



Labor market in Russia

Svetlana Ledyaeva

Aalto University School of Business

Learning outcomes of this lecture

Particularities of Russian education system.

Development of labor market during
Russian economic transformation in recent
decades.

Current labor institutions in Russia.

*Russia`s education system
(briefly)*

Part 1

Soviet education and its reform in transition

High achievement in all measures of educational attainment.

But! Laggard levels of labor productivity

→ a peculiar legacy of post-Soviet Russia.

The reform of its higher education system: the increased level of private funding system.



The development of a specific mixed system of access to higher education.

→ Two-track admission: tuition-free vs. the full amount of tuition.

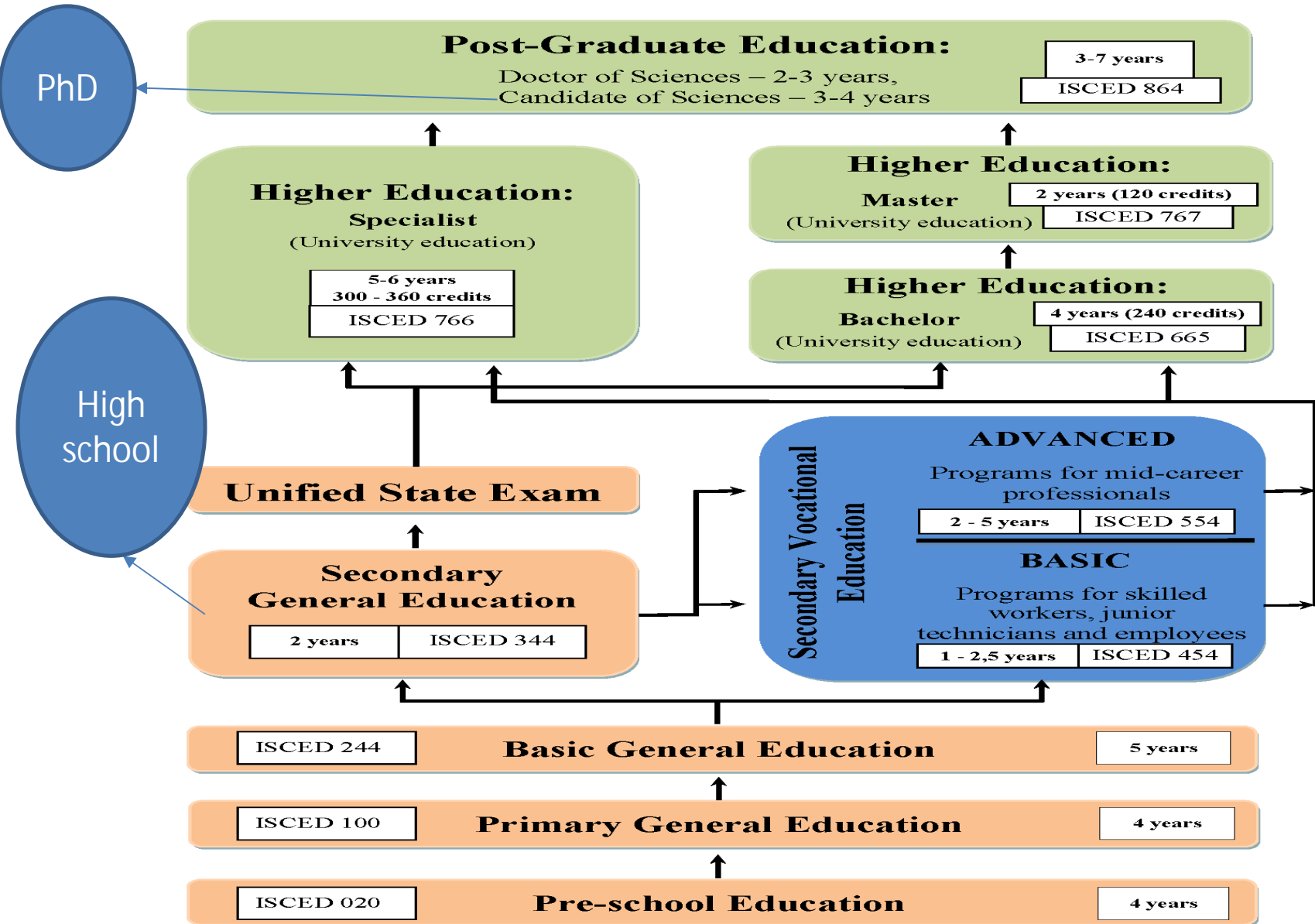
Underdeveloped educational credit market.

The corruption of college staff.

