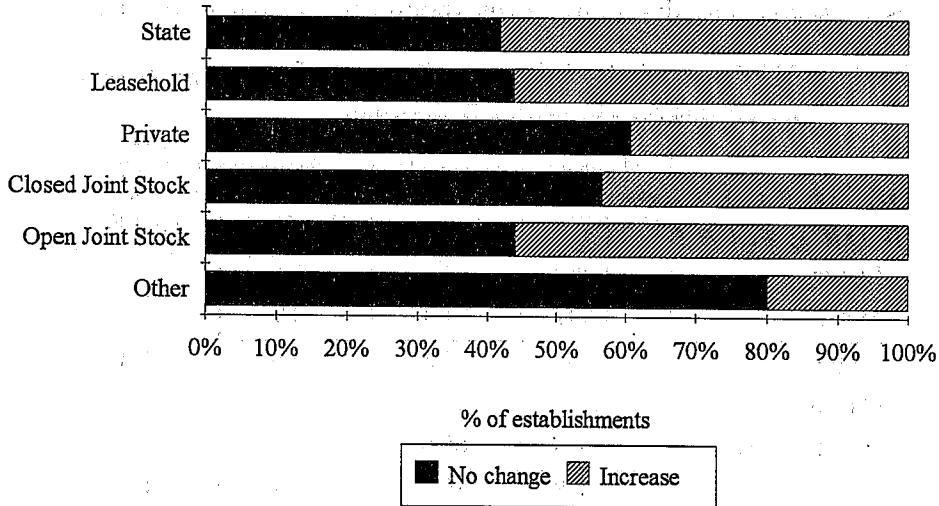
Source: ULFS2, n = 547

Figure 55: Effect of Minimum Wage Rise on Average Wage, by Industry, 1995, All Regions



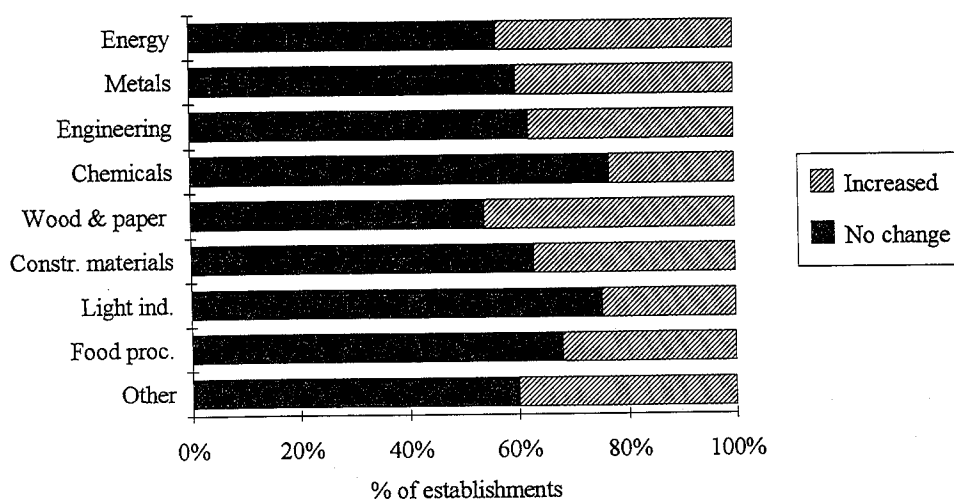
Source: ULFS2, n = 558

Figure 56: Effect of Minimum Wage Rise on Average Wage, by Property Form, 1995, All Regions



Source: ULFS2, n = 558

Figure 57: Effect of Minimum Wage Rise on Wage Differentials, by Industry, 1995, All Regions



Source: ULFS2, n = 553

wage has shrunk to only a fraction of the average wage and to well below the official subsistence income.¹⁹ Thus about half the establishments reported that changes in the minimum wage had an effect, or could be expected to have an effect, on the average wage in the factory (Figure 55). The minimum wage 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 56). In a third of the factories, it was reported that the minimum wage influenced *wage differentials*, presumably because of the link to other wages through the wage tariff system (Figure 57). But the influence of any linkage was on the wane. In the same period in 1994, over three-quarters of firms reported that the minimum wage influenced wage levels and over a third reported that it influenced differentials.

In the longer term, both the wage tariff system and the statutory minimum wage will play diminishing roles in the wage determination process in Ukrainian industry, and in the labour market in general. As in the international economy, there will be a growth of *wage flexibility*. That will also be an important aspect of enterprise and labour market restructuring. Wage flexibility is not entirely desirable, and can be excessive for both efficiency and equity objectives. Yet without some degree of 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 that there is considerable wage flexibility already, some of it perverse. The flexibility is shown, first, by the finding that the more flexible share of total cash remuneration was fairly high, in that "bonuses" comprised 14% of total earnings, which ranged from 22% in the energy sector to a low of 8.9% in building materials

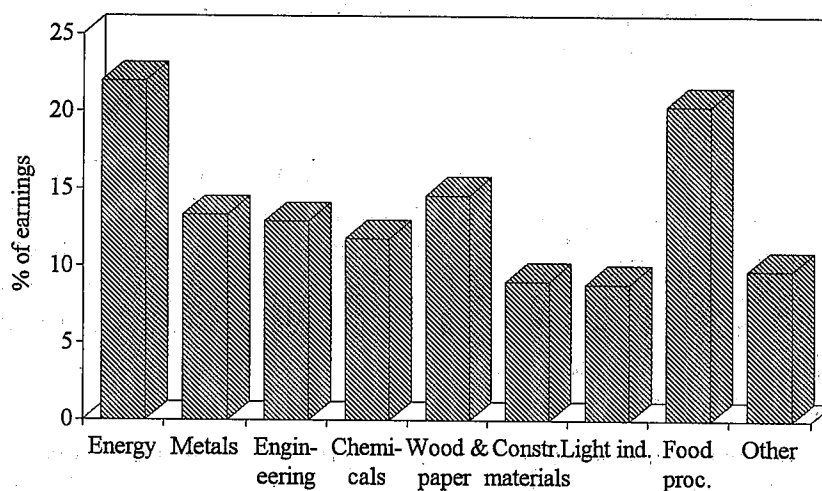
¹⁹ In 1995 the statutory minimum wage was still only 60,000 Kbv, which was about 3% of the official poverty line.

(Figure 58).²⁰ The bonus share was lower in small-scale than large-scale firms. Intriguingly, the bonus share was highest in state establishments and lowest in closed joint-stock companies, which might reflect the existence of other forms of remuneration in the latter, to which we will turn. The bonus share scarcely varied across occupational groups within firms.

Another aspect of the Ukrainian wage system has been the payment of a large part of worker remuneration in non-monetary forms. 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, there is a long-run need for the money wage to rise in real terms. In 1995, as in 1994, the “distortion” of the wage system remained considerable. In fact, while money and real wages were very low and had fallen substantially in real terms over the previous four years, most firms in Ukrainian industry provided a very wide range of fringe benefits and services – one reason for doubting the conventional image that service or tertiary employment has been low in countries such as Ukraine, because many service functions were internalised in manufacturing enterprises.

Most establishments provided managerial employees and regular wage workers with entitlements to a wide range of benefits, whereas by contrast non-regular workers – casual labour, those on fixed-term contracts, and so on – had a severe disadvantage, as shown in Table 10. The figures raise two sources of concern.

Figure 58: Bonus Share of Earnings, by Industry, 1995, All Regions



Source: ULFS2, n = 545

²⁰ These figures were somewhat lower than the corresponding figures in Russian industry in 1993, although there the bonus share had been rising. Standing, 1994, op.cit., p.37.

**Table 10. Percent of Establishments Providing Benefits,
1995, All Regions**

Benefit	Employees		
	Regular workers	Non-regular workers	
Paid vacation	99.5	100.0	21.9
Additional vacation	78.4	88.3	11.5
Rest houses	58.4	58.6	14.8
Sickness benefit	94.9	95.2	51.2
Paid health services	29.1	29.5	12.3
Subsidised rent	17.9	20.4	3.5
Subsidies for kinder gardens	23.9	24.9	6.7
Bonuses	81.8	84.1	45.6
Profit sharing	55.0	53.4	15.1
Loans	89.9	90.5	27.3
Retiring assistance	83.4	83.9	10.4
Supplementary pension	6.6	6.6	0.6
Possibility for training	67.4	69.5	14.1
Subsidised food	35.2	35.1	22.1
Subsidy for canteen or benefit for meal	39.5	43.3	25.5
Subsidised consumer goods	17.6	17.6	12.3
Transport subsidies	22.7	24.8	11.0

Source: ULFS2, n = 566

**Table 11. Percent of Establishments Providing Benefits,
by Average Wages, 1995, All Regions**

Benefit	Employees		Regular workers		Non-regular workers	
	Below	Above	Below	Above	Below	Above
Average wage						
Paid vacation	99.1	100.0	100.0	100.0	21.7	22.0
Additional vacation	73.0	85.8	85.5	92.2	11.4	10.5
Rest houses	54.9	64.4	55.2	64.4	15.9	14.8
Sickness benefit	94.5	95.9	94.8	95.9	49.1	55.0
Paid health services	26.9	32.9	26.9	33.9	12.8	11.9
Subsidised rent	14.5	23.4	16.9	25.7	3.4	3.3
Subsidies for kinder gardens	20.0	28.9	21.3	29.4	5.9	7.7
Bonuses	77.0	88.1	79.8	89.9	44.1	47.8
Profit sharing	49.8	61.3	48.6	59.0	15.3	14.0
Loans	88.3	91.3	88.7	92.2	26.8	27.8
Retiring assistance	82.2	84.9	82.8	85.4	11.0	9.1
Supplementary pension	4.3	10.1	4.3	10.1	0.7	0.5
Possibility for training	65.5	69.3	66.8	72.9	15.9	10.1
Subsidised food	28.4	43.6	28.2	43.6	18.3	26.3
Subsidy for canteen or benefit for meal	34.8	47.2	37.8	51.8	23.2	29.3
Subsidised consumer goods	14.9	21.1	14.9	21.1	9.7	15.3
Transport subsidies	21.8	23.9	24.3	25.7	10.3	12.0

