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Russian Labour Market – Institutional Development and Economic Perspectives

Larissa Smirnych

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Zusammenfassung

In der Arbeit werden grundlegende Veränderungen auf dem russischen Arbeitsmarkt in den Jahren der Reformen analysiert. Die Verfasserin konzentriert sich auf solche wichtigen Aspekte des Arbeitsmarkts wie Institutionen, Beschäftigung und Entlohnung.

Die ermittelten Trends zeugen davon, dass in den Jahren der Reformen der Beschäftigungsgrad gesunken ist und die regionalen Unterschiede der Beschäftigung zugenommen haben. Die Anpassung des Arbeitsmarkts an die strukturellen Veränderungen erfolgte durch die Zunahme nicht-traditioneller Arbeitverhältnisse, die Verminderung des Anteils des Lohnes an den gesamten Einkommen und der steigenden Differenzierung von Arbeitslöhnen unter den Branchen, Regionen und einzelnen Unternehmen. Institutionelle Umwandlungen, die in den Jahren der Reformen zustande gekommen sind, haben zur Liberalisierung von Arbeitsverhältnissen beigetragen. Aber sie haben sich nicht wesentlich auf die Geschäftstätigkeit der meisten russischen Unternehmen ausgewirkt.

Abstract

The paper illuminates major changes which have taken place on Russian labor market during the period of reforms. The author puts an accent on such characteristics of labour market as institutions, employment, wages and compensation. The trends revealed by the researcher testify a cut in employment and an increase in its regional disparities during the reforms. Adapting labour market to structural changes took place because of an enlargement of non-traditional employment, a reduction of the share of wages and compensation in an aggregate income structure, and a growth of wages and compensation differentiation among industries, regions, and specific enterprises. Even though recent reform-related institutional transformation has come to liberating labour relations, it has not essentially influenced the activity of a majority of Russian enterprises, yet.

Stichwörter: Arbeitsmarkt, Arbeitsmarkt Institutionen, Beschäftigung und Arbeitslosigkeit, Arbeitsmobilitaet, Lohnniveau and Lohndifferenziehrung, Arbeitsmarktpolitik

Keywords: Labour Market, Labour Force and Employment, Mobility, Unemployment, Wage Level and Wage Differentials, Labour Economics Policies

JEL-Classification: J01, J08, J63, J31, J21, J23

Table of Contents

List of Abbreviations

EERC	Economics Education and Research Consortium
GDP	Gross Domestic Product
LC	Labour Code
RECEP	Russian-European Centre of Economic Policy
RF	Russian Federation
RLMS	Russian Longitudes Monitoring
RSFSR	Russian Soviet Federative Socialist Republic
UNICEF	United Nations International Children's Emergency Fund
USSR	Union of Soviet Socialist Republics

1 The Russian labour legislation and labour market flexibility

The adaptivity of the labour market is about accommodating to any changes that constantly take place in the economy. It characterizes flexibility of a market. It is determined by two main factors. Firstly, the available laws and norms regulating labour relations. These are the so-called “formal” indicators of the labour market flexibility. Secondly, the degree to which the requirements provided by the laws and norms are met giving us indicators of “the real” flexibility of the labour market.

Domestic and foreign experts believe that in Russia there is a pronounced “gap” between the formal and real flexibility of the labour market. The prerequisites for the “gap” appeared years ago. It is necessary to look into the history and the main features of the Russian labour legislation to see their origin and assess the forms of employment adaptation in the conditions of the Russian legislation.

1.1 The Russian labour legislation: history of development and the main features

The body of the labour legislation in Russia was developed at the beginning of the 20th century. Before that time labour relations had been governed by the norms of the civil legislation. The first law on the labour regulation was “The Charter of Industrial Work” (1913-1917). Later in 1918, the first Labour Code of the Russian Soviet Federative Socialist Republic (RSFSR) was adopted. It was further developed into the second (1922) and then the third (1971) Code of RSFSR. The distinctive feature of all labour codes of the Soviet period was their focus on large industrial enterprises and disregard of small businesses.

The Labour Code (1922) was enacted at the beginning of the New Economic Policy period, which started in the late 20s to bring back the market economy conditions. However, when the New Economic Policy period came to an end and the transition to a rigidly centralized control of the economy was imposed in the 1930s, the Code was completely changed. Although formally effective, many of its provisions did not work in practice (e.g. those on collective agreements).

The Labour Code adopted in 1971 set the basis for legal regulation of labour relations in Russia, which remained essentially the same, even though several amendments were made, until 2001. Its main idiosyncrasy was that it was designed to regulate labour relations under the conditions of the system based on state ownership, predominantly through centralized managerial control of the work sphere. The Labour Code of 1971 was to discourage workforce turnover, i.e. tie people down to enterprises. The labour legislation of 1971, therefore, was highly rigid with respect to hiring and firing. In contrast to the current legislation the overwhelming majority of the then norms had an imperative character: the position of workmen could hardly be changed. "Concluding labour contracts and collective agreements was a pure formality since the parties to labour relations were deprived of contractual freedom…"[1].

Firing (compelled dismissals) required coordination with the trade union committee of the company. Quits under the initiative of workmen were limited. An employee could only leave if he/she had strong reasons. Thus, temporary-term contracts were only signed if groups of employees were taken on, e.g. if workforce was recruited to the Far North or "equated" regions.

In February 1988, the 1971 Labour Code of RSFSR was changed again[2]. The changes gave more freedom to enterprises and bigger social benefits to employees. The interpretation of the transfer-to-a-new-job concept became simpler to give wider opportunities to workmen so that if an employee decided to give up a job, it meant termination of his/her labour contract.

Transformation of the labour legislation continued in the following years. In 1989, the law on collective labour disputes was passed in the USSR. It recognized the rights of workmen to strike for the first time since the La-

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1 How much does Labour Code cost? Moscow Carnegie's centre. Moscow, 2001, N 3.

2 Decree of the RSFSR Supreme Council, February 5, 1988.

bour Code of 1922. The USSR Law "On Trade Unions, the Rights and Guarantees of their Activities" (10/12/1990) was meant to support professional pluralism. In the same year (25/12/1990), the Law "On Enterprises and Enterprise Activities" was enacted in the USSR. This law tried to make trade unions' activities dependent on the decisions of "labour collectives" although this was at variance with the international standards of trade union activities. The RSFSR Law "On the Enterprises and Enterprise Activities" created the legal basis for generation and development of various forms of enterprises, and recognized that the size of salaries paid to the personnel was entirely up to the company to decide on. Along with the laws on individual labour activity passed at the end of the 1980s – the beginning of 1990s, this law became the first contributions into dismantling the system of administrative control over employment and remuneration in Russia.

Intense social populism of the early 1990s was a reaction to newly granted "freedoms". New laws on "Social Guarantees for Workmen", "Employment in RSFSR", and "Indexation of Monetary Incomes and Citizens' Savings in RSFSR" were enforced in 1991. These laws extended the duration of the annual paid leaves up to 24 days (compared to only 15 days before), introduced certain mechanisms which made mass layoffs difficult and secured a "generous" size of dole.

However, the changes and additions made to the 1971 Labour Code of RSFSR in the period of reorganization and radical economic reforms at the beginning of the 1990s, did not remove its inflexibility. In some cases, the rigidities became even more pronounced.

