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# From The Soviet Union to Russia: Changing Labor Conditions

*Charles Hawkins*

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Russia's government began endorsing the principles of free-market capitalism in late 1991. The switch implied a realization of the inherent difficulties that the previous communist system presented for the economic well-being of the nation. Increasingly, the new economic ideology, which still faces strong opposition from conservative elements in the government, is being implemented throughout the country by the workers themselves. Ironically, the 1917 communist revolution for the proletariat is being carried out according to the actual wishes of the workers almost seventy-five years later. To illuminate the effects of this "revolution," Russia's economic conditions before the breakdown of the Soviet system will be contrasted with the present movement unfurling. Specifically the issues of labor unions, unemployment, and worker motivation will be examined.

## SOVIET LABOR UNIONS UNLIKE UNIONS IN THE WEST

Prior to the revamping of the economy in 1991, a stringent communist scheme existed in the Soviet Union. During the summer of 1917 the communists encouraged trade unions as the voice of the workers. Lenin then used the unions to displace the provisional government that had been set up after Tsar Nicholas II abdicated in March 1917.

After the revolution, the unions were expected to support the government since it was, in theory, a government for the workers. According to the Bolshevik Party line, independent labor unions would be redundant (McConnell and Brue 1989, p. 590). Therefore, the unions became subservient to the state and its objectives. The unions' role became vastly different from the role of unions in the capitalist world. Unions could not negotiate to obtain higher

wages, shorter hours, or better fringe benefits for the workers, since these factors were fixed by law (McConnell and Brue 1989, p. 591). They were, however, expected to protect workers and the State from illegal activities by plant managers (McConnell and Brue 1989, p. 591).

Another tool used by unions in the West, the strike, was forbidden in the Soviet Union. Strikes or any other work stoppages were seen as the workers fighting themselves. Therefore, they were considered counterproductive (Schapiro and Godson 1981, p. 109). This conclusion derived from the theory that the interests of management and workers were complementary, not antagonistic. Also, whereas in the West many labor union leaders became political figures, in the Soviet Union, one had to be a high party official to become a union leader (Schapiro and Godson 1981, p. 111). This enhanced the influence of the party even further.

#### ZERO UNEMPLOYMENT IN THE SOVIET UNION?

Officially, unemployment did not exist in the Soviet Union after 1930 and no documentation has been kept on the phenomenon. Western economists agree that cyclical unemployment virtually disappeared through the use of economic planning. Instead, the five-year plans, begun under Stalin, induced labor shortages, generating a high level of frictional unemployment. Frictional unemployment, which occurs when people quit their jobs and search for new employment, grew because Soviet workers kept searching for better jobs. Labor shortages provided opportunities for Soviet workers to seek better work conditions and pay without much danger of permanent unemployment. McConnell and Brue estimate that in the early 1980s twenty percent of Soviet industrial workers annually quit their jobs—a turnover rate five times that of the United States (1989, p. 594). The resulting loss in nominal GNP, caused by the cost of retraining workers and the large number of workers between jobs, crippled the economy. While some forms of unemployment were minimal under the Soviet regime, the claim of zero unemployment failed to portray accurately the real condition of the Soviet labor market.

#### SOVIET WORKER MOTIVATION

The problem of worker motivation is complex. While frictional unemployment lowered potential GNP, Soviet GNP did increase over the years. The rise was caused by growth in labor force participation (the percentage of people

over age 16 working) rather than productivity growth, which hardly existed (McConnell and Brue 1989, p. 595). Many reasons lie behind the stagnation in productivity, such as deficiencies in the planning system, wage schedules, and worker attitudes.

As might be guessed, the Soviet system of central planning did not allow or encourage innovation or change. In addition, the system of input supply was unreliable. Often firms could not work at full capacity because they had not received the necessary supplies from another firm. This resulted in hoarding and inefficiency. Many managers hoarded supplies to ensure they would not be short in the future.

The same problem occurred with labor as well. The shortage of labor caused many managers to keep people in inefficient positions just in case of emergency. A practice called "storming" arose from labor hoarding, contributing to the inefficiency. Storming occurs when most of a factory's production takes place near the end of a production period (McConnell and Brue 1989, p. 592). Workers were generally idle at the beginning of the period (recovering from the hard labor at the end of the previous period); then they were worked overtime near the end to achieve the necessary quota set by the state (1989, p. 592). Storming lowers productivity due to the strain placed on the machines and the workers, and it lowers product quality as well.

Wages in the Soviet Union were determined from a base rate set for the average worker plus bonuses. Bonuses were given for production above the quota and in specific work environments (e.g., coal mining). The bonuses would appear to be a motivating element for the workers to increase production. The workers, however, knew that if they overproduced, quotas would be raised, increasing their required workload.

