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Social security, labour market and restructuring – Russia and Ukraine

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Since the beginning of the 1990s, demographic, economic and social changes occurring in Russia and Ukraine have had an impact on both labour markets and social conditions. One specific long-term challenge is their shrinking workforce. Low fertility, migration (higher outflows in Ukraine) and shorter life-spans, especially for males, have caused a rapid rate of depopulation and shifted the population's age structure towards older age groups.

Social security systems from the Soviet era's centrally planned economy were not useful in the new economic system. Prior to 1992, both Russia and Ukraine had social safety nets common in all Soviet republics, their primary goal was maintaining certain levels of family per-capita income through supplemental wages. Due to the near 100% employment and supplementary character of the safety net, the majority of its administration was carried out by state enterprises. The safety net relied heavily on in-kind benefits, such as free housing, childcare, subsidised food and prices for various goods. At the beginning of the economic transition, social programs expanded, then curtailed and eventually administrative responsibility moved away from state enterprises towards more individualized solutions.

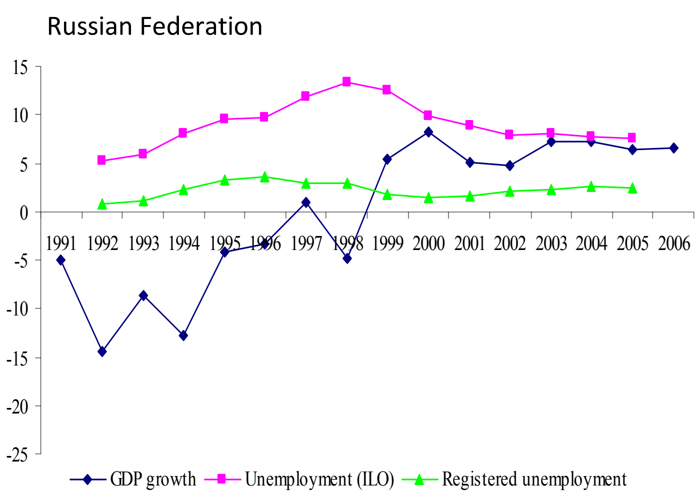
Effect of restructuring on labour market

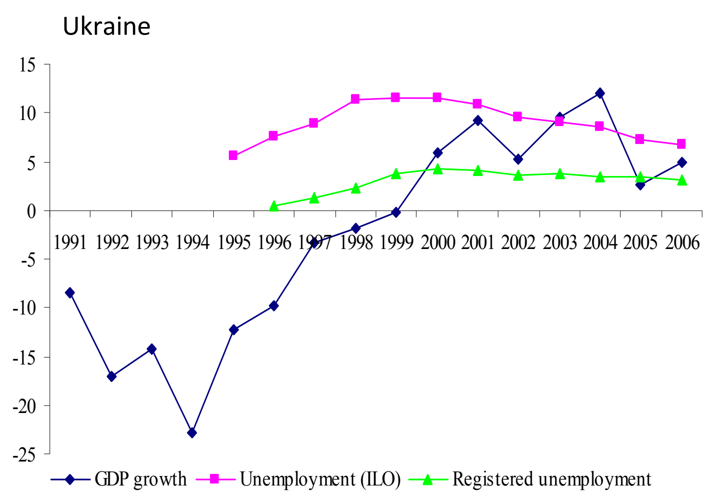
Despite an ageing and declining population, the size of the working population was stable in Ukraine and Russia, and activity rates were high. This was due to increased activity by the young and elderly, a result of poverty and social safety net inefficiencies. In addition, many people work in informal sectors, often producing goods for their own consumption.

In the early years of economic transition unemployment in Ukraine and Russia was much lower than in other Central and Eastern European countries with similar economic transition experiences. Additionally, gender differences among rates of employment were not high. According to historical patterns female labour activity remained high and close to the male activity rate. There were slight differences, but they were partly attributed to the lower retirement age and child care responsibilities of women.

In the second half of the 1990s, unemployment began increasing and actual rates reached levels similar to other transition countries, although the officially registered rate stayed very low.

Figure 1. GDP growth and unemployment





Source: Statistical offices of Russian Federation and Ukraine, data from ILO and IMF.

