

DAVID LANE

University of Cambridge

Unemployment and Transformation: Incidence, Policies and the Remedies¹

Abstract

The transformation of the state socialist economic system caused significant shifts in the occupational structure and the labour market. The transfer to the market capitalism has annihilated ideological principles and economic system which provided for full employment. Post-socialist countries obtained not only all wealth of the market economy but also one of the evils connected with it – the structural unemployment. Proceeding from the structural analysis of post-socialist economies the author passes to studying situation in Ukraine in terms of case-study. To study the dynamics of shifts in the levels of employment in Ukraine the author uses the analysis of statistical data on employment; correction of the level of official unemployment; population surveys; focus-groups. The research has shown that under conditions of the market the task of production of exchange value supposes a decrease of work payment (labour remuneration) costs that leads to the increase in unemployment. As a whole, the allocation of resources by means of the market leads to negative results both for unemployed and for many employed. The question of possible counter-measures is considered by the author in terms of neoliberal and socio-democratic models, as well as of state and national capitalism

Keywords: *state socialism, state/national capitalism, post-socialist societies, case-study: Ukraine, employment/unemployment, self-regulation/regulation of the labour market*

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The transformation of the state socialist economic order led to significant shifts in the occupational structure and the labour market. Under state socialism all persons were required to sell their labour and to contribute to the national economy; voluntary unemployment was only acceptable if people were incapable of labour as a consequence of age or disability. Under state socialism, policy prioritized the provision of work for national and personal benefit and citizens had an obligation (*obyazannost'*) to work.

Full employment was facilitated by government planning and enabled by the public ownership of property. Maximising employment was a benefit to the enterprise as sales were assured and labour costs were factored into the planning system to absorb any surplus labour. While this has been rather disparagingly described as 'unemployment on the job' by writers such as Janos Kornai¹, it can also be interpreted as part of the way of life under socialism which guaranteed employees a stable income and a low risk environment.

The socialist states procured very high labour participation rates in paid employment. In the USSR, by 1979, 80.52 per cent of the age cohort between 16 and 54-59 (women and men) was employed². In Western Germany in 1982, the participation rate was only 62.5 per cent³. The difference was not only due to unemployment (adding the formally 'unemployed' to the total would only increase the West German total to 66.9 per cent) but to the non-employed status of many of the population.

Women are a particularly important group here. By 1970, they accounted for 51 per cent of the employed work-force in the USSR: in 1971, they made up 48 per cent of employees in industrial production, 68 per cent in communications, 85 per cent in health, 76 per cent in retail trade, public catering, 73 per cent in education and culture, and 78 per cent of employees in financial services (*kreditovanii*) and insurance⁴. By 1979, the female labour participation rate in the Soviet Union was 83.1 per cent⁵. The comparable figure for West Germany in 1982 was only 47.2 per cent⁶. From a social point of view employment gave women considerable vocational opportunities and from an economic one, it was a major contribution to joint household income.

In the post-communist social system, the dominant ideology, and consequently policy, changed. The post communist societies have attempted in different ways to subject labour to the market and to replace state provision. In a capitalist market economy people have no moral or legal obligation to labour. A livelihood may be secured in different ways, 'unearned income' from property and

1 J. Kornai, *The Economics of Shortage*. Amsterdam: Elsevier 1980, p. 255

2 Narkhoz SSSR 1980g. Moscow: statistika, 1980.

3 Data cited by Pietsch Anna-Jutta Pietsch, 'Shortage of Labour and Motivation Problems of Soviet Workers' in David Lane (Ed), *Labour and Employment in the USSR*. Brighton: Harvester Press, (1986) pp.176-190, quote p. 178.

4 Narkhoz SSSR 1922-1972gg. M: Statistika 1972, p.348.

5 Pietsch. See p.179.

6 Pietsch, p. 179.

profits, as well as transfers (from the state), provide a livelihood for a significant proportion of the population. Such transfers include dependence on family members as well as state transfers to the maintenance of unemployed or unemployable people. They are also able to work on their own account by forming businesses or doing odd jobs. There is no moral obligation to labour.

Neo-liberal transformation policies effectively destroyed the state socialist employment mechanisms of employment. Without the system of state planning, the labour force of the post-socialist countries was intentionally left subject to market forces and, consequently, increases in unemployment.

Under capitalism, state policy is based on a philosophy which seeks to provide a minimum level of income and well-being. Social-democratic administrations are more interventionist on the labour market and devise policies to promote the number of jobs and to facilitate training of labour to meet demand created in the private sector. Whereas neo-liberal ones regard the market as being self-regulating; unemployment is a spur for people to improve their qualifications or to search widely for work. The underlying assumption is that there is an economic mechanism which is self-adjusting. Areas of high unemployment will lead to a lowering of wages which, in turn, will induce investment, on the one side or, on the other, will facilitate the adaption of labour to new market conditions; optimistically it might concurrently do both. Hence, in neo-liberal logic, a free market with mobility of capital and labour will lead to equilibrium on the labour market thus promoting a more efficient and effective use of resources.

Whether this kind of reasoning is correct is open to dispute and I shall return to consider the implications after considering the effects of transformation on the labour market.

Labour Utilisation

The initial impact of transformation led to significant shifts in levels of employment which may be measured in three ways: first by study of the statistics of numbers of people employed (i.e. the proportion of the population in paid work), second, by assessing the level of registered unemployment and third, by surveys of the population. We consider these in turn.

An indirect measure of unemployment is given by the size of the employed labour force. State socialism achieved very high levels of labour participation: between 75 per cent and 87 per cent of the available labour force was employed. Figure 1a shows the numbers of people of working age employed in the economies of selected post socialist countries since 1989 and Figure 1b shows in more detail the changes in Russia and Ukraine.

Note the tremendous drop in employment levels between 1989 and 1999, there were particularly steep falls of 21.7 percent and 17.9 per cent in Hungary and Poland respectively, and 13.3 and 15.2 per cent in Russia and Ukraine. Reduction in the labour force participation rate particularly affected women. By 2009, labour force participation rates in Russia had fallen to 57.5 per cent for women and 69.2 per cent for men; in Ukraine to 52 per cent and 65.4 per cent, respectively for women and men. For Poland, the comparable figures were 46.2 per

cent and 61.9 per cent; and for Hungary 42.5 per cent and 58.8 per cent.¹ They were of the same magnitude as in capitalist economies: the percentage employment rate for the UK was 55.3 (female) and 69 (male); and 53.1 and 66.8 for Germany. This was a massive decline consequent on the introduction of neo-liberal economic policies and has involved for women a process of ‘domesticization’. It has also involved work on a part-time casual and unrecorded basis.