In 1991, the RSFSR Supreme Council recognized the expediency of preparing a new Labour Code. The President had the government work out a draft of the Code and a bill on modifications and additions to the labour legislation. In the period 1992-1999, a number of laws compensating for the lack of an effective Labour Code were adopted. 16 laws were passed in the period of October 1992 - December 2001 introducing numerous additions and alterations to the 1971 Labour Code. The most important laws that changed the development of labour relations were as follows:

the law "On Collective Agreements" (11/03/1992), the law on "The Order of Settling Collective Labour Disputes" (23/11/1995), the law on "Trade Unions, Their Rights and Guarantees of Their Activity" (12/01/1996), the law on "the Russian Tripartite Commission for Regulation of Socio-Labour Relations" (1/05/1999), the law on "The Basics of Work Safety in RF" (23/06/1999).

The most significant changes to the Labour Code were brought in by the law on "Modifications and Additions to the Code of Laws" (25/09/1992). This law was an attempt to adapt the working 1971 Labour Code to the changing economic environment and emerging market relations by providing more flexible regulations. However, those changes did not affect the essence of the labour legislation. Despite the introduced changes and additions, former principles remained, which determined the content of the labour legislation during the Soviet epoch: a fixed working place for an employee and guaranteed employment (with restrictions on the termination of labour relations).

Those principles reflected the domineering approach to labour resource deployment in the Soviet economy. During the Soviet period it was necessary to tie every employee down to a job, which was dictated by the necessity of maintaining order and stability. "A job was the basic part of social integration as implemented within the framework of the Soviet system"[3]. Such workplace tying down made it easier to regulate and control labour relations. This approach was carried out by offering employees considerable social benefits and privileges in exchange for long-term service. During the reforms this principle was slightly changed but its essence stayed basically the same.

On the one hand, the principle of guaranteed employment is the winning characteristic of the Soviet epoch because no-one stayed out of work; on the other hand, it was used as a tool for identifying the social status of able-bodied people. In the Soviet period, breaking this principle by allowing workforce turnover was considered an economic problem of ineffi-

[3] Klark S.: The Russia Labour Market // Economic Sociology. 2001, N 3.

cient use of labour resources. Thus, the mobility of employees during the Soviet time was not appreciated as a restructuring tool or as an element of the workmen's attempts to qualify. So the idea of labour mobility as a positive phenomenon was non-existent. Labour mobility did not bring about an increase of labour productivity but really was about employees finding better places. Despite all the changes introduced to the labour legislation, the principle of guaranteed employment through its protection remained unchanged.

The aforementioned principles were reflected in the labour legislation as "norm-safeguards", which made dismissal difficult, limited the use of temporary-term contracts, etc. As a result, according to the World Bank, Russia was one of the countries with the least flexible labour market given the rigidity of its legislation on employment protection[4]. From a legal point of view, the labour market, which was generated in Russia during the reforms (up to 2001) was one of the most rigid and overregulated labour markets among all the transition economies[5].

At the end of 2001, after fierce political debates in Russia, the new Labour Code (LC) was adopted and enforced in the next 2002. It was assumed, that this would help deregulate employment and pull together "formal" and "real" mechanisms making the labour market flexible. These expectations partially came true.

The new LC made it much easier to fire an employee. If an employee does not do his/her work properly or frequently disregards his/her work duties or else if an employee is unwilling to relocate, he/she can be released. Also, according to the new LC, if a subsidiary is liquidated, the employer is not obliged to re-employ all employees who have lost their jobs.

The old Labour Code (1971) said that the director had to coordinate dismissals with the trade union while in the new Labour Code, such coordi-

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4 http://rru.worldbank.org/DoingBusiness.

5 Kapeljushnikov R. I. / Gimpelson V. E.: The Labour Code: has it changed the behaviour of enterprises? Preprint WP3/2004/03, Series WP3. Problems of the Labour market, p. 3.

nation is replaced with the vague “taking into account opinions”. The new LC offered considerable liberalization of norms as far as signing temporary labour contracts was concerned (employment with a trial period is considered a specific separate form of contract).

After adoption of the new LC, as some inspections of the enterprises testified, employers began to release their employees more often. They now hired part-time workmen and/or had their personnel work shorter hours. They started using flexible schedules, and hiring staff under temporary contracts (38% in 2003)[6].

However, the changes in the labour legislation evoked very different reactions from employers since the more stable is a company the more positive is its management’s attitude toward such changes while the less financially stable enterprises display less optimism.

One of the reasons for the adoption of the new labour code was an intention to make the general economic environment similar for employers from two essentially different segments: large (primary) and smaller (secondary) enterprises. In the opinion of some analysts and some company managers, introduction of the new Labour Code did help reach this goal.

Nevertheless, the policy of equalizing chances did not affect all enterprises. The number of enterprises in which the conditions of the new labour legislation policy did not result in any changes was quite high (25%).Within this group of employers there are those who saw nothing good about the new legislation (60%) and those who saw nothing bad about it (about 50%)[7].

By and large, it is possible to ascertain, that introduction of the new labour code in Russia has brought along a more flexible market. At the same time, it did not produce any serious effect on the majority of Russian enterprises.

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6 Kapeljushnikov R. I. / Gimpelson V. E.: The Labour Code: has it changed the behaviour of the enterprises? Preprint WP3/2004/03, Series WP3. Problems of the Labour market, p. 18.

7 Ibid., p. 19.

1.2 The Flexibility of the Russian labour market and the forms of employment adaptation

In spite of legislative restrictions, the Russian market showed a remarkable degree of flexibility in the years of work reforms. Flexibility was shown by increased use of various forms of employment adaptation; some of which were neither provided nor regulated by the labour legislation norms meaning employment of (explicitly or implicitly) limited duration.

According to international classification standards there are various kinds of temporary employment. In Russia the term “non-standard employment” is often used to denote it. As a rule, there are the following types of temporary employment in the international statistics:

- contract employees;
- temporary agency employees;
- seasonal employees;
- employees substituting for permanent employees for a period of time;
- one-off employees;
- “on-call” employees (work is done when necessary);
- pupils (occupied within the framework of a work program, but without guarantees for future employment)
- employees working within job-creating projects.

There are all kinds of listed temporary employments in the Russian labour market and the number of temporary employees is growing (table 1). In 1992, the share of temporary employees in the aggregate number of employment was no more than 3% of the total. In 2005, it went up to 12.5% (more than 4 times) amounting to 7.7 million people.

Before the adoption of the New Labour Code, the number of temporary employees went up considerably for the first time after the economic crisis of 1998, resulting in 5.21% of employed population. In the following years the number of temporary employees grew steadily and the temporary employment growth rates went up further owing to the new labour code adoption. Before the new labour code, the number of temporary labour had doubled in 10 years while after its passing this number doubled within 4 years. Results of some Russian researchers also testify that after the labour code had been enacted a quarter of enterprises began to more actively use forms of temporary employment hiring[8].