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One of the reasons for the disparity between actual and registered unemployment was labour hoarding. State enterprises were under pressure from the government – both local and federal – to limit the flow of workers into unemployment. So, though officially employed, a portion of the workforce was unemployed according to International Labour Organization (ILO) standards. In general, workers are willing to stay officially employed (with lower wages, shorter working hours or forced leave) because it offers them a sense of security, partial income, social benefits and time to work at a second job. The differences between registered and actual unemployment prove that changes in unemployment laws and unemployment assistance are necessary.

Labour market changes have affected women and men in different ways. Gender asymmetry can be observed in employment cuts, change of employment between sectors, and access to jobs in the private sector. Downsizing and the closure of state-owned enterprises has led to unemployment for both men and women and to a significant decline in the labour participation rate. Although the gender differential in unemployment rates is relatively small, the female unemployment rate fell slightly below that of men in both countries.

The wage gap is one of the widely discussed characteristics of the labour market in Russia and Ukraine[1]. Female salaries are reported as being, on average, 30% less than the equivalent for men in Ukraine. Almost the same differences exists in Russia, where the gender wage ratio is calculated at 71%[2]. In both countries, women are excessively employed in the public sector – with lower average wages – while a significant number of men shifted to private sector employment.

Social security system – gender dimension

Women and men are affected differently by social security systems. Under the previous system women were given a generous range of benefits, especially in the form of housing, medical facilities, social care institutions and childcare. When the transition began, those entitlements were decreased or eliminated. The reduction of previously accessible family benefits and social care services and the adjustment to new conditions, such as shorter working hours for child care institutions, forced women to seek low paid and less prestigious positions in order to meet their parental obligations.

Dramatic demographic changes – falling birth rates and high mortality rates -- resulted in relatively generous maternity benefits, allowances and longer parental leaves. However, it is still too early to evaluate the overall effects of these new regulations.

The most distinctive gender characteristic in social security is the lower retirement age of women. This has left many to question whether women should leave the labour market 5 years earlier than men. Even their higher life expectancy might support the prolongation of the pension age. In Russia and Ukraine, men 60 years of age or older, who worked for at least 25 years, and women of 55 years of age or older, who worked for at least 20 years, qualify for normal retirement pensions regardless of whether they are still employed or not. Male pensions are usually higher than those of women, because more often women fall into the group of workers with lower lifetime earnings. They also carry out a higher proportion of unpaid work, which results in shorter lifetime contribution rates. Still, pension benefit formulas in the past were highly redistributive in favour of lower income workers, which, given the prevailing gender wage gap and shorter working tenure, was advantageous to women. However, recent pension reforms instituted a closer link between contributions and benefits as well as greater individuality in pension rights, considered generally disadvantageous for women.

Conclusions

Even though some of the social safety net changes introduced at the beginning of the 21st century have brought positive effects, additional reforms are still necessary. Social security systems in both Ukraine and Russia should be more efficient while social benefits and social assistance targeting should be improved. For example, the effectiveness of social support programs in Russia in the mid-1990s was assessed at 19%[3]. This means that a large fraction of social aid was not distributed to households with incomes below the subsistence minimum.

Recent pension reforms are a step in the right direction, although their impact will not be felt for a number of years. An increase in the economically active population is a good thing, but there are no reserves out of which this active population may continue to grow. Thus, the important social issue remains in how to reduce depopulation in the future.

Last but not least, uncertainty about Russia and Ukraine's economic future is linked to oil prices, though in different directions. Russia's reliance on commodity exports makes the country vulnerable to boom and bust cycles connected to swings in global commodity prices. Ukraine's dependence on Russian energy supplies and its lack of significant economic structural reforms make its economy especially vulnerable to external shocks. Such vulnerability could influence the effectiveness of long-term social safety net reforms.

Anna Ruzik, Ph.D, is an expert and author of publications in the fields of labour economics and social policy. Since 2004, she has been participating in numerous research projects carried out by CASE. Dr. Ruzik is employed as an assistant professor at the Warsaw School of Economics and at the Institute of Labour and Social Studies in Warsaw.

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[2] Ogloblin C., G., (1999) *The Gender Earnings Differential in the Russian Transition Economy,* Industrial and Labor Relations Review, Vol. 52, No. 4. (Jul., 1999), pp. 602-627.
[3] *World Development Report 1996*, The World Bank, 1996