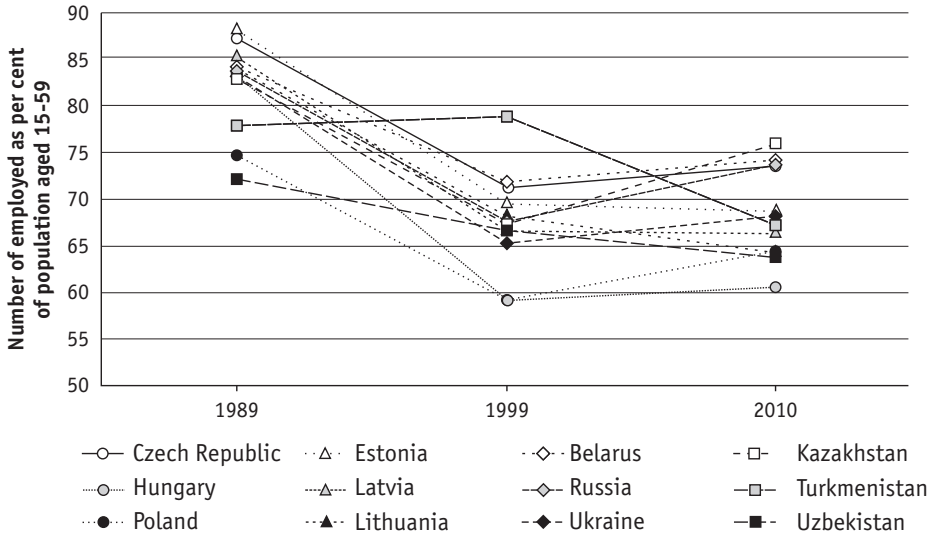


Figure 1a. Employment ratio Post Socialist Societies 1989-2010

Source: TransMONEE 2012 database. www.unicef.org/ceeceis accessed June 2012

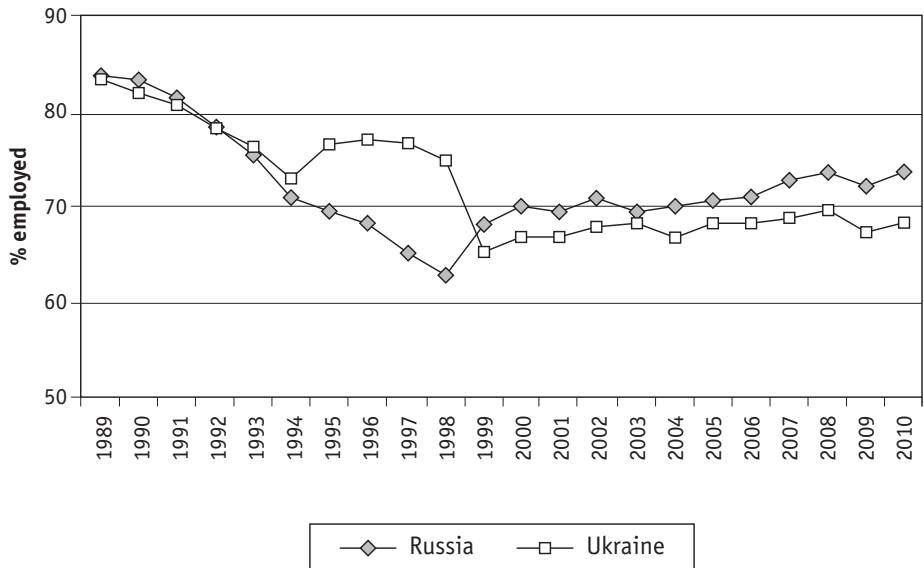


Figure 1b. Labour Utilisation Rate (1989-2010) Russia and Ukraine

¹ UNDP, Human Development Report 2011. New York and Basingstoke 2012, pp. 139-40.

Tens of millions of people lost their employment status. In neo-liberal economics, such losses indicated that the state socialist regime had 'overemployment' and that the market was realising more effective labour utilisation. The labour force began to be shaped by market capitalism with many more people being self-employed and others receiving transfer payments in the form of unemployment benefits. There was no longer any *obyazannost'* to labour and some people could legitimately live on unearned income.

Taking the EBRD transition indicators for 2003 (the sum of 9 indicators), the correlation between rate of decline of the labour force and progress to transition was +0.58 – the greater the neo-liberal reforms, the greater the fall in levels of employment. This is what one would expect as neo-liberal policies are designed to reduce labour costs and increase labour productivity. While the initial decline in employment recovered somewhat after 1999 (as shown in the graph) it has failed to compensate for the job losses through the creation of new jobs.

Registered Unemployment

When we turn to consider the levels of registered unemployment, a similar but not such a strong trend is apparent. Official estimates of unemployment are to a considerable extent dependent on administrative arrangements for the collection of data. Unemployment is usually defined, by labour authorities, as being without paid work while concurrently seeking it during the last 4 weeks. These data underestimate the real levels of unemployment as 'actively seeking work' is socially constructed. There is also a balance between costs and benefits of registering as unemployed.

As we note from Figure 2 (LFS – Labour Force Survey), unemployment rose greatly in the early years of transformation – Poland had particularly high rates of over 15 per cent between 2000 and 2005. The rapid move to the market created enormous problems: to take one example, the Nova Hutta steel complex in Poland employed over 40,000 workers before transformation, by 2008, its work force had shrunk to around 5,000.

The correlation between level of unemployment and transition indicators is again positive, but lower. If we consider the average increase in unemployment between 1993 and 2008, the correlation between level of country unemployment and EBRD indicators is 0.2 for 2009 and 0.3 for the year 2003. We might note here that the least reformed countries (Belarus, Turkmenia and Uzbekistan) are omitted from the calculations as no unemployment figures are available for these countries. It seems likely (in view of the finding above) that unemployment would be lower and hence the correlation higher.

Registered unemployment peaked around 1999, and then began to fall until the economic depression post 2007 when it rose again. In states with low employment protection (EU New Member States and Turkey), the IMF recognizes that unemployment is likely to increase. They rely on the traditional neo-liberal mechanism: in emerging Europe, 'employment adjustment has been severe, and labor market flexibility will be key to the necessary reallocation and future job

creation'¹. In high labour protection countries, such as Germany, the effect on unemployment is lower and productivity per worker falls.