Educational system in Russia

Overview of the education system in Russia:
next slide

Diagram of Russian education system



University admissions process

(from Denisova-Schmidt and Leontyeva 2014)

Until 2009, universities held its own entrance examination →

Corruption in this area was the highest of all kinds of corruption in education (about US\$455 million per year).

Solution:

EGE (**Edinyi Gosudarstvennyi Eksamen—Unified State Exam**) tests that serve as both a school final examination and for university entrance.

Corruption now:

- disseminating exam questions before the examination;
- using mobile phones (for Internet searches or SMS);
- receiving help from the onsite proctors/inspectors;
- reopening sealed test envelopes to correct mistakes.

Higher education in Russia

Higher education is provided by public and non-public (non-State) accredited higher education institutions.

Public (State) institutions – better level of education than in private institutions.

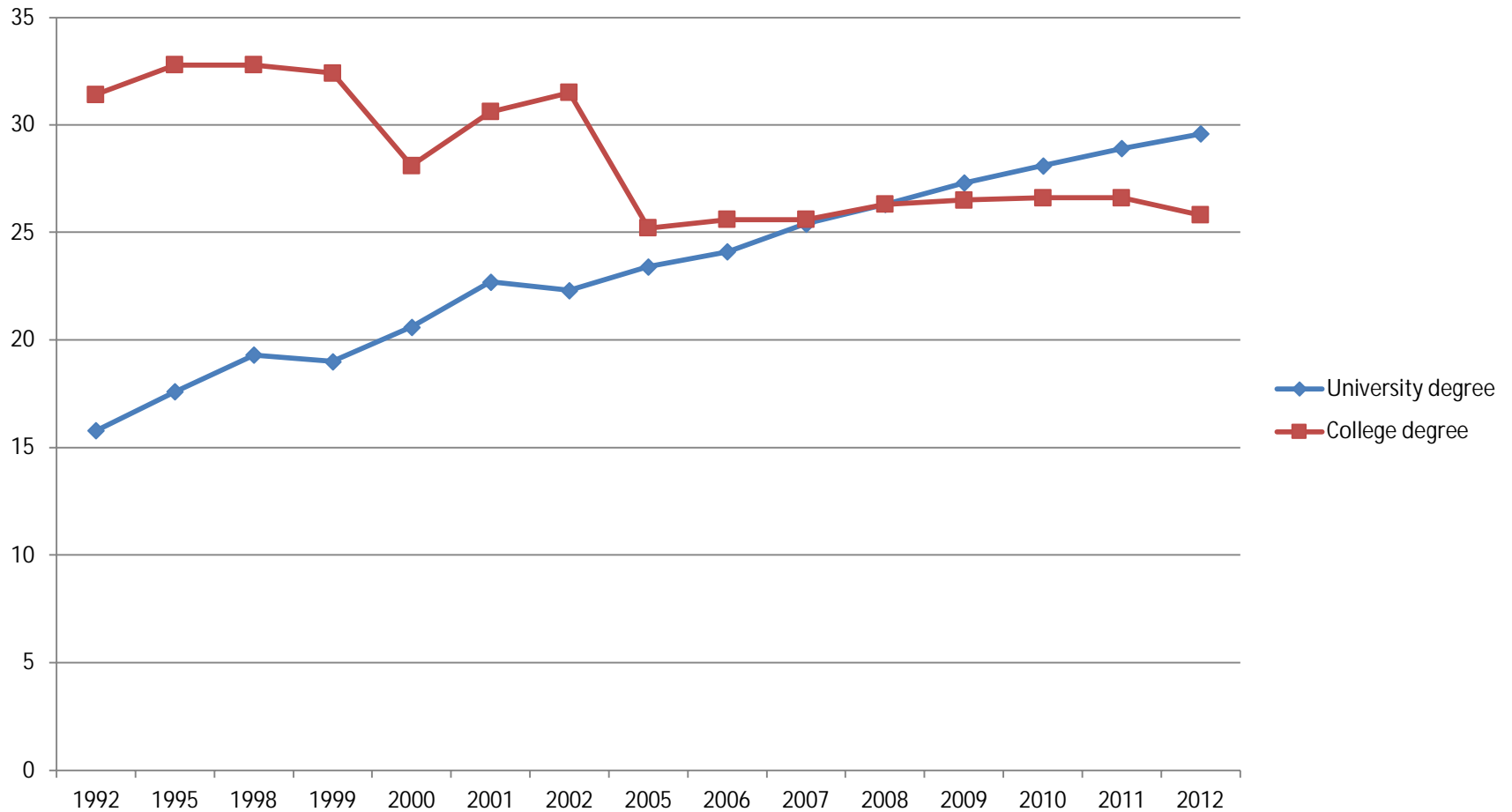
Types of higher education establishments in Russia:

University – all the levels of higher, post-higher and further education within a wide range of Natural Sciences, Humanities, Technology, and Culture.

