

**LABOUR MARKET
PAPERS**

14

**The "shake-out" in Russian
factories:
The RLFS fifth round, 1995**

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Foreword

This is the first, general report of the findings from the ILO's fifth Russian Labour Flexibility Survey (RLFS5), which has been monitoring the labour market and employment changes taking place in Russian industry since 1990. The results refer to 1994 and 1995, and cover factories employing over 290,000 workers.

The RLFS is one of our international series of Enterprise Labour Flexibility Surveys, which are charting changing enterprise labour market practices and consequences in various parts of the world. The reader's attention is drawn to several refinements in the fifth round of the RLFS, notably the increased focus on measuring alternative forms of "corporate governance", thereby giving greater focus to the character of the managerial regime rather than to "privatisation". And in the latter part of the report, there is an attempt to define and identify firms practising relatively good labour and employment practices. In this latter exercise, we define what is called the Human Development Enterprise, and refine an earlier set of indexes by inclusion of *work security*, i.e., evidence on the extent to which the factory gives attention to safety and health.

Above all, the survey shows that Russian industrial enterprises have continued in a state of slump, shedding jobs at a rapid rate. The data also show how labour market inequality and fragmentation have been growing, and indicate that these trends are likely to continue as enterprise restructuring continues. Those commentators who claim that the labour market slump, and the resultant unemployment, have been exaggerated and that the decline has bottomed out have been indulging in wishful thinking or worse.

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. Gratitude is also expressed to officials in Goskomstat of the Russian Federation and the Russian Federal Employment Service.

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1. Introduction

Some observers have persistently claimed that the Russian labour market is "buoyant" and "flexible", that the economic downturn has "bottomed out" and that unemployment is low.¹ For five years, we have been monitoring the development of the industrial labour market through the largest and most continuous enterprise survey carried out in the country. In doing so, we have argued that such a sanguine view is unwarranted. The reasons and the evidence for that will not be repeated here, since they are covered at length elsewhere.² However, three rhetorical questions are reiterated for those inclined to respect the sanguine perspective. These are:

"If industrial output in any industrialised country fell by over 40%, what would happen to the level of employment and unemployment? If official statistics or those claiming to be economic advisers to the government suggested otherwise, would you believe them? Why should Russia be any different?"

This paper is the first report of the findings from the Fifth Round of the Russian Labour Flexibility Survey (RLFS5), the fieldwork for which was carried out in June and July, 1995. As has been the intention since the first round launched towards the end of 1991, the RLFS5 covered a larger geographical area than earlier rounds, with extension to two new regions, Vladimir and Tatarstan. In the first two rounds, in 1991 and 1992, the RLFS covered Moscow City, Moscow Region and St. Petersburg. In RLFS3, Nizhny Novgorod was added, in part in response to the claim that it was the most successful and dynamic industrial region in the country. In the fourth round, Ivanovo was added; this city was regarded as a relatively depressed region. With the two newly-added regions, the RLFS5 can be said to cover the major part of the industrial labour market of the Russian Federation, although we cannot say that it is entirely representative of the whole country, since regional variations are considerable.

The RLFS5 covered a completed sample of 482 industrial establishments, some of which were in previous rounds of the survey. The factories employed a total of 290,295 workers and employees in June, 1995. The survey was conducted in collaboration with the Centre for Labour Market Study, Moscow, with assistance from the State Committee of Statistics of the Russian Federation, *Goskomstat*.

The main issues covered in this first paper relate to the labour market and employment impact of the economic upheavals of 1991-95 and of the continuing 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.

¹ See, for instance, A. Aslund, "Russia's economy deserves an upbeat reappraisal", *International Herald Tribune*, April 24, 1995; R. Layard, who claimed that the labour market was "very buoyant and remarkably flexible" (*The Economist*, February 18, 1995, p.88) and later said, "The main news in Russia is good news", in *The Financial Times*, September 20, 1995. It is worth recalling that male life expectancy at birth has declined by seven years in the past six years, and that over 30% of the population are living below a meagre poverty line.

² G. Standing, *Reviving Dead Souls: Russian Unemployment and Enterprise Restructuring* (1995); idem, "Enterprise Restructuring in Russian Industry and Mass Unemployment: The RLFS Fourth Round, 1994", *Labour Market Papers*, No.1 (Geneva, ILO, 1995).

2. The Russian Labour Flexibility Survey

The fifth round of the RLFS was conducted in June-July 1995, when the Russian economy was in its fifth year of slump. As in previous rounds, the RLFS5 involved a random sample of manufacturing establishments drawn by Goskomstat, in this case covering seven oblasts – Moscow City, Moscow Region, St. Petersburg, Nizhny Novgorod, Ivanovo, Tatarstan and Vladimir. The total sample of 482 establishments included 380 that had been in one or more previous rounds.

In the RLFS5 some refinements were made to the two questionnaires, as has been the case in all previous rounds, although most questions have been the same throughout the five rounds. As in previous rounds, the methodology involved two visits to each factory, one to administer a 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 (95%). With pilot-testing and field checks, it is believed that the two-round approach has ensured a high standard of reliability in the data, shown most encouragingly by the consistency of responses on many issues in successive rounds, bearing in mind that interviews have been held a year apart.

Table 1. Characteristics of the Russian Labour Flexibility Survey, 1991-95

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
RLFS5	July, 1995	1993-95	500 (482)	380	322,240	Moscow City, Moscow Reg., St. Petersburg, Nizhny Novg., Ivanovo, Tatarstan, Vladimir

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.

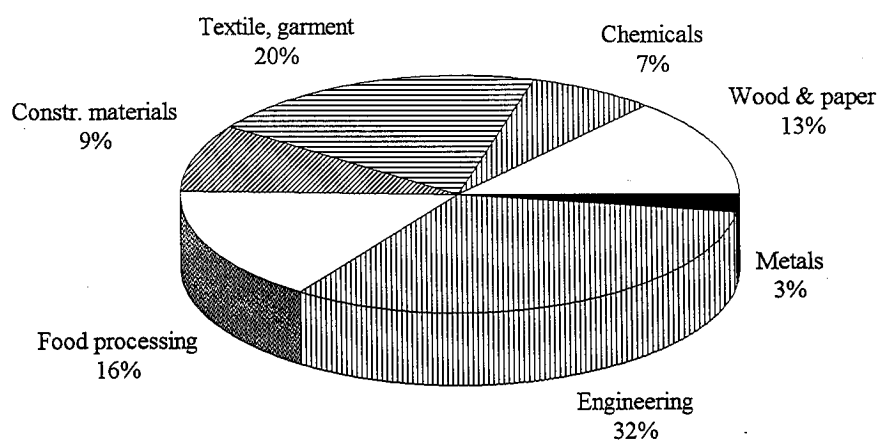
3. Restructuring in Crisis Conditions

As shown in Figure 1, in mid-1995 the industrial distribution of establishments showed the continuing predominance of engineering, which accounted for 32.2% of all factories, followed by textiles and garments (19.9%) and food processing (15.8%). Beyond that, successive rounds of the RLFS have chronicled the changing character of Russian industrial enterprises.

One difference between 1995 and 1994 was a shift to small-scale establishments. In 1995, as shown in Figure 2, 51.7% of all factories had fewer than 250 workers (compared with 35% in 1994), whereas only 12% had more than 1,000 workers (compared with 18% in 1994). This reflected in part the inclusion of the two additional regions where far more of the firms were small-scale, but may also have reflected "downsizing", to be discussed later.

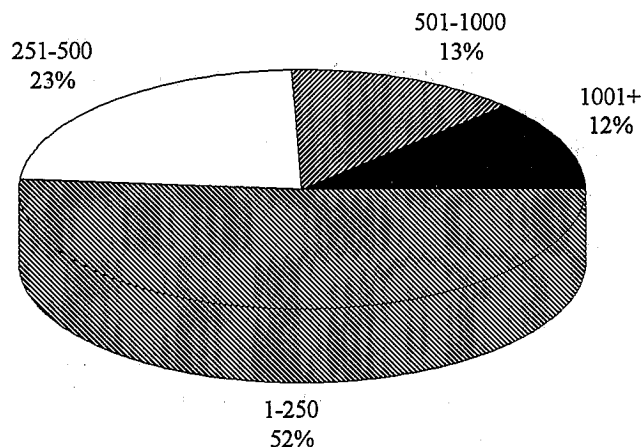
Besides the basic structure of the firms, in successive rounds of the RLFS, we have been tracking six aspects of enterprise restructuring, all of which could be expected to influence enterprise performance, employment and labour practices. Most though not all have been similar in the various regions covered by the survey.

Figure 1. Industrial Distribution of Establishments, 1995, All Regions



Source: RLFS5, n = 482

Figure 2. Employment Distribution of Establishments, 1995, All Regions



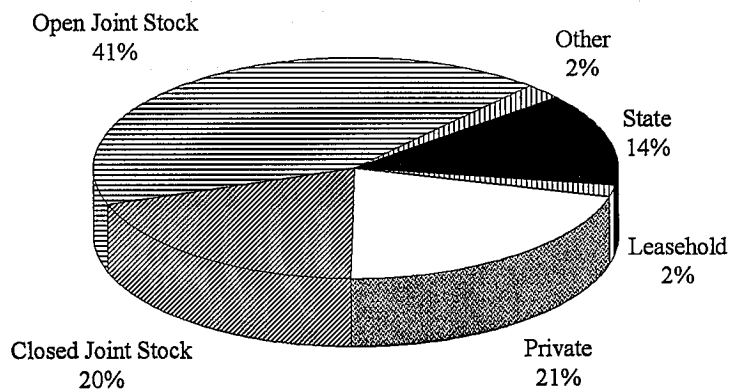
Source: RLFS5, n = 482

(i) Property Form Restructuring

First, most topical and the most widely reported, there has been extensive *property form restructuring of enterprises*. Whereas in late 1992, as indicated in RLFS2, over half of all establishments were state-run, and in mid-1993 about 35%, by mid-1994 state establishments accounted for less than one in five of all factories. By mid-1995, as shown in Figure 3, state establishments accounted for merely 13.8% of the total. The main property form had become open joint stock (41.9%), which was slightly down on 1994. Whereas in mid-1994 closed joint stock firms were the second largest group, by 1995 they had been displaced by private firms.

The process of restructuring was winding on, with 10.6% of all firms planning a change in their property form (Figure 4). Most were planning to change to open joint stock companies or to closed joint stock companies, and most expected to change within the coming year.

Figure 3. Property Form Distribution of Establishments, 1995, All Regions

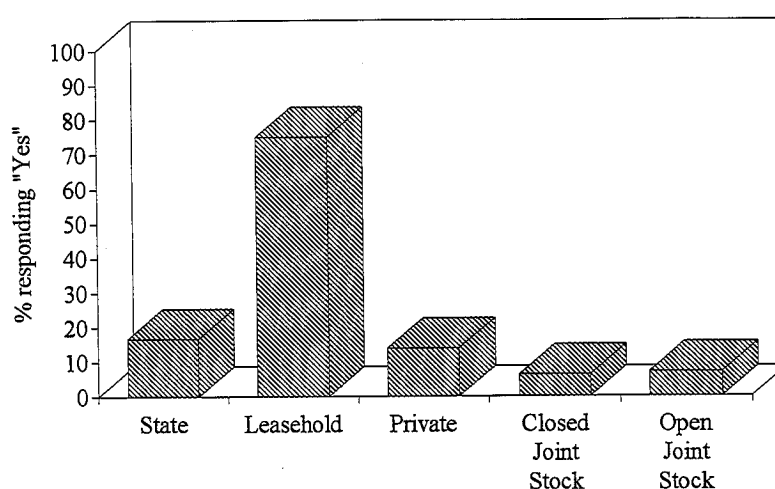


Source: RLFS5, n = 480

(ii) Size Restructuring

A second aspect of restructuring is what might be called 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 twelve months up to June 1995, 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 generally, we may merely note that in none of the five 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 the lack of attention to this has been a shortcoming of the reform and restructuring process since its outset.

Figure 4. Planning to Change Property Form, by Current Property Form, 1995, All Regions

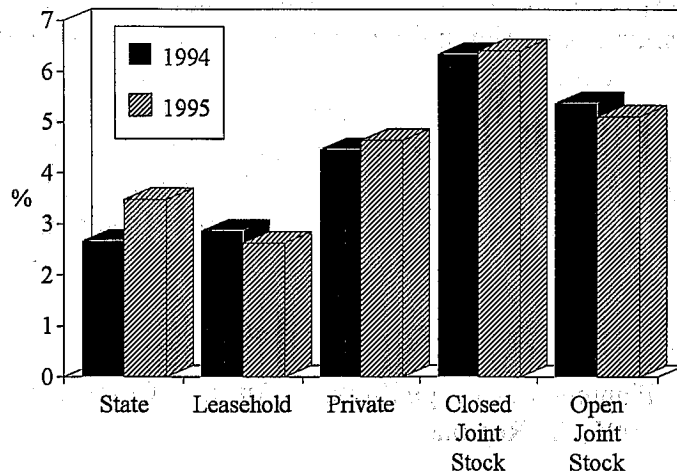


Source: RLFS5, n = 480

(iii) Sales Restructuring

The reorientation of sales has been a relatively neglected aspect of restructuring in the Russian economy. In some respects what happened in 1994-95 was in contrast to what had occurred in 1991-94. A difference was that the small shift to **exports** had been checked, and the export share of total output was still low. This is important, since undoubtedly exposure to international markets would lead to greater pressure to raise productivity. Overall, industrial firms on average exported 5.1% of their sales in the first half of 1995, compared with 5.0% in 1993 and 2.9% in 1992, with the chemicals sector being the most export-oriented (Figure 5). State firms were less oriented to exporting than joint stock and private firms. The larger the firm, the higher the export orientation. Not surprisingly, Ivanovo's firms were the least export oriented, and those in St. Petersburg were the most. However, in regression analysis, the main factors explaining inter-enterprise differences in export orientation were sector (chemicals being most export-oriented), size of firm and years of operation, with older firms exporting more.

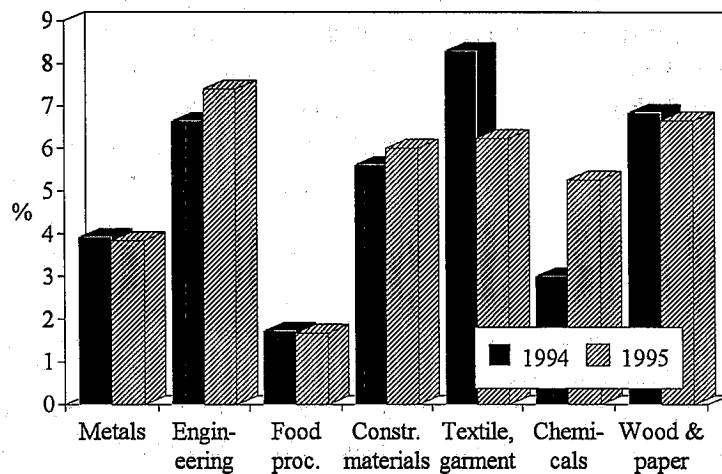
Figure 5. Percent of Sales Exported, by Property Form, 1994-95, All Regions



Source: RLFS5, n = 480

What was more striking than the modest changes in exports was that **barter** accounted for a greater share of total output than exports (Figure 6). According to the RLFS5 data, it accounted for 5.8% of total sales in 1994, and 5.8% in 1995, although it had risen in some sectors and fallen in others. It was particularly common in the economically depressed regions of Vladimir and Ivanovo, and was insignificant in Moscow City. Across industries, it was greatest in engineering; it was positively correlated with size of establishment, and was greater in private firms. Why has barter been so high? The most likely explanation is the liquidity constraint associated with enterprise indebtedness, to which we will return.

Figure 6. Percent of Output Bartered, by Industry, 1994-95, All Regions



Source: RLFS5, n = 482

(iv) Technological Restructuring

For enterprise restructuring to lead to greater economic dynamism and productivity growth, technological change must be intensified. Conceptually, as in previous rounds, we divided technological change into three forms – product, capital and work process innovations – for which the RLFS has proxy indexes.

As in 1993-94, there did seem to have been some product innovation. In 1994-95, 33.0% of firms had increased their product range, while 14.1% had cut the range, with the food processing sector being relatively likely to have increased the range (43.4%) and the chemicals sector most likely to have reduced the product range (20.8%). State establishments were the most likely to have decreased the product range (19.7%), whereas private firms (34.7%), closed joint stock firms (37.2%) and open joint stock firms (34.8%) were apparently the most likely to have increased it. Factories in St. Petersburg and Nizhny Novgorod were more likely to have increased their product range than those in Moscow.

Indicative of **capital innovation**, 36.7% of firms had introduced some new technology in production, with chemicals (51.4%), food processing (43.4%) generally being the most innovative, with wood and paper products (41.3%). The same three sectors had been the leaders in this respect in earlier years. State and leaseholding firms were the least likely to have made this form of technological innovation, whereas closed and open joint stock companies were much more likely than other property forms to have made changes.

Indicative of **work process innovation**, 33.6% of firms had introduced some form of work reorganisation over the past year (Table 2). Again, firms in St. Petersburg were far more likely to have made some innovation in this respect, being twice as likely to have done so as those in the 'interior' regions of Vladimir and Ivanovo. 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 2. Product, Capital and Work Process Innovations, 1994-95, by Property Form, All Regions
(% having made a change)

Property Form	Changed product range		New technology	Changed work process
	Increase	Decrease		
State	18.2	19.7	30.3	24.2
Leasehold	12.5	0.0	12.5	12.5
Private	34.7	8.9	31.7	29.7
Closed Joint Stock	37.2	8.5	44.7	41.5
Open Joint Stock	34.8	18.4	38.3	35.8

Source: RLFS5, n = 480

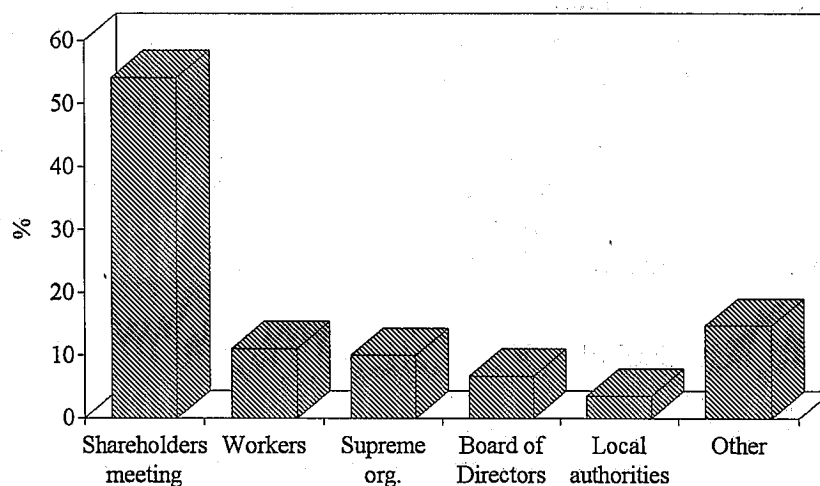
(v) *Corporate Governance Restructuring*

Deserving of more emphasis than it has received is the issue of *management restructuring*, or what might be called "*corporate governance restructuring*". This goes well beyond the issue of ownership.³ 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. It has been a neglected aspect of restructuring and may prove more significant than the notion of 'privatisation'.

Several key elements of enterprise governance are highlighted in the RLFS:

- The mechanism by which senior management is appointed or reappointed. In 1995, in sharp contrast with earlier years, merely 1.9% of senior managers had been appointed by Ministries, whereas 53.9% who had been formally appointed by "shareholders' meetings", 20.7% by company boards, 11.2% by the work collective, and 2.7% by 'private' owners (Figure 7). This distribution represents a considerable change from the same period one year earlier, with shareholder meetings having increased enormously as the main means of appointment. One must be cautious about interpreting the character of that change. The "shareholder meeting" covers two types of situation, one in which essentially private firms are involved and one in which the shareholders are wholly or mainly the workers and employees of the firm, as in the case of closed or open joint stock companies. This is one reason to take account of the mechanism of appointment *and* the property form *and* the shareholding pattern.

Figure 7. Means by Which Top Management Is Appointed, 1995, All Regions



Source: RLFS5, n = 481

One should not expect too much from the early phases 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

³ For an extended discussion, see G. Standing, *Promoting the "Human Development Enterprise": Enterprise restructuring and corporate governance in Russian industry*, *Labour Market Papers*, No.8 (Geneva, ILO, 1995).

illustrative case studies.⁴ 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 in 1995 34.8% of the general directors had been appointed for two years or less, 25.6% had an unlimited contract, 0.8% had no formal contract and only 38.3% had a contract lasting between three and five years. Joint stock companies tended to have managers with shorter duration contracts, and were the least likely to have managers with contracts without specified duration.

- Another indicator of changing governance is that, according to the managers themselves, in 1995 43.3% had their salaries set by a board of directors, 24.7% by shareholder meetings, 10% by the workers and only about 8.3% by a governmental authority.
- A related aspect of the restructuring of corporate governance, which has potentially massive implications, is that *worker share-ownership* had become very widespread and extensive. Overall, in all firms with shareholdings, in 1995 workers and employees of the firms owned on average 60.4% of the shares, with 88.4% of closed joint stock companies, 58.7% of open joint stock companies, and 16.3% in private firms. The workers themselves, excluding management and senior employees, possessed an average of 53% of the shares in closed joint stock establishments and 35.6% in open joint stock firms. This very substantial worker "stakeholding" is creating the basis for a unique evolution of corporate governance.⁵

For assessing whether enterprise governance makes a difference to the firm's employment and labour market practice we classify corporate governance by taking account of property form, character of share-owning and form of management appointment. As such, we classify governance into four main types:

1. *State governance* is where the establishment is state-owned and where the senior manager was appointed by a line Ministry or local authority, or state-owned and where nominally the work collective and the Ministry or local authority are responsible for managerial appointment.
2. *Private governance* is where there is private ownership or a joint-stock arrangement in which employees do not own more than 50% of the shares and where the manager is appointed by an enterprise board or at a shareholders meeting, as long as employees do not possess more than 50% of the shares.
3. *Employee governance* is where the property form is joint-stock, where the workers and management together own more than 50% of the shares, *without the workers owning 50% or more*, and where the top manager is appointed by

⁴ These case studies have included an 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.

⁵ It is still 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.

an enterprise board, a shareholder meeting or some other non-state mechanism.⁶

4. *Worker governance* is where the property form is joint-stock, where the workers own 50% or more of the shares and where management is appointed by the workers or a shareholders' meeting.

As of mid-1995, the distribution of governance types in the Russian industrial establishments covered by RLFS5 showed that 23.1% were state governance structures, 28.8% were private governance, 23.1% were employee governance and 25.0% were worker governance structures. Although the samples were slightly different, this represented a shift from worker-governance to private from the pattern observed in 1994. There was not a neat mapping of property forms and corporate governance forms. Thus, for instance, 37.5% of open joint stock firms were effectively private in terms of governance, while 22.4% of worker-governance firms were private in terms of property form. We believe that ultimately corporate governance will prove to be a more appropriate way of classifying enterprises.

(vi) *Institutional Voice Restructuring*

The changing role of institutions in any labour market is indicative of the character of that labour market. There have been changes in the role of both employers and workers in this respect. What is apparent is that employers have not formed into strong cohesive organisations. Only 6.2% of all managements belonged to any employer association, with 3.7% being in the Association of Industrialists and Entrepreneurs. Only 1% of private firms were in an employer organisation.