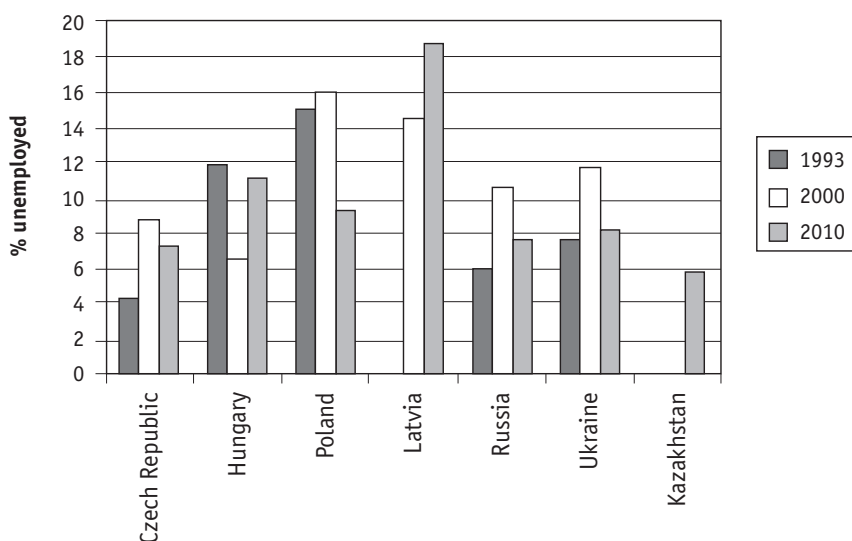


Figure 2. Registered Unemployment Rates 1993-2010: Post-state socialist societies.

Ukraine data for 1996 (not available 1993)

Source: TransMONEE 2010 database. www.unicef.org/ceecis. Accessed 24 June 2010. Transition Report 2003. London: EBRD 2003. p. 16. (Russian edition). Unemployment is defined as not being in paid work and looking for work in the last 4 weeks.

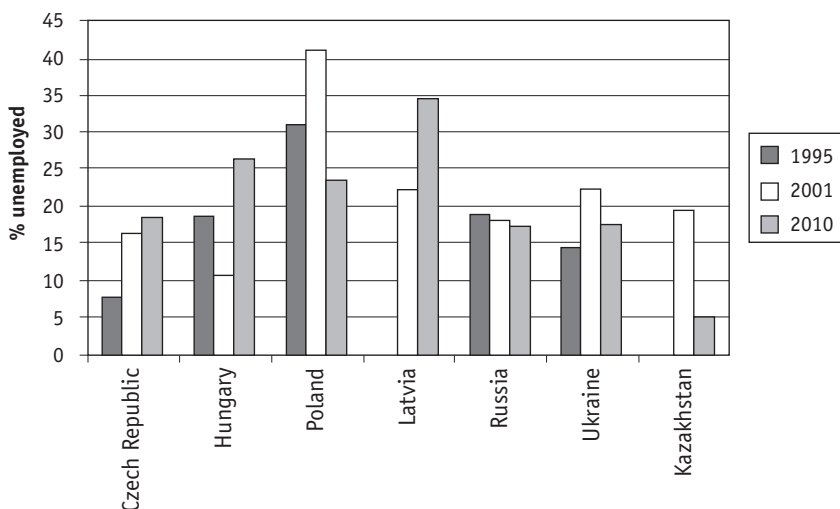


Figure 3. Unemployment rate among 15-24 year-olds

Source: TransMONEE 2012 database. www.unicef.org/ceecis. accessed June 2012.

¹ World Economic Outlook (WEO) October 2009, p.17. See also data in box 1.3 showing the rise in unemployment to be higher in 'emerging Europe' than in Latin America. (Registered) unemployment in August 2009 was 12 per cent for Latvia, 10 per cent for Hungary and 11 per cent for Poland. WEO (2009), box 2.4 p.77.

The levels of youth unemployment in the post-socialist states are again extremely high, indicating that new work statuses are not being created. (See Figure 3). The very high levels (over 40 per cent in Poland and over 20 per cent in Latvia in 2001) were a 'push' factor in the emigration of young people as these countries moved towards membership of the European Union.

Again the figures are highly correlated with the introduction of neo-liberal economic policies. The correlation coefficient between youth unemployment in 2005 and EBRD indicators in 2003 was 0.42; if we consider the average of youth unemployment between 1995 and 2008, the correlation is 0.44. We must also bear in mind that the transition laggards (Belarus and Uzbekistan) provided no unemployment data, and it seems likely that they would have had less unemployment – hence raising the index.

Differential Outcomes

Study of individual countries throws light on the effects of policies. In the central European NMS of the EU (Hungary, Czech Republic and Poland), relatively high levels of FDI, as well as structural adjustment funds from the EU, initially enabled transformation to take place relatively successfully. Hungary and Czech Republic are small states with considerable industry which was privatised by European companies. The increased wealth, even if it led initially to unemployment, sustained a state of well-being which had been induced by the politically inspired transformation process. The European Union also created a free market in labour and this alleviated much of the unemployment – the unemployed or potentially unemployed could move to other parts of the European Union, which they did in large numbers.

In the longer term, however, the neo-liberal economic philosophy applied by the European Union to the New Member States is shown to be deficient on two counts. First, the restrictions on state support led to factory closures on a vast scale. Companies in the old member states secured their own interests by preventing the rise of state corporations in the NMS, and they were able cheaply to secure assets.

Second, the provision of new occupational statuses to replace the jobs lost through individualistic economic 'entrepreneurship' by the unemployed was completely inadequate. There is a limit to the number of new businesses which can be created in a depressed industrial area and it is fantasy to expect factory workers to be interested in, or be able to form, new businesses.¹

What has become more important is the rise of a low pay market economy. The significant effect here is that the pay from regular employment does not compensate the employee for his time and effort. There are two consequences for labour: first many reject low paid work and seek alternative skrytye (hand to hand) payments.

¹ For a detailed account of the impact of factory closure in Poland see, Vera Trappmann, *Fallen Heroes in Global Capitalism: Workers and the Restructuring of the Polish Steel Industry*. London: Palgrave 2013

Second, migrant labour becomes a major concern¹. The free labour market led to significant geographical labour mobility away from the depressed areas to the richer ones of the economic core. This occurred both on a regional (European Union) and a country basis.

Data on unemployment collected on a comparative statistical basis are useful for bringing out general trends. Case studies of particular countries or communities indicate many more dimensions of the ways in which unemployment affects social life.

A Case Study: Ukraine

Who is unemployed in Ukraine? Published official statistics indicate that around 7 per cent of the population of Ukraine is unemployed – in the sense that they have no regular paid employment and are registered as seeking work.

