

Untapped potential remains despite labour shortage

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Nine years of booming growth 2008 will be the ninth consecutive year of spectacular growth in the Ukrainian economy. Compared to 1999 levels, GDP will be around 87 % percent larger in real terms, consumption will be almost two and a half times higher, and investment will have more than tripled.

Increasing labour shortage. However, economists are becoming increasingly concerned about the exhaustion of the resources on which this rapid economic growth has been based. In particular, they are worried about developments on the labour market.

In the last couple of years, the economy has experienced a pronounced labour shortage that has led to considerable

increases in the production costs of many enterprises'. With an unemployment rate of only slightly more than the 6 % that presumably mark the natural unemployment level for Ukraine, it has become a challenging task to attract new, cheap labour.

Untapped labour potential remains

However, a deeper look into the issue suggests that room for rapid growth still exists. Most importantly, the ratio between labour quality and wages remains favorable for economic development. Wages may have increased, but this is in part offset by high labour quality. Secondary school education, which is mandatory in Ukraine, holds very high quality standards, and rates of enrollment into the country's universities, which are known for their rich traditions in technical disciplines, are among the highest in the world.

Indeed, most Ukrainians have good training, and according

to business surveys they can easily be taught whatever skills they may lack in a new job.

When it comes to work ethics, employers will also find Ukrainian labour attractive. Ukrainians generally work hard and strive for welfare and a European-like lifestyle.

Furthermore, Ukrainians are not protected by unions as these are weak or absent. In fact, having more than one job, or working overtime in the evening or on weekends, is not unusual. This affects both the business life and everyday life of Ukrainians – for instance, in contrast to the situation in many other countries, Ukrainian cities are abundant in supermarkets that are open day and night and do not close for the weekends.

It's about machinery

At the same time, Ukrainians' remunerations are still among the lowest in Central and

Eastern Europe. The major reasons for this - besides the above-mentioned fact that most employees are not effectively organized into unions - are deficient production technologies and poor managerial techniques. The machinery, with which Ukrainians are equipped, is much less productive than the machinery typically used in other European countries. In fact, in some industries (particularly in the metallurgy and chemical industry) production is almost entirely based on Soviet-time facilities and technologies.

- and management

As for managerial practices, they are largely based solely on common sense (with sporadic application of Western textbook wisdom). This means that many important decisions are inspired rather by stereotypes and subjective judgments than on professional approaches to problem solving. Moreover, the mentioned problems are aggravated in

the public sector, which has been changing much more sluggishly than the private sector. As a result, average productivity of public sector employees (who constitute around a third of the working population) is a fraction of that in the private sector.

Better use of resources

All these facts suggest that Ukraine has huge potential for putting its resources into much wiser and better use. Labour productivity can be optimized by upgrading machinery and applying best-practice management skills.

In fact, Ukraine's ability to reform and thus obtain efficiency gains will be crucial for the country's development in the coming years. It is obvious that the nature of economic growth can no longer be as expansionary as it has been so far.

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