LABOUR MARKET
PAPERS
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ENTERPRISE RESTRUCTURING IN RUSSIAN INDUSTRY AND MASS UNEMPLOYMENT

THE RLFS FOURTH ROUND, 1994

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Preface

This is the first of a new series of Labour Market Papers, based on work of the Labour Market Policies Branch of the ILO's Employment Department. The papers are intended to present the results of original research and policy work in member countries, and are intended to stimulate debate. As such, they do not present official views of the ILO, and it is the firm intention to ensure a wide range of views and perspectives consistent with the ILO's values and objectives. This commitment is essential in the sphere of labour markets, since the current era is one in which most views are under challenge.

With growing labour market flexibility, more open economics and the internationalization of production, the nature of labour markets is evolving with both exciting potential and worrying uncertainty. The Labour Market Policies Branch has been established to address those issues and explore ways by which personal security, flexibility, distributive justice and dynamic efficiency can be promoted by institutional mechanisms that are acceptable to representative groups of employers, workers and elected governments.

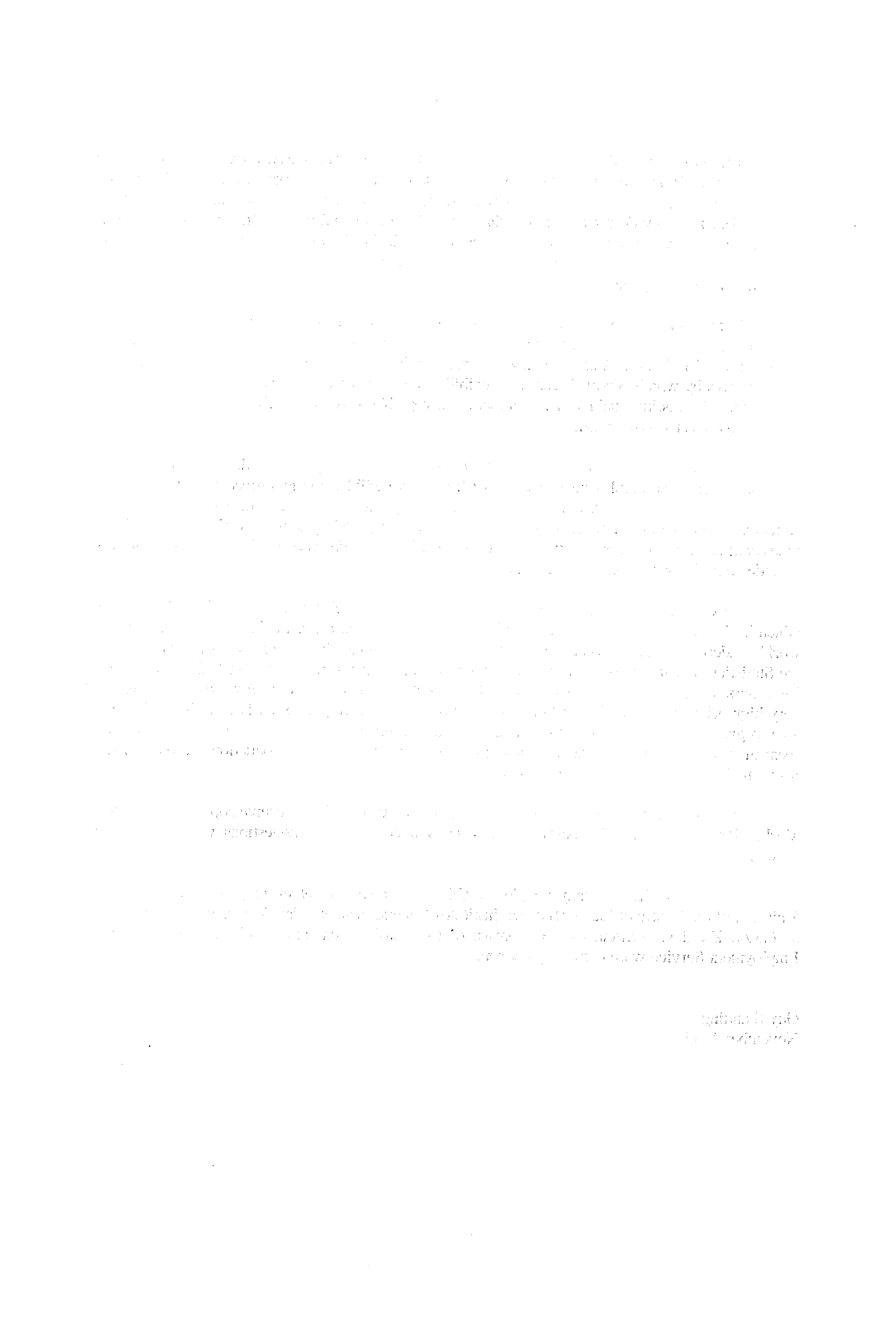
One area of high priority is *enterprise restructuring* and in particular the changing character of labour market and employment practices of firms. We will be giving a great deal of attention to the issues raised by the efforts of enterprises to respond to pressures induced by "structural adjustment" policies, by new technologies and by new managerial options. As Alfred Marshall, the nineteenth century economist often described as the father of modern economics, put it -- If you want to understand labour markets, go into the factory.

This paper is one of a series derived from the on-going Russian Labour Flexibility Survey, which itself is one of a growing number of enterprise surveys the Branch is implementing around the world. Indeed, it is a collaborative effort with the ILO's regional "multidisciplinary teams" and with the Statistics Bureau, most notably. Yet enterprise restructuring in the Russian Federation in 1994 has a more dramatic context in most parts of the world. Labour market reforms in Russia deserve very high priority, and the international community needs to give greater assistance than it has been able to give so far. The labour market reforms recommended at the conclusion of this paper may seem modest, yet they could have considerable potential for improving production and employment restructuring and for inducing a greater sense of dynamic efficiency.

Interested readers may wish to let us know if they would like to receive copies of our Labour Market Papers on a regular basis. Comments and constructive suggestions would always be welcomed.

Thanks are due to many people, notably Dr. Tatyana Chetvernina, Director, and Pavel Smirnov, of the Centre of Labour Studies, Institute of Economics, Russian Academy of Sciences, and to László Zsoldos. Officials in Goskomstat of the Russian Federation and the Russian Federal Employment Service were extremely cooperative.

Guy Standing
November 1994.



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The Russian Labour Market in 1994: Enterprise Restructuring and Mass Unemployment

1. Introduction

The following is based largely on the fourth round of the Russian Labour Flexibility Survey, carried out in mid-1994 in five major industrial regions of the Russian Federation, covering over 303,000 workers. It also draws on a report prepared for the Russian Federal Employment Service and two related surveys, of women workers and of jobseekers, the latter involving a two-round tracer survey of 2,295 unemployed jobseekers carried out in 1993-94.

The main issues relate to the labour market and employment impact of the economic upheavals of 1991-94 and of the process of enterprise restructuring. It highlights the nature and level of hidden unemployment, as well as job losses, and presents an explanation of what has happened to employment and unemployment that is very different from the conventional view. Before examining the changes that have been taking place in the industrial labour market, it briefly assesses the facts on open unemployment, providing evidence refuting the conventional view that unemployment has been very low. This view, repeated by numerous casual observers and the international media, is a triumph of wishful thinking, an unusual case of accepting official Russian data by those who have questioned almost all other data on the Russian economy.

2. The Labour Market and Economic Background

Under the Soviet system, there was very full employment, in which unemployment was banned as a "parasitic activity" and in which workers remained in jobs well past the official retirement age, largely because the pension was so low that it made continued employment almost a necessity. For many years, there was a contrived "labour shortage", in which there were artificially created posts, "dead souls in dead places", because the enterprise art was to expand the "wage fund" allocated by the central Ministry. Labour mobility was actually quite high, for although geographical mobility was limited by the *propiska* (residence permit) system and occupational mobility was limited by rigid job structures and the lack of incentives, there was considerable inter-enterprise "job hopping", typically in pursuit of higher fringe benefits.

Wages were very low, due in part to the Leninist ideology of "decommodification of labour", by which the long-term objective was to achieve a "withering away of the wage". Correspondingly, there was a heavy ideological emphasis on the virtues of the "proletariat", manual wage labour, so that wages were distorted in favour of manual, semi-skilled labour. Based on a complex and rigid tariff wage structure and enterprise wage funds, the system resulted in the average wage being close to the minimum wage and to narrow and distorted wage differentials between sectors and occupational groups. In terms of earnings, the extent of so-called "levelling" was less than some analysts believed, but the main source of inequality was privileged access to social

benefits provided by enterprises, including subsidised food, consumer goods, housing, holiday facilities and health services.

In effect, the huge enterprises on which the Soviet economy was based were "total institutions", in many cases creating what were essentially "company towns". These enterprises often produced a vast range of goods and services and employed many thousands of workers. In those circumstances, managements and union leaders within enterprises were little more than state functionaries acting as "transmission belts" for Communist Party commands that typically emanated through industrial Ministries based in Moscow.

In the 1980s, this command structure started to crumble, with *perestroika* and *glasnost* increasingly allowing economic pluralism and what the Chairman of the State Committee for Labour and Social Welfare described at the time as "a level playing field". This led to a growth of cooperatives, leaseholdings and self-employment, and a spate of legislation to create a more open labour market.

This phase culminated in the 1991 Employment Act, which recognised open unemployment as legitimate for the first time since the 1920s, and particularly with the emergence of the Russian Federation accelerated the recognition and promotion of ostensibly independent employers and trade unions.

There was criticism of the 1991 Employment Act, in part because there were ample reasons to expect that it would result in a widespread disguising of unemployment.[1] But in any case, what happened in the early 1990s would have created mass unemployment in almost any circumstances.

In 1992-93, there was an attempt to reform by "shock therapy", which has involved a particular sequencing of reforms. Essentially, for our purposes, the sequencing involved increased price liberalisation first, followed by an attempt to impose a tighter monetary and fiscal policy to squeeze the inflationary pressure out of the economy, including a "tax-based incomes policy" by which wage inflation was meant to be controlled by a punitive tax on wage increases above a certain amount. As a result of the monetary and fiscal measures, it was foreseen that the real economy would be deflated, threatening to lead to poverty and dis-employment, so that in the next stage of the sequencing a "social safety net" was foreseen, to provide income protection for the losers. The next stage was to be mass "privatisation", which in turn would lead to enterprise restructuring, and thus labour absorption in the new dynamic private economy. It was believed by economic advisers to the Government and by some officials in international agencies that only with privatisation would enterprise restructuring occur, and managements move away from what has been called a "soft budget constraint".

A major difficulty with this sequencing is that the huge industrial enterprises, many of which had monopolistic characteristics, were left intact and neglected as economic entities. Being monopolistic, they adjusted prices upwards by much more than would

[1] For a critique at the time, see Guy Standing (ed), In Search of Flexibility: The New Soviet Labour Market (Geneva, ILO, 1991). The full name of the Employment Act was The Fundamentals of Employment Legislation of the USSR and the Union Republics, 1991.

have been the case, so that price liberalisation had a much greater inflationary impact, which in turn necessitated a much greater deflation of aggregate demand to squeeze the inflationary pressure to acceptable proportions.

What has been the outcome? Since 1991 national output has dropped by at least a third, and has continued to fall, with the government expecting it to drop by a further 8% or more in 1995. Inflation was over 2,000% in 1992, and although the rate of price increases has declined, it is still very high by international standards. One can quibble with the official statistics, and most observers have done so, yet no objective observer could doubt the enormous *stagflation* that the country has experienced since 1991. And although the private economy — and the "black economy" most of all — has expanded, they could not have made more than a dent to the huge decline in the officially recorded economy, especially bearing in mind that official statistics have tried to take account of the private sector's growth.

Poverty soared after 1991, and even in mid-1994 the President stated that over half the population was living below the modest official poverty line. The available evidence supports the widely held view that income inequality has grown dramatically. And, of course, with all those economic and social difficulties, political developments did not make reform any easier. What has emerged is a politically weak "state" in which law and regulations could be ignored with impunity.

One could paint this picture in great detail. At the same time, there were major reforms in the 1991-94 period, which included the development of some semblance of monetary policy to limit inflation and very extensive voucher-led property form restructuring that has gone under the name of "privatisation". Indeed, it is in the context of stagflation and property restructuring that one has to consider what is likely to have happened in the labour market, and in particular to the level and pattern of employment and unemployment and to the level and pattern of wages and benefits.

3. The Mystery of Unemployment: Triumph of Wishful Thinking?

The reform process, the shock therapist economists have proclaimed that on one issue there has been no need for concern, and thus no need to expand expenditure to deal with it. It has been claimed that there is scarcely any unemployment. This view ignores available official and unofficial statistics and defies basic economic theory. If national income fell by, say, 10% in any industrialised market economy, would any economist doubt that there would be mass unemployment? And would they accept official statistics suggesting otherwise? Why should the Russian Federation in the 1990s be any different?

In later sections devoted to the data from the enterprise survey, we shall consider the micro-economic reasoning that has led some economists to the view that there is no unemployment. Here we can very briefly refer to the statistics and the reasons for their being misinterpreted.

Table 1: Registered Unemployment, Russian Federation, 1993-94

	Sept.30, 1993	July 1, 1994	Sept.30, 1994
Non-employed jobseekers	968,645	1,516,102	1,687,895
⇨of whom:			
% "Unemployed"	72.9	83.1	84.5
⇨of whom:			
% receiving unemployment benefits	63.6	68.6	84.1
% in training schemes	3.0	3.1	3.2
% in "public works"	2.2	2.3	1.5
Vacancies per registered unemployed	0.7	0.3	0.3
% of vacancies for "workers"	89.3	84.9	89.3
Number notified for "mass release"	n.a.	56,633	46,989

Source: Russian Federal Employment Service, September, 1994

The conventional view has been that unemployment has hovered around 1% of the labour force since 1992.[2] This view stems from a literal and uncritical reading of the registered unemployment figures. Briefly, from its base of zero the number of workers registered as unemployed grew rapidly in 1992, then stabilised in 1993 (even declining a little). On January 1, 1994, the total stood at 835,504. Since then, it has been growing moderately, reaching about 1.5% in mid-1994. The basic statistics for July 1994 are presented in Table 1. Every statistic should be subject to a critique, as discussed in a lengthy advisory report prepared for the Russian Federal Employment Service, and although they may have valuable uses for officials involved in development the employment service one should be extremely wary about utilising the data for monitoring or analysing the labour market.[3]

There are essentially three hypotheses to explain the low registered unemployment.

First, the conventional view in defence of those statistics is something like as follows. There has been little restructuring of old enterprises, so that there has been extensive "labour hoarding", rigid employment and little change in employment, while the emerging private economy has been absorbing labour force entrants and those leaving old enterprises.

This view does not stand up to close scrutiny. Two points to bear in mind for the later analysis is that for many years labour turnover has been high in the country, and on reasonable assumptions about job-seeking and time between jobs, one could expect a rate of "frictional unemployment" of between 2% and 3%, or more than the supposed total derived from the registration totals. Second, according to all available data, notably from Goskomstat of the Russian Federation (the State Committee on Statistics), the level of employment has dropped substantially since the late 1980s, by

[2] This view has been expressed by various foreign economists, such as Richard Layard and Anders Aslund, both of whom have been advisers in some capacity to Russian government agencies. It has also been repeated in various World Bank reports and papers.

[3] G. Standing, Developing a Labour Market Information System for the Russian Federal Employment Service (Budapest, ILO Central and Eastern European Team, Policy Advisory Report, August 1993).

five million, and in 1993 and the first half of 1994 employment fell by about 700,000. Yet registered unemployment fell during much of that period, and only rose modestly in early 1994. At the same time, the working age population should have grown slightly, for demographic reasons and because the enrolment rate in post-secondary education and vocational training has declined in recent years.

A second and related hypothesis is that the official statistics on employment do not include the private economy. Undoubtedly, there is a rampant "black economy" and an underrecorded streetside economy. However, one should not leap to conclusions. One could make a reasonable case that some of those involved in the black economy would have recorded jobs as well, while most of those involved in such activities are doing them as "survival activities" and are essentially unemployed. Moreover, the official employment statistics do include private sector employment. Indeed, in mid-1994 for the first time ever, according to official statistics, only a minority of total employment in the country was in state enterprises and organisations — an almost unnoticed yet momentous fact (Table 2).

The third hypothesis is that the registered unemployment statistics chronically understate actual unemployment. There is rather devastating evidence in support of this hypothesis. There are also ample reasons to explain why the statistics do not measure what some casual observers persist in claiming.

The basic evidence is that in two very large national Labour Force Surveys the extent of open unemployment has been shown to be much higher than the registered totals. The second of these was carried out in late 1993, and the basic findings are reproduced in Table 3. The key point to note is straightforward: **Actual unemployment was five times the registered total**. There are also some rather important secondary points. As can be seen, the number of women registered as unemployed is more than twice the number of men. Many commentators have used the registration data to state that "unemployment has mainly involved women". In fact, this is wrong. There are more men unemployed, although their unemployment rate is slightly lower than women's.

If one took the ratio of actual to registered unemployed from the survey and extrapolated it to the figures on registered unemployed for mid-1994, then open unemployment would be something like 7.5%. However, this would probably be an underestimate, for two reasons. First, in all the statistics the employment level is inflated, for reasons discussed elsewhere, such as that an unemployed person sent on a training course is counted as employed and that a woman on two-year maternity leave is often counted as employed.[4] Second, the Labour Force Survey made the age range 15-72, but in effect only included pensioners if they were employed, so that in calculating the unemployment rate the denominator was inflated, thus artificially lowering the unemployment rate; the normal procedure is only to include the working age population, which in the Russian Federation would be 15-54 for women and 15-59 for men. Third, the Labour Force Survey used a one-week reference period for job-seeking to classify someone as unemployed, and in many areas, particularly isolated

[4] These issues are discussed in detail in Standing, 1993, op.cit. The most important factor inflating the employment *rate* is that if a pension-age person is employed he or she is counted as such, but the "economically active" population only includes pre-pension-age persons.

Table 2: Distribution of Employment, by Property Form, 1990-94, Russia

	1990	1991	1992	1993	1994 (first half)
Total (in millions)	**75.3**	**73.3**	**72.0**	**71.0**	**70.3**
In percentage:					
Public sector	82.6	75.5	68.9	52.1	49.2
Mixed property forms	4.0	10.1	11.7	20.6	26.3
Individual (private)	12.5	13.3	18.3	26.2	23.4
Funds, social institutions	0.8	0.9	0.8	0.7	0.7
Joint ventures	0.1	0.2	0.3	0.4	0.4

Source: Goskomstat of the Russian Federation, personal communication

Table 3: Economically Active Population, aged 15-72, by Gender, December 1993, Russia

	Total	**Men**	**Women**	**% Men**
Economically active	75.1	38.7	36.4	51.6
of whom:				
• have job for wage or income	71.0	36.6	34.4	51.6
• not employed, looking for a job (unemployed)	4.1	2.1	2.0	51.8
Percentage of economically active	69.7	75.6	63.9	—
Unemployment	5.5	5.4	5.5	—
of which registered	1.1	0.7	1.6	—
Average duration of unemployment (months)	5.8	5.2	6.5	—
Average duration of registered unemployment (months)	5.4	5.2	5.5	—

Source: Labour Force Survey of the Russian Federation, December 1993

rural communities, that is likely to lead to some of those available and wanting employment not being counted as unemployed.

There are other structural reasons for believing that actual unemployment is considerably higher than 7.5%, which will be considered in detail later. However, it might be useful to list the main factors that should make all analysts, policymakers and commentators realise that they should give no credence to the registered unemployment figures as showing that "unemployment in Russia is low". These are summarised in Table 4, which is based in part on findings from a two-round "tracer" survey of 2,295 jobseekers in 18 districts, a survey of women workers carried out in three cities and the Advisory Report mentioned previously.[5]

Table 4: Factors Lowering the Registration of Unemployment, 1992-94

1. ***Stigma***. Reluctance to register at an employment exchange after nearly 70 years in which unemployment was designated a "parasitic" activity, if not a criminal one, and after many decades in which employment exchanges were almost exclusively for social misfits, alcoholics, ex-prisoners and "unemployables".

2. ***Number of exchanges***. By 1994, there were only about 2,300 exchanges in the whole huge country of nearly 150 million people, meaning that many of those becoming unemployed either did not know where their district employment exchange was located or had very far to go, in some cases more than 60 kilometres.

3. ***Cost and time of registration***. Given the distances for travel, the limited number of staff in employment offices for registering jobseekers, and thus the time in queues, and the fact that a registrant has to report twice a month, the effective cost of registration is often very high. That cost will become much higher as unemployment rises, and thus the cost will act as a hindrance to the recording of that increase.

4. ***Non-sending of unemployed to employment service***. Employers are statutorily required to send workers leaving their firm to the employment service, but in the jobseekers' survey 61% of the women and 80% of the men had not been informed by their previous employer of the need to register as unemployed. In the fourth round of the Russian Labour Flexibility Survey (RLFS4), over one-fifth of managements admitted that they did not send workers to register.