Official data collected by the Council of Ministers in Ukraine record some 8 million persons of working age being unemployed in 2009. This is diagnosed as a ‘quantitative and qualitative imbalance between supply and demand labor’ and inadequate levels of skills. There is a low cost labour force. Labour costs are only 9 percent of production costs in Ukraine whereas in the European Union it is 45 percent. In January – December 2009 only 7 percent of vacant jobs offered a salary equal to or higher than average wages of employees in post.²

Almost half of the unemployed registered in State Employment Service are young people. In 2009, registered as unemployment were 975.5 thousand people were aged under 35 years, including 74.1 thousand who were graduates of higher and vocational education. The orthodox way of explaining the level of level of youth unemployment is to postulate a mismatch between the types of vocational training provided and the needs of the economy and the labor market; other contributing factors are a lack of quality training, poor working conditions offered by employers of young people.

Regional unemployment is also a problem, particularly in, mining and rural areas; there are also problems of employment for disabled people of various kinds who cannot compete on the labor market. Many workers are employed in the ‘unofficial’ economy. Migration is one response to regional unemployment. The Ukrainian census of 2001 showed that 14.4 per cent of the population (6.5 million) were living abroad. Most emigrants originated in West Ukraine where there was high unemployment and low wages. Such emigrants, irrespective of education were employed in low skilled jobs. Migrants could earn on average 820

¹ Data in this paragraph derived from: Migration in Ukraine: Facts and Figures. September 2011. International Organisation for Migration. Mission in Ukraine. September 2011. www.iom.int

² Kabinet Ministriv Ukrainy, Postanova No. 813 “Pro zatverdzhennya Osnovnykh napryamiv realizaciyi derzhavnoyi polityky zajnyatosti na 2010-2011 roky” vi 8 versenia 2010 roku, (Cabinet of Minister of Ukraine, Resolution No. 183 of 8 September 2010 “On approval of the Guidelines of the state employment policy for 2010-2011”. Source: Uryadovyi kur’yer vid 15.09.2010 – №70; Oficiynyi visnyk Ukrainy vid 20.09.2010 – 2010 r., №9, stor. 10, stattiya 2488, kod aktu 52748/2010, Ind. 26

USD abroad, compared to average salary in Ukraine of 281 US\$. It is estimated that unemployment would have been 1.5 times higher in 2008 without emigration to work abroad. Remittances sent back were nearly equivalent to the total of FDI received by Ukraine and 8 times higher than official development assistance. Mostly used in Ukraine for living expenses. Concurrently, Ukraine had attracted some 5.3 million residents who in 2001 had been born abroad. These newcomers came from the Russian Federation, Moldova, Uzbekistan, Belarus, Georgia, Armenia and Azerbaijan.

Regional spread. Hence in a narrow sense, the market was working – labour was being displaced and moved. However, this movement was at considerable social costs to the families of labour.

My own study included gives three sources of information: a poll 1800 people randomly selected from over the Ukraine asking about their experience of unemployment; discussions with 20 unemployed people organised in the form of two discussion groups and ten face to face interviews with unemployed people which took place in Kiev. The public opinion polls were conducted in April 2012 and the interviews and discussions took place in June 2012.

According to my survey, official data significantly underestimate the level of unemployment. Of the 1800 people surveyed, 15.9 per cent answered positively to the question: ‘Are you currently involuntarily unemployed and seeking paid work’ (81.6 per cent said no and 2.4 per cent did not answer the question). The total sample, of course, includes people who cannot work for one reason or another – such as students, women on maternity leave and disabled people (who are excluded in these figures). Thus the proportion of the population capable of work (but currently not seeking any) and not having it would be even higher – perhaps as much as 18 per cent (See Figure 4).

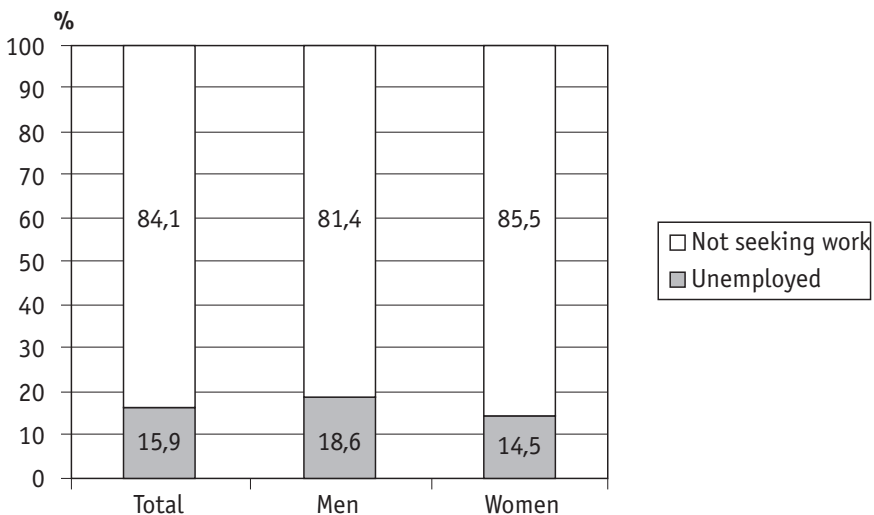


Figure 4. Ukraine: Respondents currently unemployed and seeking work: by Gender. Source: National Survey (N=1800), 2012.

The discrepancy between official data and the survey is due to many respondents performing performing non-contractual labour (skrytaya zarabotnaya

plata) on many jobs which are available for both manual and non-manual skills. Those without a paid occupation take part-time work which is not administratively recognised. Consider one of our interviewees: [Anna] 'Being unemployed does not mean without jobs. The concept of unemployment is a conditional one, and it doesn't mean that I don't do anything. I do a number of jobs to earn some money. But the main negative feature of unemployment for me is that I can't realize myself professionally.... I cannot find a decent, permanent job. Sometimes my skills are in demand. Sometimes I take part in projects ... Sometimes I am engaged to write articles ... Also I do some kinds of tutoring. But all these are 'day-to-day incomes'. Uncertainty dominates on the first place.'

Many of the formally unemployed participating in the focus group meetings pointed out that the social costs of a regular paid job were not sufficiently recompensed. As Vadim (aged 44 and a former porter) put it: 'part-time temporary work is much better than the regular job where you have to go the whole week, even on Saturday and at the end of the month you will just get your 1500 grivna. For me it is much better when you go to work when you want to'.