More significantly is what has happened to the extent of **unionisation**. The data show that there has continued to be a very strong decline in unionisation, so that whereas in 1992 about 95% of industrial workers were in unions, by 1995 the figure was merely 59%. This represents an extraordinarily rapid rate of decline of worker voice, which may or may not have been balanced by the growth of worker shareholding and what we have described as worker and employee governance.

4. The Crisis Indicators

Thus, there have been six types of restructuring, which have been tentative in some cases, more substantial in others. Yet all the forms of restructuring have been taking place in a context of shrinking output and sales. The economic crisis was reflected in the RLFS5 in various ways, and it was clear that in mid-1995, Russian factories were still in a parlous state.

Asked what was their *main* economic problem, 29.3% of the managements cited inability to sell their product, 27.2% cited high taxes, and 13.5% cited inability of customers to pay for their products. In short, the demand side was the main constraint. This was supported by evidence on sales.

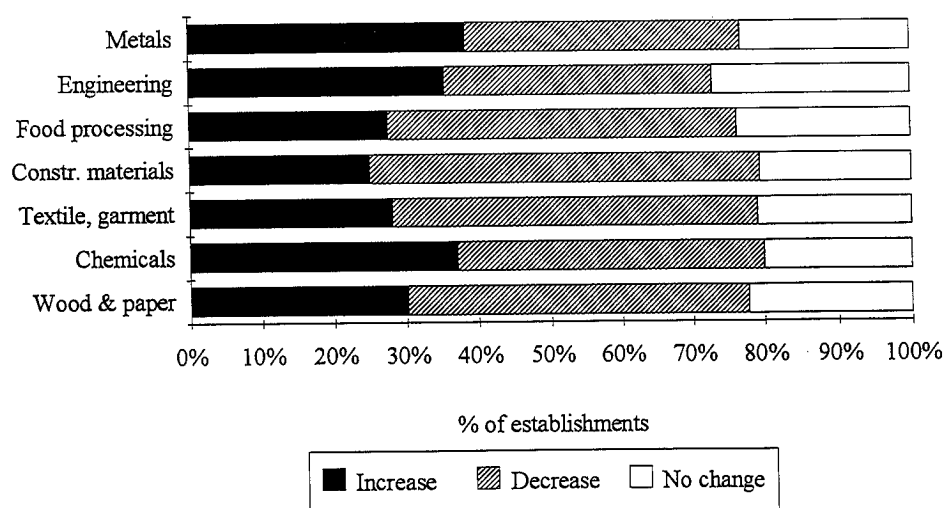
⁶ Also included were a few cases where the management was appointed by a line Ministry or a local authority but where the establishment was a joint stock company with majority employee ownership. Such cases arose from the timing of appointment and timing of property form change, and it is assumed that behaviourally managers would adapt to the current governance form.

Thus, for the fifth year in a row, more firms experienced a decline in the value of **sales** in real terms. Of all firms, 45.2% had experienced declining sales over the past year, compared with 31.3% that had experienced rising sales.⁷ In every sector, more firms had falling sales (Figure 8). Only private firms had a higher incidence of rising than falling sales, and there was not much difference there.

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. 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 further brought out in RLFS5. Only 18.7% of all firms had no debts to banks or other enterprises. Although there were numerous cases of inter-enterprise indebtedness, 52.3% of firms owed more than was owed to them, and 25.3% claimed that they were owed more than they owed; 3.7% claimed that they had debts that they considered were in balance with debts owed to them. Food processing firms were the most likely to be in net debt, but there were no differences between property forms or regions.

There is the related issue of receipt of **subsidies**. According to many reports, numerous Russian enterprises have been bolstered by subsidies, if not prevented from going bankrupt. If so, the use of overt subsidies seems to have declined, perhaps reflecting the state's inability or unwillingness to support firms. In mid-1995, only 3.5% 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 nearly three times as likely to have a subsidy as others. Subsidies were most likely to come from federal authorities.

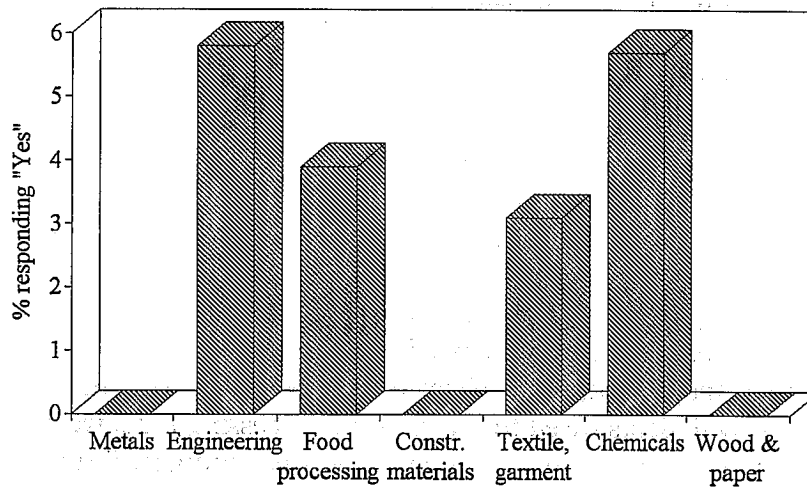
Figure 8. Sales Change, 1994-95, by Industry, All Regions



Source: RLFS5, n = 482

⁷ In the previous year, two thirds of the firms experienced declining sales.

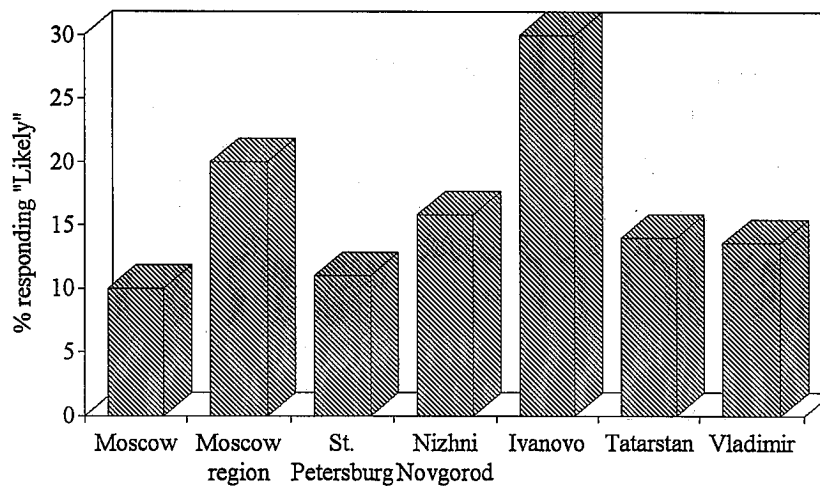
Figure 9. Share of Establishments Receiving Subsidies, by Industry, 1995, All Regions



Source: RLFS5, n = 482

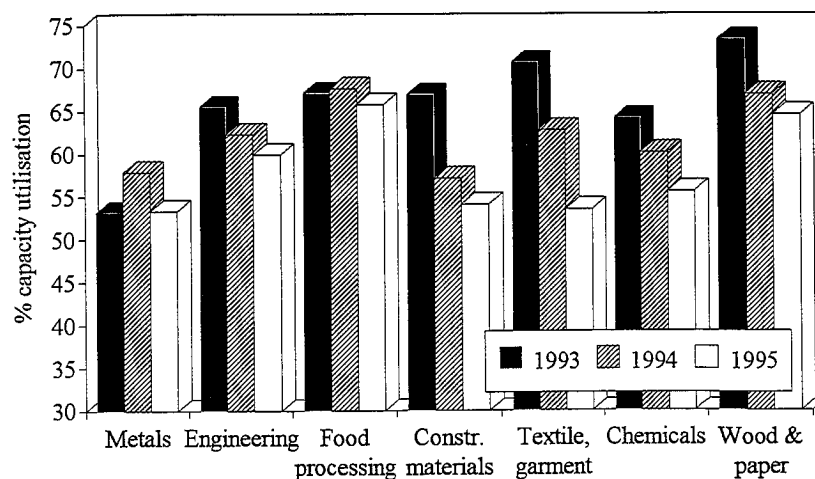
Fear of **bankruptcy** within the next 12 months was reported to be "strong" in 15.4% of all factories, and in a further 29.9% the fear was moderately worrying. With 5.8% reporting that they were unsure this left a minority (49.0%) unconcerned that they would go bankrupt within a year. The fear of bankruptcy was strongest in textiles and garments, and least in food processing (Figure 10). Firms in Ivanovo were twice as likely as on average to be fearful of bankruptcy. Among those expecting or fearing bankruptcy, the main cause most often mentioned was high taxes, followed by difficulty in selling their output and the high or rising price of raw materials. The big change here was the rising significance of taxes, which were scarcely mentioned in 1994 or 1993. Yet in 1995 taxes were mentioned as the main fear by over two in every five private firms fearing bankruptcy.

Figure 10. Percent of Establishments Believing Bankruptcy Likely within a Year, by Region, 1995



Source: RLFS5, n = 482

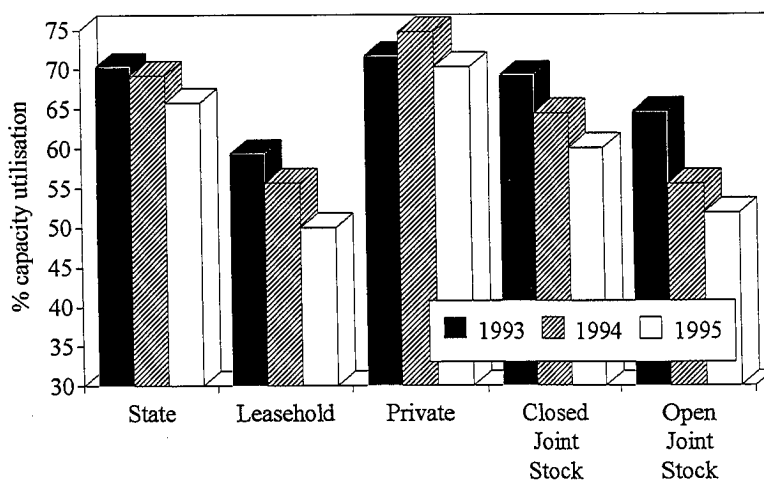
Figure 11. Capacity Utilisation Rates, 1993-95, by Industry, All Regions



Source: RLFS5, n = 482

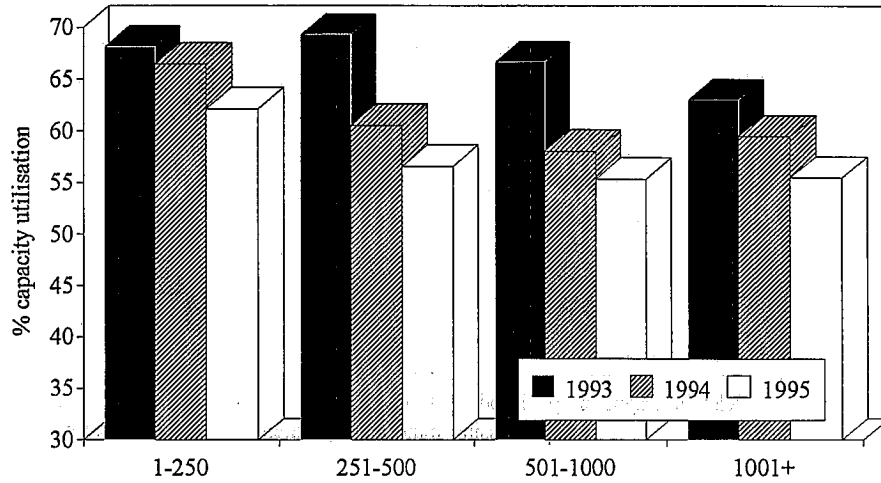
Most significantly of all, **capacity utilisation** levels had continued to fall. Overall, in mid-1993, the average level at which the factories were operating was 67.6%. By mid-1994, it was 63.1%, and by mid-1995, it was merely 59.1%. The 1995 figure is extraordinarily low by international standards, and reflects the continuing decline identified in the previous rounds of the RLFS. Food processing had held up best, while textiles and garments had shrunk most (Figure 11). All property forms of establishment had experienced declining capacity utilisation (Figure 12), once again

Figure 12. Capacity Utilisation Rates, 1993-95, by Property Form, All Regions



Source: RLFS5, n = 480

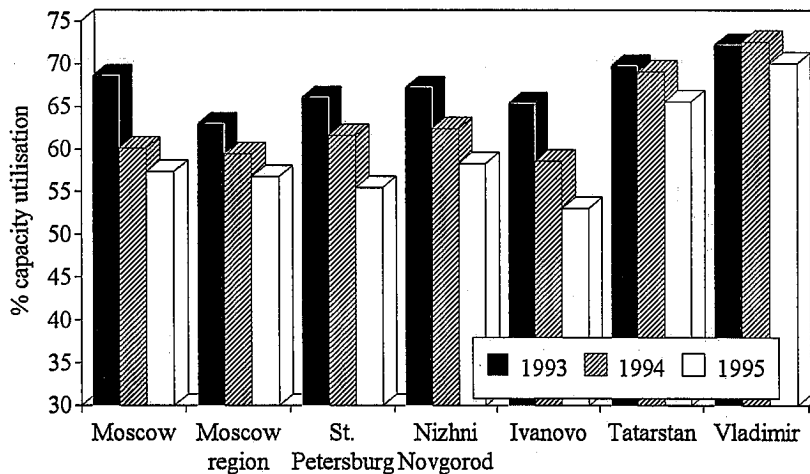
Figure 13. Capacity Utilisation Rates, 1993-95, by Employment Size, All Regions



Source: RLFS5, n = 482

testifying to the generalised industrial depression rather than suggesting counterbalancing industrial restructuring.⁸ The drop in capacity utilisation was substantial in all size categories of factory (Figure 13). A drop had also occurred in all regions (Figure 14). As might be expected, older factories were operating at a lower level of capacity than those establishing within the past five years.⁹

Figure 14. Capacity Utilisation Rates, 1993-95, by Region



Source: RLFS5, n = 482

⁸ In terms of corporate governance, capacity utilisation was higher in both state-controlled and employee-governance than in either worker-governance or private.

⁹ Only 16.1% of factories had been set up in the past five years, whereas 72.2% had been established more than 20 years ago.

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.

5. 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 RLFS5 and 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.

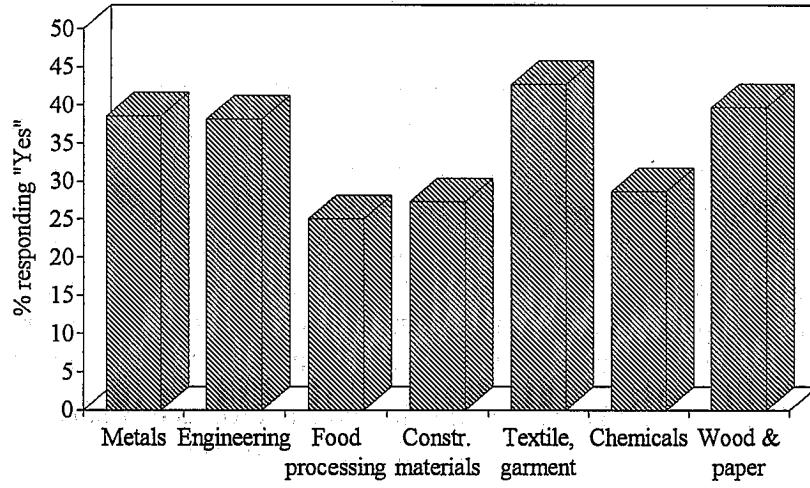
(i) *Managerially-perceived surplus labour*

First, managements were asked if they could produce the same level of output with fewer workers. With capacity utilisation levels being so low, 35.5% said they could do so, with 42.7% in the textiles and garments sector (Figure 15). Closed joint stock (42.6%) and open joint stock (37.8%) establishments had relatively higher levels of perceived labour surplus than other property forms, and medium-sized and large-scale firms were more likely than small-scale firms to believe they could cut their workforces without affecting output.

Those establishments operating at relatively low capacity had a much 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 quarter of those that had increased employment also believed they could cut jobs without lowering output.

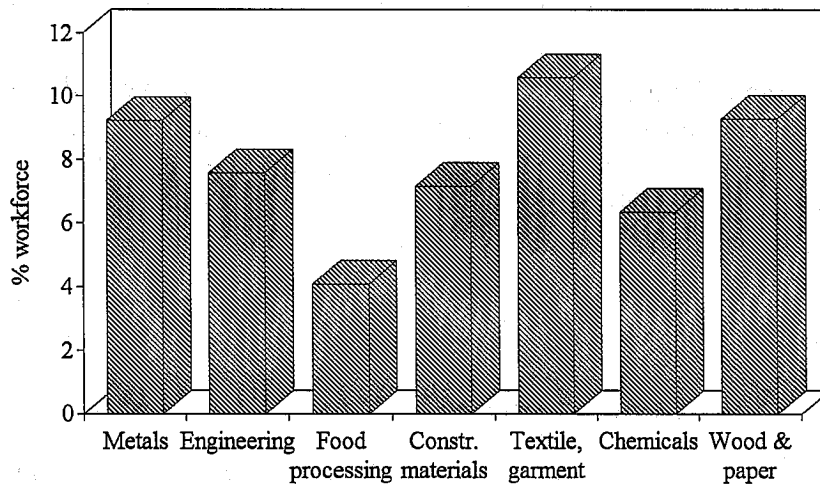
Overall, for all firms including those that did not believe they could cut jobs, on average managements estimated they could reduce employment by 7.8% without affecting output, with the highest being in textiles and garments, metals and wood and paper products (Figure 16). In other words, nearly 8% of the entire industrial workforce was concealed unemployment or surplus labour *on this definition*. This is an unweighted figure. For just those factories that reported that they could produce the same level with fewer workers, the average cut they estimated they could make was 21.9% of all jobs.

Figure 15. Percent of Establishments that Could Produce Same Output with Fewer Workers, by Industry, 1995, All Regions



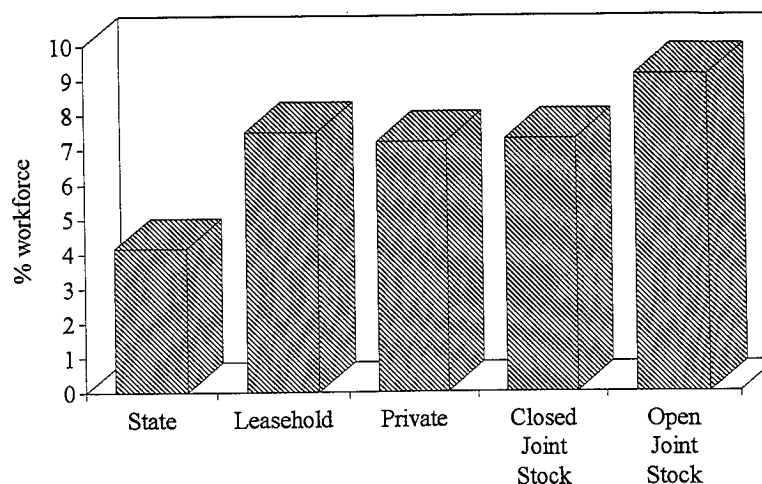
Source: RLFS5, n = 482

Figure 16. Percent Fewer Workers to Produce Same Output, by Industry, 1995, All Regions



Source: RLFS5, n = 482

Figure 17. Percent Fewer Workers to Produce Same Output, by Property Form, 1995, All Regions



Source: RLFS5, n = 480

Intriguingly, this form of labour surplus was higher in non-state establishments (Figure 17). And large-scale firms had more than small-scale firms in percentage terms. 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 stoppages of production, due to economic reasons**. There has been anecdotal evidence that this phenomenon became pervasive throughout Russia in 1994. 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 in RLFS4, 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 1995, in the first five months there was an average of 0.92 weeks lost in full stoppages, whereas in the same firms in 1994 there were 1.67 weeks lost in the whole year. Thus, full production stoppages have resulted in a substantial and growing loss of working time. In textiles and garments, the number of weeks lost was 1.75 in the first five months of 1995.

Between sectors, in 1995, the lowest incidence of full stoppages was in food processing, as in 1994. Regionally, also as in 1994, it was highest in Ivanovo (2.62 weeks). The amount of labour time lost from this practice was inversely related to the firm's actual employment change in the period. *Overall, in 1995, about 4.6% of total working time had been lost in total production stoppages.*

Partial stoppages, defined as closure of part of the plant for lack of work, accounted for an average of 3.16 weeks in 1994, with 5.5 weeks in construction materials. In the first five months of 1995 alone, the average for all firms was 1.6

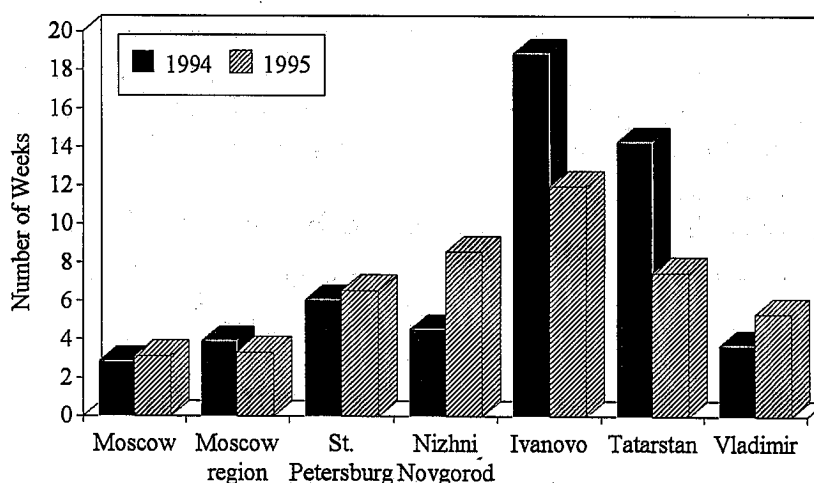
weeks, implying that partial stoppages were growing. The highest incidence was in chemicals, the lowest in food processing.

In 1995, the unweighted average percentage of workers affected by partial stoppages was 37.4% of the workforces of all establishments, including those in which there had been no partial stoppages. The highest level was in Vladimir, where 72% of the workforce 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.

Assuming that a working year consists of 48 weeks, we can make a rough calculation of "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 1994 and 20 for 1995.¹⁰

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 7.1% 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 18 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 of 1994 than for the whole of 1993. In effect, production stoppages for economic reasons had become a major form of "suppressed unemployment".

Figure 18. Number of Weeks Production Partially or Wholly Stopped, by Region, 1995 (whole year for 1994, first 5 months for 1995)



Source: RLFS5, n = 482

¹⁰ In response to partial stoppages, managements reported that the main measure taken was to resort to unpaid and partially paid leave (26.5% and 18.3% respectively), followed by cutting normal hours (6.9% of all firms did that). But 10.5% did nothing. Private firms were relatively likely to resort to unpaid leave. Note that 48.1% of firms reported that they had transferred workers within the factory to avoid or limit redundancies.

