

**Macroeconomics**

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**CURRENT STATUS AND RISKS  
OF DEVELOPMENT OF LABOR MARKET  
OF UKRAINE IN THE CONTEXT  
OF SOCIAL SECURITY  
UNDER EUROINTEGRATION**

**Abstract**

A detailed analysis of trends in labor market and employment in Ukraine and abroad was conducted. We identified a number of risks of domestic labor market, which allows allocating the labor market of Ukraine as a part of social security. We substantiated the possibility of adapting the European standards of development to the labor market of Ukraine. It was proved that the functioning of the Ukrainian labor market is an integral part of the labor markets of countries-members of EU, reflecting the approach to the standards of the European labor market in the context of the social security of the country in terms of Eurointegration.

**Key words:**

Labor market, Eurointegration, employment, unemployment, social guarantees of employment, income, wage, welfare, supply and demand of labor, government regulation of the labor market, social standards, social security.

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Providing high rates of national economic development and creating an effective system of formation and using of human resources of society created the objective conditions of development of tasks to improve development indicators of the labor market and ensure its proper activation, from the skillful use of which the adaptation of Ukraine to the world labor market and reducing risk of its functioning as a result of Eurointegration in the context of strengthening social security largely depends on.

***The dynamics of employment in Ukraine in 2004-2008 was generally positive:*** the dominant trend was increasing the number of employees by economic activity (by 1.6 %) in the growth of employment (by 2.6 %); amounts of shadow employment decreased (number of employees who were in forced administrative leave, reduced by 4.9 %); reduction in the number of employees for all types of economic activity was observed (by 0.5 %), this trend looks positive against the backdrop of growing the total number of employed workers, whose explanation is the formation of a class of small and medium enterprises, self-organizing and promoting public works; the share of women in the average number of employees during the research period increased by 0.9 %; the strategy of overcoming female unemployment was gradually implemented (in 2004 the demand for female professionals was 51.8 %, but in 2008 – 59.8 %, however high percentage of the release of women in the business still remains up to 60 %).

***Qualitative changes in the level and structure of employment and unemployment can be traced:*** the decrease of unemployment (by 2.2 %, while its value (6.4 %) is lower than in such economically developed European countries as Germany, France, Finland, Poland, Belgium and others); the proportion of the discharged workers for economic reasons decreased (by 4.8 %); downward trend the period of searching job (by 14.3 %); the employment category of the population, formal status of which is not associated with the production work attracted to employment (increasing of the share was 2.1 %); increasing of the role of the private sector (the share of workers of state enterprises dropped by 5.6 %, while enterprises of private ownership has increased by 7.7 % of employees); the number of employees who improved their skills in the business, increased by 0.9 % accounting quantity of staff.

***Annual improvement in the overall macroeconomic situation in Ukraine in 2004–2008 had a direct impact on indicators of demand and the level of employment in general:*** there was quantitative and qualitative imbalance between supply and need in labor (enterprise's demand of employees by economic activity dropped by 45.3 %), the trend of advancing scaling up of economists is continuing (including experts of trade) and lawyers (by 36.2 % and

43.6 %), but its share in the composition of college graduates with engineering specialties decreased by 4.2 %, the number of unemployed citizens registered on the books in the service of employment dropped by 1.8 %; we should consider a dominant tendency to increase the number of employed people in the total number of registered unemployed (at 9.4 %), while the supply of working places for young people aged 35 years increased from 15.5 % of the total number of vacancies to 36.5 % (by 21 %), but the turnover rate of release increased by 4 % growth in turnover rate of admission to 1.2 % while the negative trend is the increasing load of 1 job for 4 persons, there were certain changes in the composition of GDP by categories of income (reproductive ratio), share of employees' wages increased (3 %).

**However, at the beginning of 2009 a deterioration of situation in the labor market was observed.** Average number of staff of enterprises, institutions and organizations decreased by 1.3 % by seasonality, due to the nature of production in agriculture and increasing layoffs and downsizing in the industry (to 51.4 thousand of people), construction (21.8 thousand of people) and trade (to 16.9 thousand of people). At the same time more widespread became the use of forced administration of enterprise administrative leave and reduced working time. Number of employees who were in leave, was 5.8 % of staff. Such holidays were used by transport enterprises (30.1 % of staff), forestry (12.9 %), construction (9.7 %) and industry (9.1 %). The official status of unemployed at that date became 96.4 % unemployed (that is 1.9 % lower the level in 2004), of which 77.2 % received unemployment benefits (which is 11.7 % higher than at the beginning in 2005). Among the unemployed, earlier every second took place of worker, one in three – as servant, and one in four – a place that does not require training. Registered unemployment in the whole country on January 1, 2009 amounted to 3.0 % of the population of working age (which is 0.6 % lower than in 2004).