'Initially I welcomed unemployment as it gave me a rest. Then crisis suddenly came and it turned out that not only was it hard to find a new job but everyone around kept losing their jobs. So I lost my spirit and went to my dacha (to the countryside). I started to look for something new, tried to find some part time jobs as it was the only way for me to get money. Hence the countryside is a haven for many of those laid off in the towns. ... Life in the countryside was not too bad'. He found a new occupation: selling worms to fishermen – which was more profitable than routine unskilled labour.

Rather more adequate adaptation was shown by Maria, aged 30 and a previous seamstress, found that she was able to set up as a home worker and receive enough from her private work to maintain herself.

When we consider the social background of the unemployed, more men than women are unemployed and seeking work (18.6 per cent compared to 14.5 per cent); despite the fact that many more women have been made unemployed. Consider the experience of Elena aged 40 and a hairdresser. As she recalled at the focus group discussion: 'At first I was very optimistic about finding work after the hairdresser's closed. But I found it difficult even to get a job with a good cleaning company. As my husband didn't earn enough money, our family suddenly faced poverty. ... I don't have much education [so the jobs open to me are limited]. But now I feel that no one actually needs me in this country. Women after 45 years are just thrown overboard, and a proper life is had only by those, who have married [a husband with a good salary]'. Hence domesticisation is not so much a choice but a necessity for many women. Women have fewer opportunities for jobs, so don't seek them and rely on the household for income.

The youngest group (18 to 25) has the largest number of unemployed (24%) falling to 18.5 per cent of the 46 to 60 age cohort. (See Figure 5). As one of our unemployed female interviewees put it:

[Anna] 'High school was hiding the youth unemployment for many years. Parents see that their children have nowhere to go to work. So they decide to give them higher education, hoping that some prospects will open for the children. But the prospects don't open up. Now a lot of young economists, lawyers etc. are,

in many cases, at the market — trading some soap or other trifles. Parents now see that education gives nothing. Such a number of specialists on international relations are not necessary in Ukraine. This is totally a waste of parents' money.'

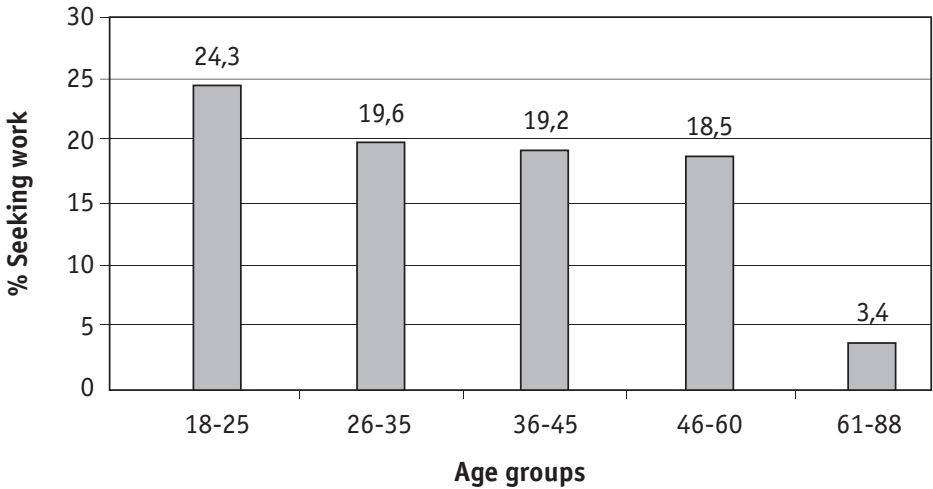


Figure 5. People currently unemployed and seeking work: by age group

While young people certainly bear the brunt of unemployment, higher education does improve employment chances. As shown in Figure 6, those with full secondary education are the least able to cope on the labour market with over 20 per cent of this group (currently) being unemployed. Some 13 per cent of those surveyed with higher education were seeking work. The lower proportion of those with primary and incomplete secondary is accounted for by a much higher number of older people who would be retired or living in the countryside.

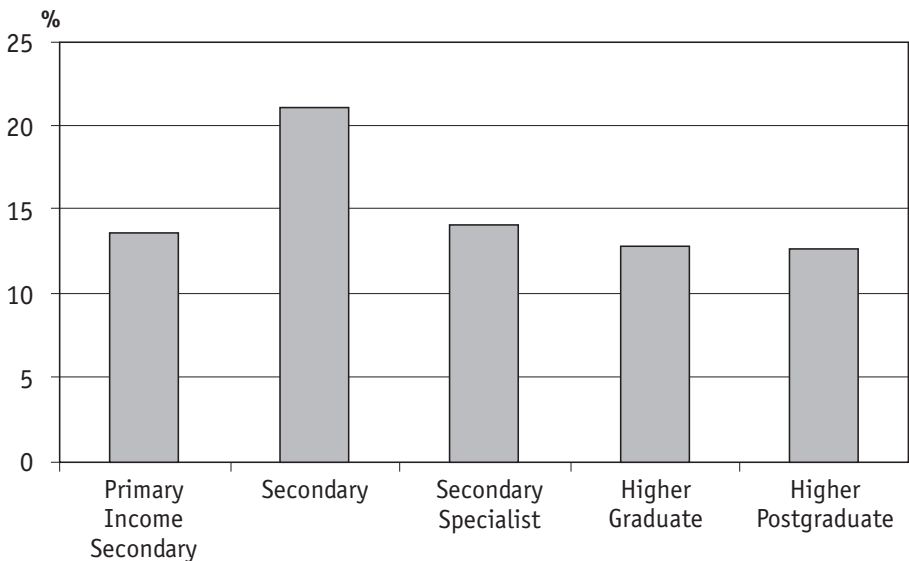


Figure 6. People Seeking Work by Education (Percentage of total group)

The incidence of unemployment is greatest in households with the lowest incomes, as noted in Figure 7. Relatively few in the highest household income groups were seeking work.