(iii) Administrative Leave

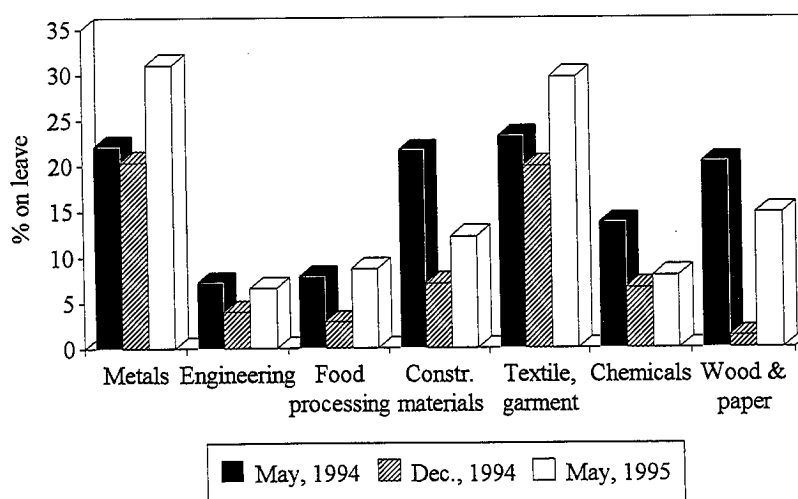
A third form of surplus labour is **administrative leave**, or lay-off. This arises when the management tell the workers that they do not need to turn up for work, but do not make them redundant. To call this practice "leave" is a convenient euphemism for what is essentially "unemployment", except that 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 does 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.

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 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 (Figure 19). In mid-1995, 15.2% of all workers in the metals sector and 9.2% in textiles and garments were on unpaid leave. Partially paid leave was even higher in general, although it had declined as a proportion of the total on lay-off, and had risen as a percentage of total employment only in food processing and textiles and garments. There was virtually no fully paid administrative leave.

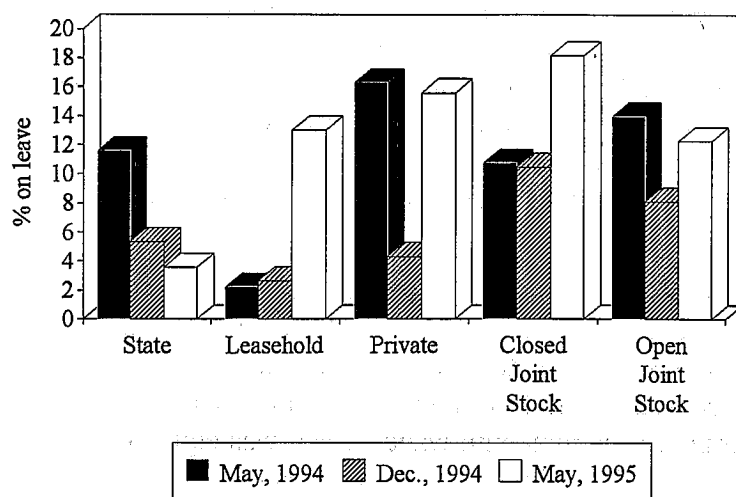
In terms of property form, Figure 20 shows that closed joint stock and private establishments had much the worst incidence of administrative leave.

Figure 19. Percent of Workers on "Administrative Leave", by Industry, 1994-95, All Regions



Source: RLFS5, n = 482

Figure 20. Percent of Workers on "Administrative Leave", by Property Form, 1994-95, All Regions



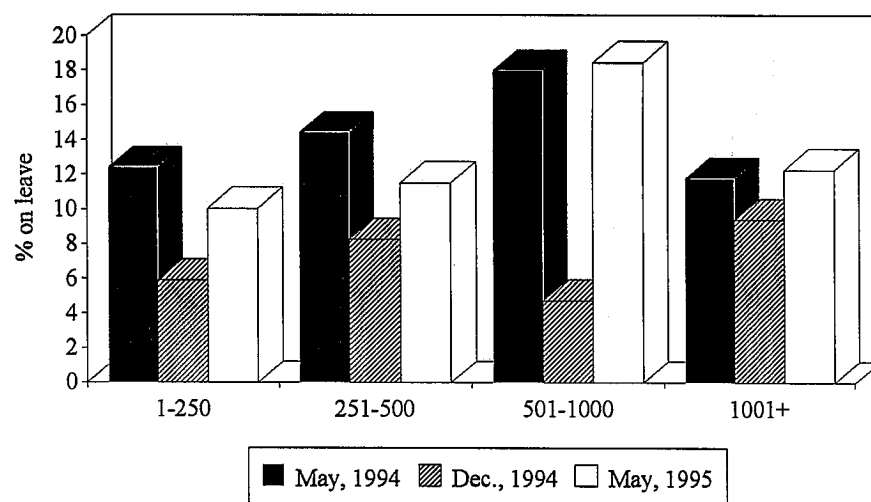
Source: RLFS5, n = 482

Administrative leave had risen in all size categories of establishment since December 1994 (Figure 21). Overall, the situation was the worst in the depressed region of Ivanovo (Figure 22). 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, and it continued to be so in 1995.

(iv) Short-time Working

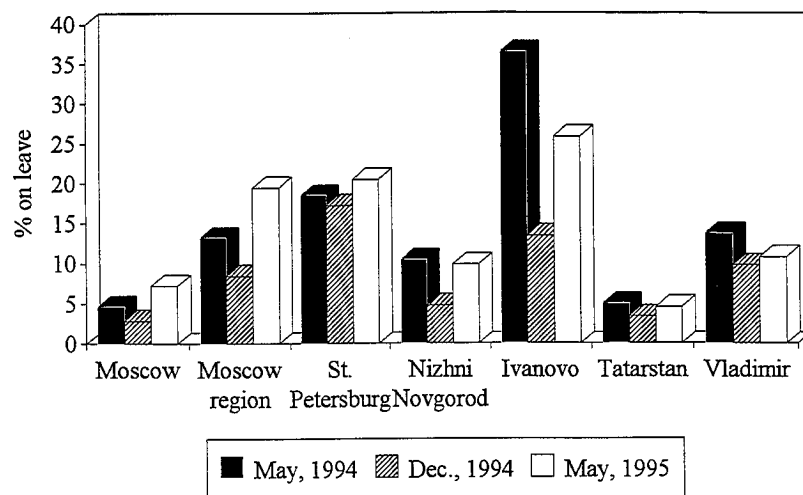
The fourth form of labour surplus consists of workers put on **short-time**, which in the RLFS is measured by those working shorter working weeks than normal for economic rather than personal reasons, sub-divided into those working fewer days than normal and those working fewer hours per day.

Figure 21. Percent of Workers on "Administrative Leave", by Employment Size, 1994-95, All Regions



Source: RLFS5, n = 482

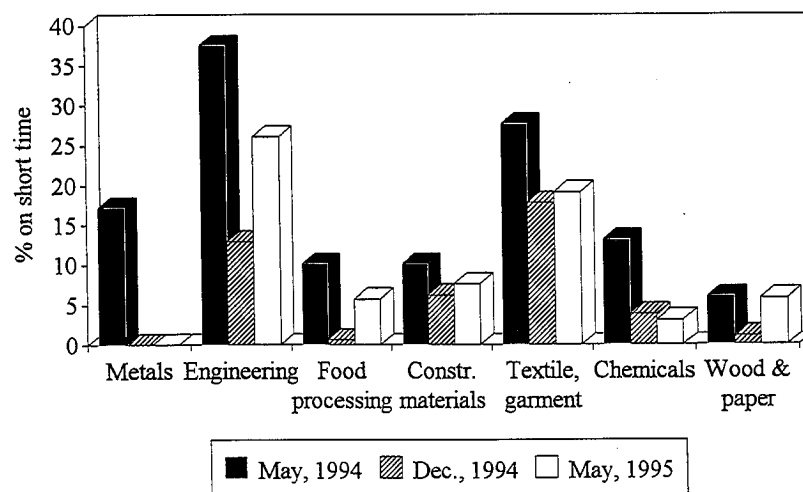
Figure 22. Percent of Workers on "Administrative Leave", by Region, 1994-95



Source: RLFS5, n = 482

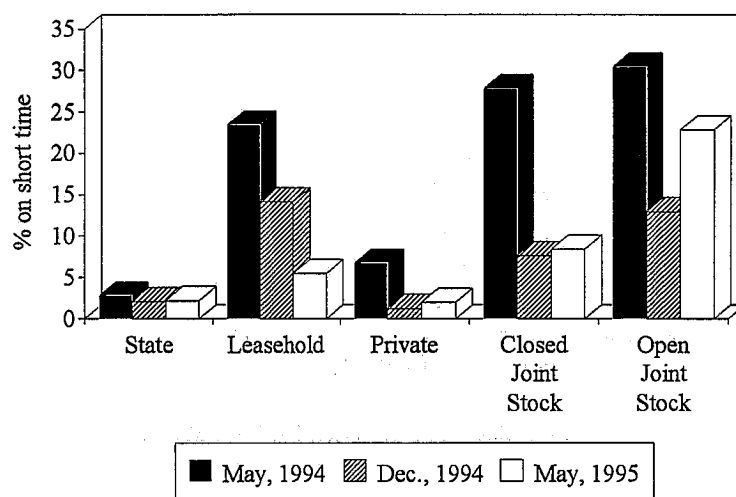
It turned out that working fewer days per week was far more common than working fewer hours per day per week. Both had increased considerably in 1993-94, and in mid-1995 short working weeks remained common. Taking both together, engineering and the textiles and garments sector had the highest level (Figure 23). Short-time working was much greater in joint-stock companies and leaseholding factories (Figure 24). As such, there is a suggestion that short-time working is a substitute for administrative leave or lay-offs.

Figure 23. Percent of Workers on Short Time, by Industry, 1994-95, All Regions



Source: RLFS5, n = 482

Figure 24. Percent of Workers on Short Time, by Property Form, 1994-95, All Regions

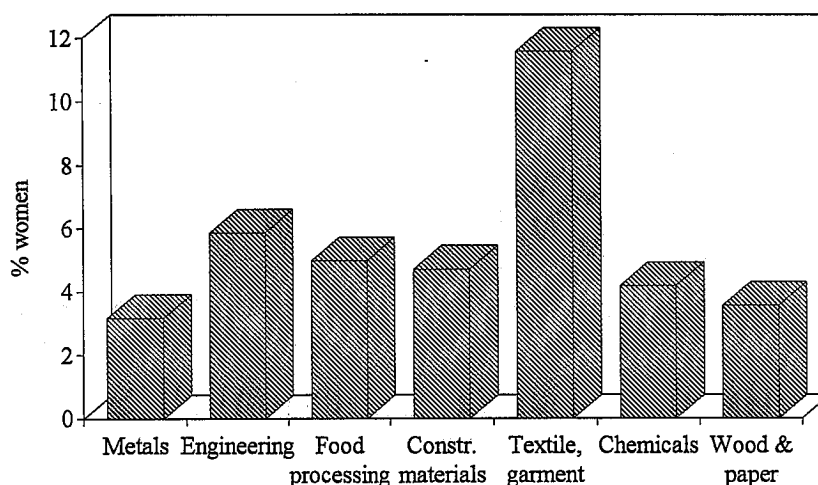


Source: RLFS5, n = 482

(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 5.4% of the female workforce were on maternity leave in mid-1995. Maternity leave was relatively high in garments and textiles (Figure 25), in closed joint-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

Figure 25. Percent of Women on Long Term Maternity Leave, by Industry, 1995, All Regions



Source: RLFS5, n = 482

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 – especially as proportionately more of women workers were classified as on maternity leave in firms that had cut employment than in firms that had not cut employment.

(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:

$$\begin{aligned}
 \text{Labour surplus} = & \\
 & \% \text{ of time lost from total stoppages} + \\
 & \% \text{ of time lost in partial stoppages in full-time equivalent terms} + \\
 & \% \text{ of workforce on administrative leave} + \\
 & \% \text{ of workforce on short-time in full-time equivalent terms.}
 \end{aligned}$$

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 time 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 3. To obtain a more complete picture, it also gives the maternity leave average and refers to the issue of "unpaid employment", which is covered in a later section.¹¹ 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, **in 1995 suppressed unemployment in Russian industry is over 28% of the workforce.** In effect, over one in every four workers could be released from employment, and in one way or another have been released short of being made openly unemployed. And this excludes any unreal maternity leave and unpaid employment.

¹¹ One might estimate the share of maternity leave that constitutes hidden unemployment as all that is above the mean value for all firms.

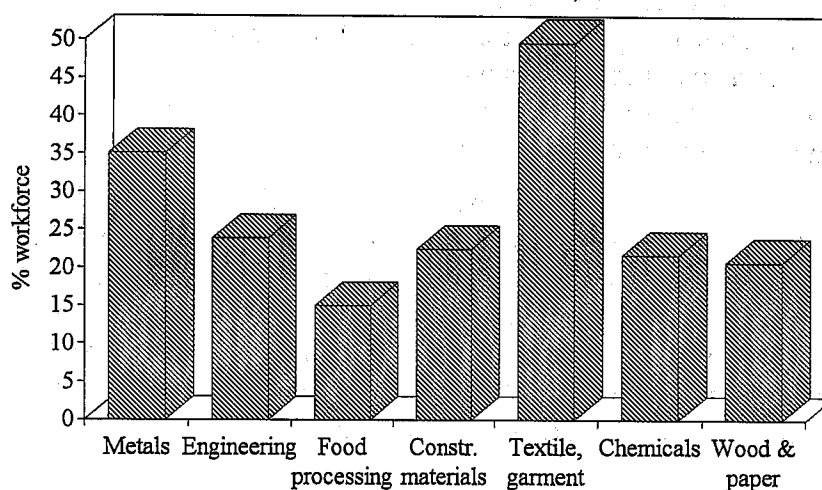
Table 3. Indicators of Surplus Labour, or "Concealed Unemployment", in Russian Industry, 1995

Indicator	%*
1. Could produce same with fewer workers	
- % employment cut possible, if yes	21.9
- % employment cut possible, all firms	7.8
2. Labour unused due to full production stoppages	4.6
3. Labour unused due to partial production stoppages	2.5
4. Unpaid administrative leave	5.5
5. Partially paid administrative leave	7.5
6. Fully paid administrative leave	0.0
7. Short-time, working fewer days or hours per day	8.6
8. Maternity Leave	
- % of women	5.4
- % of all workforce	3.8
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 1995.

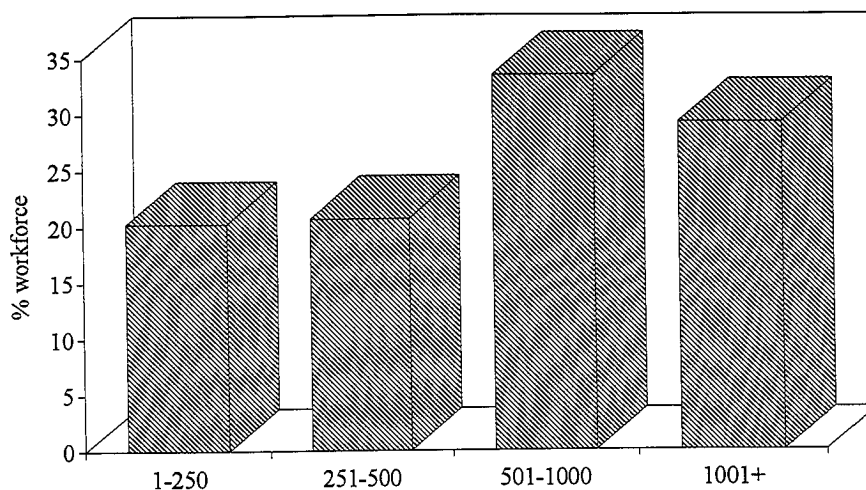
The index of suppressed unemployment varies enormously by sector, area and type of firm. It was particularly high in textiles and garments and metalworking plants, as in 1994 (Figure 26). Were it not for food processing, where labour surplus was about 10%, the aggregate would be much worse. Even more worrying is that in **large-scale firms with more than 1,000 workers, in 1995 over 30% of workers were effectively redundant** (Figure 27). Also worrying is that labour surplus was relatively high in open joint stock firms (Figure 28), which so far have been inhibited from releasing large numbers of workers by privatisation agreements. The surplus was lowest in state establishments and then in private firms. This raises questions about the common presumption that labour hoarding is greatest in state firms, because of the presumed "soft budget constraint".

Figure 26. Labour Surplus, by Industry, 1995, All Regions
(% of workforce in full-time equivalent)



Source: RLFS5, n = 482

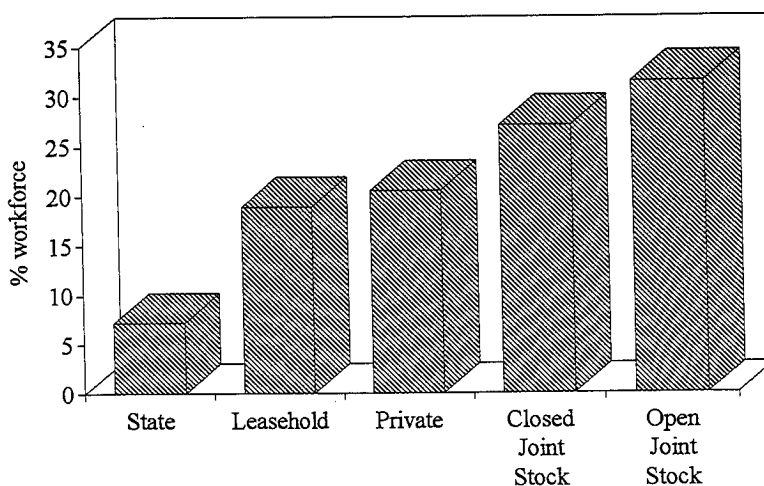
Figure 27. Labour Surplus, by Employment Size, 1995, All Regions
(% of workforce in full-time equivalent)



Source: RLFS5, n = 482

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? There are two hypotheses as potential answers to the preceding question, 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.

Figure 28. Labour Surplus, by Property Form, 1995, All Regions
(% of workforce in full-time equivalent)



Source: RLFS5, n = 482

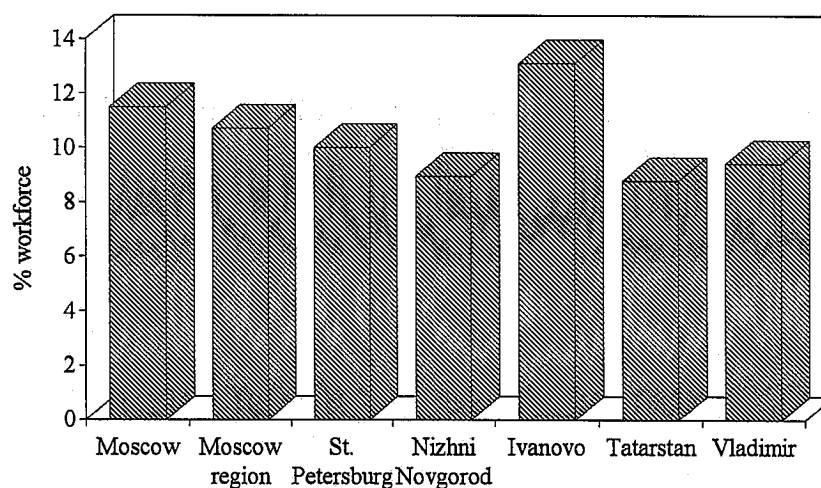
6. Employment Change in 1994-95

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 1994-95, as Figure 29 shows, labour turnover – defined as all departures from employment – was high in all regions. Overall, it averaged 10.0%, with particularly high rates in the construction materials sector and in small-scale firms.

Although the share of total labour turnover attributed to **releases** has been very low, this can be explained by three factors. *First*, induced "voluntary" turnover has been sufficiently high to lessen the need for redundancies; *second*, government regulations on "mass releases" has made it desirable for firms to disguise redundancies as other forms of departure from employment; *third*, severance pay conditions have encouraged firms to opt for other forms of dis-employment, notably the device of using extended unpaid leave as a means of inducing workers to leave "voluntarily", in despair after months of waiting for their jobs back.¹²

The main point here is that the existence of high labour turnover suggests that there has not been any employment rigidity. If firms wished to cut employment, there have not been insurmountable barriers to their doing so. Moreover, the overall **job vacancy rate** has been extremely low, ranging from less than 1% in Tatarstan and Nizhny Novgorod to a high of merely 3.3% in Moscow.

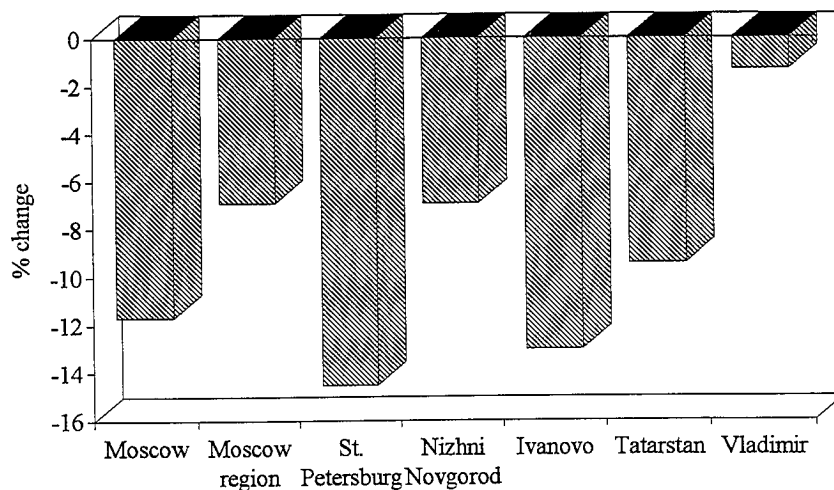
Figure 29. Labour Turnover, by Region, 1994-95



Source: RLFS5, n = 482

¹² This is why it is naive to believe that the high rate of voluntary departures recorded in official statistics should be interpreted as indicating that the unemployed are not having much difficulty in the Russian labour market.

Figure 30. Percent Employment Change, by Region, 1994-95



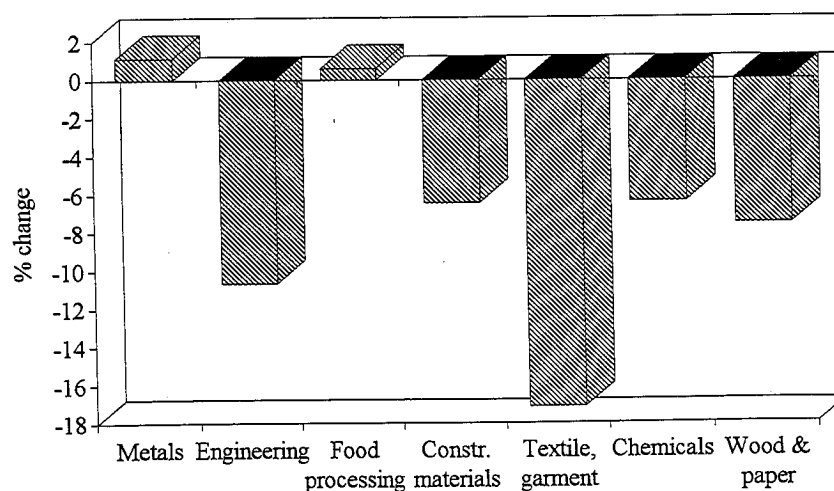
Source: RLFS5, n = 482

More importantly, actual employment decline has been considerable. **In 1994-95, on average for all establishments, employment was cut by 9.9%, or 31,945 jobs.**¹³ The decline was greatest in St. Petersburg and Ivanovo (Figure 30).

The rate of decline continued the pace of decline observed in the first four rounds of the RLFS, suggesting that there had been a total decline of over a third since 1990. Employment declined most in the textiles and garments sector (Figure 31).

Employment declined in all property forms of establishment (Figure 32). The continuing decline in employment in state and leaseholding establishments is notable, but it is significant that unlike the earlier period, closed and open joint stock companies, in which worker voice should be greater, had cut employment by *more* than average.