5. ***Severance pay condition***. A person released from a job is entitled to two or three months of severance pay, determined by his or her previous average wage. During those months, such workers are not entitled to unemployment benefits, thus acting as a major deterrent to registration, especially as most workers would believe they would find a job within two or three months. This almost certainly explains the low percentage of registered unemployed who have been "released" from employment. It also

[5] For an analysis of the first round of the survey of jobseekers, see G.Standing, "Why is measured unemployment in Russia so low ? The net with many holes", The Journal of European Social Policy, Vol.4, No.1, February 1994, pp.35-49.

helps explain why some employers do not send workers to register, for if they do not they can lose entitlement to the third month of severance pay.

6. ***Low probability of employment***. The fact is that, although it is to be hoped that this will change, most employers do not recruit through employment exchanges. In the RLFS4, 61.5% of firms reported that they had not recruited any of their workers from the employment service and a further 32.2% recruited less than 10%; only 4.4% recruited more than one-quarter through the district employment exchange.

   Moreover, less than two-thirds reported vacancies to FES, despite the law requiring them to do so. Outside Moscow, over 40% did not report vacancies. Even those that did report vacancies did so rarely; less than one-quarter reported vacancies monthly. As more of the smaller firms did not inform, and as restructuring should result in more of employment being in such firms, the tendency to register vacancies may decline.

7. ***Discouragement deregistration***. Because of the low probability of obtaining a job and for other reasons, a majority of the registered unemployed who leave the register do not obtain a job, according to FES statistics. In the first quarter of 1994, only 37.5% of those leaving registered unemployment obtained a job, 7.9% went into "early retirement" and 54.5% simply dropped off the register.[6]

8. ***Low probability of receiving unemployment benefits***. If one considers registered and unregistered unemployed, then only about 13% of the unemployed have been receiving unemployment benefits, and until recently only about two-thirds of the registered unemployed (half the registered jobseekers) have received benefits. The main reasons for non-entitlement to benefits are as follows:

   a) Incomplete work history book;
   b) Receipt of severance pay;
   c) Registration for less than ten days (in some offices visited, this has been replaced by being told to return after two weeks);
   d) Dismissal from previous job;
   e) Failure to report twice a month, as pre-determined;
   f) Refusal of two job offers deemed acceptable by the employment office;
   g) Absence of a *propiska*, or residence permit (see item 11);

9. ***Low level of unemployment benefits***. For those who do gain entitlement, nemployment benefits have been dismally low. Although nominally earnings-related, the average received has been about equal to the minimum wage during 1992-94, in a period when the minimum wage dropped to about a quarter of the "physiological survival" subsistence income. Thus, the average monthly unemployment benefit has been the equivalent of about $7 per month, and this has to be collected in two instalments, involving a

[6] This is one reason why it is incorrect to claim that average duration of unemployment is short. A recent World Bank report supported this view on the basis of the registration data. If the unemployed drops off the register without a job after a few months, that does not mean unemployment duration is short. D. Goodhart, "Low mobility hits Russian jobless", The Financial Times, October 6, 1994. This cites a World Bank report. Incidentally, mobility is not low.

visit to the employment exchange every two weeks. This is scarcely an incentive to register as unemployed.[7]

10. ***"Early retirement"***. Some older unemployed are shifted off the register by being given an early retirement pension rather than unemployment benefits. As this involves women aged 53-54 and men aged 58-59, thousands who would be counted as unemployed in most countries have merely had their statistical status changed.

11. ***Propiska***. To move area of residence or work, a residence permit has been required. Obtaining this has been difficult and time-consuming, especially without a sponsor. A Decree in 1994 declared that a propiska was no longer a condition unemployment benefits. Thus, it should no longer be a factor constraining the unemployed from registering. However, some employment exchanges at least (e.g., those visited by us) have continued to impose that condition.

12. ***"Disability status"***. Those with a classified disability have tended to move from employment without going into registered unemployment, because they receive a disability allowance and not unemployment benefits. In 1991-94, employment of workers with disabilities has shrunk extraordinarily (by about 600,000), yet hardly any have turned up in the registered unemployment figures.[8]

The 12 factors listed in Table 4 constitute a formidable set of barriers and disincentives to the registration of unemployment. It is therefore not surprising that the registration count is misleading. Yet sadly, there is another factor that has surely played its part in concealing the dis-employment process. If the employment dislocation were limited, how is that the average life expectancy in the country has declined so precipitously? In 1994, male average life expectancy at birth had dropped to a little over 58, having fallen by about seven years in the previous seven years. Although women's life expectancy had also dropped, it is 72.5, making the male-female differential the highest in the world. But what is most striking of all is that, according to the official data, it has been the death rates of young and middle-aged men that have risen sharply, and this phenomenon has been associated with stress and insecurity linked to labour market and economic upheavals. That is the sombre context in which one should consider the process of economic and labour market restructuring, and will do so by focusing on enterprise restructuring in manufacturing industries.

4. Restructuring Russian Industry

Russian industry has been the backbone of the Russian economy for many decades, and although "services" are expected to fulfil a more significant role, it is a common mistake to divide the economic system into primary, secondary and tertiary sectors, where primary refers to agriculture, forestry and mining, secondary to industry, mainly

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[7] Unemployment benefits have only been about 14% of expenditure from the Employment Fund, set up to support the unemployed, or about 7% of the Fund's income. So, it is not a question of inability to pay higher benefits.

[8] P. Smirnov, "Disabled workers in the Russian Federation", paper prepared for the ILO's Central and Eastern European Team, Budapest, October 1993.

manufacturing, and tertiary to services. In reality, for better or worse, industrial enterprises in the Soviet system were far more than that.

The huge enterprises that came to dominate the economic and social system were "total institutions", in which hundreds of workers were doing service functions, which in other economies would have much more often been outside "industry". This is important to bear in mind, since the restructuring of enterprises that remains the critical issue for economic restructuring and regeneration in the evolving Russian economy will also entail an occupational redivision of labour between types of enterprise.

The remainder of this paper is concerned with the restructuring of the industrial labour market, and most specifically with the restructuring of the "internal labour market" of industrial enterprises. It is a general report on findings from the fourth round of the ILO's Russian Labour Flexibility Survey (henceforth called RLFS4). The RLFS since its inception in 1991 has been charting the industrial restructuring process and attempting to document the changing labour and employment practices of factories. It is a constant theme that it was an error of the economic reform strategy launched in 1991 to relegate enterprise restructuring to late in the reform sequencing. This "state desertion" resulted in a neglect of the productivity potential of the older structures and helped make the economic slump much worse than should have been the case.

That point is relevant in 1994-95, since both in the Russian Federation and in other countries of the former Soviet Union — which are mostly well behind Russia on the economic reform road — reform of what are called "corporate governance" and "internal labour markets" are still required urgently.

The following is a review of basic findings from the RLFS4, and among others, there is one hypothesis that deserves to be highlighted: In Russia, economic and employment restructuring have been impeded by *excessive* labour market flexibility in several key respects. This hypothesis will be elaborated in subsequent sections, drawing out the policy implications.

5. The Russian Labour Flexibility Survey

The fourth round of the RLFS was conducted in July 1994, and was an extension of RLFS3 in several respects. As in previous rounds, it involved a random sample of manufacturing establishments drawn by Goskomstat, the State Committee of Statistics, yet in this case it covered five oblasts — Moscow City, Moscow Region, St. Petersburg, Nizhny Novgorod and Ivanovo. The total sample consisted of 384 establishments, with over 303,000 workers.

Table 5: Characteristics of the Russian Labour Flexibility Survey, 1991-94

Round	Date	Reference period	Number of establishments*	Panel	Workforce covered	Regions
RLFS1	1991-92	1990-91	501 (501)	—	529,250	Moscow City, Moscow Reg., St. Petersburg
RLFS2	June, 1992	1990-92	200 (191)	109	166,895	Moscow City, Moscow Reg., St. Petersburg
RLFS3	July, 1993	1991-93	350 (340)	240	308,969	Moscow City, Moscow Reg., St. Petersburg, Nizhny Novg.
RLFS4	July, 1994	1992-94	400 (384)	340	303,333	Moscow City, Moscow Reg., St. Petersburg, Nizhny Novg., Ivanovo

Note: *Figures in parentheses indicate number of establishments completed; the first figure is the initial sample for the round. The unit of observation is the establishment, not the enterprise, which may consist of more than one establishment.

In RLFS4, the economically depressed city of Ivanovo was included for the first time, balancing the inclusion in the third round of Nizhny Novgorod, which has been described as the economically most dynamic industrial region of Russia. Thus, for 1994 the survey covered five of the major industrial regions of the country. One recognises that other parts of the country might have different characteristics, yet the survey probably has been fairly representative of the country's industrial base, given its focus on the main industrial areas.

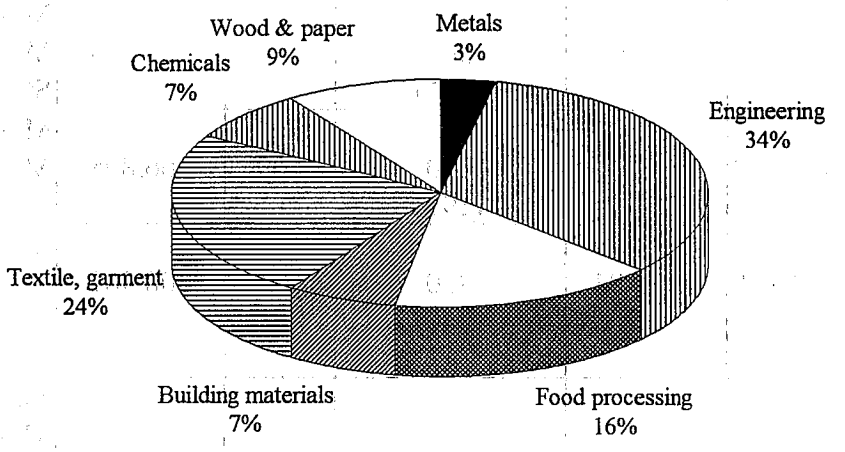
Another respect in which RLFS4 differs from previous rounds is that small refinements were made to the two questionnaires. As in previous rounds, the methodology involved two visits to each factory, one to administer a first questionnaire concentrating on basic statistical information, the second involving lengthy interviews with senior management on labour and employment practices. This procedure has been an important factor explaining the very high response rate. Field checks were made in some cases, and it is believed that the two-round approach has ensured a high standard of reliability in the data.[9]

6. Restructuring in Crisis Conditions

Successive rounds of the RLFS have chronicled the changing character of Russian industrial enterprises. As shown in Figure 1, in mid-1994 the industrial distribution showed the continuing predominance of engineering, which accounted for 33.6% of all factories, followed by textiles and garments (23.7%) and food processing (15.9%). Compared with 1993 and RLFS3, the increased share of textiles and garments

[9] This should become clearer in the course of analysis of the "panel" data from the merged files of those establishments covered in more than one round. Work on this was in progress in late 1994.

Figure 1: Industrial Distribution of Establishments, All Regions, 1994, Russia

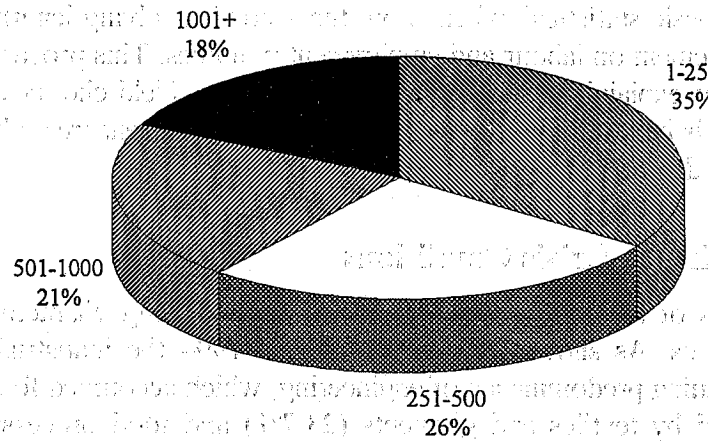


n = 384
Source: RLFS4

reflected the composition of industry in Ivanovo, long known as a garments-producing area and "the women's city" because of its high ratio of women to men in the population.

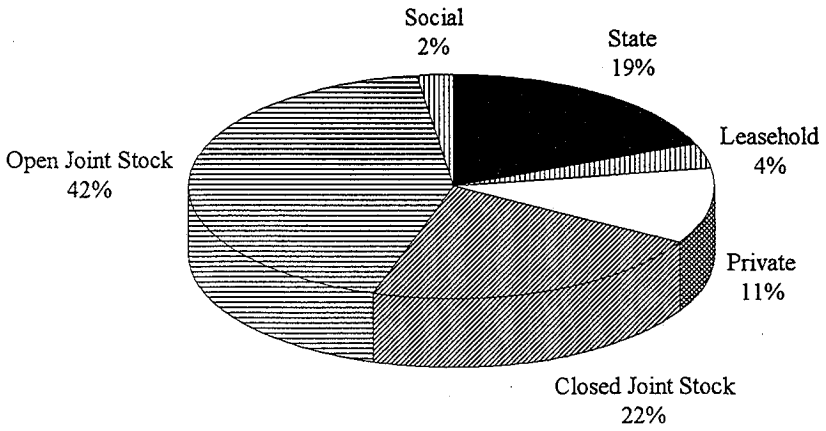
Similarly, the existence of slightly more small-scale firms (Figure 2) at least partly reflected Ivanovo's inclusion. Proportionately more of the factories in Ivanovo were small-scale (54.5% had fewer than 250 workers), whereas St. Petersburg and Nizhny Novgorod had the largest share of large-scale factories, with St. Petersburg having 49% with more than 500 workers.

Figure 2: Employment Distribution of Establishments, All Regions, 1994, Russia



n = 384
Source: RLFS4

Figure 3: Property Form Distribution of Establishments, All Regions, 1993-94, Russia



n = 384
Source: RLFS4

So much for the basic structure of the firms. We can track five main forms of enterprise restructuring, all of which could be expected to influence enterprise performance, employment and labour practices. Most were similar in the various regions covered by the survey, although differences will be noted.

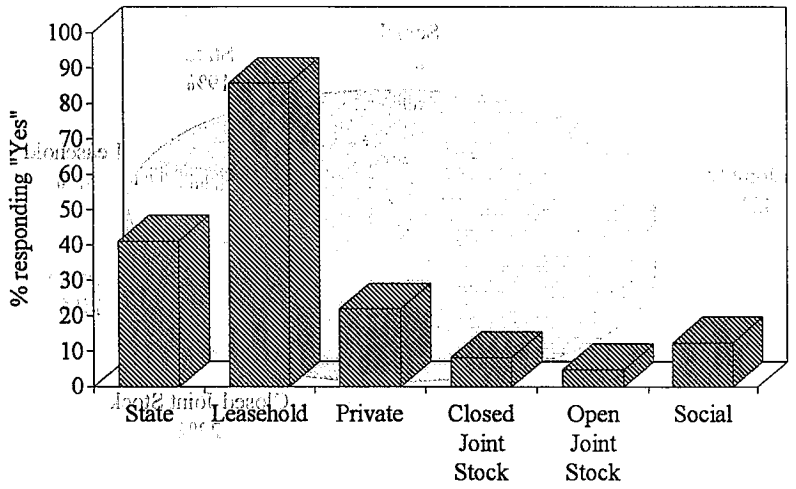
(i) Property Form Restructuring

First, and the most topical, there is *property form restructuring of enterprises*. This had been very extensive. Whereas in late 1992, as indicated in RLFS2, over half of all establishments had been state-run, and in mid-1993 about 35%, by mid-1994 state establishments accounted for less than one in five (19%) of all factories. By mid-1994, as shown in Figure 3, the main property form had become open joint stock (42.7%), followed by closed joint stock (21.9%). Moreover, over two in every five of the remaining state establishments were planning to change property form (Figure 4). Most were planning to change to open joint stock companies (47%) or to closed joint stock companies (28.8%), and nearly three-quarters expected to change within the coming year.

(ii) Size Restructuring

Second, there is employment *size restructuring of enterprises*. Although the employment size changes will be covered in a later section, it is worth noting here that there had been some *restructuring by divestment*. In the previous year, 12% of firms had detached units (with 8% in Ivanovo), with 15.1% of state establishments having done so. However, the percent of the workers involved in such detachments was very small, being about 1.5% on average. More importantly, we may merely note that in none of the four rounds of the RLFS since 1991 has there been much evidence of size restructuring of firms (except a generalised shrinkage due to demand factors), and as indicated earlier the lack of attention to this has been a questionable aspect of the reform and restructuring process since its outset.

Figure 4: Planning to Change Property Form, by Current Property Form, 1994, Russia

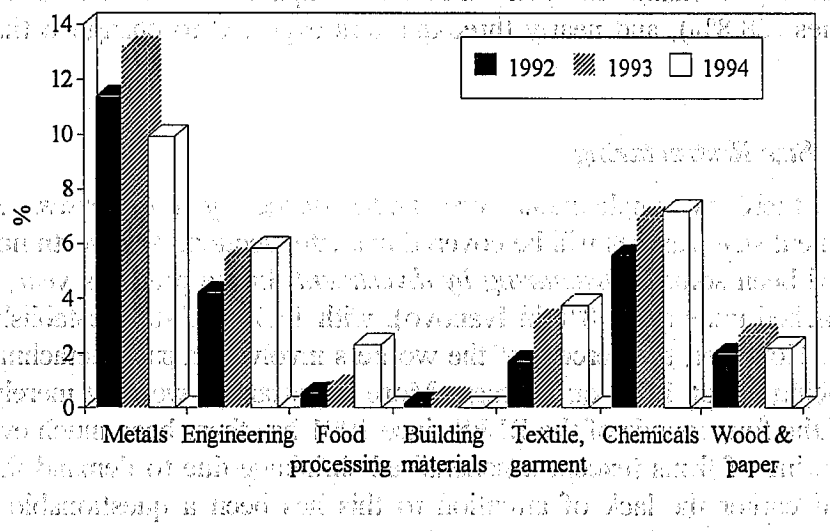


n = 383
Source: RLFS4

(iii) Sales Restructuring

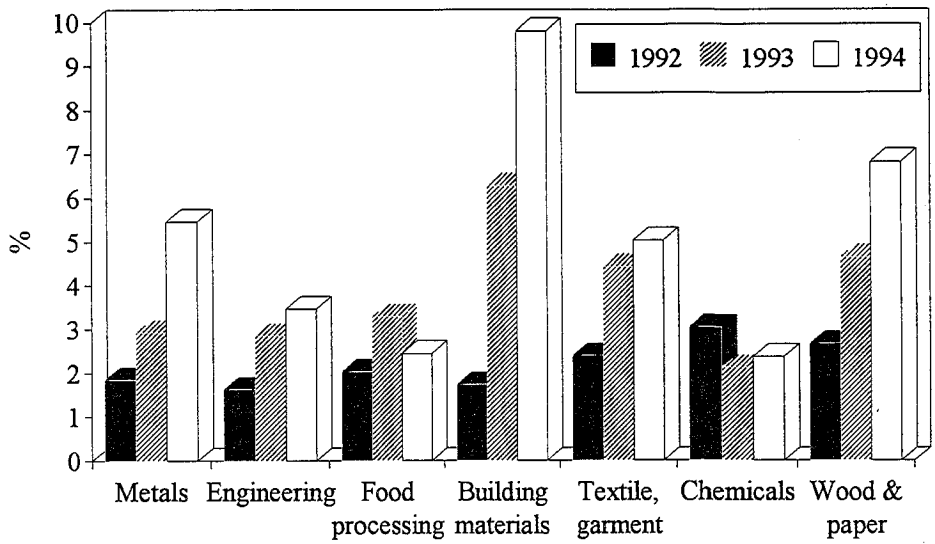
The orientation of sales is a relatively neglected aspect of restructuring. In some respects what had happened in 1993-94 was in contrast to what had occurred in 1991-93. A basic similarity was that there had continued to be some shift to **exports**, although the export share of total output was still very low. The trend is important, since undoubtedly exposure to international markets will lead to greater pressure to raise productivity. Overall, the firms on average exported 4.3% of their sales in the first half of 1994, compared with 3.9% in 1993 and 2.9% in 1992, although not all industries had become more export-oriented (Figure 5). Private firms were over twice as oriented to exporting (5.2%) as state firms (2.2%). Also, the larger the firm, the higher the export orientation. Not surprisingly, Ivanovo's firms were the least export-oriented.

Figure 5: Percent of Sales Exported, by Property Form, 1992-94, Russia



n = 384
Source: RLFS4

Figure 6: Percent of Output Bartered, by Industry, 1992-94, Russia



n = 348
Source: RLFS4

Besides this modest shift to exports, what was striking was that **barter** seemed to have increased (Figure 6). According to the RLFS4 data, it accounted for 2.1% of total sales in 1992, 3.6% in 1993 and 4.4% in 1994.[10] It was particularly common in the economically depressed region of Ivanovo and insignificant in Moscow City. Across industries, it was greatest in building materials (9.8%); it was positively correlated with size of establishment, and was greater in firms that had cut total employment than in those that had cut it or kept it constant, with barter accounting for 8% of sales in those that had cut jobs by over 20%. Why has barter increased? The most likely explanation is the liquidity constraint associated with enterprise indebtedness.