Table 1: The structure of employment according to the types of contracts (2001-2005)

	2001	2002	2003	2004	2005
Total employment					
Permanent employment	92.73%	92.80%	87.96%	88.03%	87.53%
Temporary employment	7.27%	7.20%	12.04%	11.97%	12.47%
Fixed-term employment	4.24%	4.12%	6.99%	6.79%	6.84%
Accidental employment	2.15%	2.20%	3.40%	3.76%	3.94%
Contract employment	0.87%	0.89%	1.65%	1.41%	1.69%
Men					
Permanent employment	91.02%	91.34%	86.40%	86.24%	85.84%
Temporary employment	8.61%	8.66%	13.74%	13.76%	14.16%
Fixed-term employment	5.20%	5.04%	8.21%	8.05%	7.99%
Accidental employment	2.37%	2.43%	3.81%	4.21%	4.52%
Contract employment	1.04%	1.19%	1.73%	1.49%	1.65%
Women					
Permanent employment	94.20%	94.32%	89.72%	89.86%	89.24%
Temporary employment	5.80%	5.28%	10.28%	10.15%	10.76%
Fixed-term employment	3.20%	3.16%	5.73%	5.51%	5.68%
Accidental employment	1.91%	1.55%	2.98%	3.30%	3.36%
Contract employment	0.68%	0.57%	1.57%	1.33%	1.72%

Source: The RF state statistics committee, population employment survey (2001-2005)[9].

In the period of the reforms the gap between permanent and temporary employment gradually became smaller. In 1992, the ratio was 35:1, in 2001 - 13:1, and in 2005 it came down to 7:1. The contribution of the temporary employment into the total rate of employment and its growth was quite considerable over the last years and it influenced the flexibility of the Russian labour market.

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8 Gimpelson V. E. / Kapeljushnikova R. I. / Hahulina O.: The New Code: Has it brought changes? // Higher School of Economics Working Paper, 2004, № 2.

9 Surveys have been carried out regularly in Russia since 1991.

Imbalances in the distribution of temporary-employment depend on the features of an economy sector and gender characteristics. Unlike, for example, the European labour market, male temporary employees always prevailed in the Russian labour market (table 1). Temporary employment was also distributed unevenly over different economic sectors. Over the years 2001-2005, the number of temporary employees among enterprises reached 8%. In the agricultural sector, it was nearly 50%, and the temporary workforce rentable to individual businesses was about 65-68% (table 2).

In the structure of temporary employment it is possible to single out the most and the least stable types as well as those enjoying the highest demand (table 1, 3). At the same time splitting temporary employment into separate types is conditional. In the structure of temporary employment "fixed-term employees" and "contract employees"[10] are mostly predetermined: in both cases it is either determined by the nature of work or the contract duration. In this sense, these types of temporary employment are rather stable, in contrast to "accidental" employment. "Accidental employment" means doing one-off jobs by those who do not have permanent employment. The range of these activities is very wide. For example: repairs, cleaning flats, etc.

Table 2: Employment in economic sectors according to the types of contracts

	Total	Enterprises, establishments, organizations	Farms	Individual Businesses
2003_11				
Permanent employment	0.87	0.92	0.58	0.32
Temporary employment	0.13	0.08	0.42	0.68
2005_5				
Permanent employment	0.87	0.93	0.53	0.35
Temporary employment	0.13	0.07	0.47	0.65

Source: The RF state statistics committee, 2003-2005.

Before the new Labour Code, the general increase of the number of temporary employees was due to some increase of employment under fixed-

[10] In this case, employment connected with the certain amount of work is meant.

term contracts and significant growth of accidental employment[11]. The share of accidental employees in 2002 was 8.6% of the total economically active population while the unemployment was 6.5%[12]. Contract employment remained approximately the same till 2002.

Table 3: Structure of temporary employment (2001-2005)

	2001	2002	2003	2004	2005
Temporary employment					
Fixed-term employment	58.37%	57.22%	58.04%	56.77%	54.87%
Accidental employment	29.64%	30.47%	28.23%	31.41%	31.60%
Contract employment	11.99%	12.30%	13.73%	11.82%	13.52%
Men					
Fixed-term employment	60.34%	58.22%	59.70%	58.54%	56.43%
Accidental employment	27.54%	28.07%	27.71%	30.61%	31.91%
Contract employment	12.12%	13.71%	12.59%	10.86%	11.66%
Women					
Fixed-term employment	55.25%	59.87%	55.75%	54.34%	52.80%
Accidental employment	32.98%	29.33%	28.95%	32.50%	31.19%
Contract employment	11.77%	10.80%	15.30%	13.16%	16.00%

Source: The RF state statistics committee, 2001-2005.

After the adoption of the new LC, the share of "fixed-term employees" continued to remain the most numerous in the overall employment structure (2001 – 4.24%; 2005 – 6.84%). However, in 2001-2005 their share in the total of temporary employment shrank from 58% in 2001 to 55% in 2005. Parallel to this, the number of the "accidentally employed" and contract employees went up as well as their share in the whole structure of temporary employment. In 2001 "accidental employment" among all those employed was less than 30%; in 2005, it came up to 32%. "Contract employment" grew even faster - it doubled between 2001 and 2005.

Another feature of the Russian labour market is that temporary employment is not evenly distributed among men and women[13]. There are more

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11 Gimpelson V.: Temporary and accidental employment in Russia: data, level, dynamics. Preprint WP3/2004/02, Series WP3. Problems of the labour market, p. 12.

12 Bandjukova T. S.: Accidental Employment in Russia: number, structure, mobility. Preprint WP3/2004/05, Series WP3. Problems of the labour market, p. 3.

13 Unfortunately, we do not have statistics data about factors which characterize distribution of temporary employment of the sectors of the economy. However we believe that the effect of different types of temporary employment in the sectors of the economy also took place.

women among the "accidentally employed" and contract employees while "fixed-term employment" is rather men (table 3).

Let us note the characteristic attributes of these dynamically developing kinds of temporary employment. It is known that "accidental employment" often has an informal character: An employer and an employee do not conclude either a written or a verbal contract. "Contract employment" implying a particular amount of work is only regulated by the civil code. In this connection, we can state that recently there has been rapid development of such new forms of employment adaptation, which increase the flexibility of the Russian labour market but have hardly anything to do with the new LC because it simply does not provide for them. Here it is also worth mentioning employees who get their jobs through employment centres (they are sometimes called agency labour). This kind of activity is not reflected in the provisions of the labour legislation either, including the New LC.

The Russian statistics do not contain data about agency employees[14.] So it is difficult to tell with confidence where this sort of employees belong to. Theoretically, they can be either part of the fixed-term group or the contract group. At the same time, the number of such temporary employees has grown considerably. In Russia today, about 1 million people are employed through employment agencies. Temporary agency employee services have mushroomed after the crisis of 1998. The demand for temporary agency employees has grown by 60% since 2001. In 2000, 20-25% of enterprises used such services, in some branches of the economy the figure is up to 30-35%. The annual volume of the services provided by employment agencies in the Russian labour market totalled 136.4 million dollars in 2004.

The majority of employment agencies and temporary agency employees are concentrated in the central regions of Russia (Moscow, St. Petersburg). The Russian employment agencies are rather young: half of them have been operating in the Russian labour market for less than 5 years,

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14 Smirnykh L. I.: Labour leasing: economic theory, EU and Russia experience. Moscow, RECEP, 2005.

almost a third of them- between 3 and 5 years, and only 12% of the agencies have been working in the Russian market for more than 10 years.