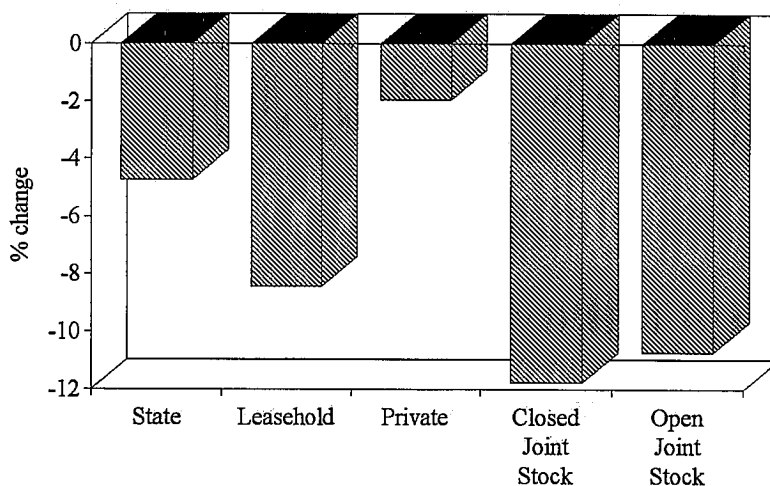
Figure 31. Percent Employment Change, by Industry, 1994-95, All Regions



Source: RLFS5, n = 482

¹³ The percentage figures are weighted for employment size.

Figure 32. Percent Employment Change, by Property Form, 1994-95, All Regions



Source: RLFS5, n = 482

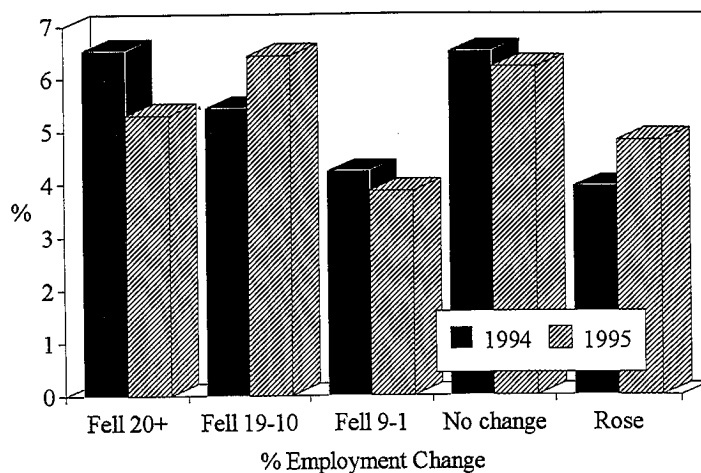
Before examining the various factors that could have determined inter-firm differences in employment change, it is worth noting a few patterns perceived by managements.

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 in 1994-95, 59.9% believed that the main effect had been a cut in employment, 11.8% believed it had led to a cut in working time, and 9.1% to reduced working intensity. The reactions suggest 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 27.4% 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. These results were remarkably similar to those found in 1994.

Second, there was no relationship between employment change and export orientation (Figure 33). *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 (and bearing in mind that there were far fewer in this position (52, or 10.8%) than in previous years), in 1995 19.2% considered that would reduce employment, 25.0% that it would increase employment, 46.2% thought that it would make no difference and 9.6% were unsure, implying that "privatisation" was not perceived to change employment very much.¹⁴ 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, half of the firms with more than 1,000 workers planning to change property form expected that to lead to employment cuts.

¹⁴ Nevertheless, of those thinking it would result in job cuts, the average expected decline was 21%.

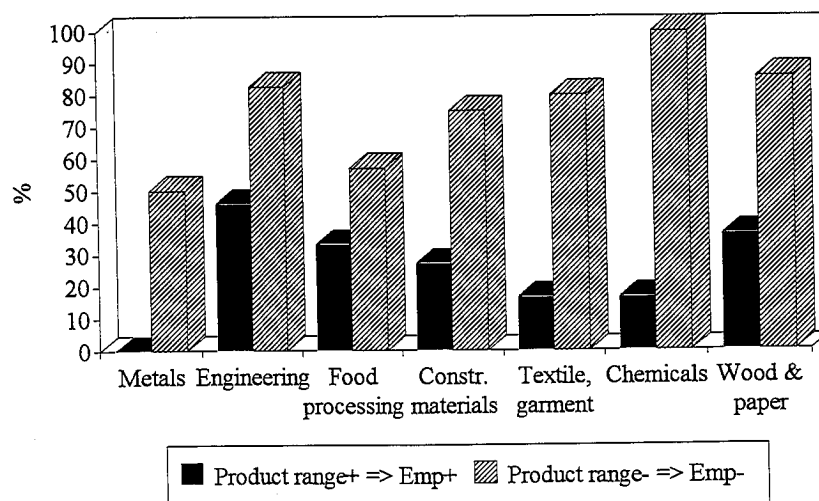
Figure 33. Percent of Sales Exported, by Employment Change, 1994-95, All Regions



Source: RLFS5, n = 378

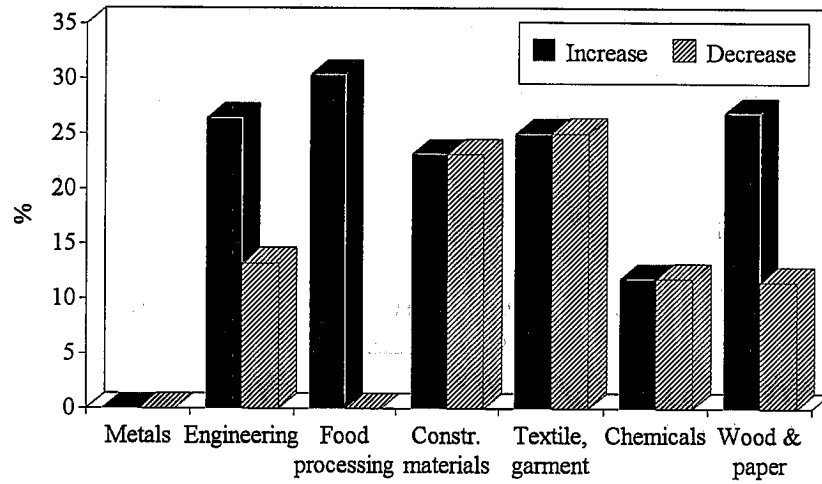
Fourth, technological change was often perceived by managements as having been beneficial for employment. Those that had increased their *product range* tended to have increased employment (Figure 34). Those that had introduced *new technology* in production were also likely to believe that had increased employment (Figure 35). As for those that had made some *work reorganisation*, managements tended to be split about the effect (Figure 36). Of course, one should be wary about deciphering cause and effect in such cases.

Figure 34. Perceived Effect of Change in Product Range on Employment, by Industry, 1995, All Regions



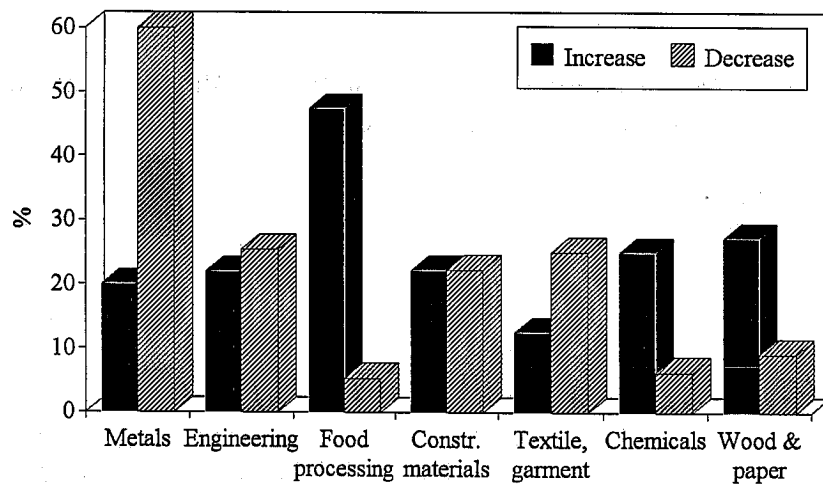
Source: RLFS5, n = 482

Figure 35. Perceived Effect of Technological Change on Employment, by Industry, 1995, All Regions



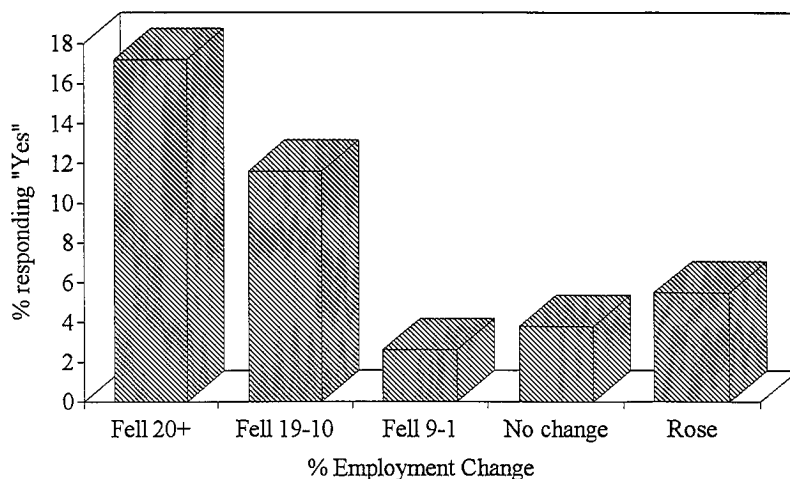
Source: RLFS5, n = 308

Figure 36. Perceived Effect of Change in Work Organisation on Employment, by Industry, 1995, All Regions



Source: RLFS5, n = 320

Figure 37. Whether Detaching Units of Production, by Employment Change, 1994-95, All Regions

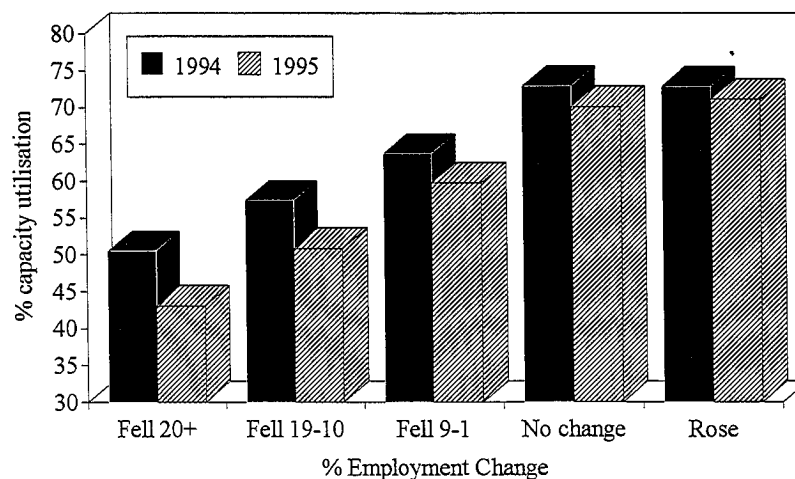


Source: RLFS5, n = 475

Fifth, those establishments that had detached production units in the past year had cut employment by more than others, on average (Figure 37). 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.

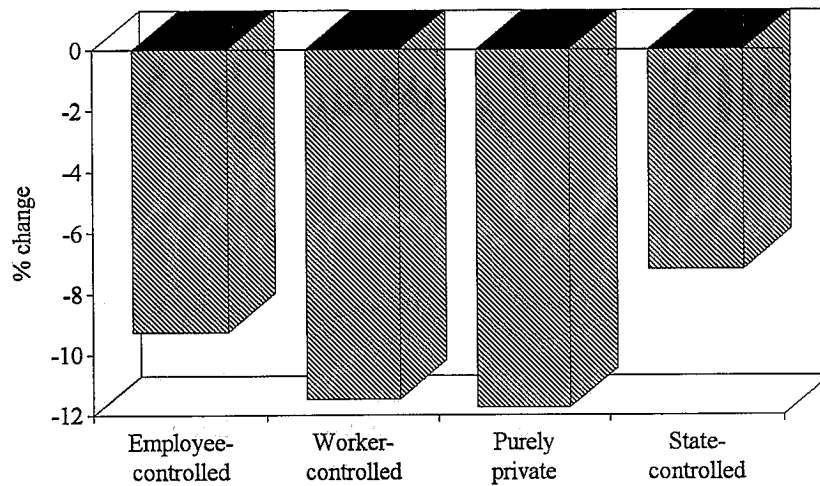
Sixth, those that had cut employment the most were operating at relatively low capacity utilisation levels (Figure 38). However one interprets this, it suggests that a "hard budget constraint" was operating.

Figure 38. Capacity Utilisation Rates, by Employment Change, 1994-95, All Regions



Source: RLFS5, n = 378

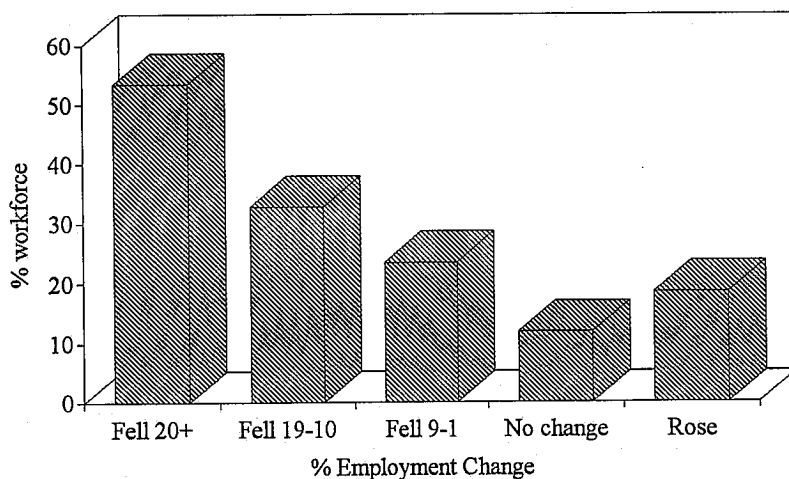
Figure 39. Percent Employment Change, by Corporate Governance, 1994-95, All Regions



Source: RLFS5, n = 482

Seventh, as shown in Figure 39, employment cuts were actually above average for "worker controlled" firms, which suggests that worker voice was not restricting employment restructuring, even though it is often argued that partial control by the workers would prevent employment cuts. Perhaps, as most employment cuts are coming from high labour turnover, the remaining workers are disinclined to push for additional employment, especially if that was likely to lower average wages.

Figure 40. Labour Surplus, 1995, by Employment Change, 1994-95, All Regions
(% of workforce in full-time equivalent)

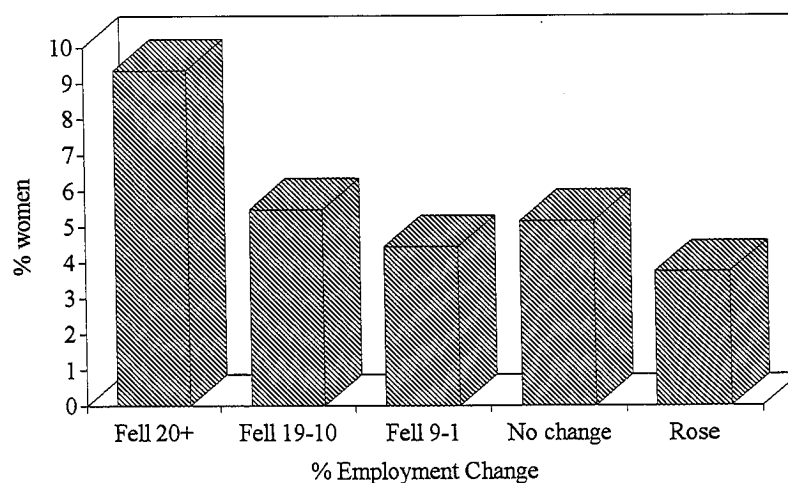


Source: RLFS5, n = 482

In sum, the widely supported 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 40). And – most bizarrely – the share of women workers on maternity leave was much higher in firms that had cut employment than in others (Figure 41), 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 41. Percent of Women on Maternity Leave, by Employment Change, 1995, All Regions



Source: RLFS5, n = 474

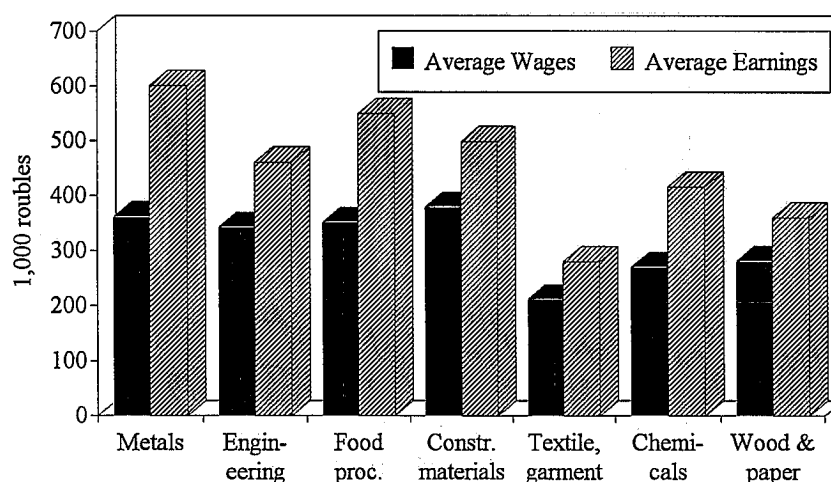
7. The Paradox of Wage Flexibility

In mid-1995, the average wage in industrial establishments, according to the RLFS5, was 308,585 roubles monthly, including bonuses, with the highest level being in construction materials, the lowest in textiles and garments (Figure 42). The overall average was about 80% higher than a year earlier. 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 1995 there were large gaps between wages in Moscow City and the depressed local labour market of Ivanovo (Figure 43), which were unlikely to reflect simple differences in costs of living. Surprisingly, as in 1994, the average wage and earnings were relatively low in private companies, and were highest in the remaining state establishments (Figure 44).

Perhaps most relevantly for our explanation of the growth of labour surplus, or "suppressed unemployment", is that the wage was positively related to employment change, as Figure 45 illustrates. Such a finding, replicating a relationship found in RLFS3 and RLFS4, is *prima facie* evidence that "the labour market is working", and that there is a degree of wage flexibility.

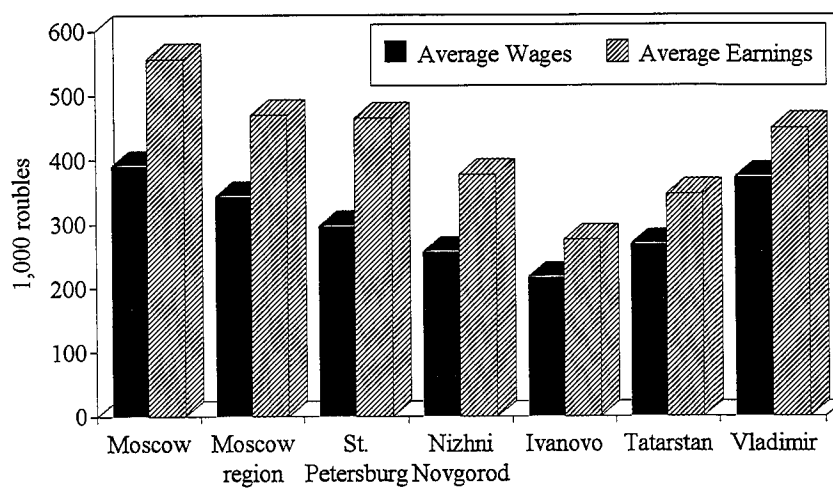
The hypothesis we wish to examine in this section is that the wage system in Russian industry has become extremely flexible. In RLFS5, there are data on various aspects of wage flexibility, and an attempt is made in the following to consider how and to what extent the overall system has become flexible.

Figure 42. Average Wages and Earnings, by Industry, mid-1995, All Regions



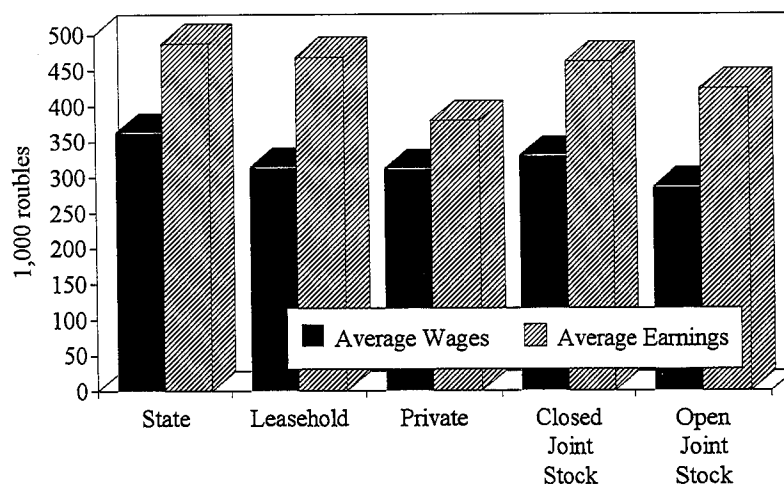
Source: RLFS5, n = 479

Figure 43. Average Wages and Earnings, by Region, mid-1995



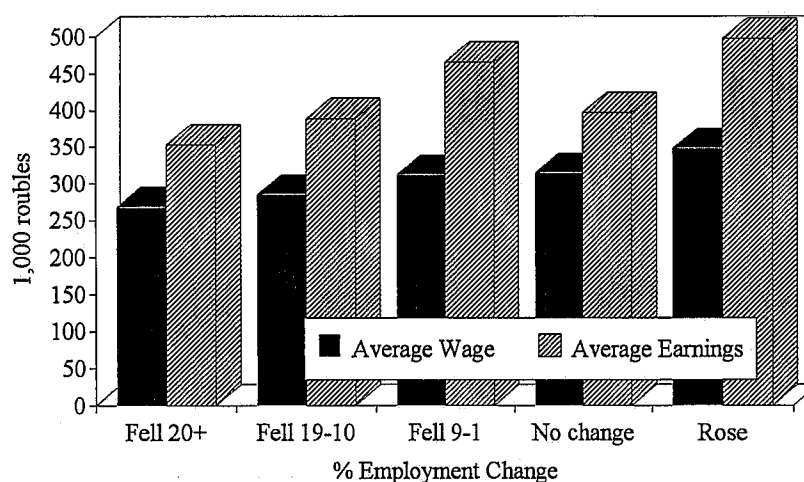
Source: RLFSS, n = 482

Figure 44. Average Wages and Earnings, by Property Form, mid-1995, All Regions



Source: RLFSS, n = 479

Figure 45. Average Wages and Earnings, by Employment Change, 1995, All Regions

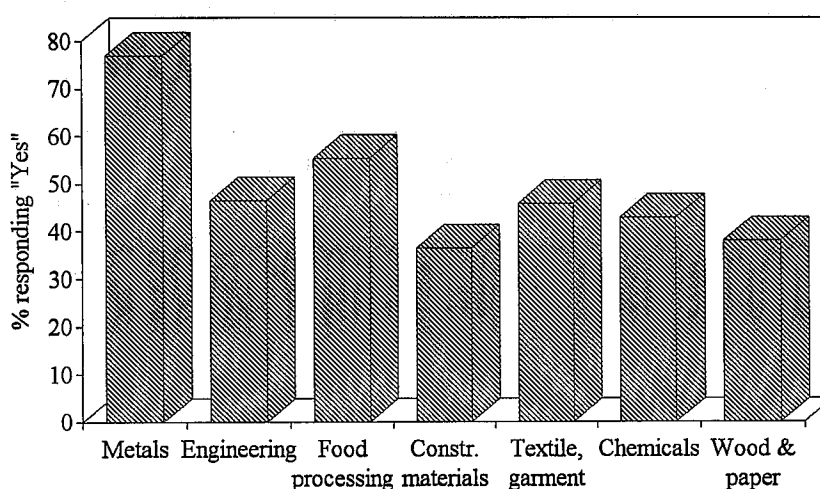


Source: RLFS5, n = 472

(i) *The Wage Tariff*

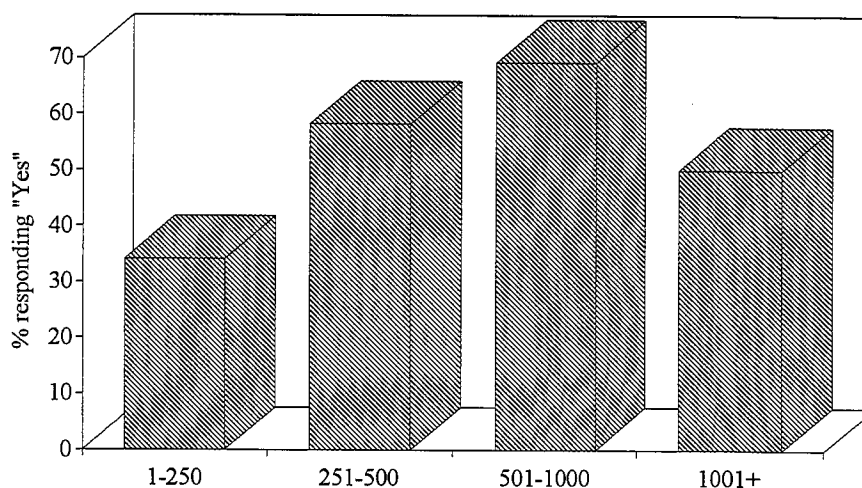
Traditionally, wages in Russian industry were seen as very rigid because they were determined centrally by means of a complex wage tariff system, which set wages and wage differentials. Thus, one sign of growing wage flexibility is that in 1995 for the first time only a minority (46.3%) were still using the state tariff wage system (Figure 46). That compared with 56.3% in mid-1994. Only 24.8% of private firms were using it in 1995, and not even a majority of state establishments were still using it. As in the past, there was a positive correlation (albeit non-linear) between size of establishment and use of the wage tariff (Figure 47), suggesting that size restructuring would accelerate the drift away from the wage tariff.