(iv) Technological Restructuring

Clearly, for economic and enterprise restructuring to lead to greater economic dynamism and productivity growth, technological change must be intensified. Conceptually, we can divide technological change into three forms — product, capital and work process innovations — for which the RLFS has proxy indexes.[11]

There did seem to have been some product innovation. In 1993-94, 29.7% of firms had increased their product range, while 24.5% had cut the range, with the food processing sector being relatively likely to have increased the range (42.6%) and the chemicals sector most likely to have reduced the product range (39.3%). State establishments were the most likely to have decreased the product range (38.4%), whereas private

[10] In 1994, it accounted for 20% of sales of the two "sheltered" enterprises included in the sample.

[11] The issues of technological change, the motivation and the impact will be considered in detail in a later paper.

firms (35.7%) and closed joint stock firms (34.5%) were apparently the most likely to have increased it.

Indicative of capital innovation, 43.6% of firms had introduced some new technology in production, again with food processing (51.6%) generally being the most innovative, with chemicals (57.1%) and wood and paper products (52.8%). State firms were the least likely to have made this form of technological innovation (41.1%, compared with 46.3% for private).

Indicative of work process innovation, 44% of firms had introduced some form of work reorganisation over the past year (Table 6). Private firms were relatively likely to have introduced some form of work reorganisation. The main change had been to cut out administrative layers of employees in response to the changing structure of decision making, or as some managements put it, "to tighten work organisation". The second most common change had been to increase the range of work tasks for manual jobs, which also probably reflected the reduction in layers of administrative workers.

Table 6: Product, Capital and Work Process Innovations (% having made a change), by Property Form, Russia, 1993-94

Property Form	Changed product range		New techno-logy	Changed work process
	Increase	Decrease		
State	21.9	38.4	41.1	47.2
Leasehold	35.7	21.4	42.9	35.7
Private	19.5	22	46.3	53.7
Closed Joint Stock	34.5	20.2	42.9	39.3
Open Joint Stock	32.3	20.7	43.9	42.7
Social	37.5	37.5	57.1	62.5

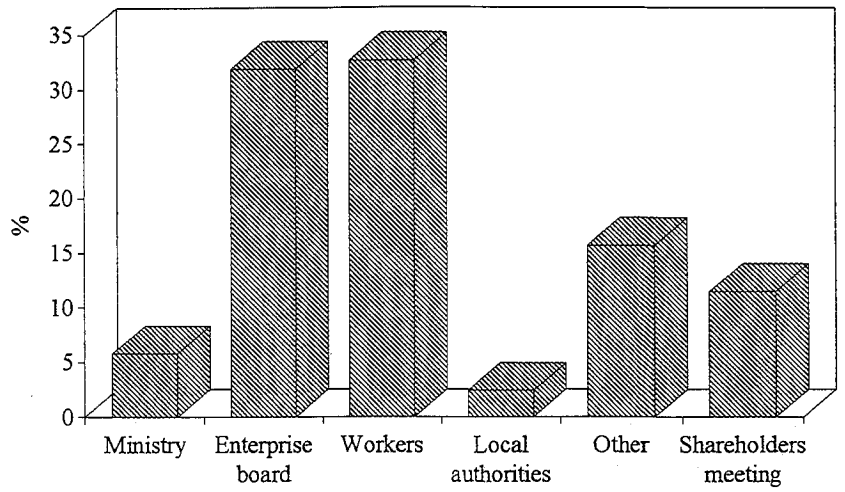
n = 345
Source: RLFS4

(v) Corporate Governance Restructuring

Deserving of particular emphasis is the issue of *management restructuring*, or what might be called "*corporate governance restructuring*". This is a complex issue, and goes beyond the immediate concern of this paper with employment and unemployment. Governance goes well beyond the important issue of ownership. Essentially, it concerns the question of accountability, entailing aspects of the range of responsibilities and controls exercised by management and workers, and the internal pressures influencing decision making within the firm.

There are various elements in this that are highlighted in the survey. Possibly the most important is the mechanism by which senior management were appointed and reappointed. In sharp contrast with earlier years, merely 5.7% of senior managers had been appointed by line Ministries, compared with 32.6% who had been formally appointed by the work collective (corresponding to the predominance of closed and open joint stock enterprises as the main property forms), 31.8% who had been

Figure 7: Means by Which Top Management Is Appointed, 1994, Russia



n = 384
Source: RLFS4

appointed by enterprise boards, and 11.5% by shareholders' meetings, which would have consisted largely of workers (Figure 7).

One should not expect too much from the first phase of these novel forms of appointment, since no doubt many former managers managed to have themselves reappointed. Yet the psychology of accountability was likely to develop, and this was found in a few large firms that we visited on several occasions to make illustrative case studies.[12] Indeed, it was not just the means by which senior managers were being appointed but the duration of appointment that was altering the climate of decision making. There was in-built stakeholder pressure in that 36.3% of the general directors had been appointed for two years or less, 22.1% had no formal contract and only 27.4% had a five year contract.

A closely related aspect of the restructuring of corporate governance, which has potentially massive implications and which has received remarkably little analytical attention, is that worker share-ownership had become very widespread and extensive. Overall, including those state firms and social organisations where there were no shares, workers and employees of the firms owned on average 46.4% of the shares, with 93% of closed joint stock companies and 56% of open joint stock companies. This very substantial worker "stakeholding" is creating the basis for a possibly unique evolution of corporate governance.[13]

[12] These case studies have included a detailed analysis of the evolving restructuring of a giant oil-refinery in northern Russia, in which by September 1994 the newly elected management had been made nervous by the prospect of shares being sold by the workers to outsiders.

[13] It is too early to state which way corporate governance will develop. Yet there is the intriguing possibility that what we could be witnessing is a reversal of the old socialist strategy -- privatisation of ownership coupled with socialisation of management.

(vii) The Crisis Indicators

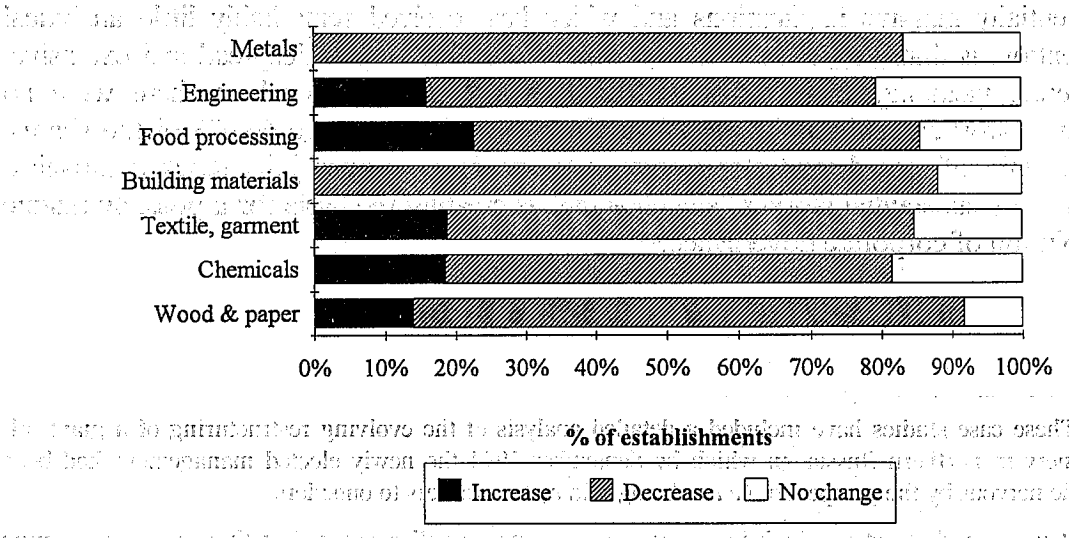
Thus, there have been five types of restructuring, which have been tentative in some cases, more substantial in others. Yet all the elements of restructuring have been taking place in the context of shrinking output and sales. The economic crisis was reflected in the RLFS4 in various ways. Most fundamentally, the value of **sales** in real terms had shrunk. Of all firms, two-thirds had experienced declining sales over the past year, compared with 15.9% that had experienced rising sales (Figure 8). In every sector, a majority of firms had falling sales.

In mid-1994, Russian factories were in a parlous state. Asked what was their main economic problem, 40.6% of the managements cited inability to sell their product and 24.2% cited high taxes. The problems had become chronic. Numerous reports in the national and international media have testified to an enormous growth of inter-enterprise debt and of enterprise debt to banks and the state. According to official Goskomstat data, there were 39,000 enterprises in serious debt in mid-1994. This was 6,400 more than in January 1994, which meant that whereas 45.3% of all enterprises in the country were in chronic debt at the beginning of the year, by the middle of the year 54.8% were in debt. The vast majority were in debt to other enterprises, although many were also in debt to banks and/or the federal authorities.

The pervasiveness of **indebtedness** was also brought out in RLFS4, in which only 11.7% of all firms had no debts to banks or other enterprises. There was mutual debt, and 56.3% of firms stated that they owed more than was owed to them. About 26.8% claimed that they were owed more than their debts, and 4.9% claimed that they had debts that they considered were in balance with debts owed to them. A much higher percentage of firms in Ivanovo claimed to be owed more than they owed (38.6% compared with 17% in Moscow City).

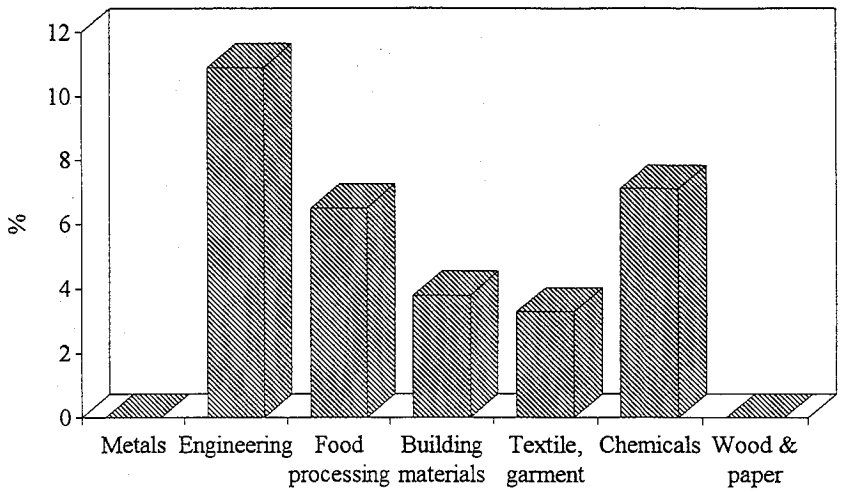
There is the related issue of receipt of **subsidies.** According to reports, many enterprises have been bolstered by subsidies. This seems to have declined, perhaps

Figure 8: Sales Change, 1993-94, by Industry, Russia



n = 379
Source: RLFS4

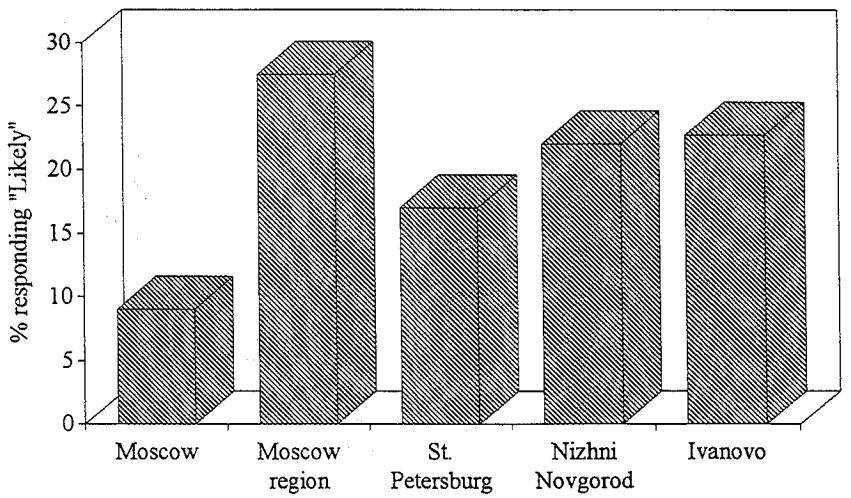
Figure 9: Share of Establishments Receiving Subsidies, by Industry, 1994, Russia



n = 384
Source: RLFS4

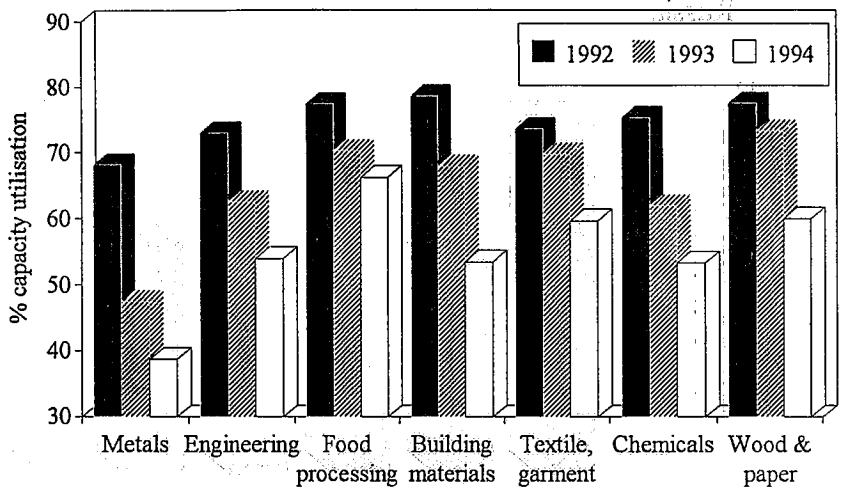
reflecting the state's inability or unwillingness to support firms. In mid-1994, 6.3% of all establishments reported that they were receiving a subsidy to assist in production (Figure 9). Large-scale firms with more than 1,000 workers were twice as likely to have a subsidy, and firms in Nizhny Novgorod were also twice as likely to be receiving a subsidy as firms elsewhere, probably reflecting the large number of military-industrial enterprises there. Subsidies were most likely to come from federal authorities.

Figure 10: Percent of Establishments Believing Bankrupcy Likely within a Year, by Region, 1994, Russia



n = 384
Source: RLFS4

Figure 11: Capacity Utilisation Rates, 1992-94, by Industry, Russia

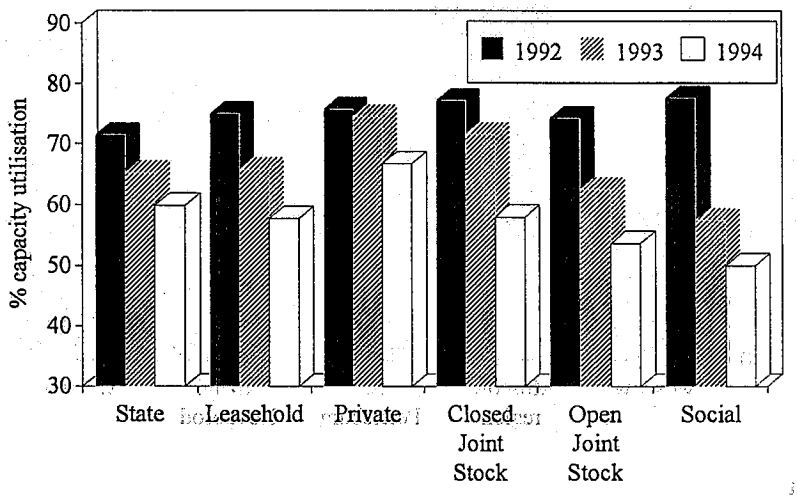


n = 384
Source: RLFS4

Fear of **bankruptcy** within the next 12 months was reported to be "strong" in 5.7% of all factories, "fairly strong" in a further 12.2% and moderately worrying in a further 33.3%. With 3.4% reporting that they did not know, this left a minority (45.3%) being unconcerned that they would go bankrupt within a year. The fear of bankruptcy was strongest in building materials, textiles and garments, and least in food processing (Figure 10). Among those expecting or fearing bankruptcy, the main cause most often mentioned was difficulty in selling their output; the second most common reason was the high or rising price of raw materials.

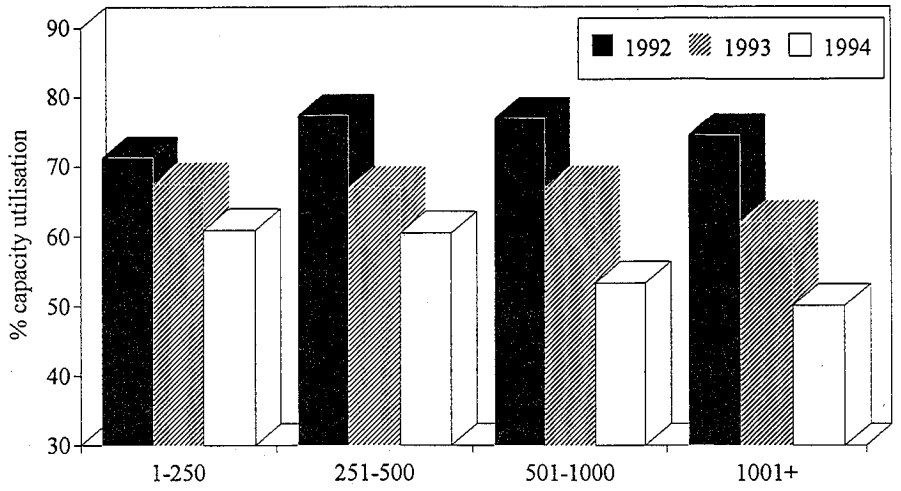
Most significantly of all, **capacity utilisation** levels had fallen steadily. Overall, in early 1992, the average level at which the factories were operating was 74.7%. By early

Figure 12: Capacity Utilisation Rates, 1992-94, by Property Form, Russia



n = 384
Source: RLFS4

Figure 13: Capacity Utilisation Rates, 1992-94, by Employment Size, Russia

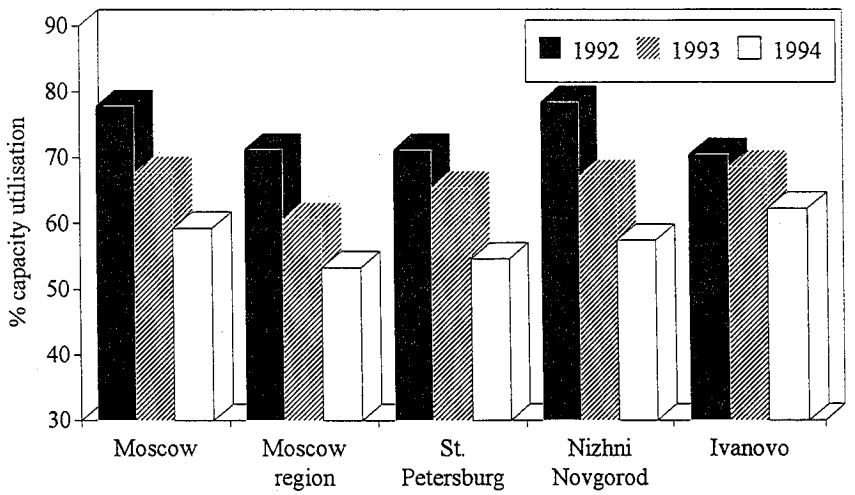


n = 384
Source: RLFS4

1993, it was 66.3%, and by early 1994, it was merely 57.3%. This is certainly the lowest level ever recorded in the country. Food processing had held up best, while metals had shrunk most (Figure 11). The worst affected of all were "social organisations" (sheltered factories), which had slumped by over 25% (Figure 12).[14]

The drop in capacity utilisation was much greater in large factories, implying that the overall drop was even greater than the mean average suggests (Figure 13). Most surprising was that the drop had been least in Ivanovo, even though the level there had been lowest in 1992 (Figure 14).

Figure 14: Capacity Utilisation Rates, 1992-94, by Region, Russia



n = 384
Source: RLFS4

[14] There were only eight social organisations in the sample. Given their special character, a separate analysis will focus on their specific and saddening plight.

In sum, there had been substantial enterprise restructuring in conditions of falling output, declining sales and some reorientation in output (notably growing barter again and a modest shift to exports). Property form restructuring was advanced and there were signs of corporate governance changes. These could be expected to have a broad range of labour market and employment effects.

7. Surplus Labour and "Labour Hoarding"

Russian industry has long suffered from surplus labour, and undoubtedly the scope for raising labour productivity has been enormous. With the slump in production, the surplus labour is likely to have grown. In considering this, we should make a conceptual distinction between *short-term* (or "*visible*") *surplus labour* and *long-term* (or "*dynamic*") *surplus labour*. We may surmise with confidence that, whatever the level of visible surplus labour with current levels of output, technology and work organisation, the dynamic surplus would be some multiple greater than one.

The RLFS4 tried to identify the main forms of visible surplus labour. The extent of each will be estimated and then a composite Index of Suppressed Unemployment will be presented. The first and last mentioned forms are hard to integrate into an index, in the first case because of the subjective element and in the last because of the ambiguity in trying to interpret an institutional practice.