Source: ULFS2, n = 543

First, if enterprises in certain sectors and in the core of the economy provide a wide range of benefits while others cannot do so and while more and more workers are locked out of that relatively privileged core, then the pattern of benefit provision will contribute to the growth of socio-economic inequality. Indeed, *enterprise-based benefits may become a bigger factor in the growth of inequality than wage differentials per se. Indeed, although quite appropriately much has been made of the enormous growth in income inequality in countries of the former Soviet Union since the 1980s, if the changing incidence of enterprise benefits were taken into account, the 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 11).*

The establishments 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.²¹

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

In respect of both these concerns, between 1994 and 1995 the proportion of firms paying for or providing most forms of benefit to workers and employees declined. But the two benefits provided in an increasing share of firms were paid vacation and financial assistance for retirement, both reflecting the growing need to reduce employment.

One factor in the high incidence of benefits is the tax-based incomes policy, since high rates of tax on money wages encourage managements and trade unions in enterprises to favour a shift from money wages into non-monetary forms of remuneration. With the economic stagflation and the difficulty in paying wages, that would be encouraged anyway. *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-scale, older firms) may have access to them and so that money wages may be raised as an incentive to work and as a means of promoting various forms of 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, nearly 10% of the establishments had extended the range of social benefits provided to their workers during the past year, compared with 5.5% that had curtailed or ended a benefit, mostly individual subsidies of some sort. The benefit most commonly added during 1994-95 was additional leave, whereas during 1993-94 compensatory payments or provision in kind were made to compensate for high food prices. But the range of additional benefits was ingenious, including free bakery products, interest-free loans, travel

²¹ The average earnings in factories that provided workers with housing was 7.6 million Kbv, compared with 5.2 million Kbv for those that did not do so. The average for those that had abandoned social facilities was 5.7 million Kbv, and for those that had not done so it was 6.9 million Kbv.

subsidies, child sickness benefits, funeral, wedding and childbirth grants and free healthcare.

Meanwhile, by far the most common of the benefits cut or reduced was the 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 9% of the factories had transferred some social facilities to the local authorities in the past year, and 22% of the large-scale firms had done so.

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

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

A form of "benefit" is good safety and healthy working conditions. In 1995, nearly 24% of all firms had safety committees, 55.4% had a safety department, 11.4% had both, in 9.3% there were neither. *But 51.7% of private firms had neither safety committee nor department.*

12. Skill Formation and the Erosion of Training

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

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

As in Russian industry, the majority of firms (85.3%) 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 three-quarters of all establishments providing training, it was informal and on-the-job. Only 10.4% provided classroom training in the enterprise and about 6.7% provided similar training off the premises. Moreover, with so-called "privatisation" and restructuring, there could be a decline in training, for it was less often provided in private firms and in small-scale firms.

In all industries, more than three-quarters of firms provided such training. However, private firms were much less likely to provide it, and small-scale establishments were less likely to do so than large-scale. Moreover, those firms that had cut employment the most (more than 20%) were the least likely to be providing training. These are three signs that accelerated restructuring could be expected to lead to some erosion in the provision of entry-level training.

For retraining for job performance, which was provided in 72% of firms, 13.4% of establishments provided formal classroom teaching on the premises and 4.8% did so off the premises. Surprisingly, more establishments (85%) 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. Somewhat more of this form of training was 'formal', involving classroom and off-the-premises courses, but still most was 'informal' and on-the-job.

If the picture so far is mixed, what should be of more concern is that two in every five firms had cut training programmes, in their entirety or partially, over the past year, while only 8% had increased them. Cutting training was particularly common in the engineering, light industry and chemicals sectors. The decline continued what was observed in 1994, a massive erosion in industrial training.

Traditionally, many industrial enterprises set up and operated their own training institutes. According to the ULFS2 data, in 1995 18.4% of establishments were paying for a training institute (down on 1994), 23.1% pay institutes for the full costs of training each worker sent for training (up on 1994), and 22.6% paid grants to trainees while they were attending training courses (also up). This pattern compares quite favourably with the practice of firms in many countries, although one would have to probe into the quality of the training in order to make a judgment. Again, what should be a source of concern is that about 54% of the establishments that had done so were no longer paying for training institutes at the time of the survey, and 13.3% of those paying for institutional training were planning to stop doing so, with a further 16.9% contemplating doing so.

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

13. Concluding Remarks

In 1995, 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 industrial enterprises as rigid, although the forms of labour market flexibility have scarcely been the conventional forms found in a market-oriented economy. The enterprises have responded to the economic depression by resorting to some employment cuts but to much greater resort to unpaid and partially paid administrative leave, short-time working and "unpaid employment" involving wage arrears or 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 is excessive**.

This is not the conventional view of labour market mechanisms in the countries of the former Soviet Union. In fact there are two variants of orthodox interpretations. The first is that open unemployment has remained low because of the continued operation of a "soft budget constraint" in enterprises, in which a 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 actually 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 cost of production, not a fixed cost as labour is often characterised in market economies where binding employment contracts preclude the Ukrainian practice of putting large numbers of workers on unpaid leave or the related one of simply not paying workers when they cannot or do not wish to do so. The result is an extreme form of wage flexibility. But the cost is that there has been considerable *employment inflexibility*. Sooner or later the latter will collapse, and then the existing employment cuts will be followed by a deluge of job losses. But that will be harder to handle for policymakers than if the real unemployment problem was recognised now.

It is strongly 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 an efficient process of employment restructuring, and only then will there be a chance that national and international agencies will devote adequate attention to the enormous unemployment crisis in these countries. Any further postponement in employment restructuring will impede successful economic reform and threaten the labour market with an awesome crisis sooner or later. Yet above all, concealing the unemployment through excessive wage flexibility has profound social consequences, measured ultimately in the lower life expectancy, rising poverty and growing inequality that have been features of 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.

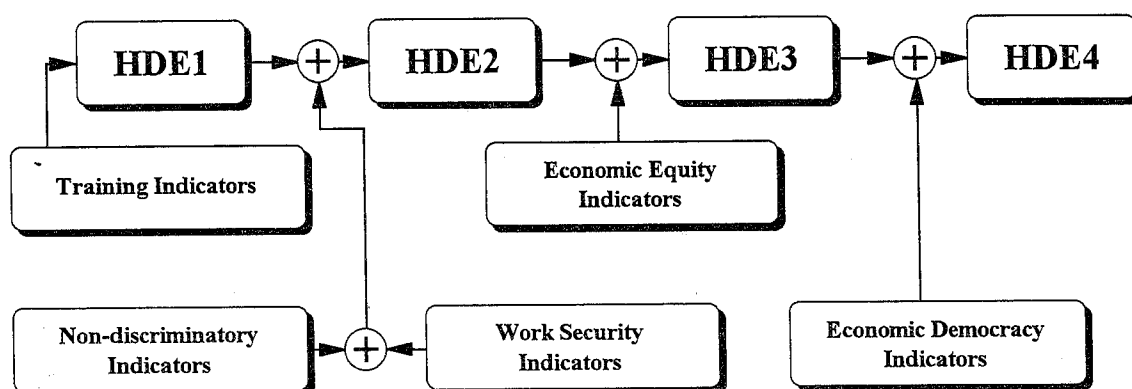
Part II.

14. Promoting the “Human Development Enterprise” in Ukraine

Having reviewed the labour developments in Ukrainian industry in 1994-95, we turn to a more normative approach. In companion papers, the question has been posed: What is a Good Enterprise in eastern Europe in the mid-1990s? From this question, four indexes of relative performance were developed, based on adding sets of indicators of four dimensions of performance in terms of *skill formation*, *social equity (or non-discrimination)*, *economic equity and economic democracy*. Information on the variables used for that exercise were also collected in the ULFS2, which went beyond the indexes of what we call the Human Development Enterprise (HDE), by incorporating input and outcome indicators of *work security*.

The justification for the other indicators is given in an earlier paper and is not repeated here.²² Suffice it to note that the refined indexes are illustrated in Diagram 1. We proceed to report the results, beginning with skill formation.

Diagram 1: Hierarchy of Human Development Enterprise Indexes



15. HDE1: Enterprise Training

A Good Enterprise should provide opportunities for skill acquisition. In Ukraine, most training has been arranged by the large enterprises that have dominated the industrial landscape. What we consider as basic indicators of an orientation to skill formation are the three layers of training, namely entry-level training for newly recruited workers, retraining to improve job performance or to transfer workers to other jobs with similar skills, and retraining for upgrading workers or promotion.

