

# New Forms of Employment and Household Survival Strategies in Russia

Simon Clarke

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Economic and Social Research Council

# Working in the New Private Sector Survival in a Non-Monetary Economy The Urban Peasant: Myth or Reality? Segmentation of the Russian Labour Market

These are all topics of considerable importance for an understanding of the realities of Russian life, but most of what has been written about them has been based on unsubstantiated anecdote and hearsay. The papers in this volume report on the findings of a large-scale research project involving an integrated programme of case study and survey research in four contrasting regions of Russia, as well as a systematic review of official and other data. This provides us with the first authoritative account of the scale, dynamics and forms of new private sector employment; the sources of income of urban households; the role of subsidiary agriculture in urban subsistence and the channels of and barriers to labour mobility.

The research project was conducted by the affiliated research centres of the Institute for Comparative Labour Relations Research (ISITO), based in Moscow, and directed by Professor Simon Clarke of the Centre for Comparative Labour Studies, University of Warwick. The field research directors were Veronika Kabalina, ISITO and Institute of World Economy and International Relations, Moscow; Vadim Borisov, Director of ISITO, and the household survey was directed by Valery Yakubovich of ISITO, Warwick and Stanford Universities.



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# Acknowledgements

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The chapters of this book summarise findings which are presented at greater detail in the following papers available from the project website:

Employment in the New Private Sector

New Forms of Labour Contract and Labour Flexibility in Russia

Making ends meet in a non-monetary market economy

The Russian dacha and the myth of the urban peasant

The motivation of workers and the Russian labour market

Labour market behaviour: How do people get their jobs?

The book and the above papers are in turn based on additional papers, research reports and research materials prepared by members of the research teams. These materials, as well as the data from our surveys, can be obtained through the project website.

The research was conducted by teams headed by the following senior research staff of ISITO:

Vadim Borisov, Veronika Kabalina, Natalya Guskova, Marina Kiblitckaya, Valentina Vedeneeva, Nina Il'chenko (Moscow)

Irina Kozina, Marina Karelina, Tanya Metalina, Sergei Alashev, Irina Tartakovskaya, Pasha Romanov (Samara)

Sveta Yaroshenko, Marina Ilyina, Vladimir Ilyin, Tanya Lytkina (Syktyvkar)

Petr Bizyukov, Veronika Bizyukova, Inna Donova, Lena Varshavskaya, Kostya Burnishev, Alexei Nikishov (Kemerovo)

The research programme was directed by Simon Clarke. All aspects of the design and implementation of the household survey were directed by Valery Yakubovich of ISITO, Warwick and Stanford Universities.

Website address: [www.warwick.ac.uk/fac/soc/complabstuds/russia](http://www.warwick.ac.uk/fac/soc/complabstuds/russia)

# The restructuring of employment and the formation of a labour market in Russia

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How many people are employed in the new private sector in Russia? How rapidly has the new private sector grown since the start of reform in 1992? What contribution has the new private sector made to the creation of new jobs for young people and for those displaced from the traditional sectors of the economy? In which areas of the economy are new private enterprises most active? What provisions do they make for training their employees and what are their training needs? How do employment relations compare with the traditional sector? Are wages and working conditions better or worse than in the traditional sector? Is labour used more or less flexibly than in the old state enterprises? How do new private enterprises find and recruit appropriate staff? Do new private enterprises discriminate in hiring on the grounds of sex or age?

How are Russian households surviving the crisis of non-payment of wages, falling wage levels and tumbling employment? To what extent does hidden or secondary employment in the new private sector make up for the loss of income from other sources? What contribution does the famous dacha make to the subsistence of urban Russian households – has there really been a mass return to the land?

How has Russia gone through the deepest and most sustained recession in world history without unemployment rising above levels regarded as normal in Western Europe? How have such large wage differences persisted, despite relatively high rates of labour mobility? Is the equalisation of wages impeded by barriers to mobility or to competition in the labour market?

These are all vitally important questions for understanding the particularities, the problems and the possibilities of the Russian transition. These issues have been the subject of intense debate, but

arguments have been backed up by anecdote and assertion, not by reference to the available evidence, in part because of the paucity of such evidence. The papers in this volume represent the first attempt to provide answers to these questions on the basis of a systematic review of the available evidence and, most particularly, on the basis of analysis of the results of a large-scale household survey conducted in four Russian cities in April and May 1998. It turns out that in relation to all of the questions above, the data from the survey is entirely consistent with data from a variety of other sources and paints a reasonably clear picture of the role and characteristics of the new private sector, of the sources of household subsistence and of the channels of labour mobility.

## THE RESEARCH PROGRAMME

The survey which forms the basis of most of the analysis in this volume was conducted in April and May 1998 in Samara, Kemerovo, Syktyvkar and Moscow and was funded by the Department for International Development. This survey was part of a wider project on 'the restructuring of employment and the formation of a labour market in Russia' in the same four cities that was funded by the Economic and Social Research Council from September 1996 to December 1998, that in turn followed a smaller pilot project in Samara and Kemerovo oblasts funded by the Overseas Development Administration from September 1995 to September 1996. All of these projects have been carried out by the regional branches of the Moscow-based Institute for Comparative Labour Relations Research (ISITO) in collaboration with the Centre for Comparative Labour Studies at the University of Warwick, under the direction of Simon Clarke. All aspects of the conduct of the survey were directed by Valery Yakubovich of ISITO, Stanford and Warwick Universities.

The initial purpose of this research programme was to investigate the restructuring of employment in state and former state industrial enterprises. At the time the programme began, all the hopes of reform were pinned on the emerging new private sector while the former state sector was largely ignored, being generally regarded as a monolithic and conservative barrier to reform, the large enterprises hoarding labour and resisting any change. The starting point of our research was

the observation that very substantial employment restructuring was taking place within and between enterprises in the traditional sector of the economy, as demonstrated most obviously by a relatively high labour turnover. The aim of the project was to investigate the relationship between this employment restructuring and the development of the labour market by looking at its implications for the labour market behaviour of employers and employees both in the internal labour market of the enterprise and in the external labour market. This research was supplemented by studies of the role of labour market intermediaries in local labour markets.

The pilot stage of the research was based on case studies of eight traditional and four new private enterprises in Kemerovo and Samara, followed in the main project by much more detailed longitudinal case studies of sixteen traditional industrial enterprises in Kemerovo, Samara, Moscow and Syktyvkar, with intensive observation of two shops in each enterprise. This research included the collection of data from a wide range of sources: documentary sources; repeat interviews with managers and employees at all levels; observation in various departments of the enterprises and on the shop floor; the collection of enterprise employment statistics, which often had to be computed from enterprise personnel records; qualitative work history interviews with employees, followed by a structured work history interview survey of 800 employees. In addition, interviews and observation were conducted in local labour market intermediaries and local and national statistical data was collected and analysed. We made a special study of the collection and reporting of employment statistics from the shop-floor to the national level to enable us to evaluate the published statistical data.

The results of the first stage of this research have been published in a report of the pilot project and the results of the first stage of the main project summarised in a book (Clarke, 1998a). In addition a large number of papers and reports have been produced in Russian and English and posted on the project website as the research has progressed. These are now being prepared for final publication in the form of a series of books and research papers with the first book, on *The Formation of a Labour Market in Russia*, due for publication by Edward Elgar towards the end of 1999. Further volumes, provisionally entitled *Segmentation and Discrimination in the Russian Labour*

*Market: Gender, Age, Skill and Education and Making Ends Meet: Household Survival in a non-Monetary Market Economy* are in the final stages of preparation.

The reports published in this volume derive from the final stage of the research programme. It became clear to us that, despite the hopes pinned by reformers on the new private sector, still almost nothing was known about the scale or the forms of new private sector employment nor the role of such employment in sustaining the livelihoods of Russian households. To complete the picture of the restructuring of employment and the formation of a labour market we therefore needed to supplement our research on traditional enterprises with further research on the new private sector, which we had only touched on in the pilot stage of our research. For various reasons the best way to approach new private sector employment is through a large-scale household survey. Apart from the logistical problems of conducting such a survey in Russia, the main barrier is that of cost. Fortunately the Department for International Development was willing to finance the conduct of the survey, some of the results of which are reported here. This survey was linked to short case studies of 40 new private enterprises that we conducted prior to the design of the questionnaire. In addition, as a pilot for the main survey, we attached a supplement to the official Goskomstat Labour Force Survey. It had been intended to do this in three oblasts, but in the event it proved possible only in Komi and in Kemerovo.

Alongside and on the basis of these core projects, we have also become involved in other aspects of employment restructuring and the reform of the Russian labour market. First, our work on employment restructuring led us into research into the specific Russian phenomena of the non-payment of wages, lay-offs and short-time working. On this basis we were asked to provide research support for the ILO/ICFTU campaign on the non-payment of wages, which culminated in a major international conference in Moscow in November 1997. Second, Simon Clarke was commissioned by the Department for International Development to carry out a review of poverty in transition, which was completed in December 1997. Third, we were commissioned by the Social Reform Fund attached to the Ministry of Labour and Social Protection to provide expert advice on the revision of the Labour Code. These materials are available from our website.

We have also kept in close contact with other groups of Russian and western researchers working on the Russian labour market, and in particular the team headed by Doug Lippoldt at the OECD; Guy Standing of the ILO and his associates at the Centre for Labour Market Economics of the Institute of Economics of the Russian Academy of Sciences, headed by Tatyana Chetvernina; the Russian Economic Barometer team at the Institute of World Economy and International Relations, headed by Rostislav Kapelyushnikov and Sergei Aukutsionek; and with Zinaida Ryzhykova, Deputy Head of the Department of Labour Statistics at Goskomstat.

## DATA SOURCES

The principal data sources used in the reports in this volume are as follows:

### **Work History Survey. April 1997**

This was a survey of 800 current employees, 50 drawn from each of our sixteen case-study state and former state industrial enterprises in four cities. The sample was stratified by gender and length of tenure so that no more than ten per cent had over five years tenure. The questionnaire sought details of all jobs held and all labour market transitions since 1985 as well as information on the current work situation, secondary employment and socio-demographic characteristics of the respondent. The interviews were mostly conducted in the work place. Differential response, primarily as a result of short-time working, lay-offs and problems of accessibility mean that the sample is not representative even of the case study enterprises. Nevertheless, the survey provides more detail than other data sets and findings of the analysis of this data correspond closely with comparable findings derived from other data sets. The survey was supplemented with detailed qualitative interviews with a sub-sample of 80 respondents. We have also gathered about 300 semi-structured work history interviews with respondents gathered in the course of the case study research.

### **Goskomstat Labour Force Survey and Supplement. October 1997**

The Labour Force Survey in October 1997 interviewed all adults aged between 16 and 72 in 3300 households in Kemerovo oblast, 3402 households in Samara oblast, 5463 households in Moscow oblast and 1078 households in the Komi Republic. The main questionnaire relates to socio-demographic characteristics of the household and individual members, basic features of primary and secondary employment, temporary absence from work, status and job search of the non-employed. We attached a supplement to the Labour Force Survey in Komi and Kemerovo in which we specified the status of the enterprise in more detail for the present or previous employment, acquired indicators of administrative leave, short-time working and the non-payment of wages sought details of the last labour market transition, inserted additional questions on the secondary employment of those with no primary job, and asked about subsidiary agriculture and about household income.

### **Household Survey. April–May 1998**

The principal data source for these reports is our household survey of all adults of working age (including working pensioners) in 4,000 households in the four cities of Samara (1400), Kemerovo (1000), Syktyvkar (800) and Lyubertsy (800), a large town in Moscow oblast adjoining the Southeast of the city of Moscow. This was the first survey in Russia to make use of local computerised databases to draw a simple proportional sample of households in each city.

The survey comprised a household questionnaire which covered living conditions, household dependants, household income and expenditure, subsidiary agriculture, domestic labour, social networks and household strategy. Each adult member of the household also completed an individual questionnaire that covered education and training, the principal job (terms and conditions; labour relations, payment system, delays, features of the enterprise), the last labour market transition, secondary employment, time-budget, income, social connections and a summary work history.

On the basis of systematic feedback from interviewers through the

fieldwork co-ordinators we are confident of the reliability of this data, with some predictable exceptions: interviewers reported reluctance on the part of some respondents to admit to the existence and, correspondingly, the income from secondary employment. The household response rate was two-thirds, to give an achieved sample of just over 4,000 households, with an individual response rate within households of about 95%. Analysis of the data does not indicate any systematic bias. Eighty-seven per cent of respondents were judged by the interviewers to be completely reliable. The respondents judged more or less unreliable had a higher mean reported income, but the difference was not statistically significant.

I would like to thank all my Russian collaborators and colleagues who conducted this survey, particularly the field research directors, Marina Ilyina and Sveta Yaroshenko (ISITO, Syktyvkar), Petr Bizyukov (ISITO, Kemerovo), Irina Kozina (ISITO, Samara), Natalya Guskova and Marina Kiblitckaya (ISITO, Moscow); the overall research director of the survey, Valery Yakubovich, and all the field co-ordinators and interviewers.

Full details of the survey, are available from the project website.

### **Case study reports**

The research has produced quite detailed case study reports on the sixteen traditional industrial enterprises that were the object of the core research project and briefer case study reports on the 40 new private enterprises that were the focus of the new private sector research. In both cases, enterprises were not selected for case study on the basis of any notion of their representativity. Our aim was rather to achieve a diversified portfolio of case studies that would enable us to identify as wide a range of enterprise behaviour and environments as possible within the parameters defined at the beginning of the project. Possibilities of access were also an important consideration in selecting enterprises for case study. In the case of the traditional enterprises the intention had been to select 'problem' enterprises that were losing employees and 'prosperous' enterprises in which employment was increasing. In the event the continuing economic decline meant that even our relatively prosperous industrial enterprises faced employment decline.

The case study reports are available from the project website, and the survey data is available to interested researchers on a restricted basis on application through the website.

### **Other data sources**

#### **Russian Longitudinal Monitoring Survey.**

The Russian Longitudinal Monitoring Survey (RLMS) is a survey of a national random sample of all members of 4,000 households which has been carried out since 1992 under the auspices of the University of North Carolina at Chapel Hill, funded by the World Bank and US AID. The data is available by FTP from the University of North Carolina. The first phase, covering 1992–94, with a larger sample of 7,000 households was conducted by Goskomstat and is of a much lower quality and is not strictly comparable to the second phase, covering 1994–96, which was conducted by a group in the Institute of Sociology of the Russian Academy of Science. The principal foci of the survey are income and expenditure, health and diet, the survey having been originally commissioned in connection with the World Bank's poverty assessment, but it does include some questions on employment and the use of time and is unique in including a panel element. There is no doubt that the second phase of RLMS is technically the best all-Russian survey that is available.

#### **All-Russian Centre for the Monitoring of Public Opinion**

The All-Russian Centre for the Monitoring of Public Opinion (VTsIOM) has been conducting a bi-monthly survey of an All-Russian sample, with more detailed employment questions being asked annually or semi-annually, with a sample of between 1500 and 3000 for any one survey since March 1993, with earlier surveys going back to 1989. This is an individual survey, but the questionnaire includes questions about the income and employment of other household members. The sampling leaves something to be desired, but it has the advantage of being a very large dataset covering a relatively long period of time.

#### **Official Statistical Data**

Official data is published by Goskomstat and varies very considerably

in quality. The aggregate data that is published by Goskomstat usually includes a whole series of undocumented estimates and corrections which makes its reliability very difficult to assess. However, it also publishes disaggregated data which is more reliable and much more useful. The official methodology for the collection of a wide range of data is outlined in Goskomstat rossii, *Methodologicheskie polozheniya po statistike*, Moscow, Second edition, 1998. On the statistical reporting of small and private enterprises see Institut strategicheskogo analiza i razvitiya predprinimatel'stva, *Sistema statisticheskogo nablyudeniya za razvitiem chastnogo sektora*, Moscow, 1997.

Employment and income data is derived from two principal sources. First, from administrative reporting from medium and large enterprises, the vast majority of which are state and former state enterprises. This is supplemented by data derived from a sample survey of small enterprises and estimates for unrecorded activity. On the basis of our research into the collection and reporting of enterprise statistics we concluded that the wage and employment data reported by large and medium enterprises is reasonably accurate, but that reported by small enterprises and by new private sector enterprises has only a tenuous relation to reality.

The second data source is household surveys, particularly the labour force survey, the household budget survey and the 1994 microcensus. In principle these should be much more reliable sources than administrative reporting. Some doubts have been raised about the arcane sampling methods used by Goskomstat, but the main problem concerning the reliability of this data is that the interviewers are very poorly paid and their performance is not monitored so that the adequacy of the data depends very largely on the diligence and motivation of Goskomstat's employees. In our experience many of the latter are indeed very conscientious, but no doubt some are not. Nevertheless, whatever the weaknesses in the sampling and administration of the Goskomstat surveys, for many questions they are the only available source of data. Moreover, where it is possible to compare the Goskomstat data with that of VTsIOM and RLMS there is a reasonable degree of consistency.

## NEW FORMS OF EMPLOYMENT AND HOUSEHOLD SURVIVAL STRATEGIES IN RUSSIA

The chapters in this volume summarise the findings of the research programme as a whole in the areas that were the specific focus of our household survey conducted in April and May 1998. The chapters are shortened and revised versions of fuller reports that were presented to dissemination seminars in Moscow in December 1998 and in London in January 1999, in particular omitting much of the more detailed statistical analysis. The full reports are available from the project website.

The reports cover three related aspects of the contemporary Russian labour market. The first part is concerned with the size and character of employment in the new private sector. The second part is concerned with the components of household survival strategies. The third part is concerned with the efficiency of the Russian labour market and the channels through which people get jobs.

### **New private sector employment**

Surprising as it may seem, in view of the importance of the new private sector in the reform strategy in Russia, until our own survey no research had even attempted to estimate the scale or characteristics of new private sector employment in Russia. Both official and survey research had distinguished sectors of the economy on the basis of ownership, so that new private sector employment and employment in privatised state enterprises has been lumped together in a single category, a category dominated by the latter. Given the largely formal character of privatisation in Russia, it should not be surprising that such research has found few significant differences between ‘private’ and state-owned enterprises.

In the first chapter we look at the scale and dynamics of new private sector employment in the four cities that were the object of our research. The overall conclusion is that the extent of new private sector employment varies quite considerably even among these relatively prosperous cities. This unevenness makes it difficult to generalise our estimates to the urban population of Russia as a whole,

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but the indications are that the new private sector in the cities accounts for between 15 and 25 per cent of primary employment. Part-time and secondary employment is much more extensive in the new private sector, particularly in self-employment and in individual and family businesses, than in the traditional sector.

The data also indicates that the new private sector has grown rapidly since 1995. Some of this growth has been at the expense of employment in traditional enterprises, but there has also been significant net job creation, particularly in the spheres of trade and services. Employment in the new private sector is more unstable than that in traditional enterprises, both because of higher labour turnover and because of firm closures. High labour turnover and more rapid growth means that in the more dynamic centres the new private sector now accounts for about half the total number of new hires, which is about double its employment share.

While retail trade and services are dominated by the new private sector, particularly in the more dynamic cities, new private enterprises have made very limited headway in other branches of the economy: not only in industry, but even in transport and construction the new private sector occupies only quite a narrow niche. The implication is that even before the crisis of August 1998 the new private sector was probably reaching the limits of its expansion in terms of employment growth and that the restructuring and renovation of traditional enterprises in the 'productive sphere' has become even more urgent.

The second chapter looks more closely at the new private sector in the labour market. There are three particularly striking features of new private sector employment from this point of view. First, that hiring takes place predominantly through personal connections, with very few senior positions being filled on the open market. Second, that new private sector employers prefer to employ younger men with some work experience and with relatively high levels of skill and education compared to the demands of the job. Third, that pay in the new private sector is significantly higher than in traditional enterprises, particularly for those with relatively scarce professional qualifications or skills, although social and welfare benefits and employment stability are much less. However, there is no evidence of the emergence of a dualistic labour market in the new private sector. Although the new private sector is more heavily reliant on casual and part-time labour,

this is relatively well-paid and predominantly secondary employment rather than the labour of an under-paid marginal stratum.

We then turn to look at training in the new private sector. The case study and survey data both show that while new private sector employers want a highly trained and well-educated labour force, they do not have the incentive or the resources to provide or to pay for such training themselves. Training at the expense of the firm is provided almost exclusively for the senior managers and specialists, usually the founders and owners of the firm. Only in very rare cases is more extensive training provided, employers preferring to hire those with the requisite skills which are, in general, abundant on the labour market. New private sector employees are accordingly most likely to have received their training during a previous period of employment in a traditional enterprise or to have undertaken training at their own expense in the hope of advancing their careers.

Finally, we look at employment relations in the new private sector, reviewing the evidence regarding different contractual forms in the private and traditional sectors, the greater or lesser flexibility in the use of labour, the role of enterprise welfare benefits and the impact of economic difficulties on employment. The overall conclusion is that employment relations in new private enterprises, once we allow for differences in branch and size, are not markedly different from those in traditional enterprises. The principal difference is in the higher degree of informality of employment relations in the new private sector. Such informality does not appear to be related to greater flexibility in the deployment of labour, but it does reduce the protection accorded to the employee who is more liable to arbitrary punishment or dismissal without any possibility of remedy or appeal.

### **Household survival strategies?**

In the second part of the book we look at some aspects of the question of household survival strategies. Our main concern in these two chapters is to identify what are the means available to enable Russian households to survive. According to the available data on incomes and employment the Russian domestic economy has suffered from the double blow of an approximate halving of wages and getting for a halving of employment. The indication is that well over a third of all

Russian households have money incomes below the fairly meagre official subsistence level. Two arguments have been put forward to suggest that the situation is by no means as bleak as this data indicates: first, that there is a considerable amount of 'hidden employment' that is not reported in official or survey data, so that household incomes are much higher than estimates would suggest. Second, that Russian urban households have returned to the land and grow a large proportion of their food, so that their situation is by no means as bad as suggested by the income data.

In the first chapter in this part of the book we review that available evidence regarding hidden primary and secondary incomes and employment. The conclusion of this review is that the scale of hidden primary incomes and employment is very low and that survey-based income and employment estimates are consistent and reasonably accurate. The situation is slightly different with regard to secondary employment, which the evidence suggests is substantially under-reported in survey data. Nevertheless, while secondary employment does make a significant contribution to the money incomes of perhaps half the households in Russia's more prosperous cities, it is a possibility that is open mostly to those who are already reasonably well-placed, providing increased security for the more prosperous households by giving them a more diversified range of incomes. Thus secondary employment does not have a major impact on poverty.

In the next chapter we look in some detail at the role of domestic agriculture in the budgets of urban households. Against the widespread belief that urban households have become increasingly self-sufficient in food, we show that domestic agriculture cannot be explained as a response to shortages of money income or of limited employment opportunities: there is no relationship between household income or paid employment and the use of land. As in the case of secondary employment, those most in need have the fewest opportunities for domestic agriculture. Moreover, the data shows very clearly that for urban households the net return to working the land in money terms is close to zero. Urban households who grow their own potatoes, vegetables and fruit actually spend no less money on food, either in absolute terms or as a percentage of household income, than those who do not. Finally, our conclusion is that the use of land is not simply a cultural phenomenon, but it reflects uncertainty about the supply of

agricultural produce in local markets much more than insecurity at the level of the individual household. Regional variations in the use of the dacha are therefore closely related to the demonetisation of the regional economy, and particularly to the extent of the non-payment of wages.

In this volume we do not go in any detail into the question of how households make their decisions and deploy their resources, although preliminary analysis of our survey data indicates that the concept of a household survival strategy is triply inappropriate: the unit of decision-making is not the household, decisions are not made strategically and the objective is not survival. Comparing individual and household data it appears that there is little or no co-ordination of the employment decisions of different household members: it looks much more as though each individual makes a decision, taking what other household members do as a constraint. Comparing the different activities undertaken by individuals it also appears that the use of time cannot be explained strategically: it appears that individuals take all of the opportunities that are presented to them. Finally, relating employment decisions to income indicates that there is no tendency for people to make survival the objective of their behaviour. In short, everybody does the best they can in the circumstances in which they find themselves. The outcome is that some household prosper, some survive and some do not.

### **The closure of the labour market**

The final chapter of this book looks at the operation of the Russian labour market. In the first three years of reform in Russia the fall in employment lagged far behind the fall in output so that there was very little increase in open unemployment. At this stage there was a fear among some western advisors that labour market rigidities were impeding the development of the new private sector as 'labour hoarding' by state and former state enterprises deprived new private enterprises of the supplies of labour that they needed to expand. This was a serious misinterpretation of the situation at the time (Clarke, 1998b), not least because labour turnover remained at a relatively high rate and there was no evidence of bottlenecks in the labour market. It soon became apparent that the Russian labour market was in fact

extremely flexible, and that unemployment did not increase for the very good reason that wages had collapsed so that employers had no incentive to dispense with those who were willing to work for low or even no wages. The mystery, if mystery there was, was why people were willing to continue to go to work under such conditions. The generally accepted answer was that they stayed in their jobs because of the non-monetary rewards: housing, social and welfare services, pension entitlements and the psychological support provided by the 'labour collective'.

The latter arguments are not entirely convincing. On the one hand, following policy recommendations from foreign advisors, enterprises have been forced to divest a large part of their housing, social and welfare apparatus, without any apparent impact on labour mobility. On the other hand, while people might choose to stay at work for the sake of non-monetary benefits if there were no alternative jobs, labour mobility has remained high, even the unemployed still get jobs reasonably quickly, and pay differentials, even within the same town and the same occupation, remain extremely high. The implication is that there are plenty of opportunities for work at substantially higher wages, but those on low pay are not willing or not able to avail themselves of such opportunities. The fact that the very large pay differentials that opened up in the first two years of reform have persisted, while the young and the old have been frozen out of the labour market, indicates that perhaps the labour market does not work as well as might appear to those dazzled by its 'flexibility'.

In the final chapter we explore the phenomenon of the 'closure' of the Russian labour market, drawing on a range of survey data to show that hiring through personal connections has become increasingly prevalent since the end of the 1980s. While Russia is by no means distinctive in the use of personal connections in the job search process, what is different in Russia is that it is becoming increasingly difficult to get a job without such connections, above all in the new private sector. We explain this 'closure' of the Russian labour market partly in terms of the failure of systems of accreditation and certification to keep pace with the changing skill demands of the economy, so that employers lack reliable objective information about the qualifications of prospective employees. We also relate it to the failure of the Employment Service to shake of the legacy of its Soviet past. But it

seems that the most important basis for the closure of the labour market is the pervasiveness of informal relations in the Russian economy, both in the sense that management systems rely heavily on the commitment and loyalty of employees to their superior and in the sense of the extent of illegality that puts a premium on relations of trust.

# Employment in the new private sector

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## PRIVATISATION AND THE ROLE OF THE NEW PRIVATE SECTOR

Russia was distinguished from the other transition countries at an early stage of the reform process by the absolute priority given to privatisation and by the very rapid pace at which privatisation was accomplished. However, privatisation was given such a high priority much more for political than for economic reasons. As the leading Russian ideologues of reform have made clear (Boycko et al. 1995), it was never their intention or their expectation that privatised state enterprises would play a significant role in the economic regeneration of Russia. Privatisation was unequivocally a political measure, designed to fragment the 'directors' lobby' in preparation for a sustained assault in accordance with the strategic priority 'that every effort should be made to hit state enterprises as hard as possible' (Aslund 1993, p. 18), so as to ensure that reform was irreversible. The radicals had no real expectation that state enterprises would reform, even under the impact of privatisation.

The key to economic reform lay not so much in privatisation as in the imposition of 'hard budget constraints', backed up by stringent bankruptcy legislation. Former state enterprises would then be forced to contract, to lay off their workforces and to sell off such worthwhile assets as they had. The shattering of the state enterprises would liberate the resources and create the space within which the entrepreneurs of the new private sector could build a new Russia. The ideologues who played a key role in guiding the reform process in Russia until the crisis of August 1998 conceptualised the process of transformation in very simple terms: on the one hand, the irremediable state sector of the economy would wither away; on the other hand, the new private sector would emerge phoenix-like from the ashes of the old order.

This vision was not confined to the small group of ideologists of Russian reform. Their key role at critical stages of the reform process ensured that it was a self-fulfilling prophesy: privatisation in Russia was in this sense designed to fail. Mass privatisation led to an explosive growth of the private sector in Russia, but for the vast majority of larger enterprises privatisation amounted to little more than a change in juridical status. However, while the 'red directors' embraced privatisation with an unexpected (but unsurprising) enthusiasm and the power of their political lobby was indeed fragmented, they were able to resist all attempts to impose effective bankruptcy procedures so that, whatever the form of ownership, control remained firmly in the hands of the old management. This management was freed from any accountability, but was also deprived of the technical, financial and strategic support that had always been concentrated in the hands of the ministries. Thus, although many enterprises declined quite dramatically, very few of them died.

Only very slowly did a small number of former state enterprises fall into the hands of outsiders, usually Moscow-based banks and investment funds, sometimes acting on behalf of transnational corporations and more often concerned to strip assets and extract rents than to transform productive potential. But few people had ever expected that mass privatisation would lead to an immediate change in the practice of management. The real hopes of reformers were pinned on the new private sector, on firms in which a new and more dynamic management would carve out their own space in the market and eventually drive out or absorb the former state enterprises.

The formal character of privatisation in Russia is reflected in the results of research that has sought to identify statistically significant differences in enterprise behaviour in terms of their formal ownership, almost entirely in vain: privatised enterprises appear virtually indistinguishable from state enterprises, controlling for other relevant variables. Yet, despite the high hopes pinned on the new private sector as the driving force of reform in Russia, there has been remarkably little research into employment (or indeed anything else) in the new private sector. This is partly explained by the fact that it is much more difficult to research the new private sector than it is to research state and former state enterprises. An indeterminate number of new private enterprises are unregistered and do not participate in the system of

state statistical reporting, while the quality of the data provided by those that do report is very doubtful. The State Statistics Committee, Goskomstat, only collects information on the juridical form of the enterprise, which is not sufficient to distinguish new private from privatised enterprises. Because many new private enterprises are not registered, it is difficult to construct an adequate sampling frame on the basis of which to carry out a sample survey of enterprises in the new private sector.

Another reason for the limited amount of research on the new private sector is that, while the concept itself is reasonably clear, it is sometimes thought to be difficult to operationalise it in order to identify which enterprises fall within the new private sector. The initial growth of the new private sector was concentrated in the new spheres of economic activity: trade, catering and personal and financial services. Some new private enterprises were established literally from nothing, but many new private enterprises acquired their premises, equipment and often their staff from a state enterprise or former state enterprise, often on favourable terms by virtue of the close personal connections between the new entrepreneur and the management of the old state enterprise. In many regions it is still virtually impossible to establish a new private enterprise without the sponsorship of powerful local enterprises or organisations and without the support of the local administration. This close inter-penetration of enterprises and organisations of various property forms and of state and administrative structures makes it difficult to define unequivocally what is a new private enterprise – formally there may be no means of distinguishing a new private enterprise from a privatised state enterprise.

Nevertheless, everybody has a more or less clear understanding of what the difference is. A new private enterprise is one which has been created either *de novo* or by reassembling the assets of a former state enterprise or organisation within new management structures: the key feature in the definition of the new private enterprise is discontinuity not only in ownership and in managerial personnel but above all in management structure. Moreover, most people can usually tell the difference between a ‘new private’ and a privatised enterprise almost as soon as they walk in the door.

## THE SECTORAL DISTRIBUTION OF EMPLOYMENT IN RUSSIA

Because of the absence of a frame from which to draw a sample of new private enterprises and the element of subjective judgement that necessarily enters the definition of the new private sector, the best way to acquire reliable data on employment in the new private sector is on the basis of an individual or household survey which can identify employees of new private sector enterprises and question them about their work histories and their terms and conditions of employment. There has been a substantial number of large-scale surveys in Russia, although only a few have been devoted, in whole or in part, to questions of employment and, remarkably, none of them have sought to identify precisely the sector in which the respondents work. The periodic Labour Force Survey, conducted by the State Statistics Committee, Goskomstat, from 1993 offered respondents a list of thirteen categories of employer, but these were classified primarily by juridical form, making it impossible to distinguish between those employed in new private enterprises and those employed in privatised state enterprises. In its administrative reporting, Goskomstat uses the classification of enterprises into state enterprises and organisations, enterprises in mixed ownership (where the state retains a shareholding) and private enterprises, although the Labour Force Survey questionnaire did not even make it possible to apply this classification. Rather than refining the question, it was dropped from the 1997 Labour Force Survey, which lumped together all those working in enterprises, establishments and organisations, identifying separately only farmers, entrepreneurs, the self-employed, members of production artels and unpaid helpers in a family business.

### **Primary employment**

The officially published Goskomstat data for the sectoral distribution of employment is presented in Table 2.1. According to this data, the growth of the private sector has been dominated by the wave of privatisation between 1992 and 1994, with growth apparently being quite slow since 1994. However, this data is difficult to interpret and is of very dubious reliability.

Table 0.1: Sectoral distribution of employment. Russian Federation.  
(Goskomstat; percentages)

	1992	1993	1994	1995	1996	1997
State enterprises and organisations	68.9	53.0	44.7	42.2	42.0	42.0
Enterprises in private ownership	18.3	28.1	32.3	34.3	35.6	36.2
Social organisations	0.8	0.8	0.8	0.8	0.6	0.6
Joint ventures	0.3	0.4	0.4	0.6	0.8	0.9
Enterprises in mixed ownership	11.7	17.6	21.2	22.1	21.0	20.3

Source: Calculated from Goskomstat 1997, p. 35; Goskomstat 1998, p. 42.

A team led by Hartmut Lehmann attached a supplement to the March 1996 Goskomstat Labour Force Survey in five oblasts. Their supplement included a work history component in which respondents were asked to identify the type of ownership of each enterprise in which they had worked since 1990, using the three categories of state, privatised and new private enterprises, but the conduct of this part of the survey was reported to have been rather unsatisfactory and the results have not been published. The responses to this question are not used by Gimpelson and Lippoldt, who have conducted an analysis of private sector employment based on this data. They use instead the answers to Goskomstat's question on the juridical status of the employer, which they then group into three categories: state, semi-state and private.<sup>1</sup> Their semi-state category includes a significant number of those employed in new private enterprises, while their private category includes a significant number of those employed in privatised former state enterprises. The results of their analysis are shown in Table 2.2. The final column provides an approximate estimate of new private sector employment from their data based on our own data on the sectoral breakdown of employment by juridical status in four cities reported below.

<sup>1</sup> This leads to a lower estimate of private sector employment than that of Goskomstat, and a higher estimate of semi-state employment, because all joint-stock companies are included in the latter category. It is not clear why their estimate for state employment is also much higher than that of Goskomstat, which is supposedly derived from the same data – the explanation cannot be simply the different coverage.

*Table 0.2: Sectoral distribution of employment, Surveyed Regions, March 1996 (Labour Force Survey; percentages)*

Region	State	Semi-state	Private	New Private (re-estimate)
Chelyabinsk Oblast	38.8	35.3	25.7	23.3
Chuvash Republic	55.0	27.2	17.8	14.1
Krasnoyarsk Krai	58.9	20.0	20.9	14.6
Moscow City	57.9	18.7	23.4	18.8
Moscow Oblast	53.3	23.2	23.7	17.5

*Source: Gimpelson and Lippoldt forthcoming. Re-estimate is based on data in Table 2.4 below (see text).*

In our own surveys, in order to identify new private sector employment we asked a series of linked questions to try to discover precisely what was the status of the respondent's workplace. To cut a long story short, comparison of the answers to a series of questions made it clear that respondents were quite consistent in their answers, with very low non-response, and that the subjective assessment of the status of the enterprise provides a clear and concise way of identifying new private sector employment for future surveys. Ninety-six percent of the enterprises described as new private by respondents in our household survey had been formed since 1986 – according to our respondents, over half had been formed in the last three years. This is in marked contrast to the official data on the number of and employment in small enterprises, the growth of which has supposedly stopped in the last three years, and certainly accords much more with casual observation, which is precisely that it has been in the last three years that a professionalised retail and service sector has grown up to displace the petty trading that marked the first stage of transition. With some recoding, particularly of the small number who described their enterprise as collective or co-operative, we arrive at the following distribution of employment by sector in April 1998:

*Table 0.3: Sectoral Distribution of Primary Employment, Five Cities, April 1998, Household Survey Data.*

	Samara	Kemerovo	Lyubertsy	Moscow	Syktyvkar	Total
State	25.1	22.0	28.5	22.2	28.9	25.3
Budget	20.6	29.7	33.2	27.3	36.9	27.9
Privatised	29.6	26.7	24.8	24.7	22.5	26.6
New Private	22.0	19.2	13.3	25.5	10.3	18.4
Self-employed	2.7	2.4	0.2	0.3	1.5	1.9
N	1594	1089	407	396	868	4396

*Note: Those living in Lyubertsy were asked whether they were currently working in Lyubertsy or in Moscow. For this table the data is presented separately for the two cities.*

As can be seen from the table, the proportion of new private sector employment varies quite considerably from one city to another. It appears that self-employment is least developed in the Moscow region, but it is very difficult to draw a clear dividing line between self-employment and paid employment since many who describe themselves in one way or another as self-employed work in partnership with others, while many who say that they work in new private enterprises work in family firms or with a group of friends.

It is striking that there is little difference in the incidence of new private sector employment between Kemerovo and Samara, despite the fact that the two cities have political regimes which are about as different as they could be, with the Samara oblast administration being one of the most ardently committed to reform and that of Kemerovo one of the most committed to the bureaucratic regulation of the economy (a commitment which was in practice the case even under the previous nominally liberal Governor).<sup>2</sup> It is also striking that in Lyubertsy new private sector employment is not much more highly developed than it is in Syktyvkar, despite the fact that Lyubertsy lies on the outskirts of Moscow. These differences cannot be explained simply by differences in the structure of employment in these different

<sup>2</sup> This is not such a paradox: in every part of Russia business success depends both on the development of market activities and on access to political connections. Which is on the surface and which is in the background is as much a matter of rhetoric as of substance. The Samara oblast administration is at least as impenetrable to the outsider as is that of Kemerovo.

cities, although Syktyvkar and Lyubertsy do have a substantially higher proportion of the population working in administration and the budget sphere, because the penetration of new private enterprise into the spheres of trade and services is also substantially less in these cities. There is also no clear relationship between the extent of privatisation in each of the oblasts, as indicated by official statistics on ownership forms, and the degree of development of the new private sector. We can hypothesise that the degree of development of the market economy, and correspondingly of the new private sector, is related to the size of the city and the degree of development of the industrial sphere, but although such a hypothesis is consistent with Gimpelson and Lippoldt's labour force survey data, without a wider range of comparative data such a hypothesis remains a surmise. The data does show, however, that at least beyond the centre of Moscow, the development of the new private sector is not dramatically greater in Moscow than it is in other large industrial cities or, conversely and perhaps more optimistically, the new private sector is as successful in the more dynamic provincial cities as it is in Moscow.

The fact that we asked a series of questions makes it possible for us to identify the sectoral characteristics of the different forms of private ownership. Applying this information to other data sources enables us to make a more direct comparison of estimates of new private sector employment. The sectoral composition varies quite a lot between our four cities, so any such estimates can only be very approximate. Adjusted estimates based on the application of these figures to the Gimpelson/Lippoldt data are shown in Table 2.2 and, as can be seen, the resulting estimates are of very much the same order of magnitude as those derived from our household survey.<sup>3</sup>

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<sup>3</sup> I am grateful to Volodya Gimpelson for making the breakdown of this data available to me.

*Table 0.4: Economic sector by juridical form of enterprise, Four Cities, April 1998, Household Survey Data.*

	State	Privatised	New Private
Open and closed shareholding companies (AOZT, AOOT)	5.0	83.9	11.1
Limited liability companies (OOO, TOO)	0.2	32.7	67.0
Social and non-commercial organisations	30.0	20.0	50.0

We can also identify the methods by which our new private enterprises were formed, the distribution being shown in Table 2.5. As can be seen, only just over ten per cent had their origins in a state enterprise, three-quarters having been created by an individual or individuals.

*Table 0.5: How was your enterprise formed?*

	Percent
Formed out of a state enterprise in the course of privatisation	7
Spin-off from a state enterprise	4
Created from nothing by private individuals	74
Created as a branch of another private organisation	7
Spin-off from a private enterprise	2
Created in some other way	7

N=714

### **Secondary employment**

In addition to the sectoral distribution of people's main jobs, we can explore the sectoral distribution of secondary employment. The term secondary employment is in some respects misleading, because adults of working age who did not have a main job were twice as likely as working adults to have 'secondary' employment, and ten per cent of 'non-working' pensioners also had such employment. In our household survey, a small number of these people were effectively in full-time employment, since they worked for more than 140 hours a month in their current 'second' jobs. Adding these to the figures for declared primary employment increases the percentage employed in the new

private sector by 0.5 percentage points.<sup>4</sup> Apart from this small exception, there was no indication that primary employment was under-reported by respondents.

We only asked the relatively small number of respondents who said that they had had secondary employment in the last month about the juridical form of the enterprise in which they worked. Around two-thirds of the people who do their second job in a place of work different from their primary job do their second jobs in the new private sector, 90% of whom are self-employed or are working in individual or unregistered businesses. The absolute number of those indicating that they had no first job, but who in fact worked more or less full-time in their second job is rather small, but the sectoral distribution of employment is pretty well the same as that of all those in secondary employment.

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<sup>4</sup> Most surveys, including all those of Goskomstat, only ask those who say that they have a job about their secondary employment. For many people in Russia, their job is the place at which they are registered as employed. Those who are involved in unregistered employment, particularly if self-employed, will typically reply that they do not have a main job or regular employment. This is not an attempt at deception, merely a result of the traditional understanding of employment status.

*Table 0.6. Sectoral Distribution of Secondary Employment, Four Cities, April 1998, Household Survey Data. Those working in second jobs that are not in the same enterprise as first jobs.*

	Percent	Frequency	Samara	Kem- erovo	Lyub- ertsy	Sykty -vkar
State enterprise or organisation	21	89	11	33	27	28
Open and closed shareholding companies (AOZT, AOOT)	9	38	11	7	6	9
Limited liability companies (OOO, TOO)	10	42	7	10	15	12
Social and non-commercial organisations	1	3	1	0	3	0
Individual or family business	11	45	12	12	10	7
Entrepreneur without juridical status	3	11	3	24	2	4
Unregistered entrepreneur	21	88	28	14	15	16
Work for private individual(s)	25	106	28	22	22	25
Total	100	422	191	95	67	69

There is no doubt that respondents under-reported their secondary employment in the survey. On the basis of a review of the data, a reasonable estimate is that those working in officially registered second jobs reported fairly accurately, but around half of those who were working in unregistered second jobs did not report the fact. Since secondary employment is predominantly in the new private sector, this has a significant impact on an assessment of new private sector employment, as is shown in the following two tables.

The first table shows the distribution of total full-time, part-time and secondary employment, the second table the distribution of employment in full-time equivalents, in both cases corrected to allow for the under-reporting of unregistered employment. The number of part-time employees and their hours worked are based on the numbers who said that they had had secondary employment in the previous month, so that this is a cross-sectional picture at any point in time.

*Table 0.7: Distribution of full-time and part-time employment, corrected to allow for under-reporting of unregistered employment.*

	Traditional	New Private	Self Employment
Number of full-time employees	3293	768	71
Number of part-time employees	162	126	40
Number in second jobs	228	195	70
Total employment	3683	1089	181
Percentage of employment that is part-time	11	30	61
Percentage of full-time employment by sector	80	19	2
Percentage of part-time employment by sector	48	39	14

From this table it can be seen that almost a third of those working in the new private sector are working part-time, almost two-thirds of whom are working in second jobs. Around two-thirds of those working part-time or in second jobs in the new private sector are employed on a casual basis, without any form of contract of employment, the majority of whom are working in individual or family businesses, while most of those working part-time or in second jobs in traditional enterprises are formally registered employees. It is clear from this table that the new private sector has become the predominant outlet for those seeking part-time or secondary employment.

We can make an estimate of the distribution of total employment in full-time equivalents, including those who have secondary but no primary employment, if we project from the answers of those who did respond to the questions on secondary employment, adjusting the data for hours worked and inflating the figures for all those who were not working in the same enterprise as their main job by 2.5 times to make a fairly generous allowance for non-response. The result is shown in the table below:

*Table 0.8: Sectoral Distribution of Total Employment in full-time equivalents, adjusted for non-response. Household Survey*

	Percent
State enterprise or organisation	23.4
Budget sector	26.9
Privatised enterprise	24.9

New private enterprise	20.6
Self-employed	4.3
<u>N</u>	<u>4937</u>

As can be seen, the addition of secondary employment leads to a significant increase in the estimate of the scale of new private sector employment, increasing the share of employment in a new private enterprise and self-employment by two per cent each. In terms of the distribution of new private sector employment, the increase is almost entirely in unregistered, individual and family businesses, where the dividing line between self-employment and waged employment is very imprecise.

## JOB CREATION IN THE NEW PRIVATE SECTOR

It is clear from our survey data that the scale of the development of new private sector employment varies quite considerably from one city to another. In large and relatively prosperous industrial cities, such as Moscow, Samara and Kemerovo, it would appear that the new private sector and self-employment together account for between 25 and 30% of total employment (including casual employment, multiple job holding and so on), while in the smaller cities, which have a higher proportion of the labour force employed in administration and the budget sphere, the new private sector accounts for more like 15 to 20% of total employment. Unfortunately there is no consistent relationship between the Goskomstat data on the sectoral and branch distribution of employment in our target cities and the findings of our own survey, so it is not possible to use other available data to provide more than a very tentative generalisation of our results to the all-Russian scale: we can estimate that perhaps 15% of total employment across Russia is in the new private sector. However, such a generalisation has little analytical value since it obscures the diversity of conditions between different regions and different types of population centre.

Our data is sufficient to indicate that the new private sector has made quite a substantial contribution to job creation in compensation for the decline in jobs provided by state and former state enterprises and organisations. If we assume as a very rough estimate that 15-20% of

all employment is in the new private sector, the implication would be, on the basis of the October 1997 Labour Force Survey data, that the new private sector has created something like 9-12 million jobs to make up for a gross loss of around 25-28 million jobs from the state and former state sector since 1990 (not allowing for around 4 million people laid off or on short-time), so it is reasonable to guess that between one-third and one-half of the jobs lost by the latter have been compensated by the creation of jobs by the new private sector. However, we have to distinguish between the creation of additional jobs and the substitution of private sector for public sector jobs: if new private enterprises simply replace former state enterprises, as has been the case with the bulk of privatisation, then there will be no net job creation. Indeed, if it was the case that the state enterprises were overstaffed, the result of more dynamic private sector growth might be a greater net loss of jobs.

We can get some indication of the scale of net job creation by looking at changes in the distribution of employment between branches of the economy, although this is very difficult to identify because of changes in coverage and classification. Comparing the 1997 Labour Force Survey data with the data for the last year in which the system of administrative reporting had some credibility it appears that employment in trade and financial services increased from about 6.3 million in 1990 to about 8.3 million in 1997, against a fall in total employment from 75 million in 1990 to 60 million in 1997. This is a significant, but much more modest, contribution to net job creation. In fact it is a bit less than the increase in employment in state administration over this period, according to the same figures, although a significant part of the latter can no doubt be accounted for by the transfer of assets and responsibilities from enterprises and organisations to municipal authorities.

We can get a bit more of an indication of the dynamics of new private sector employment by looking at the data derived from the work history section of our questionnaires, where we asked people to characterise their enterprise as state, privatised or new private. These questions also applied to those not now working, including pensioners who had stopped work since 1993. The trend is more or less the same in each city, bringing us forcefully a point that was made in the last section, that the new private sector has been growing rapidly since

1994: rather more rapidly than in the supposed heyday of reform.

*Table 0.9: Sectoral distribution of employment, 1<sup>st</sup> January each year. Work history data from household survey.*

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Traditional	98.6	98.2	97.4	96.1	95.0	93.7	91.3	89.1	86.6	84.0	80.6
New Private	1.0	1.2	1.9	2.9	3.9	5.1	6.9	8.8	10.7	12.9	15.7
Self Employed	0.4	0.6	0.8	1.0	1.1	1.3	1.8	2.1	2.7	3.1	3.6
N	4165	4254	4368	4449	4547	4620	4686	4642	4589	4481	4398

Although the new private sector may not have made a very large impact on net job creation in the face of the collapse of the traditional sectors of the economy, the rapid growth of the new private sector (and the relatively more rapid turnover of labour in that sector) means that it accounts for a disproportionate number of new hires, accounting for over a third of all new hires since 1994. This is an exaggerated indicator of the contribution of the new private sector to net job creation, because it also has a disproportionate number of quits. However, according to the data of our work history survey, the labour market is increasingly dominated by the activity of new private enterprises.

*Table 0.10: Percentage of new hires and quits accounted for by new private sector and self-employment each year. Work history data from household survey.*

Percentage of	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
employment	1	2	3	4	5	6	9	11	13	16	20
hires	5	10	15	16	19	26	25	31	36	42	38
quits	1	4	4	8	11	12	11	17	20	24	29
N	4165	4254	4368	4449	4547	4620	4686	4642	4589	4481	4398

A final important question in relation to job creation is that of the extent to which the new private sector is attracting people from existing jobs in traditional enterprises and organisations, as opposed to providing jobs for new entrants to the labour market or for those who have been displaced by economic change. The evidence of our case studies and of work history surveys is pretty clear, and confirms the findings of studies in all the transition countries, that new private sector employers are most interested in employing those with skills and experience and so in attracting the best workers from the state and former state sector, while they are not keen to hire new entrants. This

is shown by the significantly greater likelihood of new private sector than other employers hiring people directly from a previous job, two-thirds of all hires in the new private sector in our work history data involving direct job-to-job transitions, as opposed to hiring new entrants to the labour market or even those who have taken a break to study or for maternity leave. New private sector employers are three times as likely as traditional enterprises to hire new employees from other enterprises in the new private sector, which accounts for one-third of all new private sector hires, but this may simply be a reflection of the branches of the economy occupied by the new private sector rather than of any prejudice against hiring from state or former state enterprises.