Much of the workers' fear arose from the Stakhanovite movement that began in 1935. A coal miner named Andrei Stakhanov, with help from his fellow workers, exceeded his production quota almost three fold. Soviet authorities seized the opportunity to increase the quota level, stating that Stakhanov's production was fourteen times the quota amount. Each miner's quota was then raised. This so-called Stakhanovite movement spread to other industries as Soviet authorities began fabricating more spectacular feats. Workers resented the Stakhanovites (as overproducing workers were called) and many Stakhanovites found their lives shortened because of their fame. As a result, most workers only produced to the quota level or a little beyond.

Nevertheless, the government believed that it was every citizen's duty to work to improve society. This explains the high level of female participation

in the labor force. Problems appeared, however, when the government's ideals were not matched by the workers. In reality, the workers did not have the incentive to work that Western workers have. Since few of the production facilities made consumer goods, a small consumer product market resulted and workers had little to buy with their money (McConnell and Brue 1989, p. 599). The lack of incentive resulted in a high absentee rate, alcoholism, and few hours on the job actually spent doing work. The Soviet government devised many strategies to combat these problems. During Stalin's reign three late arrivals at work could result in a six-month prison term. In 1983, Andropov had absentee workers arrested (*Business Week* 1983, p. 56). None of these actions eliminated the problem, however, and worker motivation remained low.

#### THE NEW RUSSIA

Following the coup attempt against Soviet leader Mikhail Gorbachev in August 1991, the Soviet Union disintegrated surprisingly quickly. Republic presidents, led by Russian President Boris Yeltsin, gained greater powers and began to call for Gorbachev to step down. Gorbachev did so in December 1991, in effect, splintering the Soviet Union into fifteen countries—one for each republic of the Soviet Union. Throughout 1991, and especially after Gorbachev resigned, a movement toward a free market economy grew rapidly. This market growth has spurred marked differences in attitudes and programs between the former Soviet Union and its largest republic, Russia. Labor unions have taken an independent stance; unemployment is, unfortunately, flourishing; however, worker motivation is much higher than previously.

#### TRADE UNION INDEPENDENCE

The independence of the trade unions was guaranteed by the Law on Trade Unions passed by the USSR Supreme Soviet in 1990. As Russia continues to move toward free market conditions, this independence likely will remain and could become more pronounced. The challenge for the trade unions is immense, says Mikhail Shmakov, the chairman of the Moscow Federation of Trade Unions. Shmakov states that the purpose of unions is strictly economic now: "Our main aim is to ensure that we are appropriately paid for our work" (Yashin 1991, p. 22). The task of raising wages is imperative since large increases in prices have occurred. In the old Soviet system, the state paid low wages but subsidized many goods and services. Now the subsidies are vanishing and

workers need higher wages to maintain their standard of living.

The trade unions publicly support the transition to a free market economy; however, they privately retain some unrealistic demands. Shmakov wants the government to pay benefits (e.g., child care and medical care), protect citizens against unemployment, and provide opportunities for workers to learn new trades (Yashin 1991, p. 23). His ideas, however admirable, will be difficult for the Russian government to implement with the current fiscal restraints being imposed. The restraints are twofold. First, a tight monetary policy is being implemented to lower inflation and to create a healthy national currency. Second, government expenditures are also being curtailed to lower inflation.

Shmakov also believes that the strike should become a weapon in the unions' arsenal, to be used "only as a last resort" (Yashin 1991, p. 23). To allow for this possibility, Shmakov's union established a bank which would support families and provide low-interest loans to workers if a strike would become prolonged. Further, the union started a joint venture managing a hotel with an Austrian company to provide additional capital (Yashin 1991, p. 23). This expanding independence of unions could create an atmosphere of increasing unrest. The difficulties of systemic change in Russia will certainly create hardships for workers. If unions wish to improve each worker's standard of living, there could be strikes that would further cripple the stagnant economy. This worker "weapon" should be wielded with considerable restraint.

#### ACKNOWLEDGING UNEMPLOYMENT

In 1985, after fifty-five years of denial, the Soviet government officially recognized unemployment at 1.1 per cent or approximately 1.6 million people. Actually, V. Busygin claims the level of unemployment in 1985 sat between 8.2 and 9 million people (1990, pp. 57-60). Today the Russian government is beginning to accumulate and publish data on this subject, but no figures have been available since the move to a free market economy.

The International Labor Organization, an agency of the United Nations, expected Russian unemployment to rise to fifteen percent or eleven million people by the end of 1992. Unemployment figures as high as thirty million people could be reached, the ILO contends, if Russia continues with plans to raise oil prices to world levels and allow struggling state businesses to go bankrupt (Rubinfien 1992, p. A10).

Many economists believe that the level of unemployment will be much higher than previous official levels. Guy Standing even suggests the transition

to a market-based economy will not be successful without unemployment striking fear into workers. This fear, Standing contends, would cause a rise in both productivity and discipline (1991, p. 250). Whether or not unemployment will serve to motivate Russian workers is unknown. Still, they must recognize the importance of improving their productivity and discipline. Without substantial improvements in these areas, Russian businesses will find it hard to compete in world markets.