**In 2004 – the first half of 2009, Ukraine has made a number of steps aimed at improving employment and labor market conditions generally.** Among such measures it's appropriate to single out:

- conclusion of the Confederation of Employers of Ukraine and the Cabinet of Ministers of Ukraine the General Agreement for 2008–2009, which turned out measures aimed at protecting the jobs that will reduce the burden on the employer in crisis situations; restore the achievements of production, productivity, ensure retention of qualified staff preserving with existing salary level;
- Development of Government of Ukraine main directions of state policy of employment in 2009 which provide the expansion of the scope of work, forming a professional and educational potential of the population, social protection against unemployment, solving the problem of employment of persons with disabilities and mental opportunities, the legalization of foreign labor migration of citizens of Ukraine (now ap-

proval of the concept of a national employment program for 2009–2011);

- President of Ukraine issues decrees «On immediate measures to create favourable conditions of life of persons with disabilities» (from 01.06.2005 № 900) and «On measures to create favourable conditions for social, medical and professional rehabilitation of persons with disabilities» (from 27.12.2005 № 1845), aimed at ensuring the unhindered access for persons with disabilities to social infrastructure and effectively addressing issues concerning the creation of an enabling environment for people with disabilities of their right to participate in economic, political, social, cultural and other spheres of social life;
- Implementation of the fundamental educational development Decree of President of Ukraine «On urgent measures to ensure the functioning and development of education in Ukraine» (from 4.07.05 № 1013) allows to create the conditions for the citizens of affordable qualitative education and transfer education to level of state priorities, establish transparent and objective system of evaluation of educational achievements of students through an external independent evaluation that will provide equal access for all to qualitative higher education (annually funding for educational field is increasing, including the State Budget of Ukraine: in 2004 expenditures amounted to 18.3 billion USD., but in 2008 they reached to 57.5 billion USD. and constitute 6.5 % of GDP, that corresponds indicators of many developed countries. Level of funding of education is legislatively defined – 10 % of GDP);
- adoption of concept of development of system to increase the qualification of workers until 2010 (from March 20, 2006 № 158-r), which provides the establishment during this period of employment with high quality of standards of labor, separation of powers of central authorities, local governments and enterprises for the development of training of employees, the definition of a conceptual framework to support businesses that provide training for employees in the workplace, at national and regional levels; ensuring at the legislative level the increase of responsibility of employers for vocational qualification level of employees;
- the introduction of effective control measures on the labor market in direction of reducing the rate of female unemployment through acceptance by Supreme Council of Ukraine in 2006 the Law of Ukraine «On equal rights and opportunities for women and men», approval of the Government of Ukraine «State program on strengthening gender equality in Ukrainian society until 2010», which contributed to attracting women to participate actively in decision-making and introduction of institutional mechanisms for gender equality at national and local levels, combining the efforts of non-governmental organization of

women to address the pressing women's issues at national and local levels, partnerships between women's associations and authority, etc.

Committed steps should be recognized as effective measures of state regulation of employment and labor market in Ukraine, which will raise the efficiency of employment, the formation of an equilibrium labor market and strengthening of social security. However, they outline only strategic directions of reforming the domestic labor market, which requires fixing of appropriate tactical measures in a number of regulations and laws.

**The domestic labor market is not balanced, not able to provide parity between supply and demand, characterized by rigidity, large imbalances,** the adverse impact on the provision of incentives for its development, as evidenced by the dynamics of significant qualitative and quantitative indicators in this area during 2004–2008:

- **Acute problems of economic activity of population are remaining:** the official part of the economically active population aged 15–70 years increased (by 1.3 %) and persons of working age (by 1.2 %); along with this growth, real share of the economically active population was increasing, including employment in the shadow sector (by 0.4 %); (number of economically inactive people of working age do not change from 2004 and it's more than 22 % of the working age population);
- **natural factors of inefficient market system and, consequently, the problem of reconstitution of the labor market is deteriorating of demographic situation in the country:** during 2004–2008 Ukraine lost 942.2 thousand of people due to depopulation (the population decreased by 2 %, despite a slight increase in birth rates, which was 13.3 %); rate of mortality increased (by 2.5 %, while increasing the level of vitality to 10.5 %)<sup>1</sup>;
- **a gradual decline in business activity of the population was observed:** the average number of employed workers in small businesses for 2004–2008 decreased by 15.2 %, including downsizing of employees by 17.1 %; share of unemployed persons who tried to organize their own business reduced (by 0.3 %); high entrepreneurial activity of the population in trade remains (33.4 % of the total number of small enterprises). The reason of low growth of employment due to business development is imperfection of mechanisms of state support for private initiative of citizens and creating a favorable business environment. Despite the positive dynamics of increasing the number of small enterprises (by 20.0 %, including the number of small companies for 10 thousand people by 16.7 %) difficulty in initiating activities and operation of businesses negatively affect on the regional labor markets, leading to a shadow of employment;