## CHARACTERISTICS OF NEW PRIVATE ENTERPRISES

We would expect new private enterprises to be concentrated in the new branches of the economy, particularly trade and services, and we would expect them to be relatively small because most will still be at an early stage in their life-cycle.<sup>5</sup> This is indeed the case: according to our household survey data, over two-thirds of all new private sector employment in all four cities is in various forms of trade and services, against only 16% of employment in traditional enterprises in these spheres.<sup>6</sup> If we weight the individual data by the reported size of the enterprise about three quarters of all the active new private enterprises are in the sphere of trade and services. The sphere of trade and catering is dominated by new private enterprises, which account for two-thirds of employment in this branch. The new private sector accounts for one-third of employment in services, 20% in

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<sup>5</sup> Our case studies indicated that the majority of new private enterprises are not oriented to growth, except to the extent that growth is necessary to stabilise their position in the market. This may be partly a reflection of the formidable barriers that they face if they do try to grow. The tax system, which gives substantial advantages to small enterprises, also strongly discourages employment growth as enterprises keep their permanent staff below the tax threshold and rely on casual and unregistered labour for any additional needs. See also Westhead and Batstone 1998.

<sup>6</sup> Unless otherwise stated, we include self-employment within the category of new private sector employment.

construction, but only 10% in industry and transport.<sup>7</sup>

If we examine the breakdown of employment in the new private sector by branch of the economy in more detail we find that well over half the industrial employment is in the light industrial or domestic production of consumer products. We also find that the overwhelming majority of new private enterprises are directly serving the consumer market, with very little new private sector activity in basic or

*Table 0.11: Distribution of New Private Sector Employment by Branch and Size. Household survey data.*

	State/privatised	New private	Total
Industry	31	14	28
Construction	6	7	6
Transport	10	5	9
Trade, catering and repairs	11	55	20
Financial, personal and business services	3	9	4
Public administration, community and social services	40	10	34
<hr/>			
Number of employees (excluding self-employed)			
Fewer than 5	0.7	21.0	4.8
5 to 10	2.0	17.9	5.2
11 to 50	14.5	29.0	17.5
51 to 100	45.2	24.6	41.0
101 to 500	20.4	4.9	17.3
Over 500	17.2	2.6	14.2

intermediate industry. As can be seen from Table 2.11, new private enterprises are also much smaller than state and former state enterprises.

<sup>7</sup> Because our survey is of the population of large cities we have included agricultural activities within the category of industry. Seven of those employed in new private enterprises are involved in agricultural activities, three of whom are raising livestock, two growing vegetables.

## CONCLUSION

The new private sector, including self-employment, has grown rapidly over the past three years, so that it now accounts for between 15 and 30 per cent of total employment in Russia's cities, while in the larger cities it accounts for the majority of new hires. It also accounts for the majority of part-time and secondary employment. The new private sector has made a significant contribution to net job creation and now plays a very important role in the labour market.

On the other hand, new private enterprises remain predominantly small and are largely confined to the spheres of trade, catering and services, which they dominate, with very little penetration of industry, construction or transport and communications. The indication is that they are also fairly unstable, marked by a high rate of job and labour turnover. It may therefore be that the new private sector was already approaching the limits of its transformative capacity even before the crisis of August 1998 struck.

# The new private sector in the labour market

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## CHARACTERISTICS OF THOSE WORKING IN THE NEW PRIVATE SECTOR

We can identify the salient characteristics of those working in the new private sector from our survey data, which we can supplement with data from our new private enterprise case studies about the hiring preferences of new private employers.

Table 3.1 shows the main characteristics of new private sector employment against employment in traditional enterprises. At first sight, the contrasts are striking: the labour force tends to be much younger, with a substantially higher proportion of men. The new private enterprises also employ many more managers and service personnel and fewer specialists and technical personnel than traditional enterprises. Interestingly, the educational level of new private sector employees is, on average, little different from that of traditional enterprises.

However, we should not read too much into this data regarding the characteristics of the labour force because new private enterprises differ markedly from traditional enterprises in their size, their branch characteristics and also, for obvious reasons, their age. This makes it difficult to identify with confidence the extent to which differences in employment in new private enterprises derive from their property form rather than from other enterprise characteristics. We therefore have to take great care to control adequately for these other factors in reviewing employment in the new private sector.

*Table 0.1: Main Characteristics of New Private Sector Employment. (Household Survey data, Four cities).*

	Traditional	New private	Total
Managers	6	12	7
Specialists and professionals	21	13	19
Technical, junior specialists, upper non-manual	20	14	19
Clerical/sales/service	9	26	12
Skilled manual	26	24	25
Semi-skilled and unskilled manual	18	10	17
Men	44	57	46
Women	56	43	54
Under 24	9	16	10
25 to 29	10	18	12
30 to 39	24	30	25
40 to 54	42	31	40
Over 54	15	4	13
Less than Secondary Education	8	5	8
Secondary	22	23	22
Secondary Special	41	40	41
Incomplete Higher	3	6	4
Higher	27	25	27
N	3466	881	4347

In fact, when we run a logistic regression controlling for enterprise size, branch and city and looking only at those employees appointed to their posts since 1990 we find that the differences between new private and traditional enterprises are much less striking, a large part of the difference in the occupational and demographic characteristics of the labour force being accounted for by the different occupational structure of different branches and the fact that new private sector employees have all been appointed relatively recently. New private sector enterprises are still much more likely than traditional enterprises to employ men, and employ relatively fewer workers and relatively more prime age adults, but even some of this difference might be accounted for by finer differences in the sectoral characteristics of traditional and new private sector enterprises. For example, if we take

the 545 individuals working in trade, catering and repairs, which account for well over half of all new private sector employment, we find no statistically significant differences in the characteristics of the labour force in new private and traditional enterprises.

We can also use our work history data to identify differences in recruitment to new and traditional enterprises by age, education and sex, although we are not able to control for enterprise size, branch and occupation in this case. According to this data, since 1990 people in the age range 25 to 40 have been significantly more likely than those older and younger to have taken jobs in new private enterprises. On this data, men were also somewhat more likely than women to have got jobs in the new private sector, although there was no difference among the under-25s.

## EMPLOYMENT STRATEGIES IN THE NEW PRIVATE SECTOR

The tentative findings from our survey data are confirmed by analysis of data from our case studies of new private enterprises which indicated that, other things being equal, employers prefer to employ younger men with higher levels of education. This is not a preference unique to new private employers: our research in state and former state enterprises came up with a very similar finding, but on the whole new private employers have much greater choice and so are more able to realise their preferences.

In interviews, the overwhelming majority of new private employers initially said that they had no particular preference regarding the sex of their employees. However, they began to introduce reservations once economic factors were brought into consideration. An owner of a recently created firm put it thus:

A small organisation cannot allow itself large overheads. It demands flexibility of its employees. In many cases they must know how to drive an automobile. Plus a flexible working day. In other words, we need completely flexible employees. And when I tell a woman about the work and I hear: 'Oh, that's a long way to travel' that already rules her out.

It was clear that many employers preferred to hire a man to a woman. The following is a typical view expressed by the owner of another

private firm:

I cannot allow myself to take on a woman who will decide to have a child in the next three or four years because this is the period of professional adaptation. Well, if the woman goes off on maternity leave, she has to begin at the beginning and my money will have been spent for nothing.

Employers also tend to consider that young men are more mobile and more ambitious than young women.

The most frequent demands in selecting new employees concerned their age and education: whatever the job, employers want to take on people under 35 with higher education, despite the fact that it is well-known that the turnover of young people is much higher. The compensation for employers is that they think that young people without family obligations will be likely to work more intensively, including in the evenings and at weekends, and will show more initiative. Many employers also said that they preferred to take on people who were young enough not to have been socialised into the old work ethic, so that they could turn them into employees suitable for work in the new private sector. Several employers felt that young people who were ambitious to make a career were ready to work harder for lower pay. However, employers also complained that many young people are not willing to work hard, that they have little motivation to work and lack honesty. For this reason, many new employers looked for people closer to 30 years old, by which time they had 'become more mature', rather than younger people 'who do not value a job'. The predominance of hiring through personal connections that is a feature of the new private sector means that quite often the social characteristics of employees are very similar to those of the employer since they are drawn from the latter's social circle.

Employers prefer to hire people with higher education even for low-skilled positions. This is probably why we find no significant difference in the educational level of employees in the new private and traditional sectors, despite the fact that most jobs in the new private sector do not require a high level of skill. In our case study enterprises in retail trade it was rare to find an employee without at least middle special education and sometimes even the ordinary sales staff had higher education. Employers gave two reasons for their preference for more highly educated employees. First, the over-supply of people with higher education on the labour market. Second, their greater

adaptability and their ability to learn quickly. New private employers particularly need people who are willing and able to learn, or even to teach themselves on the job because they are working in new areas where there are few people with appropriate skills and few opportunities for people to undertake appropriate vocational training. Educational qualifications are therefore used by new private employers not primarily as evidence of technical skills but rather as indicators of more imponderable qualities such as motivation, attitude to work, a wide range of interests, openness to the new and ability to adapt.

With the collapse of the traditional sectors of the economy, new private employers are able to pick and choose their employees, with highly skilled and experienced workers in almost every trade and profession eager to find a secure and reasonably paid job. Some employers remarked that they were perfectly happy to hire people with inappropriate qualifications because such people were often only too glad to have a job so that they were much less demanding with regard to pay and working conditions. Those with the requisite professional qualifications, by contrast, tend to be more ambitious and to demand levels of pay appropriate to their qualifications. Unless such people are indispensable to the firm, new private employers prefer to let them go.

## LABOUR TURNOVER IN THE NEW PRIVATE SECTOR

Our work history data indicates that labour turnover in the new private sector is significantly higher than in traditional enterprises, even controlling for the age, gender and educational characteristics of the labour force (Bizyukov 1999). According to our work history data, the quit rate for our respondents working in new private enterprises is on average over twice as high as that of those working in traditional enterprises. This is partly because new private enterprises themselves are more unstable, with new private sector employees substantially more likely to lose their jobs as a result of the closure of the enterprise, but it is also because many new private sector employers appear to have lost the Soviet preference for employment stability and fear of high labour turnover.

There are several reasons why new private sector employers view high labour turnover with equanimity. First, there is plenty of skilled and experienced labour available on the labour market, so that most employees who leave can be replaced without difficulty. Second, many occupations in the new private sector require little skill or experience, so that newly hired employees can quickly slot into place and work effectively. Third, many employees are hired on probationary terms at reduced rates, usually for at least the first six months, so that newly hired workers are relatively cheaper than those who have moved on to more secure terms. Fourth, as one enterprise director commented, 'you care about turnover when there is a collective': if the labour force is fragmented, as is often the case in trade and services, there is no advantage to developing a collectivist ethic. Finally, some employers consider that high labour turnover with the use of probation provides a very effective form of personal selection: an employee who stays even if pay and working conditions are relatively poor has displayed a commendable level of loyalty. Those who prove themselves to be loyal and effective employees can always be given better terms and conditions to induce them to stay. Thus high labour turnover is used as a positive instrument of employment policy in many new private sector enterprises.

This does not mean that new private enterprises do not try to hold on to desirable employees. Although very few have anything that could be called a human resource management strategy, employers commonly tailor the terms and conditions of work to selected individual employees in order to secure their commitment. This might simply involve paying higher wages to highly valued individuals, or it might involve a modern form of the traditional enterprise paternalism through the provision of benefits such as participation in profits, the provision of loans for the purchase of housing, subsidised transport, medical insurance or payment for children's education. Sometimes it involves a relaxation of labour discipline, as in one case in which a key employee was allowed to work flexible hours because he had two other jobs. In practice, a coherent but diversified employment strategy arises out of such an ad hoc approach to personnel management.

Most of those leaving new private enterprises, just as in the case of traditional enterprises, do so voluntarily, although this may often be as a result of dissatisfaction with working conditions or of conflicts with

management over the terms and conditions of employment. New private enterprises tend to have a much stricter disciplinary code than do state enterprises and are much more ready summarily to dismiss employees for violating disciplinary regulations. Those who are repeatedly late, or are persistent absentees or arrive for work drunk will soon be dismissed, even if their infractions have been overlooked by their immediate superior. However, as in traditional enterprises, a disciplinary dismissal will rarely be recorded as such. The individual will be recorded as a voluntary quit. As the foreman of a security firm put it,

why spoil a person's documents? It is hard enough to get a job nowadays. We basically have young lads. They know why we have got rid of them, for them it is a lesson. In due course they will get their wits together, but writing the whole business down will spoil it for them.

The fact that many employees have been hired through personal connections, particularly in the early stages of development of a new business, can create serious problems for the owners as they try to professionalise their activities and formalise work relationships. Those who have been taken on because they were friends or relatives may lack the skills needed to do the job, but may resent being subjected to more rigorous demands. It is extremely difficult to dismiss such people, although they often leave voluntarily as a result of growing levels of tension and conflict at work. As a woman owner said of somebody hired through a friend, whom she had just dismissed for drinking, 'I sacked him with pain in my heart, but fairly and without pity' – it is such experiences that often lead owners of new private enterprises to renounce informal methods of hiring. However, most entrepreneurs take pride in their instrumentalism, regarding their employees as raw materials whom they will keep for as long as they can profit from them or, more often, for as long as they remain loyal. And indeed, the most common reason for dismissal is a loss of trust in the employee: if the employee is suspected of disloyalty or dishonesty his or her contract will be terminated at once.

We have encountered very few cases of redundancy in new private enterprises. This is partly because high labour turnover makes redundancy superfluous and partly because new private enterprises simply close if they run into difficulties. On the very rare occasions that we have observed in which larger new private enterprises have made people redundant, those to be laid off have been selected not

through any systematic procedure, but on the basis of the personal sympathies of the owner of the enterprise. Such a neglect of the proper formalities can backfire. One Kemerovo trading firm took a novel approach when it ran into financial difficulties. Instead of falling behind in the payment of wages or laying off staff, it dismissed a number of employees, refusing to pay their wages owed on the pretext that they had been fined for poor work. However, some of those dismissed refused to go quietly and took the case to the office of the State Labour Inspectorate, threatening to pursue their claim through the courts. The owner of the firm then explained to the Inspector that this had all been a misunderstanding, and of course the wages would be paid. Threatened with court proceedings, the owner indeed paid the wages owed, at least in part. The case was well publicised, so that the firm found it harder to hire new staff and its sales also suffered.

The financial crisis of August 1998 was felt above all by new private enterprises in the financial, tourist and business service sectors. Small firms closed, larger ones cut back the number of their branches and responded in exactly the same way as traditional enterprises had done over previous years of crisis: rather than dismissing staff they sent them on administrative leave, usually without pay for an indefinite period, so inducing them to leave voluntarily, without the redundancy compensation due to them by law.

## LEVEL OF PAY AND QUALIFICATIONS IN THE NEW PRIVATE SECTOR

On average our respondents working in the new private sector earned about 40% more than those working in traditional enterprises, but it is very difficult to compare pay levels because of the problem of comparing like with like. If we run a regression to control for various socio-demographic and branch characteristics we find that new private sector employees earn on average about 35% more than those in the traditional sectors of the economy, controlling for other variables, although the controls are rather crude. The introduction of interaction terms between new private sector and occupational categories shows that skilled workers and higher professional employees do especially well in the new private sector, while lower non-manual, clerical and

sales personnel and unskilled workers benefit much less. This is confirmed by the subjective assessments of their pay, skilled and higher professional workers in the new private sector being much more satisfied with their pay in comparison with those in the state sector than are any other occupational groups. It is likely that this is a reflection of the difference between different types of new private enterprise as much as of higher pay differentiation in the new private sector, with specialised enterprises which provide highly skilled professional and technical services paying high salaries, while those in routine spheres of trade and services do not pay substantially more than do state and former state enterprises.

This data does not seem to support the hypothesis that pay differentiation in new private enterprises can be characterised by a simple core-peripheral structure, although this was a conclusion that we drew from an earlier phase of our case study research, based on intensive case studies of a small number of new private enterprises.<sup>8</sup> Pay differentiation in the new private sector is not much greater than that in the traditional sectors of the economy, the ratio of the average pay of the top to the bottom decile being 12.6 in the new private sector, and 10.7 in the traditional sector (with no significant difference between state, budget and privatised enterprises in the extent of inequality). The ratio in self-employment is higher, at 14.1.<sup>9</sup> Once we take secondary employment into account the picture changes somewhat, since those who work in the new private sector as a second job are far more likely to work on a casual basis, without a labour contract, but in general even these casualised workers are paid at relatively good rates (earnings in secondary employment tend to be higher in the new private sector, although the difference is not statistically significant. Those on verbal contracts earn no less than those whose secondary employment is registered).

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<sup>8</sup> ISITO 1996b, p. 64. The different conclusions may be partly because this study concentrated on relatively large enterprises, mostly in industry, while the majority of new private sector employment is in small enterprises in the sphere of trade and services.

<sup>9</sup> The Gini coefficients for the distributions are 0.46 for the self-employed, 0.38 for the new private sector and 0.35 for those in traditional enterprises. The Gini overall for both individual and household average monthly incomes is 0.38, the same as that quoted by Goskomstat for household income in the first half of 1998.

In order to make a direct comparison between pay and qualifications in the traditional and new private sectors, we asked our respondents in the work history interviews to compare the pay and skill level of the new job with their previous one. As can be seen from Table 3.2, those taking jobs in the new private sector are more likely to increase their pay in comparison with the previous job than those taking jobs in the traditional sector, and this is particularly the case if they have come from a previous job in a state or former state enterprise.

*Table 0.2: Change in pay with job transitions between traditional and new private sectors*

Present workplace	Traditional			New Private		
	State and privatised	new private	Unemp- loyed	State and privatised	new private	Unem- ployed
Higher pay than previous job	48	35	32	68	47	49
About the same pay as previous job	29	29	29	15	35	22
Lower pay than at previous job	23	36	40	17	18	28

We can explore this question more systematically by running a logistic regression, which shows that there are significant differences between our four cities, with the more dynamic economies of Samara and Moscow offering greater chances to increase pay by changing jobs. Younger workers have more such opportunities and older workers fewer, but there are no significant differences in the chances of men and women increasing their pay, although men are slightly less likely to have to take a reduction in pay. As usual, we find that the higher the level of education, the more chance people have of increasing their pay. Allowing for these socio-demographic characteristics, we find that the best opportunities are for those returning from a period of study, while those coming back from maternity leave or unemployment and those leaving a new private enterprise or self-employment are uniformly less likely to increase their pay than somebody leaving a job in a state or former state enterprise, hardly surprising given that low pay appears to be the principal reason why people choose to leave their jobs. Finally, this regression confirms that those taking a job in a new private enterprise or, even more, in self-employment are much more likely to increase their pay by changing jobs.

When we look at changes in skill level with a change of job (Table 3.3), it appears that the new private sector does not offer significantly greater opportunities for employees to increase their skills than do traditional enterprises, but a move to the new private sector is more likely to imply a move to a job which does not require previously acquired skills. When we examine the regression results we can see that the possibility of increasing skill level is markedly greater in Lyubertsy, where people have all the opportunities of the Moscow labour market at their disposal. Samara does not benefit from its economic dynamism in this respect, probably because it already has a very highly skilled labour force being forced out of the military industrial complex. Again we find the young facing much more opportunity than the old, and again no significant differences between men and women in the chances of improving their situation. Those with higher education are much better placed to take a job with a higher skill level, as are those returning from a period of study, while those taking a job from unemployment are much less likely to be able to increase their skills. Finally, those taking a job in the new private sector, and even more so in self-employment, are significantly *less* likely to increase their skill level than those taking a job in a traditional enterprise.

Table 0.3: Change in level of skill with job transitions between traditional and new private sectors

Present workplace	Traditional			New Private		
	State and privatised	new private	Unem- ployed	State and privatised	new private	Unem- ployed
Higher skill than previous job	26	29	18	25	25	15
About the same skill as at previous job	45	38	35	35	49	31
Lower skill than at the previous job	14	13	22	14	8	15
Work not comparable in skill	15	20	26	26	18	39

The other side of the picture is the much greater likelihood that those taking a job in the new private sector or entering self-employment will take a job which simply does not require their previous skills – in taking a job in the new private sector people are frequently changing

their branch and their profession so that their old skills have no direct application in their new job. The regression shows that this has become progressively more likely as reform has progressed, probably as a result of the growth of the new private sector. People are much less likely to make such a transition in Syktyvkar where, as we have seen, the new private sector is much less developed than in our other cities. The differences by age in this respect are only marginally significant, but men are substantially less likely to take a job that does not require their former skills than are women, as are those with higher education. Those leaving self-employment or unemployment are also much more likely to take a job not requiring former skills. When it comes to a reduction in skill, it is primarily the unemployed and older people, especially those over fifty years old, who are much more likely to have to take a job at a lower skill level.

## HIRING STRATEGIES IN THE NEW PRIVATE SECTOR

The typical new private enterprise passes through a number of stages of development, at each of which the employment policy of its management is likely to change. The enterprise is typically organised by an individual or a small group of individuals who initially have no or very few hired employees. If the enterprise is successful it expands by bringing in new partners and/or employees, so that the nucleus of the labour collective is created and the organisational structure of the enterprise is put in place. The formation of a social and technological nucleus of the enterprise is a necessary condition for the reproduction and expansion of the enterprise which characterises the following stage of development. If this stage is successfully negotiated it is frequently followed by the stabilisation of the business, although the most successful enterprises may continue to expand.

In the earliest stages of development of practically every one of the new private enterprises that we have researched the owners of the enterprise have relied almost exclusively on building up the core of the enterprise by hiring through personal connections, starting with friends and relatives, with the basic criterion in recruitment being their reliability and commitment. In some cases the possession of social

connections, especially with the local or regional authorities, is also a desirable quality of the employee. The General Director of a trading company expressed the typical view:

I employed those who had a good enough attitude to their work, and on whom one can rely, because not all the professionals with whom I have worked turned out to be good people. For me it was important, on the one hand, that these people were good specialists, and on the other, that it was possible to rely on them. I turned to my acquaintances, knowing that they are professionals and also decent and honest people. However, in the hiring and selection of staff, decency is more important for me than professionalism.

We find a very similar motivation among the majority of the heads of firms differing widely in their size and activity: from high-powered intellectuals setting up innovatory firms to mechanics setting up an unregistered garage. From the case study data we can identify a number of objective and subjective factors that predispose new private employers to hire primarily through personal connections.

First, the informality of hiring is dictated by the informal aspects of business. The small new business is very vulnerable to competitive pressure, especially in its first few months, and many newly created enterprises start their existence straddling the formal and informal economies. Even in the longer-established enterprise there may be much that should not be known by 'outsiders' so that loyalty is a priority in hiring as a means of ensuring the confidentiality of information about the firm. This is an important reason why at the beginning the employer prefers to look for employees among those closest to him (or, more rarely, her): he or she needs reliable people, 'my' people, even if they are not professionals. Many firms at this initial stage only employ relatives and close friends.

Many firms never grow beyond this stage of informal hiring and remain, in fact, family business, particularly in the spheres of trade and services, probably in part because of the shadow activities of these firms. Security firms prefer to hire through personal connections for slightly different reasons, because of the danger of the work rather than for economic reasons. According to the owner of a security firm,

you must work with people you know, who will not desert you because you are a friend, and for whom the question of honour is more important than that of money.

Secondly, hiring through friends and relatives helps very small

enterprises to resolve the problem of the control and ‘manageability’ of the workforce, making it possible to create a good atmosphere and averting the risk of the kind of opportunistic behaviour that is common among workers in trade of stealing the stock or the proceeds.

Confining hiring to the single channel of personal connections also promotes relations of personal dependence of the workers on the employer. Behind the slogan ‘we are one family’ which is declared by many employers, we sometimes find quasi-patriarchal relations of rigid vertical subordination and direct dependence of the hired workers on the owner.

Third, most new private enterprises are very short of funds, especially in the first stages of their development, so that they have neither the money, nor the time, nor the staff to devote to dealing with employment issues. In this context personal connections offer the cheapest channel of hiring: the employer using his own social resources as the means of identifying prospective employees free of charge.

Fourth, the orientation of the owner of the enterprise to the development of the business, whether he is seeking to make a fast buck or has a long term perspective, has significant implications for his employment policy. If he intends to develop the business, and objective conditions are favourable, he soon finds himself confronting the limitations of informal hiring. Informal norms of behaviour, which are associated with the hiring of friends, are not compatible with the intensification of labour and the strengthening of discipline that soon become necessary in the face of competition. Some new private sector employers at this stage in the development of their business categorically refuse to hire friends and relatives. One owner proclaimed: ‘I have not taken and will not take a single person into the firm on a phone call. It is my principle’. Another had reached the same conclusion from his own hard experience:

I have come to the firm belief that I will not take a single person through any kind of *blat* ever again. I shall avoid it whatever the circumstances ... The very idea of the practice of hiring ‘your own people’ should be expunged.

From the case studies, it appears that there is a close connection between the degree of informality of employment relations and the use of informal channels of hiring. If production relations are restructured and formalised, this tends to be followed by a restructuring of hiring

practices as well. Demands of professionalism and skill become increasingly important, in addition to rather than in place of the personal qualities noted above, as the firm becomes established and continues to develop. The size of the enterprise is not a critical influence on the demands made of job applicants, although the kind of activity obviously imposes restrictions on the skill requirements and preference for the use of this or that channel of hiring.

Those enterprises whose success depends on the professional qualities of their employees, particularly those providing business services (finance, investment and insurance), are the most likely to abandon hiring through friends and relatives at an early stage of their development. This does not mean that they abandon hiring through informal channels: the owners and managers of such firms generally come from professional circles and usually have a wide network of professional contacts which they use if the enterprise requires new specialists.

One particular use of channels of professional connections is in the poaching of employees of other firms with which the management has business contacts. This is most common among innovatory firms, which can attract the best specialists because they can offer more interesting work, and among the wealthier firms, which can offer higher wages. Such poaching is almost exclusively from other commercial firms, since the managers' view of traditional enterprises is that in those companies there is 'too narrow specialisation, routine work, they have lost any breadth of outlook'.

We have already noted above the tendency for new private enterprises to hire people with higher education, even for routine unskilled jobs, because they feel that those with higher education 'learn everything more quickly and adapt more quickly and are open to new things and work hard' and because educational qualifications are felt to be some indicator of desirable personal qualities (Barzel 1982, p.42). However, it should also be noted that there is a downside to this practice, since many such employees do not stay long in the job because they become bored and frustrated and dissatisfied with pay and working conditions.

Thus, we find two contrasting tendencies in the behaviour of new employers in the labour market: on the one side, a marked preference for hiring through friends and relatives; on the other hand, a desire to

reduce or eliminate such forms of hiring in favour of hiring on the basis of professional qualities, though still often through personal connections. The latter tendency is connected with the growing scale of the activity of the enterprise and the extent of the formalisation of labour relations, including of the methods of hiring, in response to problems that arise with the management of friends and relatives. Managerial preferences vary depending on the situation and on their experience, but the general tendency seems to be for a gradual shift towards professional channels of hiring.

As the employment structure is formalised and the process of hiring becomes more systematic the enterprise becomes more open to the use of formal intermediaries in the labour market and to the use of more diversified hiring practices. The enterprise may establish a personnel department, or at least make one member of staff responsible for personnel questions, although such duties are mostly reduced to the traditional tasks of registration of those being hired and of those leaving and the preparation of statistical reports. Indeed, as new private enterprises grow they become increasingly like traditional enterprises in the forms and structures of personnel management. Thus, as in traditional enterprises, hiring tends not to be the responsibility of the personnel department or manager, but is devolved to a lower level, where the line manager uses his or her own channels of personal connections to try to find a needed employee. Sometimes the manager might ask the personnel department to help, for example by placing an advertisement, but even if the first application is made through the personnel office, it is the line manager who has the final word, even if formally the owner or general director retains the right to make the final decision.

Once the enterprise has matured and its staff has reached its full complement, the behaviour of the employer tends to change. The channels used in the search for new employees are differentiated depending on the number employed, the financial position of the firm and its structure, the particular skills required and whether the position is permanent, temporary or only casual.

The managers and specialists who make up the skeleton of the firm are, as a rule, hired through personal, normally professional, connections, and this is also typically the case when the firm is seeking to expand into new spheres of activity, when it wants people who are

trusted and reliable. In conditions of economic and institutional uncertainty, hiring through personal channels continues to be dominant for 'responsible' positions, related to management of financial and material flows.

In looking for ordinary employees and workers with general trades, employers appear increasingly ready to turn to the services of formal intermediaries: personnel agencies (private and state), the mass media, state labour exchanges and employment centres. The larger the enterprise, the more likely it is to turn to such intermediaries, with enterprises below one hundred employees being much less likely to use them. Larger enterprises both have a bigger demand for labour, which cannot necessarily be met through informal channels, and tend to have more formalised employment relations, including somebody responsible for employment issues.

The mass media are used most often to advertise positions for general and unskilled workers (salespersons, cashiers, cloakroom attendants, loaders, bakers, waiters and so on) in catering and retail trades, although sometimes positions as managers and specialists are also advertised. The main problem with finding employees through advertisements, according to the employers, is the 'large volume of work'. The general director of a small firm explained why he does not use advertisements thus: 'if you advertise, there will be a long queue and you spend a lot of time interviewing'. Nevertheless, we found cases in which the employers thought that it was worth advertising, especially if they needed a lot of unskilled employees as, for example, in a fast food chain, either because of rapid growth or because of high labour turnover.

Some innovative enterprises had re-established the old system of making direct connections with higher educational institutions to hire young graduates. For example, in one investment company this channel of recruitment has been formalised: the management of the firm maintains regular contact with the relevant faculties of the leading Moscow higher education institutions, making regular presentations during which they take a look at the final year students.

New private enterprises turn to hiring through state and private employment services less often than to other channels – they have no more confidence in the effectiveness of these formal intermediaries

than do the managers of traditional enterprises. Although they quite often turn to private agencies in the attempt to hire specialists, they tend to be very critical of these agencies and don't think that they are much better than the state employment service. The problems, as the employers see them, are, first, that the employer and the intermediary have different aims. As one director put it, his firm wants

to find the useful people that we need, but their aim is to sell (in the case of the state employment service, to get rid of troublesome people they do not want).

Secondly, the intermediaries do not take any responsibility for the workers they supply. The employers feel that they should provide a trial period and give some kind of guarantee, but they do not. The employers are convinced that the agencies do not make any effort to check the qualities of those they send for jobs, they do not complete a questionnaire and they do not even check the information provided by the worker against his or her work-record card in his or her labour book. The result is that employers find that labour turnover is high among those hired through agencies and, if they have to pay for those services, they prove expensive.

New private employers are much more likely than traditional enterprises to hire people for temporary work by using the 'spontaneous' labour exchanges that have grown up in the traditional places where men gather. For example, loaders can be found hanging around shops and beer stalls, drivers with automobiles gather near the railway stations and so on. It is enough for the employer to tell one person that there is work and he will quickly find himself a whole brigade without any trouble.

Finally, however, it is important to stress that however much the process of hiring may come to be formalised, and however important may be the professional qualities of the employee, the personal qualities of decency, reliability and initiative and the ability to be a part of the collective are still regarded as being of critical importance. And whatever the position may be, loyalty to the chief and the firm is seen as an essential qualification for work in a private concern.

## CONCLUSION

New private sector employers prefer to hire men in their early thirties

with a relatively high level of education, although the skill demands of the jobs are, in general, lower than those in the traditional sectors of the economy. On the other hand, the preference for a well-educated work force is tempered by the fact that new private employers want loyalty and commitment from their employees, rather than professionalism or independence of mind. Although levels of pay in the new private sector are substantially higher than in traditional enterprises, most employers are not in a position to hand out money and demand discipline and hard work in exchange for better wages. These factors probably explain why the labour force in the new private sector is not as markedly different from that of traditional enterprises as one might expect if one paid attention only to the stated preferences of the employers. Younger and more highly educated men may provide the most flexible and adaptable labour force, but they are not likely to prove the most loyal, disciplined and cheapest of employees. Older people, and particularly women, with lower levels of education may be more willing to put up with relatively worse wages and working conditions without complaining.

The preferences of employers are also strongly constrained by the prevalence of hiring through personal connections, which is closely connected to the informality of employment relations and the illegality of much economic activity. The barriers that such hiring practices establish to competition in the labour market may be one reason for the persistence of such high earnings differentials in Russia since only those with connections have access to the better-paid jobs in the new private sector.

Apart from this self-imposed barrier, and the related dissatisfaction of employers with both public and private employment services, neither our case studies nor the analysis of the survey data have identified any other barriers to the growth of the new private sector in relation to the labour market or employment policies. No employers complained of skill shortages, nor did any complain of having to pay excessive wages to secure labour of the necessary quality. All employers complain of the burden of social insurance contributions, but they are not excessive except when paid on the highest of wages, and many new private employers avoid paying such contributions in any case. While the Labour Code in principal restricts the right of employers to punish or to fire workers without good cause, and the Employment Law

prescribes relatively generous severance pay for redundant employees, none of this legislation presents any kind of barrier to the employment practices of new private employers, any more than it ever has to employers in the traditional sector. Similarly, like traditional employers, many new private employers fail to provide their employees with contracts, refuse to pay statutory benefits, force employees to work illegally long hours, deny them required breaks in the working day, all with impunity.

In general, new private sector employers in Russia tend to take a very short-term view in their employment decisions, which is hardly surprising given the very high degree of economic instability with which they have had to cope, but which is not a positive phenomenon from the point of view of the development of the Russian economy and society. This short-term perspective is manifest not only in the failure to develop effective management structures, in the informality of hiring and firing practices, in the failure to pay taxes and social insurance contributions and in the failure to abide by the civil and criminal law, but also in the orientation of new private enterprises to training.

## Training in the new private sector

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In the Soviet period it was obligatory for all enterprises and organisations to provide training and retraining for employees. Much of this training was ritualised, driven by the training targets laid down by the plan and by bureaucratic demands for the formal certification and accreditation of employees. Nevertheless, the system of training ensured that workers and professionals were provided with the appropriate skills and that their knowledge was regularly updated. With the collapse of the productive sector, the redundancy of a large proportion of traditional skills and an overabundance of skilled labour this system has largely disintegrated. Only in the spheres of health and education, where the regular re-certification and upgrading of skills is still obligatory, does it continue to function in something like the traditional form. Thus, over half of those in our survey employed in the health service and well over a third working in education had undergone additional training since 1990, as against only one in six of those employed in light industry and fewer than one in twelve of those employed in heavy industry.

The new private sector is able to benefit from the highly developed skills base that is the legacy of the Soviet economy and from the abundance of skilled and experienced workers and professionals seeking new employment. However, much of the new private sector is operating in spheres of the economy that in the past were very underdeveloped, and so in which the appropriate skills and professional qualifications are not necessarily readily available. The most obvious such activity is that of finance and accounting, where formal qualifications are almost always required and where forty per cent of our sample had undertaken additional training since 1990. The training needs of the service sector are rather less, with around a quarter of our respondents having undertaken additional training since 1990. It is, therefore, of some interest to ask how new private enterprises meet their needs for skilled labour.

We can look at training in the new private sector from the point of view of the employers, on the basis of our case studies, and from the

point of view of the employees, on the basis of our survey data. In general, it was clear from our case studies that the owners and managers of new private enterprises prefer, as far as possible, to avoid incurring the expenses incurred for training their employees, apart from the core managers and specialists on whom the success of the enterprise depends. On the one hand, they try to hire employees who already have the necessary qualifications, whether acquired at a former place of work or acquired by undertaking a course of training independently. On the other hand, they generally provide on-the-job training or encourage their employees to undertake further training at their own expense and in their own time.

## TRAINING FOR SENIOR MANAGERS AND PROFESSIONALS

It is most common for the directors of new private enterprises to undertake further training themselves and to provide it for their close associates. Thus, for example, in the Samara branch of the Moscow International University of Business and Information Technology approximately one-third of the students reading for a second degree are directors and senior managers of medium and small businesses, most of whom are in their thirties and already have a higher technical education and experience of working in private business. This is partly a reflection of the way in which many new private enterprises developed.

Typically a new private enterprise was formed by a group of friends or professional colleagues, usually with higher education and in positions of some responsibility, who had good connections which enabled them to assemble the premises, finance, equipment and various permits required to set up in business. Sometimes such people had no prior qualifications or experience of working in the sphere in which they established their business, and many businesses would change the direction of their activity quite radically in response to changing opportunities.<sup>10</sup> Their amateurism was no barrier to success in the early

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<sup>10</sup> Stephen Batstone's survey of SMEs in Kemerovo in 1998 found that the founders of SMEs tended to be in their late thirties, with around a third from professional and

stages of transition, since connections counted above all else, but as the new private sector developed and competitors emerged it became increasingly important for the core personnel to acquire or develop the managerial and technical skills that they might hitherto have lacked. As one owner put it, he undertook further training because he became aware of 'the limitations of the specific knowledge gained through personal experience'.

We found many such examples in our case studies: a group of engineers, all of whom have technical higher education, set up a firm trading in consumer durables. They now have a lot of experience, but have begun to feel their lack of business skills and so have decided to undertake an intensive programme of training. The Finance Director is studying finance by correspondence and the General Director is planning to study for a degree in economics while the Chief Accountant regularly attends short courses and goes to seminars.

A director of a trading firm following a degree course in Samara explained why he needed a second higher education as follows:

For some time I have been developing a kind of inferiority complex. In the past the bookkeeper sorted out half the problems, he was a clever fellow, we started the whole thing together. I did not have anything to do with financial matters. But now I have a new bookkeeper, he asks about something or other and I get angry, I do not know ... The bookkeeper here grumbled at a friend about such things... Well, we work on our own intuition... But it would not do any harm to know what this market thing is, and what surprises it could present us with. So I decided that I had to study.

Some enterprises deliberately restrict training to the senior managers in order to save money, leaving the other staff to learn for themselves and

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managerial backgrounds and almost two-thirds in professional or managerial positions prior to starting their business, while only one respondent had been unemployed, against a quarter of those starting new businesses in a comparable British sample. Almost two-thirds started their business in the same industry as their last employer, and almost two-thirds had continued to work in their previous jobs for some time after the establishment of their businesses. They were much more highly educated than comparable British entrepreneurs, three-quarters of the former as against only a quarter of the latter having degrees and only one, against a third of the British sample, having only compulsory education. Participation in training of employees of these enterprises was higher than found in comparable studies in Europe and North America, with one-third of firms having had at least one member of the management team undergo some training and 20% of firms reporting that a non-managerial employ had undergone some training. The main reasons given for not undergoing training were the cost and the inappropriateness of available courses (Westhead and Batstone 1998).

to exchange experience with colleagues. A large insurance company in Kemerovo is typical in having an unwritten rule according to which only the top managers and specialists get any training outside the enterprise. They are supposed to transmit their experience to the others in the normal course of work.

The restriction of training opportunities to senior managers and specialists is not only a matter of economy. Firms which acquire sophisticated new equipment have to ensure that they have trained staff able to operate this equipment. New private enterprises are by no means immune to the traditional Soviet fetishisation of technology and will not infrequently acquire the biggest, the best and the most modern piece of equipment regardless of whether they have the capacity or the trained personnel to use it. They then face the problem of who should be trained in the use of the new equipment, which may involve a trip to Moscow, or even abroad, for specialist training. Senior management is reluctant to send a lowly worker, who may leave the firm at any time, on such an expensive and prestigious excursion, so it is not unusual for a senior manager to make the trip instead, with the idea that the firm will not be a hostage to the skills of a particular worker because the manager will then be in a position to train anybody else actually to operate the equipment. This can lead to ludicrous situations in which senior managers attend inappropriate courses, while the relevant specialists go without essential training. A Kemerovo knitwear firm provides a very typical example of this:

In 1995 the firm managed to acquire a large loan to finance the purchase of the most modern computerised knitting machine, of which there were only two other examples in Russia, both in Moscow. The loan was supposedly for the purposes of job creation, although the new machine had a production capacity sixty times that of the equipment that it would replace, and was provided by a state investment company, the regional administration and the Employment Service on the basis of competitive tendering, although the money promised by the latter two bodies was never forthcoming so in the end the machine had to be leased. The machine was eventually delivered in November 1996, but installation took a further six months, so it did not enter into full production until May 1997.

The suppliers of the machine provided a two-week training course in Germany. The company did not send the prospective operator of the machine on that course, but the firm's designer, who had been the initiator of the original establishment of the company. The operator of the machine was provided with a limited amount of training by two employees of the supplier company who came for two weeks to supervise the installation of the machine, but the firm was not

willing to pay for any further training for the operator, even though they had extracted a promise from him that he would not leave the firm. Instead, he had had to work out for himself how to operate the machine, telephoning the supplier's representative in Moscow to resolve any problems. Although he was very able and mastered the mechanical side of the machine, since he was not a computer specialist he was not able to use the machine to anything like its full capacity: although the machine was designed to produce completed garments, it was still used in this firm only to produce pieces, which were then assembled into garments by hand. In practice it was no problem that the machine could only be run at reduced capacity, not because of a limited market, but because of supply problems. The firm had opened its own shop to sell its products, and with the installation of the new machine had hired two people to work on marketing, so it was able to sell all that it produced. However, the possibilities of increasing production were limited because the firm did not have sufficient working capital to purchase raw materials and had not been able to borrow because it had no security to back a loan.

## TRAINING FOR PROFESSIONAL STAFF

Very few new private enterprises provide more extensive training programmes for their employees since very few have their own training facilities, and it is very costly to sponsor employees to take courses on a commercial basis. Those which do provide more extensive training are largely confined to the spheres in which such training is unavoidable: health and education, where staff have to undergo regular training to meet state qualifying standards, and finance, where it is difficult or impossible for the firms to find appropriate professional staff on the open market. The firms providing such training are, as a rule, prosperous firms that have been established for several years.

Firms in finance and insurance tend to use specialised commercial educational institutions to provide training. However, such commercial courses are very expensive, typically costing around \$2,500 per person, and there is always a risk that those who have been trained will leave. Sometimes new private enterprises arrange training on their own premises by hiring trainers to provide short courses after work or during working hours, which has the advantage that the staff do not acquire certificated and easily transferable skills. Thus, many of the staff in this sector have built up considerable practical experience, having worked in the sector for several years, but have no

documentary certification of their qualifications: they may have only middle technical education, supported by attendance at a series of short courses, but even those with higher education have usually needed to learn the new skills required for a market economy. Many people follow courses at their own expense and in their own time, in order to secure the formal qualifications required for promotion or to seek a job elsewhere, or sometimes even to hold on to an existing post for which they are not formally qualified. The shortage of qualified personnel in finance and insurance has also led companies in this sphere to make considerable efforts to recruit the best graduates from the leading educational institutions, making presentations to final year students and taking them on placement to do their diploma work.

In a very few cases firms which provide specialist and professional services organise their own system of training. For example, there is a very dynamic new private enterprise in Samara whose core business is as a broker of agricultural raw materials, semi-finished goods and mixed fodder. There were no trained specialists in this sphere when the firm started out, so it set up its own training centre and developed its own training strategy. The training centre was set up as a joint venture with Western partners, who were originally involved as equipment suppliers but who also participate in the provision of training, ensuring that it meets western standards. The processes of training and retraining of the staff are fully integrated into the activity of this firm and are a part of its employment strategy. The firm hires new employees through a process of competitive selection on the basis of their general education and abilities, without any requirement for prior experience of commercial work, and those selected go through a period of initial training at the firm's educational centre. The majority of specialists are regularly retrained in different aspects of the work. Some categories of staff receive language training and senior managers and specialists are sent for training at other enterprises, sometimes abroad. Other employees receive on-the-job training from their own specialists or from those who are specially brought in to train them in the use, service and repair of new equipment.

The staff of enterprises providing health and educational services are required to meet state qualifying standards, and those employed in the new private sector have to undergo regular retraining and certification, just as they do in state organisations. Staff in private educational

institutions are most likely to enroll for postgraduate work in the more prestigious state universities and institutes, but in some cases new private enterprises have developed their own training facilities.

‘Smile’ is a model of commitment to training. Smile is a new private enterprise established in 1991 that provides a wide range of dental services but also has its own training centre. The director of the firm emphasises the commitment of every employee to training – there is one condition attached to attendance at courses: ‘attend yourself, then tell and teach your comrades’. The job description of every dentist includes an obligation to ‘attend all courses provided by the training centre of the firm ... The dentist must take out subscriptions to all professional journals’. All newly hired dentists, however well-qualified they might be, have to start off as dental assistants, where they are trained and assessed on-the-job. Apart from organising the training and certification of dentists, the firm regularly sends dentists on courses to upgrade their qualifications and constantly encourages their participation in seminars, conferences, professional competitions and attendance at exhibitions of dental equipment. The firm also frequently organises advanced training clinics. As one of the doctors explained:

We must be a head higher than our free-of-charge medicine. We take money for treatment so we should provide the patient with a top quality service: the newest and most efficient equipment, the best medicines, the very best instruments. We don’t want the patient to come to us as though they had been sentenced to hard labour, we do not want them to regret having spent their money. Therefore we try to keep abreast of all the latest advances. We can’t do it any other way... Otherwise we simply shall not survive, nobody will come to us. Competition is a good thing, and in our area it is simply the engine of progress.

## TRAINING FOR ORDINARY EMPLOYEES

It is very rare for new private enterprises to make significant provision for the training of ordinary employees, since there is an abundance of skilled labour and a growing shortage of jobs. Even where the skills required are not those that were common in the Soviet period, the new private employer can rely on prospective employees undergoing training in new skills at their own expense in the hope that they will be able to get a better job. Some of our case study firms had paid out

money to train employees in the past, only to regret it because those they had trained moved on: a chain of high-class clothes shops sent the head of security for training in Moscow, but he immediately left the firm. Another firm sent the director of its ballet company for training at an international school of dance, but after training he did not return to his job. The majority of new private enterprises do their best to avoid spending anything on training.

One type of enterprise which does provide training for all its staff is the pyramid-selling organisation. There is a growing number of firms distributing cosmetics, medicines, slimming aids, costume jewellery, cooking utensils, insurance policies and so on which recruit agents who in turn recruit more agents through personal connections, newspaper advertisements and the distribution of leaflets. New recruits receive a short training course which, as a rule, consists of a course of lectures through which the novice is informed about the product and is taught the basic skills of selling, but, at least as important in this case, is also incorporated into the corporate culture of the organisation. These activities are all paid for by the firm and are provided free of charge to the recruit.

Apart from this rather particular case, the most common practice in new private firms, particularly in the trade and catering sector, is to provide training on-the-job. New employees will be given a brief induction and will then be set to work, usually on probationary terms in the first instance. Where the work is more highly skilled as, for example, in automobile servicing, new employees work as apprentices alongside experienced workers, gradually picking up the skills of the trade. Sometimes employees are expected to take responsibility for their own training: for example, when new tools and equipment are introduced, management will not send the workers for training, but will simply provide them with the appropriate manuals and instruction booklets. In one firm that undertakes property repairs no arrangements are made by management to provide training, but employees are penalised for the excessive use of materials, poor quality of work or customer complaints, so they have an incentive to improve their skills and the quality of their work, usually learning on-the-job from their more skilled colleagues, although the customers are the first victims of their poor training.

On-the-job training is also typical of the self-employed, who are often

working in spheres in which they have no qualifications or experience, but just teach themselves by trial and error as they go on. So, for example, a school teacher might work on the repair of apartments, engineers and factory workers might take up “shuttle” or street trading, an architect might work as a plumber.

Work in many new private enterprises makes few demands on the skills of the employees, and in such cases the employer may prefer to keep costs to the minimum by hiring people without any particular skills at relatively low wages. Low pay in turn implies high labour turnover, which makes it pointless to spend anything on training. This is particularly the case with security firms, which select staff on the basis of age and physical fitness, although sometimes they demand that employees have a licence to use firearms which requires them to have undertaken a course of training. Security guards are often employed on a casual basis, receiving hourly wages at low rates. In one of the security firms which we studied, management prefers to hire staff with no skills or training at all. On the one hand, such people are more willing to work for low wages. On the other hand, they can be hired on probationary terms, receiving only 70 per cent of wages for the first three months. Labour turnover in this firm exceeded 100 per cent per year, but the management was quite unconcerned about this. People hired for traditional unskilled occupations, such as loaders, labourers, cleaners and storekeepers will similarly be hired simply on the basis of their willingness to work long hours for a low wage.

## TRAINING PROVISION FOR THE NEW PRIVATE SECTOR

In most new private enterprises, personnel selection and the use of probation is a substitute for training. If skilled employees are needed then the firm will advertise through newspapers or employment agencies and will select from the candidates on a competitive basis, paying wages at a sufficiently high level to recruit and retain people of the required standard. If the skills can be learnt on the job, then new private sector employers try to hire young people with relatively high levels of education and employ them on probationary terms, retaining

those who have mastered the job within the probationary period. If the job does not require any particular skills, then the employer will seek out those with no skills and qualifications and pay them low wages, most often with a system of penalties and bonuses to encourage diligence and hard work, and put up with high labour turnover.

Where further training is required, it is most often left to the initiative of the individual employee, who may be encouraged by prospects of promotion to undertake correspondence or evening courses at his or her own expense. A very small number of new private enterprises have established their own training programmes for their staff, but it is almost exclusively the core management and professional staff of the enterprise who are provided with training at the firm's expense, and in such cases the training is usually obtained through private training establishments.

In general we found that new private employers were not interested in the question of training. They did not raise it spontaneously as an issue in interviews, and when we raised it with them most of them appeared to have given little or no thought to it. They are concerned to have employees with the appropriate skills and qualifications, but only in rare cases do they see it as their responsibility to play any role in developing such skills.