While the relations between employment agencies and employers are formal ones and are regulated by the provision 39 of the RF Civil Code and articles 148 and 264 of the RF Tax Code, the relations between temporary agency labour and employment agency are as a rule only fixed by a “work contract” but they are not provided for in the labour legislation. It is not possible to refer this type of relations as a subject to the civil code since the latter does not define or obviously consider this type of employment relationship. Relations between temporary agency employees and employers are implicit, i.e. and not legally established. All this creates the ground for striking informal agreements between parties and, as a consequence, it increases share of informal employment relations in the Russian market.

As a result, it is possible to make the following conclusions. Throughout the transition period in Russia, a growth of temporary employment did occur (7.7 mln. people in 2005). It helped increase the flexibility of the Russian labour market. One of the reasons, why temporary employment deserves steadfast attention is the high growth rates of some of its versions which frequently have an informal character. As a rule, these kinds of temporary employment are concentrated in the non-corporate sector, which is largely informal by nature and where restrictions imposed by laws do not operate. Thus, the use of various kinds of temporary employment in organizations and at enterprises after adoption of the New LC still remained strongly limited. In connection to this, the growth of temporary employment in this sector is insignificant. However, the tendency to deploy various kinds of temporary employment in this sector is getting stronger every year. Discussions concerning the legislative regulation of new non-standard forms of employment should not lead to toughening of the norms (for example, the LC); they should help accept independent legislative norms or laws which allow legalization of various kinds of informal activities and employment. According to some experts, many private businesses and entrepreneurs would rather pay the costs under the labour legislation than bear the costs of satisfying requirements of, for instance, tax laws working in Russia. The conclusion is, therefore, that that improvement of labour relations in Russian depends not only on further liberalization of the labour legislation, but also on modernization of other legal norms.

2. The Russian labour market activities

2.1 Employment and Unemployment

Many forecasts concerning employment and unemployment made in the years of the reforms in Russia were refuted by the reality. At the beginning of the economic reforms, a sharp decrease of employment was expected: It was predicted that a slump of GDP, which in fact according to official statistics was about 40% (in the most critical times), would cause a serious decrease of the employment level. However, employment decrease was disproportionately low amounting to 12-14%[15] at the worst of times. Later, when Russia entered the phase of economic growth, it was believed that employment would rise, which did not happen either. What was more, the overall number of employed people fell from 71.1 million in 1992 to 64.1 million people in 1995. Only in 2000 it began to grow again reaching 68.6 million people in 2005 (table 4).

Table 4: Number and structure of economically active population

	1992	1995	2000	2001	2002	2003	2004	2005
	Million people							
Economically active population-total:	74.9	70.9	71.5	71.0	72.0	72.8	73.0	74.2
Employed	71.1	64.1	64.4	64.7	65.8	67.2	67.1	68.6
Unemployed	3.8	6.8	7.1	6.3	6.2	5.6	5.9	5.6
	Percent							
Economically active population-total:	100	100	100	100	100	100	100	100
Employed	94.8	90.5	90.2	91.1	91.4	92.2	92.1	92.5
Unemployed	5.2	9.5	9.8	8.9	8.6	7.8	7.9	7.5

Source: Materials of the research. Employment problems of the population: 1992, 1995 - end of October; 2000 - 2004 - end of November, 2005 – end of October.

15 Kapelushnikov R.: Russian labour market. Adaptation without restructuring. Moscow, HSE, 2001.

Although some experts believe[16] that the increase of the employment level after 1999 was rather due to different methods of employment rate calculation than to actual economic recovery. Considering the growth rate of people engaged in the economic activities (table 4), it becomes obvious, that although this value did have a positive tendency but over the period 2000-2005 it only changed a little – by 1.07% while the GDP rose by 5-7%.

Besides, employment was different in different regions. Already in 2001 the post-default employment growth (1998) in Russian regions caused by the economic upheaval turned into a decline in 63 regions out of 89[17]. Only two regional groups managed to keep the positive economic activity and employment tendency. The first group of leaders is represented by the largest cities, oil and gas-producing regions, some of resource-exporting regions and the St.Petersburg's area. The second group is made up of the majority of republics within Russia where the economic and employment growth was due to financial support from the federal centre, especially for creating jobs in the budget (state-run) sphere. Later, economic activity and employment rose weakly and unsteadily.

Although some regional differences started taking shape, interregional employment proportions in Russia remained practically the same as in Soviet times. The marketing reforms only made the advantages and drawbacks of the existing territorial inequality in the regional labour markets.

Russian unemployment differed from that of other countries with a transition economy. Its trajectory was rather smooth during the years of the reforms, without hiccoughs or massive one-off injections of unemployed people into the labour market. In the 1990s, many enterprises preferred keeping excessive workforce by sending their employees on unpaid leaves and using mechanisms of wage arrears. The labour market only

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16 Gimpelson V. / Kapelushnikov R.: Labour market: Russian myths and reefs. Fund Liberal Mission. http://www.liberal.ru, 2004.

17 Regional labour markets. Social atlas of the Russian regions. Independent institute of the social policy, 2004.

started to respond actively to the economic changes at the end of the 1990s. In 1998, the year of the financial crisis, the level of unemployment reached its peak of 13.2%.

When Russia began to recover from the transformational crisis, unemployment was declining much faster than in any other transition economies. With the positive changes which took place in the early years of the economic growth, the level of unemployment dropped by a quarter in 2003 down to 5.6 million people. However, in spite of the continuing economic growth, unemployment grew to 5.9 million people in 2004. Although in 2005 it again fell to 5.6 million people. Practically throughout the whole period of the economic growth the number of unemployed people remained the same, at about 6 million people. It can be explained by some reasons connected with unemployment entrance and exit.

On the one hand, the slight growth of unemployment in 2004 was due to industries which slowed down the rates of growth of labour-intensive export substitution branches. Growing raw material export branches did not have the need for a great number of employees because the processes of cost reduction began to optimize the strength of personnel. The release of labour force in agriculture also rose. All these factors caused the increase of the unemployment level in 2004. On the other hand, the majority of Russian enterprises as a rule prefer restructuring via detaching whole services and departments together with personnel[18]. In such cases no influx into unemployment occurs.

There is another specific trait of unemployment in Russia and it is connected with its exit. The stagnation of the unemployed pool was observed. The average duration of unemployment in Russia was 8.5 months but the exit rate was only 0.02[19]. The share of unemployed people who

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18 Gimpelson V. / Kapelushnikov R.: Labour market: Russian myths and reefs. Fund Liberal Mission. http://www.liberal.ru, 2004.

19 Denisova I. A. / Donetsky A. M. / Kolesnikova O. A. / Fedchenko A. A. / Lyadova N. I.: Long-term staying in the register of unemployed people: low educational level, unfortunate coincidence, or something else? // Independent institute of the social policy, 2002.

have been job searching for a long time in the countries in transition (where Russia belongs to), according to ILO, is 40-50%[20].

Unlike in developed economies, unemployment in transition economies (including Russia) grew owing to a low outflow from it not due to a big influx into it. At the beginning of the transition period it was supposed that the high level of unemployment would be temporary and decline once new jobs in the emerging private sector have been created. However, people who lost their jobs in “old (traditional state-run) sectors” had little chance to find jobs in “new sectors” As a reaction to the transition situation jobs were mainly created on the informal or half formal basis. During the years of the reforms in Russia, part –time employment grew and employs now the most of the labour force. Also, informal employment rose and some people even had to turn to subsistence agriculture. As a result, it caused “the economic growth without creation of new jobs”. This means employment increase in informal and half formal sectors mostly. All these factors led to mistakes in the official statistics of the real level of employment and unemployment in Russia.