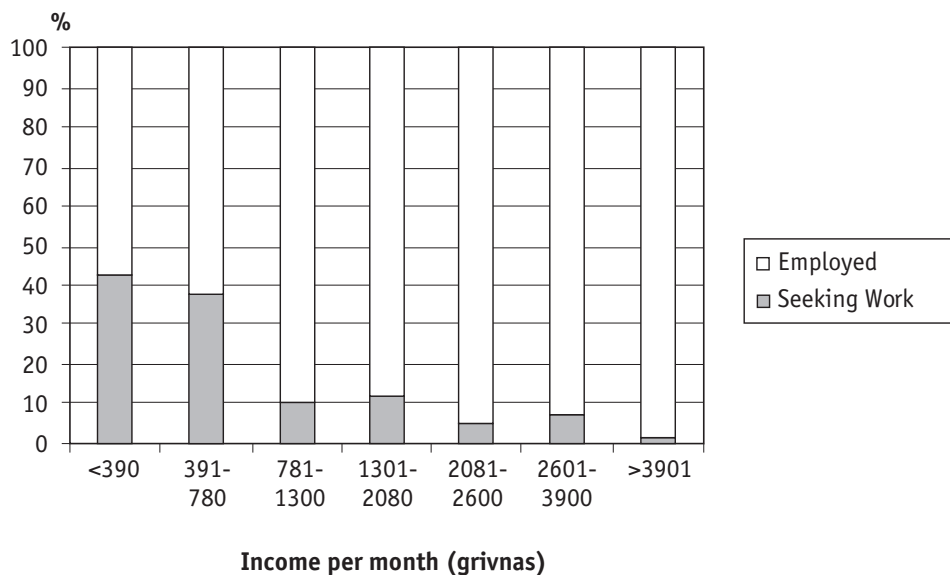


Figure 7. Unemployed and seeking work by current average household income.

To measure the incidence of longer term unemployment, we asked who had over the last three years been unemployed for a continuous period of six months or more. This question indicates the kind of person who finds it difficult to secure regular paid work. Some 22 per cent of the respondents came into this category: of men 26.3 per cent and 19.4 per cent of women. As shown in Figure 8, unskilled manuals were the most affected by longer term unemployment, though more than 10 per cent of respondents in the other three categories had been unemployed for six months or more in the past three years.



Figure 8. Unemployed for 6 continuous months (or more) in last three years, by occupation (% of group).

Total number of respondents 1800, Percentage of group. All respondents answering that had been unemployed for continuous period of 6 months or more during the past three years.

Figure 9 confirms the unfavorable market experience of young people and also those with secondary education. Those with higher education had also experienced considerable unemployment.

Again unskilled workers and manuals take brunt of unemployment. Consider one of our unemployed interviewees, Viacheslav aged 48 and a former security guard.

‘I left my job because the salary was ever so small. But the manager still reduced it and there was even delay in getting paid. They cut the wage from 1500 UAH to 1200 UAH for the same work. So I have an unstable salary and delay in being paid. Why do I need such a job?’ Or consider Konstantine aged 35 a manual worker in one of the focus groups: ‘There is the uncertainty. It is a big problem for the family when you don’t know what to do. Before there was confidence as there were two salaries... I have faced the situation where there is no work in my speciality. If to retrain, then I would have to work for some years to master the new profession. But even in case of retraining, where will I work? The salary is 2500-3000 UAH (300-360\$ per month) at the state enterprises. It is very difficult to provide for a family with such payment’.

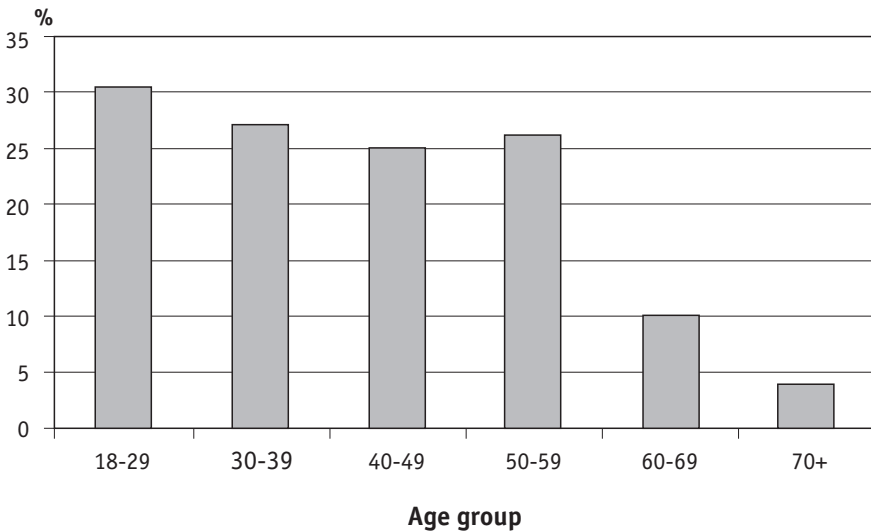


Figure 9a. People unemployed for period of 6 months or more during the past three years: by age.

Does the Market Improve Labour Allocation?

One of the arguments advanced for a market to reconcile labour skills with employment wants, is that the market more efficiently matches levels of skill and efficiency with pay and conditions. To examine this proposition, we considered those who had been unemployed for a period of 6 months or more during the past three year period, but had found work and were currently employed. We asked whether the subsequent employment was better, the same, or worse than the position held before the period of unemployment. The objective here is to see if the introduction of the market leads to an improvement or not in the work situation.

Here we consider the successful ones who had found another job. Others, of course, were still unemployed. The answers here indicate how the labour market was operating.

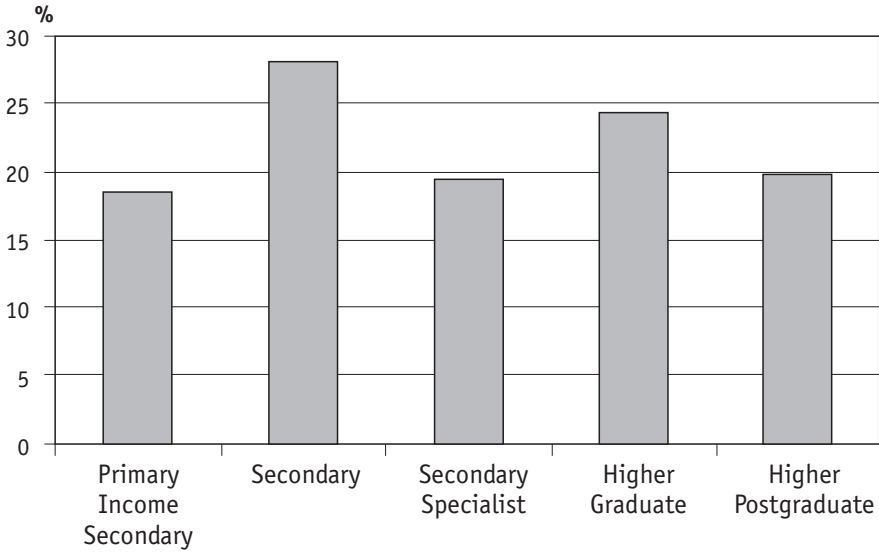


Figure 9b: People unemployed for period of 6 months or more during the past three years: by education

Total number of respondents 1800, Percentage of group. All respondents answering that had been unemployed for continuous period of 6 months or more during the past three years.