## NEW PRIVATE SECTOR EMPLOYEES' EXPERIENCE OF TRAINING

*Table 0.1. Percentages of workforce with additional training since 1990, trained at this enterprise since 1990 and training now, by sector.*

Percent	With training	Trained at this enterprise	Training now
State	17	11	2
Privatised	15	11	1
Budget	36	28	4
New Private	23	9	3
Self-employed	22	7	6
Total	23	15	2

The survey data is very consistent with the findings of our case study research. Those people working in the new private sector at the time of the survey were more likely to have undergone training since 1990 than those working in state and former state enterprises, but less likely to have undergone training than those working in budget sector organisations (health, education and public administration, where regular certification and upgrading of skills is still a requirement of employment). However, only 9% of those currently working in the new private sector had undertaken their most recent spell of training at their present place of work. Fewer than 3% of those working in new private enterprises were currently attending any kind of training course, again, more than in state enterprises but fewer than in budget organisations.

Since the majority of those working in new private enterprises have only recently taken up their jobs, it is not surprising to find that only just over half of those working in new private sector enterprises received their training while working in the new private sector, almost a third having received training in state or former state enterprises and ten per cent during periods of leave or unemployment. Of the two-thirds of new private sector employees who had been trained before joining their present place of work, 10% had trained while working at another new private enterprise, two-thirds at a traditional enterprise and 15% during a previous period of unemployment.

Table 0.2: Training: Sector in which training undertaken by current employment status, percentage distribution. Work history data.

Percentage	Sector in which training undertaken							
	state	privatised	new private	self-employed	maternity leave	full time studying	unemployed	N
state	94	1	1	0	0	1	2	613
privatised	18	76	1		1	1	2	144
new private	31	1	54	1	3	1	8	149
self-employed	26	4	4	56		4	7	27
maternity leave	48	11	18	4	15		4	27
studying						100		5
unemployed	33	8	9	2	1	8	40	124
Total percent	65	12	10	2	1	3	7	100
N	709	130	108	21	13	28	80	1089

In order to control for the various factors that determine the likelihood of undertaking training we have run a series of logistic regressions. These regressions provide strong support for the findings of our case studies that training provision tends to be concentrated on higher managerial and professional personnel and is much more common in the fields of health, education and professional services. Not surprisingly, the longer somebody is in a place of work, the more likely are they to receive training, although once we control for this factor we find that training tends to be concentrated on younger employees: younger people are much more likely and older people much less likely to undertake training than those in the 25 to 40 age range. Men are also less likely to undertake training than are women, but a lot of this difference is accounted for by branch and occupational differences between men's and women's employment. Those with technical and higher education, as well as managers, professionals, specialists and commercial and administrative personnel are all much more likely to undertake further training than are those with a basic secondary education and skilled workers, while unskilled workers are much less likely to retrain. Training is also much more common in transport, services and in the budget sector activities of administration, health and education. Controlling for all these other factors, we see that those in the new private sector are not significantly less likely to have undertaken training than those in the traditional sectors. Surprisingly, those working in small enterprises are not significantly less likely to train than those working in larger enterprises. It is also very striking that those most in need of training, the unemployed, are much the least likely to receive any training. This remains true even when we do not control for the duration of the episodes.

There are very few people currently undertaking a course of training in our sample. The small numbers mean that the only significant variable in determining the probability of training is age, with young people much more likely and older people much less likely than the middle aged to be retraining.

Table 0.4: Percentage distribution of type of course undertaken by employment status when undertaken

Percent	state	privat- ised	new private	self- employ ed	mater- nity leave	full- time study	unem- ployed	Total
Provided by Employment Service	2	2	4		6		14	3
At commercial courses	11	16	41	40	25	23	54	19
Higher or technical educational institution	13	10	17	25	44	55	11	14
In my own enterprise	41	47	25	10	25	18	9	37
In industrial training establishment	28	18	6	10			8	22
Independently As a postgraduate student	3	5	7	5		5	4	4
	2	1		10				2

There were no significant differences between sectors in the duration of training. However, there are some differences in the form that training takes in different sectors of the economy, which conform closely to the findings of our case study research. Those working in the new private sector were much more likely to have followed commercially provided courses, rather than those provided by the

Table 0.3: Total duration of training in months by sector in which training undertaken.

	Mean duration in months	Std. Error of Mean	N
State	6.4	0.5	702
Privatised	6.5	1.2	128
New private	9.2	1.5	108
Self-employed	20.5	6.2	20
Maternity leave	17.8	6.9	14
Full time studying	15.6	3.5	28
Unemployed	6.0	1.3	77
Total	7.3	0.4	1077

employer or through an associated training establishment, and were marginally more likely to have studied independently or at a higher or technical training institution. They were less likely to have undertaken their training on the initiative of management and were more likely to have got a better job as a result of having undertaken their training. Apart from this, however, the differences between new private and traditional enterprises are not statistically significant.

*Table 0.5: Reasons for taking the course by employment status. Percentage citing each reason in each status category. Respondents could choose any number of alternatives.*

	state	privatised	new private	self-employ	maternity leave	full time study	unemp-loyed	Total
On the initiative of management	40	40	25	5	19	5	1	34
To acquire paper qualifications	25	16	21	10	13	5	11	22
Had lost my job	4	9	9	19	12		34	8
Wanted to get a better paid job	11	19	22	5	6	18	22	14
Didn't like my profession	4	2	7	5	12	32	12	5
Initiative of a family member	4	7	9	38	12	14	12	6
Needed more skill for my work	30	24	34	24	25	41	17	29

It is difficult to identify the impact of training on people's subsequent careers with the limited information at our disposal. Those who have trained with their present employer are the most likely to have increased their pay and/or their skill level in taking their current job, but this is probably because it is the better and more prosperous employers, working in branches with higher skill demands, who are more likely to encourage their employees to train. However, it does appear that training improves people's employment and earning prospects: those who had completed training prior to taking a job were significantly more likely to have increased their pay and/or their skill level than those who had undertaken no training since 1990. The benefits of training would appear to be somewhat greater for those

working in the new private sector than for those in the traditional sectors of the economy: as can be seen in Table 4.6, those employed in the new private sector were more likely to have said that they had got promotion or a better job as a result of their training, although rather less likely to have got an immediate pay increase.

*Table 0.6: Skill level of present compared to previous job. Percentage distribution by training experience since 1990*

Current Job	State/Privatised			New Private		
	No training	Training at present employer	Previous training	No training	Training at present employer	Previous training
Higher skill than previous job	25	44	34	21	40	31
About the same skill as at the previous job	45	34	36	38	28	28
Lower skill than at the previous job	13	7	12	13	10	12
Work not comparable in skill	17	14	18	28	22	29

*Table 0.7: Pay level of current job compared to previous job. Percentage distribution by training experience since 1990.*

Current Job	State/Privatised			New Private		
	No training	Training at present employer	Previous training	No training	Training at present employer	Previous training
Higher pay than previous job	44	58	55	57	78	65
About the same pay as previous job	33	25	20	23	9	15
Lower pay than at previous job	24	17	25	20	13	20

*Table 0.8: Consequences of having taken the course by employment status when took the course. Percentage citing each consequence in each status category. Respondents could choose any number of alternatives.*

	state	privatised	new	self-	matern-	full	unem-	Total
			private	employed	ity	time	ployed	
					leave	study		
Promotion in my own job	13	13	17		8		4	12
Got additional pay	29	31	25	6	15	16	7	26
Felt more confident in my job	36	30	38	13	33	37	11	33
managed to find better work	8	13	20	6	17	21	16	11
Started my own business	1	1	4	25		5	1	2
Had no effect on my career	32	30	27	56	42	26	64	34

## TRAINING NEEDS AND THE NEW PRIVATE SECTOR

The key conclusion of this review of training in the new private sector is that, outside the spheres of health and education, the traditional system of training by employers has broken down and very little has arisen to take its place. Most new private sector employers do not have the resources or the capacity to train their employees, nor do they need to provide training because they have limited skill demands, there are plenty of skilled people available on the labour market, and those who want to get a better job are likely to undertake training on their own initiative. Where they do provide training it is primarily for managers and specialists or is most likely to be provided on-the-job or through an outside agency. The lack of training for the unemployed is particularly striking and is perhaps the most disturbing aspect of the generally bleak training picture.

Employers claim that they do not experience any particular problems in the supply of suitably skilled labour or in the provision of training by public or private agencies. As the OECD report on small businesses noted, 'SME managers often place the lack of skilled personnel and demands for professional training at the bottom of the list of problems' (OECD, 1998, p. 24), although the report went on to note that the financial difficulties which SME managers considered to be their worst problem were reflected in the sphere of training since, when they do need training, they find themselves unable to pay. The policy issues raised by this picture are absolutely familiar: while the pace of economic change and the depth of the economic crisis means that there may be no immediate problem of skill shortages, it is very likely that recovery will soon be impeded by a skills gap. Moreover, the longer the situation persists the more will the existing workforce lose its inherited skills and the greater the gap will be. As the OECD report noted, 'there are grounds for much disappointment in the near future, due to a need both for managerial training for small entrepreneurs and vocational training for their skilled workers' (OECD, 1998, p. 24).

The OECD report on SMEs noted in particular the lack of financial skills among SME owners who 'do not know how to deal with banks and western investors' (OECD, 1998, p. 77). Only a tiny minority of small entrepreneurs use any of the services of the business advice networks, mostly set up with support from the Know How Fund and TACIS, about which they have little or no information and whose services, most of which must be paid for, they cannot afford. While training courses have been developing for executives of large companies which have the funds to pay, the costs put such training and consultancy beyond the reach of virtually all small businesses: the OECD report cites the typical costs of a business management course at the end of 1995 as \$2,500-3,000, of short courses as from \$10 to \$200 per day and of consultancy in Moscow as \$50-100 per hour for tax advice, accountancy services as \$300-700 per month and for auditing as \$3,000-5,000 (OECD, 1998, pp. 74, 76). Two-thirds of the entrepreneurs in our survey earned less than \$300 per month. The result is that there is very little training provision specifically oriented to the needs of small businesses. Thus, according to the Russian Chamber of Commerce and Industry Report for 1995 98% of the demand for business training in Russia, and 88% in Moscow, went unmet. According to survey data, Russian businessmen receive 90% of

their business information through personal connections, while only 4% consult specialist literature or use consulting services (cited OECD, 1998, p. 78).

With such a low level of training provision even for the owners and directors of new private enterprises, it should be no surprise to find that more general provision is even worse. Public sector training is at the moment primarily the responsibility of the Federal Employment Service, which supposedly controls 'up to 60 per cent of educational services in the labour market' (OECD, 1998, p. 72) and still claims to provide training for a substantial number of unemployed, although normally they will nowadays only provide training for those who already have a job promised at the end of the course. Our survey data indicates, as already noted, that the unemployed are the least likely to receive any training and that the Employment Service, whatever it may claim, in practice plays almost no training role. Only 3% of our respondents had ever undertaken training under the direction of the Employment Service, and even of those who had trained while unemployed only 14% had attended such courses, the rest training on their own initiative. Only one of the 124 people in our sample currently undergoing training was taking a course provided through the Employment Service. In the October 1997 Labour Force Survey in our four oblasts not one of over 13,000 respondents said that he or she was not available for work because he or she was currently taking a training course organised by the Employment Service, one of the first options offered in the questionnaire.

The problem of training is only one aspect of the problem of the reform of the whole educational system, particular in the areas of technical education and training. While a start has been made on the development of a new system of public training provision, based on educational institutions rather than the workplace, there is no coherent policy underlying this development nor is there any system of funding in place, while it is very difficult for such institutions to anticipate at the present stage precisely what skills will be required in the future.

Like so many policy areas in Russia after eight years of reform, the problem with regard to training is not to know what to do but where to begin – the real problem is not a vacuum of power but a vacuum of policy.

# Employment and working conditions in the new private sector

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There have been quite a lot of studies of the external economic relationships in which small businesses engage, but there has been no research on employment and working conditions in the new private sector. In our household survey we asked a series of questions about employment conditions. In this section we will review the results of the analysis of the answers to these questions, and identify the significant factors affecting the pattern of answers derived from a series of logistic regressions, whose full results are not reported for reasons of space. This enables us to control for other factors in determining the extent to which employment relations are different in new private enterprises.

In the existing literature on employment in the private sector we find two contradictory assertions. On the one hand, it is said that employment in the private sector is 'short-term, informal, invisible to third parties, based on personal connections and personal trust, extremely flexible and mobile and extremely insecure for the employee' (Gimpel'son 1997, p. 97). On the other hand, it is noted that 'employment here is more stable which is related, mainly, to the branch characteristics and small size of the overwhelming majority of private enterprises' (Khibovskaya 1996b, p. 46). In order to investigate the characteristics of new private sector employment we divide the question into two parts: first, we will look at the forms of contract, then we will turn to such features of employment as its flexibility.

## FORMS OF CONTRACT

Under the labour legislation that is currently in force in Russia employees are normally hired on a permanent basis and should be issued with individual contracts of employment, although many enterprises continue the traditional system of permanent hire without

issuing a contract. Apart from probationary periods at the beginning of a contract, fixed-term and sub-contractual arrangements are legal only where such arrangements are determined by the nature of the work. Hiring on the basis of a verbal agreement is illegal.

The majority of employees in the new private sector are hired on the traditional basis of permanent tenure, with or without an individual contract,<sup>11</sup> but a substantial number are also hired on the basis of fixed term contracts or illegally on the basis of verbal agreements.<sup>12</sup> When we run a multinomial logistic regression to control for other characteristics of the enterprise and the labour force we find that men are more likely to be employed on a verbal agreement than women and verbal agreements are more common in small enterprises and in the trade sector, but overwhelmingly the most important determinant of verbal contracts is new private sector employment. Similarly with regard to sub-contracting for a particular job of work, where the only significant independent variable is new private sector employment. When it comes to employment on a fixed-term contract other factors are more important than the sector of employment. Although such contracts are significantly more likely to be found in the new private sector and are less common in Kemerovo than in our other cities, occupational characteristics are a stronger influence on the likelihood of being employed on a contractual basis, with professionals and senior specialists, clerical, sales and service personnel and, particularly, more senior administrative and commercial staff being much more likely than ordinary workers to be working on fixed-term contracts. Men are also substantially more likely to work on such

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<sup>11</sup> According to the labour force survey supplement data 83% of those in the new private sector were employed on permanent contracts, 4% doing temporary work, 7% on a fixed-term contract and 7% on a sub-contract for particular work. Respondents were not offered the opportunity of saying that they were hired on a verbal agreement.

<sup>12</sup> It is very common for employees of new private enterprises to be formally registered as self-employed, as 'entrepreneurs without juridical status', which saves the employer the non-wage labour costs incurred by direct employment and provides the employee with tax benefits, but it seems likely that most such people in our survey described themselves as working for a private enterprise on sub-contract or on the basis of a verbal agreement. Twenty-three of the 75 people who said that they were basically involved in individual labour activity also said that they worked in enterprises with more than one employee, but half of these involved only one other person, and the largest number involved was seven. Fifty-seven of the 92 people who described themselves as employers said that basically they used the labour of friends and relatives.

contracts than are women. It would seem, therefore, that fixed-term contracts are not used by Russian employers primarily as a means of reducing the job security of lower-grade personnel. Indeed, in an income regression, those people hired by verbal agreement earn slightly less than those on permanent contracts, but those working on a contractual or sub-contracting basis earn more than others, controlling for sector and a full range of branch, occupational and socio-demographic variables.

When we explore the relationship between form of contract and a series of subjective assessments of work and employment, we find no significant relationship at all: there is no difference between employees on different forms of contract in their evaluation of their pay, opportunities for promotion, working conditions, work regime, possibilities of obtaining housing or other social benefits except that, paradoxically, those on contract tend to be *more* satisfied with the social benefits offered by their employer while those hired on verbal agreements are slightly less satisfied with the work regime and with working conditions. When it comes to work orientations, as one would expect, those working on sub-contract are less likely to see their job as a career and both those on sub-contract and those working on contract are less likely to be willing to sacrifice higher pay for job stability. Finally, those working on contract are slightly more strongly oriented to work than others, but none of these differences are large.

Fixed-term contracts are not used as a means of hiring temporary employees either. Two-thirds of those working on contracts of up to one year have been in their present job for more than one year, in both the traditional and new private sectors, and just over a third of those in traditional enterprises for three years or more. Fewer people in the new private sector have such long tenure, but almost three quarters of all new private sector employees have tenure in their present job of less than three years.<sup>13</sup> About half the people with contracts of up to five years in traditional enterprises have in fact been working in their present job for more than five years – indeed fewer, only a little over a third, of those with permanent contracts have been in their present jobs

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<sup>13</sup> Of course, this is partly because of the recent growth of the new private sector, but Petr Bizyukov has shown, using this data, that labour turnover is also significantly higher in the new private sector, controlling for other relevant variables (Bizyukov 1999).

for as long. Sixty per cent of those hired to do a particular piece of work have been in their present jobs for more than a year, and just over 20% have been in their present job for over five years. The tenure of those hired on verbal agreements is very similar, although only ten per cent have been in post for more than five years. It is clear that the use of different forms of contract by Russian employers requires further research.

*Table 0.1: Forms of contract by sector of employment. Percent.*

Percentage distribution	State	Budget	Privatised	New Private	Total
Permanent without a contract	77	73	72	34	67
Permanent contract	14	14	18	29	18
Contract from 1 to 5 years	5	10	4	6	6
Contract of up to 1 year	3	2	4	9	4
Contract for a specific task	1		1	5	2
Hire on the basis of a verbal agreement	1	1	1	18	4

As would be expected, the duties attached to the post are defined verbally for 90% of those hired on a verbal agreement, but only for a minority of those hired on a contractual basis does the contract actually specify their duties. The differences between new private and traditional enterprises in the ways in which the employee's duties are defined are determined by the different forms of contract under which they are hired: the differences cease to be significant once we control for this factor.

*Table 0.2: How are your duties defined?*

Percent	State	Budget	Privatised	New Private	Total
Individual contract	8	9	11	22	12
Job specification	71	74	65	26	62
Verbally on hiring	21	17	23	52	26

The variety of forms of contract found in the survey data reflects the findings of our case study research into new private sector employers. In reality a traditional or new type of permanent contract provides no guarantee of employment stability. Although many private employers complain about the complexity of the procedures for the dismissal of employees laid down by the Labour Code, in practice they do not

present any kind of barrier to dismissal. There is nothing novel or innovatory in the procedures employed by new private sector employers, which are those which have long been practised in traditional enterprises. The most widespread method is the 'squeezing out' of the employee, so that he or she is forced to leave 'at his or her own will'. For example, an employee may not be given any pay increase when others get a rise, or may be transferred to an undesirable work schedule and so on. The General Director of one private firm described his methods:

When I really have to get rid of somebody and he insists that he is not going, I prepare two orders: one for his leaving at his own will, the other for his dismissal for absenteeism, and to the latter I attach a document with the signatures of several witnesses, even if such a thing had never happened. This shows the person that if he appeals to the court he will lose the case. And as a rule the person chooses the first alternative.

If the form of contract does not present any obstacle to dismissal, this would explain why the form of contract in itself does not play a decisive role in determining the relations between employer and employee. But this does not by any means imply that the contractual form is purely fictional. For example, those employers who are oriented to the stable development of the firm themselves prefer to hire people on a permanent basis. At one of these firms, in which the majority of employees work on permanent contracts, the director had a very negative reaction to fixed-term contracts, noting that he 'creates permanent jobs and considers it necessary to take people on a permanent basis'. At an auto parts company all employees are hired on a permanent contract. The employer explained his use of this form of contract by its attractiveness to good employees, while for bad workers, in his view, the employer could always find a sufficient basis to dismiss the worker within the terms of the contract.

In new private enterprises, according to our case study research, it is very common for employees to be hired initially on a fixed-term contract or for a probationary period (which can be up to three months according to Article 21 of the Labour Code) and then transferred to a permanent contract after a certain period of time: the temporary contract serves as a kind of 'sieve', with those workers who have proved their worth passing through it and being attached to the firm on a permanent basis.

## FLEXIBILITY

Some commentators have recently argued that the existing labour legislation is a barrier to the flexibility of employment that is required by a modern economy, and this has been the driving force behind recent proposals to reform the labour legislation. It is argued that the use of illegal contractual forms by new private enterprises is the spontaneous response of new private sector employees to overcome the limitations of existing legislation in order to achieve the required flexibility (Zenkin et al. 1998). However, there has been no research into the extent to which employment is in fact more flexible in the new private sector.

It has become customary to distinguish different aspects of employment flexibility. First, there is numerical flexibility: the ability of employers to reduce the labour force in accordance with fluctuations in production need. This is supposedly facilitated by fixed-term contracts, sub-contractual arrangements and by limited restrictions on the right of the employer to fire an employee. We have already seen that new private sector employers make extensive use of such contractual forms, but we have also seen that this does not appear to have a significant effect on the security of employment of their employees.

The second form of flexibility is functional flexibility, which refers to the ability of the employer to move employees between tasks and to require them to work in several different trades in accordance with production need.

The third form of flexibility is hours flexibility - the ability of the employer to vary the hours worked by the employee in accordance with the fluctuating demands of production.

Flexibility can be achieved by more indirect means that increased management control of the work process. In particular, employers can introduce payment systems that encourage workers to take a greater interest in the results of their labour. We therefore need to look at payment systems to see to what extent new private enterprises have overcome the rigidities of traditional payment systems to provide employees with greater incentives.

Finally, we will look at the extent to which the Soviet tradition of

authoritarian paternalism is preserved in new private enterprises by looking at a number of indicators of managerial power and at the provision of welfare benefits by new private enterprises.

### **Employment flexibility**

The first form of flexibility to be considered is numerical flexibility: to what extent are new private enterprises more able to adjust the number employed in response to changing production needs?

Those working in private enterprises are more likely, and those in new private enterprises far more likely, to say that they can be dismissed illegally, without any formal grounds.

*Table 0.3: Can you be dismissed from work without any formal grounds?*

Percent	State	Budget	Privatised	New Private	Total
Yes	21	16	28	52	27

However, this indicates only that new private enterprises are less likely to follow the legally prescribed procedures for dismissing or laying off workers. This does not necessarily mean that they are any more able or any more inclined in practice to reduce their staff. We know very well that traditional enterprises have had no difficulty in reducing the size of the staff when they want to do so, by creating conditions in which people leave voluntarily or by persuading them to do so under the threat of redundancy. Thus, there have been very substantial staff reductions in the traditional sector, despite the fact that the overwhelming majority of quits continue to be registered as voluntary (Clarke 1998a, Standing 1996).

Enterprises in non-industrial branches and smaller enterprises are substantially less likely to have experienced staff reductions in the last twelve months, but even allowing for these factors staff reductions are less likely to have taken place in new private enterprises and substantially more likely to have taken place in privatised enterprises than in state enterprises and organisations. Of course, privatised and state enterprises were already burdened with the legacy of an excessive labour force in the face of economic decline, while new private enterprises have only recently developed, are relatively more

prosperous, and so would be expected to have much less need to reduce the labour force. Nevertheless, even when we introduce indicators of such difficulties into the regression (relatively lower wages, relatively less stable, non-payment of wages, lay-offs and short-time working), we find that new private enterprises are still much less likely to have made staff reductions.

*Table 0.4: Have there been any staff reductions at your enterprise in the last twelve months?*

Percent	State	Budget	Privatised	New Private	Total
Yes	59	43	72	23	51

In the household survey we did not explore the reasons why people left their previous job, but we did ask respondents in the labour force survey supplement, the results of which are presented in Table 5.5 below. We can see clearly from this table that those leaving jobs in the new private sector were much less likely to have left the job as a result of redundancy and much more likely to have left as a result of the closure of the enterprise.<sup>14</sup> This would indicate that, as in other countries, the numerical flexibility of small enterprises is achieved primarily through liquidation: such enterprises find it much more difficult to survive through difficult times and find themselves bankrupt before they can put any effective restructuring plans into effect. On the other hand, although the numbers are very small, the labour force survey supplement data does show that those who had been on a fixed term contract (only 23 people) were significantly more likely to have left their previous job as a result of redundancy, while those hired for a specific job of work or on a temporary basis (only 57 people) were more likely to have left as a result of enterprise closure. Of course, this is what we would expect if they had been hired on the proper terms as defined by the law – to carry out a finite piece of work or work which was completed in a fixed period of time.

*Table 0.5: Reasons for leaving previous job by sector of previous employment, Labour Force Survey Supplement data, Kemerovo oblast and Komi Republic, October 1997.*

<sup>14</sup> It should be noted that many of these respondents will have left their jobs in state and former state enterprises a long time ago, which probably explains the lower level of redundancy from these enterprises.

Percent	state	privatised	new private	Total
Closure of the enterprise	6	3	12	6
Dissatisfaction with social benefits	12	1	8	11
Dissatisfaction with level or regularity of pay	26	18	45	28
Fear for stability	3	3	6	3
Personal reasons	40	37	21	38
Made redundant	13	38	9	14
N	1384	71	195	1650

Overall, we cannot conclude that new private enterprises display a higher degree of employment flexibility than traditional enterprises, and the evidence is that when they do reduce employment it is as likely to be by liquidation of the enterprise as by making employees redundant.

### Functional flexibility

There are no significant differences between sectors in the extent to which people are expected to work beyond their job description. Lower white collar and unskilled workers are the least likely to have to work beyond their job description from time to time, while older people, managers and those working in smaller enterprises are most likely to have to work beyond their job description regularly.

*Table 0.6: Do you have to do work which is not part of your job description (what you are told)?*

Percent	State	Budget	Privatised	New Private	Total
From time to time	39	39	41	44	40
Practically always	12	14	16	17	15
No	49	47	43	40	45

Men and those in smaller enterprises are more likely to have to work combining the skills of different professions on occasion, while lower white-collar employees, unskilled workers and those working in the budget and service sectors are less likely to have to do so. This practice is also significantly more common in Kemerovo than in our other three cities. Those working in new private enterprises are not significantly more likely than those in traditional enterprises to

combine professions on a regular basis, once we control for these other factors. There is no evidence of any relationship between the form of labour contract and the degree of functional flexibility. We can conclude that the extent of functional flexibility is affected by branch and occupation, but that the sector of the enterprise and the form of contract have no significant influence on the degree of flexibility.

*Table 0.7: Do you have to combine the work of different professions?*

Percent	State	Budget	Privat- ised	New Private	Total
No	65	68	59	55	63
Sometimes situations arise in which I have to	24	21	30	27	25
I normally combine the work of different professions	11	10	12	17	12

### **Hours flexibility**

In order to get some indication of the flexibility of working hours, we asked respondents on whom or on what the length of their working day depended. We also asked people about their normal work regime and under what conditions they worked overtime.

The determination of working hours is partly a matter of branch and occupation. Thus, managers, unskilled workers and those working in construction and transport are the most likely to be able to determine their own working hours. Men and managers are more likely, and industrial workers are less likely to have to work to finish their job. More senior managers and specialists and older workers are substantially less likely to depend on a superior to decide when they leave work. Those working in industry are much more likely and managers and those working in small enterprises are much less likely to have their working hours defined by law or contract. However, the sector of the economy is also very significant in determining the flexibility of hours. Those working in the new private sector are substantially less likely to have their working hours defined by law or contract, which is not surprising, but they are also more likely to be able to determine their own working hours, although a large part of the difference here derives from differences in work regimes and forms of

contract. Those working in the new private sector are also slightly more likely to have to work to finish the job, and significantly more likely to depend on their manager to determine their hours. The form of contract is not significant, except that those working on verbal agreements and on sub-contracting arrangements are, as we would expect, less likely to have their working hours defined by law or contractual arrangements.

*Table 0.8: On whom or on what does the length of your working day mainly depend?*

Percent	State	Budget	Privat- ised	New Private	Total
On me	5	8	7	11	7
On the situation – I have to work until I finish	29	33	27	38	31
On the manager	15	12	16	30	17
It is defined by documents (Labour Code, contract etc)	51	47	51	21	45

Those working in the new private sector work on average longer hours than those working in privatised enterprises, but not significantly longer than those working in state enterprises or the budget sector. Their working hours are less varied than those working in state enterprises and organisations, as indicated by the standard deviation, perhaps indicating that there is less time flexibility in the new private sector than in the state sector. Differences in hours worked by form of contract are not statistically significant.

Control over working hours is closely connected with the work regime. The work regime in the new private sector is not significantly different from that in other sectors of the economy, except that those in the new private sector are more likely to work a free *grafik*, determining their own working hours. However, the difference is much less dramatic, and only on the margin of statistical significance, once we control for enterprise size and the form of contract, since those working in small enterprises and those working on subcontract or on the basis of a verbal agreement are much more likely to work a free *grafik*. However, it is not immediately obvious what is the direction of causality in the relationship between the form of contract, the form of work regime and the control of working hours. It is clear

from the data that those working a free *grafik* are much more likely to have control of their own working hours, regardless of the form of their contract or the sector to which the enterprise belongs. The work regime is also very significant in determining the form of contract, with those on a free *grafik* being much more likely to be hired on a verbal and particularly on sub-contract. Thus it would appear that much of the difference in the extent to which people have control of their own working hours is determined by their working conditions, with the sector in which they work and the form of contract playing a secondary role.

Most important, from our point of view, than who determines the length of the working day is whether people have a flexible work regime. And in fact we find that those working in the new private sector are no more likely to work flexible hours than those working in the traditional sector, once we control for other variables, nor is the form of contract of any significance in this respect.

*Table 0.9: What is your normal work regime?*

Percent	State Budget	Privat- ised	New Private	Self- employed	Total	
Every day in one shift	66	57	69	58	24	62
Rotating shifts	22	24	23	18	2	22
Flexible time	6	5	5	8	4	6
According to a schedule	3	12	2	5	2	6
Free working hours	2	2	1	12	68	5

Finally, we can look at overtime working. Men and skilled workers are more likely to be paid overtime and are more likely to be paid at a higher rate, while all white collar workers, apart from junior specialists, and those working in trade, transport and services are more likely not to be paid at all for overtime work. Controlling for other factors, those working in the new private sector are more likely to work overtime than those in state enterprises, although the difference from privatised enterprises and budget organisations is small and not statistically significant and there are no significant differences by form of contract. However, there are no significant differences between the

traditional and new private sectors or between the different forms of contract in payment for overtime working.

*Table 0.10: Are you paid for working overtime?*

Percent	State	Budget	Privatised	New Private	Total
Yes, at a higher rate	7	3	9	7	6
Yes, at the normal rate	21	24	21	19	21
No	38	45	39	43	40
I never work overtime	35	27	31	32	33

We saw in the last section that new private sector enterprises did not appear to differ significantly from traditional enterprises in the degree of functional flexibility, and that the form of contract was also not a significant determinant of such flexibility. There is some evidence that new private enterprises display a higher degree of ‘hours flexibility’, in the sense that working hours are less likely to be determined by law or contract and more likely to be determined by the manager or, particularly, by the worker him or herself, part of the difference being determined by differences in work regime.

In our case studies we found that even in those private enterprises in which there was a written agreement that working hours would be in accordance with the Labour Code, in practice they were often determined informally. In one enterprise the management had worked out a contract with so-called ‘special powers’. Apart from the amount of pay, the contract specified special working conditions, in particular, that the employee would show initiative and enterprise and would fulfil his or her assigned tasks and the orders of management efficiently. If the employee did not meet these conditions, the contract would be terminated and the employee dismissed. It was proposed to sign such a contract with office workers and specialists, although so far it had only been used as a guideline for managers. Of course, there could never be any universal criteria by which to assess performance in such terms. Any such assessment would depend on the subjective opinion of the manager or on the habitual demands and intensity of work that had developed over a period of time.

However, it is not at all clear that managers in the new private sector are any more or less able directly to determine the hours worked than are managers in the traditional sector: employees in the new private sector are no more likely to work flexible hours than those in the

traditional sectors of the economy, and the hours they normally work are in fact less varied than in the traditional sectors, although they are more likely to work overtime. In some firms there is a tacit principle of working as much as is necessary, and each employee decides for him or herself how much work it is necessary to do, although in practice this usually leads to a lengthening of the working day and the working week. We found this kind of situation most frequently in those enterprises where the old form of permanent contract predominated and there were no job specifications regulating the work of the employees. In these conditions a definite work regime had developed which had established its own kind of traditions and which was reproduced without any formalisation. It would seem, therefore, that new private enterprises differ from traditional enterprises in the lesser degree of formalisation of employment relations, with managers and employees more likely to make their own decisions, than in any greater degree of flexibility. This conclusion is confirmed by the fact that the contractual form has no significant influence on the degree of hours flexibility.

## PAYMENT SYSTEMS

Management may have control over the hours and intensity of work not directly, but through an incentive payment system which links payment to work done. New private employers almost universally consider that everybody should be paid by results. As one owner of a private enterprise put it: 'Every person should have an interest in the final result. And the final result is the profit of the enterprise. If the enterprise has not made a profit, it means that everyone together has to tighten their belts so that it is not ruined, so that they can continue to work there'.

However, different forms of payment are appropriate for different categories of employee. The general tendency is for management and a part of the administrative personnel to be paid on fixed salaries, while the ordinary employees are typically paid according to the results of their work, with payment on commission being common in trade and services and collective piece-rate systems being common in construction.

The size of salary is usually determined by agreement with the director, who will be guided by the average level of salaries at similar enterprises, taking into account the 'subjective element': 'I have known this man for a long time, he is a good specialist and will earn this money, and it will also bring me a profit, but I do not know the other person and I still have to see how well he works, and then maybe I will increase his pay too'.

Workers in new private enterprises are often paid in two parts: the first part is a relatively low wage that is paid officially, to minimise tax and social insurance obligations. The second part is paid under the table, often as a bonus. For example, in one of our case study trading firms bonuses are paid in cash, depending on the profit at the end of the month, and are not recorded in any documents. Official salaries in an advertising agency are below average, but in fact workers receive the salary plus the 'black money' which is not entered in the accounts. In each department a bonus was paid depending on the results of the work of the quarter, above a certain level. This was paid in money that was 'off the accounts'. The size of this part of the employee's payment depends to a considerable degree on the management's evaluation of the workers. In many of our case study firms the bonuses are paid at the discretion of the director, without any elaborated bonus system.<sup>15</sup>

Although the employee might enjoy some benefit from not having to pay personal income tax on undeclared earnings, the employee has no right to the payment of the undeclared wages, which are paid at management discretion and may be withdrawn at any time, and loses some of his or her entitlements to the many earnings-related benefits paid from social insurance funds. The double standard in payment also has negative consequences for the development of the labour market. The worker receives only the most confused of signals about the level of wages in comparable private enterprises, so the only reliable sources of information are through personal connections and the only way to determine what in fact the wage will be is to make an individual arrangement with a particular employer. At the same time, the illegality involved in these systems of payment puts a premium on

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<sup>15</sup> The feedback from our interviewers indicated that our survey respondents have, at least on the whole, reported their total earnings, including payments on the side. This impression is confirmed by the substantially higher wages reported by new private sector employees that we discussed above.

personal loyalty, providing an incentive for the employer to rely on hiring through personal connections and to make individual ‘opaque’ arrangements with the worker when he or she is hired. We have found that it is very rare for formal labour contracts in the new private sector to include any concrete items on the level of payment for work, bonus scales, social privileges and so on. This all complicates the free circulation of information about alternative conditions of employment and so impedes the equalisation of wages between different employers in the same professions. This may be one reason why we find considerable variation in levels of pay even within the same city.

If we return to the survey data, we find confirmation that those working in new private enterprises are much less likely to be paid on time wages than those in traditional enterprises, and correspondingly much more likely to be paid on individual piece rates or on a commission basis. When we control for branch and occupation the differences between new private and privatised enterprises are much more substantial than indicated in the table, because piecework payment is much more common in industry and construction and for skilled workers. Individual piece rates are also more common than collective piece rates in new private enterprises. Thus, it would appear that various forms of incentive payment system are much more common in new private enterprises, controlling for other relevant characteristics. Those working on verbal agreements, and particularly those working on sub-contract, are more likely to be paid on piece-rates and less likely to be paid on time-rates, but there are no other significant differences according to the form of contract.

*Table 0.11: Forms of payment*

Percent	State	Budget	Privat- ised	New Private	Total
Individual piece rate	9	5	13	19	11
Collective piece rate	6	2	11	11	7
Time pay	81	91	68	53	76
Mixed form of payment (time and piece)	4	1	6	7	4
Payment on commission	1	1	2	10	3

As against this, those employed in new private enterprises are much less likely to be paid a bonus than those in traditional enterprises.

Small enterprises and those in the spheres of construction, trade and the public sector are less likely to pay bonuses so that when we control for branch and enterprise size, those working in privatised enterprises are also less likely to receive a bonus than those in state enterprises and organisations. Of those receiving a bonus, the size of the bonus is larger in trade and services, for those working on a verbal agreement and for those working in privatised enterprises, but not significantly larger for those working in the new private sector and does not vary by form of contract. The bonus is more likely to be variable in small enterprises, in transport and for those working on verbal agreements or on a free *grafik*. Controlling for these factors, it is not significantly more likely to be variable in new private enterprises.

*Table 0.12: Percentage being paid a bonus, by sector*

Percent answering yes	State	Budget	Privatised	New Private	Total
Are you usually paid a bonus?	55	42	47	21	43

*Table 0.13: What proportion of your pay is in the form of a bonus?*

Percentage distribution	State	Budget	Privatised	New Private	Total
Less than half basic	63	66	56	41	60
About half basic pay	13	10	15	20	13
More than half basic pay	7	5	7	3	6
About equal to basic pay	4	5	6	7	5
More than basic pay	2	1	2	3	2
It varies	12	12	14	26	14

The bonus system in new private enterprises, where it exists, is more likely to depend on the results of the work of the individual employee or the work collective, reinforcing the finding above that new private enterprises link pay more closely to results. The bonus is more likely to be determined by the availability of funds in smaller enterprises but is less likely to be determined by the availability of funds in the new private sector, once we control for enterprise size, probably reflecting the fact that new private enterprises do not suffer such severe financial problems. The bonus is more likely to depend on the manager's attitudes in the sphere of trade and services, but there are no significant differences by sector or by form of contract, nor are any such differences significant in the proportions receiving a fixed bonus,

once we control for other factors.

*Table 0.14: On what does the size of your bonus mostly depend?*

Percentage distribution	State	Budget	Privat- ised	New Private	Total
On how well I work	14	23	11	21	16
On how our collective works	29	15	32	39	27
On the availability of money (profits) in the enterprise	26	20	31	20	25
On the presence of money in the budget	5	18	1	1	7
On the attitude of the manager	4	8	4	8	5
The bonus is a fixed proportion of pay	22	17	21	10	19

We can conclude that the payment systems do differ significantly in new private enterprises, with payment of both wages and bonuses being tied more closely to the results of the employee's work. Privatised enterprises also use more flexible payment systems than does the state sector, but not to the same extent as new private enterprises. Given the inflexibility of the wage system that was a feature of the Soviet enterprise this is an important difference. However, differences in the form of contract are only of marginal significance and seem to be related primarily to the greater degree of managerial discretion in the determination of the pay of those on verbal agreements and the greater use of piece-work payment for those working on sub-contract.

## AUTHORITARIAN MANAGEMENT

We have seen that management in new private enterprises appears to have more discretion in determining pay and working hours than they do in traditional enterprises, even when we control for the size of the enterprise, but at the same time workers also have more discretion in determining their own working hours and, through incentive payment systems, have more control over their own pay. This appears to be primarily because employment relations are less formalised in new private enterprises. It does not necessarily mean that managers in new

private enterprises use their powers to pursue more authoritarian and exploitative policies than do those in traditional enterprises, inheritors of Soviet authoritarian traditions.

This impression is confirmed by our case studies, which showed that as a rule employees' duties were not defined in writing, nor were the hours or the terms and conditions of work formalised. It was quite common for job descriptions to be provided after the various tasks had been distributed among the employees, so that the tasks were not assigned to the position but to the concrete person and were correspondingly the responsibilities of that individual (which very much conforms to what was the reality of the traditional Soviet practice). However, such lack of formalisation of employment relations was a feature of greater informality rather than having any necessary relation to greater managerial authoritarianism. The character of relationships within the new private enterprises which were the object of our case studies varied enormously, from exploitative and authoritarian to highly co-operative and collegial relations.

We have just seen that employees of new private enterprises are much more likely to face the threat of illegal dismissal, without any formal grounds. New private sector employees are also much more likely to be fined arbitrarily than are employees of traditional enterprises. Those hired on purely verbal agreements or working on subcontracts are also much more likely to be illegally dismissed or fined. There are also significant differences between our cities, with those working in Moscow or Kemerovo significantly more likely to face illegal sanctions than those in Samara, Lyubertsy or Syktyvkar.

*Table 0.15: Can you be fined without any formal grounds?*

Percent	State	Budget	Privatised	New Private	Total
Yes	22	17	25	37	24

There are no significant differences between different property forms or forms of contract in the extent to which employees can argue with their superiors without facing any consequences, although men are much more able to do so than are women, as are managers and professionals and those working in smaller enterprises.

*Table 0.16: Can you argue with your superiors at work without suffering any consequences?*

Percent	State	Budget	Privatised	New Private	Total
Yes	36	42	41	41	40

Those working in the new private sector are much less likely to have breaks at fixed times and are much more likely to take a break when they think it is necessary or to fit in with the needs of production. However, the apparently greater dependence on the manager's permission in the case of new private sector employees ceases to be significant once we control for other factors, particularly because those working in trade are substantially more likely to have to get the manager's permission to take a break or to fit in with the rhythm of production and substantially less likely to have fixed breaks. The form of contract is again not significant in this respect.

*Table 0.17: When do you take breaks from work?*

Percent	State	Budget	Privatised	New Private	Total
When I think it is necessary	15	18	13	26	17
Only with the permission of a manager	4	3	3	7	4
Only at a fixed time	51	40	55	25	45
It depends on the needs of production	30	39	30	41	34

The other side of the employment relation is the extent to which employees have channels through which to represent their interests and to bargain with management, through trade union organisations and the negotiation of collective agreements. One problem in investigating these questions is the extent to which employees actually know whether or not such institutions exist: many people have a deduction made from their pay for their union fees, but may not know that they are actually union members.

Knowledge of the existence of a collective agreement is even less widely diffused. Thus, in our sample, older employees, professionals and specialists are significantly more likely to report the existence of a collective agreement than younger employees and clerical and manual workers, even controlling for all other factors, the most probable

explanation for which is that these categories are more likely to know about the existence of such an agreement. However, the differences between new private and traditional enterprises are sufficiently striking as not to be in doubt.

Collective agreements are much less likely to be found in non-industrial branches of the economy (there are fewer collective agreements in the budget sector because this sphere is covered by administrative regulation and government determined pay scales). Collective agreements are less common in smaller enterprises, but even allowing for all these factors, collective agreements are far less likely to be reported from new private enterprises than from traditional enterprises. As we would expect, they are also far less likely to be found in enterprises which hire people on the basis of verbal agreements.

*Table 0.18: Is there a collective agreement at your enterprise?*

Percent	State	Budget	Privatised	New Private	Total
Yes	76	60	76	23	63

The presence of a trade union is even less likely to be reported by new private sector employees than is the presence of a collective agreement, although a collective agreement can only legally be signed by a trade union (it is conceivable, but unlikely, that in those enterprises with a collective agreement but no trade union organisation that the latter has collapsed since the collective agreement was signed). Trade unions are also substantially less likely to exist in privatised than in state or budget sector enterprises, in smaller enterprises and in branches of the economy outside industry and transport. It is interesting to note that significantly more women than men appear to work in enterprises with a trade union organisation. There is much less likely to be a trade union organisation in enterprises employing people on illegal forms of contract: verbal, sub-contract or fixed-term contracts. Or, alternatively, where there is a trade union organisation, it is much less likely that the employer will have recourse to illegal forms of hiring.

*Table 0.19: Is there a trade union organisation at your enterprise?*

Percent	State	Budget	Privatised	New Private	Total
Yes	85	79	75	10	68

Not surprisingly, trade union members are as rare in the new private sector as are reports of the existence of trade union organisation, and those on illegal contracts are much less likely to be trade union members. Significantly fewer people in the traditional sector report that they are members of a trade union organisation than indicate that a trade union organisation exists in their enterprise. There are big differences between our four cities in this respect, with people in Syktyvkar much less likely and people in Lyubertsy and Samara much more likely to belong to a trade union than people in Kemerovo. Men and younger people are much less likely and women and older people more likely to be trade union members. Those working in industry and transport are more likely to be members of trade unions, as are those working in larger enterprises. Managers, professionals and specialists are no less likely to be trade union members than are skilled workers, but lower-level white collar workers and unskilled manual workers are substantially less likely to be union members. This says something about the role of the Russian trade union as representative of the common interests of managers and skilled workers!

*Table 0.20: Are you a member of a trade union?*

Percent	State	Budget	Privatised	New Private	Total
Yes	69	62	65	10	56

The evidence regarding managerial authority in the new private sector is inconclusive. As noted above, the greater likelihood of being fined or dismissed illegally may be simply a reflection of the fact that employment relations are less formalised in the new private sector, since traditional enterprises have plenty of experience of imposing arbitrary penalties on their employees without formal violation of the law. Similarly the absence of trade unions and collective agreements may be another expression of the lower degree of formalisation of employment relations rather than necessarily of the inferior situation of employees of new private sector enterprises.

## ENTERPRISE BENEFITS

Employers are required by law to provide paid vacations, sick pay, medical insurance and maternity leave for their employees. Almost all state enterprises and organisations and the overwhelming majority of

privatised enterprises do so, but only a bare majority of new private enterprises provide the first three benefits, and only a minority provide maternity leave. Only a small part of the difference is explained by the small size of new private enterprises or their concentration in the trade and services sectors, which are less likely to provide these benefits whatever their property form.

The difference between state, privatised and new enterprises and organisations in the provision of the traditional non-obligatory social benefits is less, but still substantial. Again, part of the difference can be explained by the size and sectoral characteristics of new private enterprises, since these benefits are much more likely to be provided by larger enterprises and by enterprises in the industry and transport branches. Interestingly, these benefits are substantially less likely to be provided by employers in Kemerovo than in our other three cities, and managers, professionals and specialists are more likely to report that their enterprise provides these benefits.

The final four benefits on our list are mostly more recent innovations, which involve the provision of benefits by the enterprise in monetary form. The difference between new private and traditional enterprises is much less with regard to the provision of these benefits. Differences in the provision of subsidised food are accounted for by the branch characteristics of new private enterprises: subsidised food is much more likely to be provided by industrial enterprises. Privatised and new private enterprises are equally less likely to provide transport subsidies than are state enterprises and organisations. There are also big differences between our cities in this regard, which do not seem to be related to city size: they are substantially less likely to be paid in Samara and Syktyvkar, the largest and smallest cities, than in Moscow or Kemerovo.

Small enterprises and enterprises in the trade sector are much less likely to pay for their employees' training, and older people, those with lower levels of education and ordinary workers, as opposed to more senior white collar workers, are significantly less likely to be offered training. Interestingly, in view of the fact that women are more likely to train than men, men are more often trained at the expense of their enterprise. These factors explain a substantial part of the difference in the levels of provision of training at the employer's expense in new private as against state enterprises and organisations.

The provision of credit and loans may be related to the problem of the non-payment of wages: it is much higher in Kemerovo, where wage delays are much greater, and for prime-age employees, who tend to be the most in need since they are more likely to be responsible for supporting their families. On the other hand, enterprises with a history of non-payment of wages are substantially less likely to provide such forms of material assistance. The smallest enterprises (fewer than ten employees) are less likely to provide such facilities, but once there is more than a handful of employees the size of the enterprise ceases to be significant.

*Table 0.21: Which of the following social benefits are provided for employees of your enterprise (percentage responding yes to each benefit)*

Percent	State	Budget	Privat- ised	New Private	Total
Regular paid vacation	97	99	95	59	90
Sick pay	98	99	95	52	90
Obligatory medical insurance	92	94	94	57	87
Paid maternity and child care leave	96	98	94	39	88
Payment for medical treatment, additional medical insurance	26	27	20	10	22
Full or part payment for trips to rest homes, tourist bases or children's camps	55	53	50	11	45
Payment for child care facilities	24	26	20	3	19
Financial assistance	50	51	45	28	45
Free or subsidised food	15	17	19	14	16
Transport subsidies	25	23	14	13	19
Training at the employer's expense	31	47	32	20	34
Provision of credit or loans	24	20	26	21	23

There are significant differences in the provision of social benefits depending on the employee's form of contract, controlling for other

variables. Enterprises which hire people on purely verbal agreements or on a sub-contracting basis are much less likely to provide all four of the legally required benefits, controlling for other factors, and they are also much less likely to provide subsidised transport for their employees, while those on verbal agreements are much less likely to receive subsidised food or training at the expense of the enterprise. Those on fixed term contracts, on the other hand, are barely distinguishable from those on permanent contracts, confirming our repeated impression that the significant differences are between verbal and subcontracting arrangements, on the one hand, and other forms of contract, on the other, with the use of fixed-term contracts having little substantive significance.

## ENTERPRISE DIFFICULTIES

To what extent can differences between enterprises be accounted for by differences in their economic situation? It is notoriously difficult to get accurate information on the real condition of a Russian enterprise, even if one has access to its accounts, and we certainly cannot get such information from a survey of employees. However, there is a series of indicators of difficulties that we can use as indicators of such difficulties. We will first look at the different components, and then review the significance of the economic situation of the enterprise as a whole.

The most dramatic manifestation of the difficulties faced by Russian enterprises is delays in the payment of wages and the payment of wages in kind. The proportion of new private sector employees owed wages by their employer is less than half the average for all enterprises. However, we have seen that new private enterprises are concentrated in the sphere of trade and services, where the incidence of wage delays is very much less than in other branches of the economy. When we control for these factors the difference in the incidence of wage debt is much less dramatic. If we take the sphere of trade and services alone, 13% of new private sector employees, against 19% of privatised enterprise employees and 33% of state enterprise employees, are owed wages. The difference with regard to the payment of wages in kind is less dramatic. This phenomenon is much more common in industry than in other branches of the economy, and

once we control for sector the difference between new private and state enterprises ceases to be statistically significant.