(i) Managerially-perceived surplus labour

First, managements were asked if they could produce the same level of output with fewer workers. With capacity utilisation levels being so low, no less than 48.2% said they could do so, with 76.9% in the metals sector and 53.6% in chemicals (Figure 15).[15] Non-state establishments had higher levels of perceived labour surplus, and large-scale firms were far more likely to believe they could cut their workforces without affecting output. Thus, 63.2% of firms with more than 1,000 workers reported that they could produce the same with fewer workers.

Those establishments operating at relatively low capacity had a higher probability of being able to cut employment without reducing output. And although those that had cut employment in the past year were more likely to estimate that they could cut employment this year, more than a third of those that had increased employment also believed they could cut jobs without lowering output.

Overall, for all firms including those that did not believe they could cut jobs, on average managements estimated they could reduce employment by 9.8% without affecting output, with the highest being in metals, chemicals and engineering (Figure 16). In other words, nearly 10% of the entire industrial workforce was concealed unemployment or surplus labour on this definition. For just those that reported that they could produce the same level with fewer workers, the average cut they estimated they could make was 20.3% of all jobs.

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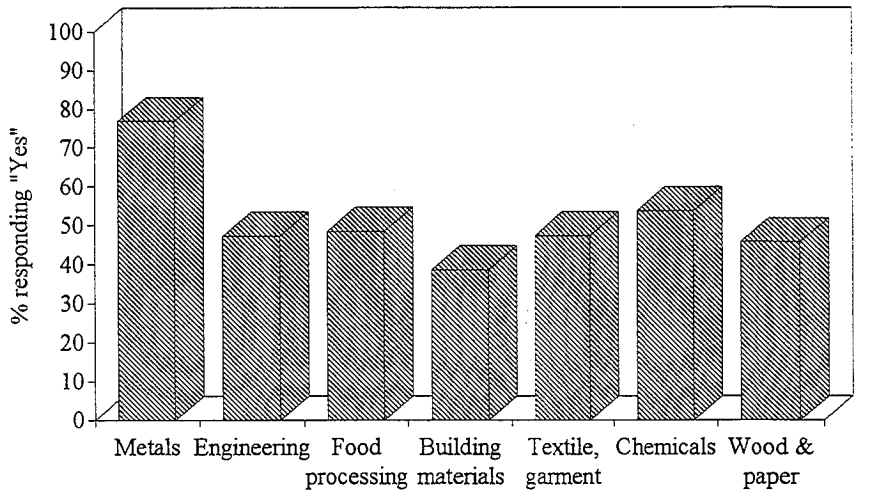
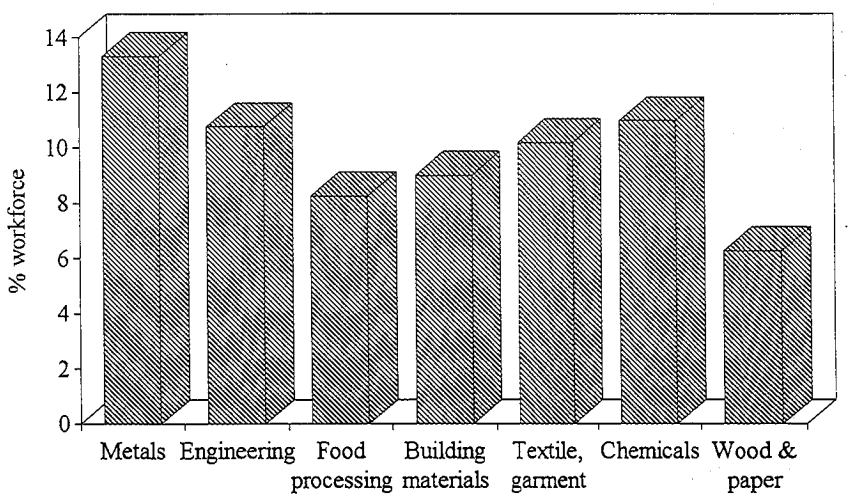
[15] The share was about 10 percentage points higher than in mid-1993, as recorded in the RLFS3. G. Standing, Labour market dynamics in Russian Industry in 1993: Results from the Third Round of the RLFS (Budapest, ILO Central and Eastern European Team, February 1994), p.12.

Figure 15: Percent of Establishments that Could Produce Same Output with Fewer Workers, by Industry, 1994, Russia



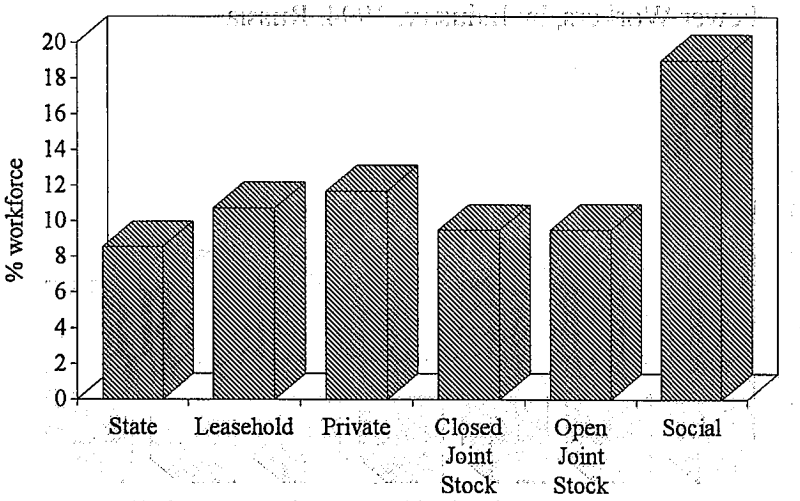
n = 382
Source: RLFS4

Figure 16: Percent Fewer Workers to Produce Same Output, by Industry, 1994, Russia



n = 382
Source: RLFS4

Figure 17: Percent Fewer Workers to Produce Same Output, by Property Form, 1994, Russia



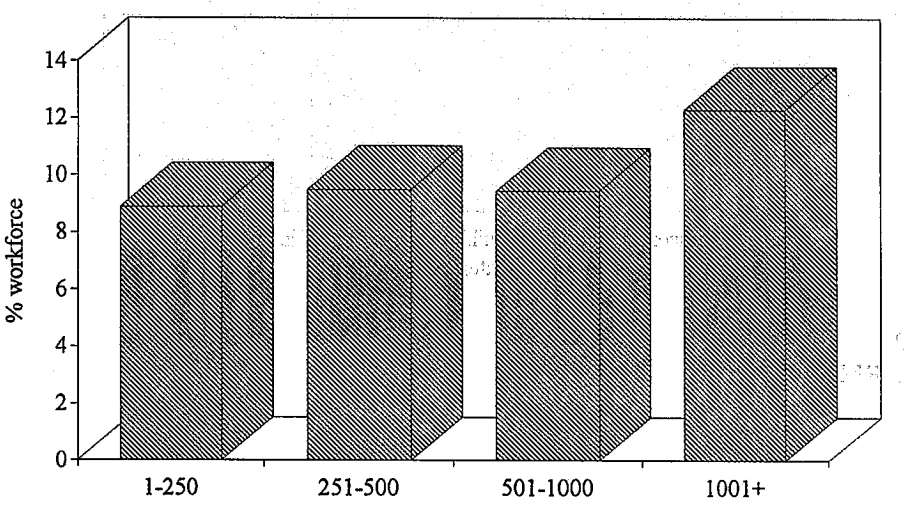
n = 382
Source: RLFS4

Intriguingly, this form of labour surplus was higher in private than in state establishments (Figure 17). And large-scale firms had more than small-scale firms in percentage terms (Figure 18). Indicating a likely lag between changes in capacity utilisation and employment change, those factories that had cut capacity estimated that they could cut employment to a greater extent than others.

(ii) Production stoppages

A second form of surplus labour has arisen from spells of **complete** or **partial *stoppage* of production**, for economic reasons. There had been anecdotal evidence

Figure 18: Percent Fewer Workers to Produce Same Output, by Employment Size, 1994, Russia



n = 382
Source: RLFS4

that this phenomenon became pervasive throughout Russia in 1994. For instance, in a meeting of the Federal Employment Service's Technical Assistance Advisory Committee on September 12, FES director, Fyodor Prokopov, said that in July 1994, across Russia 5,000 major enterprises were not working at all, compared with 2,000 a year earlier.

In the RLFS4, many firms reported that during 1993 and 1994 they had stopped production wholly for one or more periods or had stopped part of their plant at some time. For all firms, on average the factories had experienced full stoppages for 0.63 weeks in 1993 and 0.97 weeks in the first half of 1994, implying that there had been more than a threefold increase. In effect, assuming a working year of 48 weeks, the figure implies that for all firms together this accounted for about 4% of working time.

In 1993, the lowest incidence of full stoppages was in food processing. Regionally, it was highest in Ivanovo (1.73 weeks), and the amount of labour time lost from this practice was inversely related to the firm's actual employment change in the period.

Partial stoppages, defined as closure of part of the plant for lack of work, accounted for an average of 1.25 weeks in 1993, with 5.4 weeks in metals. In the first half of 1994 alone, the average for all firms was 2.1 weeks. The highest incidence was in building materials, the lowest in food processing.

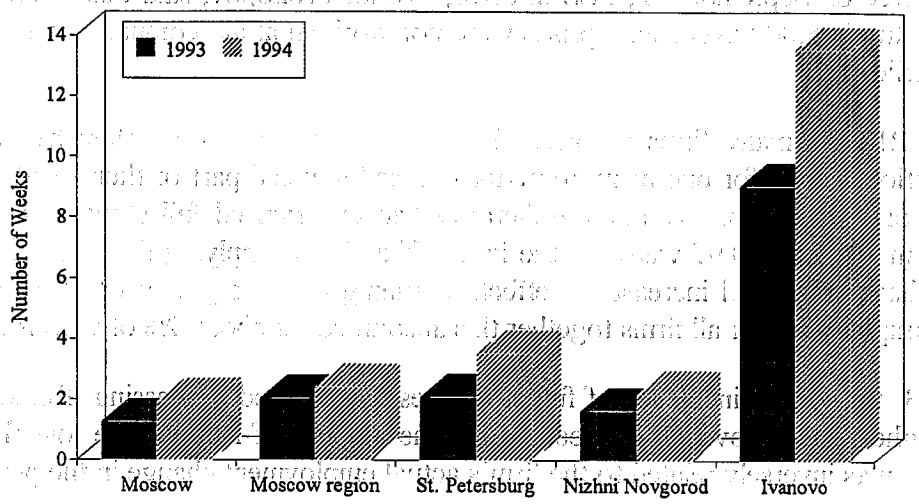
The unweighted average percentage of workers affected by partial stoppages was 15.3% of the workforces of all establishments, or 35.2% of the workforces in those firms in which there had been partial stoppages, with the highest level being in Ivanovo, where 47.2% of the workforces in those firms that had partially stopped production had been left idle for some period. The share of workers involved also tended to be higher in large-scale firms, implying that the unweighted mean underestimated the total number of workers involved.

We can make a rough calculation of the "labour slack due to partial stoppage" by multiplying the total workforce in the establishment by the percent of workers affected and by the number of weeks they were off work, divided by the size of the workforce multiplied by 48 for 1993 and 24 for 1994, which assumes that a working year consists of 48 weeks.[16]

If we add complete and partial stoppages, with the latter expressed as time lost as just estimated, we find that production stoppages for economic reasons accounted for about 6.8% of total labour input during the first half of 1994. This is probably an underestimate, but it indicates that the labour surplus expressed in this form was substantial. The distribution showed that certain sectors, areas and types of firm were particularly badly affected. Thus, Figure 19 shows the number of weeks production was wholly or partially stopped in 1993 and 1994, showing how bad the situation was in Ivanovo and how it had deteriorated in 1994. Time lost was greater in the first half

[16] In response to partial stoppages, managements reported that the main measure taken was to cut normal hours (28.6% of all firms did that) and to resort to unpaid and partially paid leave (40.7% did that).

Figure 19: Number of Weeks Production Partially or Wholly Stopped, by Region, 1994, Russia
(whole year for 1993, first 6 months for 1994)



n = 384
Source: RLFS4

of 1994 than for the whole of 1993. In effect, production stoppages for economic reasons had become a major form of "suppressed unemployment".

(iii) Administrative Leave

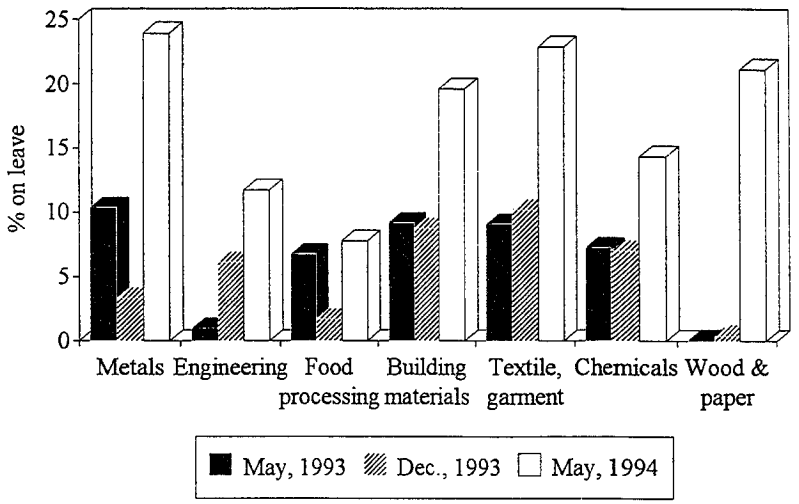
A third form of surplus labour is **administrative leave,** or lay-off. This arises when the management tell the workers that they do not need to turn up for work, but do not make them redundant. To call this practice "leave" is a convenient euphemism for what is essentially "unemployment", except that the worker retains some slim hope that he or she will return to properly paid employment while the enterprise retains a potential source of labour supply at short notice and doe not have to pay "severance pay", which under Russian legislation entails the enterprise having to pay a released worker two or three months of his previous average wage.

According to Goskomstat data, the extent of such leave throughout Russia by mid-1994 was higher than forecast at the beginning of the year and higher than the authorities had expected for the end of 1994 — 11 million workers on administrative leave or working short time, or 22% of the labour force.[17] This figure should be regarded as illustrative of the official realisation that there was a major problem that was distorting the picture of employment and unemployment.

The RLFS divides administrative leave into unpaid, partially paid and fully paid leave; in practice, only the first two have been used to any great extent. In fact, partially paid leave accounted for most of the total, and it is almost certain that the amount paid was usually a gesture (confirmed in all the factories we visited personally), at most

[17] Report of Federal Employment Service, Moscow, September 12, 1994 (internal document).

Figure 20: Percent of Workers on "Administrative Leave", by Industry, 1993-94, Russia



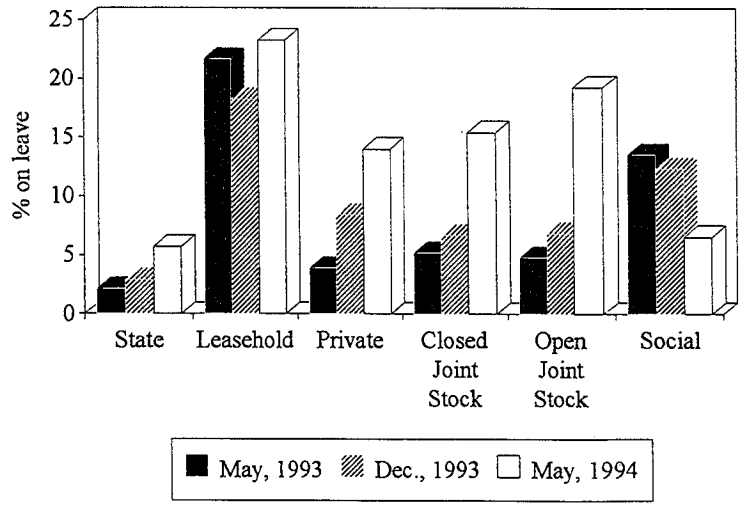
n = 384
Source: RLFS4

amounting to the minimum wage, which was equal to less than the equivalent of $8 a month, or less than 10% of the average wage.

Taken overall, the extent of administrative leave had risen substantially since early 1993, accounting in May 1994 for between a low of 7.7% of the workforce in food processing and a high of 23.9% in the metals sector (Figure 20).

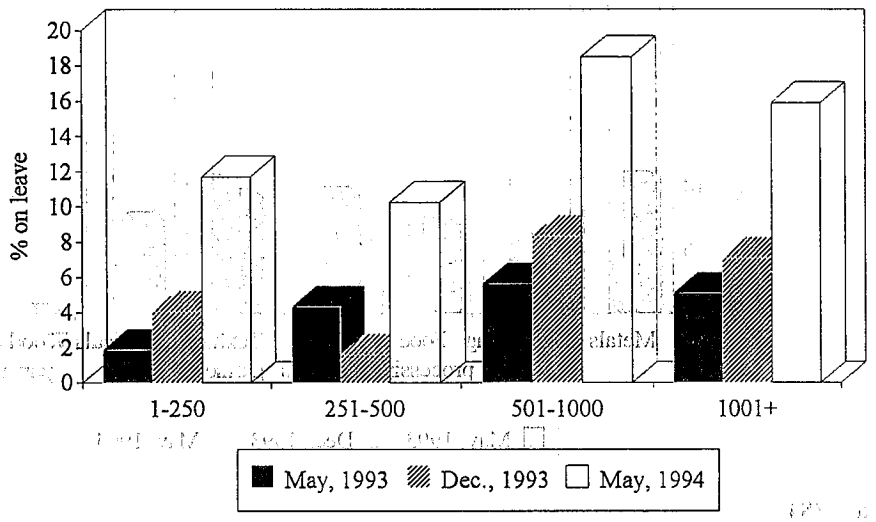
In terms of property form, Figure 21 shows that all types had experienced an upward trend in administrative leave, with the exception of "social organisations". This latter finding is most unlikely to reflect a favourable situation. It is more likely to reflect the

Figure 21: Percent of Workers on "Administrative Leave", by Property Form, 1993-94, Russia



n = 384
Source: RLFS4

Figure 22: Percent of Workers on "Administrative Leave", by Employment Size, 1993-94, Russia



n = 384
Source: RLFS4

acute pressure such organisations were under, given their previous reliance on budgetary support, the evaporation of which would have forced them to release workers altogether because of the high overhead costs of continued responsibility for workers, many of whom have disabilities.

Administrative leave had risen in all size categories of establishment (Figure 22) and was highest in medium and large-scale firms, implying that the unweighted means understated the full extent of lay-offs.

Overall, as in so many respects, the situation was by far the worst in the depressed region of Ivanovo, where an extraordinary 40% of all workers were on lay-off leave (Figure 23). Surely, that situation could not be maintained for very long, and there are ample reasons for not wanting that to persist.

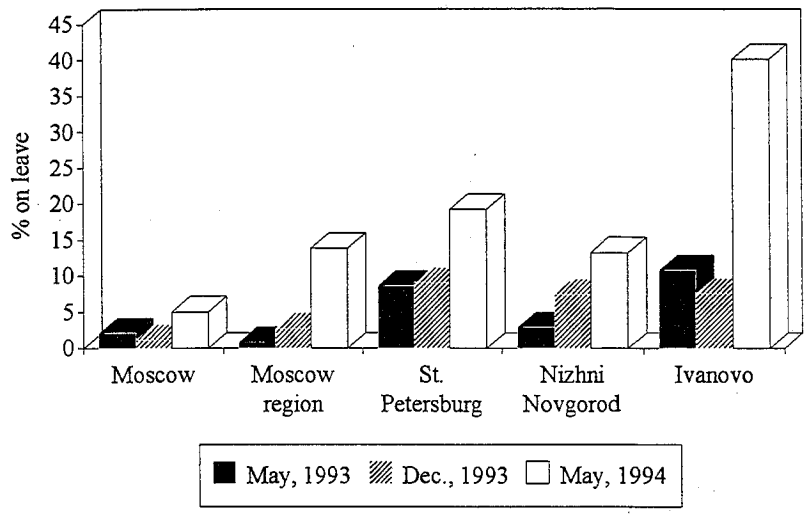
The reasons for the extensive resort to unpaid administrative leave, or lay-offs, will be considered later. By 1994, it had become a major form of suppressed unemployment.

(iv) Short-time Working

The fourth form of labour surplus consists of workers put on **short-time**, which in the RLFS is measured by those working shorter working weeks than normal for economic rather than personal reasons, sub-divided into those working fewer days than normal and those working fewer hours per day.