Figure 46. Percent of Establishments using Tariff Wage System, by Industry, 1995, All Regions



Source: RLFS5, n = 482

Figure 47. Percent of Establishments using Tariff Wage System, by Employment Size, 1995, All Regions



Source: RLFS5, n = 482

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. In the fourth round of the RLFS, on average bonuses comprised about 34% of earnings, which was down on the 39% of earnings in 1993. The 1995 results seem to testify to a deterioration in the ability to make such payments, since the bonus share averaged only 16% of earnings, ranging from 25.6% in basic metals to 13.7% in wood and paper products. Private firms paid only 10% on average.

(iii) *"Profit-sharing"*

Although various types of profit-based pay have been in operation – some being little more than norm-related bonuses – 54.2% of firms operated some form of profit sharing payment system.¹⁵ Although this was less than in 1994, that mainly reflected the growth in private firms, which were relatively unlikely to operate one. Just over 6% of firms were paying dividends (10.9% of open joint stock firms, 5.3% of closed joint stock, and 2% of other private firms); where paid, the dividend was a high proportion of total earnings. Of course, as noted earlier, 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

¹⁵ There was considerable diversity in the form of 'profit sharing', and some firms might have been operating little more than a bonus system.

multiple regression analysis of inter-firm wage variation, the existence of profit-sharing was *inversely related to the wage*. That is a strong sign of wage flexibility.

One trouble with profit-related pay schemes is that – as they can be used to lower the fixed wage – they offer an easy way for firms to pass on the risk to workers. It was not surprising that on average it had been over seven months since the last profit-related payment had been made.

(iv) Wage Individualisation

Perhaps as importantly – and bearing in mind that some used a combination of forms of payment – 51.2% of firms reported that they used individual performance in determining pay, which was approximately the same as in 1994.

One consequence of the decline of the wage tariff system and the drift to a more individualised wage determination is that **occupational wage differentials have widened**. Bearing in mind that the underestimate of remuneration is likely to be greater the higher the occupational category, in mid-1995 the average *wage* of managerial employees was 3.5 times the average of workers in unskilled manual jobs.

(v) Implicit "Deregulation" of Wages

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, managements were continuing to ignore 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.

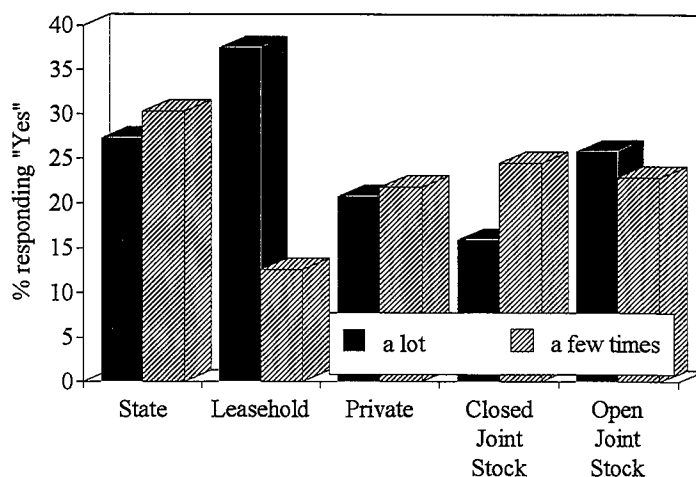
The effect of the **statutory minimum wage** on wages is primarily through the automatic effect on the wage tariff. Yet the impact of both had diminished. Over half the firms reported that rises in the minimum wage had had no effect on average wages, implying that the long connection between wages and the statutory minimum has been severed.¹⁶ 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.

¹⁶ 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, 1995).

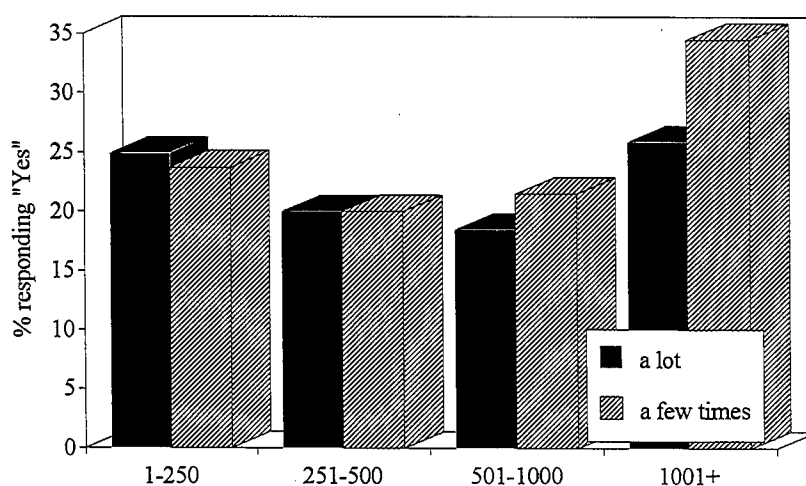
Figure 48. Percent of Establishments Having Wage Arrears, by Property Form, 1995, All Regions



Source: RLFS5, n = 480

Many factories reported that they had experienced difficulty in paying wages – 23.0% had a chronic problem, 23.9% 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 widespread problem was food processing. All property forms had experienced difficulty, with state establishments having the worst (Figure 48).¹⁷ The large firms were more likely to have difficulty (Figure 49), and those in Ivanovo had more of a problem than elsewhere (Figure 50).

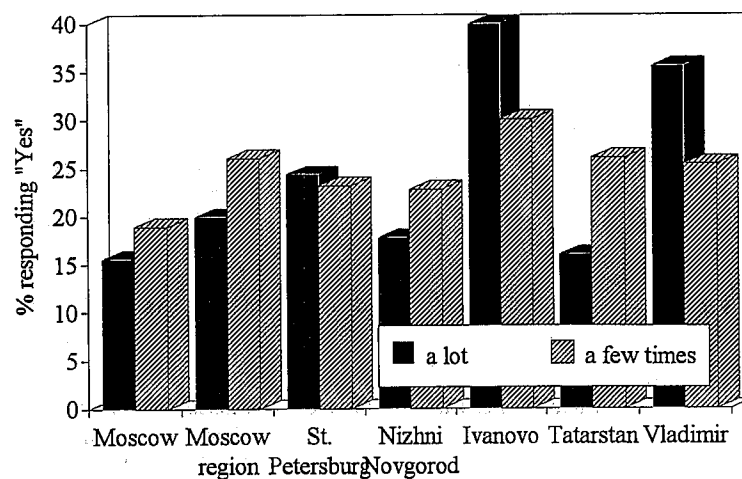
Figure 49. Percent of Establishments Having Wage Arrears, by Employment Size, 1995, All Regions



Source: RLFS5, n = 482

¹⁷ In terms of corporate governance, worker-controlled firms may have a lower probability of being in wage arrears.

Figure 50. Percent of Establishments Having Wage Arrears, by Region, 1995

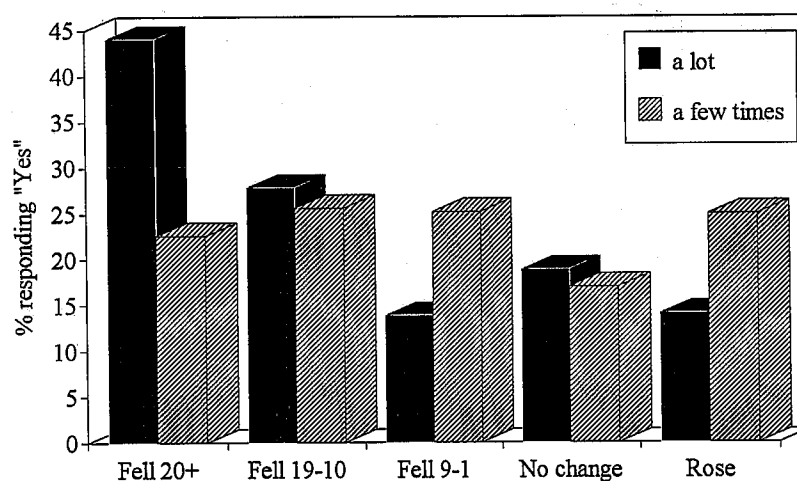


Source: RLFS5, n = 482

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 51). Those in most difficulty were cutting employment most.

On average, 46.9% of firms admitted that they had not paid wages on time. It varied from a low of 7.9% in food processing to a high of 61.5% in the metals sector. State firms were more likely to have paid late, with 57.6% having done so, compared with 40.4% of closed joint stock firms. The larger the firm, the higher the probability of paying late.

Figure 51. Percent of Establishments Having Wage Arrears, by Employment Change, 1995, All Regions



Source: RLFS5, n = 375

When firms were in wage arrears, it tended to be to a substantial amount. Thus, on average for *all* firms 38.1% of the wage bill had not been paid on time, with state firms being the worst in this regard (45.2% not paid, compared with 33.7% in closed joint-stock enterprises). The amount not paid was correlated with employment cuts, with firms that had cut employment by more than 20% also admitting that they had not paid 52.7% of their wages on time. 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 4.7% of wages had not been paid, expressed as an average of all wages, including factories in which it was claimed that there had been no period in which 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 in enterprises, according to both the RLFS4 and RLFS5, is 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

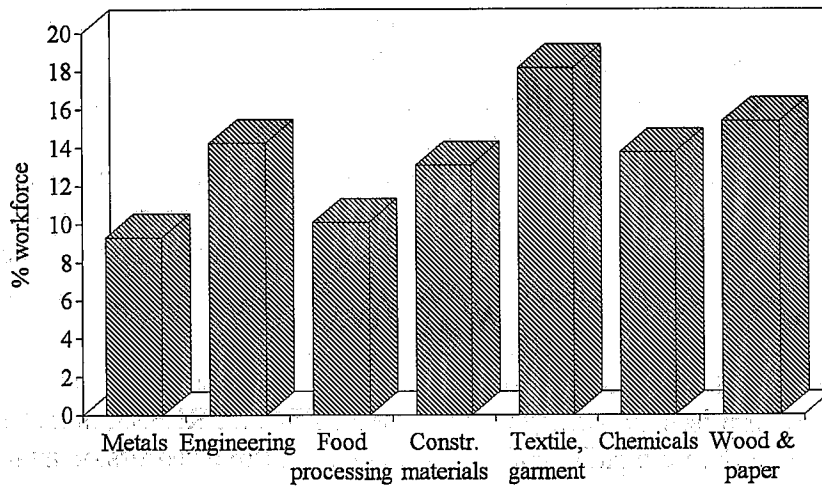
The rationality for managements of extensive use of administrative leave is clear. First, by putting large numbers of workers on unpaid or minimally-paid leave for a few months, the firm is saved having to pay severance pay, which would be two or three months of the worker's average wage. If the worker 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 *average* 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

An aspect of wage flexibility first picked up in the survey in 1993 and documented in detail in 1994 is that in most factories a new phenomenon had emerged, the existence of a category of **working impoverished**. This development has reflected a tendency for establishments to put some groups of workers and employees on very

Figure 52. Percent of Workers Receiving Minimum Payment, by Industry, 1995, All Regions

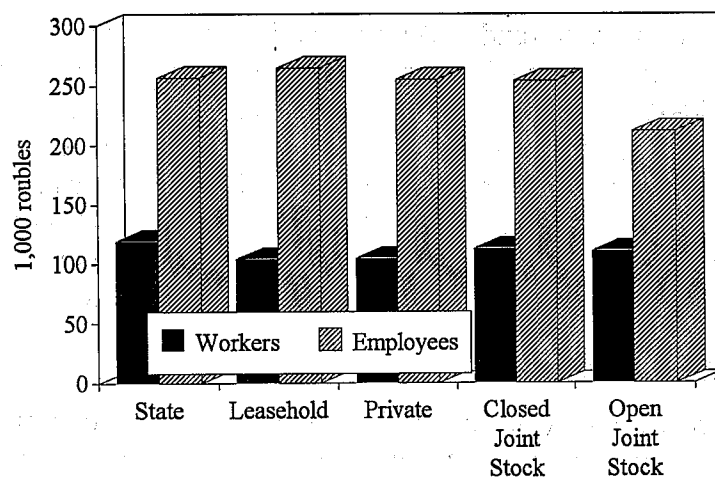


Source: RLFS5, n = 482

low rates of pay – and the fact that there is little to prevent them from doing so. Having identified this phenomenon in RLFS3 and RLFS4, the RLFS5 also sought to identify the lowest wages paid to employees and to workers.

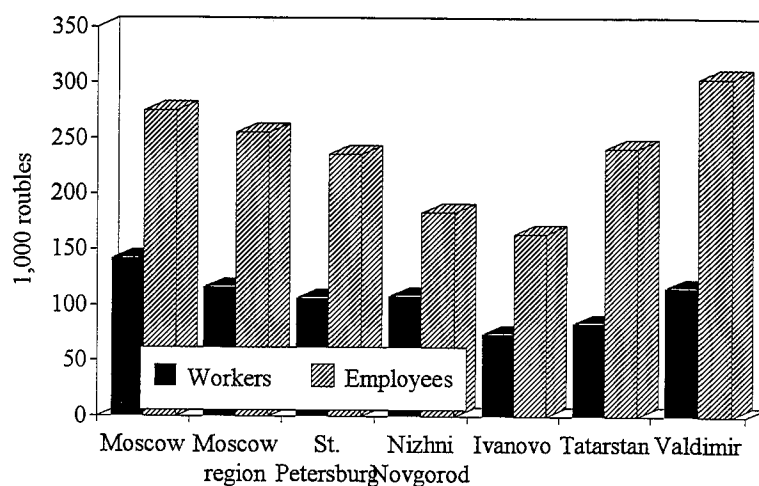
For May 1995, the reported minimum for *employees* averaged 235,439 roubles per month, compared with the average wage for employees in all factories of 308,585 roubles and average earnings of 429,245 roubles. As in 1994, the highest minimum pay was in food processing, the lowest in textiles and garments. There did not seem to be much variation by property form, although it did seem to be lowest in open joint stock companies (Figure 53).

Figure 53. Minimum Payment, by Property Form, mid-1995, All Regions



Source: RLFS5, n = 480

Figure 54. Minimum Payment, by Region, mid-1995

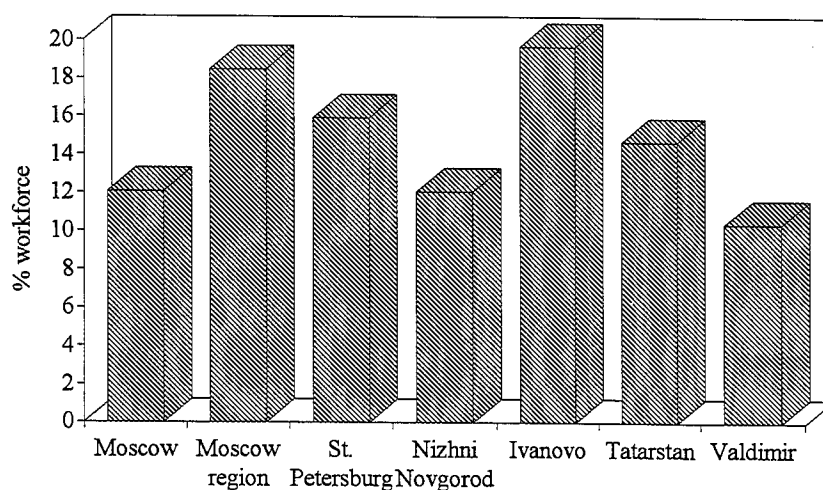


Source: RLFS5, n = 482

For May 1995, the minimum paid to *workers* was 110,149 roubles monthly (compared with 9,514 in May 1993).¹⁸ As in the case of employees, the lowest minimum was in textiles and garments, the highest in food processing. This was also the case in 1994, when of course there was a somewhat different sample of firms. There was no significant difference between property forms. Regionally, it was lowest in Ivanovo (Figure 54).

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.

Figure 55. Percent of Workers Receiving Minimum Payment, by Region, mid-1995



Source: RLFS5, n = 482

¹⁸ 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 4. Minimum Actual Wage as Percent of Average Wage, by Industry, 1995, All Regions

	Specialists		Unskilled workers		% workers receiving minimum payment May, 1995
	Minimum payment (1,000 rbl.)	Minimum as % of Average	Minimum payment (1,000 rbl.)	Minimum as % of Average	
Metals	248.31	68.7	114.46	31.6	9.3
Engineering	228.19	66.5	110.19	32.1	14.2
Food processing	298.96	85.1	159.78	45.5	10.1
Constr. materials	282.36	74.4	123.80	32.6	13.1
Textile, garment	183.00	86.5	75.36	35.6	18.2
Chemicals	242.09	89.6	92.40	34.2	13.7
Wood & paper	217.43	77.2	102.63	36.5	15.4

Source: RLFS5, n = 482

In 1995, no less than 14.2% of all workers were receiving the minimum payment, with only basic metals (9.3%) having fewer than 10%. This was the same as in 1994, but was much higher than in May 1993, when 9.2% of workers were receiving the lowest payment (Table 4). 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 payment 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 55). The rise in the share of workers on minimum payments since 1993 had also been greatest in Ivanovo.

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.

(ix) Enterprise-based Social Benefits

A key aspect of the wage system in Russia has been that wages have been a relatively small proportion of total remuneration. As in earlier rounds of the RLFS, in 1995 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 5). 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 positions.

Table 5. Benefits Entitlements for Worker Categories, mid-1995, All Regions

Benefits	Admin. workers	Regular workers	Part-time workers	Temp. workers
Paid vacation	99.4	99.4	34.4	17.0
Additional vacation	40.5	56.8	11.2	2.7
Rest houses	35.5	35.9	13.5	3.5
Sickness benefit	91.5	91.3	30.7	25.1
Paid health services	43.4	42.9	15.4	8.7
Subsidised rent	12.9	14.5	3.3	1.0
Subsidies for kindergartens	33.6	34.9	12.4	3.5
Bonuses	57.7	58.3	22.5	15.2
Profit sharing	48.8	48.3	16.8	7.3
Loans	78.4	78.2	27.4	10.8
Retiring assistance	62.7	62.0	23.0	3.9
Supplementary pension	7.9	8.5	2.9	0.8
Possibility for training	48.3	53.9	17.6	6.4
Subsidised food	12.2	12.0	5.6	4.4
Subsidy for canteen or benefit for meal	40.9	42.1	16.8	16.0
Subsidised consumer goods	6.0	6.0	2.3	1.7
Transport subsidies	25.9	25.7	7.3	5.6
Unpaid shares	19.1	19.1	6.6	1.5

Source: RLFS5, n = 482

Socio-economically, the concentration of social protection in such enterprises has contributed to the process of socio-economic inequality in the country. Basically, the fact that some workers have remained attached to enterprises while a growing number of others have been detached from them has been a source of inequality not just because of differences between wages and whatever transfer payments the excluded might pick up but because benefits have come mainly through enterprises. However, compared with all earlier rounds of the RLFS, in 1995 there has been a sharp cut in the provision of enterprise benefits, and in most cases the percentage of firms providing specific benefits had declined. Particularly widespread erosion occurred in the provision of canteen subsidies, in financial assistance for workers retiring from the enterprise, subsidised kindergartens and bonuses.

Perhaps the new twist revealed in the data on benefits is that there has been a growing divergence between firms that pay relatively high wages *and* benefits and those that pay low wages and provide fewer benefits. For instance, if we divide the firms into those paying less than 80% of the average wage, those paying between 80% and 120% of the average, and those paying above 120% of the average wage, the probability of workers receiving a specific benefit entitlement has tended to be greater in the higher-wage firms (Table 6). Another source of differentiation may be the form of corporate governance, for it seems that private-governance firms had a lower tendency to pay various benefits than other governance forms (Table 7).