*Table 0.22: Does your enterprise owe you money for wages/pay part of your wages in kind?*

Percentage Yes	State	Budget	Privatised	New Private	Total
Owes money for wages	42	38	50	18	39
Pays part of wages in kind	17	8	28	13	17

Of those who are owed money for wages, the amount of the debt is *greater* in new private enterprises than in any other sector: it appears that the amount of debt is closely related to relative wage levels. Thus men are on average owed almost twice as much as women, managers and professionals are owed more than workers, while the branch with the highest average debt is finance and insurance. In relation to their average monthly pay, workers are owed more than managers and professionals and men little more than women, while industry and construction have the longest wage delays. Although the absolute amount of wage debt is not significantly different between the sectors, once we control for these other factors, the new private sector still has significantly longer delays than other sectors.

*Table 0.23: Average sum owed for wages/wage debt as a proportion of average pay (mean delay in months for those owed wages)?*

Percentage Yes	State	Budget	Privatised	New Private	Total
Average sum owed (roubles)	3444	1977	3752	3957	3170
Mean delay in months	3.9	2.5	4.7	5.6	3.9

Alternative ways in which an enterprise in difficulties can reduce its expenses are to send workers (usually illegally) on partially paid or unpaid leave, or put them on a reduced working week. Some commentators have seen lay-offs and short-time working as alternatives to the non-payment of wages. To some extent this is the case, since employers cannot get away with the non-payment of wages for very long without losing their best employees if their competitors in the local labour market are paying wages,<sup>16</sup> but in fact the three are

<sup>16</sup> Earle and Sabirianova 1998. Other commentators have suggested that the non-payment

positively correlated with one another so would appear to be complementary means of adapting to a crisis situation.<sup>17</sup>

*Table 0.24: Administrative leave and short time working. Incidence and mean duration in previous 12 months.*

	State	Budget	Privat- ised	New Private	Total
Administrative leave (percent)	12	4	22	20	16
Administrative leave (mean days - all respondents)	7	2	11	5	6
Administrative leave (mean days - all those on leave)	61	47	50	52	53
Reduced week (percent)	10	2	14	16	12
Reduced week (mean days - all respondents)	8	2	12	1	6
Reduced week (mean days - all those on short-time)	88	95	102	25	89

Those working in industry and construction are much more likely to have been sent on administrative leave by their employer than those working in other branches of the economy. Controlling for branch, those working in privatised enterprises were more likely to have been sent on administrative leave than those working in state enterprises and organisations, but administrative leave was no less common in new private enterprises than in the state sector. Controlling for other variables, the mean duration of leave, either across all employees or across those sent on leave was not significantly different in any of the sectors, nor is the form of contract significant.

of wages is a means by which employers mollify workers by giving them increased wages which they have no intention of paying. In fact, the normal level of wages in our sample, controlling for other relevant variables, is 10% less for those who have unpaid wages than for those who do not.

<sup>17</sup> The different forms are correlated at both the enterprise and the individual level. At enterprise level the correlation coefficients are all around 0.35, apart from payment in kind which is less common, and the correlation between short-time and lay-offs, which is just under 0.6. For the individual employee, the correlations are stronger between administrative leave and short-time working (0.54), on the one hand, and between the non-payment of wages and payment in kind (0.36), on the other, than between the two forms of response (around 0.15), indicating that there is a degree of complementarity at the individual level.

On the other hand, although those in privatised and new private enterprises were marginally more likely to have been put on a reduced working week than those in state enterprises, and much more likely than those working in the budget sector, the mean duration of short-time working was very much less in the new private sector than in traditional enterprises.

In addition to asking respondents whether they themselves had experienced any of these difficulties, we also asked whether such problems had arisen at their own enterprise. Here we find new private enterprises much less likely to have experienced redundancies or wage delays than traditional enterprises and organisations, but when we control for other variables, payment in kind, administrative leave and short-time working are not significantly less common in new private than in state enterprises, although they are much less common than in privatised enterprises.

*Table 0.25: Have any of the following problems arisen at your enterprise in the last twelve months?*

	State	Budget	Privatised	New Private	Total
Staff reductions	59	43	72	23	51
Delays in the payment of wages	61	55	67	25	54
Payment of part of wages in kind	22	12	36	14	21
Administrative leave	25	9	45	16	24
Short time working	23	6	33	9	18

## SUBJECTIVE ASSESSMENTS

We asked some questions to gain a subjective evaluation of the workplace and of the respondent's attitude to their job. We asked our respondents to compare their enterprise with other similar enterprises in their city with regard to pay and the stability of working of the enterprise. The purpose of this question was to elicit a subjective assessment as an indicator of the labour market situation, so we deliberately did not define what we meant by a similar enterprise. Nevertheless, it is interesting to compare the answers given by those working in traditional and new private enterprises. As regards pay,

respondents in new private enterprises were slightly more likely to say that their pay was higher than at similar enterprises, but as many replied that their pay was lower. With regard to stability, new private sector employees provided an identical evaluation to that of employees in the traditional sector, although employees of privatised enterprises were significantly more likely to reply that their enterprise was less stable than others.

*Table 0.26: Pay level compared to other similar enterprises in the city*

Percent distribution	State	Budget	Privatised	New Private	Total
Pay is higher than in similar enterprises	10	10	12	18	12
Pay is about the same as at similar enterprises	58	67	55	61	60
Pay is lower than in similar enterprises	33	23	32	21	28

*Table 0.27: Stability compared to other similar enterprises in the city*

	State	Budget	Privat- ised	New Private	Total
Enterprise is more stable than similar enterprises	27	20	25	24	24
Enterprise is about the same as similar enterprises	59	76	54	63	63
Enterprise is less stable than similar enterprises	15	4	21	13	13

Finally, we asked a series of questions about the level of satisfaction of the respondent with their pay, the possibilities of career advance, the convenience of the work regime, the content and conditions of work, the possibility of obtaining housing, social and professional privileges, and the closeness of the workplace to home. We then ran a series of regressions to identify the differences between the evaluations of workers in different sectors. The conclusion was that workers in the new private sector were significantly more satisfied with their pay than those in any other sector, but that they were significantly less satisfied with the work regime, the benefits provided by the enterprise and the closeness of their job to home than those in state enterprises and, to a

lesser extent, those in privatised enterprises and the budget sector. However, private sector employment does not seem to ease financial difficulties for most people – when we asked if their family had experienced financial difficulties in the past two years, 80% of respondents in each sector replied that they had.

Similarly, in their subjective assessment of their economic situation in the Labour Force Supplement, although a third of new private sector employees said that they earned enough to meet their basic needs, significantly more than those working in traditional enterprises, the same proportion replied that they did not have enough money even to buy basic provisions, just as many as gave the same reply in the traditional sector.

When we asked in the household survey if the respondent was thinking of changing his or her job in the near future, those in the new private sector were more likely to reply that they were than employees of any other sector, although the difference is not statistically significant once we control for the age of the employee and the branch of the economy. Those in the new private sector were also significantly more oriented to pay than those in the traditional sectors: they were less likely to feel that it was better to have stable work with a smaller but steady income and they were more likely than those in state enterprises and organisations (but not than those in privatised enterprises) to feel that a good job is one that brings in a good income.

As a final indicator of satisfaction, we asked respondents whether they would prefer to work in the state or the private sector, if they had the choice. The answers indicated that the majority of people are where they want to be, although those in the state sector are rather more content with their situation, at least in principle:

*Table 0.28: Where would you prefer to work if you had the choice?*

	State	Budget	Privatised	New Private	Total
State enterprise	84	82	72	34	70
Private enterprise	16	18	28	66	30

The difference in values between those in the new private sector who would like to work in that sector and those who would prefer the work in the state sector is striking. Twice as many of those who would like to work in the state sector completely agreed with the statement that it

is better to have stable work despite having low but guaranteed pay, and half as men completely disagreed (exactly the same contrast is found among those working in the state sector who would prefer to work in a private enterprise), but those in the new private sector who would prefer to work in a state enterprise were only marginally less concerned about the level of pay than those who wanted to remain in the private sector (and there was no difference between the two groups currently working in state enterprises). There was no difference between the two groups in relation to the importance of work being interesting and enjoyable, the importance of career prospects or work leaving time for other things. It is clear, then, that the appeal of state enterprises to those in the private sector is the greater security that they provide, while the appeal of private enterprises to those in the traditional sector is the higher levels of pay that they can achieve. This perception accords very closely with the picture of the two sectors that has emerged from the analysis above.

## HOW DO ECONOMIC DIFFICULTIES AFFECT EMPLOYMENT RELATIONS?

It is surprising to find that the answer is very little. The biggest impact is on wages and employee satisfaction. Introducing variables for the difficulties outlined above into our wage regressions shows that those working in an enterprise which has had wage delays, payment in kind, administrative leave or short-time working in the last twelve months earn a lower wage, regardless of whether it is paid, than those working in enterprises without such difficulties, and the difference is considerable: an average reduction of 10% each for wage delays, administrative leave and short time and of 5% for payment in kind. If we define a problem enterprise as one with any of these difficulties, then those working in problem enterprises earn on average 15% less than those in enterprises which do not have such problems. About two-thirds of traditional enterprises and one-third of new private enterprises fall into the problem category. Those working in problem enterprises were likely to be more dissatisfied with every aspect of their work, except for the work regime, than those working in enterprises without problems, and were more likely to be thinking of changing their job in the near future.

If we look back at the different aspects of employment relations, we find that problem enterprises are more likely than more prosperous enterprises to exhibit functional flexibility, in requiring employees to work beyond their job description and to combine several different specialisms. This corresponds to the findings of our case study research, that enterprises with problems have lost a large number of staff and in order to maintain production have to encourage such flexibility. However, those in problem enterprises, including those with a history of administrative leave or short-time working do not work significantly shorter hours than those in enterprises which do not have any problems. Employees in problem enterprises are less likely to determine their own working hours, are less likely to work overtime and less likely to be paid for any overtime at a higher rate. They are more likely to face arbitrary dismissal or punishment. Problem enterprises also provide significantly fewer social benefits, including those which should be provided by law. Although respondents in problem enterprises were less likely to say that their enterprise provided training at its own expense, in fact there were not significantly fewer people undertaking training in problem than in healthy enterprises.

The overall conclusion is that the main impact of economic difficulties is felt by the employees, who suffer lower wages, are laid-off or put on short-time, they face an intensification of labour as they are required to combine posts, they are more vulnerable to arbitrary dismissal or punishment, are less likely to be paid for overtime working, and face the loss of social benefits. There is no evidence that economic difficulties promote any significant restructuring of employment relations in a positive direction. Conversely, there is no evidence that the differences between new private and traditional enterprises can be attributed to any differences that there may be in the prosperity of enterprises in the various sectors.

## CONCLUSION: EMPLOYMENT IN THE NEW PRIVATE SECTOR

New private enterprises are very different from traditional enterprises in their size and the branches of the economy in which they are active.

While the new private sector has made rapid progress in the service sector, and has penetrated some light and craft industrial branches, there are few signs of it breaking outside this sphere. Most of the new private enterprises in which our respondents work are very small, were created from nothing by private individuals, have been formed very recently, and are active in the spheres of trade, catering and services. Exactly half of the new private enterprises with more than 100 employees had been formed on the basis of state enterprises or other private organisations, although such enterprises only accounted for one in six of the total number of new private enterprises. Meanwhile, only one in twenty five of the new private enterprises that had been created from scratch had managed to grow to such a size and only four had managed to grow beyond 500 employees. Only five of the 48 new private sector enterprises in industry that had been created from nothing had grown to more than 100 employees, and none to over 500. It will clearly be a very long time before the new private sector makes significant inroads in the productive sphere of the economy.

Many of the differences between new private and traditional enterprises can be explained by differences on these dimensions, rather than by their specific economic form. Nevertheless, controlling for these specific features, there are still significant differences which cannot be explained by features that they share with state and former state enterprises.

New private enterprises are more likely to employ men, employ relatively fewer workers and relatively fewer young and older people, even controlling for differences in branch characteristics, but the structure of the labour force is not strikingly different from that of the traditional sector of the economy. In particular, the educational level of new private sector employees is no higher than that of employees in the traditional sector of the economy even though, with their relatively higher wages and the difficulties faced by traditional enterprises, new private sector enterprises can pursue a more selective employment policy.

Pay levels in the new private sector are substantially higher than those in the traditional sector, with skilled workers, managers and higher professional employees doing particularly well. Those taking a job in the new private sector are significantly more likely to increase their pay by changing jobs than are those moving to a job in the traditional

sectors of the economy. However, they are less likely to face increased demands on their skills. In fact they are much more likely to move to a job which does not require their previous skills at all than are those moving to a job in the traditional sectors. This would seem to indicate what we would expect, that in general the skill level of work in the new private sector is lower than that in the traditional sectors. As we have seen, where specific skills are required, as in the case of professionals and skilled workers, pay in the new private sector is relatively substantially higher, and those with higher levels of education have more chance of increasing their pay than do others with a job move to the new private sector.

New private enterprises need trained personnel, and in many cases they are employing people in new professions in which appropriately trained personnel are relatively scarce. Although new private enterprises are more likely than traditional enterprises to employ people who have trained since 1990, they are less likely to provide such training themselves, tending either to encourage their employees to follow training courses with outside agencies, or leaving it to their employees' own initiative to upgrade their skills. Thus new private enterprises still rely to a considerable extent on previous traditional employers for their training needs.

Employment relations in new private enterprises are much less formalised than in traditional enterprises, even when we control for enterprise size. This is reflected in the much higher proportion of people employed on (illegal) fixed-term contracts, on verbal agreements and through sub-contracting arrangements. However, the fact that new private sector employers much more readily use these apparently less secure forms of contract does not necessarily imply any significant differences in the employment relations that result. As far as fixed-term contracts are concerned, there do not seem to be any significant differences between those on such contracts and those on permanent contracts: if anything their terms and conditions of work are better. Fixed-term contracts seem to be used more widely for white-collar workers, and particularly for more senior administrative and commercial staff, and are not used as a means of reducing job security. Thus those on fixed-term contracts do not have significantly shorter job tenure than those on permanent contracts.

The use of verbal agreements and sub-contracts appears to have a

more significant impact on employment relations, with those on verbal agreements earning slightly lower wages, but job satisfaction of those hired on such terms does not seem to be any less than that of those hired on traditional permanent contracts of employment.

The main justification that has been put forward for the use of illegal forms of contract has been that they encourage the more flexible use of labour. We explored, as far as we could with the data at our disposal, the extent to which new private enterprises use labour more flexibly, and the connection with the forms of contract, on a number of different dimensions.

As far as numerical flexibility is concerned, although new private sector employees tend to be on less secure forms of contract and their employers are more likely to resort to summary dismissal, redundancies have been substantially less common in new private enterprises than in the traditional sector: new private enterprises are more likely to close altogether and less likely to lay off workers than are traditional enterprises. Of course, these differences may simply be a reflection of the greater prosperity of new private enterprises and the fact that they do not have the legacy of an inflated labour force, but these differences remain significant even when we control for the incidence of a range of economic difficulties. The question remains an open one, but there is no evidence that new private enterprises display a higher degree of numerical flexibility than do traditional enterprises.

When we looked at functional flexibility, we found that there were no significant differences between new private and traditional enterprises in the extent to which employees were required to work beyond their job description or to combine trades, nor did the form of the contract make any significant difference.

The flexibility of working hours is more difficult to assess. The determination of working hours is less formalised in the new private sector, depending much less on law, labour contracts or collective agreements. The result is that working hours in the new private sector are more likely to be determined by the manager, as compared to the traditional sectors, but they are also more likely to be determined by the employee him or her self, the differences appearing to depend primarily on the work regime, which also affects the form of the contract on which people work: again the difference between state and

new private enterprises appears more in the degree of informality of labour relations in the latter than a greater degree of managerial discretion. The working day is not significantly longer in the new private sector, the length of the working day does not appear to be more varied, and people are no more likely to work a flexible regime. While new private sector employers are no less likely to put their employees on a reduced working day or a reduced working week than those in the traditional sectors of the economy, the reduction of working hours involved tends to be substantially less.<sup>18</sup> Thus there is no evidence of greater flexibility of working hours in the new private sector nor that the form of contract has any effect.

The one area in which new private enterprises do appear to differ significantly from those in the traditional sectors is in their payment systems, with the use of piece-rate payment systems, and particularly of individual piece-rates, being more common in the new private sector, even controlling for such factors as branch and enterprise size. Although new private enterprises are less likely than traditional enterprises to pay bonuses, when they do so these are more likely to be tied to the results of the work of the individual or the labour collective. Differences in the form of contract, however, are of only very marginal significance in this respect.

At first sight it appears that management in new private enterprises is even more authoritarian than in traditional enterprises, in the sense that employees are more likely to run the risk of arbitrary dismissal or fines, are more dependent on the permission of management to take breaks in the working day, and are much less likely to have either a trade union organisation or a collective agreement. However, as in the case of contracts of employment, it is not clear that these are indicators of greater authoritarianism rather than greater informality in the employment relation.

While new private sector employees enjoy substantially higher rates of pay than do those in traditional enterprises, they also receive substantially fewer social and welfare benefits. They are even very likely to be denied the legally prescribed minimum benefits of paid

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<sup>18</sup> In the Labour Force Survey data workers in the traditional sectors of the economy were significantly more likely than those in the new private sector to have worked fewer hours than normal in the reference week.

holiday, sick pay, compulsory medical insurance and maternity leave, particularly if they are hired on a verbal agreement. This may well be one reason why new private sector enterprises are less attractive for women and older workers, who are under-represented in the new private sector. New private sector employers are also less likely to provide the traditional benefits provided by state and former state enterprises, as well as the new kinds of pecuniary benefit that have grown up with the development of a market economy.

Although new private sector enterprises tend to pay higher wages than traditional enterprises, by no means all such enterprises are prosperous. One third of new private sector employees report that they are not able to afford to buy even the most basic provisions, let alone to buy clothing and to pay their housing and communal service charges. We have already seen that many people have lost the jobs in new private enterprises as a result of their liquidation. New private enterprises also not infrequently leave their employees unpaid, although not as often as traditional enterprises, and pay their workers in kind. Where they do owe money for wages, the debt is on average higher in new private than in traditional enterprises. Similarly, when we control for other variables, new private sector employers are no less likely to send their employees on administrative leave or put them on short-time than are traditional enterprises.

Finally, when we looked at the new private sector in the labour market we saw that recruitment to new private enterprises is overwhelmingly through informal channels of personal connection, which is entirely in keeping with the informality of new private enterprises, but which is not a very efficient way of matching people to jobs and which carries the implication that significant sections of the population, those without personal connections, will be simply frozen out of the labour market.

The hopes that had been placed on the new private sector by some of the more optimistic economists and policy makers are clearly far from being fulfilled. But it was probably too much to ask that a few small businesses, with very limited resources and facing innumerable obstacles should transform the whole Russian economy. Perhaps it is enough that they should have emerged to fill the gaps that the administrative-command system had never been able to fill in the branches of trade, catering and repair, personal and professional

services, and petty craft production. Rather than ask whether new private enterprises are transforming the economy, perhaps we should ask to what extent they meet the needs of their employees.

We have already seen that new private enterprises (although not all new private enterprises) pay higher wages and offer fewer social benefits. The precariousness of their position and the lack of protection afforded to the rights of their employees means that employment is probably less stable in such enterprises. Thus, objectively, new private sector employment offers both benefits and costs and so appeals to particular kinds of people: those who value pay above security and, perhaps, those who have confidence in their own abilities. These objective differences are reflected in the employees' own subjective evaluations of their employment: new private sector employees are more satisfied with their pay and less satisfied with the social benefits than are employees of the traditional sector. Those working in the new private sector who would on balance have preferred to be working in the state sector tend to be precisely those who more strongly value security over high wages, and vice versa.

The strongest conclusion that we can draw about the difference in employment relations between new private and traditional enterprises is the greater informality of employment relations in the former. Such informality is not in itself necessarily a bad thing, but it does mean that the individual employee is subject to the whim of the manager or owner of the enterprise. While an employee who is in the manager's favour may enjoy comfortable and relaxed working conditions, and be allowed a considerable amount of discretion, an employee who is not so favoured risks being subject to arbitrary authority, including assignment to unpleasant jobs, the requirement to work unpaid overtime, punishment and even dismissal, without having access to any consultative, administrative or legal procedures through which to appeal against his or her treatment. The fact that the characteristics of employment relations appear to differ very little in substance between state and new private enterprises, and barely differ at all according to the form of labour contract, is a strong argument in favour of a greater degree of formalisation of employment relations in new private enterprises, to require them at least to operate within the framework of the law. Such an enforcement of the law would protect the rights of their more vulnerable employees, without to any significant extent

affecting their economic activity.

There is a clear division within the new private sector between the larger, more securely established, incorporated new private enterprises with a professional management which offer employment on reasonably secure contractual terms with satisfactory pay and working conditions and acceptable trading practices and the small, unincorporated, unstable businesses which operate outside the framework of the law. There are signs that the former are growing at the expense of the latter, a process that would be facilitated and accelerated by more effective enforcement of legal and contractual obligations.

This is a specific instance of a more general conclusion. Although many commentators have pointed to the multitude of difficulties that face new private enterprises in Russia, from the problems of grappling with the bureaucracy, through the perils of mafia control to the extortionate rates of taxation, these do not seem to have prevented it from taking its place in the emerging market economy. None of these problems are specific to the new private sector, nor is the systematic and routine violation of legal and contractual obligations that is the most common solution. But the solution has proved to be much more corrosive than the problem: this contempt for legality, which has even been condoned by many commentators on the grounds that the end justifies the means, has proved the biggest barrier to the development of the legal and normative regulatory institutions appropriate to a functioning market economy. New private enterprises should certainly be freed from arbitrary bureaucratic intervention, but they should not and do not need to be accorded special privileges: they should also be required to obey the law, to respect the rights and interests of their employees, to meet their contractual obligations and to pay their taxes.

The short-term perspectives, the prevalence of personal informal relations, the systematic attempt to avoid contractual and legal obligations are all features of the precarious situation in which new private enterprises still find themselves. In this respect the needs of the new private sector are no different from those of the Russian economy as a whole: the establishment of a stable legal and political environment in which it is normal practice to meet contractual, financial, fiscal and legal obligations.



## Making ends meet in a non-monetary market economy

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The question that every Westerner asks, when told of the extent of the non-payment of wages, pensions and social benefits in Russia, is how do people survive? Russians will confidently give a range of answers to this question, usually based on ideological predilections or generalisations from their own experience rather than by reference to any systematic research.

On the one hand, most westernised Moscow intellectuals will reply that the recorded monetary economy is only the tip of the iceberg: alongside the official economy there is an enormous informal monetary economy. In reality, the inquirer will be told, most of those laid off without pay or not receiving their wages, pensions and social benefits have other sources of monetary income in the form of secondary employment, petty trading or subsidies and side payments from their employer. Westerners do not, therefore, need to worry about the survival of the Russian population. Despite appearances to the contrary, Russians have in reality embraced the market economy with a vengeance.

On the other hand, many Slavophile respondents will reply that the Russian people have gone back to their roots, that the majority of the population has returned to its peasant origins, working on garden plots to produce for their subsistence needs and redistributing resources through solidaristic networks of kith and kin. The return to the traditional *obshchina* has therefore insulated the mass of the population from the worst of the negative impact of the transition to a non-monetary market economy. Again, Westerners need have no fear for the future of the Russian people who will draw on their unique cultural resources.

There is no doubt that there is an extensive informal monetary economy. There is no doubt that many people produce for their own subsistence needs. There is no doubt that non-monetary networks of

redistribution play an important role in household survival. However, there has been no systematic analysis of the relative importance of these methods of adaptation to a non-monetary market economy for Russian households.

This is not simply an empirical question, but has fundamental theoretical significance for an understanding of the reform process. It is too often forgotten that what ordinary people do is fundamental to the success or failure of any attempt at reform. Reform is an attempt to influence and to change the economic behaviour of individuals by changing aspects of the environment within which they make their economic decisions. However, it is too often taken for granted that the responses of individuals to such changes will be those predicted by abstract models which have been developed (though not necessarily tested) in a very different context. When people do not behave in ways predicted by such models the reform process goes off track, but the adherents of the models do not see the fault as lying with the models, but with the people whose behaviour has not conformed to those models. If we are to learn from the mistakes of the recent past we have to understand people's behaviour as a perfectly rational response to the situation that has been imposed on them and on this basis to subject these models, which have failed to predict such behaviour, to vigorous critical interrogation. However, since there has been very little research into how ordinary people have responded to reform and its attendant crises it is necessary first to review the available data. In this paper I intend to review the available data to arrive at some tentative answers to the question, how do Russians survive in a demonetised market economy?

## MONETARY INCOME AND EXPENDITURE IN A DEMONETISED MARKET ECONOMY

### **Demonetisation and the household economy**

The Russian economy has experienced the longest and deepest recession in recorded world history. But the seriousness of the crisis for Russian households lies not only in its depth but also in its form:

large swathes of the economy have been more or less completely demonetised. Demonetisation is usually presented as a technical economic problem, which impinges most particularly on the state budget, since it is difficult to run a government if you cannot raise taxation in monetary form. However, demonetisation is much more than the displacement of money from the economy, it defines the contours of a particular economic system. And, while the negative impact of demonetisation is felt proximately by the government, its principal victims are the ordinary working population.

The demonetisation of the economy refers to the fact that the bulk of inter-enterprise transactions are not settled in monetary form but through bilateral barter and barter chains, unofficial clearing systems and the use of various kinds of bills of exchange. It is important to be clear, however, that the demonetisation of the economy is very uneven. The problem faced by households is particularly acute because, while demonetisation is reflected in the systematic and ever-increasing non-payment of wages and social benefits, retail trade is not demonetised, nor is the payment for housing, communal services, health, education and welfare: it is not possible for ordinary people to pay for their everyday needs either by offering barter goods or by issuing bills of exchange. The problem is compounded by the fact that the Russian government, under strong pressure from the International Financial Institutions, has been attempting both to increase the levels of payment for communal services and to enforce payment by those in arrears. Thus, while enterprises and organisations are able to live within a demonetised market economy, the only option facing workers who do not have money is withdrawal from the market altogether.

The fact that enterprises and organisations can find alternative forms of settlement of their mutual obligations has made it possible for them to survive in a non-monetary market economy, using their experience of survival in the non-monetary administrative-command economy. The fact that households do not have such capacities means that the impact of demonetisation has a cumulative negative impact on the market economy: the decline of the domestic market economy has been mediated by the demonetisation of household budgets as those without money incomes are unable to buy commodities in the market. The decline in monetised consumer demand then further reduces the circulation of money in the system, reducing production, employment

and the cash available to pay wages and benefits. Thus, the demonetisation of the economy leads not only to the systematic non-payment of wages and benefits, but also drives the downward spiral of economic decline that leads to falling production, employment and real wages.

The demonetisation of the economy is not merely an inconvenience, it is the fundamental prop of an economic system which has its own logic and its own modes of reproduction which serve the short-term interests of those who control the levers of political, financial and economic power. The interests of these people can only be short-term because both their opportunities for profit and their tenure of their positions have very limited time-horizons. But this system expels growing numbers of the working population from the market economy by depriving them of the monetary sources of income that are the condition for their participation in such an economy. The demonetisation of everyday life arises not just from the non-payment of wages and social benefits, which is only the tip of the iceberg, but from the destruction of jobs and opportunities for new employment, from lay-offs and short-time working and from the steady decline in the wages of those who are in regular paid work.

### **The non-payment of wages and benefits**

Before we turn to the behaviour of households in a non-monetary market economy we first have to identify the impact of demonetisation on household budgets. The non-payment of wages is the most dramatic expression of the demonetisation of the economy. Overdue wages reported on 1<sup>st</sup> July 1998, before the new crisis struck, amounted to 70 billion new roubles.<sup>19</sup> This equates to an average of a bit over one month's wages for every employed person in Russia. However, the non-payment of wages is very unevenly distributed between sectors and between regions. Thus, while the wage debt in Kemerovo oblast in

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<sup>19</sup> Note that the service sector and small enterprises, where non-payment is significant but less extensive, do not participate in the system of state reporting of wage debts. In our own household survey 20% of employees of new private enterprises were owed money for wages, and the mean debt owed to those people was substantially more than that owed to employees of state and former state enterprises and organisations, at the equivalent of 5.6 months' wages, against 4 months for the latter.

May 1998 amounted to at least two and a half months' wages for the whole oblast, in Moscow city the average debt amounted to only just over two days pay. The wage debt in agriculture amounted to well over three months' wages, while in industry it amounted to an average of almost two months wages, in education around six weeks, in health and in transport about three weeks (detailed figures for public administration, trade and services, where delays are much shorter, are not available). Similarly, at the beginning of 1997 the average debt for wages was the equivalent of almost four months wages in the coal-mining industry, but only just over two weeks in the food-processing industry. The coal-mining industry is in dire straits, but the prosperous gas extracting sector was only just behind, with an average delay of three months (Clarke 1998b). The pattern of non-payment of social benefits is similar to that of the non-payment of wages, since the primary reason for non-payment of benefits is the non-payment of payroll-related contributions to social insurance funds, the total owed by large and medium enterprises by May 1998 amounting to 196 billion roubles (\$32 billion at the then-current exchange rate) (Figures computed from data on wages and debts in Goskomstat Rossii, *Sotsial'no-ekonomicheskoe polozhenie Rossii*, VI, 1998 and on employment in Goskomstat Rossii, *Statisticheskii byulleten'*, 9(48), November 1998).

A cumulative wage debt of one year does not necessarily mean that the individual has not received any wages for a year, although such cases do exist, but that wages have been paid irregularly and rarely in full over a long period of time. Moreover, in many cases nowadays enterprises freeze wage debts and try to pay current wages, which management judges is the best way to hold on to employees, but then a new cycle of non-payment will begin. All the evidence indicates that the problem of wage arrears is cumulative and is concentrated in particular regions, branches of production and enterprises: most of those who are not now owed money for wages have never experienced significant non-payment of wages. However, aggregate data may conceal as much as it reveals. Thus, during 1997 the total amount of unpaid wages was more or less stabilised and many people argued that non-payment was no longer a serious problem, but the stable total was the result of a sustained campaign to secure the payment of wages in the state sector which meant that the repayment of debt in the state sector matched the growth of new debt to those in the private sector

who were not being paid.<sup>20</sup> During 1998 the growth of wage indebtedness resumed, with the nominal debt increasing by more than two-thirds between January and October.

Within the household the problem of non-payment may be ameliorated by the fact that one partner may be receiving wages while the other does not. Similarly, within wider networks of kith and kin, if some people are being paid at any one time then they can extend loans to others in the expectation that those others will repay the loan when the situations are reversed. Such situations are more likely to arise in larger cities with more diversified economies and lower overall levels of non-payment, although even here it may well be that friends and relatives all work in the same enterprise and suffer the same experience of non-payment. In remote company towns, the non-payment of one tends to mean the non-payment of all. One should also note that a situation in which everybody experiences the delayed payment of wages once in a while is very different from the situation that is typical in Russia in which the incidence of non-payment is concentrated on particular segments of the labour force. While the former situation may promote and even strengthen reciprocal support, the latter will put much more strain on reciprocal relationships by imposing an asymmetry on them.

The non-payment of wages is only the most scandalous and most dramatic way in which the demonetisation of the Russian economy impinges on the Russian household. Many people are paid their wages in kind,<sup>21</sup> and many are induced or compelled to spend their notional

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<sup>20</sup> According to VTsIOM's polls, by the end of 1996 fewer than one third of people were being paid in full and on time in any one month, around 20% were paid in full with a delay and over a third were being paid nothing at all. The situation improved considerably through the middle of 1997, but still up to a quarter of people were being paid nothing and up to ten per cent were only being paid in part, the mean being just under half the pay due for the month in question. During 1998 the situation deteriorated rapidly once more, so that in May 1998 more than 40% of respondents said that they had been paid nothing the previous month, more than 20% of whom had not been paid for the previous three months, and almost 15% had only been paid in part. In our own household survey in April and May 1998 the incidence of wage debt ranged from 23% in Lyubertsy to 63% in Kemerovo. The mean debt of those who were owed money was more uniform, ranging from 2.8 months pay in Lyubertsy to 4.9 months in Kemerovo.

<sup>21</sup> According to RLMS survey data, one in eight employees were paid in kind, in whole or in part, in October 1996. In our household survey, the incidence of payment in kind ranged from 3% of employees in Lyubertsy to 38% in Kemerovo, the mean proportion of the wage being paid in kind in the four cities ranging from 30 to 40%. This implies

wages to buy barter goods in company stores at grossly inflated prices. Other forms of non-monetary payment include the provision of free or subsidised food in canteens, received by 16% of the respondents in our household survey, and the provision of travel passes for local transport, received by 20%. However, in our sample these are not connected with the incidence of non-payment but seem to be a normal feature of welfare provision that depends on the prosperity rather than the poverty of the enterprise. Thus, the incidence is the highest in Lyubertsy.<sup>22</sup>

We should also not forget the erosion and non-payment of social and welfare benefits. The real value of most pensions (although not invalidity benefit and the 'social' pensions paid to those without an employment record) has not been eroded by as much as have real wages, not least because of the voting power of pensioners, but their payment had fallen seriously into arrears by the middle of 1997. The government then used a World Bank loan and privatisation proceeds to pay-off pension arrears (and wage arrears to the military). Although pension arrears have crept up again in many regions, pensions remain a vital component of household incomes. Those in receipt of other benefits, notably child allowances and unemployment benefit, are not so lucky. Despite a very substantial reduction in employment, fewer than two million are registered unemployed, of whom the majority nowadays are not paid unemployment benefit because there is not the money in the Employment Fund. At the same time, child allowances have been eroded by inflation and their payment is heavily in arrears.<sup>23</sup>

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that in Kemerovo 13% of the entire wage bill is paid in kind. The phenomenon has a different character in the four cities: in Kemerovo and Syktyvkar, where it is much more widespread, 97% of respondents themselves consume the goods received in lieu of wages, while in Samara and Lyubertsy a higher proportion, 10 to 16%, are sold.

<sup>22</sup> The provision of these benefits is significantly correlated with each other, but the correlation coefficient with the incidence of non-payment is negative, though insignificant. There is a significant but very small (.048) positive correlation between the provision of subsidised food and payment in kind.

<sup>23</sup> Two-thirds of eligible respondents in the October 1996 RLMS had not received their child benefit the previous month. Nevertheless, child benefit contributed a mean 18% of the money income of the 15% of households fortunate enough to receive it. Four per cent of the economically active population in the RLMS sample were registered unemployed, of whom two-thirds were eligible for unemployment benefit, but fewer than half of these had actually received anything in the previous month. The situation has deteriorated considerably since then.

### **The collapse of paid employment**

Although registered unemployment is very low and has been falling for the past two years, the halving of GDP has been associated with a substantial reduction in employment which has led to a large-scale withdrawal from activity in the labour market and a consequent reduction in the monetary incomes of the households affected. This impact of the demonetisation crisis is less dramatic but much greater than that imposed by the non-payment of wages and social benefits. The population of working age has increased by one and a half million over the period of reform, but since 1990, according to the recently published 1997 Labour Force Survey data,<sup>24</sup> the employed labour force has fallen by 15 million, or 20%. The withdrawal from labour market activism is strongly concentrated among the young and those of pension age, and only to a very limited degree with the withdrawal of women from the labour force. In fact, male employment has fallen by more than female employment, although women are less likely than men to be classified as unemployed, so the activity rate of women (which includes both those in work and those seeking work) has fallen by marginally more than that of men (see detailed figures in the Appendix).

In many respects, those who have left or lost their jobs are much better off than those who suffer the sustained indignity of working without being paid their wages, because they have the free time to look for other work or to engage in other money-making or subsistence activities on the side: there is a big difference between being inactive in the labour market and being economically inactive. Thus, in our household survey, a third of adults who did not have a regular job were involved, at least from time to time, in secondary income-earning activities and, of course, a large number were involved in subsidiary agricultural activity producing for household subsistence.

In addition to those who have lost their regular paid employment entirely, there is a large number of people who have suffered a

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<sup>24</sup> Goskomstat, *Statisticheskii byulleten'*, 9(48), November 1998. This is the first time that Goskomstat has published the more or less full results of the labour force survey. In the past it has been necessary to interpolate the data. The newly published data is fully consistent with my own estimates reported in Clarke 1998a.

reduction in money income because they are employed on a part-time or casual basis, or because they have been temporarily laid-off or put on short-time. According to the 1997 labour force survey, six million people, 10% of the labour force, worked less than 31 hours in all forms of paid employment – over half of whom worked less than 16 hours – during the week of the survey, against only 1-3% of the labour force who worked less than full-time in the Soviet period (Otsu 1992, p. 211, 238). Women are twice as likely as men to work less than full-time (four million as against 2 million: 14% as against 7%), and less than sixteen hours a week (7% as against 4%). It appears that these figures include about half a million people who would be on administrative leave and around 2.5 million who would be working short-time. These expedients are not alternatives to the non-payment of wages – according to the data of our household survey and our case studies there is a reasonably strong correlation between all three practices, each of which is appropriate for different categories of the labour force. All three are responses to the absence of money with which to pay wages to the workers, but it is obvious that workers who are needed to maintain the plant and undertake necessary production tasks cannot be sent on leave, while there is no point in building up debts to those for whom the enterprise currently has no work. On the other hand, all three practices have become means by which the administration can induce redundant employees to leave without having to bear the financial burden of paying the statutory compensation (ISITO 1996a). Finally, increases in the number of public and unpaid holidays means that the number of days worked in the year has fallen by 5%. If we take all these factors into consideration it is clear that total paid employment in the Russian economy has fallen by something around one-third in the period of reform.

### **The collapse of money wages**

The loss of money income to households resulting from the collapse of production and employment is far greater than the loss of money income resulting from the non-payment of wages, although the two are different aspects of the implosion of the same economic system. But alongside the loss of income entitlements, we should also not forget that with the collapse of the monetary economy and the deterioration

of the position of the vast majority of workers in the labour market, the real value of money wages has also fallen dramatically so that many of those who are paid their wages in full and on time receive less than the minimum necessary for subsistence. Rapid inflation and dramatic changes in the structure of prices make it difficult to compare monetary measures of income and expenditure over time. However, according to the real average wage index, wages in Russia have fallen even more dramatically than production. As a result of Gorbachev's reforms statistical real wages peaked in 1990 at 32% above the 1985 level, reflecting an increase in unrealisable money incomes against relatively fixed prices rather than a sharp increase in living standards. Real wages fell sharply, though very unevenly, under the impact of price liberalisation through 1992-3, then fell more slowly through 1994 and 1995 (Clarke 1997). By mid-1998, despite some recovery over the previous two years, statistical real wages were still only a little over half of the 1985 level, and in August they nose-dived again, to less than a third of the December 1991 level. Nevertheless, for a large proportion of the population the fall in wages has been much greater than this as inequality in Russia doubled under the impact of reform, the Gini coefficient increasing from 0.26 in 1991 to 0.29 in 1992 and 0.50 in 1993.<sup>25</sup> Wage dispersion between branches of production increased from 0.75 in 1991 to 1.46 by November 1995 (*Russian Economic Trends*, 4 (4), 1996). By May 1998 agricultural wages had fallen to one-third of those in industry, or just over a quarter of the wages paid in public administration. Regional wage differences are also enormous and have been increasing steadily, with the average wage in Moscow City in May 1998 being more than four times that in Dagestan, with income per head in Moscow being more than ten times

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<sup>25</sup> Goskomstat, *Rossiia v Tsifrakh*, 1996. The 1993 figure is from the 1996 *World Development Report*, derived from an expenditure measure since income data is deemed to be unreliable. On the basis of its surveys VTsIOM estimated the Gini coefficient at 0.48 for 1995 and 0.45 for 1996 (*VTsIOM Bulletin*, 1, 1997, p. 35). The Gini for the VTsIOM data for 1997 is 0.52 for individual earned income and 0.50 for household income per head. The Gini coefficients for the RLMS data for 1996 are 0.50 for individual earned income and 0.47 for household income per head. The Goskomstat estimate for household income, based on its budget survey, was 0.38 in 1996 and for wages was 0.45. The former figure is lower than other sources, with the differences lying primarily at the extremes of the income distribution. This would be expected since the VTsIOM and RLMS data relates to the previous month's income while the Goskomstat data is based on the income averaged over the year, which is more stable, particularly when non-payment means that income will fluctuate considerably.

as high and expenditure per head being more than twenty times as high as in Dagestan (Goskomstat *Sotsial'no-ekonomicheskoe polozhenie Rossii, VI, 1998*). According to Goskomstat's earnings survey in May 1996, more than one-third of all employees earned less than the subsistence minimum and two-thirds earned less than twice the subsistence minimum, without even taking non-payment into account (Goskomstat, *Information-Statistical Bulletin*, 13, November 1996).

While the monetary incomes of households have plummeted, demands for monetary payment have increased dramatically as subsidies for food,<sup>26</sup> housing and communal services have been reduced and enterprises and organisations have removed the provision of a wide range of services which were formerly provided free or at heavily subsidised prices. In our household survey, fifty per cent of state and former state enterprises still provided some subsidised vacation facilities, but fewer than a quarter made provision for child care, which was almost entirely absent in the new private sector. Moreover, the financial crisis in the public sector has led to the formal or informal imposition of charges for the notionally free education and health services.

According to the data of our household survey, on average 61% of household expenditure was on food, 11% on clothing and footwear, 12% on payment for housing and communal services, 5% on medical services, 5% on transport and 2% on education, leaving on average 3% for savings, vacations and large purchases.<sup>27</sup> In comparison with the Soviet period this represents an increase in the proportion of the household budget spent on food (up from an estimated 47%), housing and communal services (up from 6%), medical care (up from 0.6%), transport (up from 2.5%) and education (up from 1%) and a massive fall in discretionary expenditure (down from 24%), with exactly the same percentage being spent on footwear and clothing (Ofer, 1992, p.

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<sup>26</sup> By the end of the Soviet period the subsidy to food prices alone amounted to about 10% of GDP.

<sup>27</sup> RLMS asked more disaggregated expenditure questions. According to the 1996 RLMS data, on average across all households 65% of household expenditure was on food, drink and tobacco; 8% on shoes and clothing; 9% on housing; 4% on medical expenses; 1% on schooling; 2% on transport, and 12% for spending on other items, saving and lending to others. This is quite close to our data, the differences probably being accounted for largely by the different form of the questions: many households told RLMS that they had spent nothing on many of the headings.

354). This means that public and communal services, which absorbed 10% of the household budget in the Soviet period, now drains 24% of the much depleted money income of the average household.

## HIDDEN EMPLOYMENT IN A NON-MONETARY MARKET ECONOMY

According to many commentators, the collapse of incomes in the formal economy has been matched by an explosion of informal economic activity which is not reported in official statistics, so that there has been a substantial growth in unrecorded money incomes in the 'hidden' economy. The proponents of this view typically cite the official data which purportedly shows that wages comprise less than half of the money incomes of the population. According to Goskomstat data for the second quarter of 1998, wages comprised 47.9% of money income, social transfers 13.1%, property income 5.4%, entrepreneurial income 15.9% and 'other' income 17.7% (the wage share had increased substantially over the previous year, from only 41.1%, because of a 10% fall in money income, consisting of substantial falls in social transfers, no longer being paid, and in 'other' income). However, to cite this data as evidence for the existence of a hidden economy is somewhat disingenuous, since the categories of 'entrepreneurial' and 'other' income are themselves constructed to bring official data on wages and social transfers into line with estimated macroeconomic aggregates which already include a very substantial but completely arbitrary allowance for unidentified informal economic activity (estimates for unrecorded activity amounted to 20% of GDP in 1995, 23% in 1996 (*Russian Economic Trends*, 1997.2), with a further upward revision of 5% of GDP in 1997).<sup>28</sup>

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<sup>28</sup> There are massive discrepancies between the income and expenditure estimates, which are reconciled by Goskomstat estimating savings at between 15 and 25% of income in its budget survey and macroeconomic estimates, although for different reasons in each case. In the budget survey estimate this is because of Goskomstat's bizarre accounting system, in which an estimate for the stock of cash holdings at the beginning of the period, plus bank withdrawals and loans, are all counted as income, with the final estimated money stock, savings and investments and repayment of loans are all included in expenditure. In the macroeconomic estimates of disposable income an

There are two aspects of the argument of the proponents of the ‘hidden economy’ that should be distinguished. The first is the argument that there is a large number of people whose employment is unregistered, and so which is not recorded in the official statistics. The second is the argument that the incomes from employment are substantially under-recorded, so that money incomes are much larger than reported. The two issues are related, since enterprises and organisations have a legal responsibility to report the details of both employment and income of all registered employees to both the statistical and the tax authorities. We also need to distinguish primary from secondary employment. I will not review all of the extensive body of evidence here, but will only touch on the two most important components of the supposed hidden economy.<sup>29</sup> In this section we will review the evidence concerning primary employment, before turning to secondary employment in the next section.

The concept of a ‘hidden economy’ is a very difficult one with which to engage, since if the economy is hidden there is by definition no evidence for its existence. We cannot accept the available data at face value, but nor should we reject it out of hand. Rather, we should critically review the data that is available and make the best judgement that is possible on that basis.

The aggregate employment data published by Goskomstat, which reported that 64.4 million people were employed in May 1998, is not reliable because it is based on the aggregation of data from a variety of sources, which is then subject to correction according to an unspecified methodology. The most reliable source of data on

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addition is made to money income to reconcile the data with the inflated GDP estimates. This is included on the income side as ‘entrepreneurial’ and ‘other’ income, and on the expenditure side as savings and financial investments and purchases of foreign currency. According to the Goskomstat macroeconomic estimates for the fourth quarter of 1996, the latter supposedly accounted for 4% and 19% of money income respectively, but in the budget survey data for the same period net savings amounted to a total of 1%, including 0.1% accounted for by net purchases of foreign currency! In the budget survey data the income and expenditure estimates are actually very close to one another – in the last quarter of 1996 monthly income was one per cent higher than monthly expenditure. Goskomstat should not take the full blame for this: apparently Chenomyrdin was instructed to reconcile the data at a meeting with the G7 in Davos, so Goskomstat has just been carrying out orders from above. It should be no surprise that Goskomstat has stopped collecting income data in the budget survey since the end of 1996!

<sup>29</sup> For a fuller discussion of the official employment data see Clarke 1998a.

employment is that of administrative reporting by large and medium enterprises. The definition of such enterprises has changed over time, and is different in different branches of the economy, but since 1996 the threshold has been 100 employees in industry, transport and construction, 60 employees in agriculture and in science, 30 employees in retail trade and services and 50 employees elsewhere. These enterprises all make regular returns of the number employed, including those employed in second jobs and those on sub-contract. Forty-three million people were reported to be working on a regular basis in medium and large enterprises in May 1998. A further 1.8 million full-time equivalents were employed part-time, as second jobs, or on sub-contractual terms.

We have done quite detailed research in our case study enterprises on the collection and reporting of statistical data and we have found that wage and employment data is in general reported reasonably accurately by large and medium enterprises. First, enterprises have no particular reason to hide such information. Second, it is procedurally difficult for the enterprise to make false returns of this data, since it is collected through bureaucratic routines which are not easily subverted. Third, if the intention is to evade taxation, it is relatively easy for the tax authorities to uncover cases of false reporting if it is conducted on a large scale. In our extensive experience of interviewing and case study research in industrial enterprises we have found very few cases of traditional enterprises in which a significant number of employees are paid 'under the table', apart from the traditional small payments to workers from the 'foreman's fund', a practice that is in decline.<sup>30</sup> The payment of such premia in state and former state enterprises, in the form of unrecorded bonuses, is largely confined to senior managers and specialists, where it is more easily concealed from view.

Data from small enterprises is collected by the regional offices of Goskomstat on the basis of a sample survey, but the sampling frame is

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<sup>30</sup> This should be distinguished from the practice of *kalym*, where workers use enterprise resources to earn additionally on the side, which we classify here as a form of secondary employment. This practice has even become institutionalised in recent years, with foremen and shop chiefs taking orders, usually with cash payment, to enable the workers in their shops to survive. Sometimes this is institutionalised in the form of secondary employment in a parallel 'small enterprise' which pays a supplementary wage off the books.

not very satisfactory, small enterprises do have an incentive to conceal employment in order to obtain tax breaks and avoid making social insurance payments and, as our case study research in new private enterprises clearly shows, such firms do not keep their own records and do not take their reporting obligations seriously. Thus the data obtained from this source is very unreliable. However, the unreliability is compounded because this data is supplemented by estimates for unrecorded economic activity, the basis of which is obscure, by estimates based on data acquired from the tax authorities and by data on self-employment and entrepreneurial activity derived from the labour force survey. The final result is therefore the product of a mysterious brew, but includes allowance for Goskomstat's own estimates of hidden employment.

Administrative reporting provides information only about formally registered employment. The argument that there is massive unregistered employment in the new private sector has become almost a commonplace among liberal commentators, but no evidence is ever cited for these claims.<sup>31</sup> The key indicator of such hidden employment is the contractual status of those employed, since the employment of those with formal contracts will be registered. According to the data of the Goskomstat Labour Force Survey for October 1997, 95% of employees are still employed on the traditional permanent basis, with only 2% each employed on a casual or a fixed-term basis and one per cent under a Civil Code sub-contract (Goskomstat, *Statisticheskii byulleten'*, 9(48), November 1998). In ISITO's supplement to the labour force survey in two oblasts, 83% of those in the new private sector were employed on permanent contracts, 4% doing temporary work, 7% on a fixed-term contract and 7% on a sub-contract for particular work. Respondents were not offered the opportunity of saying that they were hired on a verbal agreement. Even 60% of those who said that they were employed by a private individual reported that they were employed on a permanent basis. Similarly, when we look at the data by branch we find that even in street and *chelnoki* trading over

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<sup>31</sup> An influential report prepared for the Ministry of Labour and approved by the Commission for Economic Reform of the Russian Government in January 1988 claimed, without citing any evidence, that 30 million people, about 50% of the employed population, work in what the authors call the 'commercial sector of the economy' in which, they assert, customary law and verbal agreements prevail (Zenkin et al. 1998).

half of those responding were employed on a permanent basis. Only in the sphere of private construction and repair was casual and short-term employment the norm.