The regional dynamics were in tune with the general Russian trend. The highest unemployment indicators were registered in all regions in 1998-1999. In 1998, when the unemployment rate was the highest, 10 regions with the best and the worst indicators differed from each other by 2.9 times. With the increase of economic growth, interregional differences increased, i.e. the situation in poor regions improved more slowly than in the regions with better economic circumstances. Eventually, the difference between the “best” and the “worst” regions in terms of the unemployment level grew up to 4.4 times in 2002 year. Over 3 years of the economic growth, the regional distribution of unemployment returned to the situation of 1995. After that, in spite of the further growth of the economy, it stayed practically at the same level.

[20] Expansion of the opportunities for employment. The countries of East Europe and the former USSR. World Bank, 2004.

2.2 The structure of employment on the sectors of the economy

When Russia began to reform, its structure of employment was different from the similar structures in developed countries: a disproportionate number of people was unemployed in industries and farming. Service industries, most of all trade and service businesses remained undeveloped. The reforms, which started in 1991, helped greatly to distribute resources among sectors of the economy. There was a gradual transfer from a deformed structure of employment to the structure in line with the market economy laws

During the years of the reforms, the changes in the sectors of employment in Russia went on very actively. In the period of 1992-2004 there were many changes. Employment fell in industry – by 34%, farming -33%, construction -35%, science -48%. The number of people employed in transport and education also dropped (transport -12%, education -5%).

At the same time, there was an increase in the following sectors: trade (by 2 times), service (housing and communal facilities, public services, social welfare (from 6% to 13%), culture and art (to 17%), communications (to 7%) and forestry (to 14%).

After the structural changes the share of people employed in industries declined from 30% in 1992 to 21.4% in 2004, in farming from 14% to 10.3%, in construction from 11% to 7.8%, in science from 3.2% to 1.8%. The share of employment in trade grew from 7.9% in 1992 to 17.2% in 2004, in finance from 0.7% to 1.4%, in management from 1.9% to 4.8% (table 5). The development of service industry in Russia was more dynamic than in the majority of transition economies[21].

[21] Lukyanova A. L.: Transfer to postindustrial society? The research of employment in the service sector in the economy of Russia, Consortium of the economical researches and education, EERC Paper 03/09, 2003.

Table 5: T he structure of employment in different economic sectors

	1992	1995	2000	2001	2002	2003	2004
Total in the economy	100	100	100	100	100	100	100
on the sectors:							
Industry	29.6	25.8	22.6	22.7	22.2	21.9	21.4
Farming	14.0	14.7	13.0	12.3	11.8	11.0	10.3
Forestry	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Construction	11.0	9.3	7.8	7.8	7.6	7.7	7.8
Transport	6.6	6.6	6.4	6.4	6.3	6.4	6.4
Communication	1.2	1.3	1.4	1.4	1.4	1.4	1.4
Whole and retail trade, public catering	7.9	10.1	14.6	15.4	16.6	16.8	17.2
Housing and communal facilities, servicing of the population	4.1	4.5	5.2	5.0	4.9	4.9	4.8
Medical care, physical culture, social security	5.9	6.7	7.0	7.0	7.0	7.1	7.3
Education	8.9	9.3	9.1	9.0	9.0	9.1	9.2
Culture and art	1.5	1.7	1.8	1.8	1.8	1.9	2.0
Science	3.2	2.5	1.9	1.8	1.8	1.9	1.8
Finance, credit, insurance	0.7	1.2	1.2	1.2	1.3	1.3	1.4
Management	1.9	2.9	4.5	4.5	4.5	4.7	4.8
Other sectors	3.2	3.0	3.1	3.3	3.4	3.5	3.8

Source: The RF state statistics committee.

The transformation of the sector employment structure on the regional level echoed the Russian tendencies in general. In the transition period, in all regions there was reduced workforce in industry, especially in the early 1990s. However the overall decrease did not change the geographical minimum and the maximum of the industrial employment. The biggest share of industrial employment was maintained by the traditional industrial Central, Ural and Volga regions. Industrial employment in the exporting regions was close to the average Russian level. In the south agrarian regions, the share of employment in industry was lower than the average level in Russia.

Moreover, we could observe the changes of hub industrial regions during the transition period. The dynamic change occurred in the areas to the east of Central Russia. In fact during the transition period the industrial vector became redirected towards the east. A great number of reductions took place in Moscow, St. Petersburg, and Central regions whereas in the Urals area there were much fewer reductions. All these changes show industrial consolidation in exporting regions in the Urals, Volga and Siberia.

Agricultural employment redundancy showed itself differently on the regional level. Employment redundancy in the agrarian industry in the central and Southern federal districts began in the 2000s. Before this, marginal agrarian regions began witnessing a maximum decrease of employment. As a result, the farming consolidation in the favourable climate zones was strengthened what contributed to its efficiency. At the same time, there was a surplus of labour in farming in such regions as Krasnodar, Stavropol and Altai Territories, Kabardino-Balkaria, Kalmikija and Dagestan.

In the transition period in all economic regions the share of public services increased. The dynamics in the service sector in 1998-2002 showed that Moscow ranked first among all regions[22]. Among federal districts, employment in the service sector grew faster in the Upper Volga, Central and Southern districts, which are densely populated and well developed. Eastern districts were backward. What is more, the Ural region was backward in the service business because a great number of people were employed in industry.

Within the whole range of public services, the maximum growth was observed in trade. Moscow took the first place, then the European districts of the country: Upper Volga, Central and North-West (those without federal cities).The employment growth in trade in Moscow was due to concentration of financial resources. The development of trade networks, private businesses and also the income growth of the population helped increase the number of employed people. In the other regions, the trade sphere was developing depending on the demand and acted as the "accumulator" of surplus labour since other spheres were underdeveloped.

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[22] Regional labour markets. Social atlas of the Russian regions. Independent institute of the social policy, 2004.

Moscow was not only the first to reach the maximum growth in the trade sphere but many other market sectors were also developing fast in the metropolis. In St. Petersburg, the rate of the employment growth in all sectors in the economy was lower. In other regions of Russia such as the Centre, Volga and South, the employment shift to the service sector was faster but the scenario was different: trade prevailed but employment in the budget sphere was also growing.

2.3 The structure of employment in terms of ownership

Great changes took place in the structure of employment in the forms of ownership (table 6). In the period of 1992-2004 the amount of state property was more than halved, the number of people employed industrial companies, state-run organisations (23%), and what was known as "mixed-Russian" (23%) declined. At the same time the number of people employed in private and foreign companies rose by more than two and thirteen times respectively.

Table 6: Structure of employment in terms of forms of ownership

	1992	1995	2000	2001	2002	2003	2004
All those employed in the economy	100	100	100	100	100	100	100
Forms of ownership:							
State, municipal	68.9	42.1	37.9	37.4	37.0	36.4	36.0
Private	19.5	34.4	46.1	47.6	49.7	50.2	50.7
Properties (public and religious organizations)	0.8	0.7	0.8	0.8	0.8	0.7	0.7
Mixed-Russian	10.5	22.2	12.5	11.6	9.4	9.2	8.9
Foreign, join stock (Russian, foreign)	0.3	0.6	2.7	2.6	3.1	3.5	3.7

Source: The RF state statistics committee.