It turned out that working fewer days per week was far more common than working fewer hours per day per week. Both had increased considerably in 1993-94. Taking both together, the textiles and garments sector had the highest level (Figure 24). Most intriguingly, short-time working was much greater in state, social-organisation and

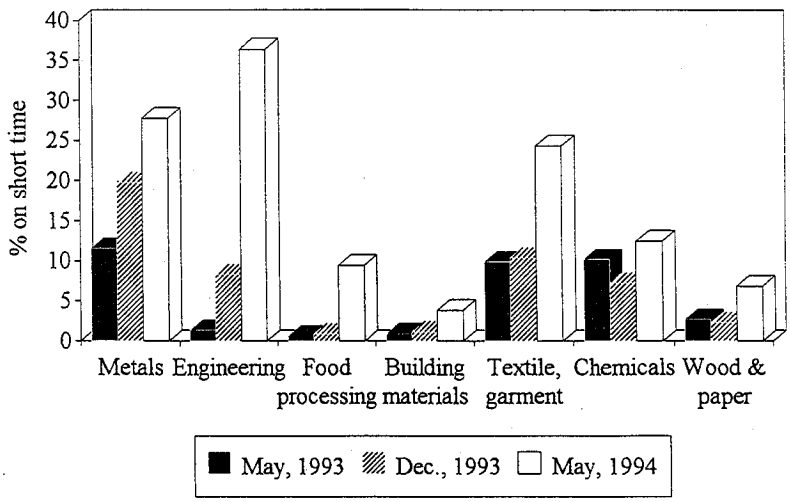
Figure 23: Percent of Workers on "Administrative Leave", by Region, 1993-94, Russia



n = 384
Source: RLFS4

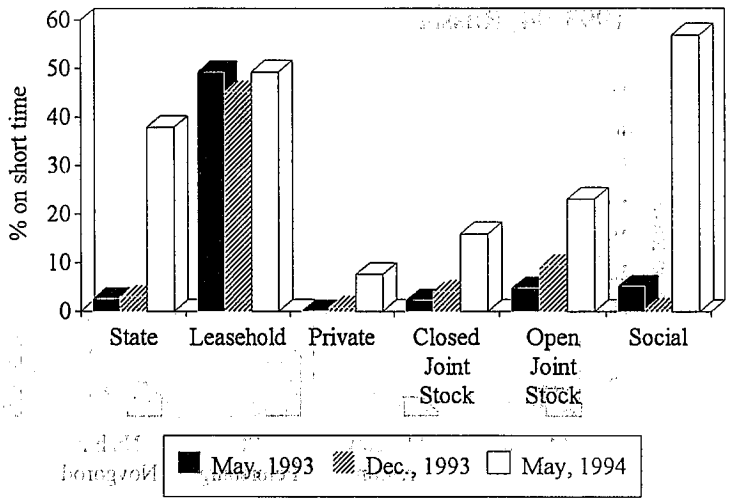
leaseholding factories (Figure 25). As such, there is a suggestion that short-time working is a substitute for administrative leave or lay-offs.

Figure 24: Percent of Workers on Short Time, by Industry, 1993-94, Russia



n = 384
Source: RLFS4

Figure 25: Percent of Workers on Short Time, by Property Form, 1993-94, Russia

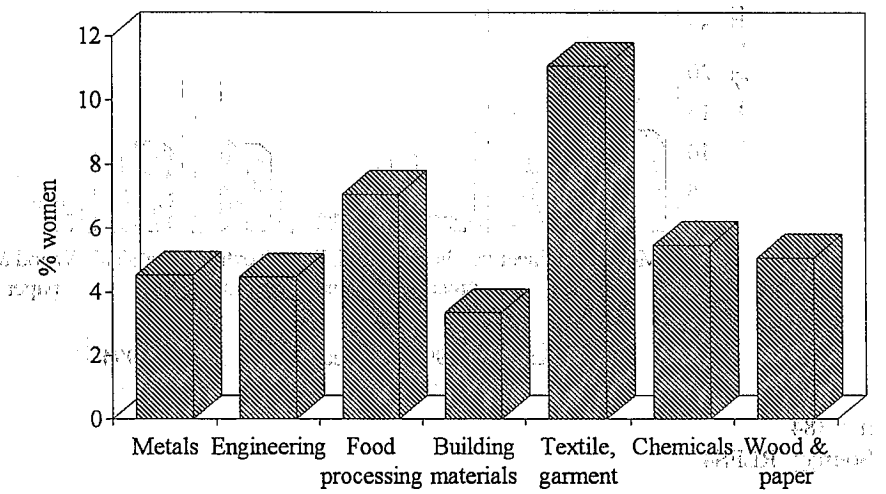


n = 384
Source: RLFS4

(v) Maternity Leave

Another feature of Russian industry that could be interpreted as partially a form of surplus labour or hidden unemployment is prolonged maternity leave. One cannot interpret this wholly as hidden unemployment, yet it has been a convenient mechanism for dealing with a surplus labour crisis. Enterprise managements can simply encourage women to prolong maternity leave because of a shortage of work. This is consistent with the fact that, in a country where fertility has been extremely low, on average no less than 5.9% of the female workforce were on maternity leave in May 1994. Maternity leave was relatively high in garments and textiles (Figure 26), in closed joint-

Figure 26: Percent of Women on Long Term Maternity Leave, by Industry, 1993-94, Russia



n = 384
Source: RLFS4

stock companies and in large-scale firms. Perhaps many of those women would have been replaced at work. Yet in official statistics they would have been classified as employed, although more properly they should be classified either as economically inactive or in disguised unemployment. As such, the percentage on maternity leave could be interpreted as, in part, one indicator of surplus labour.

(vi) Indexes of Total Surplus Labour

What do all these forms of surplus labour amount to? Presuming that the managerial perception of surplus labour at the current level of production related to some of the actual forms of labour surplus identified by direct questions, and that (despite the conclusion of the previous section) maternity leave is wholly withdrawal from the labour force, we can try to combine the other forms of visible surplus labour into a composite measure, as follows:

Labour surplus =
% of time lost from total stoppages +
% of time lost in partial stoppages in full-time equivalent terms +
% of workforce on administrative leave +
% of workforce on short-time in full-time equivalent terms.

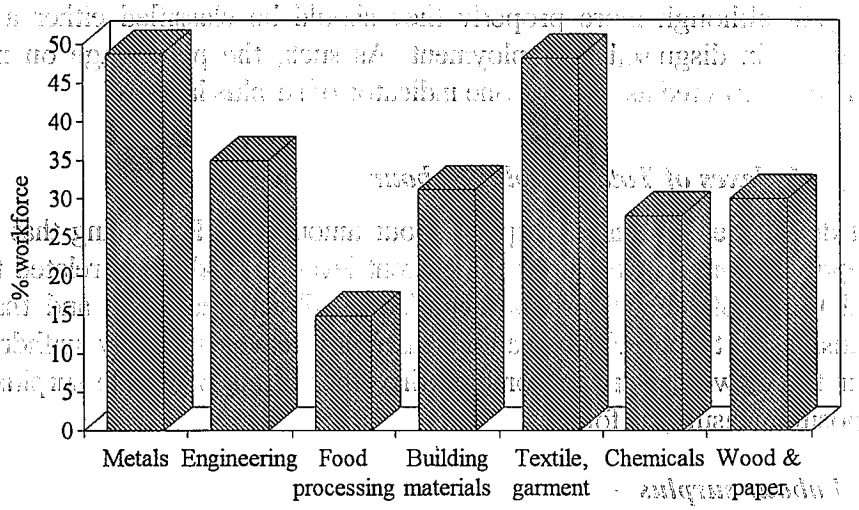
To estimate this requires a few reasonable assumptions. The data on production stoppages due to economic factors (not strikes) are based on a reference period of the past year, whereas the other measures have the past month as the reference period. In effect, we assume that the percent of time lost over the whole year can be regarded as applying to any particular month. Another assumption is that time lost from partial stoppages is separate from that lost to administrative leave or short-time working. It could be that such stoppages are the immediate cause of some administrative leave. Accordingly, we can estimate labour surplus as a composite index that excludes partial stoppages, as well as the index that includes them. Another assumption is that those on short-time are deemed to have worked half-time. Finally, to estimate the percent of time lost from production stoppages, we again assume a working year of 48 weeks, which in itself tends to result in an understatement of lost because the average workyear is probably shorter than that.

The overall averages of the various individual indicators of surplus labour are summarised in Table 7. To obtain a more complete picture, it also gives the maternity leave average and refers to the issue of "unpaid employment", which will be covered in a later section.[18] The three groups of indicators are separated to highlight the point that they are somewhat different in character.

If we include labour input lost due to partial and complete stoppages of production, the percent of workers on administrative leave, and the full-time equivalent measure of labour input lost due to enforced short-time working, we estimate that **in 1994 suppressed unemployment in Russian industry is 35.2% of the workforce.** In effect, more than one in every three workers could be released from employment, and

[18] One might estimate the share of maternity leave that constitutes hidden unemployment as all that is above the mean value for all firms.

Figure 27: Labour Surplus, by Industry, 1994, Russia
(% of workforce in full-time equivalent)

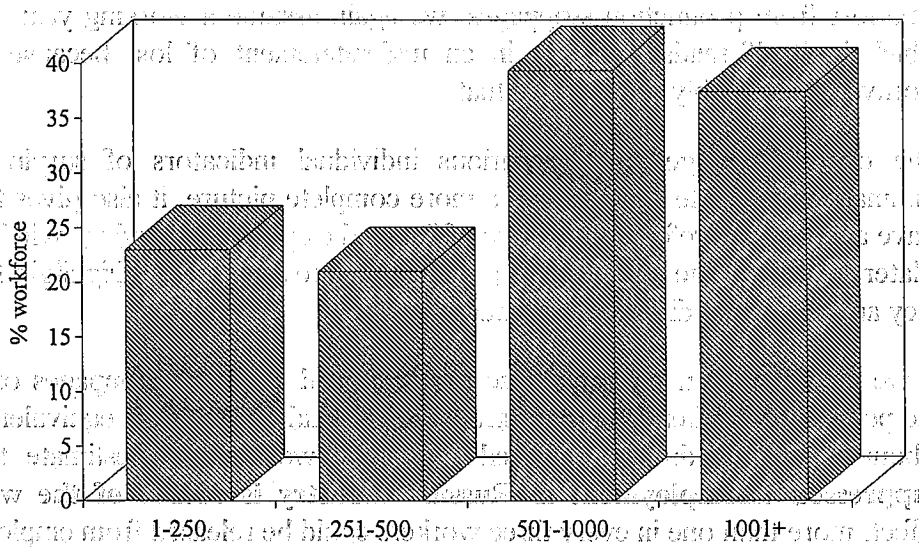


n = 384
Source: RLFS4

in one way or another have been released short of being made openly unemployed. And this excludes any unreal maternity leave and unpaid employment.

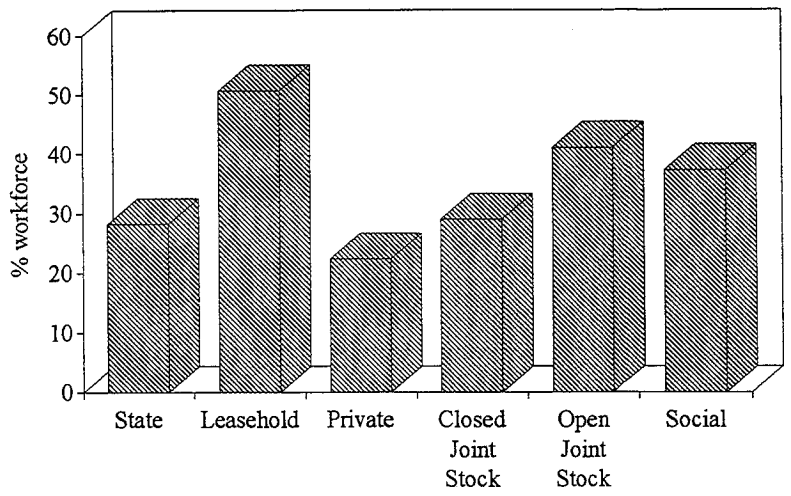
The index of suppressed unemployment varies enormously by sector, area and type of firm. It was particularly high in metalworking plants, textiles and garments (Figure 27). Were it not for food processing, where labour surplus was less than 10%, the aggregate would be much worse. Even more worrying is that in **large-scale firms with more than 1,000 workers, over 37% of workers were effectively redundant** (Figure 28). Also worrying for 1995 is that labour surplus was relatively high in open

Figure 28: Labour Surplus, by Employment Size, 1994, Russia
(% of workforce in full-time equivalent)



n = 384
Source: RLFS4

Figure 29: Labour Surplus, by Property Form, 1994, Russia
(% of workforce in full-time equivalent)



n = 384
Source: RLFS4

joint stock firms (Figure 29), which so far have been inhibited from releasing large numbers of workers by privatisation agreements. Surplus was lowest in private firms (22.3%) and, significantly for those concerned with corporate governance restructuring, was higher in firms where the management had been formally appointed by the work collective than where they had been appointed by enterprise boards.

The most fundamental question of all is: Why has there been all this surplus labour or suppressed unemployment, rather than a massive process of labour shedding?

Table 7: Indicators of Surplus Labour, or "Concealed Unemployment", in Russian Industry, RLFS4, 1994

Indicator % of employment*	
1. Could produce same with fewer workers	
— % employment cut possible, if yes	20.3
— % employment cut possible, all firms	9.8
2. Labour unused due to full production stoppages	4.0
3. Labour unused due to partial production stoppages	2.8
4. Unpaid administrative leave	3.0
5. Partially paid administrative leave	12.2
6. Fully paid administrative leave	0.3
7. Short-time, working fewer days or hours per day	12.3
8. Maternity Leave	
— % of women	5.9
— % of all workforce	4.0
9. Unpaid employment?	

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 1994.

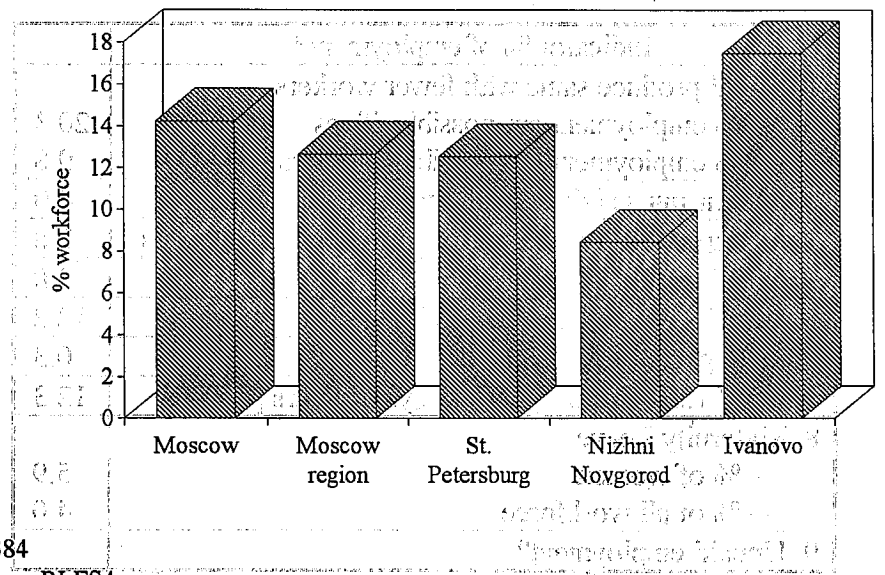
There are two hypotheses, which will be considered in turn. The first is the conventional view that industrial firms have hoarded labour because they have a "soft budget constraint", are unconcerned by labour costs, and accordingly experience "employment rigidity", intensified by employment protection practices that induce firms to regard labour as a fixed cost. According to this view, only with privatisation would internal labour surplus be converted into job cuts, as a result of the emergence of a "hard budget constraint". The validity of this hypothesis can be considered in terms of what has happened to employment.

8. Employment Change in 1993-94

There are two aspects of the first hypothesis. First, it has been argued that employment is "rigid", making it very hard for managers to cut employment even if they wished to do so. We can deal with this very briefly. Both national data and information from successive rounds of the RLFS show that for many years **labour turnover** has been high. Thus in 1993-94, as Figure 30 shows, labour turnover — defined as all departures from employment — was high in all regions. Overall, it averaged 15.5%, with particularly high rates in the building materials sector.

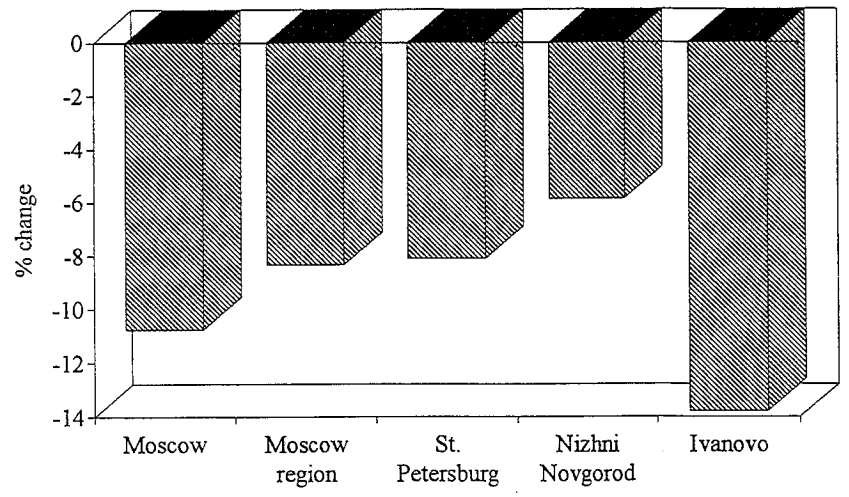
Although it is notable that the percent of total turnover being attributed to **releases** has been very low, this can be explained by three factors. First, "voluntary" turnover has been sufficiently high to make releases less necessary; second, government regulations on "mass releases" make it desirable for firms to disguise releases as other forms of departure from employment; third, severance pay conditions encourage firms to opt for other forms of dis-employment, including extended unpaid leave as a means of inducing workers to leave "voluntarily". All we wish to stress here is that high labour turnover implies that there has not been employment rigidity. If firms wished to cut employment, there are not insurmountable obstacles to doing so. Moreover, the **vacancy** rate was extremely low, ranging from about 1% in Nizhny to 2.5% in

Figure 30: Labour Turnover, by Region, 1993-94, Russia



n = 384
Source: RLFS4

Figure 31: Percent Employment Change, by Region, 1993-94, Russia



n = 384
Source: RLFS4

Moscow region, giving *prima facie* evidence that there was very low demand for labour.

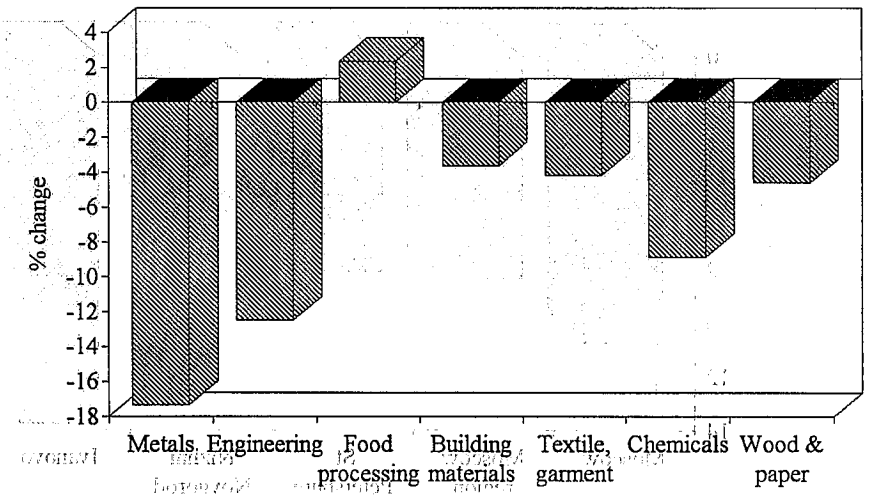
More importantly, actual employment decline has been considerable. **In 1993-94, on average for all establishments, employment was cut by 8.2%, or 26,882 jobs.**[19] The decline was greatest in Ivanovo (13.8%), followed by Moscow City (10.8%), Moscow Region (8.4%), St. Petersburg (8%) and Nizhny Novgorod (5.9%).

The rate of decline continued the pace of decline observed in the first three rounds of the RLFS, suggesting — although not demonstrating, which must await panel analysis — that there had been a total decline of about 30% since 1990. One can see also that the decline was significantly higher in the depressed region of Ivanovo than in the economically more dynamic region of Nizhny Novgorod (Figure 31). Employment declined most in the metals and engineering sectors and rose only in the food processing sector (Figure 32).

In terms of property forms, on average only private firms had expanded employment (Figure 33), in some cases simply because they had only come into existence recently. The sharp decline in employment in state establishments should be noted, since a 10% decline in a year as an average for all firms is substantial. The relatively low decline in employment in closed joint stock firms is also noteworthy, since such firms are closest to "employee owned" firms and thus could be expected to be concerned with preserving employment for their worker members.

[19] The percentage figures are weighted for employment size.