We can also get an indication of the extent of registration by looking at the replies people gave to the question in the Labour Force Survey Supplement, where was their labour book? Over 99% of those employed in state and former state enterprises said it was in their main place of work, but over 10% of those employed in new private enterprises or working in family firms and almost half those working for private individuals said that their labour book was somewhere else. This would imply that the scale of 'unregistered employment' is very much less than is often assumed, amounting to no more than 5% of total employment, and is largely confined to individual labour activity and unregistered individual and family enterprises. Both our household survey and the regular VTsIOM surveys give very much the same results.

All the evidence is quite consistent in showing that the overwhelming majority of primary employment, including that in incorporated businesses in the new private sector, is registered and so is reported in official statistics and is subject to taxation. While incomes in the new private sector may not be fully reported, new private sector employment could not be less hidden from view, for it is predominantly to be found in the retail trade and services that line the streets and fill the advertising spaces.

It has long been standard international practice to collect employment data not through systems of administrative reporting but on the basis of a labour force survey. The Russian Labour Force Survey has been conducted according to the ILO/OECD methodology since October 1992. This has consistently reported a total employment figure between four and five million lower than that published by Goskomstat on the basis of its administrative reporting and supplementary estimates, the total number employed in October 1997 being estimated as 60 million, 6 million of whom had worked less than full-time in their principal job in the week of the survey, against the administrative estimate of 65 million (it is this data that was used in the last section). We can get some check of the labour force survey data by comparing it with that of other surveys, in particular the 1996 RLMS data and the data of our own survey. We would not expect the

data to coincide, since the various surveys sample different populations at different times, and use slightly different definitions of employment, but taking this into account, the data appears to be very consistent.

Of course, it can always be argued that no researcher or survey has managed to find many people working in the informal economy or on illegal terms because such people either refuse to respond to survey questions or lie to interviewers. The response rate of the ISITO household survey was in line with most other surveys at about two-thirds. Analysis of non-response does not reveal any substantial systematic bias. Feedback from interviewers implied that the main reasons for refusal were personal: lack of time, ill-health, drunkenness, inconvenience. This corresponds to VTsIOM's analysis of refusals. Interviewers expressed doubt only about responses to questions on income and on secondary employment, which people were afraid might be reported to the tax authorities, but otherwise few respondents showed any reluctance to answer questions concerning their employment.

There may have been people who systematically lied to interviewers about their work, and did so with such conviction that the interviewers had no suspicion that they were being deceived. Twenty-two per cent of working age adults in the ISITO sample said that they were not working in a main job. Sixteen per cent of these said that they were pensioners, 10% were housewives, 12% were registered unemployed, 34% were not registered unemployed but were looking for work and 1% were students. There is clearly plenty of scope for these people to be involved in hidden employment, but the fact is that they did not hide their employment from us: almost 80% of the non-working adults of working age said that they were involved in secondary employment, at least from time to time, so did not seem unwilling to reveal that they were working. Even the registered unemployed seemed perfectly willing to admit that they were working illegally, there being no difference between the registered and the unregistered unemployed in their answers to questions on secondary employment. Finally, answers to time-budget questions showed that almost 40% of these people were engaged in training, secondary employment, housework or working on their dacha for more than 60 hours a week, so would have had little time for serious hidden employment.

The labour force survey does not ask about income: income data comes from administrative reporting, from the household budget survey and from an annual earnings survey conducted by Goskomstat. While there is no doubt that new private enterprises substantially under-report the wages they pay to their employees, not least so as to avoid having to pay social insurance contributions, the published data on personal incomes does not come from such sources, but from the survey data. As already discussed, the aggregate income data is arbitrarily supplemented by Goskomstat. However, the uncorrected data is also published by Goskomstat, so that we do have access to the Goskomstat survey data. In addition we have income data from RLMS and from the monthly VTsIOM polls. While employers have an interest in under-reporting incomes, there is no particular reason why employees should do so when participating in a survey, at least any more in Russia than elsewhere in the world. In fact, most Russian respondents are very open in discussing their incomes, which were traditionally always public knowledge. Although no doubt those with large illegal incomes will be reluctant to disclose their incomes to interviewers, there is no evidence of large scale refusal to answer income questions or of pervasive deception in so doing. Indeed, the scale of the differentials revealed by the income data is sufficiently large that it would appear that the rich are more likely to be exaggerating than concealing their incomes.

It is more difficult to compare income data from different sources, because price and wage levels in Russia differ not only over time but also quite considerably from one region to another. The definitions used by various surveys also differ from one another, but again we can say that the levels and distribution of household money income reported by Goskomstat's household budget survey and the wage data published by Goskomstat are consistent with the income data reported by RLMS, by VTsIOM, by the ISITO survey and, in the case of household income, with the data from the 1994 microcensus. The average wage reported by Goskomstat in October 1996 is 6% higher than that reported by the RLMS survey. If we correct the ISITO wage data for inflation with the consumer price index, the average wage is within 1% of that reported for the urban population by RLMS, although that reported by VTsIOM on average through 1996-7, corrected for inflation, is about 14% lower. The household income per head reported by Goskomstat is 2% higher than that reported by

VTsIOM, although that reported by RLMS is 18% higher than either. Corrected for inflation the ISITO household income per head is only 5% below that reported by RLMS. As noted above, the Gini coefficients for the RLMS and VTsIOM data are very similar at both individual and household levels, and are consistent with the ISITO data once regional and urban-rural variation is allowed for, although the Goskomstat household income data may indicate a lower proportion of very high and very low incomes than the other all-Russian sources.

Overall we can conclude from this review of the data that both the employment and the income data derived from all-Russian surveys is very consistent and provides no evidence at all for the existence of a large amount of hidden employment or the large-scale concealment of income by survey respondents. The only significant discrepancy in the data from the various sources is that the Goskomstat income data may show a lower level of inequality, both at the top and the bottom of the range, than other sources, although this may just be a matter of different accounting periods: the reported mean income is in line with the other sources. If such hidden employment does exist, then it is extremely well hidden, but the onus is definitely on those who believe that it does exist to bring forward some evidence in support of their arguments.

## SECONDARY EMPLOYMENT AND THE INFORMAL ECONOMY

While it would seem that there is very little unregistered primary employment, the situation with regard to secondary employment is rather different. A much larger proportion of secondary employment is involved in forms of activity which avoid registration: petty trading and the provision of services by individuals or unregistered enterprises. However, there is considerable disagreement about the scale of secondary employment, which has certainly been exaggerated by many commentators. According to the estimates of the Russian Tax Inspectorate 35-40% of the adult population have second jobs (Simagin 1998). According to a Presidential representative, addressing the State Duma on the theme in 1998, 90% of Russian citizens have

second jobs.<sup>32</sup>

Secondary employment was not uncommon in the Soviet period, as a way around legal restrictions on overtime and part-time working. About 2% of the working population did additional work as an officially registered supplementary job (*po sovместitel'stvu*) in 1982, either during their vacations or after hours, and by 1987, when the legal framework was more favourable, this had more than doubled. In addition to registered supplementary jobs, there was certainly a great deal of unregistered secondary employment in Russia, but there are no accurate estimates of its extent.

There is an immediate methodological problem of defining just what we mean by secondary employment. On the one hand, many people are involved in a range of activities which may not bring in any money income: the most common is work on their garden plots, but they may provide a whole range of services for family, friends and neighbours, such as repairs, building or decorating work, which are not paid directly but which may be reciprocated. This is common in any society, but was especially widespread in the Soviet Union, where the provision of such services for payment was illegal until 1987. By convention, such activities, like domestic labour, are excluded from the definition of employment. It is important to remember them however, because a part of the growth of paid secondary employment in Russia consists of the monetisation of the provision of services which had formerly been provided on a non-monetary basis.

On the other hand, in Russia people still have the Soviet concept of primary employment as involving registration: a person's main job is normally understood as the job in the place which keeps their labour book, in which their work record is officially recorded. Those who do not have any registered employment will frequently say that they do not have a job, even if they are in fact working full-time in one or a range of full-time activities. Many of these people are not captured by most surveys, which typically ask people whether they have any other employment, in addition to their main job. For this reason, in our surveys we have asked everybody about additional employment. In our

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<sup>32</sup> Cited, Varshavskaya and Donova 1998. For preliminary analyses of our own survey data see also Donova 1998 and on an earlier phase of our research, Donova and Varshavskaya 1996. A further paper on secondary employment is in preparation.

household survey one per cent of adult respondents who said that they did not have a job had in fact been working full-time in the previous month in what they defined as supplementary jobs, and about 90% of these were in unregistered employment, adding marginally to our estimate of 'hidden' primary employment in the last section.

The main data on secondary employment in contemporary Russia derives from VTsIOM surveys, which have covered the subject systematically since 1993.<sup>33</sup> The Goskomstat Labour Force Survey also asks about secondary employment but this data shows an extremely low incidence of secondary employment (1.2% in October 1997, equally men and women, although a further 5% said that they were looking for additional work), partly because the question refers only to the week prior to the survey. About 5-6% reply to VTsIOM surveys that they have second jobs (the question asked is: Apart from your main occupation, have you had any other kind of work or occupation bringing in additional income in the last month?), about the same figure as is shown by RLMS, with a further 10-15% reporting irregular secondary employment.<sup>34</sup> The Federal Employment Service estimated in the middle of 1994 that about 11% of the working population was involved in secondary employment. According to Goskomstat data, between 1992 and 1994 the proportion of those employed in large and medium enterprises in secondary jobs or on short-term contracts increased from 3.7% to 7.8% of the total, but our own survey data indicates that the majority of those with fixed-term and similar contracts in both large and small enterprises are not in second jobs, so this would be a substantial over-estimate of secondary employment. Goskomstat estimated that large and medium enterprises, which account for 80% of primary employment, account for less than 50% of secondary employment [Popov 1995, p. 28]. In May 1998 2.1% of those employed in medium and large enterprises were working as external *sovmetiteli* and 1.8% were working on civil code contracts, a

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<sup>33</sup> The main results have been reported in a series of articles from which the data in the text is drawn: Khibovskaya 1994; Khibovskaya 1995; Khibovskaya 1996a; Perova and Khakulina 1997; Perova and Khakulina 1998.

<sup>34</sup> This is probably an underestimate, because when asked elsewhere in the questionnaire whether they or members of their family have taken any steps to improve their material position, a consistently higher proportion reply that they have additional sources of income (Maleva 1998b, n. 6, p. 38).

total of 1.8 million people. Other surveys indicate that around one third of those on unpaid administrative vacation have second jobs.

Eight-four per cent of those with second jobs say that they do them in order to increase their income, although only one third are confident that they would give up their jobs even if they earned good money in their basic job. However, second jobs are not primarily the means by which the destitute survive: those in the best position in the primary labour market are also in the best position in the market for second jobs: men, the young, the more educated, those in larger cities, those working in the private sector and those in senior management and specialist posts are more likely to have a second job, to work longer hours in it, and to earn more from it.

The overwhelming majority of the working population do not have second jobs. Two-thirds of the working population have no interest in finding additional work, 48% in 1993 and 40% in 1994 saying that they are not in a position to do additional work, 28% (34% in 1994) believing that they would not be able to find any. It should also be stressed that work *po sovmetitel'stvu* is still the most common form, with one fifth of people doing their second job at their own place of work and about half those whose main job is as a waged employee do a second job which is a similar basic type of activity to their first, another quarter doing second jobs which do not require any skill. Only 17 per cent of second jobs involved private trading in July 1994, which belies the common impression gained by the casual visitor to Moscow of a seething mass of people doing second jobs in the new private sector, although this has certainly grown substantially since 1994.

A survey conducted for the Ministry of Labour by the Institute of Population in 1997 found a rather higher incidence of secondary employment than have the VTsIOM surveys, partly because they proposed replacing the concept of 'secondary employment' with the concept of 'multiple employment'. By asking everybody about all forms of activity they captured some of those who would reply to VTsIOM that they had no secondary employment because they had no main job. This survey found that 51% of those who worked had only one job, 32% had two jobs, 14% had three jobs and 3% had four or five jobs (ISEPN 1998, p. 124). The motivation of those working in more than one job was clear: eighty-eight per cent of respondents said

that they did more than one job in order to earn more money, one third in order to get themselves into a more stable situation, 17% because they liked it, 4% because their enterprise was at a standstill.

The consensus that emerges from the all-Russian survey data is that around 5% of the adult population regularly admits to working in more than one job, with around twice as many people involved in occasional secondary employment – this corresponds to around ten per cent of the employed population having second jobs and around one-third being involved on an occasional basis. For some people the first job is purely formal, the second job is where they really work, but for most people secondary employment is subsidiary employment, a means of making additional income by working some additional hours – typically two or three hours a day after work, or through the weekend. A substantial proportion of secondary employment takes the traditional Soviet forms of an additional job at the main place of work or ‘individual labour activity’ providing goods and services. This is certainly an underestimate, because we would expect people to be liable to under-report secondary employment since a substantial proportion of secondary employment is unregistered and unreported for tax purposes. However, this figure is in line with levels reported for the United States (5-6 %) and the EU (3 %), and for other transition countries: in the first half of the 1990s in Hungary 2.5% had additional forms of employment, in the Czech Republic 4.5% and in Poland 8.5% (*ibid.*, Klopov 1996). Even if this estimate were doubled, it would not approach some of the wilder estimates put forward.

The data considered so far derives from All-Russian samples. It may be that the incidence and role of secondary employment is much greater in the large cities that should be the motor of development of the market economy. Our own surveys have all been conducted in such cities, which gives the results more than purely illustrative significance.

In our work history survey, conducted in April 1997 in sixteen state and former state industrial enterprises, 13% of respondents had additional work at the time of the survey, rather higher than the proportion reporting second jobs to VTsIOM. A much higher proportion replied that they had at some time been so involved: 52% of the respondents replied that they had had additional earnings at some stage in their careers and 30% that they had undertaken some

supplementary work in the previous year, almost the same proportion as the 33% who reported that income from secondary employment had contributed to the household budget in the previous year.

In our household survey eighteen per cent of people in jobs said that they had had some kind of additional paid employment in the previous year – rather fewer in Lyubertsy – and half of the people who had engaged in secondary employment in the previous year had also been active the previous month. We also asked those without primary jobs about secondary employment, and found that a third of non-working adults work at least episodically, with one in eight having worked the previous month.

*Table 0.1: Percentage engaged in secondary employment by employment status*

	Working	Non- working adult	Non- working pensioner	Non- working student	All adults
Worked in last year	17.7	33.0	4.4	7.1	16.5
of which:					
Work permanently	4.5	4.2	0.7		3.5
Work regularly (periodically)	2.6	4.4	0.8		2.4
Work episodically	10.5	24.1	2.9	7.1	10.4
Worked last month	9.6	12.5	2.7		9.5
N	5028	1053	1913	14	8008

These figures correspond quite closely to those found by the all-Russian surveys. On this basis it would seem that there is not much difference in the incidence of secondary employment in large cities.<sup>35</sup> However, there is no doubt that this is an underestimate of the extent of secondary employment in the population: our interviewers reported that many people were reluctant to allow the interviewer to record that they had second jobs, particularly because our survey was at the end of the tax year when all those with such jobs are supposed to fill in declarations. However, we also asked the heads of household how

<sup>35</sup> The VTsIOM figures for inhabitants of large cities (over half a million population) indicate that around 6% had regular secondary employment and around 12% irregular secondary employment over the past two years (my calculation from VTsIOM data).

important were earnings from the secondary employment of household members. Whereas 21% of households had individual members who admitted to having second jobs, almost half of household heads did not deny that there was such a component of household income.<sup>36</sup> When we also consider that an individual member declared an income from secondary employment in eight per cent of households in which the head had said that there was none, the conclusion is that around 58% of households have at least one member who has some income from secondary employment. This would imply that the incidence of secondary employment at individual level is also between two and three times that which is reported here.<sup>37</sup> Nevertheless, this still means that eighty five per cent of the population – eighty per cent of the population of working age – does not have regular secondary employment while almost half of all households are not involved in secondary employment at all.

Almost half the respondents who had principal jobs worked fewer than 40 hours a month in their second jobs, although those without principal jobs worked substantially longer hours.<sup>38</sup> One in six of those who had worked additionally the previous month but who said that they had no main job had effectively been working full-time. A third of respondents with a principal job had their second jobs at their main place of work, three quarters of whom did so by combining more than

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<sup>36</sup> According to our interviewers, the reluctance of respondents was to recording specific details of secondary employment. The expectation is that either all or no household members would be reluctant to make such an admission. The interviewers did not report any reluctance of household heads to acknowledge the fact of secondary employment in more general terms. Nor is there any particular reason to doubt the responses on income from secondary employment given by those who had admitted the fact of secondary employment (or the one per cent of cases who recorded an income from secondary employment immediately after recording a denial that they engaged in it).

<sup>37</sup> We can get some idea of the significance of this undeclared secondary employment by comparing the data of those households with fully declared and those with concealed secondary employment. There is no significant difference in the evaluation by the head of the household of the importance of the secondary income in the household budget. There is no systematic relation between the incidence of undeclared secondary employment and household income without secondary earnings. The indication is that it is lower income households that conceal secondary employment, but the data still needs further analysis.

<sup>38</sup> The 1997 Goskomstat labour force survey found a similar distribution: 58% of those with second jobs worked less than 16 hours a week, 21% between 16 and 20 hours, 16% between 21 and 40 hours and 4% more than 40 hours per week.

one post, in the majority of cases during normal working hours. The remaining quarter ‘used the possibilities of my enterprise’, a euphemism that allowed them to tell us that they were working at *kalym*, using enterprise resources for their own benefit.

A quarter of those who did a second job elsewhere than at their main place of work were self-employed, a quarter were working for private individuals, 20% worked in a state enterprise or organisation, 20% in a private company and 10% for an individual or family business. Almost half the respondents who were in work did their second job after the end of their normal working day and almost a third at weekends, during holidays, on days off or when they were working short-time or had been sent on administrative leave.

*Table 0.2: Distribution of hours worked in second job by employment status*

	Workers: hours per month for those who work permanently or regularly	Workers last month	Non- working adults last month	Non- working pensioners last month	Total last month
1-20 hours	27.3	33.8	23.3	9.1	31.1
21-40 hours	18.5	21.0	10.7	18.2	18.8
41-80 hours	26.6	23.6	22.3	27.3	23.4
81-160 hours	18.8	14.8	26.2	36.4	17.6
more than 160 hours	8.8	6.8	17.5	9.1	9.0
mean hours	66	81	66	88	80
N	319	385	103	11	499

Twelve per cent of our respondents reported income from secondary employment, with an average of 493 roubles per month, although the four per cent of respondents who had permanent second jobs reported an average secondary income of 670 roubles a month, enough for those in work on average to augment their reported wage income by 1.2 times. Those with regular jobs increased their earned income by an average of 75% through their second jobs, and those who worked episodically supplemented their regular wage by about 50% from their

secondary employment.<sup>39</sup> The hourly earnings from second jobs appear to be on average about three times as high as those from primary jobs. Those who did not have main jobs earned on average the same from secondary employment than did those with main jobs, but since they tended to work longer hours their hourly rate of pay was significantly less.

While the vast majority of those in primary jobs were working on officially registered terms, more than half of those in secondary jobs were working on a purely verbal agreement, a quarter on fixed-term contracts and a quarter on permanent contracts. More than half were working in small enterprises (fewer than twenty employees), and almost a third are working on their own or with one other person.

Our survey data appears to confirm the findings of all-Russian surveys: that secondary employment is not very widespread, that it is in most cases a way of earning some extra money by taking on additional work at the main place of employment or by engaging in various forms of petty activity after working hours. Our data has also allowed us to make a realistic estimate of the scale of 'hidden' secondary employment. However, to appreciate the significance of secondary employment we have to look at its implications for the household budget and ask whether secondary employment provides a way in which those starved of cash can make ends meet by working informally?

Secondary employment makes a substantial contribution to the money income of the one in five of households which have members who reported income from engagement in such employment, providing an addition to the household income of almost 40% of the income without secondary earnings, as can be seen in Table Seven below. If we allow for non-response to the questions on secondary employment, we can say that secondary employment makes a significant supplement to the household money income for over half the households in our cities. This is a not inconsiderable compensation for the collapse of primary money incomes and employment (although it should not be

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<sup>39</sup> 93% of those who had worked in the previous month reported income and 86% of those who said they worked permanently, against 62% of those who worked episodically and 55% of those who did not work last month. Most of those who said that they had no income are therefore those who do very little additional work. Only 15% of respondents earned more in their secondary than in their primary job.

forgotten that secondary employment was not uncommon in the Soviet period) in the crisis, although not sufficient to allow any but a tiny minority to consider themselves comfortably off.<sup>40</sup>

Who is involved in secondary employment? An analysis of this data by Inna Donova has confirmed the findings of other research on secondary employment, showing that engagement in secondary employment is determined more by the opportunities and constraints confronting the individual than by anything else – there are no indications that secondary employment is a response to economic hardship, it is rather an opportunity for earning additionally that is seized by those with the skills and motivation to do so. Men, with fewer domestic responsibilities, have more time to engage in secondary employment than do women. Those with higher education or professional skills have a wider range of opportunities for secondary employment, even if they do not use their skills and abilities in the second job – as Inna notes, an engineer can get work as a loader, but a loader cannot work as an engineer. For similar reasons, adults of prime working age, having often acquired a variety of skills and experience, are much better placed than are young people. Those on administrative leave and those with flexible working hours are substantially more likely to engage in secondary employment, as are those who work shorter hours in their main job, although in the latter circumstance it is not easy to disentangle cause and effect. The largest and most significant coefficients of all in the regressions turn out to be social: the presence in the household of another household member engaged in secondary employment, insertion in social networks through which the respondent could find work, and the subjective factor of ‘activism’ in the labour market. However, there is no evidence that involvement in secondary employment is a response to financial hardship: delays in the payment of wages in the main job, short-time working and, most important, the level of household

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<sup>40</sup> There is also the question of the extent to which secondary incomes are available to the household budget. Culturally, there is a fairly well-established understanding in Russia that secondary earnings are at the disposal of the individual. This practice would appear to be confirmed by the fact that in the households with declared secondary earnings, but not in those without secondary employment, the declared individual incomes of household members are significantly higher (by almost 20%) than the household income reported by the head of household. This would imply that only about a third of individual secondary earnings are at the disposal of the household.

income per head (exclusive of secondary earnings) have no significant influence on the probability of engagement in secondary employment.

We can conclude that informal secondary employment provides a significant source of secondary income for many Russian families, but 'hidden employment' does not provide the answer to the riddle of how Russian households survive in a non-monetary market economy. On the one hand, there is no evidence of extensive concealment of primary employment: the vast majority of primary employment is registered and so can hardly be hidden. On the other hand, informal employment is largely confined to the sphere of secondary employment, which tends to be informal, casual employment. The evidence from our survey would seem to indicate that there is a very significant degree of concealment of secondary earnings and employment from researchers. However, even if we allow for a high level of non-response to questions on informal employment, the evidence tends to indicate that informal employment provides a larger and more diversified source of household income for those households which are already relatively privileged rather than a means by which the disadvantaged can compensate for the collapse of their money incomes.

## MONETARY INCOME IN A NON-MONETARY MARKET ECONOMY

We can conclude from this review that there is not a substantial amount of hidden primary income or employment, in the sense that the survey data provides a consistent and reasonably accurate assessment of the levels of such income and employment. In the case of secondary employment the situation is slightly different, in the sense that there are greater discrepancies in the evidence of the survey data, and our own survey indicates that respondents do quite substantially under-report their secondary employment, which is predominantly informal and not officially recorded.

There are very considerable regional variations in the extent of the demonetisation of the economy, the non-payment of wages and social benefits and in levels of wages. The scale of the decline in employment, opportunities for secondary employment and engagement

in subsidiary agricultural production also vary enormously from one region to another and between large cities, small towns and the countryside. In order to get a more precise indication of the methods of household survival and sources of subsistence of households in large cities we will concentrate on presenting the data of our household survey, which was undertaken in four cities in April and May of 1998, setting its findings in the context of the All-Russian survey data.

The first dimension to be explored is the composition of household money income. A note of caution is in order, because in conditions of extreme economic instability, with very irregular flows of money income, it is extremely difficult to define the appropriate income data. In our survey we did not want to alienate respondents by taking too inquisitorial approach to the collection of income data, which was not the principal focus of our investigation, so we confined ourselves to a simple set of questions, most of which concerned the 'normal' or 'average' monthly income of the household and its members. The head of household was asked about the average monthly size of the main components of household expenditure, the total net income of all household members and income from the sale of household property. He, or more often she, was asked how the household budget was organised, how much money the household would need to live normally, and about household ownership of a list of durables. The household head was also asked a series of questions about subsidiary agriculture, including both income from sale of produce and expenditure in connection with agricultural production, and was asked to assess the relative importance of different sources of household subsistence for the household as a whole. Finally, the household head was asked about the exchange of money, goods and produce and was asked to assess the proportion of a number of basic subsistence foods which were home produced, purchased or received from others. Each individual household member was then asked about their normal wage (if they were in work), their own normal income from a range of sources, how much they spent for their own needs, how much for household needs and how much they put in the household budget, and finally they were asked what was their actual total income in the previous month. Basic income data for individual non-respondents was collected from another household member.

Table 6.3 identifies the proportion of households living below the regional subsistence minimum at the time of the survey. The contributions of income sources to the total household income in Table 6.4 are averaged across all households, whether or not they have that source of income, for those households within each income group for which we have complete data. Table 6.4 summarises the sources of household income for the designated income groups. For this purpose the sample was stratified into deciles by the average net household income per head reported by the head of household for each city. In Table 6.5 the contribution of each source for those who have that source is shown.

*Table 0.3: Percentage of households with money income per head below the regional adult subsistence minimum.*

Percent	Samara	Kemerovo	Lyubertsy	Syktyvkar	Total
Total individual incomes this month	36	52	43	44	43
Total average individual incomes	29	37	37	39	35
Reported Household income per head	33	43	38	40	38

I will only draw attention to a few significant points here.

First, over a third of all households, even in these prosperous regional centres, have an average per capita money income below the local subsistence minimum. When we take account of differences in price levels, incomes in the four cities are remarkably similar, despite the marked contrasts between the cities in their orientation to reform: it would appear that the positive impact of reform has not even penetrated the Moscow suburbs, let alone the more dynamic regional centres. Differences in the proportion of households below the subsistence minimum are determined primarily by differences in the level of the minimum, which are substantially greater than differences in the reported regional price levels of basic goods. These estimates are only very approximate. The incidence of poverty on this measure is substantially lower than that revealed by RLMS in October 1996 for Russia as a whole, according to which data sixty-four per cent of households had a total income per head below the official subsistence minimum, three times Goskomstat's estimate of 20%, although a

recalculated poverty line reduces the RLMS poverty count to around one-third of households.<sup>41</sup>

Second, although our cities are relatively prosperous, a lot of households with wage-earners are in poverty. Almost one in five of those in employment earn a wage that is less than the subsistence minimum, without taking account of non-payment. Just over half the wage-earners in each city earn less than twice the subsistence minimum, so do not earn enough to support one dependent.

Third, the very high dependence of the majority of households on social transfers. According to the RLMS data for 1996, in spite of extensive non-payment, over one-quarter of households depended on state benefits (pensions, child benefit, unemployment benefit and grants) for more than 50% of their money income.<sup>42</sup> However, overwhelmingly the most important benefit is pension income – it is almost as important to have a pensioner in the household as it is to have a wage-earner (households with at least one pensioner but no working member have about two-thirds of the income per head of households with at least one worker but no pensioners – about the same as the differential between men's and women's pay). Pensions are still sufficient to pull twenty per cent of households above the poverty line. Pensions are almost as important for households with working members: pension payments are sufficient to pull ten per cent of such households above the poverty line: without pension payments, half of working households would have had a money income below the poverty line in the month prior to the survey. This should make it clear why the issue of the payment of pensions is such an emotive one.

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<sup>41</sup> The minimum subsistence level for an adult corresponds to approximately \$PPP 4 per head per day, the internationally recognised absolute poverty level of the transition countries, although lower levels are set for children and pensioners. A recalculation of the subsistence level to take account of regional dietary and price differences leads to a significantly lower poverty line (Popkin and al. 1996). However, even on this recalculated basis and including in-kind income, which halves the estimated number of families living in poverty, over a third of all households lived in poverty in October 1996, up from 11% in 1992 (Mroz and Popkin 1997).

<sup>42</sup> According to the RLMS data, social transfers amounted to about 33% of household money income in 1996 (35% of the bottom quintile and 53% of the second quintile), which is substantially more than Goskomstat's budget survey data which finds that social transfers amounted to an average 16% of household money income (25% of the bottom decile income group, 22% of the second group). This is most likely the result of Goskomstat's inflated estimate of money income.

It should also make us think twice about current attempts, vigorously sponsored by the IFIs, to reform the pension system as a central part of their attempt to cope with the problem of demonetisation through fiscal stabilisation. Nothing could more effectively drive people out of the money economy than a bungled pension reform.<sup>43</sup>

Table 0.4: Household income and its components

City	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	First decile														
Samara	176	267	199	19	1	275	48	1	11	29	0	8	1	3	6
Kemerovo	129	276	154	36	9	394	63	2	7	16	0	6	1	1	6
Lyubertsy	200	297	224	18	3	380	29	0	4	58	0	4	3	1	8
Syktyvkar	145	248	233	45	4	252	47	0	12	26	1	6	1	4	17
Total	163	271	199	29	4	322	48	1	9	30	0	6	1	3	9
	Tenth decile														
Samara	1455	1391	1135	98	51	1069	70	9	9	8	0	1	1	2	2
Kemerovo	1600	1563	1224	72	59	1314	75	7	8	7	0	0	0	3	3
Lyubertsy	1794	1958	1710	44	120	1552	81	4	7	6	0	0	1	1	-2
Syktyvkar	1605	1548	1385	118	86	1362	75	6	10	7	0	0	0	1	2
Total	1588	1579	1320	84	74	1289	74	7	9	7	0	1	0	2	1
	Total														
Samara	564	590	521	25	12	516	54	3	6	31	0	4	1	2	2
Kemerovo	583	643	509	37	20	584	56	3	6	31	0	2	1	1	4
Lyubertsy	698	766	674	26	21	688	56	1	6	34	0	1	1	1	3
Syktyvkar	615	656	581	33	22	610	59	2	5	28	0	2	1	2	2
Total	606	651	561	30	18	583	56	2	6	31	0	2	1	1	3
N Households	3991	3746	4019	3460	3364	3013	3669	3669	3669	3669	3669	3669	3669	3669	2871

Key to table:

Mean household income, expenditure and private transfers:

1. Average reported net monthly household income per head excluding private transfers (roubles)
2. Average net total monthly income per head of all household members excluding private transfers (roubles)
3. Total net income per head of all household members last month excluding private transfers (roubles)
4. Average monthly monetary value of help received from others per head (roubles)
5. Average monthly sum given as help to others per head (roubles)
6. Average monthly expenditure per head (roubles)

<sup>43</sup> Our data is close to that of RLMS for October 1996, according to which pensions made up 29% of household money income. The proportion of total money income accounted for by pensions by per capita income quintile in RLMS was 12%, 30%, 48%, 33%, 12%. The more marked difference between the bottom two quintiles in this data is most likely because the RLMS sample will include more households with very low pensions, particularly in the countryside, and because the problem of non-payment of pensions was more acute when the RLMS survey was conducted.

Components of household income as percentage of total net income of all household members, excluding private transfers

7. Wage income
8. Entrepreneurial income
9. Income from secondary employment
10. Pensions
11. Grants
12. Benefits
13. Alimony
14. Other
15. Net private assistance. None of the differences between cities are statistically significant.

*Table 0.5: Components of household income by income group. Percentage of income contributed by each source for those households who have that income source and percentage of households with that income source.*

	Percentage of	7	8	9	10	11	12	13	14	15
First decile	income	72	53	39	64	27	23	29	37	24
	households	57	2	19	40	2	27	3	6	26
Second decile	income	70	47	33	68	11	13	24	26	16
	households	63	1	21	50	2	32	4	5	29
Second quintile	income	73	60	27	76	14	12	17	31	4
	households	55	1	16	61	1	21	3	3	30
Third quintile	income	75	68	25	68	14	8	20	36	8
	households	64	3	18	54	1	24	2	4	30
Fourth quintile	income	77	70	23	46	9	6	21	23	4
	households	81	4	20	44	1	25	4	5	38
Ninth decile	income	80	62	31	38	31	7	13	18	-4
	households	83	5	20	38	1	21	3	5	43
Tenth decile	income	82	71	27	24	6	3	13	32	2
	households	83	9	30	28	3	14	3	6	44
Total	income	76	66	28	61	15	10	20	29	6
	households	69	3	20	47	1	23	3	4	34

Fourth, the very small contribution made to household money income by other welfare benefits, notably unemployment benefit and child benefit which have shrunk to a derisory sum which is rarely paid. However, these benefits do make a significant contribution to the household incomes of those poor households who are fortunate enough to receive them, and are clearly progressive in making a proportionately greater contribution to the incomes of the poor than to the better off households.

Fifth, secondary employment does not provide a significant counterweight to the demonetisation of the household budget overall, contributing only 6% of total income when averaged across all households. For those households with at least one member engaged in secondary employment such income makes a substantial contribution, but since many of these households are already comfortably off, reported secondary employment only reduces the incidence of poverty by about two per cent. If we assume that every household with undeclared secondary employment earns as much as those who declare such incomes, the effect is to increase the mean household income by about 10% uniformly across all the income groups, reducing the incidence of poverty by about six percentage points: a significant, but not substantial contribution to the survival prospects of the Russian household.

Finally, transfers make a substantial contribution to the income of the quarter of the poorest 20% of households who are fortunate enough to be able to call on such support. Richer households are even more likely than poorer ones to be involved in exchange networks – we have found in our preliminary analysis of a variety of different aspects of household survival that the density of social networks in which the individual is involved has a very powerful impact on the ability to get a job, to earn more money, to undertake secondary employment and so on. However, net private help was still sufficient to reduce the poverty count by eight percentage points – a more significant contribution than secondary employment and second in importance, after wage income, only to pensions.

Note that monetary transfers are only a small part of the exchange networks in which our respondents are embedded. While 25% of households gave money and 10% made loans to others during the previous twelve months, 30% gave food and 20% gave goods. Two-thirds of all households reported their involvement in exchange relations, providing help to or receiving help from others, with about 25% giving help but not receiving it, 20% receiving help but not giving it and 20% both giving and receiving help.<sup>44</sup>

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<sup>44</sup> The proportion involved in exchange relations is much higher than reported by RLMS 1996, in which fewer than half the households reported such relations: 15% of households were donors, 17% recipients and only 5% both gave and received. This is probably because the RLMS interviews were conducted in late October and early

By way of comparison, according to the RLMS data, private transfers made up an average of 4.7% of the total money income of all households in 1993 and 7.1% in 1996.<sup>45</sup> In 1993 such transfers comprised 20% of the money income of net recipients. In 1996 they comprised almost a third of the monetary income of the one in four households who reported receiving such transfers from friends and relatives, which was sufficient to raise the money incomes of one-third of these people above the poverty line (my estimates from 1996 RLMS data). The growing reliance of households on private transfers is an indication of the deepening crisis of demonetisation of the household economy, but at the same time we can expect increasingly asymmetrical relationships to put such support networks under increasing strain.<sup>46</sup>

A final indication of the extent of demonetisation of the household budget is given by the inability of households to meet even the currently still modest demands for payment for rent and utilities. According to RLMS estimates in October 1996 almost 30% of households owed back rent and utility payments, up from 22% the previous year, and the average debt had increased from 1.8 to 2.6 months. This despite the fact that rent and utilities still account for less than 6% of consumer spending, up from 2.8% in 1992, and only 7% of the spending of the bottom quintile - those in extreme poverty.

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November and asked only about the previous month, whereas exchanges peak earlier in the year, at harvest time. Thus, over half of all households told RLMS in 1996 that they had given away a part of the potato crop produced on their dacha over the previous year, but only a quarter of these said that they had given food, goods or money to others in the previous month.

The estimate of the monetary value of transfers is very approximate. Many respondents found it difficult and some offensive to be asked to put a money value on these transfers, particularly when they were the donors. The 1996 RLMS data shows exactly the same disproportion between the mean amount reported given and the mean amount reported received, with the latter being 50% higher than the former, as does our data. There was therefore a relatively high non-response rate to the question, and the estimates we do have are bound to be very approximate.

<sup>45</sup> According to the Goskomstat data, such private transfers amounted for 4% of total money income and 12% of the money income of the lowest decile, those in extreme poverty, in the fourth quarter of 1996.

<sup>46</sup> It is only possible to conduct proper research into household networks of reciprocity by means of a dedicated research project, using both ethnographic and survey methods, preferably with a longitudinal component. This is probably the most seriously under-researched dimension of the transition. For an analysis of the rather unsatisfactory first phase RLMS data see Cox et al. 1995.

## CONCLUSION

The conclusion is a bleak one. Russian households have borne the brunt of the demonetisation of the economy, losing their jobs, seeing their wages and social benefits eroded by inflation and often unpaid for months on end, and facing rapidly increasing demands for monetary expenditure as social facilities are closed and subsidies for basic needs are withdrawn. Households cannot barter and cannot issue bills of exchange. But, for the vast majority, neither of the escape routes identified in the introduction provides a solution. Although we found evidence of considerably more informal secondary employment than have other surveys, there is no significant 'hidden economy' in which money flows into the pockets of the ordinary Russian. The key sources of money income for the Russian household are absolutely traditional: first, wage incomes of the regularly employed members of the household; second, pensions paid at a reasonable level to the retired members of the household; third, private transfers between networks of friends and, primarily, relatives. Income from informal secondary employment is significant, but even allowing for concealment by respondents, it is very much in third place in absolute significance, behind regular wage incomes and pensions, and in terms of the relief of poverty it lies behind even private transfers which, although relatively small, are targeted on the poor rather than being, like secondary employment, a means by which those who already have resources are able to increase their security by diversifying their income sources.

The demonetisation of the economy has hit Russian households very hard, even in the relatively prosperous cities in which we conducted our survey. The vast majority have to spend their meagre money incomes on the bare essentials, and around a third have money incomes which are not sufficient to buy even the officially recognised minimum required for their daily subsistence. Twenty-eight per cent of our household heads said that they did not have enough money to buy sufficient food for their families. A further forty-seven per cent said that they had enough to buy food, but it was difficult to buy clothing. According to RLMS, around one in ten households are in chronic poverty, with household incomes consistently below the poverty line and with signs of malnutrition (Mroz 1997; Popkin et al., 1997).

The immediate policy implications are clear, and reinforce the findings of previous chapters: the survival of the Russian household is not in its own hands, but depends above all on the availability of paid employment and the maintenance of the real value of the retirement pension. But what of the role of the famous dacha? Can people turn their backs on the monetary economy and produce enough on their plots of land to meet their own subsistence needs?

## The Russian dacha and the domestic production of food

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The first priority of any household is to provide food for its members. This is a particularly acute problem in a highly urbanised but demonetised money economy. If people do not have the money to buy food, they can only acquire it by producing it themselves or by receiving it in the form of gifts from others who have produced it.<sup>47</sup>

It would hardly be surprising to find, with such reduced monetary incomes, if a growing proportion of people's needs were met by their own subsistence production, and indeed it has become a commonplace to refer to the dacha as though it were the salvation of the Russian population. It is widely believed that huge numbers of people have compensated for the collapse of the monetary economy by retreating into a world of subsistence farming.

Those who believe that self-sufficiency is becoming the rule rather than the exception in Russia can find powerful support from the official statistics, according to which almost half of the total amount of food by value produced in Russia is produced on the garden plots of the population, up from only one quarter in 1990. In 1996, according to the official statistics, 90% of all potato production, more than three-quarters of all fruit and vegetables, more than half of all meat, almost half the milk, almost half the wool and a third of the eggs produced came from household plots (Goskomstat, *Rossiya v tsifrakh*, 1997).

However, these figures are very misleading for two reasons. First, there has been a sharp decline in farm production as a result of falling incomes and growing import competition: the volume of agricultural production has fallen by almost 40% since 1990. Thus, the growing proportion of food produced on domestic plots is more a result of the decline in production on state and collective farms, the value of which

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<sup>47</sup> This part of the paper summarises the findings of our research that are reported more fully in Yaroshenko 1998; Varshavskaya and Karelina 1998; Varshavskaya et al. 1999.

at constant prices has fallen by well over half since 1990, than of the growth of domestic production, which grew by 17% in value terms between 1990 and 1992, but has not actually increased since then.

Second, and much more important, Goskomstat's category of domestic production (*khozyaistvo naseleniya*) combines household subsistence production with almost all smallholding agriculture. This category in the past comprised the 'personal subsidiary agriculture' (LPKh) which supplied a substantial proportion of farm produce in the Soviet period. Although the peasants claimed ownership of the individual animals, they were almost all raised on the land of the state and collective farms and fed with fodder supplied by the farms. This is how these plots are able to perform the apparently remarkable feat of producing half the meat, wool and milk produced by the whole agricultural sector on only two per cent of the total area under pasture. Thus, the Goskomstat production data can tell us very little about the role of subsidiary agriculture in the survival strategies of urban families.

This is not to say that land is not widely owned and widely used in Russia. The dacha is ubiquitous. According to the 1994 microcensus, 58.3% of all households had a plot of land and even in the cities of Moscow and St Petersburg, 21% and 27% respectively have plots of land. Two-thirds of households in the Russian Longitudinal Monitoring Survey grew some of their own food in 1996, although fewer than 5% sold any of the produce (Goskomstat's budget survey found that in the fourth quarter of 1996 sales of agricultural produce amounted to 2% of total household money income: 11.3% in the countryside, 0.1% in towns) ([Development, 1997 #157]). According to the budget survey data, Russian households in 1996 grew 73% of their potatoes, 59% of their vegetables, 43% of their fruit, a quarter of their meat and milk products and 15% of their eggs, all by volume, but there is no doubt that the urban population grows much less than this. Thus, according to the same data, in the large cities of Moscow and Saint Petersburg people grew less than 20% of their potatoes, less than 10% of their vegetables, very little fruit and virtually none of their meat, eggs or dairy products. It would seem that, while self-sufficiency may well be a feature of rural existence in Russia, and those in smaller towns and cities may produce a significant proportion of their food for themselves, the dependence of city dwellers on their garden plots is much less than is generally imagined.

*Table 0.1: Percentage of households buying some or all of their needs and average percentage produced themselves for food products, household survey data, April 1996.*

	Samara	Kemerovo	Lyubertsy	Syktyvkar	Total
Buy all potatoes	58	17	67	28	43
Buy some potatoes	14	11	15	20	14
Buy no potatoes	29	72	18	53	42
Home produced	23	65	17	50	38
Given by others	12	13	7	14	12
Buy all vegetables	42	23	65	46	43
Buy some vegetables	31	27	25	36	30
Buy no vegetables	27	50	10	19	28
home produced	35	54	16	30	35
given by others	9	12	5	7	9
Buy all fruit	51	84	77	96	73
Buy some fruit	38	14	20	3	22
Buy no fruit	11	2	3	1	5
Home produced	26	7	8	1	13
Given by others	5	2	2	1	3
Buy all dairy products	94	92	98	94	94
Buy some dairy products	5	5	2	4	4
Buy no dairy products	1	3	0	2	2
Home produced	0	1	0	2	1
Given by others	2	4	1	2	2
Buy all meat	92	85	97	91	91
Buy some meat	6	9	3	6	6
Buy no meat	2	6	1	3	3
Home produced	1	2	0	2	1
Given by others	4	8	2	4	4

## THE MYTH OF THE URBAN PEASANT

Just over half the households in our survey used a plot of land, although this varied between one-third in Lyubertsy, half in Samara, 58% in Syktyvkar and two-thirds in Kemerovo. We did not ask the households to detail exactly how much of each crop they produced,

but only to estimate what proportion of their needs for potatoes, vegetables, fruit, dairy products and meat they met through buying, what proportion through their own production and what proportion was given to them by others. It turned out that the majority of households in each case either bought all or none of the relevant product, with most of the rest buying around half their needs of that product.

Three features of our data immediately stand out as depicting a phenomenon very different from the picture painted by Goskomstat's data. First, the reliance on subsidiary agriculture is very unevenly developed. Moreover, it is highest not in those regions in which the climate and the quality of the soil would seem to be the most conducive to agricultural production, Samara and Moscow oblast, but in those regions which are the most hostile: the sub-Arctic North and Western Siberia. Second, at least for the residents of large cities, subsidiary agriculture plays almost no role in the provision of meat and dairy products. Third, not only the scale but also the significance of subsidiary agriculture appears different in the different cities. Thus, half of those in Lyubertsy and Samara who worked a dacha did not produce any potatoes, against only 10-15% in Kemerovo and Syktyvkar, while in Samara more people with dachas grew fruit and vegetables than grew potatoes. It looks as though most people in Kemerovo and Syktyvkar grow their own produce to provide their basic means of subsistence, while in Samara and Lyubertsy the dacha provides many people with a wider range of foodstuffs.

The fact that the ownership of land and the self-provisioning of the household is by no means universal, and that they vary considerably from one city and one region to another, raises the questions of why some people use land and others do not, of why some people use their land to grow their own food and others do not. Is the dacha a means by which households with a low money income manage to meet their basic subsistence needs? Is it an element in a particular type of household survival strategy? Is it a cultural hangover from the peasant past? These are the questions that will be addressed in the rest of this paper.

## DECIDING TO USE A DACHA

The large-scale use of subsistence plots by city residents is not a legacy of Russia's peasant past. Plots were distributed to city dwellers to enable them to feed themselves during the war, and there was a further mass distribution of land to urban households at the end of the 1980s. About the same time, enterprises began to rent fields on which their employees could grow potatoes, even providing transport and adapting the rhythm of industrial production to the demands of potato cultivation. Half our dachniki had started using their land in the last ten years. Although many people have a dacha because they have always had one, according to the RLMS data there appears to be a significant turnover among the dachniki, at the rate of between ten and fifteen percent of land users each year. As we will see, the use of a dacha to produce food involves quite a considerable expenditure of time, effort and, in many cases, money. It is therefore reasonable to regard the use of a dacha as the result of a positive decision taken in the light of the current status and situation of the household and its members.

In order to get some insight into the reasons why people use a dacha we have analysed not only our own survey data, but also the microcensus and RLMS data. The hypothesis that we wish to explore is that the use of a dacha is a means by which households secure their food supplies in the face of a shortage of money. If this was the case, we would expect lower-income households to be more likely to use a dacha and more likely to grow food on their land. We would also expect paid employment and work on the dacha to be competing uses of time: those who can do so will be more likely to work to earn the money to buy their food rather than to work the land, and the higher their wages the less likely we would expect them to be to do so. We would especially expect those with second jobs to be less likely to work on the land.

In the context of the Russian crisis many people find themselves in employment which generates only a reduced income or no income at all. We would expect those households which are deprived of money income by the non-payment of wages, by lay-offs or by short-time working to be more likely to have to acquire and work a dacha in order to meet their basic subsistence needs. The latter two would be

expected to be more powerful than the first, since those subject to lay-offs and short-time working will have more free time than those still working but not being paid their wages.

We would expect that the larger the household and the more household members are not in paid employment, the more likely would the household be to work a dacha. We would expect the alternative opportunities of household members to be less the lower is the level of education of household members. It is also reasonable to expect that pensioners, particularly those who are no longer working, have fewer opportunities of engaging in paid employment. Children are proscribed by law from working in paid employment, but they can make a significant contribution to working the dacha.

Self-provisioning with food is not simply a matter of desire, but also of capacity and opportunity. Although we would expect those with lower money incomes to be more inclined to produce their own food, to engage in domestic production households also need at least the minimum of resources (tools, seeds, fertiliser, pesticides) required for cultivation. On this basis, despite our expectation that those with lower incomes will be more likely to grow their own food, it may be that households in the lowest income groups will be less likely than those above a certain income threshold to use a dacha. Similarly, we would expect those households with their own means of transport to be more likely to use a dacha. Finally, producers also need a certain amount of skill and expertise, as well as the physical capacity, to do the necessary work. The latter consideration would lead us to expect that households of a rural origin will be more likely to use a dacha and households of old people will be less likely to use a dacha.

Running a series of logistic regressions in all three data sets, we find that the hypotheses relating to the opportunity to use a dacha are more or less strongly supported, the most important being the demographic composition of the household: the more adult members and the more pensioners there are in the household, the more likely it is to possess a dacha.<sup>48</sup> A household based around a married couple is also substantially more likely to have a dacha. If the head of household is male, then the household is marginally less likely to have a dacha.

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<sup>48</sup> The full results are reported in Varshavskaya et al. 1999.

Households with members born or brought up in a rural district are substantially more likely to have a dacha, and having an automobile is one of the strongest predictors of dacha ownership.

The age and education level of the head of the household is a strong and significant influence on the probability of having a dacha, but does not conform to our hypotheses. Those with higher levels of education are significantly *more* likely to have a dacha, which is contrary to the hypothesis that those with higher levels of education would have better alternative opportunities of earning a living and so would be less drawn to working the land. We might speculate that this is to do with the greater flexibility and ability to learn of those with higher levels of education, qualities which are needed for what is in effect adopting a new profession.