- **despite the trend to increase the value of wages as a regulator of labor supply, there is the opposite tendency – to limit this role:** the growth rate of real wages declined during 2004–2008 by 4.2 %, while the positive dynamics of increasing of nominal wages by 4.9 %; growth in income during this period in 3.2 times did not contribute the growth in their total share of wages, which dropped by 0.5 %; average salary in Ukraine reached in real terms about 70 % of wages in 1990. However, despite a significant increase in the average nominal wage gap between Ukraine and majority of European countries still remains. Thus, compared with 2004, the difference from the average salaries in Bohemia increased by 73 euro, by 61 in Poland, by 52 in Russia. Mechanical increasing in the minimum wage during 2004-2008 didn't solve the systematic differences in pay and didn't force employers to increase incomes of employees. This, in particular, shows that in 2008, 6.3 % of employees were in charge of the minimum wage set by law (440 UAH). The largest share of employees who have wages below the minimum was observed in the fishery – 16,9 %, agriculture – 15.6 %, in the provision of municipal services and in culture – 8 %;
- **a characteristic feature of the labor market of Ukraine is the low employment rate of persons with disabilities:** the number of employed disabled persons dropped by 2 % and accounted 39 % of the total number of disabled people of working age, while in other countries, employment rates for this category of citizens is really higher (e.g., Italy – 55 %, Sweden – 60.1 %, China – almost 80 %). The main reasons which hinder the employment of disabled people in Ukraine are: relatively low level of education of the disabled and their training; insufficient support for those, who enter the labor market first time (graduates), lack of jobs, which may involve job of disabled;
- **increasing scale of international migration of labor resources in Ukraine** and the risks of the state economy – Ukraine is still a country – donor of labor for the European Union (the total number of Ukrainian migrants working abroad, ranging from 3 to 7 million people); Ukraine is on the 4th place in the world by number of immigrants, and entry of migrants is often from migration risk countries (Turkey, China, Iran).

Model of economic growth seems to be very sensitive to the outbreak of the global crisis and sudden changes in the labor market. In the absence of sufficiently effective measures to establish an effective mechanism for employment and forming labor market in conditions of Ukraine's European integration, are these risks (which collectively reduce the level of social security of the national economy):

- **increasing of unemployment due to closure of businesses that are no longer competitive.** Exit of competitive foreign companies to the domestic market will lead to the **closure of inefficient domestic companies and, consequently, it'll create temporary unemployment**

**ment associated with releasing and retraining of staff.** Even today a large number of companies are unprofitable, and in terms of European integration, this figure will increase. The share of unprofitable small businesses exceeds 30 %. In particular, this situation was observed in most countries – candidates for EU membership (now new members of EU), which ultimately influenced on the negative trends in the labor market and increasing of unemployment. It is assumed that the situation will be even worse, especially in its western regions, due to a large number of companies concentrated in the small business sector that is the most vulnerable to external changes;

- **domestic labor market will be characterized by signs of underdevelopment and deformation, significant sectoral and regional unemployment.** Reducing of the demand for qualified professionals leads to the growth of demand for unskilled labor and the labor shortage in some areas, particularly in construction, agriculture, service sector among certain professions. While maintaining a similar trend, the segment of unskilled labor market in Ukraine in the future may be filled with labor from Asia, Africa, Moldova and other CIS countries;
- **the number of unemployed among the rural population, residents of small towns will increase, this phenomenon will spread across all regions due to inefficient using resources of their work.** Risk for Ukraine in the context of European integration will be a large-scale release of the rural population, which reduces branch's effective functioning of labor through the mechanical overstatement of employment in the agricultural sector through accounting of employment in private farms. During the past year, the number of employed in this sector decreased by 352.5 thousand of persons, and employees – by 122.8 thousand of persons. Since 2006 the trend of reduction in employment in private households has impact, which perfectly correlates with a decrease in the last two years, agricultural production in private farms. Problems of formation in the agricultural sector of high level of potential employment remain significant: experts with incomplete and basic higher education amount 14.9 % amount of accounting number of staff (generally in economics – 24.7 %), and even more striking difference for professionals with a complete higher education – 8.7 and 27.3 %;
- **The level of competitiveness of domestic workers will decrease. On the domestic labor market there is already a shortage of skilled labor.** Especially there is a significant lack of professionals of working and engineering occupations: according to the State Employment Service in 2008, 57 % of all declared vacancies account working profession. Results of a sociological survey showed that only about 29 % of workers consider themselves competitive in the market economic conditions; 48.9 % of all will try to adapt to the proposed