Figure 32: Percent Employment Change, by Industry, 1993-94, Russia

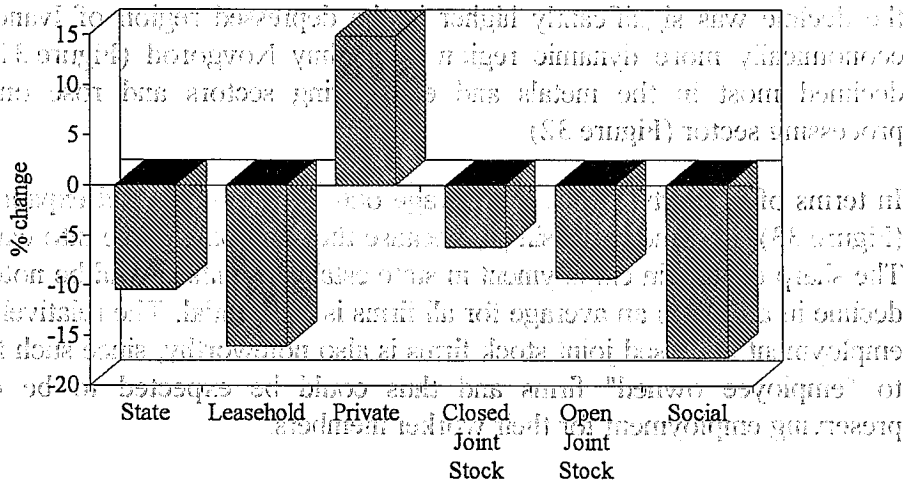


n = 384
Source: RLFS4

Before examining the various factors that could have determined inter-firm differences in employment change, it is worth noting a few patterns perceived by managements.

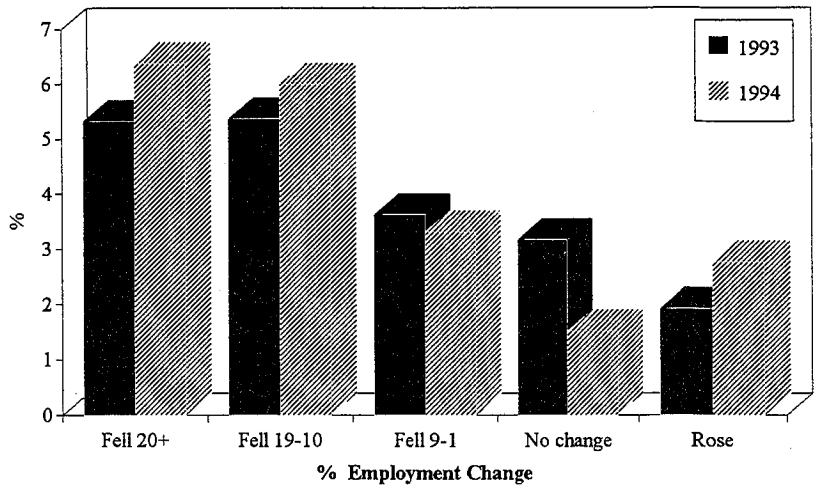
First, they were asked what effect they thought changes in their sales in real terms had made to their firm's employment. Of those that had experienced declining sales, 59% believed that had led to cuts in employment, 11.6% to cuts in working time, 11.2% to reduced working intensity, and the remainder had not made any significant change. In effect, the reactions suggests that many had responded to market pressures, and that they were suffering from a demand shock. The positive employment effect of sales growth was much weaker. Of those that had expanded sales, only 26.7% felt that this had tended to increase employment, a third said it had had no effect and the remainder said that they had increased work intensity or made some work process change to facilitate the increased demand.

Figure 33: Percent Employment Change, by Property Form, 1993-94, Russia



n = 384
Source: RLFS4

Figure 34: Percent of Sales Exported, by Employment Change, 1993-94, Russia



n = 378
Source: RLFS4

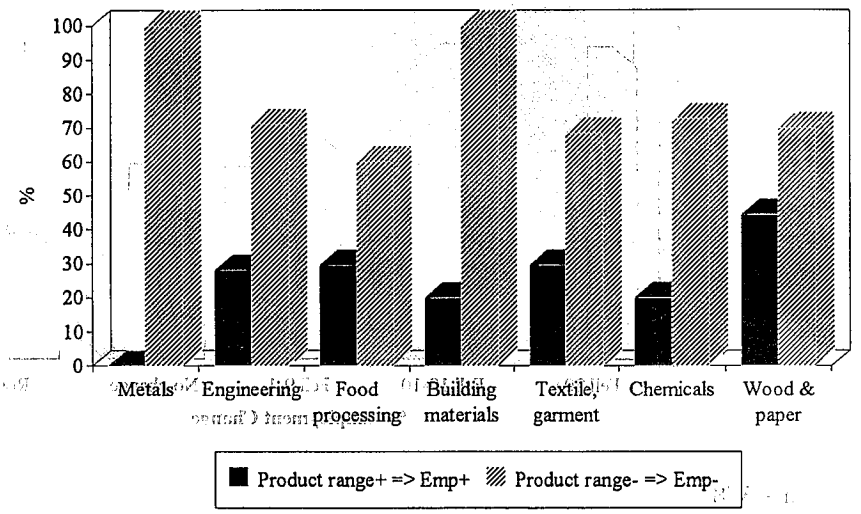
Second, on average those firms that had exported a relatively high percentage of their output in 1993 had cut employment by a relatively large amount (Figure 34). Why should export-oriented firms have cut employment more than others? Were they hit by being uncompetitive or had they tried to respond to the need to be more competitive in the export market by raising labour productivity?

Third, those managements that reported that they were planning to change the property form of their firm were asked what impact they thought that change would have on employment. Overall, 20.6% considered that would reduce employment, 17.6% that it would increase employment, thus implying that "privatisation" was not perceived to change employment very much.[20] One factor might have been that newly formed joint stock enterprises were banned from releasing workers for some months, so that any adverse effect would really be postponed. However, 45.5% of firms with more than 1,000 workers expected property restructuring to lead to employment cuts.

Fourth, technological change was often perceived by managements as having been beneficial for employment. Those that had increased their product range tended to have increased employment (Figure 35). Those that had introduced new technology in production were also relatively likely to believe that had increased employment (Figure 36). As for those that had made some work reorganisation, managements tended to be split about the effect (Figure 37). Of course, one should be wary about deciphering cause and effect in such cases.

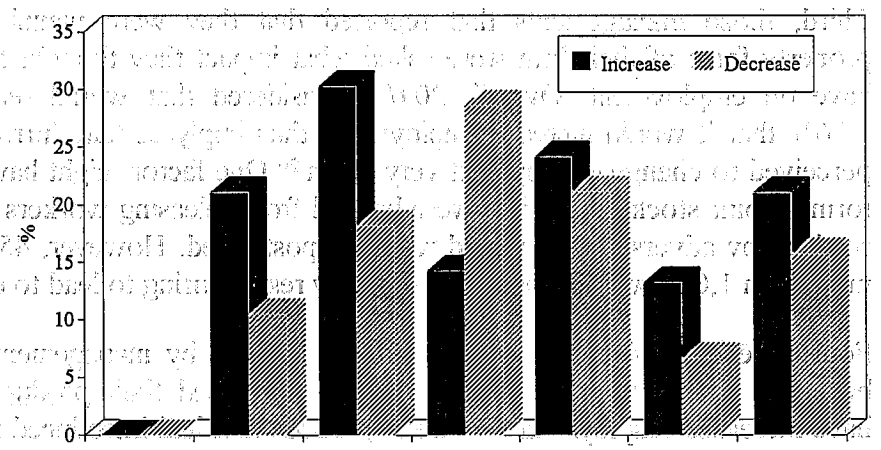
[20] Nevertheless, of those thinking it would result in job cuts, the average expected decline was 21%.

Figure 35: Perceived Effect of Change in Product Range on Employment, by Industry, 1994, Russia



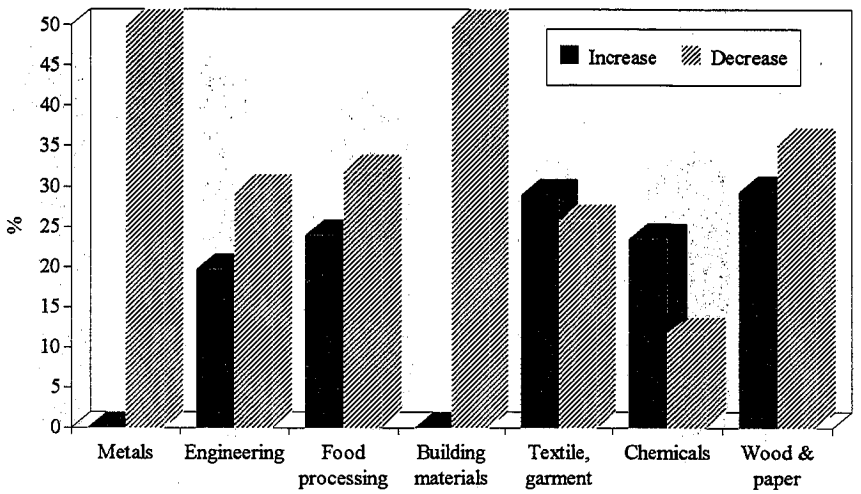
n = 384
Source: RLFS4

Figure 36: Perceived Effect of Technological Change on Employment, by Industry, 1994, Russia



n = 166
Source: RLFS4

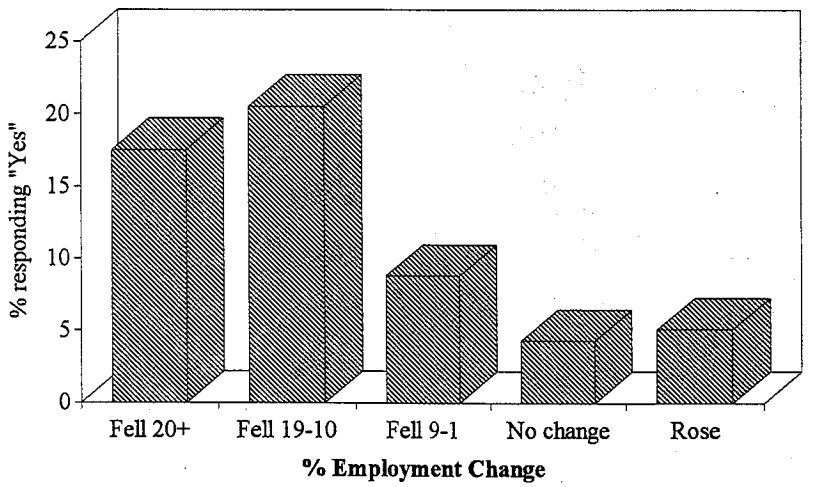
Figure 37: Perceived Effect of Change in Work Organisation on Employment, by Industry, 1994, Russia



n = 161
Source: RLFS4

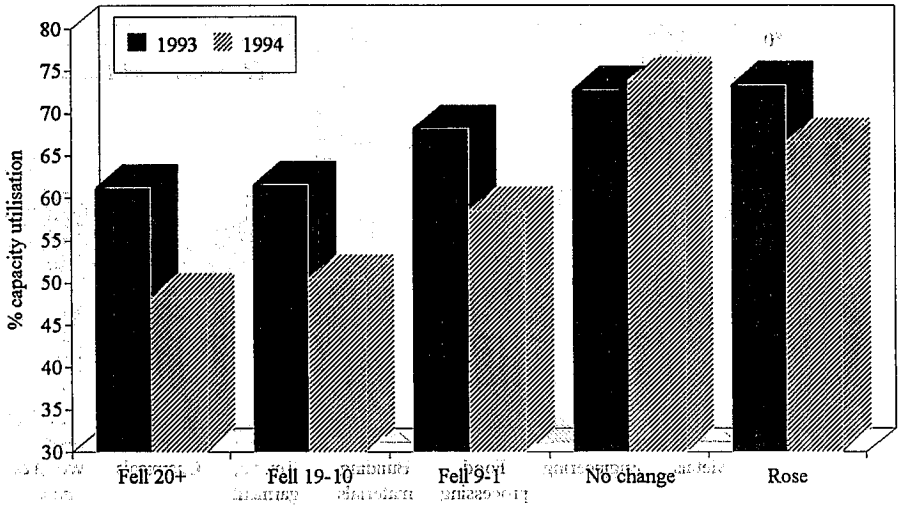
Fifth, those establishments that had detached production units in the past year had cut employment by more than others, on average (Figure 38). This is hard to interpret, in that the detaching such units might merely have been the form of cutting employment. Although this issue might become significant in 1995, it was not important in 1993-94, since the number of workers detached in this way was very small.

Figure 38: Whether Detaching Units of Production, by Employment Change, 1993-94, Russia



n = 384
Source: RLFS4

Figure 39: Capacity Utilisation Rates, by Employment Change, 1993-94, Russia

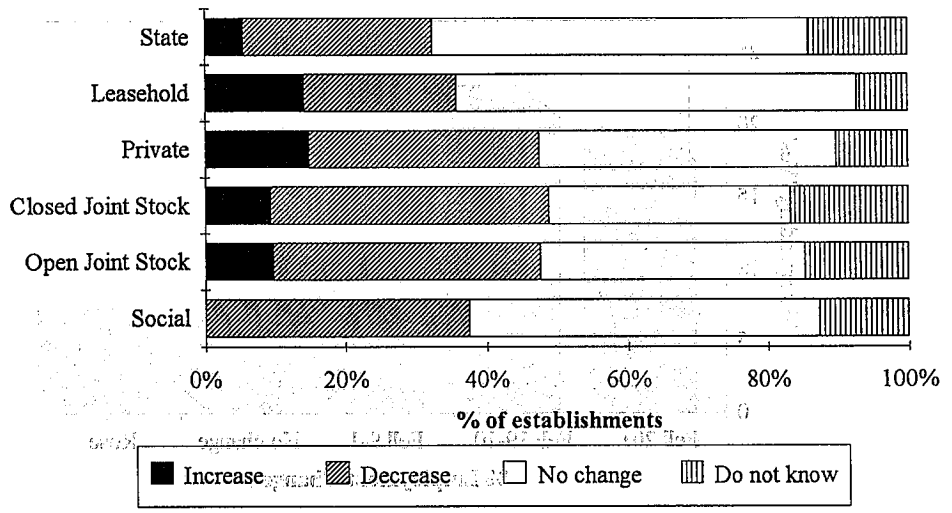


n = 378
Source: RLFS4

Sixth, those that had cut employment the most were operating at relatively low capacity utilisation levels (Figure 39). Whatever the way of interpreting this, it suggests that a "hard budget constraint" was operating.

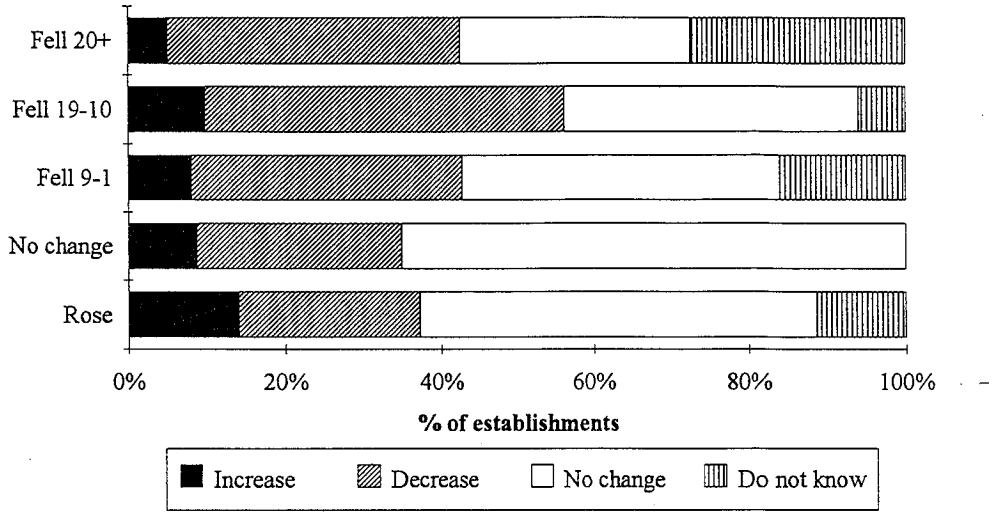
Finally, over one-third of industrial firms expected to cut employment in the coming year, whereas only 9.4% expected employment to grow. Most pessimistic in this respect were firms in metals, textiles and garments and chemicals. By comparison with other property forms, state establishments were relatively unlikely to expect employment to fall or to increase (Figure 40). Over half the large-scale factories (52.9%) expected to cut jobs, and those that had cut employment most in the past year were the most pessimistic about employment prospects in the coming year (Figure 41).

Figure 40: Expected Employment Change, 1994-95, by Property Form, 1994, Russia



n = 381
Source: RLFS4

Figure 41: Expected Employment Change, by Employment Change, 1994, Russia

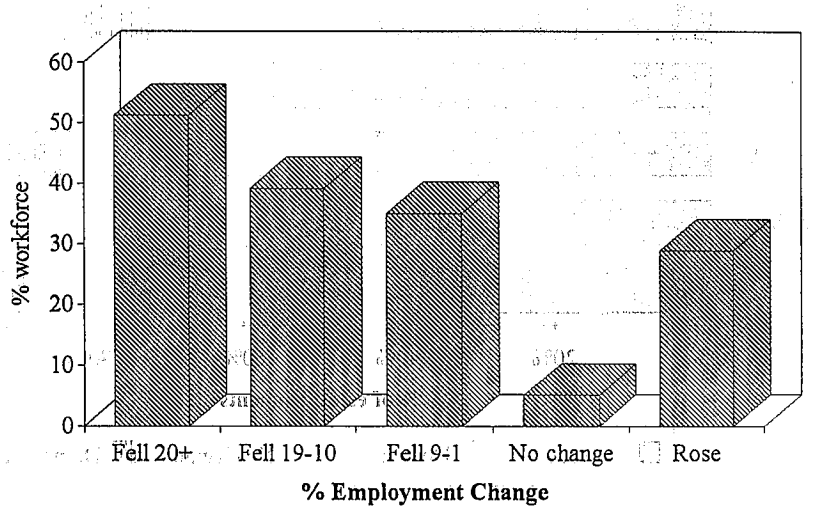


n = 375
Source: RLFS4

In sum, the hypothesis that low registered unemployment could be explained by reference to labour hoarding because of employment rigidity is not supported. Actual and prospective employment cuts have been substantial, and there has been little sign of employment rigidity. Factories were also evidently prepared for, and planning, further employment cuts in the near future. This does not mean that there has been much employment restructuring. In examining employment change across all sectors and areas, multiple regression results suggest that the employment decline reflected demand effects, not restructuring. Controlling for other possible influences, the regression shows that sector of production was the main determinant of inter-firm differences. Large-scale firms were not more likely to have cut employment, property form made no appreciable difference and the higher the share of manual workers, the lower the decline in total employment, indicative of a lack of occupational restructuring.

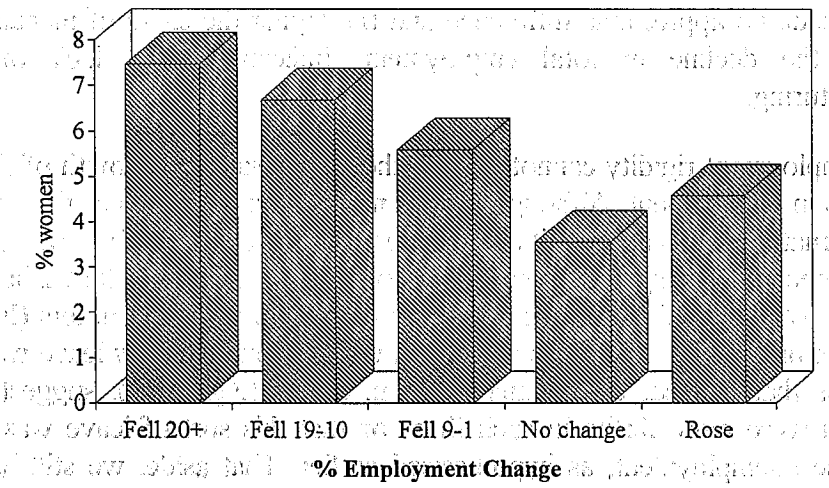
Yet employment rigidity cannot explain the persistence and growth of the huge labour surplus in employment. Although it does not rule out elements of that first hypothesis, an alternative explanation will be considered in the context of an examination of what has happened to wages. Before doing so, it is worth noting that labour surplus has been substantially higher in firms that cut employment than in others (Figure 42). And — most bizarrely — the share of women workers on maternity leave was much higher in firms that had cut employment than in others (Figure 43), suggesting either that women were more fertile in such firms or that this sort of leave was being used to disguise unemployment, as hypothesised earlier. That aside, we still have to give an explanation for the substantial growth and persistence of suppressed unemployment. We will try to do so in the process of examining what has happened to wages.