In addition, we take account of the type of training. If a firm only gave informal, on-the-job training, that deserves less weight than if it involved “class room” and structured training, including apprenticeship. So, for each level of training, a distinction is made between “informal” and “formal” training, with the latter being presumed to have greater value. Given the economic and institutional realities in Ukraine,

²² G. Standing, “Promoting the “Human Development Enterprise”: Enterprise Restructuring and Corporate Governance in the Russian Federation”, *Labour Market Papers*, No.8 (Geneva, ILO, 1995).

differences between formal and informal may be exaggerated. Yet training involving a quantifiable cost should be preferable to “on-the-job-pick-it-up-as-you-go” training. In Ukrainian industry most firms provided training, but few did so formally.

Finally, for the first index, HDE1, we include a factor measuring whether the establishment was paying for training, by funding a training institute or by paying the training fees to an institute where it was sending its workers for training or by giving stipends to workers who go for training. A substantial minority did at least one of those three, although many had abandoned training and others were planning to do so.

Thus, we construct the first index by a simple addition of the factors as follows:

$$\text{HDE1} = (\text{TR} + \text{TRF}) + (\text{RETR} + \text{RETRF}) + (\text{UPTR} + \text{UPTRF}) + \text{TR.INST}$$

where the components are defined as follows:

- TR = 1 if training was usually provided to newly recruited workers, 0 otherwise;
- TRF = 1 if TR was apprenticeship or off-the-job in classroom or institute, 0 otherwise;
- RETR = 1 if there was training provided for established workers to improve job performance or transfer between jobs of similar skill, 0 otherwise;
- RETRF = 1 if that retraining was formal, in class or institute, 0 otherwise;
- UPTR = 1 if training was provided to upgrade workers, 0 otherwise;
- UPTRF = 1 if that retraining for upgrading was in class or institute, 0 otherwise;
- TR.INST = 1 if the firm paid for trainees at institutes, 0 otherwise.

Thus the HDE1 index has values ranging from 0 to 7, a zero value implying that the firm gave no training of any sort. For the whole sample of firms, which were representative of all manufacturing plants in the country, in 1994 the modal value was 3, the mean 3.3, with only 2% having a value of 7 and 4.6% a value of zero. In 1995, the modal value was also 3, the mean value was 3.5, with 6.5% having a value of 7 and 4.2% value of zero. So, although the average value was low in both years, there appeared to have been a slight improvement.

16. HDE2: Incorporating Social Equity

Next, in defining a good firm, for efficiency as well as equity, non-discriminatory practices are essential. Its practices should reduce labour market segregation based on personal characteristics such as gender, physical disability, age or ethnic origin. Measuring discrimination is difficult, yet the ULFS indicators are probably reasonable proxies. One could refine them, and in another context one would need to do so, notably to take account of ethnic discrimination.

We measure socially equitable enterprises by reference to *preferences*, as stated by managements, and *revealed outcomes*. Neither alone would be adequate; one might have preferences yet not put them into effect, or have no preference yet discriminate on characteristics that had the effect of excluding certain groups from various jobs.

Given the context and available data, indicators of non-discrimination are mainly related to gender. In terms of hiring workers, if management reported that they had no preference for men or women, this was regarded as a positive factor. In this regard it

would be an inequity for men if we gave a positive value if management said they preferred women, as was the case in some factories. However, this reasoning could be stretched too far, because we are *primarily* concerned with redressing the typical case of discrimination against women.

A second indicator of non-discrimination is a commitment to provide training opportunities equally to men and women. Preferences here are also likely to be revealed, especially as there is no law against discrimination in such matters. Thus, there was a readiness on the part of managements in Ukraine to admit to a discriminatory preference for men, and in some cases for women.

Stated preferences are weak proxies, often rationalisations of what has happened, more often being norm-induced. To ignore preferences altogether would be unjustifiable, yet it is important to complement the preference factor with outcomes. Accordingly, we incorporate an outcome variable of sex discrimination, which may not be ideal but which is a reasonable proxy. This is the share of higher-level "employee" jobs taken by women. If that exceeds 40% the firm was given a positive score in the index. In utilising this measure, one must admit some arbitrariness, because the outcome could reflect differences in the supply of men and women. But it does focus on better jobs and identifies relatively good performance in discrimination.

One could modify the share level to be sectorally specific, giving a positive score if a firm had a relatively high percentage of women in training relative to the average for all firms in the sector. This could be justified because the ratios varied by sector. But this is not easily justifiable, for it seems to allow for gender-based industrial segregation of employment.

Besides gender variables for employment equity, another indicator of discrimination was whether the firm employed *workers with registered disabilities*. Coupled with gender variables, this gives an index of non-discrimination, as follows:

$$ND = R_s + T_s + FWC + D.$$

where ND is the index of non-discrimination, and

- R_s = 1 if the management has no preference for either men or women in recruiting production workers, 0 otherwise;
- T_s = 1 if management stated that they had no preference for either men or women in providing training for production workers;
- FWC = 1 if the female share of employees (managerial, specialist or general service workers) was greater than 40%, 0 otherwise;
- D = 1 if the firm employed workers with disabilities, 0 otherwise.

Adding ND to HDE1 gives us what we previously designated a Socially Equitable Enterprise. In the ULFS2, this had a modal value of 7. However, in the ULFS2 we can also incorporate the complex issue of work security.

17. Incorporating Work Security

Human development is scarcely compatible with poor working conditions. Identifying good working conditions with a few proxies is not easy, but there is one reasonable *input* mechanism and two reasonable *outcome* variables that can be used.

The input mechanism is whether or not there was a safety committee or department in the factory. In most Ukrainian enterprises one or both have existed, although the survey suggests that there has been some abandonment. The outcome variables consist of, first, the number of working accidents requiring at least one day off work expressed as a percentage of the size of the workforce, and second, the number of working days lost from sickness and accidents at work. These are not perfect proxies, since the sickness may not reflect work-related factors and the work accidents may or may not be the responsibility of the enterprise. Nevertheless, they are the easily understood and reasonable first approximations.

Thus, the index of work security is measured as follows:

$$WS = \text{SAFETY} + \text{ACCID} + \text{SICK}$$

where

- SAFETY = 1 if there was a safety committee and/or department, 0 otherwise;
 ACCID = 1 if the number of work accidents as a proportion of the workforce was less than the mean average, 0 otherwise;
 SICK = 1 if the number of workdays lost due to sickness as a proportion of the workforce was less than the mean average for all establishments, 0 otherwise.

If we add the work security index to the non-discrimination index and the skill formation index, we obtain what is designated the Socially Equitable Enterprise. This had a modal value of 9 in early 1995, and a mean value of 8.96.

18. Economic Equity in Enterprises

Skill formation and socially equitable practices are essential, yet we need to incorporate economic equity. Although the economics literature on economic equity in general is vast, there is little on the issue of economic equity in terms of the firm. What is an economically equitable firm? It is surely one in which differences in earnings and benefits between members of it are minimised to the point where economic efficiency is not jeopardised. This can be called the Principle of Fair Inequality. One should add a Rawlsian caveat – that priority should be given to improvement of the “worst off” workers in the firm.²³

There are also dynamic efficiency reasons to favour economic equity, whatever the bargaining position of various groups in an enterprise. Labour productivity depends on cooperation as well as individual effort and performance. If there are wide differences between groups in the enterprise, there will be a tendency for the more disadvantaged, or those feeling they are inequitably treated, to withhold “tacit knowledge” and not commit themselves to the exchange of knowledge that contributes to dynamic efficiency.²⁴ This one can call the Principle of Efficient Inequality.

To create a proxy Economic Equity Index we consider three factors, giving greatest weight to the first, since this relates to treatment of the “worst off” in the firm.

²³ J. Rawls, *A Theory of Justice* (Oxford, Oxford University Press, 1973). This relates to what Rawls called the Difference Principle.

²⁴ For related points, see G. Hodgson, *Economics and Institutions: A Manifesto for a Modern Institutional Economics* (Oxford, Polity Press, 1988), p.259.

First, some workers are paid lower wages than anybody else, and there are a few who receive very low wages indeed. An economically equitable firm should have few if any workers paid a small fraction of a firm's average. So, we take the minimum wage received by the lowest paid full-time workers as the initial yardstick. If more than 5% received this wage then we give the firm a low score on economic equity. But that does not capture any distributional factor, so we complement that by giving a positive score to a firm in which the minimum payment was equal to or greater than 50% of the average wage. These two indicators are only proxies for what we would like, yet with the data one can collect in large surveys they are reasonable proxies.

A second consideration is whether the average wage is equitable relative to that paid in other firms. Here we take as a proxy a sectorally relative measure, to reflect technological and market factors. The proxy is whether the average wage in the firm is greater than the industry's average. If it is, then a positive score is provided.

Finally, equity is improved if the enterprise provides benefits and entitlements that represent security against various personal contingencies and that improve the stakeholders' standard of living. Since wages and incomes are only part of remuneration, we take as a proxy whether the firm provided ordinary workers with more than ten types of fringe benefit.²⁵ Thus, the Economic Equity Index is as follows:

$$EE = \text{Min/Emp} + M + \text{AW/AWM} + \text{FB}.$$

where EE is economic equity index, and where

- Min./Emp = 1 if less than 5% of workforce is paid the lowest payment,
0 otherwise;
- M = 1 if the lowest wage was greater than 50% of the firm's average,
0 otherwise;
- AW/AWM = 1 if the average wage was above the sector's average wage,
0 otherwise;
- FB = 1 if the firm paid more than ten types of identified fringe benefits,
0 otherwise.