#### MOTIVATING THE RUSSIAN WORKER

Once again, worker motivation is the most complex of the three issues. Privatization of many factories and the establishment of free trade zones around Russia have provided a monetary incentive to workers. Cooperatives, a cross between a corporation and a partnership, have provided the incentive of private ownership to many workers. The popularity of cooperatives is evident from the increase in their number from 3,700 in July 1987 to more than 200,000 three years later (Slider 1991, p. 799). It is likely that cooperatives are a stepping-stone to the Western-style corporation, since cooperatives contain a growing pool of Russian entrepreneurs. When market conditions provide the proper environment, these entrepreneurs will create corporations. The formation of corporations should allow Russians to accumulate enough capital for further industrialization.

The most important changes have come with regard to the labor market itself. The former USSR Supreme Soviet passed laws in 1990 allowing firms to establish their own wage rates, though the effectiveness of the acts was later diminished by a tax-based income policy, which will be discussed shortly. Incentives for managers are also being set up to maximize long-run production, curbing such problems as storming (Shcherbakov 1991, p. 235). The role of the state is becoming focused on the protection of workers' rights in the areas of time off, working conditions, and the right to profit from one's labor.

One problem could be arising, however. Russia seems to have inherited the Soviet tax-based income policy (TIP). A TIP subjects any wage increase above a government determined level to a large tax, thereby discouraging firms from allowing high wages and workers from demanding them (Standing 1991, p. 251). A lack of productivity growth could result. Non-wage forms of remuneration (such as health, education, housing, pensions, and other benefits) were used extensively in the Soviet Union and the TIP would further increase their use. The tax-based income policy would be destructive since higher

wages, not non-wage remuneration, is the incentive workers are demanding. Higher wages would promote higher productivity and an increase in the value of labor by the firm (Standing 1991, p. 251).

#### WILL THE REFORMS REMAIN?

During the past two years the emerging Russian free market labor practices have drastically altered the former Soviet Union's labor policy. The issues of labor unions, unemployment, and worker motivation have been central to many of the reforms. Each of these areas will be critical to the evolution of the Russian economy and the survival of any Russian government.

Labor unions are likely to grow increasingly independent but will have to avoid strikes which could further destabilize the fragile Russian economy. Strikes would only decimate the already declining production levels, leaving the workers no better off than before the strike. In addition, the unions may have to forego government support in exchange for the new freedoms they are acquiring. Essentially, the unions cannot be independent from the government and expect to receive full government support. Union members must decide which is more important—freedom or support.

Unemployment is likely to increase dramatically through 1993. Privatization of most production facilities, which is the next step the Yeltsin government is planning for the Russian economy, will cause a reduction in employment. The reduction will result from the layoff of idle workers that still exist and the shut down of unprofitable state ventures. A high unemployment rate of twenty-five percent could occur and the Yeltsin government will be hard pressed to maintain support if such figures result.

Worker motivation is the primary goal of the Yeltsin government's switch to a market economy. The freedom of prices that continued through 1992 and the proposed privatization movement to commence in 1993 are efforts to place the economy in the peoples' hands. Fighting the privatization movement is the entrenched bureaucracy from the Soviet era. They fear the loss of power and wealth that will result from a redistribution of capital and resources.

The success and degree of pain incurred in the transfer to a free-market style economy will depend on these three issues. As the Yeltsin government attempts to reform the economy, it will have to maintain the confidence of the populace. So far President Yeltsin has remained popular despite the difficult times, but concessions are presently being made to the more conservative elements of his government.

At the beginning of April, Yeltsin removed Yegor Gaidar, the man behind the economic reforms, from his post as finance minister. While Russian government sources claim that Gaidar will retain overall control of the economy from his other position as deputy prime minister, his removal may signal internal pressure on Yeltsin.

Gaidar is a crucial player in the Russian reforms. Only thirty-five, he has provided the working plan of Russia's free market vision. In the West, his plans have been hailed as the most beneficial path for Russia; he has also earned great respect for his daring. Gaidar has parlayed this Western support into \$24 billion in pledged aid for his country.

Without Gaidar, Yeltsin's reform plan will likely crumble. Gaidar has been at the economic reform helm from the beginning. His knowledge of the Russian system and how to accomplish his goals, despite severe opposition from the bureaucracy, make him invaluable to Yeltsin. For the next few months the influence Gaidar holds in economic policy should be a good barometer for measuring how politically secure Yeltsin and his reform plan still remain.

The majority of Russians enthusiastically endorse the new freedoms they have helped to create. It remains to be seen how stalwart their support will be if unemployment and hardship grow during the coming years. Their continued support will depend on the recognition and acceptance of the difficulties the movement to a free market economy will obviously encounter. Whether or not the reforms will extend more freedoms to Russian businesses and workers also depends on the Russian people. The battle over reforms is between the privileged bureaucrats and the proletariat. But in contrast with the previous Soviet ideology, the proletariat is now demanding free market capitalism, not communism. To win the battle, the proletariat must be patient. Transformation of an economy is a slow process.

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