Of the 175 who had found a new job, about a third of the respondents had found a better job, but a fifth of the women and 15 per cent of the men had a worse one. (See Figure 10). Employment prospects for women were either worse than for men or women were willing to take less agreeable employment. Though the number of women in the work force had reduced, fewer were actually seeking work.

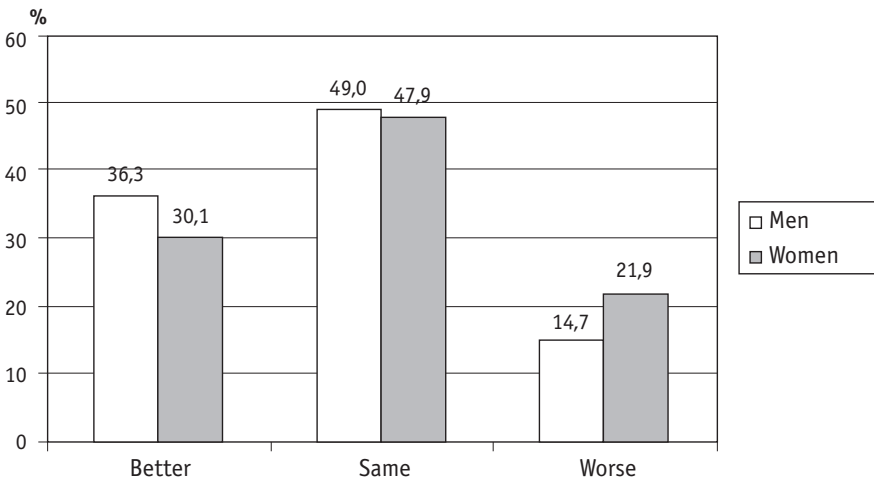


Figure 10. New Job after Unemployment: better, the same or worse

But the largest group – nearly 50 per cent – were neither better nor worse off. Of course, here we only consider those who were successful in finding jobs – not those who had not found another job.

As educational level rose, as we see from Figure 11, we have a phenomenon of a rise in both the number of better and worse jobs.

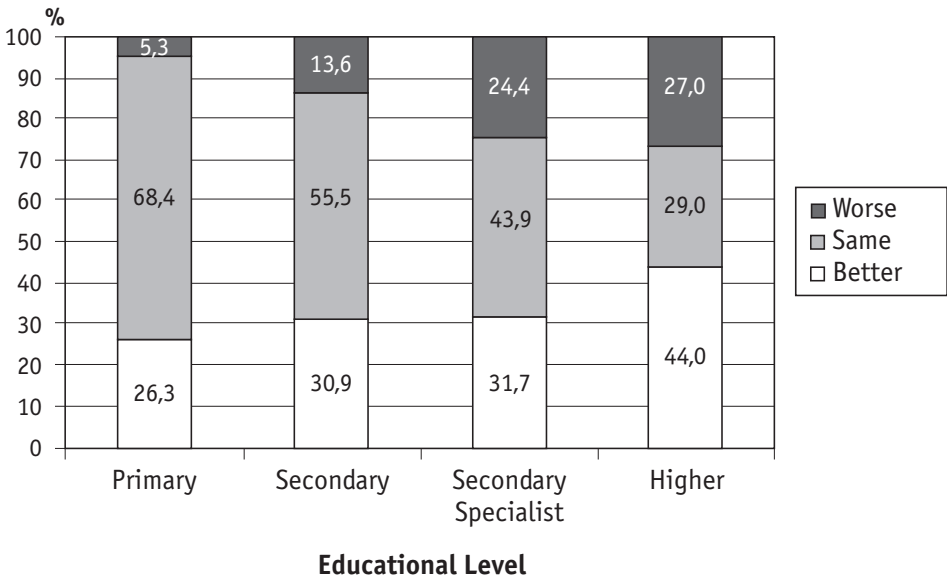


Figure 11. Jobs after unemployment (Worse, the Same or Better) by educational level

The ‘overqualified’ nature of those with higher education led some (27 per cent) to take worse paying jobs. The greater income differential under market-capitalism had the effect of making the conditions and rewards of some executive and administrative jobs better paid. However, many jobs were taken by people with higher education which were either lowly paid (as in the public sector) or highly educated people took jobs of lower quality. At the other end of the education scale, those with primary education had rather better jobs.

By age, as illustrated in Figure 12 younger respondents had done better in the job market: around 40 per cent finding better jobs, whereas for people over 40, more had found worse jobs than those who were in better jobs. Possibly some of those taking worse jobs were less effective employees. This is some evidence that the labour market had some positive effects. Some people have done better from a market economy. But the overall effect on the unemployed and many of the employed has been harmful.

This is summed up by Elena, aged 28, an unemployed manual worker interviewed in Kiev:

‘I am sociable person and I would like to be in society and now I am always at home... There is lack of communication. And incomes have also reduced. I feel it a lot. When I buy groceries, now I should primarily look at prices. And if we go to have holidays, we should think again. Though my husband has work and earns money, we live on his money.’

[As to consequences on family life]: ‘My self-actualization is only in my family. As family is the basic in life. But now I have such feeling that something has disappeared from my life. It is related to the unemployment. I have disappointing thoughts because of lack of self-actualization. Doubts about my necessity and usefulness have appeared. The wish to see my close friends has disappeared. I might have bad moods without any reasons. Nothing cheers me up. I don’t even want to do things which usually bring me joy; I don’t want to go for a walk. My only wish is for isolation. Go to the countryside. Job loss has affected life. Whether you resign or you are dismissed, there are negative feelings. My interests have changed. We have to save money.

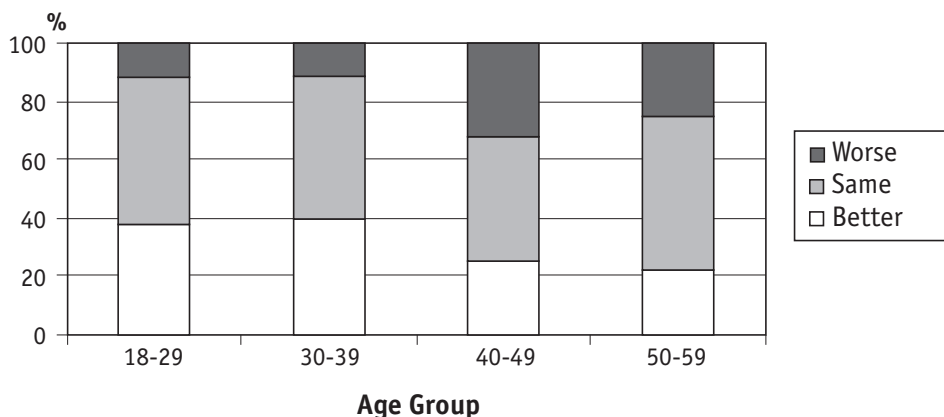


Figure 12: Jobs after unemployment (Worse, the Same or Better): by age group

On the one hand, I have more time for household chores. And I may spend more time on reading, knitting, embroidering. Take up some activities for which I have not had time before. ...