Adding EE to HDE2 gives what we call the **Socio-Economically Equitable HDE**, which in the ULFS2 had a modal value of 11 and a mean value of 10.59.

19. The Economically Democratic HDE

To be ruled by laws and regulations alone is not freedom. There should also be voice regulation, in that in the workplace, as anywhere else, the stakeholders who bear the greatest risk and uncertainty should be able to regulate decisions affecting labour and employment practices. What is Human Development without empowerment? This is a quandry of corporate governance for the 21st century. Can management and productive decision-making be made more democratic and accountable while promoting dynamic efficiency for the benefit of all stakeholders?

Democracy must be more than casting a vote every few years. Democracy is also about institutional safeguards, and the most effective is the capacity of the vulnerable

²⁵ In another environment this might be lower, yet in eastern Europe, where it was the norm to provide numerous benefits coupled with a low money wage, the wage measure of income is misleading.

to exercise restraint on those in decision-making positions, giving substance to the Rawlsian “maximin” principle. Democracy is also about attempts to ensure cooperation in the interest of all representative groups. As some put it, successful cooperation requires “the shadow of the future”, that is, mechanisms to ensure that competitive interest groups know that they have to deal with each other and cooperate with each other in the future.

So, to complete our idea of a Human Development Enterprise we need to construct an Economic Democracy Index. This is defined in terms of five indicators:

First, we take it as axiomatic that workers’ Voice is strengthened – potentially at least – by high unionisation. Having a mechanism to represent workers and employees creates the basis for dynamic efficiency. Without a trade union, there could not be the shadow of the future to concentrate the minds of managers and workers on maintaining decent, viable and efficient labour practices. This does not mean that we presume that unions will always behave appropriately. However, a strong representative mechanism is necessary for voice regulation. This, in the Ukrainian case, we define as being the case if more than 50% of workers in a firm belong to a trade union, because of the traditionally very high (artificially) level of unionisation.

Second, democratic potential is greater if the main union is an independent one, which in Ukraine means that the administration or management should *not* be members of it. Traditionally, in ‘Soviet’ enterprises management belonged to the union, and both managers and union representatives were subject to the commands of the Communist Party. Thus, symbolically and as an indicator of growing independence in bargaining, non-membership by management is an indicator of independent voice in Ukraine. Elsewhere, another indicator of independence would be more appropriate.

Third, to be meaningful there should be evidence of an operational mechanism. For this, the existence of a collective agreement between the union and employer is taken as a positive sign, even though we recognise that in the Ukrainian context in 1994-95, a collective agreement would in most cases be more formal than substantive.²⁶

Fourth, there is deemed to be more democracy if workers own a large percentage of the shares of the company, which is a feature of property form restructuring in Ukraine. The critical level for a positive value is taken to be 30%. Although this aspect of enterprise democracy is controversial, studies suggest that minority employee ownership is conducive to efficiency, restructuring and equity.²⁷

Ownership of a flow of income should be distinguished from ownership of property rights. In terms of corporate governance, minority worker share ownership could be interpreted as turning workers into *outsider principals* – monitoring the performance of the agent (manager), and indirectly providing a mechanism for selecting, dismissing and replacing managers. The objection to sole existence of *insider*

²⁶ For a discussion, see ILO-CEET, 1994, *op.cit.*, especially chapters 5 and 6.

²⁷ H.A. Henzler, “The new era of Eurocapitalism”, *Harvard Business Review*, July-Aug., 1992, pp.57-63; D.I. Levine and L. D’Andrea Tyson, “Participation, productivity and the firm’s environment”, in A. Blinder (ed.), *Paying for Productivity* (Washington, DC, Brookings Institution, 1990); Z. Acs and F. FitzRoy, “A constitution for privatising large Eastern enterprises”, *Economics of Transition*, Vol.2, No.1, 1994, pp.83-94.

principals is that a coalition between managers and workers could result in short-term concerns predominating over long-term strategy. However, if share ownership is the mechanism, workers and managers become outsider agents as well, having interest in the long-term flow of income from shares as well as their earnings from work.

Fifth, at least in Ukraine, as in Russia, it is regarded as a positive element in enterprise democracy if the top management were elected by the workers, rather than be appointed by a Ministry or an enterprise board.

Sixth, economic democracy is taken to be greater if there is a profit-sharing pay system in operation, implying a sharing of risks and rewards. This is a sensitive issue, since many trade unionists have been against profit-sharing pay on the grounds that it introduces income insecurity for workers who are not involved in the decision-making and who rely on their wage income to maintain their standard of living. However, if one gives a positive value to democratic decision-making, it is appropriate to balance that by valuing mechanisms that share risks and potential benefits.

Thus, taking account of the various considerations, we can define an Economic Democracy Index (ED), which can take a value of between 0 and 6, as follows:

$$ED = TU + IND + COLL + SH + MA + P.$$

where

TU	= 1 if more than 50% of the workforce is unionised, 0 otherwise;
IND	= 1 if the management is not in the trade union, 0 otherwise;
COLL	= 1 if there is a collective agreement, 0 otherwise;
SH	= 1 if more than 30% of the firm's shares are owned by workers and employees, 0 otherwise;
MA	= 1 if the top management is appointed by the workers, 0 otherwise;
P	= 1 if there is a profit-sharing element in the wage system, 0 otherwise.

By adding the ED index to the HDE3, we obtain the full Human Development Enterprise Index, designated as HDE4. This has a maximum possible value of 24, and if the index is supposed to identify exemplary standards, there should be a tapering in the distribution of firms, with fewer as the scores rise above the median value, and no excessive bunching of values. As it was, in early 1994 the modal value was 15, and the mean value was 14.66. There were 20 firms, or 3.6%, with values below 10, and 15 firms, or 2.7%, with values above 19, with two top firms having a value of 22.

20. Identifying the Human Development Enterprise in Ukraine

The attraction of the HDE index is that it should enable us to look at a firm to assess its performance in absolute terms or relative to others in the country or even within a sector, region or size category. Here, in discussing the values and patterns in Ukrainian industry, we are concerned with identifying those enterprises performing relatively well as an HDE in Ukraine, relative to others operating in similar circumstances.

In terms of HDE4, in ULFS2 there were 13.7% of establishments with scores above 17, and those should be designated as the leading group in the Ukrainian context, even though there were none with values above 22. At the other end, 12.5% had values of below 12, and those should be regarded as unsatisfactory. In ULFS2,

Table 12. Correlation Matrix of Human Development Enterprise Indexes, 1995, All Regions

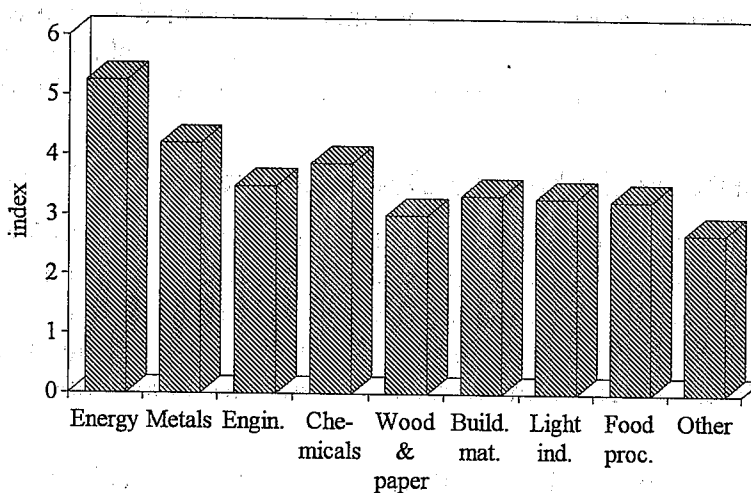
	Econ. Dem. Index	Econ. Equity Index	Non-Discr. Index	HDE1	HDE2	HDE3	HDE4
Economic Democracy Index	1.00	0.14	0.14	-0.03	0.04	0.09	0.47
Economic Equity Index	0.14	1.00	-0.03	0.17	0.12	0.49	0.49
Non-Discriminatory Index	0.14	-0.03	1.00	0.05	0.56	0.48	0.48
HDE1	-0.03	0.17	0.05	1.00	0.82	0.78	0.68
HDE2	0.04	0.12	0.56	0.82	1.00	0.93	0.84
HDE3	0.09	0.49	0.48	0.78	0.93	1.00	0.92
HDE4	0.47	0.49	0.48	0.68	0.84	0.92	1.00

Source: ULFS2, n = 566

Two other preliminary points are that the way the HDE4 index is constructed, considerable weight is given to skill formation, and that there was a low correlation between the indexes for non-discrimination, social equity, economic equity and economic democracy, implying that the various dimensions measured distinctive and different phenomena (Table 12).