Figure 42: Labour Surplus, 1994, by Employment Change, 1993-94, Russia (% of workforce in full-time equivalent)



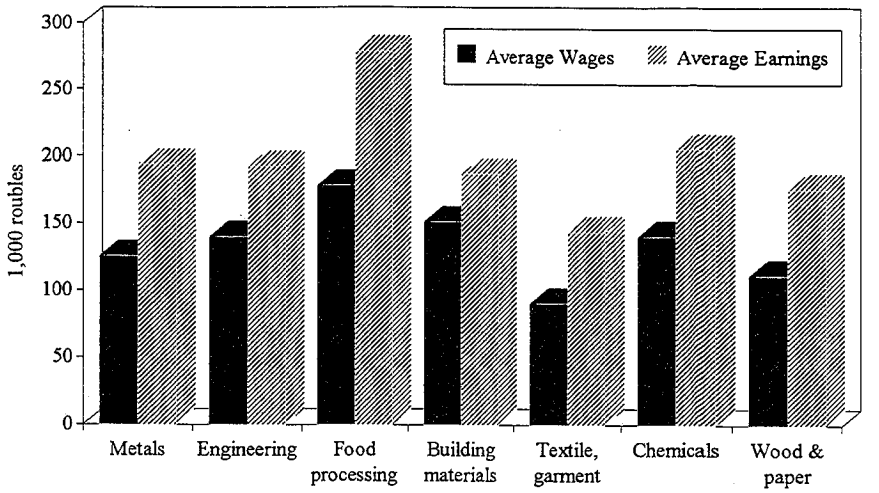
n = 384
Source: RLFS4

Figure 43: Percent of Women on Maternity Leave, by Employment Change, 1994, Russia



n = 378
Source: RLFS4

Figure 44: Average Wages and Earnings, by Industry, mid-1994, Russia

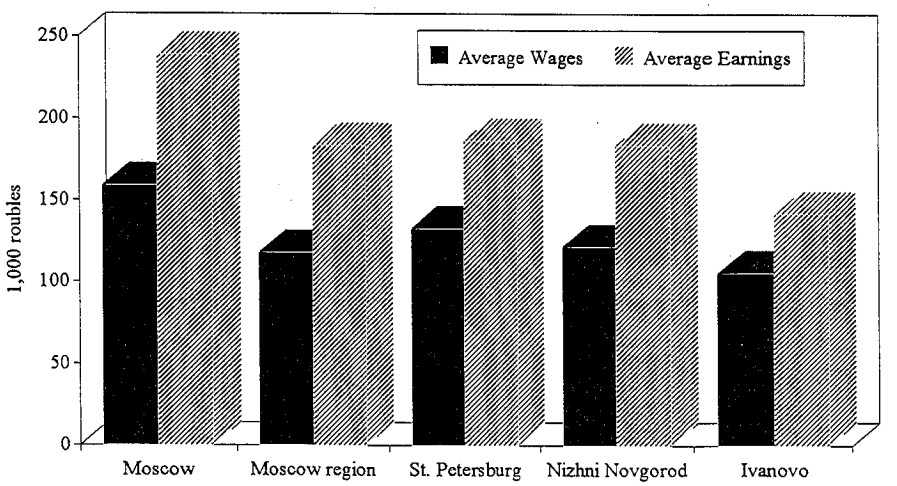


n = 384
Source: RLFS4

9. The Paradox of Wage Flexibility

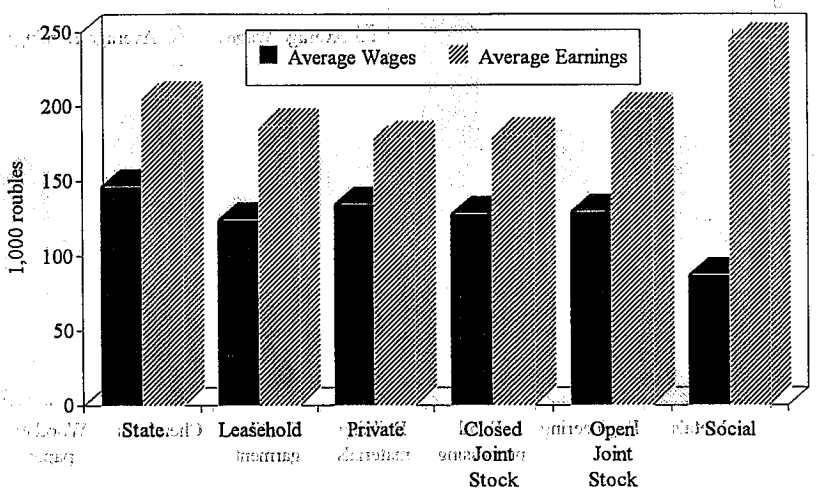
In mid-1994, the average wage in industrial establishments, according to the RLFS4, was 171,479 roubles monthly, including bonuses, with the highest level being in food processing, the lowest in textiles and garments (Figure 44). The industrial pattern is in striking contrast to the one that existed in the 1970s and 1980s, when engineering (incorporating the military-industrial complex as well as the ideological baggage of "material production") was the wage leader. The industrial changes in themselves hint at the existence of wage flexibility. Regionally also substantial differences have emerged, and in 1994 there were large gaps between wages in the depressed local labour market of Ivanovo and Moscow City (Figure 45), which were unlikely to reflect simple differences in costs of living. Surprisingly, the average wage and earnings were relatively low in private companies, and highest in the remaining state establishments (Figure 46).

Figure 45: Average Wages and Earnings, by Region, mid-1994, Russia



n = 384
Source: RLFS4

Figure 46: Average Wages and Earnings, by Property Form, mid-1994, Russia

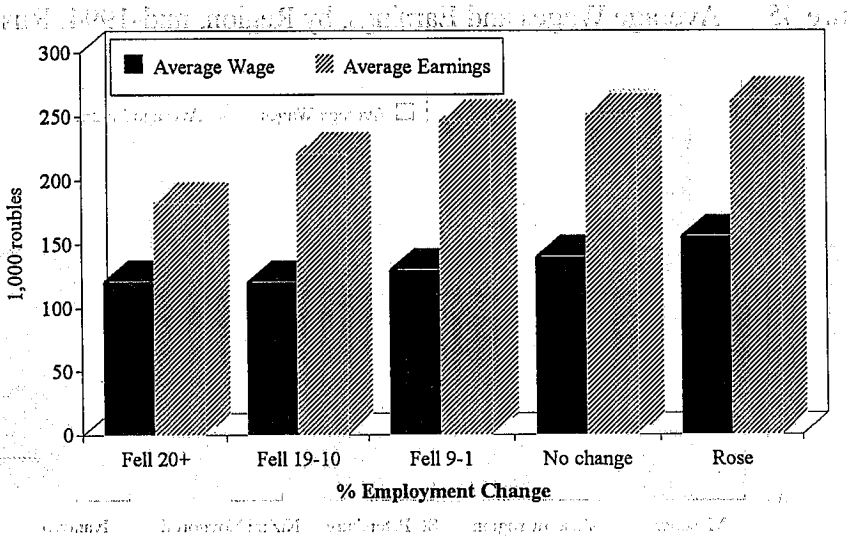


n = 384
Source: RLFS4

Perhaps most relevantly for our explanation of the growth of labour surplus, or "suppressed unemployment", is the fact that the wage was positively related to employment change, as Figure 47 illustrates. Such a finding, replicating a relationship found in RLFS3, is *prima facie* evidence that "the labour market is working", and that there is a degree of wage flexibility.

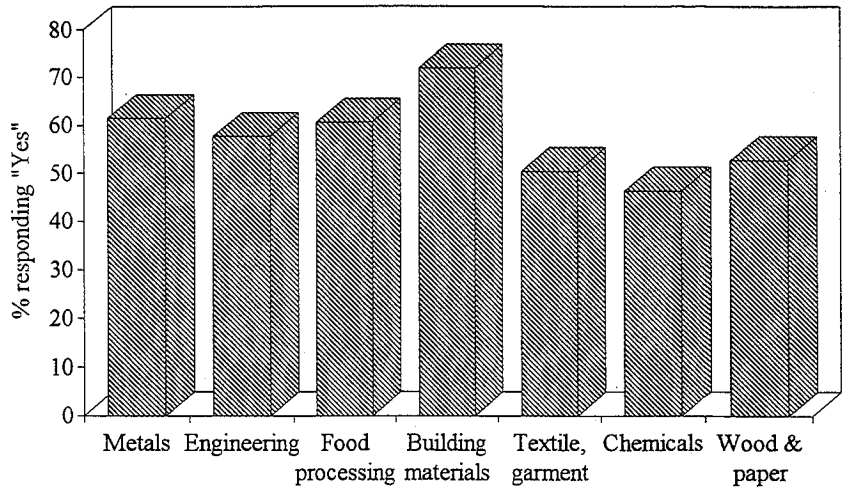
The hypothesis we wish to examine in this section is that the wage system in Russian industry has become extremely flexible. In RLFS4, there are data on various aspects of wage flexibility, and an attempt is made in the following to consider how and to what extent the overall system has become flexible.

Figure 47: Average Wages and Earnings, by Employment Change, 1994, Russia



n = 378
Source: RLFS4

Figure 48: Percent of Establishments using Tariff Wage System, by Industry, 1994, Russia

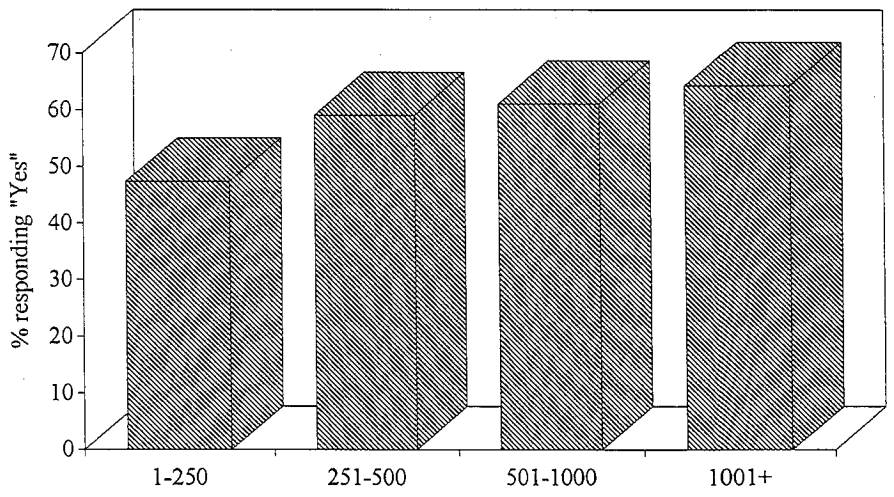


n = 382
Source: RLFS4

(i) The Wage Tariff

Traditionally, wages in Russian industry were seen as very rigid because they were determined centrally by means of a complex wage tariff system, which set wages and wage differentials. Thus, the first sign of growing wage flexibility is that although in 1994 a majority of factories in RLFS4 were still using the state tariff wage system (56.3%), over two in every five no longer did so (Figure 48). Only 39% of private firms were using it. There was a positive correlation between size of establishment and use of the wage tariff (Figure 49), suggesting that if size restructuring were to occur the drift away from it would continue. Use of the wage tariff system was greater in firms that had been shrinking, also suggesting that it was a declining force.

Figure 49: Percent of Establishments using Tariff Wage System, by Employment Size, 1994, Russia



n = 382
Source: RLFS4

Furthermore, using the wage tariff system did not mean that it was used wholly or that it strongly determined total remuneration. Indeed, because it is based on the statutory minimum wage, which traditionally set the base for wage tariff differentials, the tariff system has lost touch with reality since the statutory minimum wage has been held down so far below the subsistence income level that nobody could possibly live on it.

(ii) Bonuses

Various developments show that the wage system had become quite flexible, in that it allowed for fluctuations to be made according to enterprise and worker performance. For instance, a substantial share of wage earnings consisted of **bonus** payments. Thus, on average bonuses comprised about 39% of earnings in 1993, with a particularly high share in food processing.[21] Over four in every five firms operated a monetary incentive scheme of some kind, and however much they were abused as a genuine incentive mechanism, they provide scope for wage flexibility. Thus, in the worsening conditions of 1994, the bonuses had diminished, and only accounted for 34% of earnings on average, with particularly lower bonuses in firms that had cut employment.

(iii) "Profit-sharing"

Although there were various types in operation, some being little more than norm-related bonuses, 67.2% of firms operated some form of profit sharing payment system.[22] And 8.1% of firms were paying dividends (13.1% of closed joint stock firms, 10.4% of open joint stock, and 7.3% of other private firms). Of course, there has been the remarkable growth of worker share-owning. Although it has yet to become an established practice, already it could have induced a willingness among workers to accept lower wages. Indeed, in a multiple regression analysis of inter-firm wage variation, the existence of profit-sharing was *inversely related to the wage. That is a sure sign of wage flexibility.*

(iv) Wage Individualisation

Perhaps as importantly, and bearing in mind that some used a combination of forms of payment, 51.3% of firms reported that they used individual performance in determining pay, 36.7% used establishment performance, and 28.1% used the performance of the work unit to determine an individual worker's pay (Figure 50). One can see that this implies a movement away from a system based on the work collective. Not surprisingly, private firms were most inclined to base pay on individual performance.

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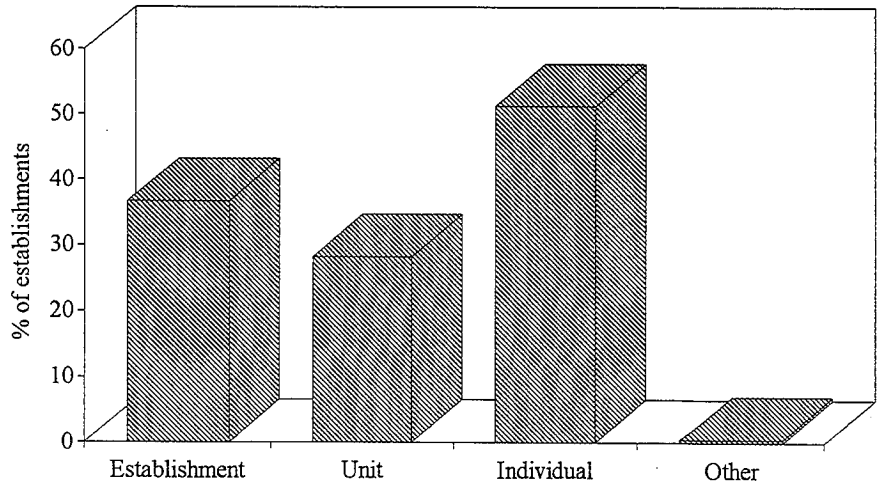
[21] There was little variation by occupational group, with the bonus share on average being 19.2% for managements, 18.3% for specialists, 18.8% for general service employees, 18.6% for supervisors, 19.8% for technicians, 18.9% for skilled manual workers and 18.5% for unskilled manual workers.

[22] There was considerable diversity in the form of 'profit sharing', and some firms might have been operating little more than a bonus system.

Figure 50: Main Performance Criteria of Wage Determination, 1993, Russia



n = 384
Source: RLFS4

One consequence of the decline of the wage tariff system and the drift to more individualised wage determination is that **occupational wage differentials have widened very rapidly**. This will be examined in a companion paper, yet bearing in mind that the likely underestimate of remuneration is likely to be higher the higher the occupational category, in mid-1994 the average wage of managerial employees was 3.6 times the average of workers in unskilled manual jobs.

(v) Implicit "Deregulation"

Another indicator of wage flexibility is the limited effect of wage regulations. Three aspects deserve emphasis — the wage tax or "tax-based incomes policy", which will be discussed later, the statutory minimum wage and the Presidential Decree on managerial wages.

On the latter, it was clear that managements were ignoring a Presidential regulation on their own wages with impunity, if they were even aware of it. According to that regulation, managers in state establishments were not supposed to have wages that were more than six times the average wage of workers in the enterprise, whereas managers in other forms of enterprise were strongly recommended not to exceed that limit. According to their own responses, in mid-1994 a majority of managements (65%) were unaware of the existence of the regulation, including 80% in the private firms. Most of the remainder were simply ignoring it.

The effect of the **statutory minimum wage** on wages is primarily through the automatic effect on the wage tariff. Yet the impact of both had diminished. Over half the firms reported that rises in the minimum wage had had no effect on average wages,

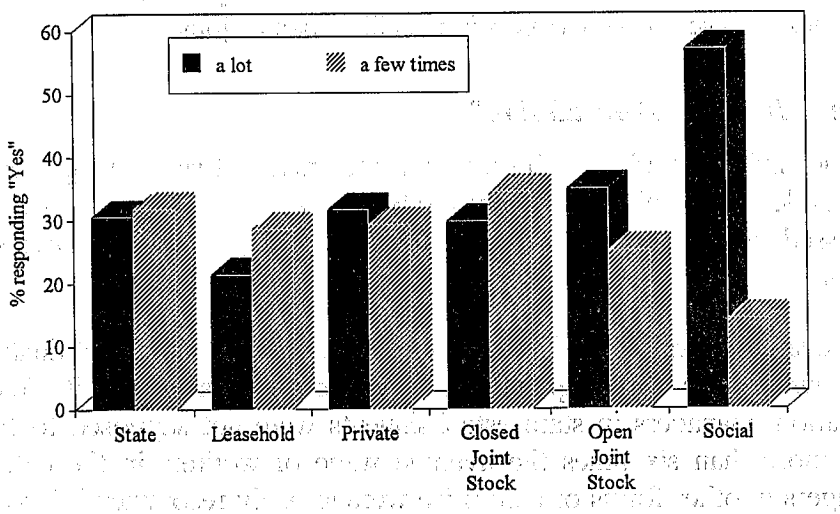
implying that the long connection between wages and the statutory minimum has been severed.[23] It was least likely to have had any effect in the food processing sector.

(vi) Weak "Voice Regulation"

Another indicator of wage flexibility is that managements were under very little effective pressure to pay wages. In effect, workers were unable or unwilling to exercise their "voice" to obtain the wages to which they were entitled, either directly in protest or through their trade union.

A majority of factories reported that they had experienced difficulty in paying wages — 32.5% had a chronic problem, 28.9% had experienced some months in which they had acute difficulty in paying. The most widespread problem was in textiles, garments and engineering, whereas the one industry where there was not a problem was food processing. All property forms had experienced difficulty, with social organisations having by far the worst (Figure 51). The larger the firm, the more likely the difficulty (Figure 52), and those in Ivanovo had more of a problem than elsewhere (Figure 53).

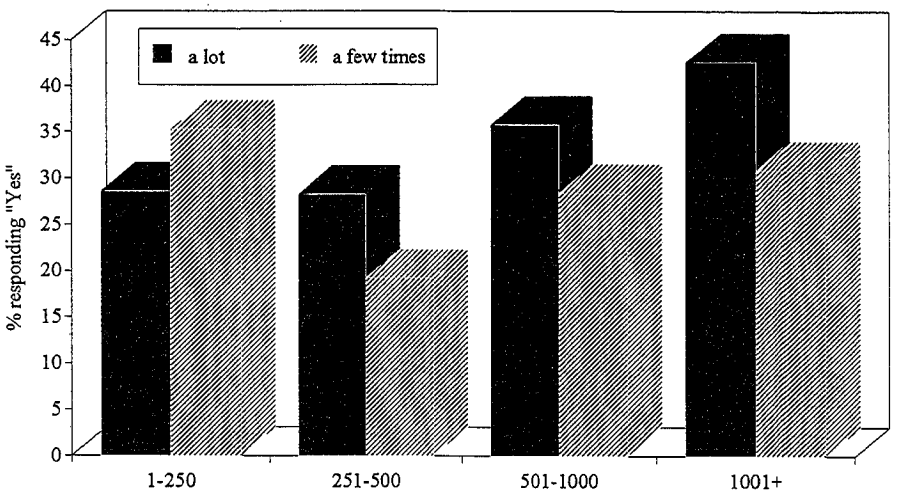
Figure 51: Percent of Establishments Having Wage Arrears, by Property Form, 1994, Russia



n = 381
Source: RLFS4

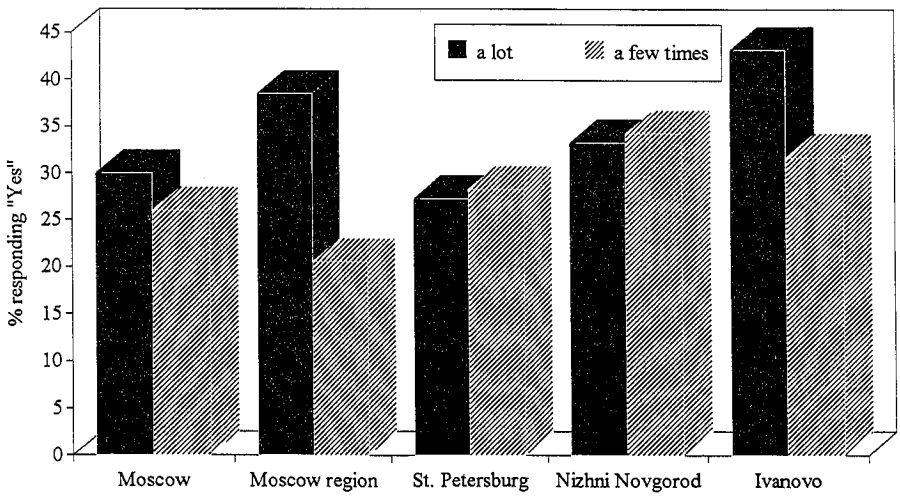
[23] It must be emphasised that the role of the minimum wage in countries of central and eastern Europe has been much greater than elsewhere, so that the change that has occurred has had momentous effects. For a collection of national studies, see D. Vaughan-Whitehead and G. Standing (eds.), From Protection to Destitution: The Minimum Wage in Central and Eastern Europe (London, European University Press, forthcoming).