Having children also increases the likelihood of having a dacha, even pre-school children who need childcare being no barrier to dacha use. We also find that households headed by the over-40s are much more likely to have a dacha than those headed by prime-age men or women. This is probably partly a reflection of differences in household structure, with older people more often heading larger households, but may also reflect the fact that many of the plots of land being used by households were distributed during the 1980s. It looks from the data as though it is not until people reach their late 60s that their ability to maintain a dacha is significantly reduced. All of this would seem to indicate that age is not much of an impediment to working a dacha although disability is more so, households with members with invalidity pensions being less likely to work a dacha.

All the hypotheses considered so far are more or less uncontroversial, but they are all subsidiary to the central argument under consideration since none of them relate to the relationship between dacha use and household income and employment. Whatever may be people's reasons for wanting to have a dacha, it is obviously going to be a more realistic proposition if there are more household members, if there are more young and older people with free time and without other employment commitments, if the household has a rural origin, and so some experience of rural pursuits and if the household has a car to transport its members, their tools and their produce.

When it comes to the critical set of variables, those relating to the

impact of income and employment, the picture is much less clear. In our own survey there is no significant functional relationship between income and dacha use. However, the lowest income quintile is significantly less likely to grow its own food than middle income groups, but not than those at the top of the income scale (although the ninth income decile is actually the most likely to have a dacha).<sup>49</sup> The RLMS data shows the same pattern of dacha ownership being the lowest at the ends of the income scale and highest in the middle, although only at the top is the difference statistically significant and such a strong effect may be partly a result of aggregation: if, as we would expect, larger cities have higher incomes and lower dacha use then we would get the indicated relationship between income and dacha use in the aggregate data even if there were no such relationship, or it was in the other direction, at the level of each city or town. In both of these data sets the standard errors of the income coefficients are very high, indicating that there is no clear relationship between income and dacha use.

We find the same lack of clarity in the microcensus data. There is a tendency for income to be positively associated with dacha use in this data set, although the relationship is not consistent across regions. When we run the full regression, with households assigned to deciles specific to each of the 95 administrative units according to their income per head, we find that those in the bottom two income deciles are the least likely to have a dacha, while those at the top of the income scale are significantly more likely than middle income groups to have a dacha. Overall, the relationship between household income per head, controlling for region, and the probability of dacha ownership is pretty well linear. However, the relationship between income and dacha ownership is probably more complex than appears in the aggregate data, as is shown when we run separate regressions for the 95 oblasts, krajs and okrugs for which we have the microcensus data. Although we find that in the majority (50) of cases there is a significant positive relationship (at the 0.99 level) between the log of income and the probability of owning a dacha (the best fitting functional relationship), in 11 cases there is a significant negative

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<sup>49</sup> Seeth et al. , p. 1620, also find that the lowest income quintile is the least likely to grow its own food. They too conclude that the dacha is a means by which the middle and upper (though not the highest) income groups are able to increase their security.

relationship. When we look at the distribution of ownership by income deciles we find that where there is a significant difference between income deciles in any particular region, it is almost always only at the very top and/or the very bottom of the income distribution. In 28 of the 85 regions dacha possession among the bottom decile was significantly lower than among the middle income groups, although in five cases (Krasnodar, Amur, Chitinsk, Buryatia and Osetiya) it was significantly higher. In 22 cases dacha ownership was significantly higher in the top income decile, while in only eight cases was it significantly lower (Krasnodar, Krasnoyarsk, Amur, Belgorod, Tver, Dagestan, Tartastan and Komi). The pattern that we have noted as weakly present in the data of the ISITO and RLMS surveys, of dacha use apparently being less among both the rich and the poor, is very much the exception in the all-Russian and in the regional level data, found to be statistically significant in only two regions, Tatarstan and Tver. In our own survey regions, the Samara microcensus data shows no significant income differences, while Kemerovo and Moscow city are two of the very few regions to reveal a reasonably monotonic relation between income and dacha use, with a logarithmic relationship being strongly significant in Moscow and marginally significant in Kemerovo. Komi shows very low dacha use among high income households, but this is because the latter are primarily the oil, gas and coal industry workers in the Arctic north of the Republic where nothing can be grown.

All of this data certainly leads us to reject the fundamental hypothesis that the dacha functions primarily as a means by which the more impoverished households provide their own subsistence.<sup>50</sup> This conclusion is reinforced when we take into account the effect of aggregation in the RLMS and microcensus data, which combines large cities with small towns, the former tending to have higher income and lower dacha ownership than the latter, so that the effect of aggregation would be to produce a picture of dacha use as a declining function of income. Even without taking this into account it seems to be clear

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<sup>50</sup> In the microcensus data the receipt of private transfers from others has a strong negative association with dacha use, which could be taken to indicate that those most in need are less likely to have a dacha, although of course the causality could be in either direction: those poorer households in receipt of private transfers may be less likely to have dachas, or those households without dachas may be more likely to receive such transfers

from the microcensus data that, if dacha ownership is a function of income, it is certainly not a decreasing function. The data may be consistent with the hypothesis that there is a certain income threshold below which households find it more difficult to support a dacha. It is conceivable that the observed relationship between income and dacha use is the result of the complex interaction of the two aspects of the relationship which derive from the fact that a dacha requires the investment of both time and money. The poor have the time but not the money, the rich have the money but not the time, and it is only the households in the middle who have both the time and the money. However, such a reformulation of the problem regards income only as a source of opportunity, not as a measure of opportunity cost, so it takes us no further towards explaining why people want to take the opportunity of owning and working on a dacha.

We can deal briefly with the question of more immediate financial difficulties: short-time working, the non-payment of wages and compulsory lay-offs, which are not recorded in the microcensus data and the impact of which is inconclusive. In both our data and the RLMS data the coefficients have the expected sign, and so are consistent with the hypotheses that financial difficulties would be likely to encourage dacha use, but only in the case of wage delays in our survey is this factor significant and this is simply a result of the fact that wage delays and dacha use are more prevalent in Kemerovo and Syktyvkar. Once interaction terms are introduced into the regression the coefficient actually becomes negative and insignificant. The same is likely to be the case in the RLMS data since, as we will see later, there is a significant correlation at regional level across Russia between wage delays and the use of dacha.

The crucial set of hypotheses are those concerning the relationship between income and employment, since the central argument is that the basis of dacha ownership is the use of household resources to provide food through domestic production rather than using those same resources to earn money and buy food. The variables that we have considered so far all relate to the greater or less possibility of growing food, without taking into account the alternative possibility of waged employment. The one conclusion that stands out very clearly from all three data sets is that there is absolutely no evidence that working a dacha is regarded as an alternative to paid employment. The

set of relevant hypotheses either find no support or are directly contradicted by the data.

In our household survey data, wages and working hours in main or second jobs are not significant determinants of the probability of having a dacha. Nor is the number of household members who are working or the proportion of working members who have second jobs significant. Moreover, in every case the coefficient indicates that working for wages and working the dacha are if anything complements rather than alternatives: those households with relatively more working members and those which are more heavily involved in secondary employment are more likely to work a dacha, although the relationship is not sufficiently strong to be statistically significant. In the RLMS data, the composition of income, the proportion of household members who are in work and the average number of hours spent in waged work are not significant determinants of the probability of dacha use, while the existence of secondary employment among household members significantly and quite substantially *increases* the probability of using land.

The microcensus data provides no support for these hypotheses either. The number of household members earning a wage is the one variable that is completely insignificant in the all-Russian regression, despite the enormous size of the sample (1.7 million households). At regional level, in six of the thirteen aggregated regions (including Moscow and St Petersburg) the more wage-earners there are in the household, the more likely it is to possess a dacha (at a 0.99 significance level). However, in the North Caucasus, Moscow City and the Black Earth regions the reverse is the case, and the more wage earners the less likely is the household to possess a dacha. In 25 of the 94 administrative divisions there is a significant positive relationship and in 9 there is a significant negative relationship. The effect in either direction is small.

The only qualification to this conclusion is that over Russia as a whole, and in most regions taken individually, the more household members have incomes from entrepreneurial activity or from employment by a private individual, the less likely is the household to have a dacha, indicating that this kind of employment is an alternative to working a dacha. This is most likely to be either because such work is very lucrative, or perhaps because of the time demands of

entrepreneurial activity.<sup>51</sup> It is interesting that in Moscow City the reverse is the case, those with entrepreneurial incomes being substantially more likely to have a dacha, indicating that in Moscow the dacha for some people has a different significance, as a status symbol for the rich.

Apart from this limited exception, we seem to be drawn to the inescapable conclusion that the dacha is neither a means by which households with low money incomes compensate for their lack of spending power, nor are dacha ownership and waged employment alternatives. Thus, the use of a dacha cannot be explained as the result of household decisions to produce food in response to economic difficulties or limited employment opportunities.

## WHY DO PEOPLE USE DACHAS?

We should not jump to such a conclusion prematurely. It may be that dacha use is more diverse, that different households use dachas for different reasons, and that this diversity has been concealed beneath statistics that lump everybody together. Perhaps for the poor the dacha is a source of subsistence, while for the better off it is a place of rest and relaxation.

In our household survey we asked people what were the two most important reasons for using their dacha. We also asked those who did not have a dacha why they did not have one. The responses are summarised in Table 7.2.

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<sup>51</sup> It may be that some of these people are engaged in secondary employment, although this seems unlikely since in most regions only about 2% of households report any entrepreneurial income and only 1% report any income from employment by private individuals.

*Table 0.2: Reasons cited for having and for not having a dacha. Household survey. April-May 1998.*

	Samara	Kemerovo	Lyubertsy	Syktyvkar	Total
Most important reason for doing it (percent of dachniki)					
Hobby, leisure, we like it	17	9	39	15	17
Main source of subsistence	28	52	14	35	36
Additional produce	53	36	44	45	44
Source of money income	1	1	0	0	1
Providing for a rainy day	2	3	2	4	3
Why do you not use land? (any number of answers permitted)					
We don't need it	6	11	6	10	8
We do not want to do it	17	11	11	13	14
We do not have time to do it	16	12	13	17	15
We cannot for health reasons	39	39	32	22	34
We cannot get any land	12	12	31	19	18
We do not have the money	27	39	40	33	34

Very few households said that their dacha was important as a source of money income, and we found few households who sold any of the produce of their dacha, although there was a handful who had obviously become commercial smallholders, working fairly large plots of land on a commercial basis. Overall, eight per cent of those working a dacha sold some of the produce. In Samara and Kemerovo such 'commercial' operators earned an average of over 800 roubles a year from the sale of their produce. In Syktyvkar and Lyubertsy there were fewer commercial dacha holders, and the monetary contribution of the dacha to the household income was correspondingly much less. However, it would be quite wrong to see the dacha as making a significant contribution to the household money income even for the majority of those who sell the produce: for well over half of these households the revenue from the sale of produce was not sufficient to cover their estimated monetary outlay for the costs of that production. Thus, only one per cent of all households had any net positive monetary income from subsidiary agriculture.<sup>52</sup> We omit this group

<sup>52</sup> Just over half the urban households in RLMS grew some of their own food in 1996 but only 6% sold any of the produce. Goskomstat's budget survey found that in the fourth quarter of 1996 sales of agricultural produce amounted to 2% of total household money income: 11.3% in the countryside, 0.1% in towns, Ministry of Labour and Social Development and Goskomstat rossii 1997.

from further consideration because it is so small.

*Table 0.3: Mean household income per head by main reasons for having or not having a dacha.*

	Percentage citing as main reason	Mean Household Income per head	Std. Error of Mean
Hobby, leisure, we it	17	830	30
Additional produce	44	646	16
Providing for a rainy day	3	572	52
Main source of subsistence	36	519	14
Total with a dacha	100	629	10
We don't need it	8	996	71
We do not want to do it	14	852	51
We do not have time to do it	15	800	37
We cannot get any land	18	548	21
We do not have the money	34	499	13
Health reasons	34	495	13
Total without a dacha	100	608	12

When we look at the mean household income of each group we find that there is a significant gradation of income in very much the direction that we would expect. Those who say that they have a dacha as a leisure activity have a much higher mean income than those for whom the dacha is primarily a source of food, and those for whom the dacha is a supplementary source of food have a much higher mean income than those for whom it is the principal source of subsistence. The subjective assessments of the importance of the dacha for the household subsistence for those who have a dacha accord quite closely with the reasons given for having a dacha: Ninety one per cent of those who said that the dacha was their basic source of subsistence said that their domestic production was important in providing for the family, against 57% of those who said the dacha was primarily a hobby. Among those who do not have a dacha we find a similar sharp distinction in mean incomes, between those who choose not work a dacha: they did not want to, did not need to or did not have the time to do it, and those who are unable to work a dacha: they are in poor health, cannot get land or do not have enough money. This latter provides some foundation for the slight tendency indicated in our data

for dacha use to be concentrated among the middle income groups, supporting the suggestion that, at least in some cases, the rich do not have the time to work a dacha, the poor do not have the money.

It seems clear that both those who have a dacha and those who do not are quite sharply differentiated from one another. As was suggested above, the relatively lower level of dacha use among the lowest income households can be explained by the fact that they do not have the resources to work a dacha. The fact that dacha use does not fall off with income, in apparent contradiction of the original hypothesis, can be explained by the fact that higher income households keep their dachas for a different reason: not to produce food, but as a leisure activity. If we distinguish those dachniki for whom the dacha is a leisure activity from those for whom it is a way of producing their household's basic means of subsistence, we can run our regressions separately for each category.

At first sight, separating the different types of dacha owner has set everything to rights. In particular, owning a dacha as a hobby is a strongly increasing function of income, while owning a dacha as a means of producing for the household's basic subsistence needs is a strongly decreasing function of income. Although most of the coefficients are not statistically significant, those households which use the dacha as a hobby tend to be smaller, younger and better educated than those which use the dacha as a basic source of subsistence. The one blot is the most important one: we might have expected the separation to have tidied up the relationship between employment and dacha ownership as well. We would expect those in employment to be more likely to use a dacha as a form of leisure both because these people are more likely to have the money to travel to and to maintain their dacha and because they are more likely to feel the need for a break after their working week. However, it turns out that there is no significant difference in the number of workers and the proportion engaged in secondary employment between those households which have a dacha as a hobby and those households which have it as their basic means of subsistence.

Moreover, what people say does not necessarily correspond to what they do. Ninety-nine per cent of subsistence producers say that they grow some of their own food, but so also do 93% of the hobbyists. The fact that some people say that they work the land because they enjoy it

does not mean that these people work any less hard on the land: there is no significant difference in the number of hours worked on the land by household members whatever they said was their motive for doing so. Nor does it mean that the production of food is unimportant to them: those who said that the dacha was their main source of subsistence grew more than those who said that they worked the dacha because they enjoyed it, but the difference is barely statistically significant in any of the crops in Syktyvkar and Kemerovo. In Samara and Lyubertsy hobbyists are relatively more likely to grow fruit than vegetables and potatoes so that, while they do produce substantially less potatoes and vegetables than subsistence producers, they grow just as much of their fruit. On the basis of this data, Lena Varshavskaya suggests that the motives people give may be as much a reflection of the image that the household seeks to uphold as of its actual motivation, with higher income and better educated households not wanting to identify themselves with subsistence production, while lower income and less educated households are more willing to elevate the traditional values of labour over the post-Soviet values of leisure. We clearly need to look more closely at what people actually do with their land.

## GIFTS OF FOOD: RECIPROCAL EXCHANGE OR FOOD AID?

Most people with a dacha produce something, whatever they may say are their motives for having a dacha. However, it is not necessary to work your own plot of land to be able to live from home-produced food. According to the microcensus data, in most regions the proportion of potatoes home-grown is substantially higher than the proportion of households having land, perhaps indicating that many people get their potatoes from friends and relatives. In our four cities from 12% of households in Lyubertsy to almost 20% of households in Kemerovo did not have the use of their own dachas, but received produce from others. Such donations are often made in exchange for helping with production, particularly for help with planting, weeding or harvesting, or by providing a car to help with transport. Before turning to the domestic production of food, we should investigate whether acquiring food from others, whether as charitable gifts or in

exchange for services rendered, provides an alternative survival strategy to market adaptation or domestic production.

*Table 0.4: Methods of Provisioning. Household Survey. April-May 1998*

Percent of households	Samara	Kemerovo	Lyubertsy	Syktvykar	Total
Have a dacha	50	67	33	57	52
Receive food from others	16	19	12	18	16
Buy all of their food	34	14	55	25	31

The receipt of foodstuffs does not appear to be purely a casual affair. A significant proportion of the needs for fruit and vegetables of many households was met by donations from others and meat and dairy products were more often received as donations than produced on the household's own land. The fact that there is a strong correlation between the receipt of the various different products, particularly between potatoes and vegetables, on the one hand ( $R=0.71$ ), and meat and dairy products, on the other ( $R=0.51$ ), indicates that giving is systematic. The key question with regard to the receipt of foodstuffs is whether such donations represent a charitable gesture towards those in hardship, or an element in a network of reciprocity in which the recipient is expected to provide something in exchange. Our own ethnographic research inclines us towards the latter interpretation, and this is strongly supported by the data. When we run a series of regressions with the percentage of each product received as the dependent variable, we find that there is no significant relationship between household money income and the extent of receipts of food products, nor is there any tendency for lower income households to receive more than those who are better-off, indicating that in general such donations are not a form of social support for lower income households from their better-off friends and relatives.<sup>53</sup>

This is confirmed by the fact that neither single parent households, nor pensioner households nor those with dependent children or invalids

<sup>53</sup> Income is not significant in any functional form. There is no significant difference in the likelihood of receiving food by any income decile against any other. Those in temporary difficulties, as a result of lay-off or non-payment of wages, are likely to receive more food from others, again indicating the reciprocal character of the assistance, since the expectation would be that they will be in position to reciprocate. This is supported by similar findings in Valery Yakubovich's analysis of the data on exchange networks derived from this research (Yakubovich 1999).

receive any more of their food from others than the average household. On the other hand, the reciprocal character of the relationship is indicated by the fact that those most likely to receive foodstuffs are those best equipped to reciprocate: we find that households comprising a single person of working age are far more likely than any other household type to be a recipient of all kinds of produce. More generally, the young are far more likely and the old far less likely to be recipients of food, the reverse of the case with regard to dacha use. The reciprocal character of the relationship is also indicated by the fact that those who told us that they worked on somebody else's dacha received more than twice as much food as others. Thus the receipt of food appears to be a part of a wider network of reciprocal interaction between households, sometimes being provided in exchange for work done on the donor's dacha, sometimes as part of an exchange of different products between dacha owners (although dacha owners are significantly less likely to be recipients of foodstuffs), and on other occasions perhaps in exchange for other kinds of support, such as providing transport (although possession of a car does not make a household significantly more likely to be a recipient of foodstuffs).<sup>54</sup> Finally, it was clear when we asked people elsewhere in the questionnaire about giving and receiving help that for most people giving and receiving the products of the dacha is not considered as help but as an aspect of reciprocity and so these items were not included in the respondents' lists of help given and received.

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<sup>54</sup> Given the very low level of domestic production of meat and dairy produce, we can guess that most of the donated meat and dairy produce has been given by rural residents or bought by the donors. Households with a rural origin receive on average twice as much meat and dairy produce as those with no such connections, but no more fruit and vegetables.

Table 0.5: Linear Regression: Dependent variable: Percentage of all kinds of food received from others. Household Survey. April-May 1998

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	79.241	7.685		10.311	.000
Give money to others	3.223	2.969	.025	1.085	.278
Have a car	1.091	3.461	.008	.315	.753
Have a dacha	-30.871	3.212	-.230	-9.612	.000
Household income per head (100Rs)	-.358	.301	-.031	-1.189	.235
Have a child requiring care	7.464	4.372	.053	1.707	.088
Have an adult requiring care	3.291	5.051	.015	.652	.515
Number under 7	-.567	4.629	-.004	-.123	.902
Number under 16	-5.452	2.864	-.054	-1.904	.057
Number of adults	-5.304	1.887	-.074	-2.810	.005
Proportion working	-11.721	4.815	-.067	-2.434	.015
Proportion pensioners	-22.012	6.869	-.133	-3.205	.001
Household head under 25	35.683	6.948	.126	5.135	.000
Household head 40-59	-23.016	4.020	-.177	-5.725	.000
Household head 60 +	-16.206	6.881	-.104	-2.355	.019
Number with a rural background	9.372	2.388	.090	3.924	.000
Days lay-off per head	.205	.098	.047	2.082	.038
Wage debt per head (100Rs)	.138	.073	.044	1.887	.059
Proportion of income spent on food	1.086	1.522	.016	.713	.476
Kemerovo	3.114	3.810	.022	.817	.414
Syktyvkar	-4.158	3.978	-.027	-1.045	.296
Lyubertsy	-11.477	4.417	-.066	-2.598	.009

Adjusted Rsq 0.159

It seems clear that the receipt of food from others is not a matter of charity but of reciprocity, and so is something which people choose to involve themselves in as a part of wider decisions about the way in which they live their lives. Our ethnographic research and our own experience leads us to believe that it is extremely unlikely that anybody would seek to establish such reciprocal relationships specifically as a means of acquiring food, so it cannot be considered to be an aspect of a survival strategy in any narrowly economic sense. This is confirmed by the fact that there is no significant relationship between the proportion of income spent on food and the receipt of food from others – such receipts would appear to be a bonus rather than a means of meeting essential subsistence needs. Thus, the acquisition of food is generally a by-product of involvement in reciprocal social relationships which provide other and more significant rewards. Nevertheless, it is yet another example of the extent to which social integration provides security against material hardship. Let us turn now to the production of foodstuffs, which is a decision which also has both social and economic dimensions that we have to try to unpack.

## DACHAS AND THE DOMESTIC PRODUCTION OF FOOD

What factors determine whether a household produces its own potatoes and vegetables rather than buying them in the market? In particular, is domestic production an expression of a particular survival strategy, adopted by particular households in particular conditions? This is the question that we have already explored in relation to the ownership of a dacha, on the not unreasonable assumption that the reason why people in Russia acquire land is to grow their own food. However, looking specifically at the domestic production of food gives us a different angle on the question and in principle provides more analytical scope because we can investigate not only whether or not households produce their own food but what and how much they produce.

In practice this scope is rather more limited than we might have hoped. On the one hand, as we have seen, very few households produce their

own meat and dairy products and, in Kemerovo and Syktyvkar, even fruit. On the other hand, the tendency is for households to buy either all or none of their basic foodstuffs (18% of households produced all and 34% bought all of their potatoes and vegetables), most of the remainder saying that they produced half their needs. This distribution of outcomes makes it inappropriate to examine the production of food by taking the percentage of each product grown as the dependent variable in a linear regression. Instead we run a series of logistic regressions in which the dependent variable is the probability of growing at least 50% of the household's needs for the specific kind of product (although the results do not turn out very different from the equivalent linear regressions).<sup>55</sup>

The results of this exercise are to reinforce our earlier conclusions: the determinants of the likelihood of growing food on the dacha are almost identical to the determinants of ownership of a dacha in the first place. However, this is not a redundant finding because this conclusion applies to all those who have a dacha, whatever their declared motive for having it. The younger and better educated households, those who have higher incomes and better earning and employment opportunities, may say that they work the dacha as a hobby, but they nevertheless put in a lot of work and produce a lot of potatoes, vegetables and fruit.

It is not the poor who grow their own food: households with the lowest incomes are the *least* likely to produce their own potatoes and vegetables, indicating that opportunity is more powerful than need in motivating self-sufficiency in basic foodstuffs. This is confirmed by subjective indicators: those who say that they do not have enough money even to buy food are also significantly *less* likely to grow their own potatoes, so domestic production does not provide a lifeline for the poor. Nor does domestic production have more than marginal significance for the relief of temporary hardship: the existence and extent of administrative leave, wage delays and short-time working all have no statistically significant impact on the probability of the

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<sup>55</sup> These regressions are run for all households, the implication being that any household is able to acquire the land to grow food if it chooses to do so. In fact the RLMS data indicates that the turnover of dachniki is about 10-15% per annum, so this is probably a reasonable assumption. The only significant variables in a regression run only for those who have a dacha are the regional dummies, rural origin and automobile ownership.

household producing any of its own food (with the marginal exception of fruit-growing and short-time working).

Those who are most likely to grow their own food are the households usually considered to be least at risk of poverty – a household with two working-age adults and no children. If the household also has co-resident pensioners, whose pensions are the most reliable source of money income in Russia, the household becomes even more likely to grow its own food. As in the case of dacha ownership, the most important resource that facilitates the domestic production of food is ownership of private transport, usually a car: those with a car or motorbike are on average twice as likely to grow their own food as those without. Moreover, car ownership has its biggest impact on low income families, low-income families with a car being well over twice as likely as those without a car to produce their own food.<sup>56</sup> It seems that rather than being the last resort of those on the brink of starvation, domestic agricultural production provides an additional form of security for those who are already quite well placed to weather the storm.

As in the case of the ownership of a dacha, there is absolutely no indication in the data that domestic production is an alternative to earning money in order to meet basic consumption needs: neither the number of workers in the household, nor the average amount of time that they work nor the proportion of wages in total income, nor the proportion of household members who have second jobs is significant in determining the probability of the household producing its own food. Decisions about domestic food production would appear to be taken quite independently of decisions about paid employment.<sup>57</sup>

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<sup>56</sup> It may well be that there is an historical dimension to this, in that low-income families with a car are more likely to have been relatively more prosperous at some time in the past, and so better placed to acquire and work a dacha.

<sup>57</sup> When it comes to the production of fruit, there is a significant tendency for the probability of home production to fall as income increases, and this is found across all the cities except for Syktyvkar, where almost no fruit is grown, with the top 40% of income earners substantially less likely than all lower income groups to grow their own fruit. The same is found for the small number of meat and dairy producers. This is quite different from the pattern of production of potatoes and vegetables. It may be that this is a reflection of motivational differences, to the extent that those on lower incomes are more likely to be oriented to saving money and so to produce the relatively higher value foodstuffs. From a purely economic point of view we would expect the opposite, in the sense that higher income-earners would have a higher opportunity cost and so

Table 0.6: Logistic Regressions: Probability of home-production of at least 50% of consumption of various products

Variable	Potatoes			Vegetables		
	B	SE(B)	Exp(B)	B	SE(B)	Exp(B)
No of children under 7	-.1372	.1079	.8718	-.0606	.1036	.9412
Number of children 8-15	.0664	.0718	1.0687	.1218	.0688	1.1296
Number of working age	.1059	.0633	1.1117	.0494	.0603	1.0507
Number of pension age	.2535	.0911	1.2886**	.3853	.0866	1.4700**
Number in work	.1155	.0760	1.1224	.0296	.0724	1.0300
Proportion of workers with second jobs	-.0567	.1609	.9449	-.1821	.1562	.8335
Is there a spouse?	.3420	.1003	1.4078**	.3874	.0957	1.4731**
Male-headed	-.0852	.0977	.9183	-.2372	.0946	.7888*
Household head under 25	.1323	.1849	1.1414	.2436	.1805	1.2758
Household head 40-59	.4191	.1113	1.5205**	.5120	.1074	1.6686**
Household head 60 and over	.4456	.1707	1.5614**	.3303	.1629	1.3914
Education of head of household (1-6)	.0578	.0308	1.0595	.0559	.0293	1.0574
Household members of rural background	.3358	.0665	1.3990**	.1716	.0636	1.1872**
Household has a car or motorcycle	.9026	.0971	2.4660**	1.0629	.0921	2.8946**
Av. hours worked per working member	.0007	.0006	1.0007	.0003	.0005	1.0003
Days admin leave per working member	.0038	.0021	1.0038	.0032	.0020	1.0032
Wages owed per working member R00s	.0042	.0022	1.0042	.0018	.0020	1.0018
Days short-time per household member	-.0008	.0015	.9992	.0009	.0015	1.0009
Income quintiles (third quintile is reference)						
First	-.2850	.1302	.7520*	-.2572	.1237	.7732*
Second	-.1872	.1209	.8292	-.1783	.1148	.8367
Fourth	-.3841	.1241	.6810**	-.2992	.1180	.7414*
Fifth	-.2763	.1292	.7586*	-.2370	.1236	.7890
Ratio of wage to total income	.0274	.1841	1.0278	.0965	.1764	1.1013
Proportion of income spent on food	.0147	.0410	1.0148	-.0221	.0412	.9781
Kemerovo	2.0585	.1051	7.8345**	.9196	.0957	2.5083**
Syktyvar	1.4494	.1084	4.2606**	-.0757	.1044	.9271
Lyubertsy	-.3833	.1208	.6816**	-1.1216	.1164	.3257**
Constant	-2.6158**	.2197		-1.7406**	.2048	
N of households	3782			3782		
-2LL	4080			4390		
Model Chisq	1010**			685**		

\* Significant at 0.95; \*\* Significant at 0.99

This conclusion is not modified if we run separate regressions for those who work a dacha as a hobby and those who work the dacha as the main source of subsistence. The coefficients on the income and employment variables are perverse from the point of view of the

would require the returns from producing higher value foodstuffs to induce them to devote the time and effort to domestic production.

hypotheses that we have been exploring, although none of them are statistically significant, partly because we have only about 700 cases for each regression.

## THE DYNAMICS OF DACHA USE

Another approach to answering our questions would be to look at the dynamics of dacha use. If the use of dachas is a crisis phenomenon, then we would expect dacha use to follow the dynamics of the deepening crisis. Unfortunately there is very little data that can allow us to judge this question. As we have seen, the Goskomstat data combines the very different phenomena of ‘personal subsidiary agriculture’ in the countryside and the use of plots by urban residents. In our own regions there is strong anecdotal evidence that domestic agricultural production is in decline in Moscow and Samara, while it is at least stable if not growing in Syktyvkar and Kemerovo. According to Goskomstat’s data, with the substantial reservations noted, production on personal plots grew by 25% in Komi between 1994 and 1996, by 11% in Kemerovo, by 10% in Samara and contracted by 10% in Moscow (Goskomstat, *Rossiiskii statisticheskii ezhegodnik*, 1996). The RLMS panel data gives some idea of the dynamics of plot use.<sup>58</sup> There appears to be quite a high turnover of dachniki in the RLMS sample, with between ten and fifteen per cent acquiring a dacha and about the same number giving up each year. In our survey we only asked those who now have a dacha how long they have been using it, but the responses follow a more or less regular exponential pattern consistent with such a regular turnover, with no evidence of a rapid expansion in dacha use. In the RLMS data there is no significant change in the proportion of urban residents having plots or in the size of plots or in the proportion growing each crop or in the quantity of

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<sup>58</sup> There appears to be quite a high degree of inconsistency in responses between rounds, so it is difficult to know how much variation in responses is due to real changes and how much to such inconsistencies. For example, in the Phase II RLMS data 40% of households report a difference in area (often very substantial) in their possession from one year to the next and almost a quarter a difference in form of tenure. The first phase data is not sufficiently reliable to be used for inter-temporal comparisons, and cannot be compared with the second phase data because the sample frame changed considerably.

potatoes grown over the 1994 to 1996 rounds. There were small increases in the amount of fruit grown between 1995 and 1996 and vegetables between 1994 and 1995.

The typical new *dachniki* are almost the mirror image of the established *dachniki*: households headed by men under 25 with young children and fewer adult (and especially pensioner) household members are more likely to have started to use land recently. Income is completely insignificant in the regression, as are car ownership, hours worked, secondary employment, wage delays and payment in kind. In other words, starting use a *dacha* seems to be a normal part of starting your own household, regardless of income and employment. There seems to be nothing distinctive about those who have stopped using land, except that older households, and especially those with pensioners, are less likely to have done so.

## THE COSTS AND BENEFITS OF DOMESTIC FOOD PRODUCTION

All the evidence that we have considered so far would seem to indicate that the availability of necessary resources, above all the time of household members, is the most important consideration in acquiring, retaining and working a *dacha*, but that opportunity costs are not taken into account in allocating labour time to the production of food. If the household is sufficiently large, has sufficient money and knowledge and household members have the inclination, then the household will acquire a *dacha*. Once the household has got a *dacha* it will almost always use the *dacha* to grow food, and it will usually grow a substantial proportion of its potatoes and vegetables and, where the climate is appropriate, a significant amount of fruit. The obvious implication of such a pattern of decision-making is that the time and effort put in to growing their own food is not regarded by those households which acquire a *dacha* as an unpleasant chore which must be compensated at the rate that the household member's labour would be compensated in the labour market. Perhaps working on the *dacha* is better viewed as a leisure activity, the Russian equivalent of jogging, which clears the mind, relaxes the body and stimulates the circulation every weekend through the summer. Unlike jogging, however,

working the dacha has the beneficial side effect of producing a lot of food. This makes it a particularly congenial form of leisure activity in a society which retains a very strong work ethic.

Before finally rejecting the hypothesis that working the dacha can be regarded as a productive activity governed by the norms of economic rationality, we should look a bit more closely at the economic rationality of the domestic production of food. What is the order of magnitude of the costs and the benefits involved in this activity? As we will see, the costs in both money and labour time can be quite substantial, while the benefits, in terms of the value of useful product, appear very meagre.

Even in money terms, 'subsistence production' can be a costly activity. Over three-quarters of households who were using their own land, rather than that of other relatives, had to pay something for the use of the land. Although the mean payment was less than 200 roubles a year, this is as much as a month's money income per head for the poorest households. Having paid for the land, there is the cost of tools, seeds, fertiliser and transport to be covered. Twenty per cent of those working dachas said that they had no money outlays at all, but of those who did, the mean monetary expenditure was 500 roubles per year. Moreover, this is almost certainly an underestimate: a diploma student of Lena Varshavskaya asked a sample of households first to estimate their total expenditure and then to enumerate it to achieve a more precise estimate, the result being an average of 20–30% higher than the original estimate.

Working a dacha does not only involve household members. As we have seen, almost a quarter of our dachniki use land belonging to friends and relatives, while in one in four of our households a non-member of the household plays at least one of the key roles in the process (making decisions about production, doing most of the work on the plot, processing the produce and, in rare cases, selling the produce). We asked the household head what proportion of the produce, if any, was given to friends or relatives. Over sixty per cent of households gave away an average of thirty per cent of the produce to others.<sup>59</sup> However, the exchange of food is more complicated than

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<sup>59</sup> This is probably an underestimate because rather fewer of those who said that non-household members played a key role said that they gave away some of the produce. It

this: one quarter of the households with dachas also received some food from other people, while one in six households which do not work a dacha were nevertheless in a position to give food to others: overall at least 14% of households both gave and received food in the previous year.

On top of the monetary outlay, working a dacha can take up a considerable amount of time. Only one in ten adult members of households that had a dacha did not spend any time working on the land: the members of the average household that worked a dacha estimated that together they spent 860 hours per year working on their land.<sup>60</sup> Since the dacha season lasts for an average of five or six months, this is the equivalent of working 19 eight-hour working days a month during the season. At the individual level, there is no difference in the hours worked in paid employment or in secondary employment between those with a dacha and those without, further clear evidence that working on the dacha is not a substitute for paid employment.<sup>61</sup> Each employed household member who works on a dacha puts an average of an additional 82 hours of work per month into work on the land during the season, almost half as much again as they work in their regular job. Non-working adults put in, on average, exactly the same amount of work, while non-working pensioners each put in an average of 120 hours a month. Moreover, 90% of those working dachas have to travel to reach their plot. The mean return travel time was around 90 minutes in Kemerovo and Syktyvkar, two hours in Samara and almost

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is likely that the share in the product taken by non-household members who participate in production is not considered as having been given to them but is viewed as the share due to them for their contribution.

<sup>60</sup> The figures for Samara and Kemerovo above are substantially higher than the figures cited by Seeth, Chachnov and Surinov (Seeth et al. 1998, p. 1620) for residents of their oblast capitals, although the plots cultivated by their respondents were considerably larger than ours (a mean size of 22 sotkas in Orel and Pskov, where people worked on average around 400 hours per year, though only 10 sotkas in Rostov, where they worked an average of 326 hours per year).

<sup>61</sup> Unfortunately the RLMS data is not of much use for the analysis of dacha activities since their survey is conducted outside the dacha season, while their questions relate to inputs of time and money in the previous week. Fewer than half of their respondents who worked dachas had done any work at all on the dacha in the previous week, those who had done so having worked an average of twelve hours. Nevertheless, as in our survey, there is no significant difference in the number of hours worked by men and women in their main or supplementary jobs between those with and those without dachas. Needless to say, women do far more domestic labour than men in both cases.

four hours in Lyubertsy.<sup>62</sup>

Work on the dacha does not have the same significance for men and for women. Male dachniki work an average of almost 20 hours per month more in their paid work than do female dachniki who are in paid employment, and male dachniki with a second job work on average three hours longer at that than do women, while the women work an average of four hours per month more on the dacha than do the men. However, while the men do an additional forty hours a month work around the home, the women spend an average of ninety hours a month on their domestic duties. Moreover, far from cutting back their domestic labour in order to devote more time to the dacha, women with a dacha do more domestic labour than those without, presumably because they are often having to maintain two homes, while men with a dacha do less, the differences being small but statistically significant. As Lena Varshavskaya and Marina Karelina note, while the start of the dacha season marks the opening of a second labour front for men, for women it marks the opening of a third front.

If working the dacha is to be regarded as work, rather than as a leisure activity, then we should cost the labour time of the dachniki at the opportunity cost, which we can estimate at the hourly rate that those engaged in secondary employment earn in their second jobs, or the hourly rate in their primary jobs of those who have no secondary employment (this presumes that the latter have no opportunity to engage in secondary employment, which generally pays at a substantially higher rate). We have this data for just over half our

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<sup>62</sup> Many people travel to their dacha on a Friday night and return on Sunday evening or Monday morning throughout the season. Economic factors appear to play very little role in determining how much time people work on their plot. In a regression neither the size of the plot, nor the employment income of household members, nor their secondary employment, nor the time taken to travel to the plot were significant determinants of the hours people worked on their plots. The only significant determinants of the hours worked were the age of household members, those with an older head, with relatively fewer working members and with more pensioner members putting in more hours per head; the rural origin of household members, which was also associated with working longer hours on the plot; and the possession of a car, with car owners putting in longer hours. This contrasts with the finding reported by Seeth, Chachnov and Surinov (Seeth et al. 1998, p. 1620) that the time allocated to the household plot is sensitive to opportunities to earn money income, as indicated by the earnings of the lowest earner in the household, and to the time of travel. However, the latter analysis does not seem to have controlled for rural-urban differences within their sample, many of whom are rural commercial farmers.

dachniki households, which gives us an average imputed labour cost per household of just over 6,000 roubles per household per annum (\$1,000 at the then current exchange rate), without accounting for travel time.<sup>63</sup> This is very nearly a third of the total money income of these households.

What do people get for this enormous labour input? We did not ask our respondents to estimate the value or the volume of the output of their dachas, but we asked what proportion of their household's needs they satisfied.<sup>64</sup> We also have the data of the Goskomstat budget survey on household consumption and expenditure on various categories of food, the data for St Petersburg and Moscow being most applicable since the patterns of consumption differ between large cities and rural districts. If we apply these figures to our own households we can derive a reasonably accurate estimate of the savings they make by producing their own foodstuffs. To this we must add the amount which some households received from the sale of their produce. If we deduct the amount that households (under-)report that they spend on their dacha, we find that the average net annual money return per head from working the dacha for those households which do so amounts to the princely sum of 125 roubles (\$20), ranging from 3 roubles in Lyubertsy and 62 roubles in Syktyvkar to an annual gain of 165 roubles in Samara and 173 roubles in Kemerovo. To put this into perspective, even in the latter cities, people on average achieve a return from a year's work on the dacha which is about the monetary equivalent of one day's earnings in secondary employment.

Of course many of our dachniki may not have had the opportunity of undertaking additional paid employment. Another way of measuring the return to their labour would be to ask how successful is the use of

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<sup>63</sup> If we value all of the labour input into the dacha at the rate of 19 roubles per hour, which is the mean earnings of dachniki in secondary employment, we estimate the average imputed cost of labour time for the dacha at 16,500 roubles (\$2,800) per household per year.

<sup>64</sup> Our dachniki also gave away a proportion of the produce, but we can presume that this was either compensation for the labour input of others, or a pure surplus. The RLMS production data indicates that many households grow far more produce than needed for their own subsistence. RLMS asks people how much of each crop they grow, how much their family consumes, how much they give to others and how much they sell. On average over half the potatoes, 40% of the vegetables and a quarter of the fruit are not accounted for by respondents.

the dacha as an element in the household's survival strategy? Does the domestic production of food enable households to survive without money? Or, more modestly, how much does it enable them to save out of the household budget? The most striking finding of all in our analysis of the data on domestic food production is that those who work a dacha spend exactly the same amount per head and exactly the same proportion of their money income on food as those who do not. This result applies overall and in each city separately and it applies however many other variables we control for. On this measure the gross return to working the dacha is nil: all that time and money is laid out without saving a kopeck on the household's food bills.

Other data confirms this finding for urban households. In the RLMS data, controlling for other variables, in the countryside and small towns those with a dacha spend a lower percentage of their income on food than those without a dacha, but the reverse is true in the cities, with those with dachas actually spending more money on food than those without, although the difference is not statistically significant. In absolute terms, in the cities those with dachas spend less per head on food than those without dachas, but when we control for income the difference is substantially reduced and is only statistically significant for those in the lowest income quintile. In the Goskomstat budget survey data we can only look at the oblast level statistics, so we cannot separate out urban from rural residents, but even so, in a regression of the data for 75 oblasts there is no significant correlation between the proportion of potatoes home-grown in the oblast and spending on food as a proportion of total household expenditure, even when we control for the level of unemployment, the proportion of the population working in agriculture, the scale of non-payment of wages and the average real wage, the latter being the only variable in the regression that is at all significant, with the expected negative coefficient. It seems, therefore, that the RLMS and Goskomstat data are at least consistent with our finding that working a dacha does not lead to a reduction in food spending.

This should not really be so surprising, since the produce of the dacha is largely confined to the cheapest food products (and products whose relative price has been falling over the past few years): potatoes, cabbage, carrots and onions, spending on which accounts for only a small part of the food bill for all but the poorest of families, and the

poorest families cannot afford to work a dacha. However much of their vegetables they produce on their dacha, virtually all urban households have to buy all their bakery, meat and dairy products and, for the more prosperous, their processed and more exotic foods, in the market for money. According to the household budget survey data for Moscow and St Petersburg, potatoes and vegetables account for only about 8–9% by value of the total food consumption of the residents of big cities, or less than 4% of their total money spending. In our survey the average saving achieved by our dachniki amounts to 3% of their total household income, or 6% of their total household spending on food. This is about the same as the average household admits to spending on alcohol in the budget survey. Saving a few roubles by growing their own food gives the dachniki enough money to buy a box of chocolates or a few bottles of vodka and a bit of sausage for the weekend.

## THE MYTH OF THE URBAN PEASANT?

We have seen that there is no evidence that the domestic production of food has been chosen by households as an alternative to acquiring the necessities of life by earning money and then purchasing them, nor even that it is the last resort of those who do not have sufficient money income to buy their own food. The households with the lowest money incomes and in the greatest hardship are the least likely to grow their own food. Those with more working members, those who work longer hours in their main jobs, those who are engaged in secondary employment are certainly no less and if anything are more likely to engage in subsidiary agricultural activity. Those who engage in subsidiary agriculture do not work any shorter hours in their primary and secondary employment than those who do not. The monetary saving achieved through such engagement is miniscule, particularly when measured against the enormous labour input. Finally, those who grow their own basic foodstuffs spend no less on food and food products than those who do not. All of the evidence would indicate that working the dacha is primarily a leisure activity, that people do it as a form of relaxation to give them a break from their working lives, and indeed almost half of all our dachniki cited this as one of the two reasons given for working their dacha. The fruit and vegetables that

they produce is then merely a by-product, no more essential to their subsistence than is the product of the vegetable plot of any keen gardener. Many people say that they grow their own fruit and vegetables because that is the only way that they can get high quality produce or can be confident that it is ecologically pure.

However, that is not the end of the story. We still have to explain why this practice is so prevalent in Russia, why around half the urban population engages in it, despite the enormous costs and inconvenience involved, especially when the plots are often so far from home. To bring out the real significance of subsistence agriculture we should return to the point that stands out most clearly from our data, that the most striking difference is between the different cities. Moreover, the variance in the amount of subsistence production is much greater than the variance in dacha use.<sup>65</sup> Subsistence production is highest not in those of our regions in which the climate is the most conducive to agricultural production, Samara and Moscow oblast, but in those regions which are the most hostile: the sub-Arctic North and Western Siberia.

The obvious explanation would refer to the depth of the economic crisis, although we have found it difficult to relate subsistence agriculture to any of the indicators of crisis at the level of the individual household. Moreover, unemployment rates, wage levels and degrees of income inequality are not substantially different across our four cities, once we allow for relatively small differences in price levels. Administrative leave and short-time working are about twice as common in Samara and Kemerovo, which have seen a collapse of their military-related industrial base, as in Syktykar and Lyubertsy, and yet the incidence of subsistence agriculture cross-cuts these pairs of cities.

It is not a matter of the existence of favourable conditions for agriculture since, as we have already noted, it is the regions with the most unfavourable climate which have the most highly developed domestic agricultural production (although in fact, according to Goskomstat agricultural production data, yields per hectare in growing

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<sup>65</sup> The same is true of the Goskomstat data: the mean proportion of the urban population having dachas across all regions is 50.6%, the standard deviation being 12.5, while the mean percentage of potatoes home grown is 79.0% and the standard deviation is 21.7 (author's calculations from microcensus and household budget survey data).

potatoes and vegetables are highest in the Komi Republic and Moscow oblast and lowest in Samara, with Kemerovo in the middle). Rather than being the paradox that it appears at first sight, however, this may be part of the key to the explanation, for these are the regions with less developed commercial agriculture, and so in which supplies of even the most basic foodstuffs have historically been precarious. There have long been active and well-supplied kolkhoz markets in Central Russia and in the Volga region, so that at least since the late 1950s people have been able to count on being able to buy their basic foodstuffs in the markets, even if the shops were bare.<sup>66</sup> This was never the case in Siberia and in the Arctic, and in the late eighties supplies were as unpredictable as ever. This was the time at which large amounts of uncultivated land were distributed to urban residents in precisely these regions so that they could assure their supplies of basic foodstuffs by growing their own.<sup>67</sup> Thus, the desire to produce one's own vegetables is perhaps not a reflection of the poverty of the household but of the limited development of the market in the region in question.

The fear that people have today is what it has always been in the past, not so much that they will not individually have enough money to buy

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<sup>66</sup> It was not only meat, fish and dairy produce that was in short supply, or often simply unobtainable, but there was also a general shortage of potatoes, as indicated by the relatively high prices in the kolkhoz markets – in 1988 potatoes in the markets cost more than three times their price in the state shops, a higher premium than on any food other than dairy products (OECD, 1991, p. 169). Shortages in state shops meant that by the late 1980s kolkhoz markets accounted for about one quarter of the food purchases of urban residents, while by the end of the decade most food products were rationed in state shops. Production of potatoes fell substantially through the 1970s and 1980s to the extent that the Soviet Union became a potato importer. On the one hand, the labour intensive production methods meant that collective farms cut the area under cultivation in response to labour shortages. On the other hand, peasant producers concentrated their limited resources on livestock and the production of higher value crops (OECD, 1991, pp. 113-4 and *passim*).

<sup>67</sup> Since these were not agricultural regions there was ample land available for distribution, so it was much easier to get plots here than in Samara or in the Moscow region. This is reflected in the average time taken to commute to the plots, and in the much larger number of people in Lyubertsy who say that they do not work a dacha because they cannot get access to land. The official data in the Soviet period did not differentiate urban subsistence production from 'personal subsidiary agriculture', but during the 1980s there was a substantial fall in the production of both potatoes and fruit on the latter plots and a rapid increase in the output of 'collective gardens', some of which is accounted for by collectively owned land used by urban residents (*Sel'skokhozyaistvennoe proizvodstvo v lichnykh podsobnykh khozyaistvakh naseleniya*, Moscow, 1989, pp. 16-21, cited in OECD, 1991, p. 38).

potatoes, although this is a fear that still haunts everyone, but that there will be no potatoes available to buy for any kind of money. The mass settlement of Kemerovo in the 1930s included a large number of 'kulaks' and refugees from famine-stricken Ukraine. When the deportees arrived, many of them lived for their first year literally off, on and sometimes under the land, sheltering from the cold in foxholes. Shortages and local famines remained a regular feature of life in the more remote regions through the 1940s and into the 1950s. It was the recurrence of shortages of basic goods that was one of the sparks that lit the fire of revolt in the late 1980s. We do not have to refer to folk memories to evoke these events, for they are still alive in the minds of those who lived through them, some of whom are still working the dachas they first created fifty or more years ago when a dacha really was a matter of survival.

Our hypothesis is that anxiety about the availability of food supplies relates not so much to the risk of shortages of supply as a result of the limited development of agricultural production, as to the risk of shortages resulting from failures in the system of distribution arising, on the one hand, as a result of the limited development of a market in agricultural produce and, on the other, as a result of the demonetisation of the regional economy, as expressed most particularly in the non-payment of wages. Thus, while Kemerovo and Samara have been hit equally by the recession, as indicated by the incidence of administrative leave and short-time working, it is Kemerovo and Syktyvkar that have been hit hardest by the phenomena of non-payment of wages and payment in kind: the average wage debt in Syktyvkar is more than twice and that in Kemerovo is four times that in Lyubertsy or Samara. One in five have been paid in kind in Syktyvkar and one in three in Kemerovo, but fewer than one in twenty in Lyubertsy or Samara. Although these phenomena have no impact on the probability of the individual household growing its own food within each region, they are indicative of the degree of demonetisation of the regional economy that provides an incentive for all but those with the highest money incomes to grow their own food, rather than to risk relying on having to buy in a market in which they may not have the means with which to buy. The correlation coefficient between the average total household wage debt and the percentage of potatoes home-produced in each of the four cities is 0.97 – for an exponential relation it is 0.996.