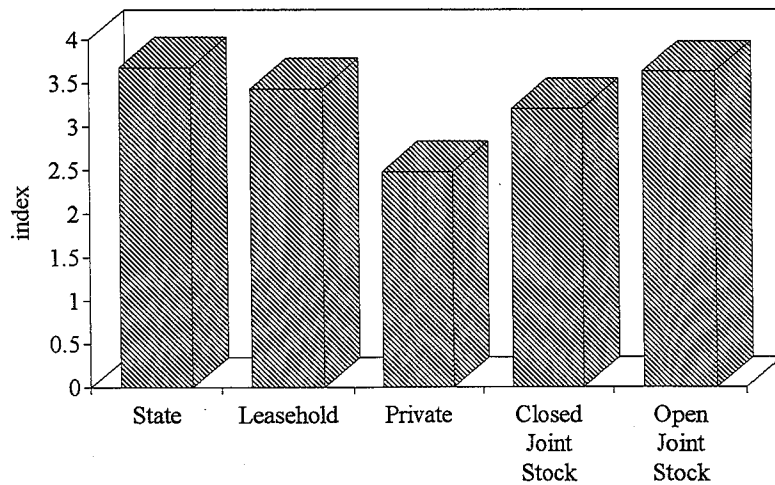
Turning to distributional patterns across the 348 firms in 1994 and the 566 in 1995, we start with HDE1. In terms of mean values, the average in both years was highest in the energy sector, was lower in private establishments than in other property forms, and was highest in large-scale firms. Figures 59-61 present the patterns for 1995. These could be interpreted as suggesting that policymakers should concentrate most on improving training in small-scale firms, in wood and paper products and in private firms, where orientation to skill formation was lowest. There was a need to combine property and size restructuring with a policy to promote enterprise training and retraining, to counteract an erosion that would otherwise be likely.

Figure 59: HDE1 by Industry of Establishment, 1995, All Regions



Source: ULFS2, n = 566

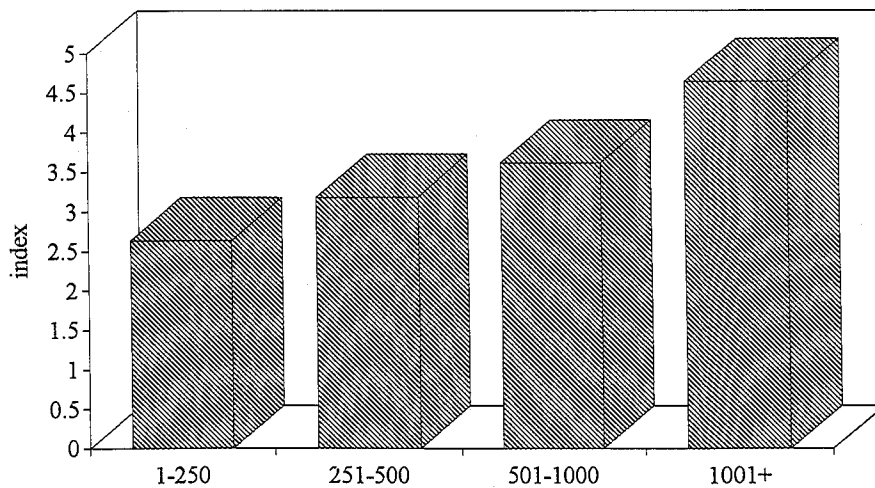
Figure 60: HDE1 by Property Form, 1995, All Regions



Source: ULFS2, n = 346

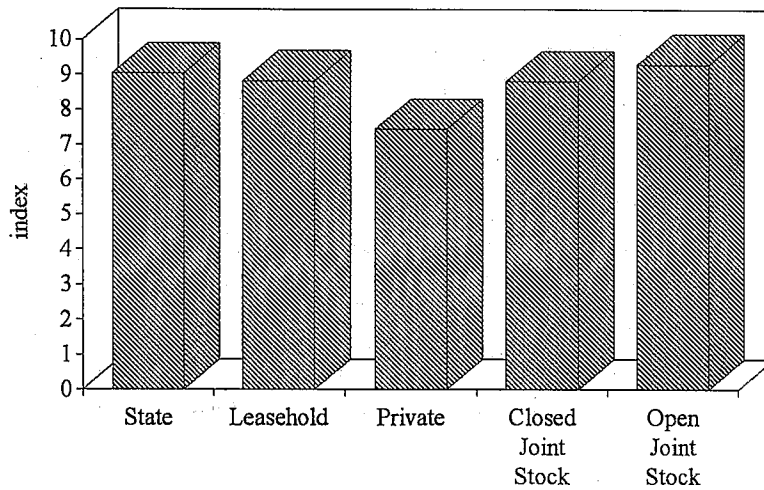
Adding the non-discrimination index and the work security index strengthens that latter concern, since private firms seemed to practise more discriminatory practices, resulting in lower average values of the HDE2 in private firms (Figures 62-63), and in smaller-scale firms. As shown earlier, private firms were much less likely than others to have any formal safety committee or department. The reasons for this should be investigated as a matter of high priority.

Figure 61: HDE1 by Employment Size of Establishment, 1995, All Regions



Source: ULFS2, n = 566

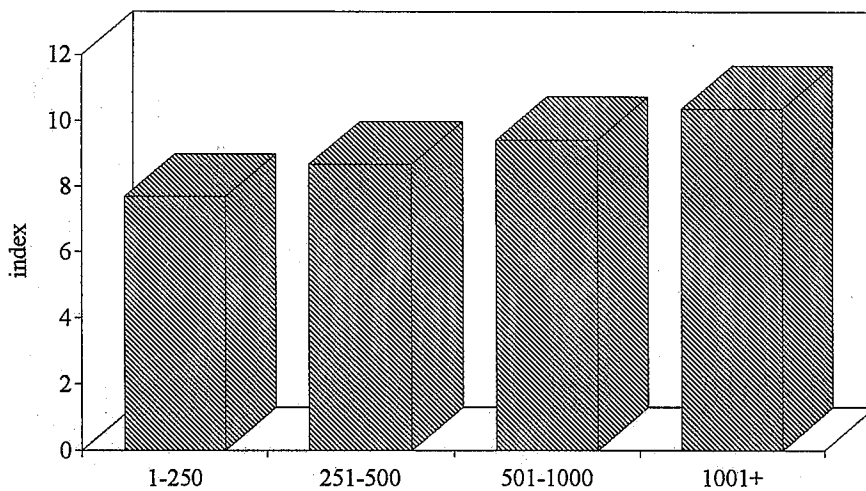
Figure 62: HDE2 by Property Form, 1995, All Regions



Source: ULFS2, n = 566

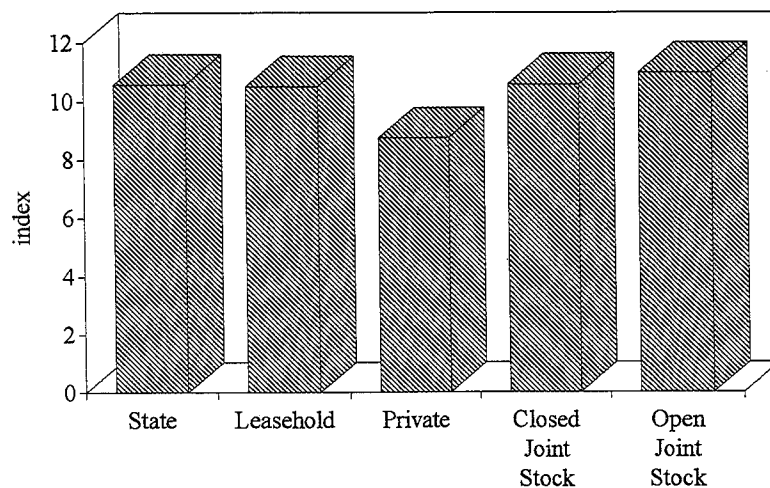
Adding the economic equity index strengthens the relative performance of closed joint stock firms, as would be expected. Private and open joint stock enterprises also did better than state and leasehold establishments in terms of economic equity. As a result of these differences, for HDE3, in terms of mean values, open joint stock tended to perform best (Figure 64).

Figure 63: HDE2 by Employment Size of Establishment, 1995, All Regions



Source: ULFS2, n = 566

Figure 64: HDE3 by Property Form, 1995, All Regions

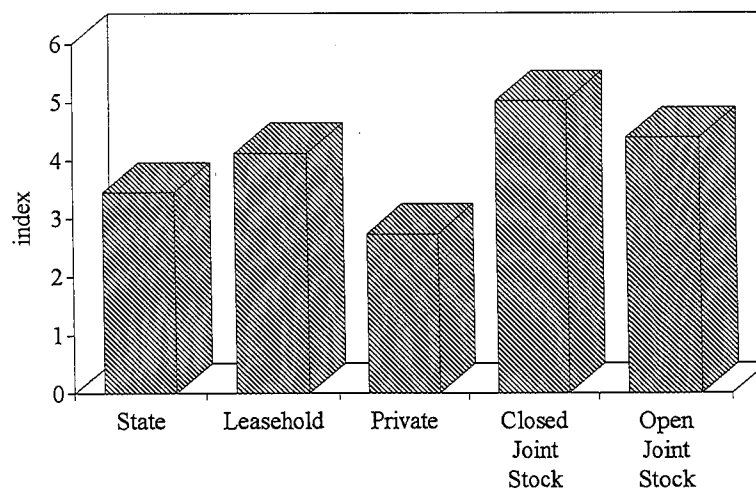


Source: ULFS2, n = 566

Finally, in terms of economic democracy, medium-sized and larger firms tended to score higher than smaller-scale firms, and open joint stock and closed joint stock enterprises scored better than other property forms (Figure 65).