If we compare 2004 with 1992, "leaders" in the structure of employment in terms of type of ownership changed (table 3). In 1992 a majority were employed at state-owned enterprises (68.9%), while in 2004, most of employees (50.7%) worked in the private sector. The share of state-run enterprises went down to 36% in 2004 and employment with private property took the leading position. The share of employment at the enterprises with foreign capital was only 3.7% in 2004.In spite of noticeable regional differences, the private sector dominated practically in all regions of Russia. The state played the role of the leading employer only in the North and East of Russia. The state was the main employer of the North, for example in Yakutiya, Chukotka and Evenkia Autonomous Areas (47-52%) while the private sector accounted for 20-30%. In the Republic of Tuva employment was divided equally between 3 sectors: state-owned, municipal and private ones. The structural peculiarities of employment in terms of the forms of ownership depended on many factors; the main one being the policy of the local government. Here there is no direct link between the economic development of the region and the employment structure. A great share of employment in the private sector is found in economically strong regions (Hanti-Mansisk Autonomous Area 60%, Belgorod Region 61%), less developed regions (Stavropol region 59%) and least-developed north-east autonomous areas.

The most dynamic categories of employment within the private sector are people engaged in small businesses[23], farming and those self-employed (sole traders)[24]. 6.5-6.6 million people had a permanent employment in small companies in 1997-2003, which amounted to 10% of the whole number of all those employed. In 2001-2003 the share of employed people in the private sector grew on average to 11.4%.

The level of self-employment was lower than in many countries with a transition economy but the private sector was developing very fast in the years of the reforms. In 1991, the share of self-employment in Russia was 10.5% and in 2003 it reached 13.3% of all the people employed in the economy. One should also add here private farms, whose share rose from 0.5% in 2002 to 0.7% in 2003.

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[23] To small Goskomstat of the RF refers manufacturing, construction and transport enterprises with the average number of employees – 100 people, specialized in retail and everyday service – 30 people, in others – up to 50 people. The share of off budget funds middle and large companies in the capital of the small company should not exceed 25%.

[24] According to the current legislation there are no limits in the number of employees working for individual businessmen. An employer can hire unlimited number of employees without losing his status.

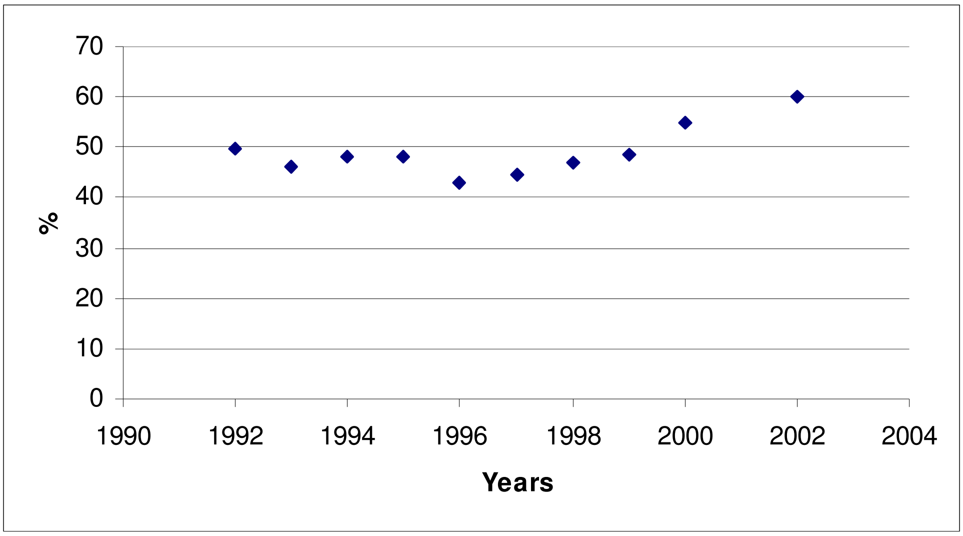
Employment was more and more provided by the private sector. The share of jobs provided by large and middle-sized companies came down. During 2002, large and middle-sized companies reduced the overall number of personnel by 1 million. In 2003, the job reduction at large enterprises was 3.4-3.6% compared to 2002, yet halfway through 2005, the figure was 1.1% in relation to 2004.

The analysis of location of small enterprises in the regions shows that more than 70% of them are in the European Russia. Every fifth small company operates in Moscow, every eighth one in St. Petersburg. From the regional point of view, small enterprises influence greatly the employment formation in the Central (158%) and North-West (160%) federal areas. Individual businesses are developed mostly in the Far East (141%) and South (167%) federal areas. Employment in private farms prevailed over in the general employment structure in the South federal area (23%).

2.4 Labour Mobility

A high level of labour mobility is one of the specific features of the Russian labour market. One of the labour mobility indicators is gross labour turnover, which is equal to the sum of hiring and firing factors (picture 1).

Picture 1: Dynamics of labour turnover in Russia



Source: The RF state statistics committee.

During 1992-1995, the annual average gross labour turnover was 48.1% while in industry it was 50%. These figures only refer to large and middle-sized companies employing the majority of workforce in Russia. In the private sector, small companies' labour turnover was very high: "private firms are more dynamic, their employees are more mobile - they change their places of work more often"[25.] The decrease of the overall economic gross labour turnover down to 42.8% took place in 1996. But later on the growth resumed. Once the economic growth started, the labour turnover also rose quite rapidly and since 1999 it has been on a steady increase to reach 60.1% in 2002[26].

A high labour turnover in large and middle-sized companies in Russia can be explained by a number of reasons. Firstly, the predominance of dismissals over recruitments meant a decrease of employment. Secondly, there existed a predominance of voluntary dismissals over forced ones: "only in 6-9 cases out of each 100 dismissals were due to labour force reduction while 64-68 cases employees left because they wanted to". When the economic growth began in 2000, the number of voluntary dismissals exceeded 8.6 million whereas during the economic depression in 2000 it was 7.2 million. Thirdly, the main recruitment flows were mostly owing to dismissals but not filling new jobs. According to official data, the job turnover throughout the whole period of economic reforms remained on a low level and constituted 5-7% (according to the most optimistic assessments 10-17%) of the overall labour force turnover.

Employment duration of an employee within one company is another feature of labour mobility in Russia. During the transition period in Russia, average employment duration within one company gradually declined. While in 1994 it was 8.37 years, in 2001 it dropped to 7.86 years. It is especially noticeable among men (table 7).

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25 Grannovetter M.: The Sociological and economic approaches to labor market analysis: A social structural view, in: Grannovetter M. and R. Swedberg (eds.), The Sociology of Economic Life. Boulder: Westview Press, 2001.

26 Poletaev A.: Labour Power Mobility is growing in Russia. Demographical weekly magazine. Demoscope Weekly, 2005 www. demoscope.ru.