Of course with only four cases the correlation could be spurious. To test the hypothesis more rigorously we can turn to the Goskomstat data on the domestic production of potatoes derived from the household budget survey. Running a regression on this data, with a series of independent variables and controls, is at least supportive of the argument that the most important factor underlying the domestic production of food is neither the poverty of the household or of the region, nor is it an inadequate level of production of basic foodstuffs, it is the fear of market failure as a result of the demonetisation of the regional economy. Just as we found in our analysis of the household-level data, it does not appear that households are more likely to grow their own potatoes in regions in which wages are lower or the degree of income inequality or level of unemployment is higher. Most importantly, the variables related to the demonetisation of the economy are statistically significant and their coefficients are in the expected direction: the higher the level of unpaid wages and the less extensive is the credit system the more are households likely to grow their own potatoes.

These results are suggestive, but should certainly not be regarded as definitive because the data are fairly crude, and their interpretation is not unambiguous. In particular, the non-payment of wages is quite strongly negatively correlated with the level of retail trade, which is not unexpected if we consider non-payment to be an aspect of the demonetisation of the economy, but there is no significant correlation between either of these variables and the level of credit, perhaps suggesting that our interpretation of the latter as an indicator of the level of monetisation of the regional economy is faulty. Nevertheless, these variables are the most stable through a range of formulations of the regression.

## SHOULD WE ENCOURAGE SUBSISTENCE AGRICULTURE?

What is the implication of our analysis for policy? We have seen that subsistence production makes little or no contribution to the relief of poverty, partly because the poor do not have the resources to engage in subsistence production.

Does this mean that access to domestic agriculture should be widened, with a further distribution of land to those in need, perhaps providing credit to producers, subsidised transport to their plots and assistance with marketing? The clear implication of our analysis is that it does not, not least because its costs outweigh the returns. Domestic agriculture is an extraordinarily inefficient way of meeting the urban population's basic subsistence needs.<sup>68</sup> If people are short of food, it is much more efficient to give them the money to buy food and take steps to ensure that food supplies are maintained to local markets than to induce them to try to produce food for themselves.

Our analysis also shows just how regressive are the proposals currently being considered by the Russian government, on the initiative of the World Bank and its advisors, that people should effectively be forced into domestic production by treating access to the land as a resource for those claiming social assistance. And even for those willing to live on potatoes and carrots, domestic agriculture certainly cannot provide the money to pay for clothing, transport, electricity, water, heating, rent and service charges, education and medical treatment and all the other goods and services that can only be obtained for money.

However, 'subsistence' production not only contributes little to the subsistence of city dwellers, it makes a significant contribution to the crisis of commercial agriculture. One reason for the failure to develop the commercial production of basic food crops is that their price is so low as a result of domestic overproduction that, despite the withdrawal of agricultural subsidies, in many regions it is not even worth the farms' paying for harvest labour.<sup>69</sup> This then sets up the vicious circle

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<sup>68</sup> Seeth, Chachnov and Surinov (Seeth et al. 1998, p. 1623) reach similar conclusions to ours from their survey of domestic agricultural production in three oblasts of Western Russia, and recognise the enormous costs of domestic production, in absorbing large quantities of often highly educated labour, but propose that domestic agriculture should be given more support by policy makers, but their sample is dominated by rural producers. The issues in the countryside are rather different from those raised by the urban peasant, but it could be argued that it has been precisely the attempt to sustain an outdated peasant agriculture, on the basis of enormous implicit subsidies from the state and collective farms as well as the self-exploitation of the peasant household, that lies at the root of the failure of agricultural reform. This certainly has been the lesson that Western Europe has learned at enormous cost.

<sup>69</sup> Mroz and Popkin find, on the basis of the RLMS data, that the proportion of food by value that is home-produced has fallen since 1994 primarily because of the decline in

that fuels the demonetisation of agricultural production: since it is unprofitable to produce basic foodstuffs commercially in competition with the *dachniki*, these foods do not become regularly available in the local shops and markets, so providing a further stimulus for families to ensure their supplies by producing their own.

The policy conclusion is not that steps should be taken to remove unfair competition by preventing people from engaging in domestic agriculture, but that the priority should be to break this vicious circle by introducing effective reforms into the system of agricultural production and distribution that can guarantee supplies of basic foodstuffs in the quantities and qualities demanded by the local population. Once people become confident that they can be sure of being able to buy what they need, they will make their own decisions about whether or not it is worth continuing to work the land, or whether they might rather convert their *dacha* into the pleasure dome of the western imagination. The significance of the *dacha* in the economic, social and cultural lives of contemporary Russian households is complex, but it provides neither the basis for the survival of the poorest households, nor a realistic alternative to participation in a monetised market economy.

## DO HOUSEHOLDS HAVE SURVIVAL STRATEGIES?

Our research project as a whole has focused on household survival strategies. Analysis of the data is far from complete, but the repeated conclusion to which we are drawn is that there are no survival strategies. People are severely constrained by the limited opportunities that confront them, so that they have very few choices. Some have opportunities to survive, and others do not. As so often is the case, those who have the resources also have the opportunities. It is those with higher levels of education, longer work experience and in the more prestigious occupations, with their more flexible working hours, who have the greatest opportunities for secondary employment. Those who have the best opportunity to engage in agricultural production are those who have a plot of land, who can spare the money to pay for their outlays and, above all, those who own a car to avoid spending

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the relative prices of home-produced foodstuffs (Mroz and Popkin 1997).

hours travelling by public transport to their five or six *sotka* plot. And those who have opportunities in one sphere tend also to have them in another. Thus, for example, secondary employment and working a dacha are not alternative survival strategies: there is a significant positive correlation between the time spent on each activity. Meanwhile, although starvation has not yet afflicted Russia on a large scale, at least ten per cent of households are on the very brink of survival and are chronically under-nourished.

This does not mean that people are passive victims of the crisis. Some people are more able to overcome the formidable barriers that they confront than are others. Age, gender and education are important determinants of the motivation and ability of people to overcome those barriers. Their social networks are one of the most important resources that people have to help them not only to survive, but also to find new opportunities. And, beyond these objective factors, in this context psychological differences can also play a critical part: some people are more active than others, less willing to succumb to the pressures that constrain them, more ready to seek out new opportunities. But such psychological qualities should not be falsely endowed with a moral dimension: the fact that some people are psychologically better adapted to surviving in a crisis does not mean that they are any more deserving than are those who bow under the pressure.

# Getting a job in post-Soviet Russia

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## THE RUSSIAN LABOUR MARKET

The market for labour was the only market that existed in the Soviet Union in a form recognisable in a capitalist economy. Despite the aspiration of the authorities to plan the allocation of labour, and the insistence of almost all Soviet scholars that labour power was not a commodity, in practice workers were more or less free to change jobs and employers were more or less free to hire whom they chose. Although wage rates were strictly regulated in an attempt to suppress competition in the labour market, employers could compete for labour by offering a wide range of real and symbolic benefits (good working conditions, social and welfare facilities, housing, the right to buy a car or consumer durables) and particularly scarce categories of labour could be offered special advantages such as privileged access to housing, while wage differentials could be increased by upgrading and by offering relaxed norms.

The Soviet ideal was that everybody would be assigned to their first job in accordance with their qualifications and the needs of the economy, and would subsequently develop their career within the enterprise or organisation to which they had been assigned, with the nomenklatura system controlling the transfer of those in senior positions. Labour market institutions were therefore very undeveloped. The vast majority of hires were arranged directly between the individual and the prospective employer, around two-thirds involving job-to-job transitions (Otsu 1992, p. 276) and up to 80% involving direct hiring by the enterprise (cited Otsu 1992, p. 269, but see also Oxenstierna 1990, pp. 109-113; Malle 1990, p. 62). The overall rate of labour mobility in the Soviet Union from the 1960s, as measured by turnover rates, was comparable to that in capitalist labour markets at somewhere around 20% per annum, apparently falling to around 15% by the mid-1980s: similar to many European countries, higher than the

Japanese level, but substantially lower than that in the United States.

For most of the Soviet period formal labour market intermediaries existed only for the placement of young people and particular categories such as invalids, those completing military service and those released from prison. It was only in 1969 that Labour Recruitment Bureaux were reintroduced in an attempt to improve the efficiency of the labour market. However, the bureaux proved not to be very effective for a number of reasons. First, in an ironic contrast with most capitalist countries, the bureaux received no state support but had to finance their own activity through fees received from enterprises, leading to inadequate coverage and staffing (Otsu 1992, pp. 24, 406-7). Second, many enterprises did not report vacancies and the vast majority of jobs available were low-skilled workers' jobs. Third, the bureaux had a very poor reputation as the last resort of those individuals who could not get jobs by their own efforts and those enterprises that could not fill vacancies.

The Labour Recruitment Bureaux were given substantially increased powers and responsibilities in 1988 in order to facilitate the expected major redeployment of labour that would result from rapid economic restructuring. Enterprises and organisations were now required to notify the Bureaux of all vacancies, although the penalties for non-compliance were derisory, and of impending redundancies. Central Bureaux were given new responsibilities for co-ordinating retraining, although the cost was to be met by the new employer, and for providing vocational guidance. The right to benefit (paid by the employer) for those workers laid off was extended from the two weeks that had applied previously, to a period of two months average wage, with a further month's benefit being paid to those who registered with the Labour Recruitment Bureaux within two weeks of being laid off. The responsibilities of the Labour Recruitment Bureaux were further extended in the 1991 Employment Law, which recognised unemployment for the first time and established the Federal Employment Service, to be funded by a payroll tax. The new Law established unemployment benefit to be paid through the Employment Service, which was added to the entitlement to redundancy compensation provided by the enterprise under the previous law, and gave the Employment Service a wide range of new responsibilities including the provision of training and retraining and the financing of

job creation, employment subsidies and public works.

One of the first acts of the Yeltsin regime, in October 1991, was to free enterprises and organisations from the administrative regulation of wages, although wages in the budget sector (primarily public administration, health and education) continued to be determined according to administratively defined scales and most enterprises continued to use, and many still use, the official pay scales as the basis of the internal payment system, primarily because attempts to reform payment systems still face many of the difficulties and arouse many of the conflicts that impeded their introduction in the Soviet period (Donova 1996. Vedeneeva 1995).

Apart from this radical step, the legal and administrative framework within which the Russian labour market works remains that inherited from the late Soviet period. The Labour Code has still only been amended in a few insignificant respects, although the law in this, as in so many other spheres, is respected more in the breach than in the observance. There have been no radical changes in the duties or the administration of the Federal Employment Service from those laid down in the 1991 Soviet Employment Law, although of course it has taken some time to implement the provisions of the Law. Nevertheless, the freeing of wages in October 1991 and of most prices from January 1992 has led to very dramatic changes in the levels and structure of wages and employment and very substantial flows of labour between enterprises and between branches of production. These changes have taken place without a significant increase in the rate of registered unemployment, while the unemployment rate according to the ILO definition has only now reached levels regarded as normal in Western Europe.<sup>70</sup>

In the early stages of reform there was an expectation that labour market rigidities would prove a serious barrier to the radical redeployment of labour that effective economic reform would require, and a great deal of attention was paid by Western agencies and academic commentators to labour market issues. The supposed labour hoarding by state and former state enterprises and the dependence of

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<sup>70</sup> Before the crisis of August 1998 registered unemployment stood at 2.5%, having fallen steadily over the previous two years. According to the October 1997 labour force survey the unemployment rate according to the ILO definition was 11.8%.

employees on the traditional enterprise for their housing and many social and welfare services was supposed to present a serious barrier to labour mobility. In fact this has proved not to be the case. Labour mobility has remained at relatively high levels, despite the shrinking pool of employment opportunities, while wages have tumbled. As we saw earlier, no employers complain of bottlenecks in the labour market or of skill shortages, except for those specific professional skills which are in high demand in the new market economy. The problem nowadays is increasingly seen as one of the excessive flexibility of the Russian labour market, which leads people to work for starvation wages, and attention is focused more on issues of social assistance and the social safety net.

While social protection is certainly important, the best way to help people to help themselves is to ensure that they have the best possible chance of getting a job which matches their own skills, interests and abilities. The fact that employers appear to have no difficulty filling vacancies and that open unemployment remains very low is not sufficient for us to conclude that the labour market works. Although only a little over 10% of the population of working age qualify as being unemployed because they are actively seeking and available for work, the number of full-time jobs available has fallen by around 30-40 per cent, suggesting that there is a large number of people who do not look for work because they have little hope of finding any, at least at a wage that would make it worth working. The persistence of the very high pay differentials that arose in the first years of reform equally would seem to indicate that the labour market is not working very well. In this chapter we will concentrate on the findings of our surveys in relation to the specific question of how people get jobs in Russia, looking at the labour market from the perspective of the prospective employee and at employment in the new private sector in relation to employment in the traditional sectors of the economy.

The relatively low rate of unemployment and the still relatively modest increase in labour turnover conceal a change in the functioning of the labour market which has been of dramatic significance for workers. In the Soviet period workers had been free to take another job, but the idea that they might be forced to do so was one which was quite alien to their experience. Although many people had changed jobs in the Soviet period, an even larger number had not: many people did live up

to the Soviet ideal of a job for life and had no more intention of finding a new place of work than they had of going to the moon. The central regulation of wages and the responsibility of the employer for redeploying redundant workers meant that in the Soviet system labour mobility could only be induced by offering positive inducements to change jobs. Nobody had the experience of being forced to find another job under the threat of falling wages or unemployment. Before asking how people change jobs, we have to ask why they change jobs and, even more important, why they do not?

## WHY DO PEOPLE CHANGE JOBS IN RUSSIA?

The survey evidence is that Russians have not been slow to embrace the opportunities of the market economy. VTsIOM has regularly asked people about their work orientation since 1989. There was a dramatic increase in the proportion of the Soviet population admitting to a purely instrumental attitude to work following the collapse of the Soviet system, from 25% in 1989 to 48% in 1991. The proportion of Russians displaying such an attitude had increased to 57% by the middle of 1993, since when around 60% have replied in periodic surveys that they see their work as basically a source of income, with only a little over ten per cent regarding work as being something of value in itself (Kuprianova 1998, p. 31).

Between a quarter and a third of people tell VTsIOM that they are thinking of changing their jobs, with no declining trend over time. VTsIOM has regularly asked these people about the reasons why they might want to change their jobs, and again pay has consistently been the dominant consideration. By the time pay differentials had opened up in 1993 almost two-thirds of those thinking of leaving their jobs were doing so because of dissatisfaction with the level of their pay. Dissatisfaction with housing provision as a reason for wanting to change jobs fell by more than half between 1991 and 1993, presumably not because housing provision improved but because the prospects of getting housing anywhere deteriorated so fast. Childcare provision is insignificant as a reason for wanting to change jobs.

By no means all of those who express a desire to change jobs in fact do so. In our surveys we asked not about intentions, but about the

reasons why the respondent had left his or her previous job. This data shows that the level of pay was and is the principal reason both for leaving the previous job and for taking a new one. No other substantive consideration approached the significance of pay as a motive for changing jobs. The next most important consideration in leaving a job was personal circumstances, while the next most important consideration in taking a job was essentially chance: there was not really any choice, or the respondent knew people there. The work schedule was a significant consideration, but only the more highly educated in more senior positions displayed any concern with the content of the job or with promotion prospects. For most people it is clear that a job is just a job – there is little but pay and convenience to choose between one job and another. The presence of absence of housing, child care provision and the more general provision of social and welfare benefits do not appear to be significant considerations in deciding to change jobs.

There are some differences in motivation between different social groups, but most such differences are not substantial. Those taking jobs in the service sector nowadays are much more strongly motivated by pay, as are those taking jobs in new private enterprises, who have no interest in social benefits and very little in the closeness of the job to their home. Apart from this, however, the main differences relation to gender, age and education.

The customary gender division of labour is demonstrated by the fact that in all of our surveys men were more likely than women to cite pay as the reason for leaving a job and for taking the subsequent job and much more likely to leave and to take a job because of promotion prospects, while women were more likely than men to cite the work schedule and conditions as the reason for taking a job. Men are also much less concerned about getting a job close to home than are women. This is to be expected, since women have primary responsibility for child care and the bulk of domestic tasks and so prefer work schedules which can fit around their other responsibilities.

The fact that women have other considerations to take into account does not appear to imply that they are less concerned than men about the content of the work: there are no significant differences between men and women in the importance attached to the content of the job, either in leaving or taking a job: concern about job content is a factor

that is distinguished much more by educational and occupational characteristics of the worker than by age and gender. Those with technical or higher education and those in professional and managerial positions were much more likely both to have left their old job and chosen their new job for reasons connected with the content of the job or promotion prospects, and they, as well as those with vocational training, were more likely to have taken the job because of the possibility it allowed for independence and self-realisation.

Gender stereotypes are also clearly illustrated by the reasons given for having left the previous job. Men were more likely than women to have left their previous job as a result of conflicts at work and were much more likely to have been sacked for disciplinary reasons, while women were far more likely than men to have left as a result of personal or family circumstances, in keeping with their traditional role as carers. Women were also far more likely to have been affected by redundancy than men.

The data certainly does not fit the stereotype of a feckless materialistic youth. Young workers were no more likely to have left a job because of low pay or the instability of wages than their middle-aged and older colleagues, and they were less likely to leave because of fears for the future of their enterprise. When it came to taking a new job, the under-25s were much less likely to be concerned about the level of pay and rather less concerned about working conditions, although they were more concerned about the content of the job.

Gender differences in labour market motivation vary with age. Before they are married, young men and young women have very similar opportunities and constraints: more women than men under the age of 25 cited the fact that the job provided them with independence and the possibility of self-realisation as a reason for taking their job, after which their youthful idealism was dashed. Meanwhile, the men only became concerned with this in their 30s. The same pattern can be seen in concerns about promotion, where young women are as likely as young men to be ambitious.

Men were far more likely than women to have taken their job because of the possibility of getting housing, another reflection of the gender stereotyping according to which it is the responsibility of the man to provide a home for his wife. For many young men, planning to marry

or newly married, living in a cramped apartment with parents or in-laws or crammed into a hostel or barracks, access to housing was in the past an overwhelmingly important reason for taking a particular job, and enterprises paid such close attention to their house building programmes precisely so as to be able to attract the best young workers. It is striking in the LFS survey that the preoccupation with the housing problem is characteristic even of the youngest workers, with this being a consideration among 16% of the men under 20 when they took the job, only becoming less important among the over-30s. This does not imply that enterprise housing provision was a major barrier to labour mobility: people who took a job in order to get housing did not have to stay in the job once they had received a home. There are no significant differences between men and women with regard to concerns about the provision of social benefits by the enterprise. Housing and social welfare benefits have become progressively less significant considerations over the years of reform.

Once they set up a home, the man in Russia is supposed to support his family, providing a house or flat and an income and, if he is a white collar worker, develop his career, while the woman takes primary responsibility for child care, sometimes, but by no means always, with the help of relatives. Women are three times as likely as men to have chosen their job, at least in part, for the child care, with this, not surprisingly, being a particular concern of women in their thirties. Women still enjoy the generous maternity leave provisions inherited from the late Soviet era, which allows them to keep their job open for three years from the birth of their child, and most women take their full maternity and child care leave entitlement before returning to work. Although women have a right to return to their former job, and many said that this was the main reason they took their current job, child care considerations mean that many women change jobs after having had their first child, with the availability of child care being a consideration in taking a job (although still only 5% of women in their thirties cited this as a factor in their decision) and their further career advance is severely constrained by their domestic and child care responsibilities.

Men, meanwhile, show an increased concern about pay, about the stability of their enterprise, about the conditions and regime of their work and about the provision of social benefits once they reach their

late twenties, and are less concerned about the content of the job and relations in the collective and become progressively less concerned about promotion prospects as they get older.

Once the children are older and the family has a home many of these constraints are removed, but by then male and female work histories have diverged and women are not well placed to further their careers. Men too tend to reach a career ceiling by the time they have reached forty and thereafter considerations of convenience, employment stability and pension conditions become more important than promotion.

The picture painted by the age and gender distributions of labour motivation is a familiar but nonetheless depressing one, of youthful idealism and ambition being thwarted for the majority of the population by the cares and concerns of parenthood, in the case of women the priorities of child care and domestic labour and in the case of men the priorities of holding down a secure job and bringing in a living wage and for both men and women of getting access to social benefits. As they get older the workplace becomes increasingly important as a source of social support, but at the same time the threat of pauperisation through retirement or redundancy looms on the horizon.

### **Why do people not leave their jobs?**

Although around 80% of people regularly say in VTsIOM's surveys that they are dissatisfied with their pay and somewhere between a quarter and a third of the working population declare their intention to change jobs at any one time, only between a fifth and a quarter actually do change their jobs each year and a very large number of people do not change their jobs at all, whatever happens. According to the VTsIOM surveys in 1998, well over a third of those people old enough to have started work ten years before (over 25 years old in 1988) had been in their present job for more than ten years. It may be that some of these jobs are very congenial, the workers are productive and well-paid and have no reason to want to leave. But this does not appear to be true in the majority of cases: according to VTsIOM's data, the longer a person's job tenure, the *more* dissatisfied they are with their pay. In our own household survey in April 1998, forty per cent

had been in their current jobs since before the start of reform in 1992, forty-five per cent had changed jobs since then and fifteen per cent were new labour market entrants, although in our survey dissatisfaction with pay declined with the length of tenure in the current job. However, a substantial majority even of those who were more or less dissatisfied with every aspect of their work did not plan to change jobs in the near future. Almost three-quarters of those who were completely dissatisfied with their pay, had wage arrears and had experienced both administrative leave and short-time working in the previous year still did not intend to change their jobs. Significantly more men than women declared an intention to change jobs (18% against 15%), but this differential was related to the greater mobility of men in general, not to any greater willingness of women to put up with intolerable working conditions. Age was a much more significant factor in explaining the reluctance of people to leave their jobs as conditions deteriorated. It is younger people who have already left the jobs which do not pay, and it is younger people who continue to leave those jobs.

Many people are low paid, their wages months or years in arrears, and are having to work in terrible conditions which inflict serious damage on their health. Why do people continue to work in such conditions?

In successful enterprises the overwhelming majority of employees want to hold on to their jobs, and are even willing to transfer to lower status and poorly paid jobs in the same enterprise, but even in the most depressed enterprises a majority of employees still plan to remain in their present jobs, despite low wages, production stoppages, lay-offs and long delays in the payment of wages. Thus, the proportion intending to leave our case study industrial enterprises ranged from a low of 2% to a high of 38%, the differences being related primarily to the relative prosperity of the enterprises, but also to the skill and demographic characteristics of those who remained. However, it is one thing to want to leave a job, it is quite another to put the desire into effect. With the increasingly difficult labour market situation, fewer and fewer people are willing to risk leaving their jobs until they have managed to arrange another.

In our work history interviews with workers in our sixteen case study enterprises we asked both those who planned to leave and those who did not to explain the reasons for their decision. Forty-eight per cent

said that they planned to leave because of the low level of wages (57% of men and 36% of women) and an equal number cited the irregularity of wage payment. Eight per cent cited working hours and conditions, five per cent were expecting to be made redundant, and five per cent each cited family circumstances (three times as many women as men) and the content of the job. Too few people wanted to leave the prosperous enterprises for there to be any statistically significant difference between the responses of workers in these and those in depressed enterprises.

The reasons for not wanting to leave the job are primarily age-related and differ strikingly between prosperous and declining enterprises, with pay being cited as the reason for not leaving by around 80% in the former, and by almost nobody in the latter. In the more or less depressed enterprises almost 40% of men and almost 60% of women cited their fear that they would not be able to get another job as one of their reasons for remaining in their present work, against 14% of men and 22% of women citing this as a reason in the five more prosperous enterprises.

The reasons most often cited as making it difficult to find another job are the respondent's sex ('nobody anywhere needs women any more'); age ('who needs pensioners?') which is already quite often a handicap for those in the 40–45 age group; condition of health (it is usually necessary to pass a check-up with a medical commission as a condition of getting another job); outdated or inadequate training and knowledge. Some have tried to find other jobs and have given up, others have simply lost hope ('Nobody leaves their jobs nowadays'). Some explain their passivity by their inability and unwillingness to adapt to new market conditions ('I do not want to and I am not able to sell myself').

In the six worst enterprises 14% of those who still intended to remain were approaching pension age and so had only a short time left before they could qualify for a pension, often in connection with work in harmful conditions.

In view of the widespread belief among Western specialists that the housing, social and welfare provision attached to the enterprise is a major barrier to labour mobility, it is noteworthy that only 2% cited social benefits and only 1% were staying in connection with the

receipt of an apartment. The former were predominantly people who retained only a formal link with their place of work, having lucrative secondary employment. The latter were mostly people who were contractually tied to the enterprise in order to pay off the cost of a new apartment.

We also find people who simply do not want to change jobs, the main reason being expressed in the commonly repeated phrase: 'I have worked at the factory all my life'. Finally, there are still some people who enjoy their job, and there are even a few who still hope that things will take a turn for the better.

## THE INSTITUTIONAL FRAMEWORK OF THE LABOUR MARKET

There is not much evidence of any barriers to the efficient operation of the labour market on the side of the worker. We have seen that around half the labour force is motivated primarily by pay in deciding to leave the present job and to take a new one, so that people are ready to respond to material incentives. We have also seen that a substantial majority of the labour force is more or less dissatisfied with the wages in their present jobs. Nevertheless, only around 15% of the respondents in our household survey told us that they were planning to change their jobs in the near future, although 20% of them had in fact changed jobs in the course of 1997. Although there are a few people who are tied to their present jobs, primarily because they are working out their pension entitlement, only a small and dwindling proportion of the labour force is immobile for such objective reasons: the main reason that people do not move is their fear that they will not be able to get another job.

The very substantial dispersion of wages within occupational categories in each city would seem to indicate that there are still ample opportunities for those currently in low-paid jobs, or suffering long delays in the payment of their wages, to find better paid work, even without having to change their profession or move to another population centre, so that barriers to geographical mobility are not the issue that many western commentators have suggested. Moreover, most of those who have left their existing jobs without leaving the

labour market have, at least until recently, been able to find other work without considerable delay, and more often than not they find a job at least as good as the one they have left: according to our work history data, the majority of labour market transitions, even when they involve an intervening period of unemployment, are still associated with receipt of the same or higher wages as in the previous job.

All of these facts would seem to indicate that the barriers to labour mobility do not lie on the side of the workers, who have both the incentives and the ability to change jobs, nor on the side of the employers, many of whom appear to be having to pay premium wages to attract new staff, but in the matching of workers to jobs. There are plenty of people who would like to find better jobs, and there are still plenty of employers hiring people into jobs, even in the depth of economic crisis, but the problems, if problems there are, would seem to lie in the channels through which the employers and potential employees make contact and acquire the necessary information about one another. In the rest of this paper, therefore, we will focus our attention on the process by which people actually get their jobs, the role of different intermediaries in this process, and the ways in which these have changed during the period of radical reform.

A labour market can only exist within an institutional framework through which employers provide information about vacancies to potential employees, and potential employees make themselves available to employers. The efficiency of the labour market depends not only on how widely this information is disseminated, but also on how effectively it is targeted and what means are provided for assessing the reliability of that information. We would, therefore, expect to find a variety of complementary labour market institutions available to match employees to vacancies.

For analytical purposes we distinguish four different methods of recruitment, defined by their reliance on different channels of information and communication:

1. Recruitment with the help of personal connections.
2. Independent recruitment, for example by direct approach to the employer.
3. Recruitment through formal intermediaries, such as the Employment Service.
4. Administrative assignment to a job.

These different institutional channels may be formal (Employment Service) or informal (personal connections). Each channel may serve one or more functions. Some of these channels will be specialised: the avowed function of the Employment Service is to service the labour market. Other channels are primarily concerned with functions that have nothing to do with the labour market: relations with kin and friends may play an important role in labour market transactions but they are hardly functionally adapted to performing this role. These differences have to be borne in mind when we evaluate the efficiency of various channels of labour mobility.

The most striking feature in all of the data is the very limited role played by formal labour market intermediaries in the process of job search and placement. The overwhelming majority of people both found out about and got their jobs either through friends and relatives or independently. The old institution of distribution, through which the majority of those with higher or technical education were assigned to their first jobs, has almost disappeared, with no new institutions having arisen to take its place.

The increasingly difficult labour market situation confronting those seeking jobs, and particularly those who are new entrants to the labour market, is clearly demonstrated by our data. Not only has the administrative assignment of people to jobs declined, but there has also been a dramatic decline in the extent to which people both secure information and actually get their jobs independently. The new institutional intermediaries of the Employment Service, private employment agencies and job advertising have by no means been able to replace the old channels of distribution, administrative transfer and independent job search. This confirms the findings of our case studies and qualitative work history interviews, that the decline in direct application to the enterprise is not a result of the development of more efficient labour market intermediaries but of a 'closure' of the labour market as jobs have become harder to get.

The role of the Federal Employment Service has increased, most dramatically for new entrants to the labour market, but this is hardly surprising since it was only established in 1991 and the old Recruitment Bureaux had a very limited role, but even today, according to our work history data, fewer than 10% of people use it as a channel of information and fewer than 3% get help in recruitment

from the Employment Service, which plays almost no role in the direct job-to-job transitions that account for three-quarters of all the hires in our sample.

Private employment agencies play a role only in a very small niche of the labour market. In the work history survey, only twelve individuals had used a private agency to get information about a job and only three individuals, all in Moscow, had actually got their job through a private agency, of whom one was a skilled worker, one a specialist and one an office worker. Two had since left their jobs because they were dissatisfied with the pay. Six of the twelve who had got information from a private agency were skilled workers and almost all had subsequently got a job in a privatised enterprise, only one in a new private enterprise. Because the numbers were so small, we did not distinguish private from state agencies in our subsequent surveys.

The role of advertisements as a source of information has increased threefold in searching for jobs subsequent to the first job, although advertisements do not appear to play such a significant role in recruitment to the first job: as in other countries, many advertisements specify the need for work experience as a qualification for the advertised job. Nevertheless, advertisements are at least as important as the Employment Service as a source of information for new entrants to the labour market, and are substantially more important for those seeking subsequent jobs.

The sharp decline in the role of the old labour market intermediaries, the failure of new intermediaries to fill their place and the deterioration of the labour market situation for job seekers imply a very substantial increase in people's reliance on personal connections both as their source of information and as their channel of recruitment. More than twice as many people looking for their first jobs since 1991 have used personal connections as all other sources of information put together. Similarly, the role of connections in actually getting the job has also increased sharply, making up for the decline in distribution and the increasing difficulty of finding a job independently.

The substantially increased role of personal connections is also a striking feature of both sources of information and channels of recruitment to subsequent jobs. Here too the administrative transfer of people to new jobs, which used to be common for senior managers and

specialists, is in marked decline. At the same time, more difficult labour market conditions make it harder to get a job independently, without inside knowledge or somebody to speak for you. While the increase in the use of personal connections for new entrants to the labour market has been concentrated on the support of relatives, for those seeking subsequent jobs the increase has been concentrated on connections through work (or education), and this increases steadily with age. This is not unsurprising, for the new entrants have few former colleagues who can vouch for them, while those with work experience will get more help from those in the same line of business than from those who happen to be related to them.

Those with higher education are also much more likely to have created their own jobs than are those with lower levels of education, the increase in this category since 1991 being almost entirely confined to those with advanced or specialist qualifications, corresponding to the range of opportunities available for self-employment.

There are very few differences between men and women in the channels of information used in the search for jobs, once we control for other factors. It is interesting that, although women are much more likely than men to register as unemployed, there is no difference in the proportion of male and female unemployed finding their jobs with the help of the Employment Service. This would seem to indicate that the greater tendency for women to register is not a reflection of any greater efficiency with which the Employment Service places women in jobs.

Examination of the annual data enables us to identify the shift in labour market conditions with some precision, since all three datasets are very consistent. There was a boom in self-created jobs in 1987, the year in which individual labour activity was legalised, with a resurgence between 1991 and 1996, but a significant fall in new self-employment in 1997 and 1998. The collapse of distribution followed closely the inauguration of reform in 1992, and it then continued to decline steadily as contracts between employers and educational institutions expired. The dramatic decline in the ability of people to get jobs through direct application to the enterprise came in 1995, which is the year in which our case study data also indicates that many enterprises closed their hiring. The same year sees a substantial and equally sustained increase in the reliance on friends in getting a job.

There was a significant and sustained jump in the use of advertisements as a means of getting a job the following year, and in the use of the Employment Service from 1997.

Our findings about the working of the Russian labour market since 1990 seem to conform closely to international experience, indicating that the labour market is the one part of the market economy which, for good or ill, works in much the same way in Russia as it works in the mature capitalist economies. Survey data from around the world indicates that far more people find jobs through personal contacts than survey data regarding the unemployed would indicate. For example, while 12% of UK unemployed respondents in the 1993 Labour Force Survey sought jobs through personal contacts, the UK General Household Survey shows that between 30 and 40 per cent actually find jobs through friends and relatives, figures which are similar to US and Japanese data (Granovetter 1995, pp. 140-1), and only slightly below the figures for job transitions since 1991 in our sample. However, such purely quantitative comparisons are misleading. While people in Russia may be no more and no less likely than people in other countries to get information about their jobs through personal connections, it does seem from both our survey and interview data that Russia is distinctive in the extent to which it is impossible to get a good job without such connections. To see this we need to look more closely at the process of getting a job.

## THE JOB PLACEMENT OF YOUNG PEOPLE

The data of all three of our surveys show the very substantial difference in patterns of information and recruitment of those seeking their first job from those seeking subsequent jobs. In particular, for those with higher or technical education the administrative assignment to a job was the predominant form of recruitment to the first job before 1992. According to the data of our household survey, before 1992 almost two-thirds of those completing higher education and half of those completing technical education, but only ten per cent of those with general education, were assigned to their first jobs.

Since 1991 the institution of compulsory assignment of graduates to jobs has almost disappeared. Similarly, many enterprises divested

themselves of their associated educational institutions in the course of privatisation. Our case study data shows that even before this, more and more young people preferred to find their own jobs rather than to go where they were directed. Not surprisingly, we find that the administrative allocation to jobs, where it persists, is a feature of the state and former state sector, and is almost non-existent in the new private sector.

Although the remnants of the channel of distribution may remain, the institution is more or less completely extinct. Young people now rely as heavily as do their older colleagues on personal connections as a source of information and a channel of recruitment, but the specific channels used in this respect depend very much on age and length of work experience. Young people in the early stages of their careers know few people who have the connections to help them to find a job. It is only when they have built up a work record and made their own contacts that they can hope to find a job on their own initiative, through their own connections. Thus young people have always relied much more heavily on relatives and much less heavily on friends and acquaintances beyond their immediate family environment than do those with more work experience. In many cases their personal connections provided only the information about the job, and the young person actually got the job by approaching the enterprise independently. However, it has always been common for parents to use their own connections to fix their children up with a job, often in the enterprise in which they themselves work, many enterprises giving priority to the relatives of their own employees. The parents will often place their children in any job they can find, 'so they won't hang around with nothing to do', in which case the young person is unlikely to stay in the job for long.

Apart from the greater reliance on the help of relatives, the other principal difference in job search and recruitment between first and subsequent jobs nowadays is in the increased role of the Employment Service in the placement of new labour market entrants, reflecting changes in the character and role of this institution from the old Soviet Recruitment Bureaux. Whereas in the past the young appear to have been less likely to use these official channels of information and recruitment, today they are more likely than subsequent job seekers to use them as sources of information and at least as likely to get their

jobs by such means. Nevertheless, the increased role of the Employment Service has nowhere near made up for the collapse of the system of distribution in the placement of young people in work.

The fact that hiring through personal connections, and particularly through relatives, has become so prevalent in the job placement of young people should not be taken to imply that this is in any way a satisfactory system. However inefficient may have been the old system of distribution, we would expect that job matching through personal connections would be even worse, one indicator of which is the high labour turnover that is particularly characteristic of young people, but also the very substantial increase in the number of young people who are not placed in jobs at all: the proportion of 15-19 year-olds in employment has fallen by two-thirds since 1992. The unemployment rate of this age group in October 1997 had reached over 40%. The employment of the 20-24 age group had also fallen by well over a quarter, with their unemployment rate having increased to almost 20%. While some of these young people are no doubt living on their wits in the informal economy, anecdotal evidence suggests that a substantial proportion are simply dependent on their parents. Moreover, it is not only the administrative allocation to jobs that has collapsed, but also the whole system of vocational training on which it was based. This has very important implications for the future development of the labour force, for while other channels of recruitment may exist, and the Employment Service has taken on a greater role in the job placement of young people, no new institutional framework specifically adapted to the training, placement and socialisation of young people has arisen to take its place.

## THE NOMENKLATURA SYSTEM

In the past the administrative allocation of people to new posts was not only characteristic of new entrants to the labour market, but was also common for senior managerial personnel and specialists, whose careers were supervised by the Party authorities and who could be moved from job to job in accordance with Party policy. Transfer to another enterprise was also the ideal way of changing jobs for a worker, who would then retain his or her continuous work record and associated privileges. Such transfers were most likely to be made by

workers with highly valued skills and experience who had the leverage to have a job change recorded as a transfer by the host enterprise. On the other hand, managers would often try to prevent the loss of such workers by refusing transfer requests. As would be expected, in our data, those with higher education were significantly more likely to have been transferred administratively in the past, as were skilled workers and professionals, as against unskilled manual and routine clerical workers.

Of course, the nomenklatura system was very far from being a rational-bureaucratic means of allocating scarce labour power. In practice the system was riddled with relations of personal influence and mutual favours and dominated by considerations of power. With the collapse of the nomenklatura system of nomination for posts, and of the ministerial structures through which managers and specialists might be moved from one enterprise to another, the administrative dimension of this system has disappeared. However, while this may have freed a space in which a competitive labour market might develop for managers and specialists, it has also given the existing personal relations of power, influence and favour the freedom to flourish free of all bureaucratic restraint. According to our data it seems fairly clear which tendency has prevailed.

Work contacts become more important as a means of getting a job the further up the job hierarchy you go. Thus, 22 of the 40 cases of recruitment to senior management positions in our work history sample were achieved with the help of work-based connections. Family connections become correspondingly less important as you go up the occupational hierarchy, with not one senior manager citing family connections in this context. The decline in independent job placement has been most dramatic for managers and managers almost never get their jobs through either the state or private employment services. According to our work history data, those with higher education were also far more likely to have got their jobs through work ties and far less likely to have got their jobs independently, even controlling for occupational status, a reliance which has also increased considerably since 1991 as jobs have become harder to find.

Unlike the administrative direction of graduates to their jobs, which collapsed without trace, the informal institutional substratum of the nomenklatura system appears to flourish as the means by which

managers and specialists continue to keep the key positions under their control: the basis of the new system, as much as the basis of the old, is trust and whom you can trust.<sup>71</sup> The crony network provides a very effective means by which power can be retained in the hands of a small clique, but it can hardly be considered to be the ideal method of matching people to jobs. This is probably one reason why the emergence of private employment agencies, specialising in filling senior vacancies on the basis of competitive selection, has so far had only a marginal impact in this sphere. In the meantime, the absence of more efficient labour market intermediaries serves to reproduce networks of managerial corruption because every new recruit is implicated in the network from the moment of their first appointment.

## DECIDING TO CHANGE JOBS

Despite the constantly deteriorating economic situation, most people keep on working until they can find something better, in the meantime doing their best to maintain their earnings by taking on additional work, particularly if they have been subjected to a long-term lay-off. In the meantime they will keep their eyes and ears open. Perhaps they will start to ask around their friends and relatives and scrutinise the newspapers in search of new job opportunities. The decision to change jobs may germinate for a long time, and may only finally be taken when a realistic opportunity to move arises. Thus there is no neat sequence of deciding to leave and then seeking another job: only 60% of those in our work history survey who were planning to leave were actually seeking work, and almost half of those currently looking for work said that they were not planning to leave in the near future.

Some people, particularly the young or those who have multiple skills, may move from job to job in response to spontaneous offers or chance encounters, without ever actively seeking work. Others will simply ask around in case anything comes up, or as insurance in case they lose their job. Some may still be working, although they already have

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<sup>71</sup> The widespread resort to illegal managerial practices, from the extensive evasion of taxation, through the use of extra-legal means of contract enforcement to the pervasive misappropriation of enterprise funds means that 'trust' is at a high premium in Russian managerial circles.

another job lined up, or they may just be waiting for a vacancy. It is not uncommon for one person to leave for a new job and to drag others along behind in a 'chain'. In some cases, particularly in industries with tight-knit work groups, such as mining or construction, a whole brigade may move from one mine or construction site to another as a group, the 'transfer' being negotiated by the brigadier. We also find a substantial number of cases in which a manager has moved to another enterprise and then invited former workmates and subordinates to join him or her.

The examples that we have just considered are ones in which an individual may have changed jobs without ever having actively sought another job, and perhaps without even having decided to change jobs, prior to making the change itself. These people may be receptive to new information or to job offers, but they are living and working in an environment in which such information and offers constantly surround them. This is a very different social situation, and a very different kind of activity, from that of the individual, whether currently employed or unemployed, 'actively seeking work', scouring the newspaper advertisements, touring neighbouring enterprises and regularly visiting the Employment Centre in search of a job.

## PERSONAL CONNECTIONS

We have seen that the collapse of the administrative direction of graduates to their jobs has given an increased significance to kinship ties in placing young people in jobs, and the collapse of the nomenklatura system has made work ties even more important for making a career as a manager and a specialist. These represent two very different uses of personal connections, which cannot be reduced to variants of a single phenomenon. In this section we need to unpack the use of personal connections in the process of changing jobs in order to identify the diverse roles played by personal connections in the process of job placement. A personal contact may simply provide information about a vacancy, or the contact may provide varying degrees of assistance in getting the job. Close friends or relatives may provide more help than more remote contacts, while more distant relatives and acquaintances may provide access to a wider range of information (Granovetter), but in the contemporary Russian context

connections are at least as important as knowledge in getting a job: it is whom you know not what you know that helps you to get a job.

### **Personal connections as a source of information**

Our survey data consistently shows that between a half and two-thirds of all those taking new jobs find out about their job through personal connections. The reliance on personal connections has increased steadily over the past ten years, partly but not only because of the decline in the administrative allocation of people to jobs. Those getting their first jobs are substantially less likely to have done so through friends and relatives, even allowing for the role of distribution and, apart from this, as people get older they become less likely to use connections through friends and relatives in getting their job. There are no significant differences in the extent or the forms of the use of personal connections between men and women or according to the level of education. However, as we saw above, young people are substantially more likely to rely on relatives than on friends, with the balance changing progressively in favour of the latter over the years. Those taking jobs in trade or in the new private sector were much more likely to have used friends than relatives to find out about the job, reaffirming the qualitative difference between these two channels.

One great advantage of personal connections as a source of information is that the information provided is fuller and more reliable than that available from other sources and so provides a much more solid basis on which to make so important a decision as that to change jobs. The contact not only reports the fact that there are vacancies in the particular place of work, but also provides detailed information about the pay and working conditions, about social relations in the workplace and so on, which cannot be acquired by any other means. It is in these circumstances that the information is most likely to provide the basis for the decision to change jobs: often in such cases the respondent describes him or herself not as having looked for a job but as having been 'persuaded' or 'advised' to take a new job, although in fact we found when we delved more deeply that the people gathering information were practically always not entirely passive but were already choosing between a number of jobs.

If contacts are going to provide useful information about the job, let

alone the possibility of assistance in the hiring process, it is obviously very important that the chains through which information passes are not too long. In our household survey we found that in 98% of cases the person who provided information had contact at most at one remove from the enterprise or organisation in question, with around three-quarters of the contacts working there themselves. The increasing importance of having contacts is indicated by changes in the pattern of such connections since 1991: on the one hand, there has been an increase of almost fifty per cent in the use of more remote connections, indicating that people have to spread their net more widely in order to find a job. On the other hand, there has been a similar increase in the use of more powerful connections: those working as managers or with business contacts, rather than working in the enterprise as an ordinary employee.

The individual providing the information may not play any active role in the hiring process, the applicant going independently to the enterprise to get the job, having acquired the necessary information. Thus, in our work history survey, 56% of those who used personal contacts as a source of information got their job through such contacts, but 41% actually got their jobs independently. Similarly, in our household survey, if we look at those who took their current jobs before 1992 we find that almost half of those who found out about the job from a friend or relative had not actually received any further help from their contact.

However, nowadays it has become much more difficult to get a reasonable job independently, except for those with scarce skills, such as in the new professions or in building trades. Our qualitative work history interviews indicated that it has become increasingly important to have more positive help in getting a job, and this stands out clearly in our survey data: more than two-thirds of those who had taken their current jobs since 1991 and who had found out about the job through friends and relatives had got additional help from the latter in getting the job, against only half before 1992. In our Labour Force Survey Supplement we asked people to distinguish their use of contacts as a source of information and as the means of getting the job. What is most striking in these results is that the increased reliance on personal connections since 1991 is entirely in the provision of help: for both first time job-seekers and those getting subsequent jobs there has been

no change in the percentage using contacts only as a source of information. The dramatic increase has been in the percentage using their connections to help them to get a job, up from 10% to 37% in the case of first-time job-seekers and from 14% to 30% in the case of those finding subsequent jobs. Exactly the same was found in the household survey: there has been a slight fall in the proportion of people receiving only information about their new job from friends and relatives, but an increase of three-quarters in the percentage getting their new job with active help from such personal contacts.

### **Personal connections as a source of help**

According to our household survey data, the percentage of all job seekers receiving help from friends and relatives has increased from 22% before 1990 to 38% since. Those finding out about the job through relatives were more likely to get help than those who relied on friends, but so also were those with a more extensive social network. Those taking jobs in new private enterprises were much more likely to have needed help, and not just information, from their connections, and indeed were far more likely to have been appointed to the new job by their connection, indicating the greater difficulty of getting employment in the new private sector as well as the greater use made of personal connections by new private employers.

We distinguish between four levels of help: the most basic level of assistance is simply to advise the individual to whom they should talk in order to get the job. This can be a very important piece of information, since in Russian enterprises the Personnel Department is still usually confined to its traditional function of maintaining employment records, the actual hiring decisions being made elsewhere, by the foreman, shop chief or departmental head. Once the applicant knows to whom to talk, the chances of getting the job are already substantially improved.

Beyond this basic informational help, we distinguish three further levels of assistance. First, the connection may provide an introduction to the person who has the power to appoint, without making any specific recommendation. Second, the connection may provide a positive recommendation of the individual for the job. Third, the connection may be the person who has the power to appoint the

applicant to the job. Around a quarter of all job placements since 1991 have depended directly on the intercession of an intermediary either providing a recommendation or direct patronage.

Although the reliance on the help of others has increased substantially over time, there has been no significant change in the forms of help provided, but the kind of help does depend heavily on the position of the person providing the help. In our household survey, in over 85% of cases it was the person providing the information about the job who also gave help in placing the applicant in the job, which further highlights the importance of having friends or relatives who are in managerial positions.

Although the distribution of the kinds of help provided has not changed, the significance of connections has changed quite radically. In the past, especially for workers' jobs, hiring through friends and relatives was used in most cases not because it was difficult to get a job without it, but because connections provided a more efficient source of information about the job, and sometimes enabled the person to get a better job. Today, the significance of personal connections and the degree of help provided by those connections have increased because in many cases it is impossible to get a reasonable job without such support. This change is reflected in our household survey. Those who got their jobs through friends and relatives before 1992 were significantly more likely to have increased their pay when they changed jobs than those who got the job through any other channels, but the difference ceases to be significant after 1991.

The increased importance of hiring under recommendation or patronage is not so much the result of the choices of the employees but of the preferences of the employers, who are less and less willing to hire 'from the street'. The advantage of hiring through connections for the employer is obvious: it provides at least some guarantee of the professional skills and moral standing of the applicant, since the person proposing the appointment provides some kind of a guarantee. However, hiring through personal connections has additional motives in the Russian context in which the 'economy of favours' (Ledeneva 1998) continues to play a dominant role. There are two related aspects to this phenomenon, the personal and the political. From the personal point of view, the power to appoint is a privilege that is in the possession of an individual which that individual has an obligation to

use for the benefit of his or her close circle of friends and relatives. From the political point of view, appointing somebody on the basis of patronage puts the appointee under an obligation to the patron to reciprocate the favour at an appropriate time in the future. Thus, appointment through personal connections is only one link in a series of interlocking chains of reciprocal favours and obligations that define the informal social networks within which decisions are made, goods redistributed and things get done. A series of judicious appointments can give a manager a network of connections that provide the means to do his or her current job more effectively, that provide protection against the risk of removal, that may provide a route to a better job. To appoint impersonally, on the basis of merit, is to waste an extremely valuable resource which has become more valuable as the old systems of formalised bureaucratic control have been largely displaced by the informal networks that were once contained, if not confined, within them.

Hiring through personal connections has a special importance in the new private sector for at least three additional reasons. First, employment relations in the new private sector are much more informal, because of both the smaller size of new private enterprises and their concentration in the sphere of trade and services, so that labour discipline depends much more on the motivation of the employee than it does in larger enterprises where the work process is managed through more formalised systems of control. Second, much of the activity of the new private sector involves personal connections to sell goods and services, as well as to make arrangements with various political and administrative authorities, so that many people get their jobs on the basis of their connections in this sense. Third, a significant part of the activity of new private enterprises involves the violation of various laws and administrative regulations so that it is essential that employees can be relied upon to be loyal to management.

The clear disadvantage for the employer of hiring through personal connections is that it in considerably narrows the field from which the employer is able to select candidates for the position. The inefficiency of matching the individual to the job is clearly shown by the differential significance of the use of personal connections at different occupational levels. According to our household survey data, those in manual and lower-level non-manual occupations are more likely to

have got their last job through personal connections than are managers, professionals and specialists, but professionals and specialists are more likely to have got some help from their connections, rather than just being informed of the vacancy and managers, who do not require specialised skills, are much more likely to be directly appointed to their post through their connection: 38% of managers who received help in getting their job were actually appointed by their contact. Those getting jobs through relatives, rather than friends, are significantly more likely to end up in unskilled jobs, and those taking unskilled jobs are much more likely only to have been put in contact with the employer and much less likely to have actually got the job through their contact. Nevertheless, for the majority of jobs in the majority of enterprises the skill demands are easily met and it is the 'moral' characteristics of the employee – loyalty and discipline – that are the principal concern of the employer. The result is that nowadays it is almost impossible to get a job in the more prosperous enterprises, which have very little labour turnover and few vacancies, without a recommendation or, better still, patronage. Even if one has a relative to vouch for one, it is usually necessary to wait a certain amount of time until a suitable vacancy arises.