The main disadvantage of unemployment is lack of money for self-actualization. There is no possibility to realize my potential. And the depression is coming. And there are different thoughts, and you start to think pessimistically.’

The Overall Outcomes

The move to market capitalism has effectively destroyed the ideological underpinnings as well as the economic system which engendered full employment. Labour is now a real cost to the enterprise and the production of exchange value entails minimising wage costs – quite the opposite of the situation under state socialism.

The effects of market capitalism have been to reduce the size of the labour force and to increase the number of people who are unemployed. Official statistics collected through labour registration significantly underestimate the number of people unemployed and seeking work. ‘Skrytaya’ employment and earnings are a consequence of a low pay economy which makes it more rational to perform casual labour than to take regular employment. The losers in the labour market are women, older workers and the unskilled. Some social groups have had a

mixed result: for some in the middle classes, more and better paid opportunities have become available; others however have had to do less desirable work. Social polarisation has increased. Similarly for those entering the labour market, some young people have done well but others have found that the job market provides restricted opportunities.

With the exception of self-employment and the setting up of small businesses, post-Soviet policies have not made any significant improvement in the level or quality of employment, and the labour market provides many fewer jobs than required by people requiring work. The post-socialist countries not only inherited the virtues of markets but also one of its major social evils, structural unemployment.

What are the remedies?

In the neo-liberal theory, which guides the current leadership of Ukraine, capital will flow to those areas where costs (of labour and land) are lower and thus there will be an equalisation of capital. This should happen in any free market economy: on a world scale, capital should flow from the developed countries to the undeveloped; within countries, areas of economic depression with low costs should attract investment at the cost of areas of high costs. People should adapt by adjusting and improving their skills to the jobs available.

In conventional Western economics, the economic mechanism always moves to equilibrium: in theory, the market's 'hidden hand' counters any negative change in the economic system with a countervailing tendency to reverse the induced change. Hence, if a factory closes making workers redundant, the conventional economist's response is that they will seek other work or, if none is available, they will either start their own businesses or accept lower wages and hence attract investment which will provide new employment. In this way a new equilibrium is reached.

However, in the real world there is 'no automatic self-stabilisation in the social system'¹. The response is not to induce countervailing forces but to reinforce changes 'which move the system in the same direction as the first change but much further.'² This is a process of circular causation. De-development is cumulative and leads to further de-development.

Taking the example of unemployment, it will have cumulative effects in the same direction: the unemployed have low spending power, their mental and physical health suffers, they incur debts, and their family life disintegrates. There is no stimulus for investment; on the contrary, the lack of economic demand leads shops to close and housing construction to be abandoned. If there is free movement of labour, workers move elsewhere hence changing the age and sex structure and making the labour force less viable. The declining economy leads the tax income of government to fall though the social and economic needs of the area rise. Lack of tax revenue leads governments to adopt 'austerity' measures thereby

¹ Myrdal p.13.

² Myrdal p.13.

again lowering public welfare – educational levels fall, poverty increases. Social stress increases. The area becomes even less attractive for economic and social development.

Within a neo-liberal framework, to remedy the negative downward spiral, government intervention takes place with policy initiatives which seek to reverse the trend: public investment, support for private initiative, vocational training, income support. These measures move in the opposite way to the stable equilibrium. Invariably, such measures only address limited aspects of the problem and unemployment and its consequences are structural in character and remain unresolved.

Government policy, neither in Ukraine nor in any market economy, does not seek to provide full employment but to improve access to employment and to ameliorate its effects. A partial remedy is the provision of jobs through public works, by encouraging entrepreneurship and improving the mechanism linking vacancies to job-seekers. These measures are useful but have been found to be inadequate and high levels of unemployment are likely to continue. Geographical mobility of labour both nationally and globally, government schemes of job-creation and vocational education, support for small business and entrepreneurship can have positive marginal effects. But the downward pressure on labour costs consequent on profit maximisation makes high levels of domestic unemployment and low levels of labour utilisation a systemic feature of neo-liberal capitalism. The market mechanism works in the direction of facilitating the mobility of labour from low pay to high pay areas, which in turn exacerbates social tensions which often take a national or ethnic character. There is no endogenous self-equilibrating mechanism in neo-liberal capitalism.

A move to more Keynesian measures of public investment coupled to state indicative planning would be a more radical solution. This scenario would involve a form of indicative planning for the economy as a whole and to secure a full employment economy. The setting up of a Ministry of Employment which would be employer of last resort would increase employment. The analogy here would be with central state banks who act as lenders of last resort. This would be a social-democratic market type of solution and would maintain a capitalist base to the economy. Whether this is a practical proposition in the context of a global market economy is most doubtful. It goes completely against the theory of self-interest maximising firms and individuals which drives the free capitalist market. And it would require a radical shift from the assumptions of free mobility of labour, capital, commodities and services. Profit maximisation entails cutting labour costs and reducing labour to the minimum and would be in contradiction to a full employment policy.

Nothing more than a major systemic change is necessary to ensure a full employment rate comparable to that of state socialism or national capitalism (as in Germany in the inter-war years). In this paradigm capitalist privately owned companies secure profits within the context of a state led economic planning. Such economies provided a full employment economy based on a philosophy of work; and an economic policy of development which included the maximisation of labour use. Neither of these assumptions are part of the neo-liberal economic framework.

There is one other model which might lead to a full employment economy. It would require a leading role to be given to administrative/state, rather than market, coordination. A form of state capitalism could provide an economic and political basis. This would go much further than national capitalism as it would include state ownership of the means of production. China would be the model to copy here. It would also entail a more autarchic form of political economy organised on a regional basis. It could not be achieved within the present world economic system. Such an option would only be likely consequent on the further instability of the world economic system. Should the financial crisis become even more severe, leading to a crash of world capitalism, such a scenario would be a possibility. In current circumstances, however, it does not appear to be a likely scenario.