Table 7: Employment duration (1994-2001)

Years	Average	Women	Men
1994	8.37	8.85	7.89
1995	8.13	8.45	7.81
1996	8.00	8.42	7.58
1998	7.75	8.40	7.07
2000	7.52	8.33	6.64
2001	7.86	8.77	6.83

Source: RLMS, 5-10 rounds.

The reduction of general employment duration within one company was due to the increase of the number of employees with short-term employment (up to 1 year) (table 8). In 1994, the share of one-year employed people was 28%, but it grew to 32.5% in 2001. At the same time, the share of employees who had worked more than 10 years declined quite noticeably (1994-32.7%, 2001-27.8%).

Table 8: Number of employees according to employment duration (1994-2001), in %

Employment duration	1994	1995	1996	1998	2000	2001
All employees	100	100	100	100	100	100
<1	28.0	29.8	30.0	28.7	30.5	32.5
1-3	14.6	16.0	16.4	17.4	15.1	13.8
3-5	9.7	9.0	10.3	11.4	11.5	9.8
5-10	15.0	14.0	13.5	14.1	16.9	16.2
10-15	12.5	11.3	10.0	9.8	7.8	8.3
>15	20.2	19.9	19.8	18.6	18.2	19.5

Source: RLMS, 5-10 rounds.

Almost 60% of employees were spread between two extreme segments in the Russian labour market, one characterized by stable employment relations, the other one - by unstable employment relations[27]. The size of each segment is approximately the same. Differentiation in employment duration among men and women is one of the features of the Russian labour market. In contrast to developed countries and some countries with the transition economy, in Russia employment duration less than 3 years

[27] Smirnykh L. I.: Employment duration and labour mobility. M., TEIC, 2003.

long is more often found among men (52.5%) than women (32.7%). In other words, men are more mobile in the Russian labour market.

Changes of jobs, profession, sector or the economic region also characterize the labour mobility. In the general relocation structure over the years of the reforms, labour mobility was dominated by work place changes (17-20%)[28]. Many such transfers implied a change of profession. The highest level of professional mobility was seen in 1990-1995 (52.18%)[29]. Then it declined by three times, and by the end of 2000-2002 was at the level of 16.82%.

Table 9: Job and profession changes (1996-2002)

Forms of ownership	1996-1998		1998-2000		2000-2002	
	women	men	women	men	women	men
State	0.068	0.116	0.086	0.099	0.105	0.172
Private	0.160	0.210	0.117	0.171	0.147	0.215
Mixed	0.081	0.130	0.111	0.106	0.149	0.104

Source: Maltzeva I.O. Gender differences in professional mobility and segregation in the labour market, Experience of the Russian economy, EERC № 05/11.

People employed in the state-run sector were less mobile compared with people employed with private enterprises (table 9), On the one hand, it is connected with the fact that jobs appeared and disappeared in the private sector where labour relations are less formalized than in the state sector. On the other hand, the reason can be the fact that there is a little social protection in the private sector, which although as a rule compensates it by higher salaries can push employees to dismissal[30].

Between 1990-2002, the number of people who looked for work in the private sector gradually went up[31].In 1990 such people were 19.4% of the total employment, and in 2002 this share grew to 84.3%, The number of people who wished to work in the private sector during these years ex-

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28 Estimation is based on data base RLMS.

29 Maltzeva I. O.: Gender differences in professional mobility and segregation in the labour market. Russian Economy Experience. Consortium of the economical researches and education, Papers EERC, 05/11, p. 19.

30 Klark S.: New forms of the labour contract and labour flexibility in Russia // Economical Questions.1999, N 11.

31 Belyaeva L. A.: Social stratification and middle class. M., 2001, p. 79.

ceeded those employed in this sector by 3.5 times. The number of people who wanted to work in the state sector began to dominate over the number of those already having jobs in state-run companies only in 1998 and the tendencies remained till 2002. Earlier in 1990-1998, the situation was quite to the reverse - the number of people employed in the state sector was bigger than the number of people who wanted to work there. Another interesting fact was that the number of those willing to get a job in the private sector became bigger than the number of people looking for jobs in the state-owned sector only in 2002.

The important characteristics of the labour mobility in the Russian labour market are indicators of internal (interregional and intraregional) migration. In spite of considerable and growing international migration, internal migration within Russia in 1992-2002 was more intense. In the last years internal migrants accounted for 90% of the total[32].

There are two components of internal migration: interregional and intraregional ones. Intraregional migration is characterized by movements within the Federation (regions, republics and regional zones). Interregional migration means transfers between constituent territories of the Federation. The proportion between these two types of migration influence the Russian labour market very strongly. During the years 1992-2002, two main tendencies were observed. Firstly, interregional and intraregional migrations declined. In 2002, intraregional migration was reduced by 35.7% and the interregional migration - by 41.2% compared to 1992. Secondly, the share of intraregional migration rose unlike a decrease in interregional migration (table 10).

32 Moiseenko, V. M.: Internal migration scale decrease: the experience of the dynamic evaluation according to the current record// Statistics Questions. 2004, N 7.

Table 10: Dynamics of the incoming people into the Russian regions (1992-2002)

Years	Incoming People into the Russian Regions, thousand people	Including		Share of the Intraregional Migration, %
		Intra region	Inter regions	
1992	3266.8	1760.6	1506.2	53.9
1993	2902.8	1511.3	1391.5	52.1
1994	3017.7	1544.9	1472.1	51.2
1995	3130.3	1653.3	1393.3	52.8
1996	2886.7	1577.0	1309.7	54.6
1997	2724.9	1484.1	1240.9	54.5
1998	2582	1416.8	1165.2	54.9
1999	2477	1366.1	1110.9	55.2
2000	2303	1284.6	1018.4	55.8
2001	2140.6	1204.8	935.8	56.3
2002	2017.3	1131.4	885.9	56.1

Source: Moiseenko V. M., Internal migration scale decrease: the experience of the dynamic evaluation according to the current record// Statistics Questions, 2004, N 7.

In 1992 intraregional migration was about 54% and in 2002 it grew to 56.1%. During the years of the reforms, Russia had a high level of internal migration caused by intraregional flows (53.9-56.1%), which had a tendency to decline. It means that transfers were largely confined to regional boundaries: high inter corporation labour mobility occurs within regions, which also contributes to creation of relatively self-contained labour markets. It also means keeping the country fragmented into enclaves and local labour markets, where the living standards and the employment situation is getting more and more different.

2.5 Pay

Pay is one of the most important incentives affecting labour mobility. It characterizes not only welfare levels but also reflects the mechanism of labour-pricing.

During 1990-2003, the share of pay in the cash income structure declined gradually. In 1991 salaries and wages accounted for about 70% of income on average, in 2003, it was about 64%. But pay still remained the main source of income for the majority of people in Russia, importantly influencing the welfare level. During the period of market changes the actual worth of salaries/wages dropped considerably. In the period of 1992-1998, a steady decline of wage caused a three-fold decrease of their real value preceding the GDP decrease. The real wages increase has started in 2000 together with recovery of the economic growth. Within the following year, rates of the real wage growth were progressing ahead of the GDP and nominal income dynamics. Yet in 2004 the real wage level constituted only 57.8% of the1991 level[33].