The fact that a job involves occupational or professional skills is not necessarily a barrier to recruitment through personal connections, but in this case the connections are more likely to be through previous work or educational contacts than through ties of kinship or a purely personal friendship. In such cases it is difficult to disentangle the use of personal connections as an aspect of relations of mutual obligation and the use of personal connections as a means of testifying to the skills of the applicant in the absence of effective systems of training and of the accreditation and attestation of occupational and professional qualifications. In our work history survey we distinguished between connections based on residence and those based on work or education, and found that these appeared to play distinctive roles. In our case studies we also came across quite a few cases, particularly in new private enterprises, in which managers had invited former colleagues or subordinates to join them. When we piloted our household survey questionnaires we find that such cases were fairly common and so included a specific option for those who had got their present job through a managerial connection. Half of these people, and two-thirds in the case of new private enterprises, were actually

appointed by the connection. This kind of recruitment often involves head-hunting individuals who have a reputation for their skills and abilities, and is very common in new firms (especially at the beginning of their activity). It may also involve 'return mobility', where former employees are sought out to fill vacancies or to provide some employment flexibility.

## INDEPENDENT JOB PLACEMENT

Independent search and independent job placement mean direct contact with the employer without turning to any kind of intermediaries. In spite of the fact that personal connections played an important role in the past, they were generally only needed to get the most prestigious jobs, so that in our household survey it is only managers and those with higher or technical education who were considerably less likely to have got their job independently. For the majority, the most widespread method of finding work in the Soviet period was to go directly around the personnel departments of enterprises and organisations. Some came to the personnel departments without any preliminary information, confident in the knowledge that there were always vacancies and ready to find out what was available when they got there, while others had acquired information from personal connections.

The opportunities for independent recruitment were significantly reduced from the beginning of the 90s as a direct result of the increasing scarcity of jobs, but also as a result of the increasing reluctance of management to hire people directly 'from the street' and the preference for recruiting new employees from among the relatives and close friends of existing personnel, particularly in new private enterprises: since 1992, fewer than one in twelve employees of new private enterprises have got their jobs independently.

Independent recruitment is now largely confined to three contrasting categories of employee. First, those who have no connections willing to speak for them, who therefore have to take any job that is available. Such labour market outsiders have to choose from among a limited range of hard-to-fill jobs, which means primarily low-skilled and low-paid jobs at declining enterprises which are unable to guarantee

regular work or to pay wages regularly. A quarter of all those in our household survey who have found jobs independently after 1994 have taken jobs as cleaners, storekeepers, loaders or security guards. This category is predominantly made up of three distinct groups: first, young people with incomplete secondary education who are usually looking for casual work and are unlikely to stay for long (these are the people who take jobs as security guards); second, pensioners who have lost their jobs and are willing to do more or less anything to earn a living (typically taking positions as cleaners and storekeepers); the third, and the most numerous group is, in the pointed expression of one of the shop chiefs, 'anybodies' (whose traditional occupation is as loaders). This group consists of the marginal layers of the labour force, people who usually have no trade or qualification, who have drifted from job to job. Sometimes such people have moved around because of drink and a poor disciplinary record. Sometimes, particularly in the case of women, it is changing personal circumstances that force regular changes of jobs.

The second category for whom independent recruitment is still a realistic option is skilled workers and specialists, whose skills are now in high demand. According to our survey data, high-skilled workers are still much more likely than any other occupational category to use independent search for finding a new job, and they are much less likely to use the Employment Service, indicating that they still enjoy a reasonably secure position in the labour market. Many do not even know where the office of the Employment Service is. The demand for such trades as welders, drivers or skilled building workers is such that many of them will not stay in a job if it does not bring in enough money. They will also move around in search of seasonal earnings, and are often employed under short-term contracts or informally (without any official registration and record in their labour book). In some cases it is still necessary to have connections to get the best jobs, but in others independent recruitment remains the rule. This, for example, is true of skilled building workers. Fifteen per cent of those who found jobs independently after 1994 in our household survey were skilled workers, the vast majority of whom were in building trades or were skilled metalworkers.

The third category of occupations in which independent recruitment is still an option is those which may not demand especially rare skills but

which are relatively new, with a growing demand, or in which the former system of recruitment has broken down. Among these we can count: skilled office workers – accountants, bookkeepers, secretarial and clerical staff – who accounted for 9% of those who got their jobs independently after 1994; retail trade (shops and catering) and drivers and conductors, each of which group accounted for 10% of recent independent hires; and those working in public services (health, education and government services), who accounted for 22% of independent hires after 1994. By contrast to these figures: of the 278 people hired independently after 1994 only two got jobs as industrial managers, four as engineers, five as technicians, eight as semi-skilled and four as unskilled industrial workers.

A new variant of independent job placement has only begun to appear recently, which is the kind of competitive recruitment which has long been normal in a capitalist economy. In such a case the job will be advertised, either directly or more often through a private employment agency, and there will be a competitive selection from among the candidates for the post. However, such an open competition to fill a vacancy is still quite rare and is largely confined to high-paid specialists' posts which require not only direct professional knowledge, but also a range of ancillary personal and professional skills (including age, knowledge of foreign languages, possession of a computer and so on). Such posts include economists, financial specialists, personal assistants, interpreters and so on, that is, posts which require the skills needed to work in new market conditions. All of the thirteen people we interviewed who had been appointed through a competitive procedure had found jobs in new private concerns.

## USE OF ADVERTISEMENTS

In the past, advertising of vacancies was hardly necessary since everybody knew that there were jobs to be had virtually anywhere. The traditional method of advertising vacancies was for the enterprise or organisation to post notices near to the entrance, and perhaps at neighbouring bus stops and railway stations. This method is still widely used, but nowadays the press potentially plays an important informational role within the labour market, providing workers with a new source of information about vacancies, and on occasion the

opportunity for the worker to advertise his or her services. Job advertisements can be found in the pages of the regular press, but there are also specialist papers advertising jobs which are distributed in the large cities, and particularly in Moscow. Many of the job advertisements are in fact for people to participate in various forms of pyramid selling organisations, but there are also advertisements for regular jobs, especially for skilled workers and specialists. New private and privatised enterprises make much more use of job advertising than do state enterprises and organisations.

Anybody looking for a job nowadays is likely to look through such advertisements, but only a small number of our respondents had actually found out about their job through this channel. The people most likely to find jobs through this channel are not very different from those who got their jobs independently: technicians, drivers, those in the new financial and commercial professions and the low-paid categories of security guard, cleaners and storekeepers, with only a handful of jobs in industry. On the basis of the analysis of our qualitative interview materials, it seems that the use of advertisements as a systematic method of job search is still not well-developed in Russia and the general attitude is that you cannot get a good job through an advertisement. The experience of many of those who have followed up job advertisements is that the majority of advertised vacancies are not serious: they are for casual employment or for forms of pyramid selling which can be suitable as a second job ('I found almost all my supplementary jobs through newspaper advertisements'), but which do not correspond to most people's aspirations for a stable full-time position.

## THE STATE EMPLOYMENT SERVICE

The State Employment Service combines the functions of servicing the registered unemployed – assessing, registering and paying unemployment benefit – and serving as an intermediary between job-seekers and potential employers. It also has responsibility for initiating and administering a variety of active employment programmes, although in practice the vast majority of spending on active labour market policies is for subsidies to employers, usually at the behest of the local administration, under the guise of job preservation and job

creation. In principle the Employment Service should be informed of all vacancies and should be given advance notice of all large-scale redundancies but, since there are only derisory penalties attached to failure to report, this requirement is fulfilled more in the breach than in the observance.

The Employment Service performs two functions for job-seekers. On the one hand, it provides information about vacancies. On the other hand, it provides various job-placement services, including counselling, psychological testing and various training and re-training programmes, although the latter are few and far between. In general, access to training courses is provided only for those who already have a guarantee of a job on completion of the course. An increasing number of job seekers visit the Employment Service as a source of information, without any intention of using its job-placement services.

The Employment Service has inherited its reputation in the eyes of both employers and employees from the labour recruitment bureaux, which the Employment Service replaced, and which were responsible for placing such hard-to-employ categories as the disabled, those released from prison, those with poor disciplinary records and the young unskilled. In view of all the circumstances, it is hardly surprising that the employment centres are not widely used by people looking for work. Among the respondents in our work history survey only two per cent had got their jobs through the Employment Service since 1991, although 5% had used it as a channel of information. Three per cent of respondents in the household survey had found their jobs through the Employment Service, but there had been a significant increase, to around 5% of those who had got their jobs in the past two years. The Employment Service also functions more effectively in placing the young in jobs, but even here it provides only a limited and partial replacement for the old system of distribution, and many of the jobs it offers the young are only short-term placements.

The jobs that are on offer at the Employment Service are almost all the hard-to-fill vacancies: either those which require very high skill (usually in bankrupt enterprises, with low pay and limited prospects) or which require no skills but are very poorly paid, often with substantial arrears and poor working conditions. On the relatively rare occasions that good jobs are notified to the Employment Service, information about them is usually restricted to a narrow circle of

personal contacts of the staff of the Employment Service. Thus personal connections are often as important in finding a job through the Employment Service as in making application direct to the employer.

People have few expectations of the Employment Service, and their pessimism is fully justified. As a rule people only turn to the Employment Service to find a job as a last resort. According to our household survey, people who got their jobs through the Employment Service since 1992 are significantly more likely to have had to take a job with a lower level of skill and substantially more likely to have experienced a reduction in pay as a result of their job change (in 54% of cases, against 29% for those getting their job through personal connections). One in five of those who have got jobs through the Employment Service in the period of reform are working in the traditional low-paid unskilled jobs: cleaner, loader, storekeeper.

The Employment Service is still caught in a vicious circle as it tries to escape the legacy of the past: since people do not turn to the Employment Service other than as a last resort, those seeking jobs through the Service are primarily those who have failed to get a job by any other means, and have virtually no chance of getting a “good” job: those without any qualifications, pensioners, those low-skilled and older workers who have been forced out of their enterprise and so-called “problem” categories – those who have been dismissed for disciplinary violations (mainly drunkenness at work), with previous convictions and so on. Since only the least employable apply through the Employment Service, employers have little hope of filling any but the worst paid and lowest skilled vacancies by this means, so they do not bother to notify the Employment Service of more worthwhile jobs. For its part, the Employment Service can provide few well-qualified workers for the vacancies that are notified to it, so the enterprises complain that the Employment Service performs little or no preliminary selection: everyone is sent who has expressed any interest in the vacancy or formally can work at the given speciality.

Employers complain that those sent by the Employment Service do not have the level of qualifications demanded, or they do not satisfy the health conditions (much of the work on offer involves significant physical effort or difficult working conditions), or the people have been repeatedly dismissed from other enterprises for absenteeism,

drunkenness and other violations. Some have no interest in getting a job, but have to get an official rejection to meet the terms of their registration to receive unemployment benefit or to continue to receive redundancy compensation, at least for the three months during which they receive their average pay, at the end of which time they are very likely to find a job for themselves.

New private enterprises have very little contact with the Employment Service, with only a handful of our respondents having got jobs in the new private sector through this channel. Although many state and former enterprises continue to work with the Employment Service, some of those who are better placed in the labour market have simply given up.

## PRIVATE LABOUR EXCHANGES

Non-state employment agencies still exist only in large cities, the largest ones being branches of Moscow-based firms, and have developed rapidly since 1996. Although these agencies advertise widely, they are primarily oriented to the needs of the employer rather than to those of the worker and try to concentrate on the recruitment of scarce specialists and senior administrative staff, charging a substantial fee for their job-placement services. However, our survey data indicates that they have not yet made much headway in carving out their own niche: only twenty-five out of almost 5,000 respondents in our household survey had found out about their jobs through a private labour exchange, all of whom were in trades and professions requiring no more than average levels of skill. Private agencies are used much more frequently by new private enterprises, which account for almost half of all hires through this channel, and seem to serve them as a substitute for the State Employment Service which they shun, although many employers were critical of the quality of service offered by private labour exchanges.

## TRANSITIONS THROUGH UNEMPLOYMENT AND JOB SEARCH BY THE UNEMPLOYED

It should not be surprising to find that those who have had a spell of unemployment before finding their jobs are far more likely to have used the Employment Service since 1991 than those who have moved directly from one job to another. The Goskomstat Labour Force Survey has been regularly asking all those who say that they are unemployed about their methods of job search. This data indicates that people have made increasing use of the new intermediaries of the press and the Employment Service as these have become established and as the labour market situation has become more difficult, while there has been no discernible change in the significance of the traditional methods of looking for work, through personal connections or independent application to the employer.

Unemployed women have always been much more likely than unemployed men to register as unemployed, and are correspondingly more likely to turn to the Employment Service in search of work. The disparity in methods of job search is less than in registration: according to the 1994 microcensus data over two-thirds of the unemployed men and just over half the unemployed women who had looked for a job through the Employment Service in the previous month said that they were not registered as unemployed.

Part of the reason for the increasing role of the Employment Service may be the fact that registration with the Employment Service is a condition of receiving benefit, but still almost half the unemployed turn to the Employment Service in the hope of finding work while only about a quarter of the unemployed register as such. In fact, in the microcensus data, only 13% of the unemployed who had actively sought work in the previous month were registered as unemployed, while a substantial majority of those who were registered as unemployed said that they had not actively sought work in the previous month. This is a clear indication of the extent to which registration with the Employment Service is the last resort for those who have given up hope of ever getting a job.

This data relates to the methods of job search used, indicating that a steadily growing proportion of the unemployed, including the majority

who are not formally registered as unemployed, turn to the Employment Service in search of work. However, this data does not tell us anything about which methods are more effective – after all, the Labour Force Survey respondents are precisely those who are still unemployed, and so who have failed to find a job. Our own survey data, which includes retrospective information on the previous labour market state of the respondents, enables us to get more of an idea of how effective is the Employment Service at placing people in work, and to what extent its attention is concentrated on the unemployed, as opposed to job-seekers in general.

According to our work history data, those passing through unemployment were seven times as likely to have used the Employment Service as a source of information and ten times as likely to cite it as a source of help, but still only 8% of the previously unemployed who had found jobs since 1993, when the Service was fully established, said that they had got their jobs with the help of the Employment Service. Not surprisingly, the previously unemployed were more likely to have used the help of relatives and less likely to have used the help of former work friends than those who made job-to-job transitions, both as a source of information and in getting a job. The Employment Service is also significantly more likely to have been used for information and recruitment by those with a low level of education and those getting a job in a privatised, as opposed to a state or new private, enterprise. The Labour Force Survey Supplement provides a very similar finding, with only 1% of job-to-job transitions being facilitated by the Employment Service, while 10% of those with an intervening spell of unemployment got their jobs with the help of the Employment Service.

According to the household survey data the disparity between those moving to a job from a spell of unemployment and those involved in job-to-job transitions since 1991 was less than on the other data, with 8% of the previously unemployed finding out about their job through the Employment Service as against 3% in the case of job-to-job transitions. Those who had been unemployed for up to a month actually referred to the Employment Service less than average, in only 2% of cases, indicating that the Soviet tradition of taking a month's break between jobs persists and that such a short break should perhaps not be considered a transition through unemployment. It is only after

three months without work that the Employment Service begins to play a more significant role, with 14% of those unemployed for between four months and a year having found out about their job through the Employment Service.

## TRANSITIONS TO THE NEW PRIVATE SECTOR

The new private sector appears to have played a rapidly increasing role in the labour market in recent years, both because of the rapid growth of the sector and its high labour turnover, so that by 1997 it accounted for almost half the hires in our household survey. We have seen that a transition to the new private sector carries greater opportunities of increased earnings, even when the job involves a lower degree of skill or no skill at all. Although we would expect that the offer of high pay would provide ample competition for jobs, in fact we have seen that recruitment to new private enterprises depends even more on having the right contacts, and this is particularly the case for the more senior and more specialised positions. Moreover, it seems that professional connections, presuming an appropriate level of education and experience, are more important than the possession of specific skills and qualifications. In our household survey only one out of 90 managers and 15 out of 212 senior professionals and specialists working in the new private sector had got their jobs independently.

We have seen that transitions to the new private sector are more likely to involve people in taking a job which demands lower professional skills or quite different skills compared to their previous job. This is no doubt partly because new private employers can pick and choose in the labour market, and so will tend to select those somewhat overqualified for their positions (although if they are too overqualified they are likely soon to become frustrated and disruptive or leave). However, it is also because many jobs in the new private sector, which predominantly involves trade and services, require interpersonal skills, a degree of flexibility and new ideas of service which may be scarce qualities among employees with a traditional Soviet work ethic. Where it is personal qualities rather than professional skills that are at a premium, personal connections come into their own. However, if the employer cannot find a suitable applicant through personal connections, then a range of socio-demographic indicators may be

used as the basis of selection: there is a widespread assumption that younger people with higher levels of education and a stable work record are more flexible, reliable and energetic than others. There is also a high degree of gender stereotyping of jobs, which is nevertheless changing, particularly as men move in to formerly female specialities. So there are opportunities in the new private sector for those who are young, educated and energetic, even if they do not have connections, but those without connections who are any or all of over thirty-five, with outdated skills, a lower level of education and a less than perfect work record have little or no chance of a job in the new private sector.

On the other hand, not everybody wants to work in the new private sector. Many industrial workers would be very keen to find jobs elsewhere because 'the factories are all cracked up', but there are a number of drawbacks to work in the new private sector which came out in our detailed work history interviews with people now working in state or former state enterprises, some of whom had already had negative experiences of private sector employment. Although pay is higher in the new private sector, and fewer people experience wage delays, employment can be precarious and incomes can be more unstable so that many people feel more secure working in a relatively prosperous traditional enterprise.

Industrial workers are also afraid that if they take a job in a new private enterprise this will not be recorded in their labour book, so that they will have a break in their work record, depriving them of their pension rights and rights to other social and welfare benefits. Moreover, since a transition to the new private sector often means moving to less skilled work, people are afraid that once that is entered into their labour book they will be forced to take such low-skilled jobs for evermore (a fear that is not unrealistic since the unemployed lost their eligibility for benefit if they reject offers of jobs of comparable skill to that which they have left).

## EVALUATION OF ALTERNATIVE CHANNELS

How can we evaluate the alternative channels through which people get jobs? One way is to see what factors determine whether or not the

person taking a new job increased his or her pay and/or skill level in changing jobs. In the household survey data there is a clear and consistent relationship between the channels of hiring and the likelihood of increasing pay: those getting a job through personal connections were almost twice as likely to increase their pay as those getting a job through the Employment Service, while the best possibilities were enjoyed by those offered a new job by a manager. Those getting a job through the Employment Service were also twice as likely to have had to take a job with a lower skill level than those getting a job through personal contacts. When we look at the help given to those who got a job through personal contacts it should not be surprising to find that those who were provided with more active help were substantially more likely to have increased their pay on taking the new job, but it is also interesting that those who were provided with an introduction by their contact were significantly more likely to have increased their pay than those who got the job by recommendation or patronage. This is quite consistent with our earlier discussion: the person only receiving an introduction has to compete with other contenders for the position, while the person being appointed through patronage faces no competition: the prize is to receive a job, not necessarily a higher level of pay.

A second approach is to see what proportion of people using each channel managed to get their job in that way. In fact, on our data the record of the Employment Service is not too bad because, while we can presume that everybody uses personal connections, only a small proportion of job seekers apply to the Employment Service. On the work history survey data, thirty eight per cent of those who used the Employment Service as a channel of information in fact got their job through the Employment Service. The 'success rate' of friends and neighbours was actually lower, at 25%, but the success rate of family connections was 55% and of work connections was 51%.

It still seems overall that the popular belief that people are more likely to get a good job through personal connections, while the Employment Service is the last resort, is born out by this data. However, this does not necessarily mean that the Employment Service is less efficient than are personal contacts in matching people to jobs, because we are not comparing like with like: those seeking jobs through the Employment Service will tend to be precisely those who have not managed to get a

job in any other way. We cannot evaluate the alternative channels as though they were all engaged simultaneously because we know that they are employed sequentially: people only turn to the Employment Service when all other channels have failed. And if we consider those who have been unemployed for more than three months in our household survey data, we find that the Employment Service does not perform significantly worse than do personal connections in securing a job with the same or higher pay or the same or higher skill levels.

The problem with the Employment Service is not that it is particularly inefficient: it seems to do as well as any other institution in finding jobs for those who cannot get a job by any other means. The problem is that the Employment Service is caught in a vicious circle in which it is the last resort for both employers and employees so that it services only a very small segment of the labour market. Since 1991 about half of those getting a new job did so independently and over 40% got their job through personal connections, while only 2% found their jobs through the Employment Service, rising to about 3% in the case of new entrants to the labour market and perhaps reaching a high of around 8% of the unemployed.

## CHANNELS OF HIRING AND LABOUR MARKET SEGMENTATION

Analysis of the survey data tends to confirm the findings of our case study and qualitative research, that the different channels of hiring do not constitute a range of alternatives amongst which job seekers choose so much as distinct opportunities that are open to different segments of the population. The route to the best jobs is through personal connections, above all by being headhunted by a former manager, but this is a route that is only open to those with the appropriate contacts. For those with scarce skills there are still possibilities of getting a good job by approaching the employer independently, perhaps having first found out about the job through an advertisement or a notice in the local Employment Centre. For those without either skills or connections there is still a limited range of dead-end jobs available, either by approaching the enterprise independently or through the Employment Service. However, at this

end of the labour market there is little to choose between being in work and being out of work. Thus many people, particularly the young, who are not willing to work in the conditions and for the rewards that their parents will tolerate, and those approaching or beyond retirement age, who have no hope of getting another job, drop out of the formal labour market altogether, perhaps engaging in casual part-time work or in petty trading on their own initiative.

It is clear that different people have different opportunities in the labour market, but the question arises of the extent to which we can consider the Russian labour market as being segmented. This is an important question from the point of view of labour market policy, because its answer can perhaps indicate appropriate points on which to focus policy interventions in the labour market, by locating institutional barriers and institutional shortcomings to the efficient operation of the labour market.

The question that we want to address is whether the different channels of hiring define distinctive labour market segments. In particular, does the reliance on personal connections in the process of hiring facilitate or inhibit the efficient operation of the labour market? There is a certain rationality inherent in the use of personal connections in hiring, which is why it is just as common in the most highly developed market economies. For the job-seeker, personal connections provide a much fuller and more reliable source of information not only about the formal characteristics of the job, such as wages and working hours, but also about working conditions, relations in the collective, the availability of additional benefits, prospects of promotion and so on. Hiring through personal connections has complementary advantages for the employer, who can be assured that the prospective employee has fuller knowledge of the demands of the job, and so is less likely to be disappointed and leave. Where the prospective employee is recommended by a current employee, the employer has a more or less strong confirmation of the appropriateness of the skills and qualifications of the prospective employee, and it may be that the person providing the recommendation will also take on a mentoring role to ensure the integration of the new appointee into the job.

However, in the Russian context it appears that personal connections provide much more than a supplementary source of information and reassurance for employer and employee. In the previous sections we

have seen that there seems to have been a significant 'closure' of the labour market in the sense that a wide and growing range of opportunities are only accessible through personal connections. While the use of personal connections certainly facilitates the task of finding a job for those who have such connections, it acts as a significant institutional barrier to those who do not. This kind of closure of the labour market is dominated by the preferences of employers rather than those of employees: if the employer opened up competition for jobs, then the prospective employee would still exploit personal connections, but would find little or no advantage in confining his or her attention to the limited range of jobs accessible through such connections. The closure of the labour market implies a very high but complex degree of labour market segmentation, since any individual has access to a very limited range of jobs, demarcated by his or her social networks, while any employer chooses among a similarly limited number of individuals.

The question, therefore, is why have employers apparently constrained their own choice of employees by closing the labour market in this way? On the basis of our case study research we conclude that the preference of employers for hiring through personal connections is dominated by a number of considerations: first, the breakdown of the system of training and accreditation and the changing skill demands of the market economy, which often place a premium on personal recommendation as the only reliable means of attesting to the appropriate professional skills; second, the reliance of line management on the commitment and initiative of employees to carry out their work tasks, which places a high premium on loyalty; third, the extent to which economic activity is conducted outside or in violation of the law places a high premium on trust, not only in the case of those employees with direct responsibility for finance, accounting, sales or supplies but even of ordinary employees who might have the opportunity to participate in the traditional theft of products, equipment, parts and raw materials for resale; fourth, the reliance of managers on the loyalty and support of their subordinates in the continual struggle for power and position within the workplace and in the attempt to secure support for the enterprise as a whole from outside agencies. In this respect recommendation and patronage tie both existing and new employees into bonds of personal dependence on the manager. In short, reliance on hiring through personal

connections is an extension of the reliance on personal connections as the basis of social relations within the workplace which is a feature of the dominance of informal relations within the process of production and, more generally, in the 'economy of favours' (See Alashaev 1995a; Alashaev 1995b).

We have seen that the different labour market institutions do not simply define a set of channels of information from which the individual job-seeker might choose, but define quite distinctive social environments in which people conduct their working lives. However, networks of personal connections cannot be separated from the broader social context in which they play a role. Thus, such connections have a different significance for different segments of the labour force, defined in terms of both their occupational and their socio-demographic characteristics. After all, to be effective the social network must connect not two abstract individuals, but quite specifically an employer and a prospective employee. We therefore need to locate the role of social networks in relation to different groups within the labour force.

As we have seen, the new entrant to the labour market is perhaps in the most difficult situation following the collapse of the old system of distribution, because he or she has not acquired the work record, skills and experience which will commend itself to an employer if he or she tries to get a job independently, but nor has he or she yet built up a stock of social connections through which to make a personal appeal. For this reason young people often depend heavily on their parents to find them a job, often in the parent's own workplace. Young people are also significantly more likely to get their first job through the Employment Service, but many young people nowadays simply hang around, living on their parents and perhaps undertaking casual work. The difficulty that even highly educated young people have in getting jobs is indicated by the premium that is attached to higher education and professional training in the new market-oriented professions such as law, accountancy and finance, where substantial fees have to be paid for admission and tuition.

The most favourable milieu is one in which the individual is in a steady job and is integrated into a series of interlocking social networks of relatives, friends, former class mates and colleagues. There is a constant flow of information through these networks so that

the individual has a pretty good idea of the alternative employment opportunities available and how to go about getting another job. Frequently, the possibility of a new job crops up in the form of a suggestion or an offer which is made to somebody who had no particular thought of changing jobs at that moment. This situation is typical of those in more senior managerial and professional positions, who have always had a wide range of work and social contacts and may have had a varied professional career. For these people the end of the nomenklatura system, through which they used to be assigned to positions, has left the levers of power and control over their own destiny in their own hands. Although there is a limited amount of open competition in appointment to professional positions which require high levels of skill, the extent of illegality and corruption in the economic and political spheres places a high premium on the appointment of people who can be trusted. This is perhaps the area in which the closure of the labour market is most complete and most insidious in its effects.

The social networks in which the individual is inserted define both the opportunities immediately available to that individual and the limits of those opportunities. Somebody working in an outdated occupation in a declining industry may be part of a social milieu in which most of his or her friends and relatives are working in similarly depressed circumstances. The narrower the circle of an individual's social contacts, the more restricted are likely to be his or her labour market opportunities and the more likely is he or she to remain in a job which offers only declining pay and a growing risk of redundancy. This is especially the case in those mono-industrial towns and districts dominated by a single employer or branch of industry or in the relatively more prosperous state or former state enterprises and organisations where conditions may be bad but are nevertheless better than any realistic alternative that is available to their employees. In these circumstances labour turnover is likely to be relatively low, and continuing falls in production mean that many of those leaving will not be replaced. When vacancies do arise they are almost always filled by 'our own people', so that outsiders have little hope of getting a job in such enterprises.

Insertion in a social network may be a necessary condition for getting a good job, but it is by no means sufficient. The network must connect

an employer with a job to fill with an employee who has the potential to fill it. There have been enormous changes in the structure of the labour force, so that alongside the very large decline in demand for unskilled and general labour and for a wide range of highly specialised skills, there has been an increase in the demand for the skills of the new market-oriented professions, while the skills of general tradesmen, such as those in the building trades, carpenters, motor-mechanics, welders or electricians are always in demand. For those possessing such scarce skills there are still opportunities open to get a good job independently, without having to confine one's ambitions to the narrow limits defined by one's immediate social sphere. Despite the rise of private employment agencies oriented to hiring skilled professionals to the private sector, recruitment to the new market-oriented professions appears still to be dominated by personal connections, partly for the reasons indicated above, but also because of the lack of reliable accreditation of professional qualifications in the new professions. The skills of the traditional tradesman, however, can usually be evaluated without difficulty by the employer, so these people rely much less than any other group on personal connections to get themselves a job, and still move freely from job to job in search of the highest pay.

Russia through the period of crisis has been marked by high levels of labour mobility, of the order of 20% per annum, but only a low rate of new job creation. At a very rough estimate perhaps 40-45% of jobs have been destroyed in the course of ten years of reform and around 15% of jobs have been created. It should immediately be obvious that the vast majority of job transitions represent 'churning', the cycling of the presently employed through the same set of jobs, rather than the transition of people from old jobs which have been destroyed to newly created jobs. This churning consists primarily in the movement of people between state and former state enterprises in response to the dramatic changes in the pay and status hierarchy of different enterprises and different branches of production: the formerly elite enterprises of the military-industrial complex have become the last refuge of the unemployable, while the enterprises that were formerly at the very bottom of the heap: food processing, brewing, trade and catering, are now those which pay if not the highest, at least the most regular wages. However, more recently another circuit has become more prominent, of people cycling between jobs in the new private sector, particularly in fields such as retail trade, security firms and construction and repair.

For those who have neither skills nor connections there are few

opportunities of getting a reasonable job so they hold on to what they have got. Even if there is no work and wages are not paid, they maintain the work record which determines their pension entitlement. For many people working in industry, even those in their thirties, a pension is all that they can look forward to. Nevertheless, there comes a point at which things become so bad that unemployment seems a better prospect than continuing to work, particularly for those who have relatives or a pension to fall back on. Thus the highest labour turnover is found in those derelict enterprises and organisations, with a crumbling fabric and in steady economic decline, that have been running at a loss for years, paying miserable wages with long delays and subjecting their employees to regular lay-offs and bouts of short-time working. Ironically, it is these enterprises, which in a capitalist economy would have been closed long ago, which continue the traditional Soviet practice of 'free hiring', continuing to pursue an 'open door' policy because they have so many people leaving and have so little to offer that they have to take anybody who will agree to come. At the same time, the appallingly difficult situation in the labour market means that there are plenty of 'anybodies' who are willing to come and work, even without pay. For many workers taking a job in such unsuccessful enterprises is a gesture of despair, the last resort before pure unemployment for those without appropriate skills and connections. As one respondent put it: 'The factory is like a large scrap-heap, all the left-overs gather there'. Many soon decide that unemployment is the better alternative.

Despite the ever-deepening economic crisis in Russia, and the substantial fall in total employment, the majority of those of working age who leave their jobs soon find another. Thus, over half of the respondents in our household survey who said that they had been forced to leave their previous jobs in the last two years had got another job immediately, with no intervening period of unemployment, and more than half of the remainder had got another job within six months. In the RLMS data, about half of those who say that they are unemployed one year are in work a year later, about a third are unemployed and about one in six have left the labour force. In the October 1997 Labour Force Survey data, just under a quarter of those unemployed under the ILO definition said that they had been seeking work for less than three months, although over a third had been out of work for more than a year. In many respects, those without work are

better off than those continuing to suffer in jobs without pay, and they at least have the time to take on casual work or to spend searching for jobs. The unemployed have a good idea of what it takes to get a job: over a quarter of the currently unemployed respondents in our household survey said that what stopped them getting a job was the fact that they did not know the right people, as against 15% each who said that there was no demand for their profession and that they had insufficient qualifications.

It is interesting that the duration of unemployment does not appear to have much of an impact on the job search process: we have already seen that on the Labour Force Survey data there is no significant difference in methods of job search of the unemployed according to the duration of unemployment, although on our household survey data those who had been unemployed for more than three months are much more likely to have got their subsequent job through the Employment Service. However, our household data also shows that, although those with an intervening spell of unemployment are significantly more likely to have to take a cut in pay or a job with a lower skill level, the duration of unemployment makes no difference to the likelihood of either eventuality: there is no evidence that the unemployed become any more willing to take a cut in pay or change professions as time goes by.

## CONCLUSION

Employment has not fallen as far as output because of the willingness of many of those working in the traditional sectors of the economy to continue working for very low wages, or even without any pay at all. There is no evidence to support the common assertion that people choose to remain in low-paid jobs because of the provision of non-wage benefits or a sense of security in traditional enterprises. Apart from those completing their pensionable service, overwhelmingly the most important reason for continuing to work for low wages in bad working conditions is the fear of not being able to find another job.

The persistence of a very high level of wage differentiation despite high rates of labour mobility indicates that there is a high degree of segmentation in the Russian labour market. Other things being equal,

employers prefer to hire better-educated young men with work experience, so that there are few opportunities for young people without experience and it is extremely difficult for those over 40 to get a new job. Hiring through personal connections has become overwhelmingly dominant for all but the most scarce and highly skilled trades and professions, on the one hand, and dead-end jobs, on the other. This has led to a 'closure' of the Russian labour market, where it has become almost impossible for those without either a scarce skill or personal connections to get a reasonable job.

The closure of the labour market is partly a result of the failure of new labour market intermediaries to fill the gaps left by the collapse of the old systems of administrative allocation to jobs, particularly for young people, senior managers and specialists and the hardest to place. It is also a result of the predominance of hiring through personal connections which is a feature of the more general dominance of personal relations in Russia's 'economy of favours', and which is most marked in the new private sector, which offers the best-paid jobs.

Private employment agencies and job advertising only service very small niches of the labour market. Employers are no more satisfied with their services than they are with those of the Federal Employment Service. However, although few job placements are made through the Employment Service, its record of placing the unemployed in work appears to be much better than is generally assumed. Many of the ordinary staff of the Employment Service are dedicated to providing a good service to their clients, but are let down by the system.

The problem of institution-building is one which is pervasive in Russia today. It goes without saying that establishing an impartial and impersonal system of legal and administrative regulation of economic activity is an essential precondition for institution-building, and this is no less true in the sphere of employment. To a considerable extent this is a political rather than a policy issue: what has to be done is clearly understood, but whether and how it will be done is a matter of political will. In the case of the labour market, the focus of policy has to be to increase the effectiveness of the institutional channels of information that connect employers and employees.

The principal problem is the very limited development of a whole range of formal institutions which can provide for the various needs of

employers and employees, in the absence of which employers fall back on personal connections. The need for training and retraining is usually recognised, but at least as important is adequate accreditation of qualifications so that potential employers have some more reliable means than personal connections to testify to the abilities of the potential employee. It is clear that discrimination on grounds of age and sex is pervasive in the Russian labour market, with serious consequences for labour market segmentation and the exclusion of large sections of the community from the opportunity to earn a living. It would be naïve to expect equal opportunities legislation to have a dramatic or a rapid impact, but international experience has shown the importance of such legislation both in changing norms and behaviour and in empowering the victims of discrimination, particularly if there are accessible means by which they can pursue their claims.

There are some objective grounds for discrimination in the liability of employers to pay for maternity leave, to provide women who have child-care responsibilities with more favourable working conditions, to cover the costs of sick leave and occupational pensions and to meet the costs of training, all of which make it potentially more expensive to employ women, the young and the old, costs which small enterprises cannot afford to cover. The reform of the welfare system to bring these benefits fully within the framework of social insurance and the development of publicly funded occupational training would remove these grounds for discrimination in the labour market.

Many of the problems of policy focus on a lack of clarity as to the role of the Employment Service. First, the Employment Service is an enormous and very expensive bureaucracy whose primary function is to meet the employment and material aspirations of its own employees. While there are many honest, diligent and committed people working in the Employment Service who do their best for their clients, managerial corruption is notorious, pervasive and reaches the highest levels. Second, in practice, the main clientele of the Employment Service is still the most vulnerable strata of the population: unskilled and inexperienced young people, pensioners and people of pre-pension age, general workers, those released from prisons and psychiatric hospitals: all those who used to be handled by the Labour Placement Bureaux and commissions. But the main function of these institutions was not to provide an employment service, but to combine the

functions of social control and social protection: to ensure that everybody realised both their right and their duty to work. Third, the Employment Service performs the function of registering the unemployed, assessing their eligibility for benefit and administering the payment of unemployment benefit, for which it lacks the resources. Fourth, the Employment Service provides an information clearing house for vacancies, but employers do not have any incentive to report worthwhile vacancies, while the staff of the Employment Service do not have any incentive to make such vacancies freely available to their clientele. Fifth, the Employment Service is responsible for the implementation of a wide range of active labour market policies, from job subsidies, public works and job creation through a whole range of training provision, which has fallen into almost total disuse (not one single person in our four oblasts who was interviewed by the labour force survey in October 1997 was undergoing training at the direction of the Employment Service). In practice the bulk of the money for active policies is used to provide subsidies to traditional and new private enterprises, the basis of which rarely has any connection with job preservation or job creation. Sixth, the Employment Service is supposed to provide career guidance to assist with the job placement of those who apply to it. Finally, the Employment Service is supposed to serve as an active channel of communication between employers and employees.

The misallocation and misappropriation of funds is not only a result of corruption in and political pressure on the Employment Service. It is greatly facilitated by the fact that the government has never had any employment policy, so that no clear guidance is provided to the Employment Service by the government as to what should be its priorities, nor is any such guidance institutionalised in any form of budgetary control (Maleva 1998a). The budget of the Employment Service derives from a payroll tax which is falling increasingly into arrears as a part of the non-payment of wages. The first call on its funds is its own administration costs, which can be very considerable, following which it has a statutory obligation to pay unemployment benefits, although often its funds are diverted to provide subsidies to local enterprises or finance for new starts, at the direction of the local administration. Once the claimant rate reaches a certain level, there is no money left to do anything else. Thus, the greater the need for more active labour market measures the fewer are the resources available.

The overall result is that the Employment Service fails to fulfil any of its roles satisfactorily.

## Policy implications

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Our research was not intended to serve the immediate needs of policy formation, but we nevertheless draw a number of conclusions from our analysis which seem to have clear implications for policy.

As far as the new private sector is concerned, our main conclusion is that the new private sector has performed as well as could be expected. It has come to dominate its particular spheres of the economy while showing few signs of extending beyond them. The new private sector still needs support, particularly in the provision of training, investment finance and through the reform of the tax system, but it is futile to look to the new private sector to transform Russian agriculture, industry, construction, transport and communications, all of which are still dominated by state and former state enterprises.

More or less the same conclusion follows from our study of the sources of household subsistence. Russian households have been subjected to a scissors crisis, with falling money incomes and growing demands for money expenditure, not least for payment for housing and utilities, but the main sources of income remain the traditional ones: wages from primary employment and age-related pensions. The impact of the crisis has been very uneven, so that a few have prospered while at least a third of households have money incomes that are not sufficient to meet their subsistence needs. The new private sector has provided primary and secondary jobs for a significant proportion of the population, but those who work or have second jobs in the new private sector are predominantly those who are in any case more privileged: younger, better educated men. In our survey, men earn on average almost twice as much as women. The hourly rate of pay of men is 60% higher than that of women, the hourly rate of pay of working pensioners is less than one quarter of that of people of working age. Those under 20 earn less than one-third per hour of those in their thirties. Those with higher education earn over twice and those with higher degrees three times the hourly rate of those with secondary education: a man with a higher degree earns more than six times the hourly rate of a woman with no more than secondary education. Since

1990 over two-thirds of the jobs for under-20s and over 40% of the jobs of working pensioners have been lost against fewer than 15% of the jobs of those between 30 and 55. While the pensioners drop out of the labour market, over 40% of the under-20s are unemployed.

It is clear that although its economic role is important, the new private sector can make little contribution to preserving the less fortunate sections of the population from poverty. Our examination of domestic agriculture similarly showed that the hopes pinned on subsistence farming by some commentators are even more misplaced: what is needed is not a reversion to subsistence but an effective reform of commercial agriculture.

From an anti-poverty perspective the priority should be support for policies to stimulate broad-based job and income creation through the renewal of the state and former state enterprises and organisations which still employ around 80% of the labour force. Consideration of social policy has hitherto been dominated by fiscal considerations, which has led to radical proposals for reform of the pension and benefits systems which would have devastating consequences if they did not work as intended. The dependence of many households on age-related pensions and the inability of the majority of wage earners to support even one dependent make the preservation of the real value of retirement pensions and the restoration of the real value and regular payment of child benefit much the most cost-effective anti-poverty measures in a context in which the introduction of means-tested social assistance is completely unrealistic. It is also essential that the distributional impact of economic policies is born in mind to ensure that the benefits reach the less privileged sections of the population who have been the principal victims of the crisis.

This conclusion carries over to our examination of the labour market where, despite high rates of labour mobility, wage inequalities remain at a very high level, indicating that a large section of the population is denied access to the better paid jobs. This is partly a result of the 'closure' of the Russian labour market through which it has become almost impossible for the majority of the population to get a good job without the appropriate personal connections. Our analysis indicates that the closure of the labour market is partly a consequence of the collapse of the labour market institutions that used to provide training, retraining and job placement for new entrants to the labour market, the

failure of the Employment Service to perform its role either in training or in labour market intermediation, the very slow development of appropriate certification and accreditation of occupational and professional skills and discrimination on grounds of sex and age, which has an objective basis in the employers' obligation to cover the cost of a range of welfare benefits. The priority in this area should be to open up the labour market through appropriate reforms to the social insurance system, but also through the reform of the role, financing and accountability of the Employment Service, with specific policies focused on the training and job placement of young people and of displaced women and older workers. However, the closure of the labour market is not only a result of the inadequacy of training and labour market intermediaries, but is also a reflection of the pervasive role of informal and personal relationships in the regulation of the workplace and of all aspects of economic life.

A theme that runs through all of our findings is that the central problem in Russia is one of institution-building. The importance of institution-building has become a commonplace today, but many of today's problems have arisen because it was not accorded sufficient attention yesterday. In Russia the issue has a special significance because of the extent to which government policy in the first years of reform, with the strong support of the International Financial Institutions, was focused quite specifically on the destruction of the Soviet institutional legacy as rapidly and completely as possible. The result was that the institutions that had regulated economic activity in the Soviet period disappeared, to be replaced not by new institutions governed by clear laws, rules and norms but by the informal relations of personal favour that had formerly only greased the mechanism of the old order but which have now largely replaced it. In this respect the most fundamental needs of the new private sector are no different from those of the Russian economy as a whole: the establishment of a stable legal and political environment in which it is normal practice to meet contractual, financial, fiscal and legal obligations.

There has never been any shortage of policy proposals in Russia, but policy discussion takes place in a void if there is no coherent institutional framework within which policies can be implemented. It is obvious that the owners and managers of new private enterprises need training in financial accounting, personnel management and

business planning; that Russia needs a system of training that is adapted to the needs of her emerging economy; that labour and employment relations should be regulated by a system of laws that are enforceable and are enforced; that discrimination in hiring and firing on the grounds of sex, ethnicity (and probably age) should be banned; that economic recovery requires that investment be channelled to potentially profitable ventures; that the tax system needs to be rationalised; that an effective system of bankruptcy needs to be introduced; that the financing and administration of the Employment Service needs to be brought under government control. All these are obvious, yet nothing has happened because no proper account has been taken of the institutional barriers to their implementation.

A very similar conclusion can be drawn regarding assistance programmes. Assistance programmes were not a specific object of our research, but the issue of the effectiveness of assistance has come to the fore with the recent negative evaluation of the EU's TACIS programme. Many technical assistance projects have been very well-intentioned, based on the clear identification of a need and the provision of the means to meet that need, but with very disappointing results. One of the main reasons for such disappointment has been not corruption and incompetence, but the failure to take sufficient account of the institutional and political framework within which the assistance programmes were being implemented.

For example, a whole range of managerial practices in new private enterprises are quite inadequate and inappropriate to a developed market economy. A great deal of support has been offered to small businesses through bilateral and multilateral technical assistance programmes, yet the level of interest generally proves to be very disappointing, especially when companies are asked to pay for the services provided. This is not only because they are short of money, but also because they do not see the need for such support. In the institutional void in which they find themselves, their dysfunctional management practices actually make sense, even though these practices perpetuate the institutional void that breeds them.

A similar example from our research is that labour and employment issues were at the bottom of the agenda for almost all the new private employers we interviewed. While this indicates that they do not see the labour market as a barrier to their development, it is also an expression

of the short-term perspectives that are typical of new private sector employers in Russia and are precisely the barrier that has to be overcome.

Such short-term perspectives are not simply a matter of subjective perception but are a reflection of the unstable environment to which new private enterprises have had to learn to adapt. A successful business in Russia is not one which can build itself a secure position in the market and adapt smoothly to technological and market changes on the basis of its good management of the skills and experience of its labour force. It is a business which can exploit the personal connections of its management to get privileged access to licences, permits, investment funds, supplies and markets; to minimise its tax liabilities; to avoid investigation by the tax authorities and disruptive inspection by officials of a thousand and one government departments. It is a business which can switch from one sphere of activity to another overnight, as old opportunities dissolve and new ones present themselves.

There is a clear division within the new private sector between the larger, more securely established, incorporated new private enterprises with a professional management which offer employment on reasonably secure contractual terms with satisfactory pay and working conditions and acceptable trading practices and the small, unincorporated, unstable businesses which operate outside the framework of the law. There are signs that the former are growing at the expense of the latter, a process that would be facilitated and accelerated by more effective enforcement of legal and contractual obligations. Technical assistance programmes that ignore the institutional environment, or take it as given, and allow themselves to be dictated by the expressed needs and wishes of their clients (which must be the case if clients are to be charged and the services are expected to be self-financing), will at best fail and at worst will inadvertently reinforce the subversion of the institutional framework which it should be the priority of such programmes to build. From this point of view, those responsible for the design and management of the programmes should have a thorough understanding of the environment within which they are to be implemented, not so that they can tailor their programmes to local customs, but precisely so that they can ensure that their programmes do not incorporate practices that

reinforce bad customs. The most effective way of implementing such a perspective is to work closely with local agencies who are independent of the programme's clients (even at several removes) and who are committed to the programme objectives. But this takes the issue back into the political sphere.

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***Appendix: Changes in Employment in the period of Reform***

*Table 0.1: Dynamics of Industrial Production, Employment and Wages, 1992-8. Production and wage monthly data: Russian Economic Trends; Employment is Labour Force Survey data, deflated for leave and short-time working.*

Table 0.2: Changes in employment and unemployment by age and sex, 1992-7. Calculated from Labour Force Survey data

	Population Increase million	Fall in Ec. Active Population million	Employment Fall million	Unemployment Rise million	Ec. Inactive Increase	Activity Rates % Decline
15-19 Men	0.22	-0.85	-0.93	0.08	-0.85	51.1
15-19 Women	0.25	-0.58	-0.68	0.10	-0.58	41.8
20-24 M	0.31	-0.09	-0.57	0.47	-0.09	7.9
20-24 W	0.42	-0.19	-0.56	0.36	-0.19	13.3
25-29 M	-0.16	-0.33	-0.69	0.35	-0.33	3.8
25-29 W	-0.38	-0.72	-0.98	0.26	-0.72	10.2
30-49 M	1.41	0.28	-1.20	1.49	0.28	4.9
30-49 W	1.76	0.25	-0.95	1.20	0.25	6.4
50-54 M	-1.78	-1.73	-1.78	0.05	-1.73	5.9
50-54 W	-2.21	-1.92	-1.95	0.03	-1.92	5.8
55-59 M	0.50	-0.11	-0.26	0.14	-0.11	15.2
55-59 W	0.77	-0.26	-0.27	0.02	-0.26	26.4
60-72 M	0.35	-0.77	-0.73	-0.03	-0.77	46.1
60-72 W	0.10	-0.63	-0.58	-0.05	-0.63	45.4
Sum (15-72)	1.54	-7.65	-12.13	4.48	-7.65	11.4
Sum men	0.83	-3.60	-6.16	2.56	-3.60	10.6
Sum women	0.71	-4.05	-5.97	1.92	-4.05	12.3

*Table 0.3: Job losses by sex and age 1992-7. Labour Force survey data*

The loss of jobs is determined by calculating how many people would have been employed in 1997 at 1992 activity rates.

	1997 population	1997 employment	1997 employment calculated at 1992 activity rates	loss of jobs 1992-1997	per cent job loss		1997 unemployment rate
15-19 Men	5.519	0.535	1.80	1.27	70		39.3
15-19 Women	5.347	0.514	1.56	1.05	67		43.5
20-24 M	5.309	3.325	4.46	1.13	25		19.1
20-24 W	5.119	2.685	3.81	1.12	30		18.7
25-29 M	4.938	3.946	4.70	0.75	16		12.7
25-29 W	4.623	3.096	3.95	0.85	22		12.7
30-49 M	22.605	18.350	21.61	3.26	15		10.7
30-49 W	23.263	18.044	21.31	3.26	15		9.5
50-54 M	2.416	1.878	2.17	0.29	13		7.9
50-54 W	2.789	1.969	2.26	0.29	13		7.5
55-59 M	4.198	2.589	3.33	0.74	22		8.4
55-59 W	5.366	1.439	2.11	0.68	32		7.5
60-72 M	6.845	0.930	1.86	0.93	50		7.2
60-72 W	11.100	0.719	1.41	0.69	49		6.6
Total (15-72)	109.436	60.019	76.34	16.32	21		11.8
Total men	51.829	31.553	39.93	8.38	21		12.2
Total women	57.607	28.466	36.41	7.94	22		11.5

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