Figure 52: Percent of Establishments Having Wage Arrears, by Employment Size, 1994, Russia



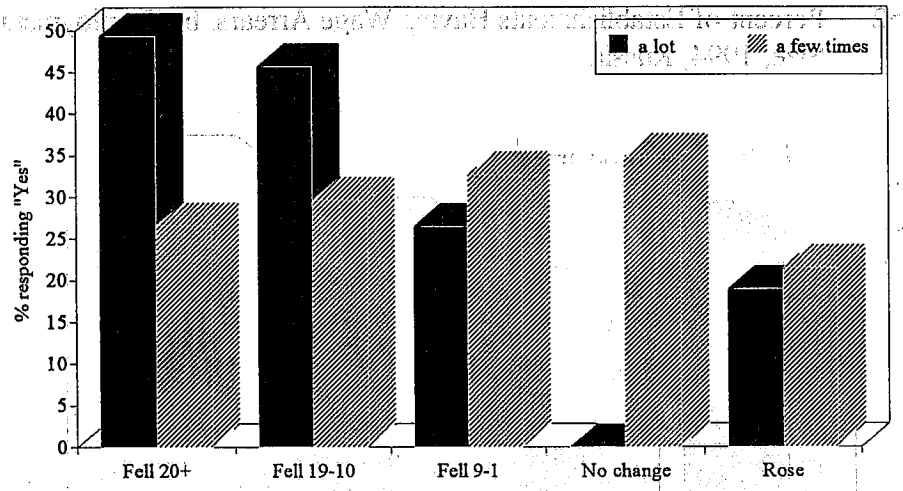
n = 381
Source: RLFS4

Figure 53: Percent of Establishments Having Wage Arrears, by Region, 1994, Russia



n = 381
Source: RLFS4

Figure 54: Percent of Establishments Having Wage Arrears, by Employment Change, 1994, Russia

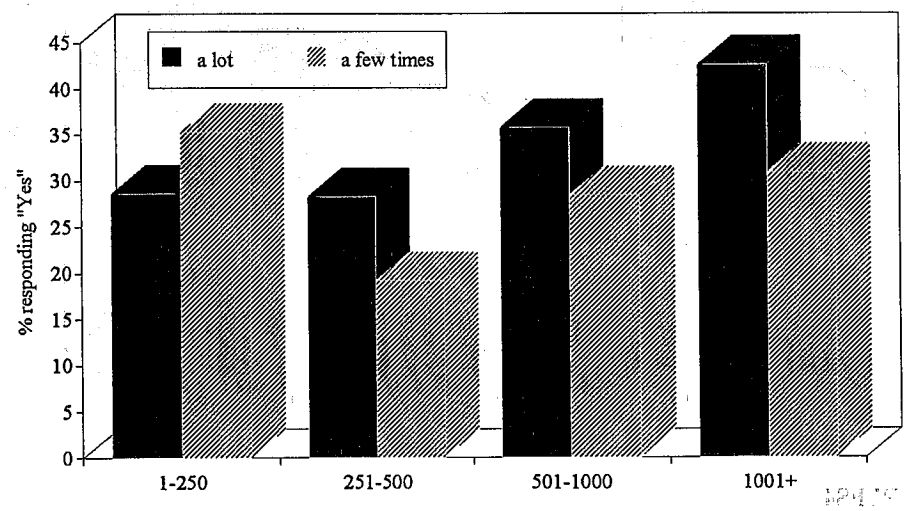


n = 375
Source: RLFS4

In a perverse way, the fact that the probability of acute difficulty in paying wages was inversely related to employment change is further evidence that the labour market was functioning (Figure 54). Those in most difficulty were cutting employment most.

On average, 47.3% of firms admitted that they had not paid wages on time. It varied from a low of 15.4% in food processing to a high of 56.4% in engineering. State firms were more likely to have paid late, with 50.3% having done so, compared with 37.9% of private firms. The larger the firm, the higher the probability of paying late. And there was a strong relationship with employment change, with those cutting employment being more likely to be in wage arrears to their workers (Figure 55).

Figure 55: Percent of Establishments Having Wage Arrears, by Employment Size, 1994, Russia



n = 381
Source: RLFS4

When firms were in wage arrears, it tended to be to a substantial amount. Thus, on average they had not paid 78% of the wage bill. Particularly in an inflationary economy, late payment is effectively non-payment of part of a worker's earnings. But besides wage arrears, which might be paid, there was also admission of actual non-payment without intention or expectation of payment. In total, in that respect, on average 6.4% of wages had not been paid.

In principle, voice regulation of wages should be the preserve to the trade union in the enterprise. At the national level, the main trade unions have been protesting, yet the reality, which will also be examined in more detail in a companion paper, the RLFS4 shows that unionisation has declined remarkably rapidly, and — as shown in multiple regression analysis — union presence had no effect on the wage level. Wages were flexible regardless of a union's presence or the extent of worker membership.

A related factor is that the **duration of collective agreements** has become very short, incorporating flexibility into the wage system. Thus, nearly two-thirds of all wage agreements were for one year only, and a further 21% were for two years.

(vii) Wage Flexibility by Lay-Offs

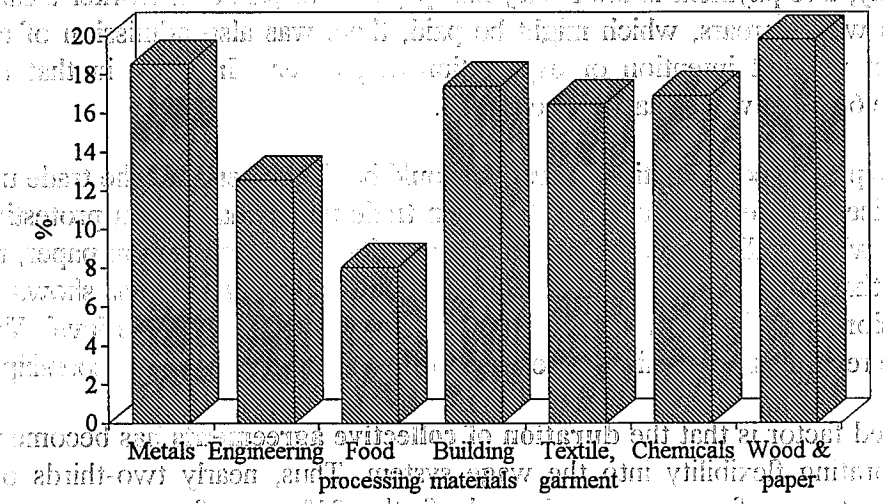
The rationality for managements of extensive use of administrative leave is clear. First, by putting large numbers of workers on unpaid or minimally-paid leave for a few months, the firm is saved having to pay severance pay, which would be two or three months of the worker's average wage. If the worker quits, he would lose the right to severance pay. If he does not quit, and the firm subsequently releases him, the severance pay would be much less in real terms, because his previous wage would be very low over the past few months of leave and in any case in an inflationary context in which average money wages have been rising by a considerable amount each month, the average in real terms would have declined even if the firm calculated the average based on when they were last fully working and fully paid.

That practice is quite crude. More subtle is the practice of putting workers on lay-off as a means of lowering the <u>average</u> wage on which the wage tax is levied. On average, in mid-1994 in industry, according to Goskomstat data, the average (contractual) wage was a little over twice the subsistence minimum. There were many firms in which the actual wage would have been above six times the minimum wage, and thus liable to the 38% wage tax. Yet by putting large numbers of their workers on lay-off, they could avoid the wage tax. In effect, the administrative leave option allows managements to increase upward and downward wage flexibility.

(viii) Impoverishment Wages

Another almost unnoticed aspect of wage flexibility is that in most factories a new phenomenon had emerged, the existence and growth of a category of **working impoverished**. This development reflects the tendency for establishments to put some groups of workers and employees on very low rates of pay — and the fact that there is little to prevent them from doing so. Having identified this phenomenon in the course of fieldwork for RLFS3, the RLFS4 sought to identify the lowest wages paid to employees and to workers.

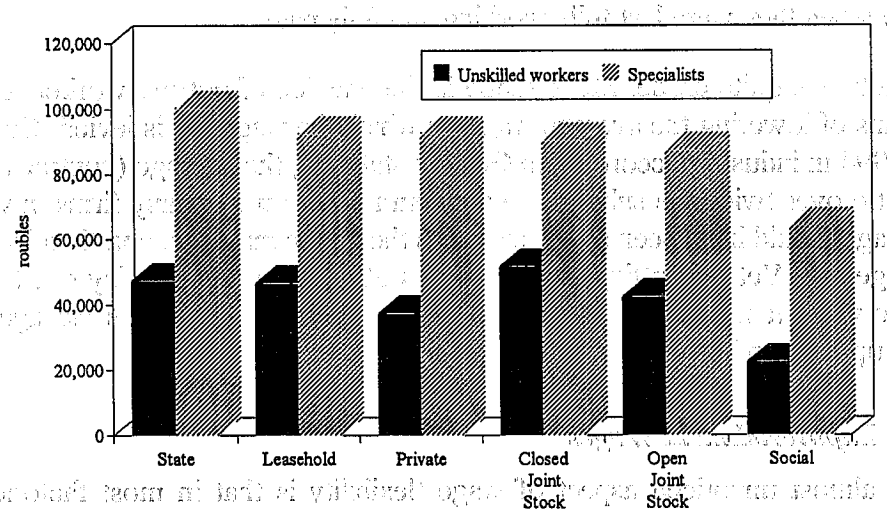
Figure 56: Percent of Workers Receiving Minimum Payment, by Industry, 1994, Russia



n = 384
Source: RLFS4

For May 1994, the reported minimum for *employees* averaged 91,847 roubles per month, compared with the average for employees in all factories of 171,477 roubles.[24] The highest minimum was in food processing, the lowest in textiles and garments (Figure 56). There did not seem to be much variation by property form, although it did

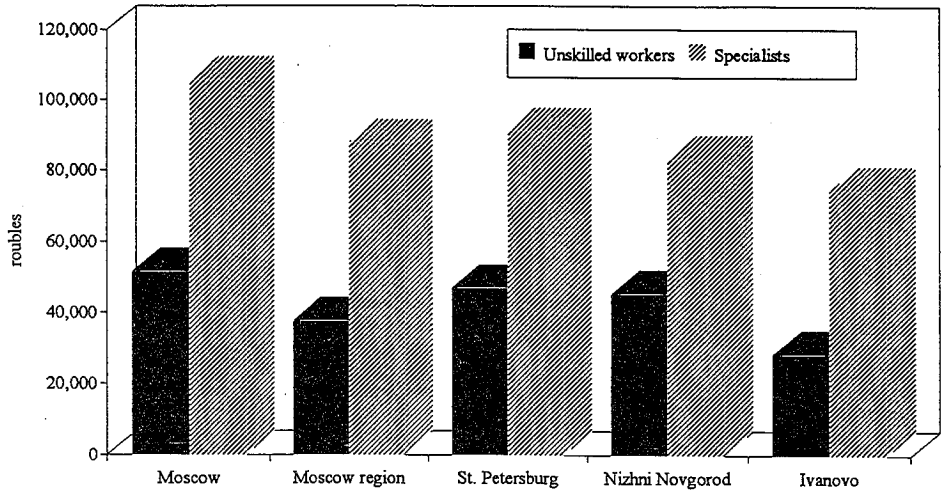
Figure 57: Minimum Payment, by Property Form, mid-1994, Russia



n = 384
Source: RLFS4

[24] The average minimum payment for May 1993 in the same firms was 17,615 roubles, with the lowest being in engineering.

Figure 58: Minimum Payment, by Region, mid-1994, Russia



n = 384
Source: RLFS4

seem highest in state establishments and lowest in social organisations (Figure 57). It was lowest on average in Ivanovo, and it was much lower in firms that had cut employment (Figure 58).

For May 1994, the minimum paid to *workers* was 44,670 roubles monthly (compared with 9,514 in May 1993).[25] As in the case of employees, the lowest minimum was in textiles and garments, the highest in food processing. Across property forms, it was lowest in social organisations, then in private. Regionally, it was lowest in Ivanovo.

Perhaps most revealing of labour market forces at work, the minimum pay was lowest in establishments that had cut employment — and the difference between the minimum and average in the firm was greatest in those that had been cutting employment.

In 1994, no less than 14.3% of all workers were receiving the minimum payment, with only food processing (8%) having fewer than 10%. This showed a sharp increase from the share on such wages in May 1993, when 9.2% of workers were receiving the lowest payment (Table 8). And that substantial minority of workers were only receiving about a quarter of the average wage in the firm, highlighting the radical change in the wage structure from the situation of the 1980s, when the minimum wage was very close to the average wage.

State establishments had a relatively low share of their workforces on the lowest paid level (perhaps an indication of one means by which property form restructuring would widen wage differentials). As expected, in Ivanovo plants, besides having the lowest minimum pay, a very high percentage of workers were on those minimum payments (Figure 59). The rise in the share of workers on minimum payments had also been greatest in Ivanovo.

[25] In mid-1994, the statutory minimum wage was 14,620 roubles, which was equivalent to about US $8 per month. That was less than 10% of the income required for minimal subsistence.

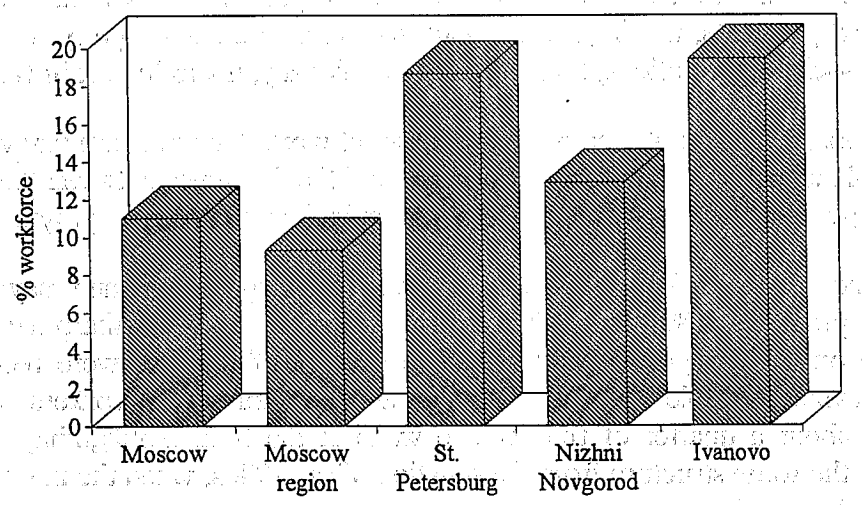
Table 8: Minimum Actual Wage as Percent of Average Wage, by Industry, 1994, Russia

	Specialists		Unskilled workers		% workers receiving minimum payment	
	Minimum payment (roubles)	Minimum as % of Average	Minimum payment (roubles)	Minimum as % of Average	May, 1993	May, 1994
Metals	91,109	72.7	41,066	32.8	5.3	18.5
Engineering	84,826	60.6	41,007	29.3	8.6	12.5
Food processing	147,089	82.6	73,917	41.5	6.7	8.0
Building materials	97,273	64.4	50,445	33.4	9.1	17.4
Textile, garment	66,850	74.1	31,376	34.8	11.3	16.5
Chemicals	89,780	64.2	44,749	32.0	12.1	16.9
Wood & paper	82,817	74.3	38,419	34.5	9.2	19.8

n = 384
Source: RLFS4

In short, putting groups of workers on very low rates of pay was a mechanism of wage flexibility, allowing higher wages to be paid to "insider" groups and being in part a substitute for releasing more workers.

Figure 59: Average Minimum Payment, by Region, mid-1994, Russia



n = 384
Source: RLFS4

(viii) Enterprise-based Social Benefits

A key aspect of the wage system in Russia has been that wages have long been a relatively small proportion of total remuneration. As in earlier rounds of the RLFS, in 1994 a very high percentage of workers were covered by entitlements to a wide range of benefits, showing that many industrial establishments were still essentially "social enterprises" (Table 9). Access to such benefits was surely a factor in workers remaining with a firm even though put on unpaid leave or in precarious, low-wage

Table 9: Benefit Entitlements for Worker Categories, mid-1994, Russia

Benefits	Admin. workers	Regular workers	Non-regular workers
paid vacation	99.7	99.5	48.6
additional vacation	47.9	65.9	18.6
rest houses	44.8	44.5	20.7
sickness benefit	93.0	93.5	55.9
paid health services	51.0	51.3	28.1
subsidised rent	15.6	16.4	5.8
subsidies for kindergartens	44.8	45.3	19.2
bonuses	72.1	72.7	41.5
profit sharing	66.1	65.6	27.8
loans	81.8	82.3	37.6
retiring assistance	73.2	73.4	24.4
supplementary pension	7.0	7.0	2.4
possibility for training	50.3	51.8	18.9
subsidised food	18.5	18.8	11.1
subsidy for canteen or benefit for meal	51.3	53.1	31.5
subsidised consumer goods	9.9	9.9	7.6
transport subsidies	30.2	31.8	14.4
unpaid shares	25.3	25.3	7.1

n = 384
Source: RLFS4

positions. Socio-economically, the concentration of social protection in such enterprises has contributed to the process of socio-economic inequality in the country.

There was flexibility even here, which we have been trying to monitor over the rounds of the RLFS. Some factories had added new benefits over the previous year, the main items being subsidised food, subsidised shares and subsidised transport. However, for the first time, more firms had cut some benefit (28%) than had added something. In terms of the main benefits cut, over 9% had dropped the provision of subsidised food, 3.1% had dropped subsidised vacations and 2.9% had dropped the provision of subsidised consumer goods.[26]

Finally, there had been a growth of direct payments in kind in lieu of wages, and almost certainly with a lower value than the equivalent in money wages, since it usually took the form of unsold produce. Although the value was not great, a substantial minority of firms reported that they had increased their in-kind payments, mainly in the form of their own products that they could not sell.

This combination of information shows that the wage system had become very flexible, even though much of the flexibility was of a perverse and unfortunate kind. And thus

[26] Even so, the "social consumption" elements were about one quarter of total labour costs on average, and that ignores the overheads of social facilities, buildings, etc. Note that only in private firms did the social cost share of production costs go down in 1992-93.

we reach the paradoxical explanation for the preservation and intensification of labour surplus — and the associated lack of employment restructuring. There has been **excessive wage flexibility**, excessive in the sense that it has been too easy for managements to avoid or reduce wage costs, so that they have been under little pressure to remove the labour surplus that they recognise.

The conventional view to explain the limited cut in employment is incorrect, for it is not the soft budget constraint that has checked the cut in employment but the low cost of employment. It is less costly to put workers on unpaid leave or on very low pay than to dismiss them, especially as they can avoid severance pay (three months of average wages) and induce workers to leave "voluntarily" when they give up hope of returning to their job. Managements have been quite rational in that respect, and the desirable policy answer is straightforward. Quite simply, **wage contracts should be made more binding**, and both trade unions and the government should take steps to ensure that "team contracts" are strengthened and enforced. A tightening of contractual regulations, which might be condemned by supply-side economists as a "rigidity", would actually promote **employment flexibility**, which is required in the Russian labour market in the mid-1990s if enterprise and economic restructuring are to become effective. If employers were obliged to pay the wages they were contractually obliged to pay, then they would not be able to resort to unpaid leave and other means of suppressed unemployment, and would either have to try to become more productive or release workers altogether. And only if workers are openly and visibly unemployed, can the appropriate authorities be expected to respond appropriately with labour market and unemployment protection policies.

10. Concluding Points

The basic message is that in labour markets distortions breed distortions. The most urgent needs in the Russian labour market in late 1994 are a stronger set of policies for responding to mass unemployment, which will only emerge if the severity of the situation were recognised, and reform of the wage determination system, so that it could promote productivity and enterprise restructuring.

In October 1994, the main trade union body, the Federation of Independent Trade Unions, estimated that enterprises owed workers 5.6 trillion roubles in unpaid wages, which was a 38% increase over August. Although this only refers to enterprises in which FITU had representation, it graphically highlights the gravity of the labour market situation, which is accompanied by real "open unemployment" being much higher than the registered numbers suggest and by a massive phenomenon of suppressed unemployment in the form of unpaid leave, short-time working and impoverishing employment.

The non-payment of wages raises questions about *ILO Convention No.95*, which the Russian Government has ratified. Here is not the place to comment on this, other than to note that it requires the regular payment of wages. Yet the really important issue is labour market and income **security**. What is needed is a rapid move to effective collective bargaining backed by effective legal redress, for the benefit not just of the

workers but to improve the effectiveness of the labour market and to facilitate employment restructuring.

This should be accompanied by reform of the "tax-based incomes policy". In an effort to limit the rise in wages, as part of the shock therapy strategy, successive governments have operated a variant of this policy, as advocated by the IMF and World Bank, inter alia. In 1993, the wage tax was 32% of remuneration between six and eight times the minimum wage, and 38% of anything above eight times the minimum wage. This was revised to be 38% for anything above six times on January 1, 1994. What this has done is encourage a shift into non-wage forms of remuneration and the use of administrative leave, because ironically if a firm puts workers on unpaid leave that lowers the average wage for the whole firm, and is thus a mechanism for avoiding or limiting the wage tax. Moreover, the tax has encouraged firms to shift into fringe benefits and thus hinders them from developing the wage mechanism as an incentive and reward for labour productivity. And without productivity growth, economic restructuring will be painfully unrewarding for many years.