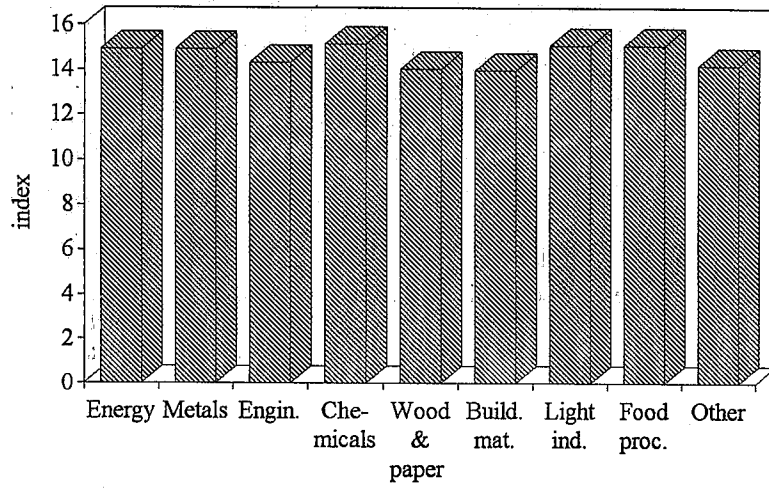
In considering the inter-enterprise pattern of HDE4, it is worth stressing that averages for the various components may not translate into differences overall, since in many cases firms that did well on some indicators did relatively poorly on others. Thus, the industrial pattern shows that energy sector was not the leading one for HDE4, although it was for HDE1 (Figure 66). In terms of HDE4, the average values were highest in closed and open joint stock establishments and were slightly higher in large-scale firms (Figures 67-68).

Figure 65: Economic Democracy by Property Form, 1995, All Regions



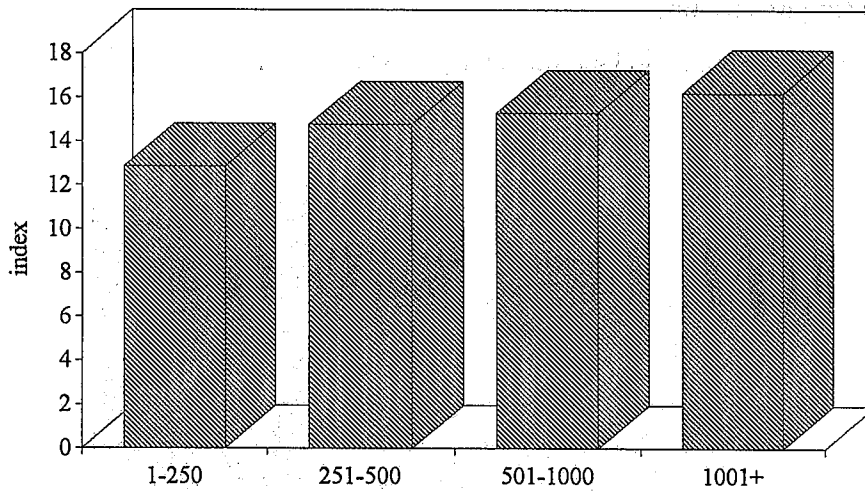
Source: ULFS2, n = 566

Figure 66: HDE4 by Industry of Establishment, 1995, All Regions



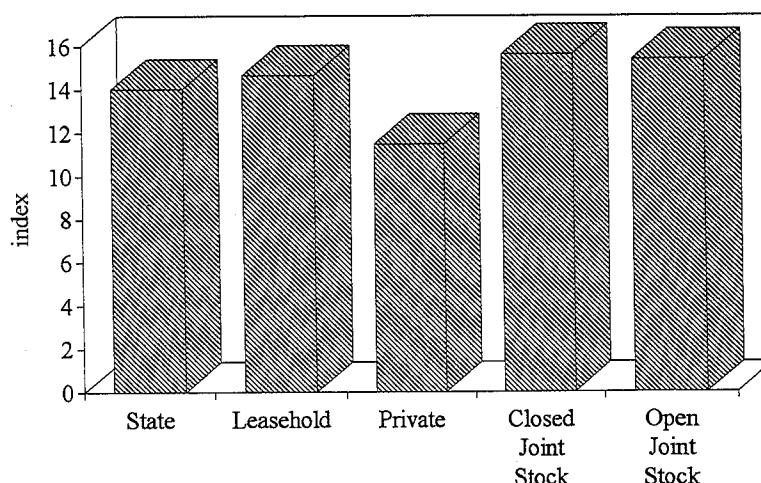
Source: ULFS2, n = 566

Figure 67: HDE4 by Employment Size of Establishment, 1995, All Regions



Source: ULFS2, n = 566

Figure 68: HDE4 by Property Form, 1995, All Regions



Source: ULFS2, n = 566

To assess the structural determinants of the values of HDE1, HDE2, HDE3 and HDE4, an OLS regression function was estimated, as follows:

$$\text{HDE1..4} = a + b_1 \Sigma(\text{IND}) + b_2 \text{EMPSIZE} + b_3 \Sigma(\text{PROP}) + b_4 \Sigma(\text{REG}) + b_5 \text{EMPCH} + b_6 \Sigma(\text{ELECT}) + b_7 \text{CHSALES} + b_8 \text{UNION} + e.$$

where

- $\Sigma(\text{IND})$ = binaries (1,0) for industrial sector, the omitted category being the energy sector;
- EMPSIZE = employment size of establishment;
- $\Sigma(\text{PROP})$ = binaries for property form of establishment, the omitted category being state establishments;
- $\Sigma(\text{REG})$ = set of binaries for region in which establishment located, the omitted region being Donetsk;
- EMPCH = percent employment change over the past year;
- $\Sigma(\text{ELECT})$ = binaries for method of appointment of senior management, the omitted category being appointment by a Ministry;
- CHSALES = binary, 1 if sales rose in real terms over the past year, 0 otherwise;
- UNION = percent of workforce in a trade union;
- e = error term.

The equation was estimated with and without the union variable, since it was included in the definition of HDE4, and with and without the variable measuring the means of appointment of top management, for the same reason. The results – available on request – suggest that *controlling for the influence of other factors*, open joint stock companies were more likely to score higher than other property forms, with private firms lowest in terms of training, that larger firms tended to have higher value of HDE and that economic performance in terms of sales change was inversely related to the value of the HDE.

Of course, there is the possibility that the correlation between some of the explanatory variables and the HDE indexes mixes cause and effect. Indeed, we need to consider some basic correlations for more fundamental reasons.

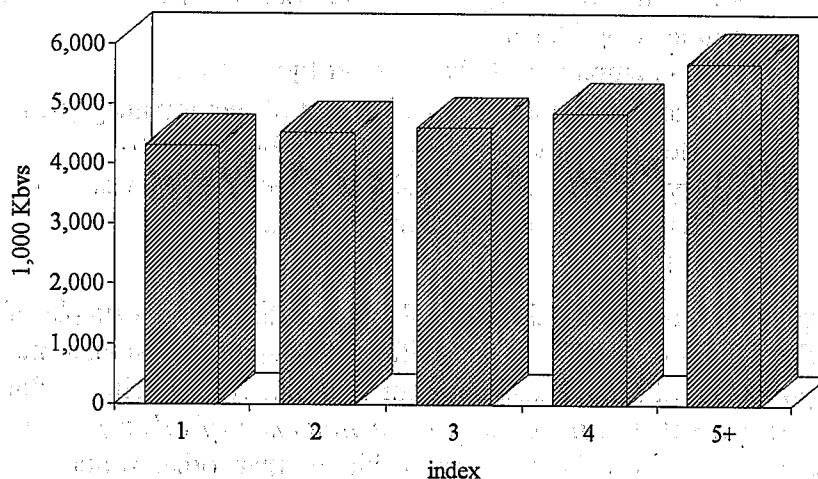
21. Economic Performance and the HDE

Having identified a set of indexes of the good HDE, one potential criticism must be addressed. If high HDE score were associated with low dynamic efficiency and poor responsiveness to market forces, the long-term viability of the enterprise would be jeopardised, and the rationale for promoting an HDE would be weakened. This issue was addressed at some length in the corresponding paper on Russian industrial enterprises, and here the equivalent issues are examined using Ukrainian data, which were gathered quite independently and at a different time.

A first question relates to the effect of *trade union presence*. For instance, are unions associated with high values of HDE1 (skill formation) and HDE2 (skill formation and non-discriminatory practices)? If not, then one should raise questions about the effectiveness of unions in two crucial spheres. As it turned out, there was a positive association, albeit a weak one. Firms with higher scores of HDE1 had higher average unionisation, and this was also the case with HDE2. Very little significance should be attached to this particular result in the Ukrainian context, since unlike the situation in Russia, by early 1995 little had changed with respect to trade unionism, and the "official" union was still predominant in industry.

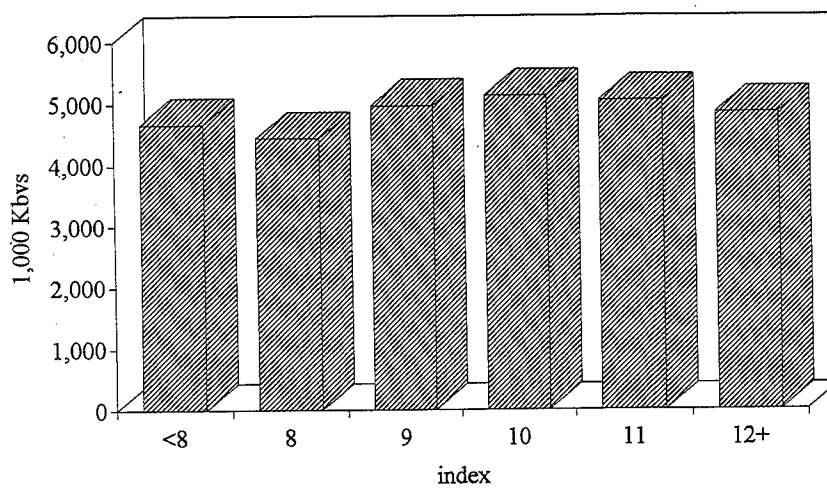
Another question concerns the association of HDE indexes with the *wage level*. If high HDE were correlated with low wages, the appeal of the idea for workers would be weakened. Fortunately, in Ukraine, as in Russia, the average wage was positively correlated with the HDE1 (Figure 69). There was less correlation with HDE2. However, there was a strong positive correlation with the Economic Equity index and a moderately positive one with the Economic Democracy index, resulting in a positive association with HDE3 and HDE4 (Figures 70-72). Thus, from the workers' point of view the Human Development Enterprise should be regarded in a positive light for pure wage reasons as well as others.