The decrease of wages since 1991 caused the average wages lagging behind the cost of living. While in 1991 the share of employees with the labour remuneration less than the subsistence level was under 8%, in 1992-1998 it was already 25-40%. The decrease of employees' share with the wage level less than the cost of living started with the increase of economic growth. Their share has decreased to 30% in 2002 and became 25% in 2004.

One peculiarity of the Russian labour market is delays in paying salaries/wages. First it appeared in the early years of the reforms to become normal in the middle of the 1990s and reach its peak in 1998-1999.The share of employees whose wage was delayed in 1998 according to official appraisal was 33%, and according to RLMS - 60%. When the economic growth began, arrears of wages began to decline. The adoption of the new LC helped prevent the increase of late payments. The LC foresees sanctions for employers for late payment of wages. Nevertheless, in 2003 10% of employees did not receive their salaries/wages in time.

Wage differentiation became one of the main features of economic reforms in Russia. The difference between an average pay of 10% of the best-paid and the worst-paid employees (capital ratio) rose by 3-4 times in 1991-2004 (table 11). The maximum differentiation of wage was reached in 2001 with a capital ratio of 39.6. A gradual decline of the wage differentiation began in the following years. However, the wage differentiation is still double in relation to the income differentiation.

[33] Ovcharova L. N. / Popova D. O.: Children poverty in Russia. Disturbing tendencies and the choice of the strategic decisions. UNICEF. Moscow, 2005, p.10.

Table 11: Wage differentiations in Russia (1990-2003)

	1990	1994	1995	1999	2000	2001	2002	2003
Capital ratio	7.8	23.4	26.4	32.1	34.0	39.6	30.5	26.4
Gini Coefficient	-	0.439	0.454	0.482	0.483	0.507	0.477	-

Source: The RF state statistics committee. Statistics Journal № 9 (93). Moscow, January 2003, p. 37; Statistics Journal № 9 (108). Moscow, November 2004, p. 46.

The central mechanism of the pay system in Russia associated the wage size with results of the company directly. It is oriented to the neoclassical model of the labour market. Enterprises got the right to make decisions on their own in most cases, concerning paying and changing wages. When the law "On Enterprises and Entrepreneurship" was adopted (1990), on the one hand, enterprises had to design their own payment schemes, taking into consideration specific conditions of their trade. On the other hand, they could now use the opportunities to pin the burden of adaptation on to personnel, which led to a frequent recourse to "tax-saving technologies", late payments and informal pay schemes.

The dependence of the wage on the results of the company's activity intensified the wage differentiation, since the employees with the equal human capital were paid differently depending on what company they worked for, financially stable or poor ones.

Adaptation to the fluctuations in the labour market according to the neoclassical model was carried out at the expense of labour price changes. In order to adapt to the market fluctuations, labour price had to be flexible. The flexibility was reached at the expense of establishing a link between the wage and the results of the company's activity. According to this approach, enterprises began to "share" risks with their employees, which brought along the wage decline. If the salaries/wages had been rigid and employers had not had an opportunity to correct their size depending on output and economic fluctuations, employers would have had to fire their employees.

Since the wage in Russia acts as a flexible market regulator, it automatically goes down if the situation gets worse. And the employees who do not want to reconcile themselves to the wage decline and its late payment either quit or search for the opportunities to do less work. However in the post-crisis period it was expected, that because of the increased economic demand, employers would start retaining their employees and “share” benefits with them. Russian statistics prove that wage differentiation did decline then somewhat.

Sector and regional factors contributed greatly to the general wage differentiation. As some researches show, the general wage differentiation is determined not only by the wage differentiation at an enterprise (10-15 times), but also by intra-sectoral (20-40 times), inter-sectoral (8-10 times) and interregional differences in the wage size (20 –45 times)[34].

During 1990-2003, the wage differentiations grew between sectors of the economy and sectors of industry (table 12). In 1990 sector wage differentiation in the economy was 2.32 times; in 2003 it doubled to 6.87 times, “Financing” was the best paid sector, “Agriculture”- the least paid branch.

Table 12: Wage differentiations between sectors

Years	Wage differentiation between economic sectors	Wage differentiation between industrial sectors
1990	2.32	2.39
1995	3.25	9.38
1997	3.83	9.36
1998	4.48	9.43
1999	5.59	10.32
2000	6.10	11.05
2001	7.11	11.53
2002	7.10	11.00
2003	6.87	11.72

Source: The RF state statistics committee.

In the industry, the wage differentiation between sectors increased greatly in the years of the reforms. Inter sector wage differentiation in industry grew from 2.39 times in 1990 to 12 times in 2003. The gas-producing

[34] Rimashevskaya N. M.: Strategies of the strong protection of the population // Population. 2001, N 1.

sector was and is the well-paid branch (then comes oil production), clothing sector was and is the least paid.

Intra-sectoral pay differences were higher in the sectors where the average wage level was lower. In 2003, the minimum-to-average wage ratio was: farming – 10.1 times, light industry – 17.6, gas industry – 1.7, oil production – 2.1. The highest intra sector wage differentiation among employees belonging to 10% marginal groups was found in banking (34 times) trade and catering (32 times) while the differentiation in the electrical power industry was the lowest (10 times).

Interregional pay differences remain the main reason for the high level of the overall pay differentiation. In 2003, the wage difference in well paid sectors of "rich" regions and badly paid sectors of "poor" regions was dozens of times. The nominal average wage in the industrial sector of the autonomous areas of the Tumen Region was 40-45 times higher than the wage of people employed in farming in Dagestan[35]. Proportion of the average wage and subsistence minimum differed by more than 4 times between regions. The higher this proportion the higher is the subsistence minimum supported by the wage. While in most regions the average wage was approximately 2.5 times higher than the living standards, in poorly developed regions, where people worked in badly-paid sectors – farming, light industry – it would only be 1.3-1.7 times, and in oil-industry of the Tumen Region – about 6 times higher.

To sum up, in the conditions of the Russian pay system, the level of salary/wage differentiation has become very dependent on the regional location, sector and quality of company management but almost entirely independent from employees' actual performance.

3 Summary

This article discussed the main changes that took place in the Russian labour market in the years of reforms. The focus was on the two crucial aspects of it – employment and pay.

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35 Regional labour markets. Social atlas of the Russian regions. Independent institute of the social policy, 2004.

The main tendencies, which the employment analysis exposed, show that the average employment rate declined over the years of reforms. The regional differences and interregional disproportions in employment inherited from the Soviet times became even more pronounced during the reforms.

The sectoral structure underwent a major transformation both in the country as a whole and in separate regions. The strongest changes occurred in the employment structure in terms of types of ownership. Although the labour mobility went up quite considerably, the Russian labour market was characterized by domination of intraregional flows over interregional ones.

The labour market coped with the economic transformations by turning to nonstandard forms of employment, many of which were not reflected in statistics and were often informal by nature.

This served as one of the reasons for decline of the salary share in the overall income structure and increased differentiation of salaries among economic sectors, regions and individual companies. Eventually, the level of remuneration ceased reflecting the actual productivity and was rather dependent on other factors that often had little to do with productivity.

All together, the tendencies revealed show that the labour market is one of the problem areas in the Russian economy. Despite all the institutional metamorphoses that occurred over the years of reforms the reality calls for strong efforts to be applied to overcome the general decline of the formal employment rate and an increase of informal employment as well as a fall of the remuneration level and the disproportionate growth of its differentiation.

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