Table 6. Benefits Entitlements for Worker Categories, by Average Wages, mid-1995, All Regions

Benefit	Administrative workers			Regular workers			Part-time workers			Temporary workers		
	<80%	80<120	120%<	<80%	80<120	120%<	<80%	80<120	120%<	<80%	80<120	120%<
Paid vacation	99.5	99.3	99.3	99.5	99.3	99.3	38.9	40.7	21.3	2.5	3.7	2.1
Additional vacation	36.0	45.2	41.8	51.2	65.2	56.0	9.9	17.0	7.8	2.5	5.2	3.5
Rest houses	31.0	36.3	41.1	32.5	37.0	39.7	12.3	16.3	12.1	18.7	17.8	13.5
Sickness benefit	89.7	91.9	93.6	89.2	91.9	93.6	34.0	35.6	20.6	25.1	28.1	22.0
Paid health services	36.5	45.9	50.4	35.5	44.4	51.8	14.8	19.3	12.1	7.9	11.1	7.1
Subsidised rent	6.4	15.6	18.4	7.4	17.0	22.0	2.5	3.7	4.3	1.0	1.5	0.7
Subsidies for kindergartens	23.6	35.6	45.4	24.1	37.8	46.8	10.8	15.6	11.3	2.0	4.4	3.5
Bonuses	60.1	60.7	50.4	60.6	60.7	51.8	24.6	27.4	13.6	15.3	15.6	13.6
Profit sharing	42.4	56.3	49.6	42.4	56.3	48.2	16.7	23.7	9.9	8.4	8.1	4.3
Loans	73.9	77.8	85.1	72.9	77.0	86.5	30.0	32.1	18.4	12.3	6.7	12.1
Retiring assistance	62.1	63.7	61.7	61.1	63.0	61.7	26.6	25.9	14.2	5.4	3.0	2.1
Supplementary pension	3.9	10.4	11.3	3.9	11.1	12.8	1.5	5.2	2.8	1.0	1.5	0.0
Possibility for training	40.4	51.1	56.0	48.8	55.6	58.9	17.7	23.0	11.3	6.4	7.4	5.0
Subsidised food	11.3	11.9	14.2	9.9	11.9	15.6	5.9	5.9	5.0	3.0	5.2	5.7
Subsidy for canteen or benefit for meal	32.5	45.2	48.2	34.0	45.9	49.6	15.8	23.0	12.1	11.8	20.7	17.0
Subsidised consumer goods	5.9	5.2	7.1	5.9	5.2	7.1	2.0	2.2	2.8	1.5	2.2	1.4
Transport subsidies	15.8	28.1	36.9	14.8	28.1	37.6	4.4	9.6	7.8	4.4	3.7	8.5
Unpaid shares	18.2	17.8	22.0	17.7	17.8	22.7	6.9	6.7	6.4	1.5	0.7	2.1

Source: RLFS5, n = 482

Table 7. Benefits Entitlements for Worker Categories, by Corporate Governance, mid-1995, All Regions

Benefits	Employee-controlled	Worker-controlled	Purely private	State-controlled
Administrative workers				
Paid vacation	99.1	100.0	99.3	99.1
Additional vacation	42.2	32.2	39.0	47.7
Rest houses	31.2	40.7	30.1	36.7
Sickness benefit	88.1	89.8	93.4	94.5
Paid health services	43.1	46.6	43.4	39.4
Subsidised rent	12.8	25.4	4.4	11.0
Subsidies for kindergartens	36.7	33.1	36.8	26.6
Bonuses	56.9	58.5	50.0	64.2
Profit sharing	58.7	55.9	43.4	37.6
Loans	80.7	78.0	74.3	80.7
Retiring assistance	70.6	67.8	48.5	65.1
Supplementary pension	11.0	8.5	4.4	6.4
Possibility for training	55.0	50.0	41.2	48.6
Subsidised food	13.8	13.6	12.5	7.3
Subsidy for canteen or benefit for meal	44.0	44.1	35.3	39.4
Subsidised consumer goods	6.4	8.5	5.1	2.8
Transport subsidies	29.4	22.0	20.6	33.0
Unpaid shares	33.9	25.4	13.2	5.5

Source: RLFS5, n = 482

(Table 7 continued)

Benefits Regular workers	Employee- controlled	Worker- controlled	Purely private	State- controlled
Paid vacation	99.1	100.0	99.3	99.1
Additional vacation	68.8	49.2	47.8	62.4
Rest houses	32.1	40.7	31.6	35.8
Sickness benefit	88.1	89.8	93.4	93.6
Paid health services	43.1	46.6	41.2	40.4
Subsidised rent	15.6	24.6	9.6	10.1
Subsidies for kindergartens	37.6	36.4	36.8	27.5
Bonuses	59.6	56.8	51.5	64.2
Profit sharing	58.7	55.1	42.6	37.6
Loans	81.7	79.7	74.3	77.1
Retiring assistance	70.6	66.1	50.7	61.5
Supplementary pension	11.9	8.5	5.9	6.4
Possibility for training	59.6	55.9	44.9	56.0
Subsidised food	14.7	13.6	11.8	6.4
Subsidy for canteen or benefit for meal	48.6	43.2	36.0	39.4
Subsidised consumer goods	6.4	7.6	5.9	2.8
Transport subsidies	29.4	23.7	19.9	31.2
Unpaid shares	33.9	25.4	13.2	5.5

Source: RLFSS, n = 482

Benefits Part-time workers	Employee- controlled	Worker- controlled	Purely private	State- controlled
Paid vacation	32.1	35.6	30.1	36.7
Additional vacation	9.2	11.0	10.3	12.8
Rest houses	10.1	11.0	11.0	18.3
Sickness benefit	25.7	30.5	29.4	33.9
Paid health services	11.9	17.8	14.0	16.5
Subsidised rent	0.9	5.9	3.7	2.8
Subsidies for kindergartens	11.0	12.7	11.0	12.8
Bonuses	21.1	27.1	17.6	20.4
Profit sharing	21.1	19.5	13.2	11.9
Loans	26.6	26.3	24.3	29.6
Retiring assistance	27.5	22.9	16.9	23.9
Supplementary pension	3.7	3.4	0.7	2.8
Possibility for training	17.4	17.8	11.8	21.1
Subsidised food	5.5	7.6	3.7	4.6
Subsidy for canteen or benefit for meal	19.3	15.3	14.7	15.6
Subsidised consumer goods	2.8	4.2	0.7	0.9
Transport subsidies	8.3	4.2	5.9	9.2
Unpaid shares	12.8	7.6	5.1	1.8

Source: RLFSS, n = 482

(Table 7 continued)

Benefits Temporary workers	Employee- controlled	Worker- controlled	Purely private	State- controlled
Paid vacation	19.3	19.5	11.8	17.4
Additional vacation	3.7	2.5	2.2	2.8
Rest houses	1.8	5.1	1.5	4.6
Sickness benefit	30.3	25.4	24.3	21.1
Paid health services	10.1	11.9	5.9	6.4
Subsidised rent	0.9	2.5	0.7	0.0
Subsidies for kindergartens	3.7	2.5	5.1	2.8
Bonuses	17.4	16.1	12.5	14.8
Profit sharing	11.0	6.8	5.1	4.6
Loans	12.8	11.9	10.4	7.3
Retiring assistance	7.3	4.2	1.5	3.7
Supplementary pension	2.8	0.0	0.7	0.0
Possibility for training	11.9	5.9	0.7	6.4
Subsidised food	4.6	5.9	3.7	2.8
Subsidy for canteen or benefit for meal	22.0	14.4	14.0	12.8
Subsidised consumer goods	0.9	3.4	1.5	0.9
Transport subsidies	8.3	3.4	7.4	1.8
Unpaid shares	3.7	0.8	1.5	0.0

Source: RLFS5, n = 482

The changing pattern of enterprise benefits has been monitored over the rounds of the RLFS. A majority (56.4%) had added some benefits over the previous year, the main items being subsidised food, medical service, medical insurance and social insurance. However, more firms had cut some benefit than in 1993-94 (55% compared to 28%), than had added something. In terms of the main benefits cut, over 9% had dropped the provision of subsidised food, 7.3% had dropped kindergartens, 6.6% had cut medical services, 5.8% had dropped subsidised transport and 4.4% had dropped the provision of subsidised housing.¹⁹

Housing remains an important form of worker benefit, but actually only 7.1% of firms reported that they provided service housing to their workforce, and among those 11% of the workers were in enterprise housing. Among firms that still provided housing, 24.2% had cut the extent of its provision, compared to 15.2% that had increased it.

Another sign of changes is that firms have been shifting social facilities to local authorities – first reported in an interview in a famous old textile and garments factory in Ivanovo. In total, 13% of factories did this in 1994-95, including 23% of metals firms and 22% of textile and garments plants.²⁰

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

¹⁹ Even so, as in 1994 the "social consumption" elements were about one quarter of total labour costs on average, and that ignores the overheads of social facilities, buildings, etc.

²⁰ The average wage in firms providing housing seems to have been lower than average, but it may have been lower in firms that were transferring social facilities to local authorities.

took the form of unsold produce. Although the value was not great – 0.9% of total output on average being "sold" to workers and 0.9% being "given" to workers – a substantial minority of firms reported that they made in-kind payments, mainly in the form of their own products that they could not sell.

(x) *Less Wage Flexibility Needed*

Wages in Russian industry have become responsive to 'market forces'. When asked what determined wage increases besides price rises, 36.4% of managements said that no other factor had been important. But 27.7% said that the level of profits was the main factor. That was considerably more than used to be the case.

The combination of information reviewed earlier shows that the wage system has become very flexible, even though much of the flexibility was of a perverse and unfortunate kind. Thus 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.

8. The "Internal" Labour Market

Elsewhere a detailed analysis is made of the various elements that comprise the internal labour market of industrial enterprises in Russia.²¹ Here we will just identify a few key factors and changes that have occurred in the past year. In considering those changes, it should be noted that "external" labour flexibility has been growing, shown in various ways. Although it may not have increased in 1995, 61.2% of all firms had employed temporary or casual labour, while a third of firms reported that employment of contract labour had increased. About 42% of firms employed part-time workers, and in those firms 46.5% admitted to paying part-timers a lower rate of pay. Thus, there

²¹ Standing, *Reviving Dead Souls*, op.cit., chapter 8.

was a widespread tendency to resort to non-regular forms of employment. Judgement on the trends in internal labour market flexibility and efficiency is harder.

(i) Labour efficiency

Managers were asked whether they regarded labour efficiency as satisfactory or not. Only 13.5% said that they were satisfied, 18.5% were "fairly satisfied", 36.1% were rather dissatisfied, and 36.9% were very dissatisfied. Managers were also asked whether they had taken action in the past 12 months to raise labour efficiency. As always, the responses probably tell us as much about perceptions as about the appropriateness of any action. We asked three questions, first about actions taken affecting production, second about actions taken with respect to labour practices, and third about actions affecting management.

On the first, about 14.6% had taken no identifiable measure to raise efficiency, 25.6% claimed that they had turned to the production of new products as a means of doing so, 20.4% said they had introduced new equipment or technology, 15% had made some work reorganisation, 11% had cut out products that were inefficient. On the second, 17.7% could think of nothing that they had done, whereas nearly 36% reported that they had raised wages to stimulate labour efficiency, 14.4% said they had changed the remuneration system in some way, and 11.1% had dismissed workers as a means of raising efficiency. Other measures included administrative reform (7.3%) and new incentive programme (5.6%).

As for actions affecting management, the responses may indicate a lack of understanding of the question. Only 8.5% thought they had done nothing, while 50.7% said that they had gone out in search of new markets, 16.2% said they had gone in search of new suppliers, 10.6% said they had focused on finding new sources of funds, 6.9% had sought ways of reducing their taxes (!), 5% said they had reorganised management and 1.9% said they had organised management training. There did not seem to be much difference in the pattern of responses across property forms of establishment.

Another measure used to influence efficiency and to reduce the extent of redundancies was the internal transfer of workers. This had been done by 48.1% of all firms, with higher proportions of closed and open joint stock companies having done so. It was far more likely to have been done in firms that had cut employment by a large amount, so that transfers were clearly not very effective as a means of arresting redundancies.

(ii) Recruitment Practices

Questions about recruitment practices have shown that Russian industrial enterprises have continued to bypass the Federal Employment Service in recruiting workers, in notifying employment exchanges of vacancies and in informing workers that they should register at employment exchanges. Thus, 61.2% of factories did not recruit any workers through the public employment exchanges, and 79.2% of private firms did not use the service at all.

Only 58.3% of firms informed the employment service of job vacancies, with only 31.7% of private firms doing so. Of those that did inform the exchange, only 43% did so monthly. Meanwhile, only 72.5% of firms informed released workers that they

should register with an employment exchange, even though every firm is supposed to do so; actually only 65.6% of state firms did so.

In 1994-95, there did seem to be some strengthening in preferences for hiring men rather than women. For production workers, 36.7% of firms said they had a preference for men, 14.7% for women. The former figure is higher than in previous years, and is due in part to inclusion of Tatarstan and Vladimir where high proportions had such a preference, in part to the industrial distribution of firms and perhaps in part to the fact that women had comprised a higher proportion of total employment than used to be the case. A number of managements claimed to us that they had a "sense of balance" in the gender structure of employment. In any case, only 8.9% had a preference for men as employees, compared to 14.9% having a preference for women – the first time that more had expressed a preference for women.

(iii) Training and Retraining

As in previous rounds, we identified three levels of training provided by industrial enterprises – initial for new recruits, retraining for job performance and retraining for upgrading or promotion. The reader is urged to consult earlier reports for caveats about interpretations of the data.

Approximately two-thirds of firms reported that they provided some training for newly recruited production workers, which was less than in earlier years. Moreover, in 82.6% of those providing training the main form was "informal" and on-the-job. Even more significantly, only 46.5% of private firms provided any entry-level training, compared to over 71% of closed joint stock firms and over 76% of open joint stock firms, and the private firms that provided training were if anything more likely to do so with informal training. In terms of different forms of corporate governance, worker-governance and employee-governance firms were far more likely to provide training than others, which is an important tendency to bear in mind, given the need for skill formation in the restructuring process. Finally, training was much less likely to be provided in firms that had cut employment substantially.

Slightly over 50% of firms provided retraining to *improve job performance*, but only 29.7% of private firms did so. Some 58.9% of firms provided *retraining for upgrading*, with only 27.7% of private firms doing so. Again, in most cases the retraining was merely on-the-job (over 78% in both cases), and the proportion of private firms doing only informal retraining was higher than in other property forms.

Another indicator of the erosion in training is that 26.8% of all firms reported that *the average amount of training provided had been cut*, whereas in 8.9% of cases it had been increased. It had been cut most often in firms that had cut employment, and had been cut less in worker-governance firms than in other forms of governance. During the past two years, the vast majority of firms (98.5%) had not paid for any training institute – a far cry from what used to be the case – although 36.9% had provided funds to training institutes to pay for training, 11% had paid for each trainee, and 7.9% had paid grants to trainees. Unfortunately, *34.8% of those that had provided funds for training had given up doing so, and more private firms had done so than any other type*. A further 15.4% of those still paying for training were planning on cutting their financing.

Women's share of those receiving training in 1994-95 was exactly 30%, expressed as a mean average. It varied considerably by sector, was higher in larger establishments and was merely 15.8% in private firms, compared with 38.3% in closed joint stock companies. Despite these figures, only 11.2% of managers said they had a preference for providing men with training rather than women. A structural factor assisting women in this respect was that women comprised 54.7% of the workforce in firms that provided training, whereas they comprised 49.8% in firms that did not; they also had a higher share in firms providing training for upgrading.

(iv) Job Restructuring

An indicative measure of employment restructuring is the changing "occupational structure" of employment. A subsequent paper will explore the changes over the period 1990-95 covered by the RLFS. All that needs to be noted here is that in 1995 manual workers still accounted for the overwhelming majority of total employment in Russian industry, accounting for nearly four out of every five employees and workers. If productivity and efficiency are to improve, this ratio will have to decline. Yet in fact the unskilled worker share rose in 1994-95.

As far as the effect of employment shifts on the position of women, it is notable that women comprised more than 40% of every occupational category, although the two categories in which they accounted for less than 50% were managerial and supervisory employees.

(v) Work Security

It is no revelation that working conditions in Soviet factories were often terrible, with many forms of pollution and a widespread neglect of safety and health. Yet there were some safeguards and mechanisms that moderated the worst consequences. The RLFS5 asked questions about the continuation or development of safety and health mechanisms and also asked about work accidents.

Whereas 90% of closed joint-stock and open joint-stock companies had a safety department or committee, 51.5% of private industrial firms had no department, no committee and no specialist employee dealing with safety matters.

It was found that nearly one in every five factories had neither a safety department nor a safety committee, nor an employee with special responsibility for safety and health matters. In 32.4% of factories there was an engineer or a part-time specialist with responsibility for this, in 18.9% of factories there was a committee with delegated responsibility, and in 29% of the factories there was a safety department. The wood and paper products sector was less likely than any other to have some safety mechanism.

The matter of safety and health is considered in the Appendix dealing with the diverse aspects of what is called a "human development" enterprise. However, the threat to working conditions in Russian factories is one of the most worrying trends of all.

9. Concluding Points

At the end of the interviews in the factories, managers were asked to identify what they thought would be the main employment-related problem in their establishment over the next year. In 1995, the most pressing concern seemed to be "low wages", which can be interpreted as the inability to pay adequate wages or to pay wages on time or at all. This response was given as the *main* problem by 26.3% of the managements. The second most widely cited problem was retention of skilled workers, followed by "surplus labour". The fact that this latter was only third should be interpreted with caution, since the ease with which firms could deal with surplus labour means that it is not perceived as a problem for management, not that it was not expected.

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.

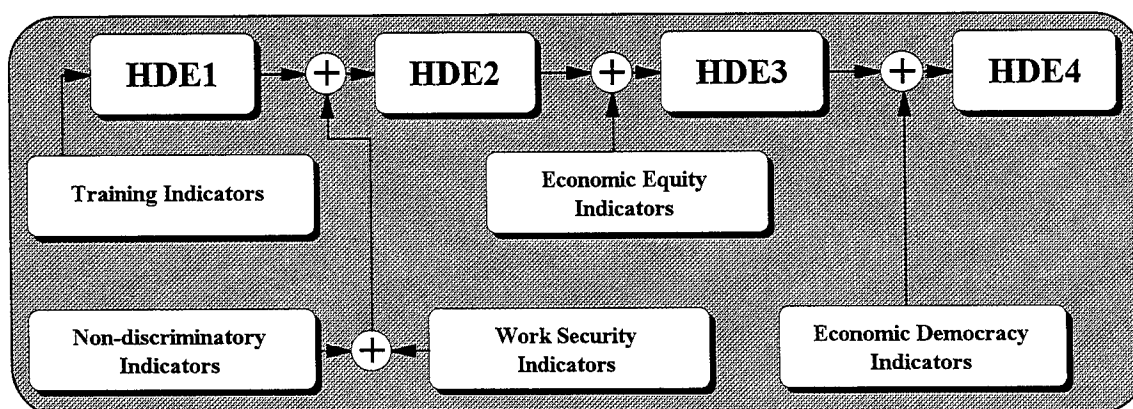
Appendix: Identifying the "Human Development Enterprise" in Russian Industry

1. Introduction

In a paper based on the fourth round of the RLFS, an experimental set of indexes were developed to identify what constituted good enterprises from a labour and employment point of view. These are described as Human Development Enterprise indexes. Essentially, the four indexes – HDE1-HDE4 – are constructed by adding new elements, and give positive ratings for skill formation, social equity (notably through non-discriminatory recruitment and training practices), economic equity (notably revealed through pay practices) and economic democracy (defined basically in terms of voice involvement of workers).

The methodology and rationale are explained in the earlier paper, and will not be repeated here. In this appendix, comparable results using the RLFS5 data are presented, with one important modification of the methodology used in the earlier paper. A separate set of indicators are introduced to measure **Work Security**. This is added to HDE1 at the same time as the Non-Discriminatory Indicators are added, as indicated schematically in Diagram 1.

Diagram 1: Hierarchy of Human Development Enterprise Indexes



2. HDE1: Skill Formation

The basic HDE index is intended to identify the firms that provide a relatively good training and skill formation environment. The HDE1 index is defined as follows:

A Good Enterprise should provide opportunities for skill acquisition. In Russian factories, most training has been arranged by the large enterprises that have dominated the industrial landscape. What we consider as basic indicators of an orientation to skill formation are the three layers of training – entry-level training for newly recruited workers, retraining to improve job performance or to transfer workers to other jobs with similar skills, and retraining for upgrading workers or promotion.

In addition, we take account of the type of training. If a firm only gave informal, on-the-job training, that deserves less weight than if it involved "class room" and structured training, including apprenticeship. So, for each level of training, a distinction

is made between "informal" and "formal" training, with the latter being presumed to have greater value. Given economic and institutional realities in Russia, differences between formal and informal may be exaggerated. Yet training involving a quantifiable cost should be preferable to "on-the-job-pick-it-up-as-you-go" training. In Russian industry most firms provided training, but few did so formally.

Finally, for the first index, HDE1, we include a factor measuring whether the establishment was paying for training, by funding a training institute or by paying the training fees to an institute where it sent its workers for training or by giving stipends to workers who go for training. A substantial minority did at least one of the three, although many had abandoned training and others were planning to do so.

Thus, we construct the first index by addition of the factors as follows:

$$\text{HDE1} = (\text{TR} + \text{TRF}) + (\text{RETR} + \text{RETRF}) + (\text{UPTR} + \text{UPTRF}) + \text{TR.INST}$$

where the components are defined as follows:

- TR = 1 if training was usually provided to newly recruited workers, 0 otherwise;
- TRF = 1 if TR was apprenticeship or off-the-job in classroom or institute, 0 otherwise;
- RETR = 1 if there was training provided for established workers to improve job performance or transfer between jobs of similar skill, 0 otherwise;
- RETRF = 1 if that retraining was formal, in class or institute, 0 otherwise;
- UPTR = 1 if training was provided to upgrade workers, 0 otherwise;
- UPTRF = 1 if that retraining for upgrading was in class or institute, 0 otherwise;
- TR.INST = 1 if the firm paid for trainees at institutes, 0 otherwise.

Thus the HDE1 index has values ranging from 0 to 7, a zero value implying that the firm gave no training of any sort. For the whole sample of firms, which were representative of manufacturing plants in the country, in 1994 the modal value was 3, the mean 3.3, with only 2% having a value of 7 and 4.6% a value of zero. In 1995, the modal value was also 3, the mean value was 2.5, with 1.9% having a value of 7 and 15.8% value of zero. So, the average value appeared to have declined slightly, due to an increase in the proportion with no value.

3. HDE2: Incorporating Social Equity

Next, in defining a good firm – for efficiency as well as equity – non-discriminatory practices are essential. Its practices should reduce labour market segregation based on characteristics such as gender, physical disability, age or ethnic origin. Measuring discrimination is difficult, yet the RLFS indicators are probably reasonable proxies. One could refine them, and in another context one would need to do so, notably to take account of ethnic discrimination.

Socially equitable enterprises are measured by reference to *preferences*, as stated by managements, and *revealed outcomes*. Neither alone would be adequate; one might have preferences yet not put them into effect, or have no preference yet discriminate on characteristics that had the effect of excluding certain groups from various jobs.

Given the context and available data, indicators of non-discrimination are mainly related to gender. In terms of hiring workers, if management reported that they had no preference for men or women, this was regarded as a positive factor. It would be an inequity for men if we gave a positive value if management said they preferred women, as was the case in some factories. However, this reasoning could be stretched too far, because we are *primarily* concerned with redressing discrimination against women

A second indicator of non-discrimination is a commitment to provide training opportunities equally to men and women. Preferences here are also likely to be revealed, especially as there is no law against discrimination in such matters. Thus, there was a readiness on the part of Russian managements to admit to a discriminatory preference for men, and in some cases for women.

Stated preferences are weak proxies, often rationalisations of what has happened, more often being norm-induced. To ignore preferences altogether would be unjustifiable, yet it is important to complement the preference factor with outcomes. Accordingly, we incorporate an outcome variable of sex discrimination, which is not ideal but which is a reasonable proxy. This is the share of higher-level "employee" jobs taken by women. If that exceeds 40% the firm was given a positive score in the index. In utilising this measure, one must admit some arbitrariness, because the outcome could reflect differences in the supply of men and women. But it does focus on better jobs and identifies relatively good performance in discrimination.

One could modify the share to be sectorally specific, giving a positive score if a firm had a relatively high percentage of women in training relative to the average for all firms in the sector. This could be justified because the ratios varied by sector. But this is not easily justifiable, for it seems to allow for gender-based industrial segregation of employment.