Figure 69: Average Wage, by HDE1, 1995, All Regions



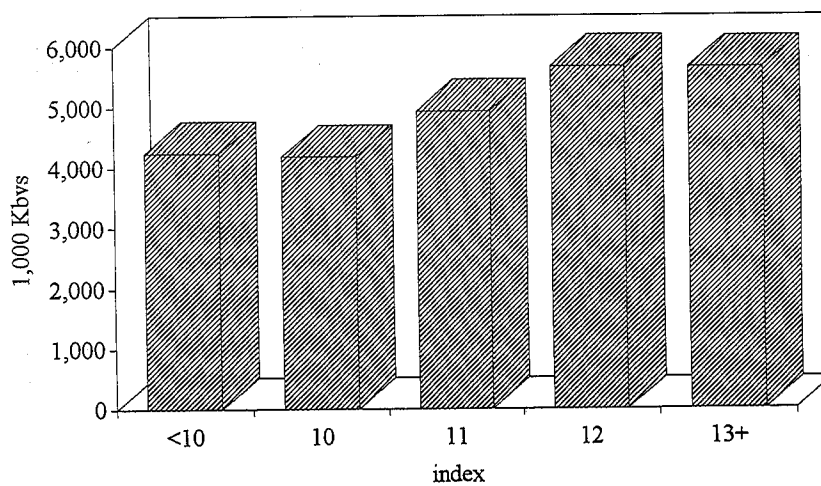
Source: ULFS2, n = 545

Figure 70: Average Wage, by HDE2, 1995, All Regions



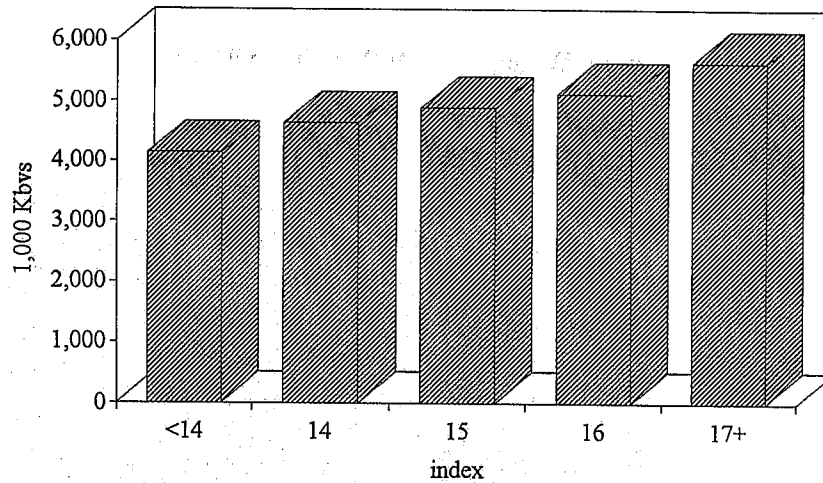
Source: ULFS2, n = 545

Figure 71: Average Wage, by HDE3, 1995, All Regions



Source: ULFS2, n = 545

Figure 72: Average Wage, by HDE4, 1995, All Regions

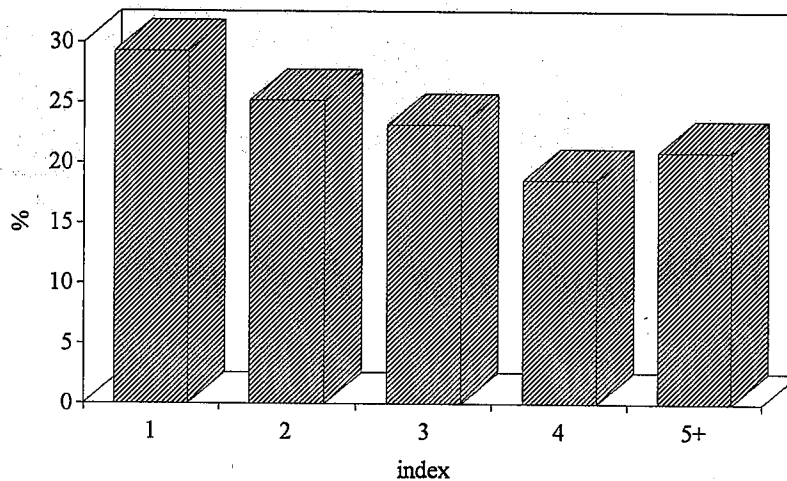


Source: ULFS2, n = 545

This raises a basic concern. Suppose a neo-classical – or anti-institutional – economist were shown the HDE indexes. He or she might claim that pursuit of the characteristics of an HDE would result in escalating costs, stronger internal rigidities, plunging economic performance and low responsiveness to market forces, leading to labour hoarding and so on. This is a legitimate concern.

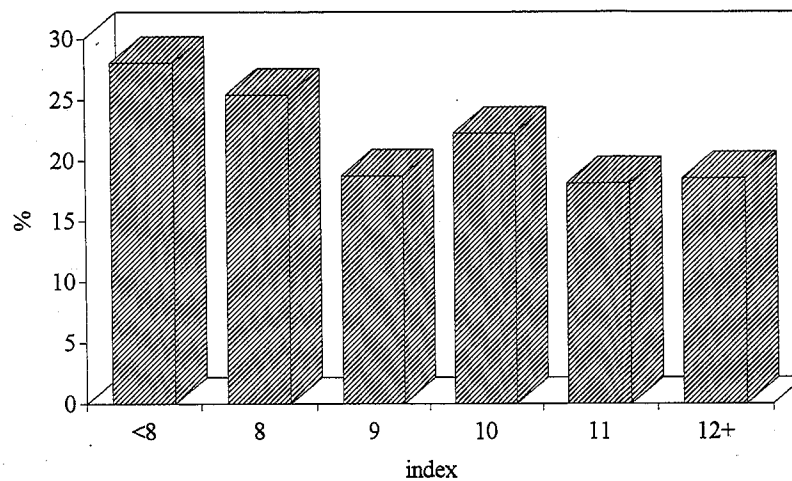
What is the evidence? First, while correlations do not demonstrate causation, it appears that *labour costs* as a share of production costs were lower in firms with high values of HDE and were lower in firms that scored high on the Economic Democracy Index, which may be the most contentious indicator in the HDE (Figures 73-76). These are encouraging results. They suggest that if a firm does well on HDE, and practises economic democracy, it has higher labour productivity. This is *prima facie* evidence against potential sceptics.