mode of work, but 61.4 % do not agree to adapt to unacceptable conditions and will try to change the place of work or go abroad;

- **differentiation in wage level in terms of region and sector will intensify.** As you know, the main reason of Ukrainian employment is the necessity to improve living standards and social status. In this context, the negative phenomenon is present in Ukraine significant differentiation in wages of employees by economic activities. According to State Statistics Committee of Ukraine, among 9.2 million of workers from various economic activities, 4.1 % of wages does not exceed the legally established minimum wage. Despite a significant increase in the average nominal wage, retardation of Ukraine from the majority of European countries still remains. Moreover, in accordance with EU standards, the average wage should be higher than the subsistence minimum by 3 times. According to calculation, hourly wage in Ukraine is too low compared with the EU, and is less than 1.5 euros, while the average hourly wage in industry in EU countries are from 10.60 euros in Portugal, 14.37 – in Greece, 15.22 – in Spain and over 30 euros in Belgium, Denmark and Luxembourg, while the average index for the EU is 19.91 Euro / ECU. Mechanical raising of minimum wage during 2004–2008 is not caused by the corresponding increase in productivity, does not solve the system contradictions in wages and does not force employers to cover the income of employees;
- **moral and psychological climate in society through unemployment of youth and women will infringe.** In turn, analysis of age shows that among people who can not find a place of work, the highest is percentage of people in the age group from 28 to 40 years;
- **criminalization of society and reducing of the level and quality of life in Ukraine will strengthen.** As a result of large-scale replenishment of the internal labor market by foreign labor serious problems in a country that receives them, with negative consequences such as increasing of crime, expansion of infections, increasing of ethnic tensions and social conflict can occur. Experts testify that Ukraine today is the largest transit zone in the CIS, and index number of illegal workers, who remained in the territory of country, exceeds generally recognized European standards in the 20–25 times;
- **low level of employment in the domestic markets will lead to an increase in international migration,** due to the fact that EU governments encourage «flow» of relatively «cheap» and skilled labor from Ukraine, during the last two years to countries – members of EU about 30 thousand of people moved: 78 % – to Poland, the rest to Hungary, and small quantity to Slovakia, Lithuania and Latvia. Taking into account the variety of traffic, and the fact that the Ukrainian people annually go abroad over 15 million times, it can be calculated that the citizens of Ukraine approximately 1.4 million times a year travel

abroad with employment goals and about 3 million times – with business goals. According to the Ministry of Labor and Social Policy, there are 2,5-3 million citizens of Ukraine working abroad. The threat is that migrant workers now (as well as their families, which greatly increases the scale of the problem) are potential migrants, and Ukraine loses the representatives of next generation. In regions with high levels of emigration there is such thing as «social orphanhood». In countries where labor markets of EU countries are partially open, there is shortage of labor in certain sectors. Thus, in Poland there is a lack of teachers, medical personnel, specialists with secondary technical education, a shortage in construction and agriculture;

- **the threat of social security through unwanted immigration labor will amplify.** It is that Ukraine is the 4th in the world by number of immigrants, and entry of migrants is often from migration risk countries (Turkey, China, Iran);
- **Ukraine will remain a country – donor of labor for the European Union** (the total number of Ukrainian migrant workers working abroad, ranging from 3 to 7 million people).

This study shows that development of any part of the public body should be focused on improving social security and really adds to the already achieved its level. The ability of structures of society (and especially the labor market), except the operation itself, also to be a social security factor gives background to consider them as a guarantee of security, and safety of the labor market and security of employment – as a system of social and state guarantees that is formed by a set of specific remedies from specific threats and is caused by the level of development of all sectors of society.

Therefore, reliable protection of population and territory, the basic interests of the employed population, sources of material wealth employees from external and internal threats is guaranteed by level of economic development in general and the security level of labor market in particular.

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