Besides gender variables for employment equity, another indicator of discrimination was whether the firm employed *workers with registered disabilities*. Coupled with gender variables, this gives an index of non-discrimination, as follows:

$$ND = R_s + T_s + FWC + D.$$

where ND is the index of non-discrimination, and

- R_s = 1 if the management has no preference for either men or women in recruiting production workers, 0 otherwise;
- T_s = 1 if management stated that they had no preference for either men or women in providing training for production workers;
- FWC = 1 if the female share of employees (managerial, specialist or general service workers) was greater than 40%, 0 otherwise;
- D = 1 if the firm employed workers with disabilities, 0 otherwise.

Adding ND to HDE1 gives us what we previously designated a Socially Equitable Enterprise. In the RLFS5 we can also incorporate the complex issue of work security.

4. Incorporating Work Security

Human development is scarcely compatible with poor working conditions. Identifying good working conditions with a few proxies is not easy, but there is one reasonable *input* mechanism and two reasonable *outcome* variables that can be used.

The input mechanism is whether or not there was a safety committee or department in the factory. In most Ukrainian enterprises one or both have existed, although the survey suggests that there has been some abandonment. The outcome variables consist of, first, the number of working accidents requiring at least one day off work expressed as a percentage of the size of the workforce, and second, the number of working days lost from sickness and accidents at work. These are not perfect proxies, since the sickness may not reflect work-related factors and the work accidents may or may not be the responsibility of the enterprise. Nevertheless, they are the easily understood and reasonable first approximations.

Thus, the index of work security is measured as follows:

$$\text{WS} = \text{SAFETY} + \text{ACCID}$$

where

- SAFETY = 2 if there was a safety committee and/or department,
 1 if there was an engineer or specialist dealing with safety,
 0 otherwise;
- ACCID = 1 if the number of work accidents as a proportion of the workforce was less than the mean average, 0 otherwise.

If we add the work security index to the non-discrimination index and the skill formation index, we obtain what is designated the Socially Equitable Enterprise. This had a modal value of 9 in early 1995, and a mean value of 7.2.

5. Economic Equity in Enterprises

Next, we need to incorporate economic equity. What is an economically equitable firm? It is surely one in which differences in earnings and benefits between members of it are minimised to the point where economic efficiency is not jeopardised. This can be called the Principle of Fair Inequality. One should add a Rawlsian caveat – that priority should be given to improvement of the "worst off" workers in the firm.²²

There are also dynamic efficiency reasons to favour economic equity, whatever the bargaining position of groups in an enterprise. Labour productivity depends on cooperation as well as individual effort and performance. If there are wide differences between groups in the enterprise, the more disadvantaged, or those feeling they are inequitably treated, will tend to withhold "tacit knowledge" and not commit themselves to the exchange of knowledge that contributes to dynamic efficiency.²³

To create a proxy Economic Equity Index we consider three factors, giving greatest weight to the first, since this relates to treatment of the "worst off" in the firm.

First, some workers are paid lower wages than anybody else, and there are a few who receive very low wages indeed. An economically equitable firm should have few if any workers paid a small fraction of a firm's average. So, we take the minimum payment received by the lowest paid full-time workers as the yardstick. If more than 5% received this wage then we give the firm a low score on economic equity. But that

²² J. Rawls, *A Theory of Justice* (Oxford, Oxford University Press, 1973). This relates to what Rawls called the Difference Principle.

²³ For related points, see G. Hodgson, *Economics and Institutions: A Manifesto for a Modern Institutional Economics* (Oxford, Polity Press, 1988), p.259.

does not capture any distributional factor, so we give a positive score to a firm in which the minimum payment was equal to or greater than 50% of the average wage. These two indicators are proxies for what we would like, yet with the data one can collect in large surveys they are reasonable proxies.

A second consideration is whether the average wage is equitable relative to that paid in other firms. Here we take as a proxy a sectorally relative measure, to reflect technological and market factors. The proxy is whether the average wage in the firm is greater than the industry's average. If it is, then a positive score is provided.

Finally, equity is improved if the enterprise provides benefits and entitlements that represent security against personal contingencies and that improve the stakeholders' standard of living. Since wages and incomes are only part of remuneration, we take as a proxy whether the firm provided ordinary workers with more than ten types of fringe benefit.²⁴ Thus, the Economic Equity Index is as follows:

$$EE = \text{Min/Emp} + M + \text{AW/AWM} + \text{FB}.$$

where EE is economic equity index, and where

- Min./Emp = 1 if less than 5% of workforce is paid the lowest payment,
0 otherwise;
- M = 1 if the lowest wage was greater than 50% of the firm's average,
0 otherwise;
- AW/AWM = 1 if the average wage was above the sector's average wage,
0 otherwise;
- FB = 1 if the firm paid more than ten types of identified fringe benefits,
0 otherwise.

Adding EE to HDE2 gives HDE3, or the **Socio-Economically Equitable HDE**, which in the RLFS5 had a modal value of 10 and a mean value of 8.5.

6. The Economically Democratic HDE

To be ruled by regulations alone is not freedom. There should also be voice regulation, for in the workplace, as elsewhere, the "stakeholders" who bear the greatest risk and uncertainty should be able to regulate decisions affecting labour and employment practices. What is Human Development without empowerment? This is a quandry of corporate governance for the 21st century. Can management and productive decision-making be made democratic and accountable while promoting dynamic efficiency for the benefit of all stakeholders?

Democracy must be more than casting a vote every few years. Democracy is also about institutional safeguards, and the most effective is the capacity of the vulnerable to exercise restraint on those in decision-making positions. Democracy is also about attempts to ensure cooperation in the interest of all representative groups. As some put it, successful cooperation requires "the shadow of the future", that is, mechanisms to ensure that competitive interest groups know that they have to deal with and cooperate with each other in the future.

²⁴ In another environment this might be lower, yet in eastern Europe, where it was the norm to provide numerous benefits coupled with a low money wage, a wage measure of income is misleading.

So, to complete our idea of a Human Development Enterprise we need to construct an Economic Democracy Index. This is defined in terms of five indicators:

First, we take it as axiomatic that workers' Voice is strengthened – potentially at least – by high unionisation. Having a mechanism to represent workers and employees creates the basis for dynamic efficiency. Without a trade union, there could not be the shadow of the future to concentrate the minds of managers and workers on maintaining decent, viable and efficient practices. This does not mean that unions will always behave appropriately. However, a strong representative mechanism is necessary for voice regulation. This, in the Russian case, we define as being the case if more than 50% of workers in a firm belong to a trade union, because of the traditionally very high (artificially) unionisation.

Second, democratic potential is greater if the main union is an independent one, which in means that the administration or management should *not* be members of it. Traditionally, in 'Soviet' enterprises management belonged to the union, and both managers and union representatives were subject to the commands of the Communist Party. Thus, symbolically and as an indicator of growing independence in bargaining, non-membership by management is an indicator of independent voice. Elsewhere, another indicator of independence would be more appropriate.

Third, to be meaningful there should be evidence of an operational mechanism. For this, the existence of a collective agreement between the union and employer is taken as a positive sign, even though in the Russian context in 1994-95, a collective agreement would in most cases be more formal than substantive.

Fourth, there is deemed to be more democracy if workers possess a large percentage of the firm's share, which is a feature of property form restructuring in Russia. The critical level for a positive value is taken to be 30%. Although this aspect of enterprise democracy is controversial, studies suggest that minority employee ownership is conducive to efficiency, restructuring and equity.²⁵

Ownership of a flow of income should be distinguished from ownership of property rights. For corporate governance, minority worker share ownership can be interpreted as turning workers into *outsider principals* – monitoring the performance of the agent (manager), and providing a mechanism for selecting, dismissing and replacing managers. The objection to sole existence of *insider principals* is that a coalition between managers and workers could result in short-term concerns predominating over long-term strategy. However, with share ownership, workers and managers become outsider agents as well, having interest in the long-term flow of income from shares as well as their earnings from work.

Fifth, at least in Russia, it is regarded as a positive element in enterprise democracy if the top management were elected by the workers, rather than be appointed by a Ministry or an enterprise board.

²⁵ H.A. Henzler, "The new era of Eurocapitalism", *Harvard Business Review*, July-Aug., 1992, pp.57-63; D.I. Levine and L. D'Andrea Tyson, "Participation, productivity and the firm's environment", in A. Blinder (ed.), *Paying for Productivity* (Washington, DC, Brookings Institution, 1990); Z. Acs and F. FitzRoy, "A constitution for privatising large Eastern enterprises", *Economics of Transition*, Vol.2, No.1, 1994, pp.83-94.

Sixth, economic democracy is taken to be greater if there is a profit-sharing pay system in operation, implying a sharing of risks and rewards. This is a sensitive issue, since many trade unionists have been against profit-sharing pay on the grounds that it introduces income insecurity for workers who are not involved in the decision-making and who rely on their wage income to maintain their standard of living. However, if one gives a positive value to democratic decision-making, it is appropriate to balance that by valuing mechanisms that share risks and potential benefits.

Thus, we define an Economic Democracy Index (ED), which can take a value of between 0 and 6, as follows:

$$ED = TU + IND + COLL + SH + MA + P.$$

where

TU	= 1 if more than 50% of the workforce is unionised, 0 otherwise;
IND	= 1 if the management is not in the trade union, 0 otherwise;
COLL	= 1 if there is a collective agreement, 0 otherwise;
SH	= 1 if more than 30% of the firm's shares are owned by workers and employees, 0 otherwise;
MA	= 1 if the top management is appointed by the workers, 0 otherwise;
P	= 1 if there is a profit-sharing element in the wage system, 0 otherwise.

By adding the ED index to the HDE3, we obtain the full Human Development Enterprise Index, designated as HDE4. This has a maximum possible value of 24, and if the index is supposed to identify exemplary standards, there should be a tapering in the distribution of firms, with fewer as the scores rise above the median value, and no excessive bunching of values. As it was, in 1995 the modal value was 14, and the mean value was 11.5. There were 153 firms, or 31.7%, with values below 10, and 12 firms, or 2.5%, with values above 18, with two top firms having a value of 22. One might suggest that those with scores above 18 are exemplary in the Russian industrial context.

7. Identifying the Human Development Enterprise

The attraction of the HDE index is that it should enable us to look at a firm to assess its performance in absolute terms or relative to others in the country or even within a sector, region or size category. Here, in discussing the values and patterns in Russian industry, we are concerned with identifying those enterprises performing relatively well as an HDE, relative to others operating in similar circumstances.

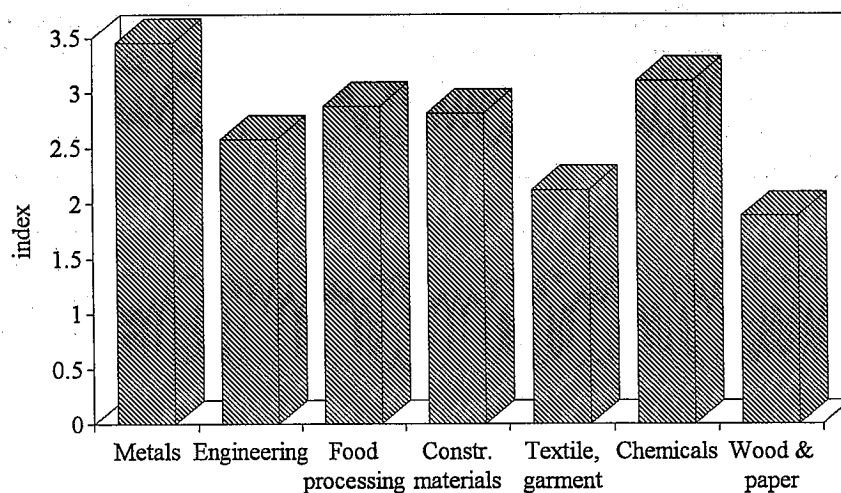
Two other preliminary points are that the way the HDE4 index is constructed, considerable weight is given to skill formation, and that there was a low correlation between the indexes for non-discrimination, social equity, economic equity and economic democracy, implying that the various dimensions measured distinctive and different phenomena (Table 8).

Table 8. Correlation Matrix of Human Development Enterprise Indexes, 1995, All Regions

	Econ. Dem. Index	Econ. Equity Index	Non-Discr. Index	HDE1	HDE2	HDE3	HDE4
Economic Democracy Index	1.00	0.27	0.28	0.48	0.54	0.56	0.80
Economic Equity Index	0.27	1.00	0.06	0.27	0.24	0.51	0.47
Non-Discriminatory Index	0.28	0.06	1.00	0.23	0.63	0.58	0.53
HDE1	0.48	0.27	0.23	1.00	0.84	0.82	0.79
HDE2	0.54	0.24	0.63	0.84	1.00	0.96	0.90
HDE3	0.56	0.51	0.58	0.82	0.96	1.00	0.94
HDE4	0.80	0.47	0.53	0.79	0.90	0.94	1.00

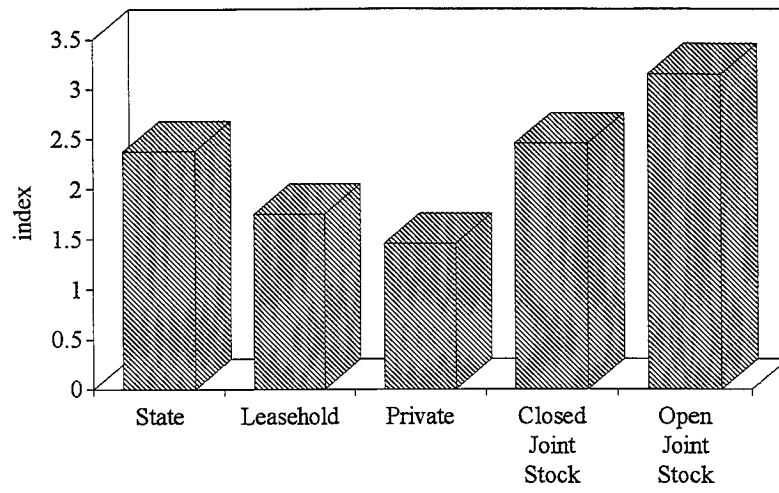
Source: RLFSS, n = 482

Turning to distributional patterns across the 482 firms in 1995, we start with HDE1. In terms of mean value, the HDE1 score was highest in the basic metals sector, was lower in private establishments than in other property forms, and was highest in large-scale firms (Figures 56-58). These could be interpreted as suggesting that policymakers should concentrate most on improving training in small-scale firms, in wood and paper products and in private firms, where orientation to skill formation was lowest. There was a need to combine property and size restructuring with a policy to promote enterprise training and retraining, to counteract an erosion that would otherwise be likely.

Figure 56. HDE1 by Industry of Establishment, 1995, All Regions

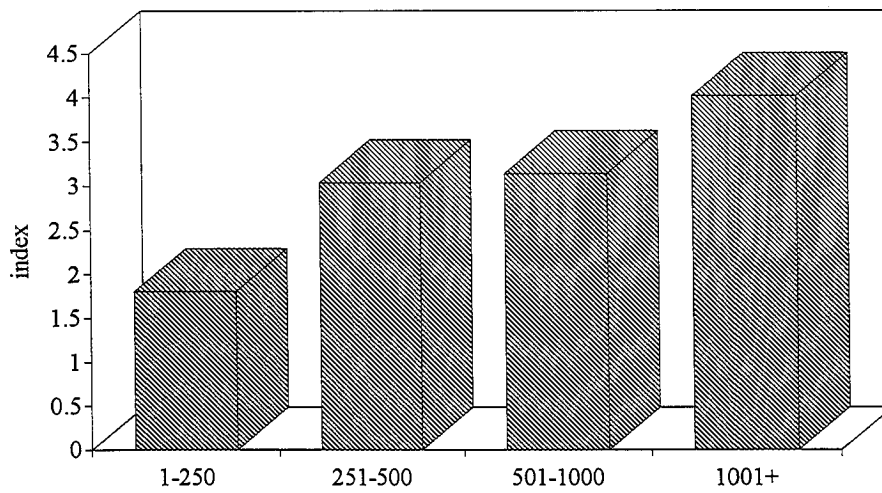
Source: RLFSS, n = 482

Figure 57. HDE1 by Property Form, 1995, All Regions



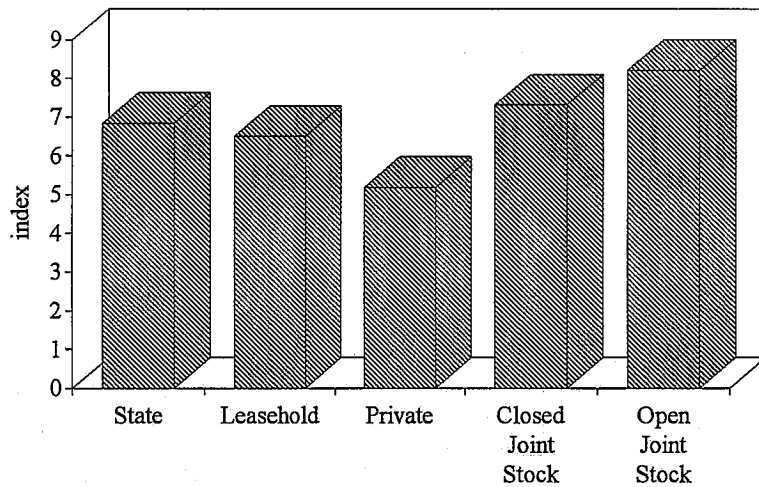
Source: RLFS5, n = 480

Figure 58. HDE1 by Employment Size of Establishment, 1995, All Regions



Source: RLFS5, n = 482

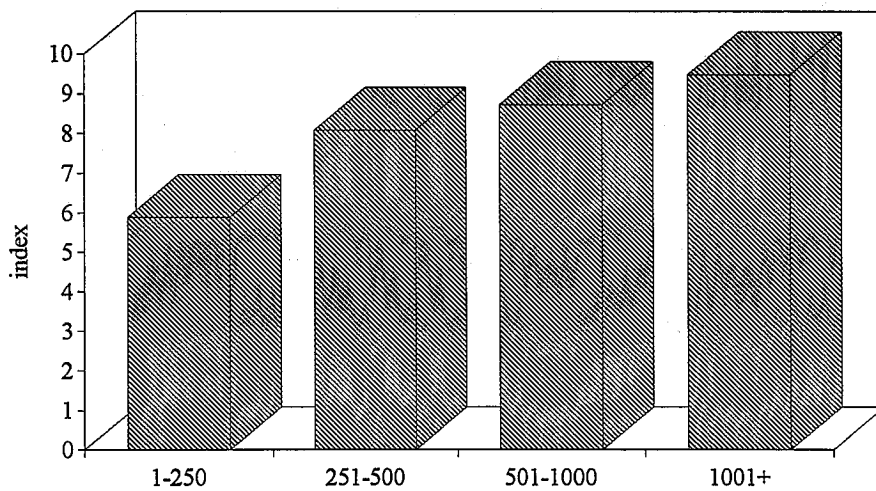
Figure 59. HDE2 by Property Form, 1995, All Regions



Source: RLFS5, n = 480

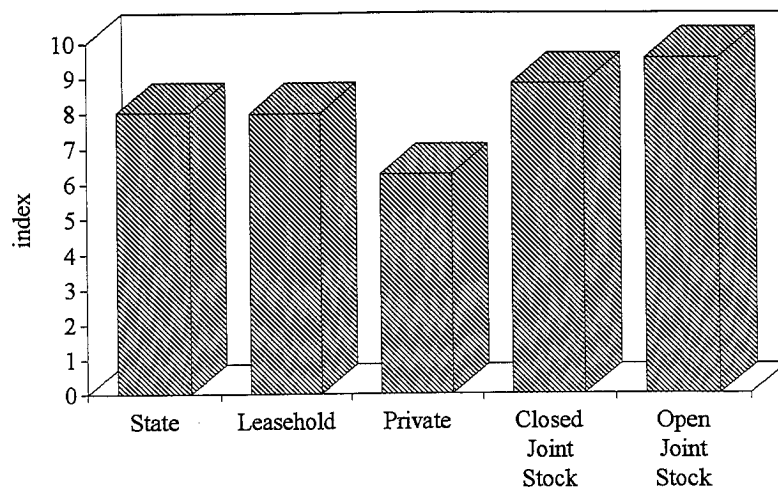
Adding the non-discrimination index and the work security index strengthens that latter concern, since private firms seemed to practise more discriminatory practices, resulting in lower average values of the HDE2 in private firms, and in smaller-scale firms (Figures 59-60). As shown earlier, private firms were much less likely than others to have any formal safety committee or department. The reasons for this should be investigated as a matter of high priority.

Figure 60. HDE2 by Employment Size of Establishment, 1995, All Regions



Source: RLFS5, n = 482

Figure 61. HDE3 by Property Form, 1995, All Regions

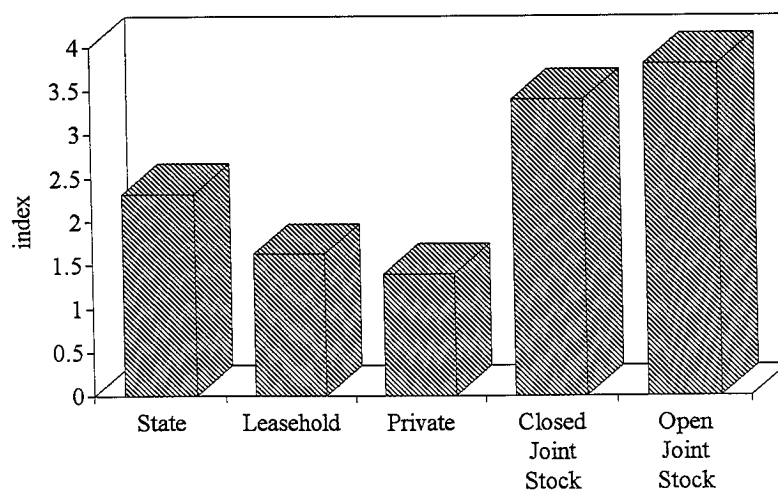


Source: RLFS5, n = 480

Adding the economic equity index strengthens the relative performance of closed joint stock firms, as would be expected. Private and open joint stock enterprises also did better than state and leasehold establishments in terms of economic equity. As a result of these differences, for HDE3, in terms of mean values, open joint stock tended to perform best (Figure 61).

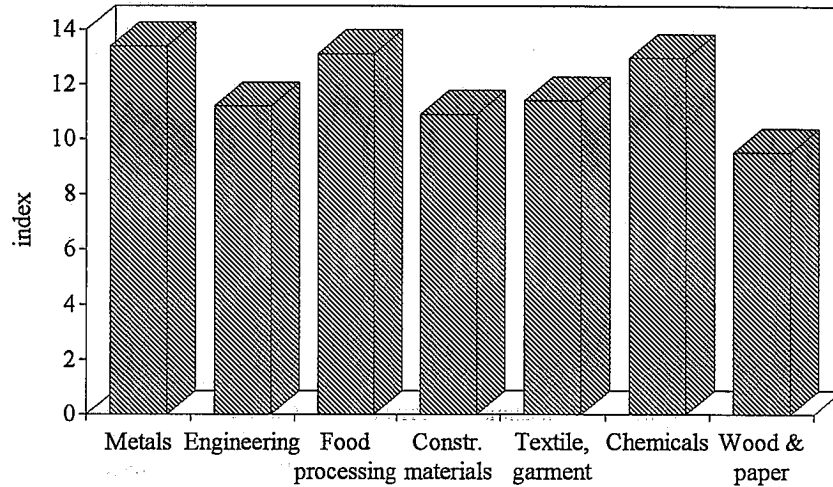
Finally, in terms of Economic Democracy, medium-sized and larger firms tended to score higher than smaller-scale firms, and open joint stock and closed joint stock enterprises scored better than other property forms (Figure 62).