Figure 73: Labour Cost Share of Production Costs by HDE1, 1995, All Regions



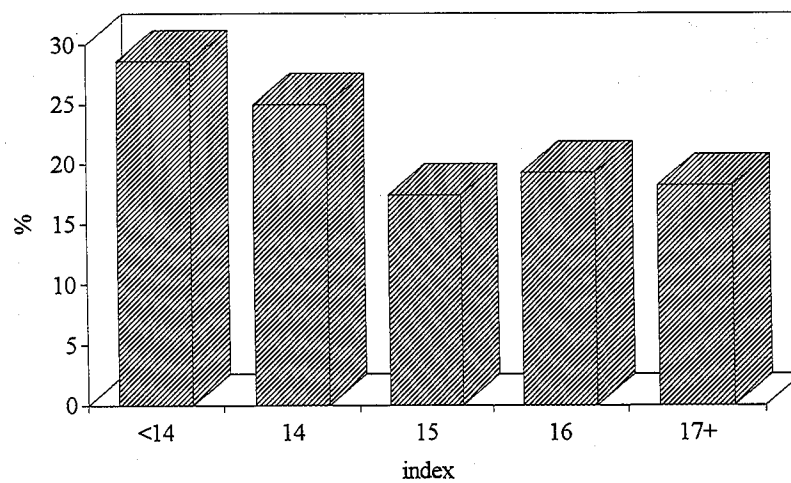
Source: ULFS2, n = 566

Figure 74: Labour Cost Share of Production Costs by HDE2, 1995, All Regions



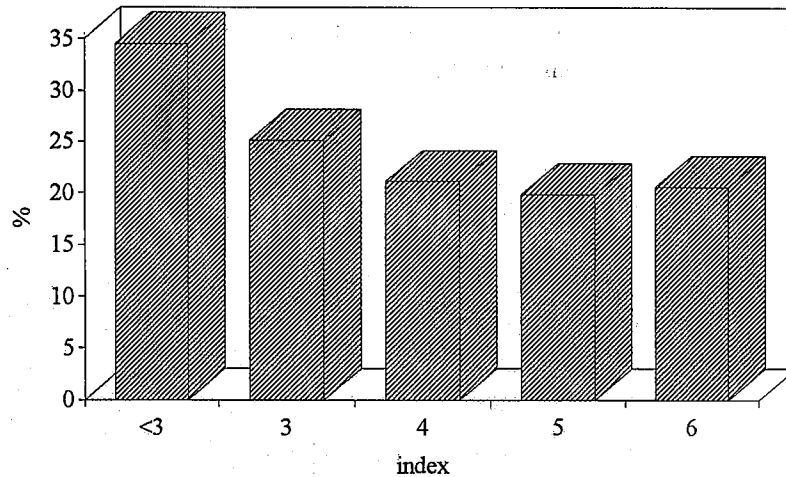
Source: ULFS2, n = 566

Figure 75: Labour Cost Share of Production Costs by HDE4, 1995, All Regions



Source: ULFS2, n = 566

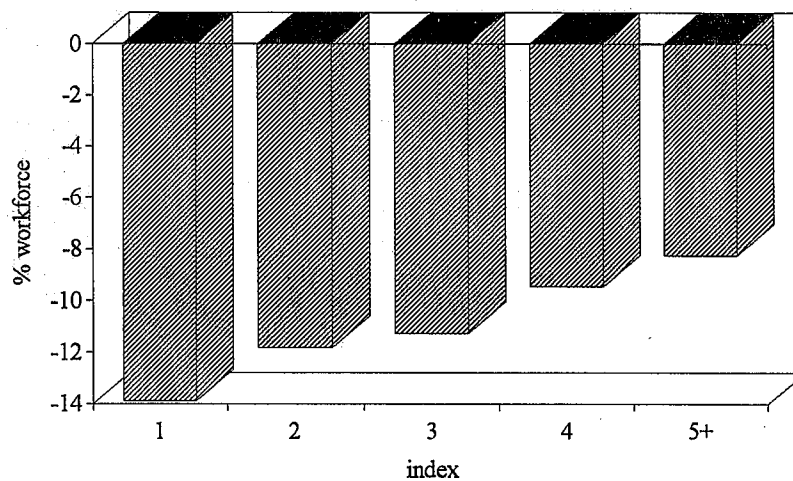
Figure 76: Labour Cost Share of Production Costs by Economic Democracy indicator, 1995, All Regions



Source: ULFS2, n = 566

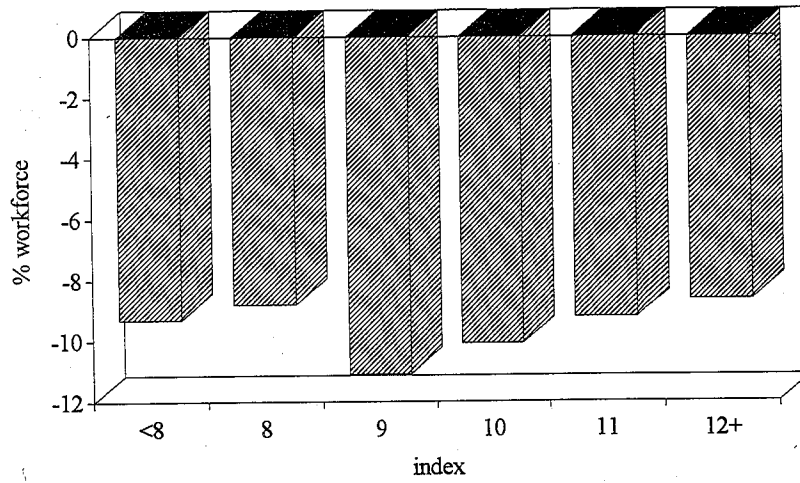
Second, since in Ukraine and other parts of the former Soviet Union, it has been claimed that enterprises have not been responsive to market pressures, it might be claimed that high values of HDE would indicate resistance to change and protection of “insiders”, resulting in smaller employment cuts in the face of the economic crisis. High “labour hoarding” has been attributed to persistence of a “soft budget constraint” and lack of concern over labour costs. The results are interesting. Although all forms of enterprise had cut employment by large amounts, firms with low values of any of the HDE indexes had cut employment by more than those with higher values (Figures 77-80). One might interpret this as implying that firms with higher HDE values performed better in terms of employment. This is neither necessary to support our concept, nor necessarily correct. However, it does suggest that economic rationale is not demonstrably at variance with pursuit of relatively decent values of human development within the enterprise.

Figure 77: Percent Employment Change by HDE1, 1995, All Regions



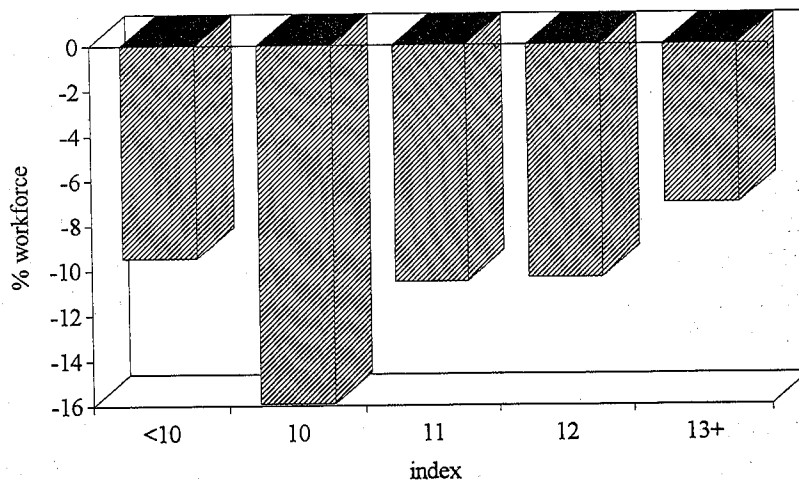
Source: ULFS2, n = 566

Figure 78: Percent Employment Change by HDE2, 1995, All Regions



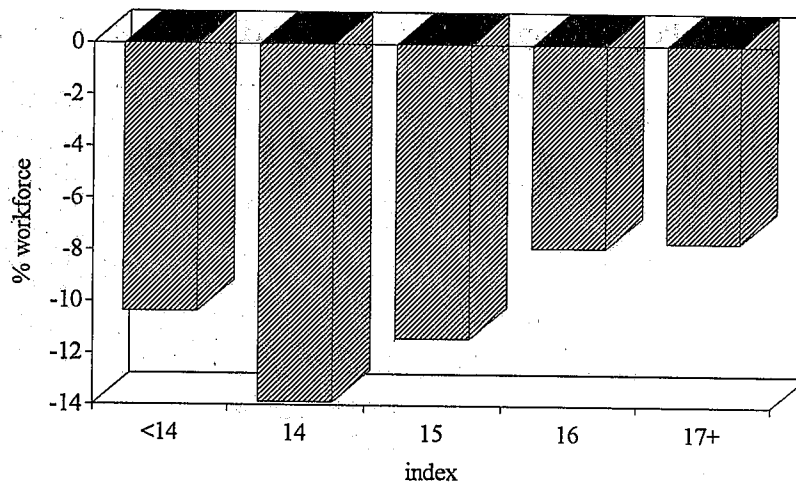
Source: ULFS2, n = 566

Figure 79: Percent Employment Change by HDE3, 1995, All Regions



Source: ULFS2, n = 566

Figure 80: Percent Employment Change by HDE4, 1995, All Regions



Source: ULFS2, n = 566

22. Conclusions

A premise of this paper is that in Ukraine as elsewhere, promoting Good Enterprises is a key to a Good Society for the 21st Century. It is also implicit that enterprise restructuring is a key to effective structural or social adjustment. The idea of a Human Development Enterprise, defined in terms of democratic, equitable labour practices, is suited to an era in which there is, and should be, an increasing emphasis on incentives to good practice rather than sanctions against bad practice. If “standards” are presented as something obligatory and rigid, then even those who support them would be inclined to do so with reservation. Some would pay only scant attention to the sins of others in case their own sins, real or imaginary, be exposed to scrutiny and condemnation. Rewarding good practices and shining the light on exemplary cases would be in keeping with mature cultures.

It also corresponds to advanced management thinking, epitomised by top companies in the USA and elsewhere.²⁸ Enterprises that put the interest of their workers first appear to perform better.²⁹ One does not have to turn this into an ideological battleground. Rather one has to seek ways of refining the approach to secure a broadly-based consensus.

The HDE is a useful heuristic device. It could be refined, its components can be challenged and modified to take account of different points of view, and it can be adjusted to meet the specific conditions of different countries. It is an organising

²⁸ See, for instance, R. Waterman, *The Frontiers of Excellence: Learning from Companies that Put People First* (London, Nicholas Brealey Publishing, 1994). Waterman, with Tom Peters, was the management guru who first promoted the concept of *self-managed teams*, and recognised a basic principle of good management: “Today’s leaders understand that you have to give up control to get results.” Only the insecure need to control.

²⁹ J. Pfeffer, *Competitive Advantage Through People* (Cambridge, Mass., Harvard Business School Press, 1994). The danger of corporate paternalism is not recognised in the analysis of Pfeffer or Waterman. This is where our model is more robust, through emphasising voice regulation.

concept, to be used to grade enterprises by explicit criteria – principles, mechanisms and outcomes – that can be justified as desirable. That is its potential appeal.

As one famous political economist quipped, the point is not to interpret the world, it is to change it. The objective of identifying HDEs is to change enterprises into something closer to the ideal.