Figure 62. Economic Democracy by Property Form, 1995, All Regions



Source: RLFS5, n = 480

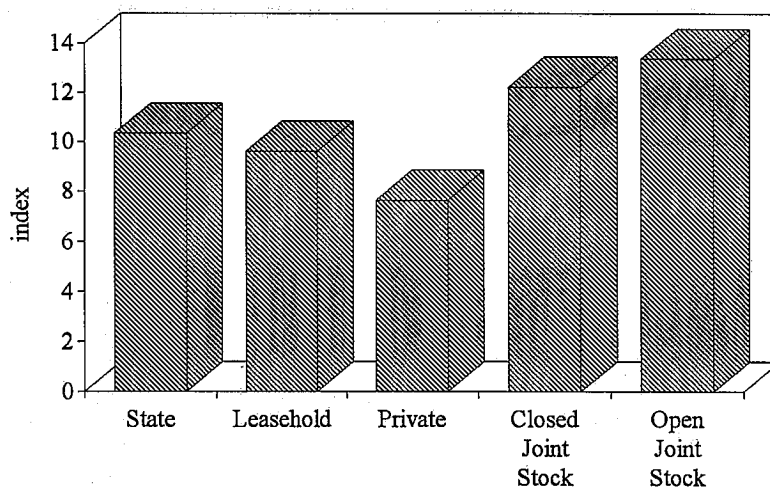
Figure 63. HDE4 by Industry of Establishment, 1995, All Regions



Source: RLFS5, n = 482

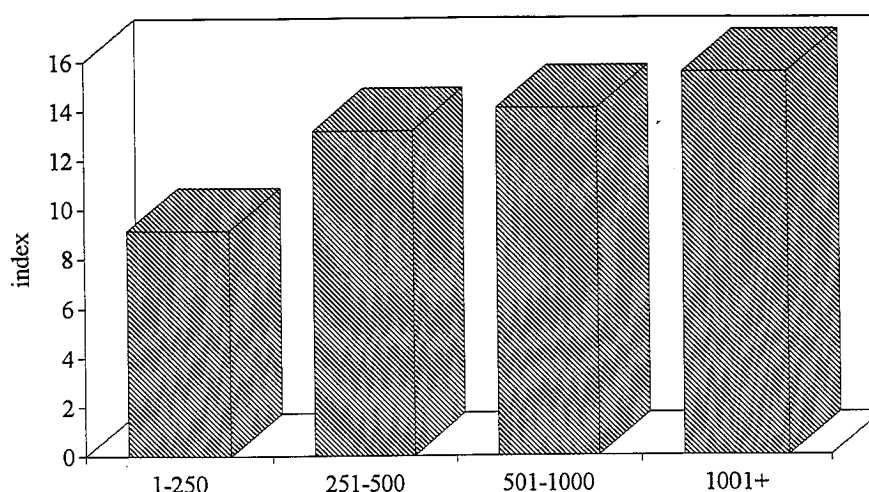
In considering the inter-enterprise pattern of HDE4, note that averages for the components may not translate into similar differences overall, since many firms that did well on some indicators did relatively poorly on others. Nevertheless, average values of HDE4 were highest in metals and food processing, in closed and open joint stock establishments and perhaps in large-scale firms (Figures 63-65).

Figure 64. HDE4 by Property Form, 1995, All Regions



Source: RLFS5, n = 480

Figure 65. HDE4 by Employment Size of Establishment, 1995, All Regions



Source: RLFS5, n = 482

To assess the structural determinants of the values of HDE1, HDE2, HDE3 and HDE4, an OLS regression function was estimated, as follows:

$$\text{HDE1..4} = a + b_1\Sigma(\text{IND}) + b_2\text{EMPSIZE} + b_3\Sigma(\text{PROP}) + b_4\Sigma(\text{REG}) + b_5\text{EMPCH} + b_6\Sigma(\text{ELECT}) + b_7\text{CHSALES} + b_8\text{UNION} + e.$$

where

$\Sigma(\text{IND})$ = binaries (1,0) for industrial sector, the omitted category being the energy sector;

EMPSIZE = employment size of establishment;

$\Sigma(\text{PROP})$ = binaries for property form of establishment, the omitted category being state establishments;

$\Sigma(\text{REG})$ = binaries for region in which establishment located, the omitted region being Moscow City;

EMPCH = percent employment change over the past year;

$\Sigma(\text{ELECT})$ = binaries for method of appointment of senior management, the omitted category being appointment by a Ministry;

CHSALES = binary, 1 if sales rose in real terms over the past year, 0 otherwise;

UNION = percent of workforce in a trade union;

e = error term.

The equation was estimated with and without the union variable, since it was included in the definition of HDE4, and with and without the variable measuring the means of appointment of top management, for the same reason. The results – available on request – suggest that *controlling for the influence of other factors*, open joint stock companies were more likely to score higher than other property forms, with private firms lowest in terms of training, that larger firms tended to have higher value of HDE and that economic performance in terms of sales change was inversely related to the value of the HDE.

Of course, the correlation between some of the explanatory variables and the HDE indexes may mix cause and effect. Indeed, we need to consider some basic correlations for more fundamental reasons.

8. Economic Performance and the HDE

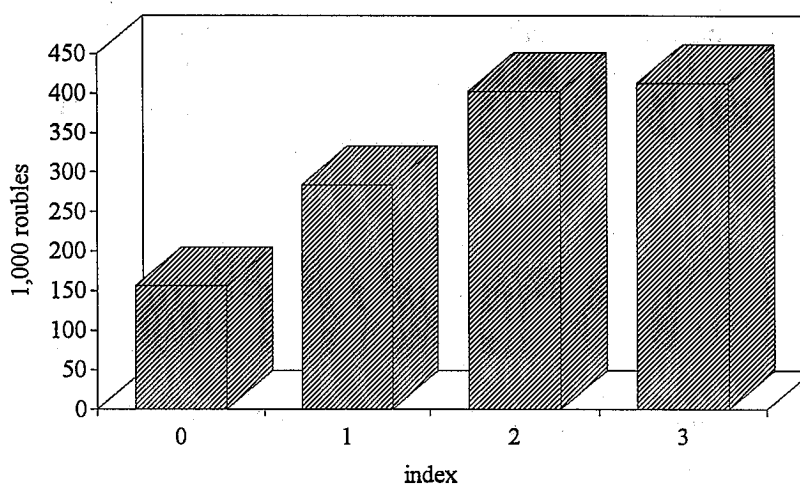
Having identified a set of HDE indexes, one potential criticism must be addressed. If high HDE score were associated with low dynamic efficiency and poor responsiveness to market forces, the long-term viability of the enterprise would be jeopardised, and the rationale for promoting an HDE would be weakened. This issue was addressed at some length in the earlier paper, and here the same issues are examined using data gathered quite independently and at a different time.

A first question relates to the effect of *trade union presence*. For instance, are unions associated with high values of HDE1 (skill formation) and HDE2 (skill formation and non-discriminatory practices)? If not, then one should raise questions about the effectiveness of unions in two crucial spheres. As it turned out, there was a positive association, albeit a weak one. Firms with higher scores of HDE1 had higher average unionisation, and this was also the case with HDE2.

Another question concerns the association of HDE indexes with the *wage level*. If high HDE were correlated with low wages, the appeal of the idea for workers would be weakened. Fortunately, in Russia, the average wage was positively correlated with the HDE1 (Figure 11). There was less correlation with HDE2. However, there was a strong positive correlation with the Economic Equity index and a moderately positive one with the Economic Democracy index, resulting in a positive association with HDE4 (Figures 66-67). Thus, from the workers' point of view the Human Development Enterprise should be regarded in a positive light for pure wage reasons as well as others.

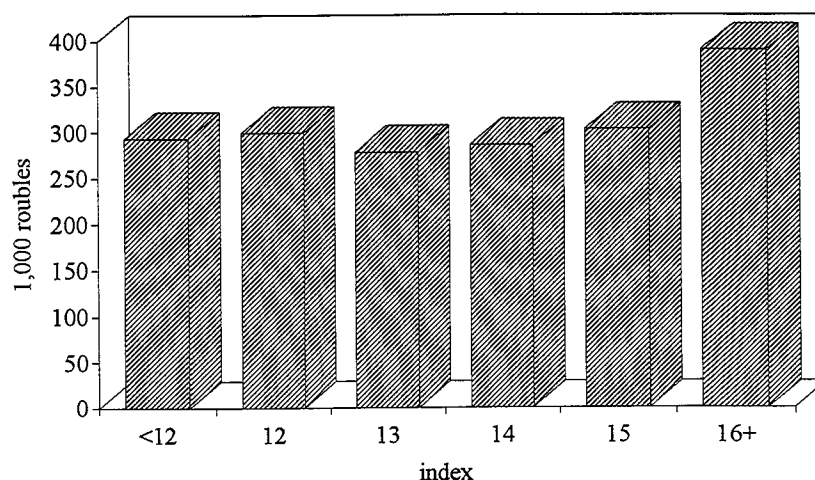
This raises a basic concern. Suppose a neo-classical – or anti-institutional – economist were shown the HDE indexes. He or she might claim that pursuit of the characteristics of an HDE would result in escalating costs, stronger internal rigidities, plunging economic performance and low responsiveness to market forces, leading to labour hoarding and so on. This is a legitimate concern.

Figure 66. Average Wages by Economic Equity indicator, 1995, All Regions



Source: RLFS5, n = 479

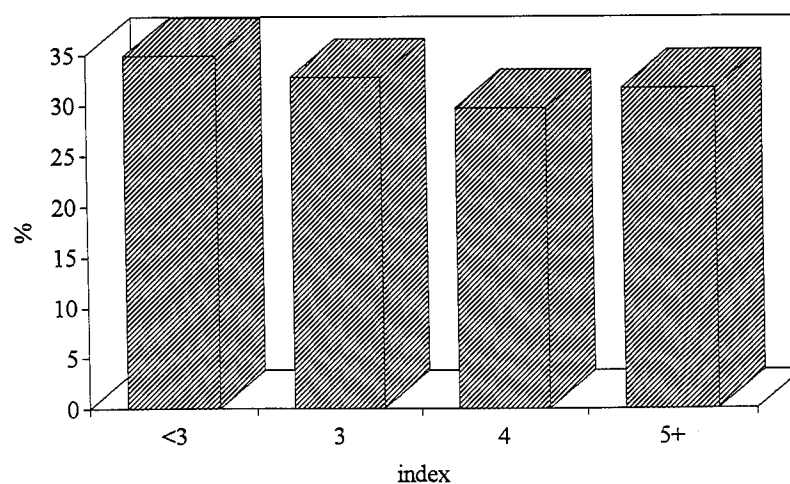
Figure 67. Average Wages, by HDE4, 1995, All Regions



Source: RLFSS, n = 479

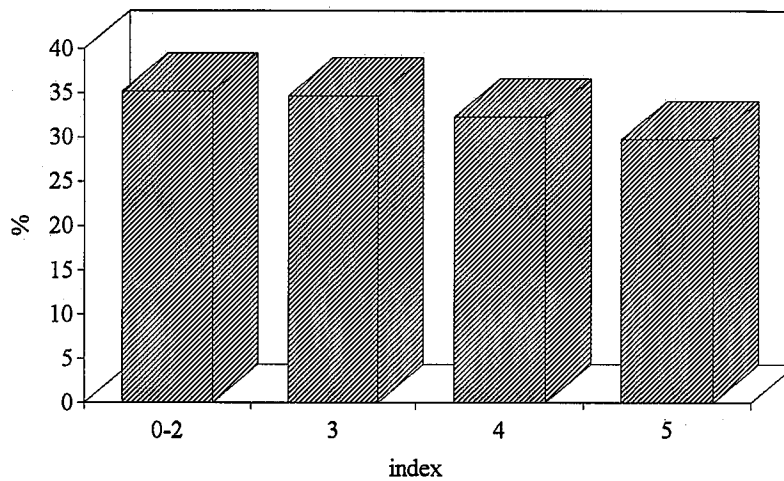
What is the evidence? First, while correlations do not demonstrate causation, it appears that *labour costs* as a share of production costs were lower in firms with high values of HDE and were lower in firms that scored high on the Economic Democracy Index, which may be the most contentious indicator in the HDE (Figures 68-71). These are encouraging results. They suggest that if a firm does well on HDE, and practises economic democracy, it has higher labour productivity. This is *prima facie* evidence against potential sceptics.

Figure 68. Labour Cost Share of Production Costs by HDE1, 1995, All Regions



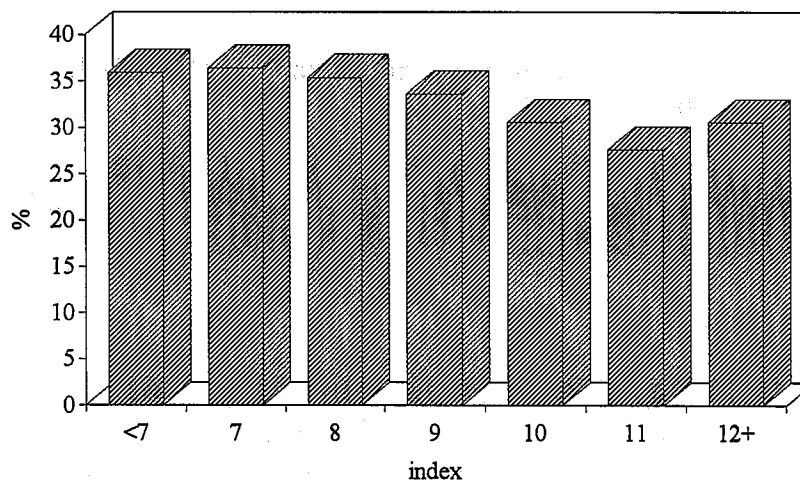
Source: RLFSS, n = 481

Figure 69. Labour Cost Share of Production Costs by Economic Democracy indicator, 1995, All Regions



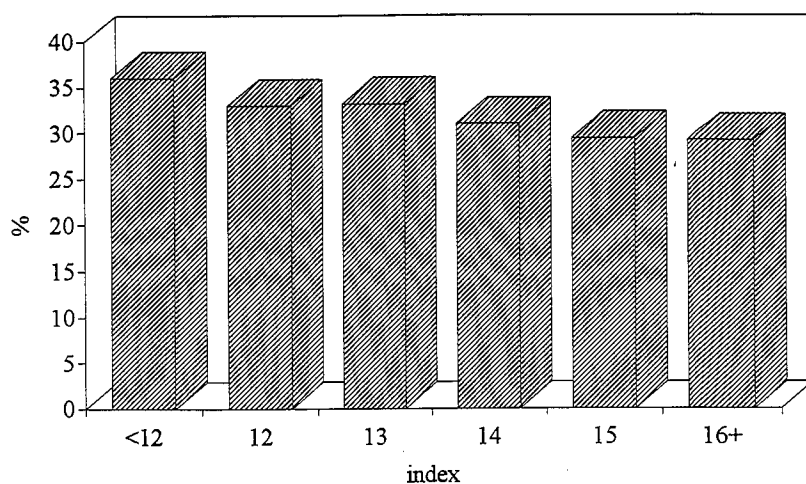
Source: RLFS5, n = 481

Figure 70. Labour Cost Share of Production Costs by HDE3, 1995, All Regions



Source: RLFS5, n = 481

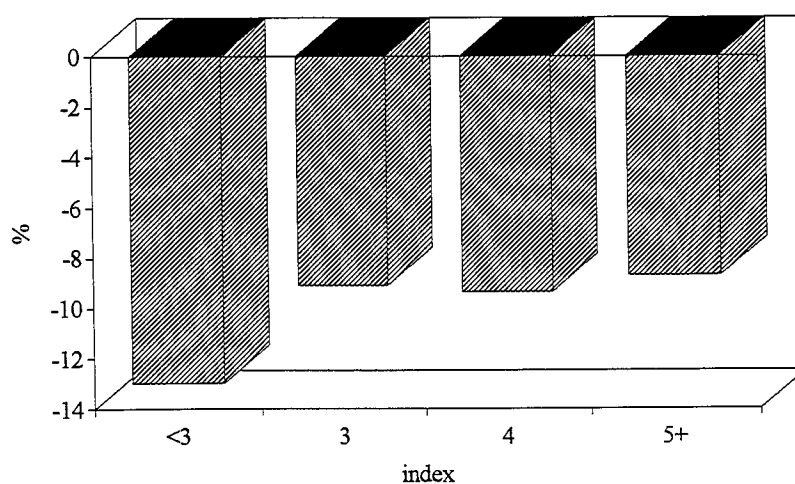
Figure 71. Labour Cost Share of Production Costs by HDE4, 1995, All Regions



Source: RLFS5, n = 481

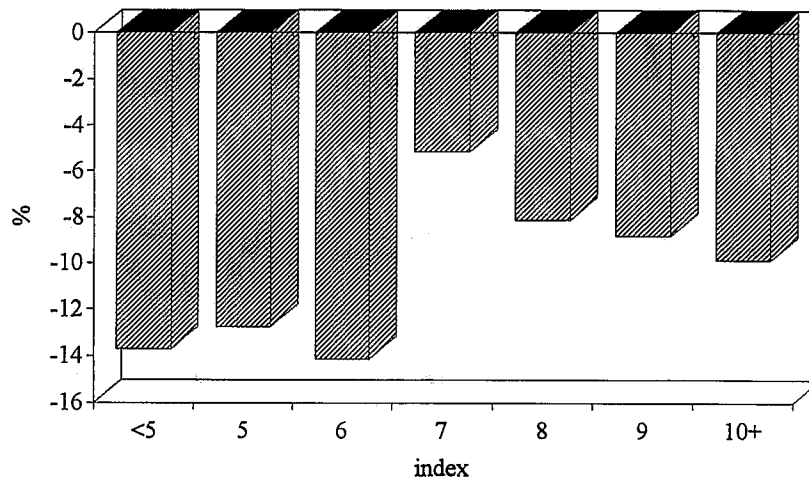
Second, since in Russia, and other parts of the former Soviet Union, it has been claimed that enterprises have not been responsive to market pressures, it might be claimed that high values of HDE would indicate resistance to change and protection of "insiders", resulting in smaller employment cuts in the face of the economic crisis. High "labour hoarding" has been attributed to persistence of a "soft budget constraint" and lack of concern over labour costs. The results are interesting. Although all forms of enterprise had cut employment by large amounts, firms with low values of any of the HDE indexes had cut it by more than those with higher values (Figures 72-75). One might interpret this as implying that firms with higher HDE values performed better in terms of employment. This is neither necessary to support our concept, nor necessarily correct. It does suggest that economic rationale is not demonstrably at variance with pursuit of relatively decent values of human development within the enterprise.

Figure 72. Percent Employment Change by HDE1, 1995, All Regions



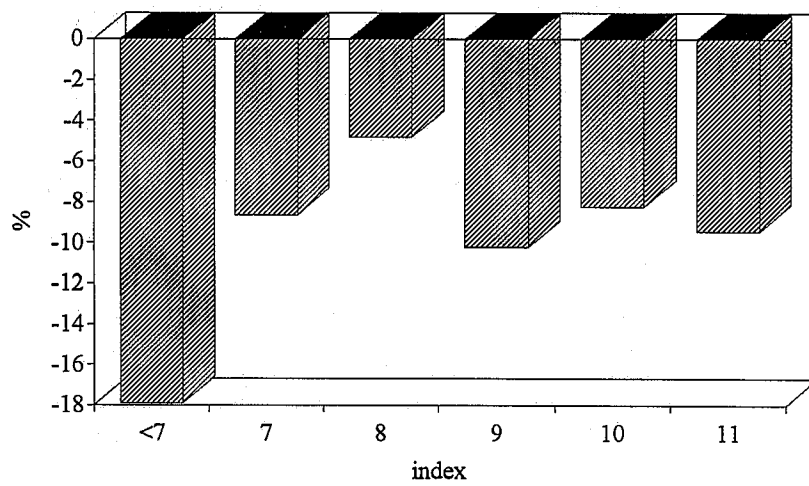
Source: RLFS5, n = 482

Figure 73. Percent Employment Change by HDE2, 1995, All Regions



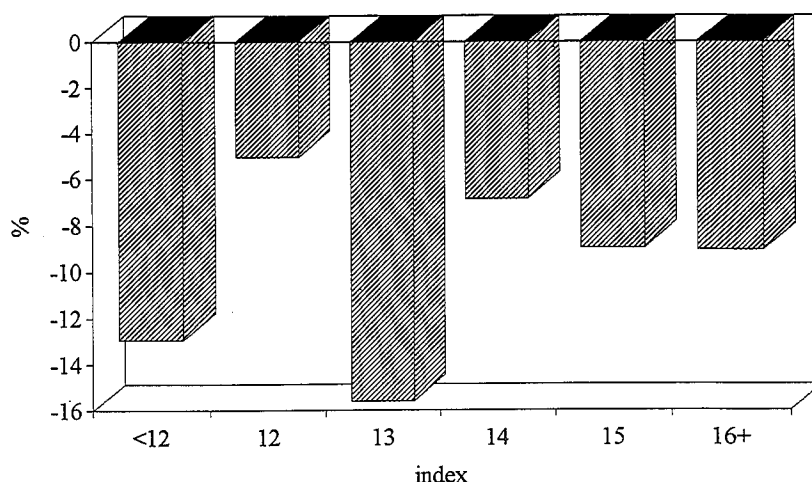
Source: RLFS5, n = 482

Figure 74. Percent Employment Change by HDE3, 1995, All Regions



Source: RLFS5, n = 482

Figure 75. Percent Employment Change by HDE4, 1995, All Regions



Source: RLFS5, n = 482

9. Conclusions

A premise of this analysis is that in Russia as elsewhere, promoting Good Enterprises is a key to a Good Society for the 21st Century. It is also implicit that enterprise restructuring is a key to structural or social adjustment. The idea of a Human Development Enterprise, defined in terms of democratic, equitable labour practices, is suited to an era in which there is, and should be, increasing emphasis on incentives to good practice rather than sanctions against bad practice. If "standards" are presented as obligatory and rigid, then even those who support them will be inclined to do so with reservation. Some would pay only scant attention to the sins of others in case their own sins, real or imaginary, be exposed to scrutiny and condemnation. Rewarding good practices and shining the light on exemplary cases would be in keeping with mature cultures.

It also corresponds to advanced management thinking, epitomised by top companies in the USA and elsewhere.²⁶ Enterprises that put the interest of their workers first appear to perform better.²⁷ One does not have to turn this into an ideological battleground. Rather one should seek ways of refining the approach to secure broadly-based consensus.

The HDE is a useful device. It could be refined, its components can be challenged and modified to take account of different points of view, and it can be adjusted to meet the specific conditions of different countries. It is an organising concept, to be used to grade enterprises by explicit criteria – principles, mechanisms and outcomes – that can be justified as desirable. That is its potential appeal.

²⁶ See, for instance, R. Waterman, *The Frontiers of Excellence: Learning from Companies that Put People First* (London, Nicholas Brealey Publishing, 1994).

²⁷ J. Pfeffer, *Competitive Advantage Through People* (Cambridge, Mass., Harvard Business School Press, 1994).