Academy/School – the same as university but for one to three specific related areas of science.

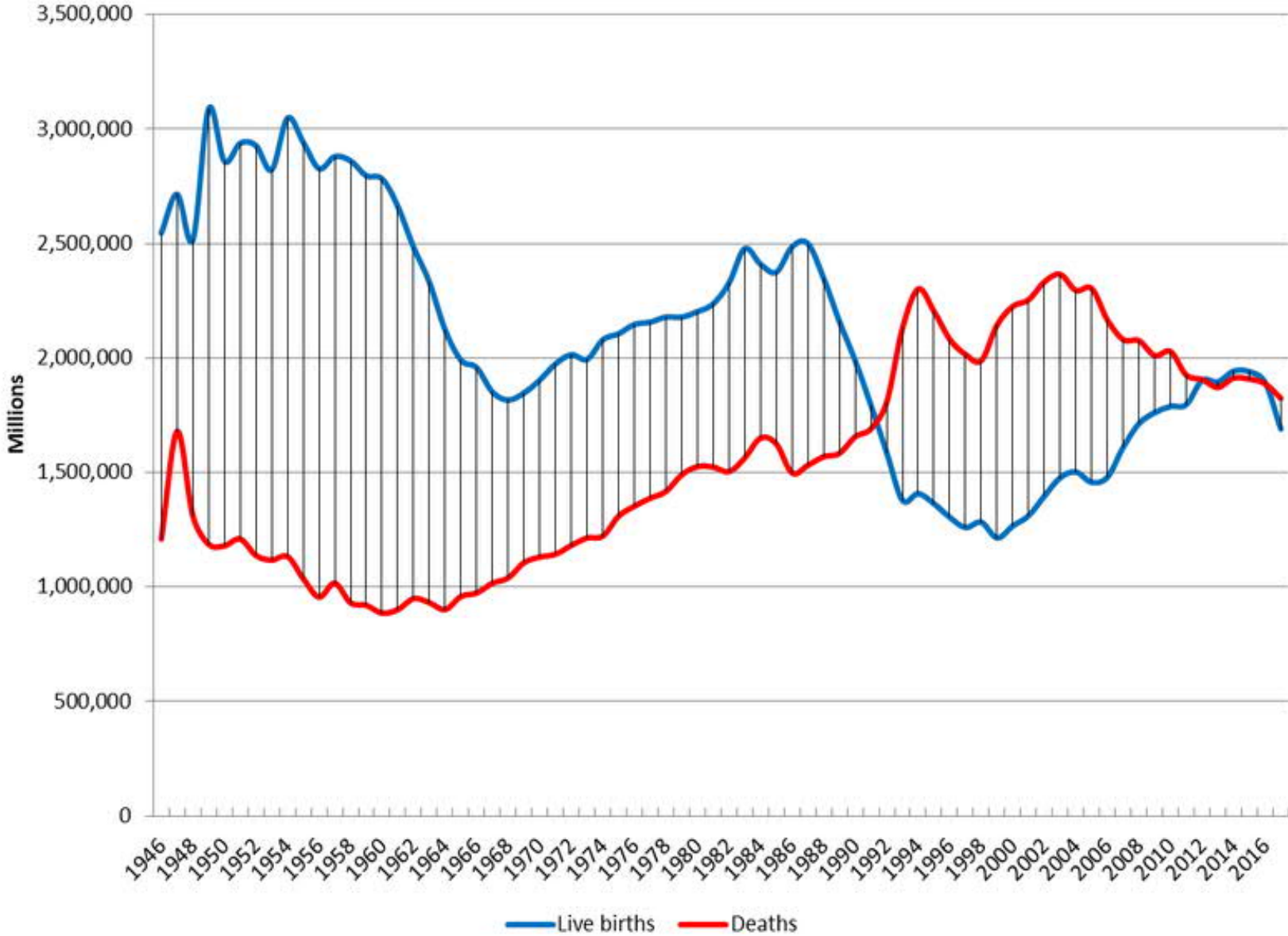
Institute - vocational educational curricula in specific areas of science and is involved in scientific research. Can be part of University or Academy.

% of the economically active population with University and College degrees





Births & Deaths in Russia 1946-2017



Number of 17 years old young people, thousands of people, Russia



Recent trends in education

Demographic trends have had a profound effect on Russian university system in recent decade: The number of school graduates and students dropped significantly (30-50%). →

Government reforms: Reduction of the number of higher education institutions.

Financial state funding is redirected from Universities to professional colleges.

Foreign students quotas have increased.

Compared to countries like China or the United Arab Emirates, Russia is not a major host of foreign universities or branch campuses.

Russia`s labor market

Part 2

Recent history of the Russian labor market

Three stages:

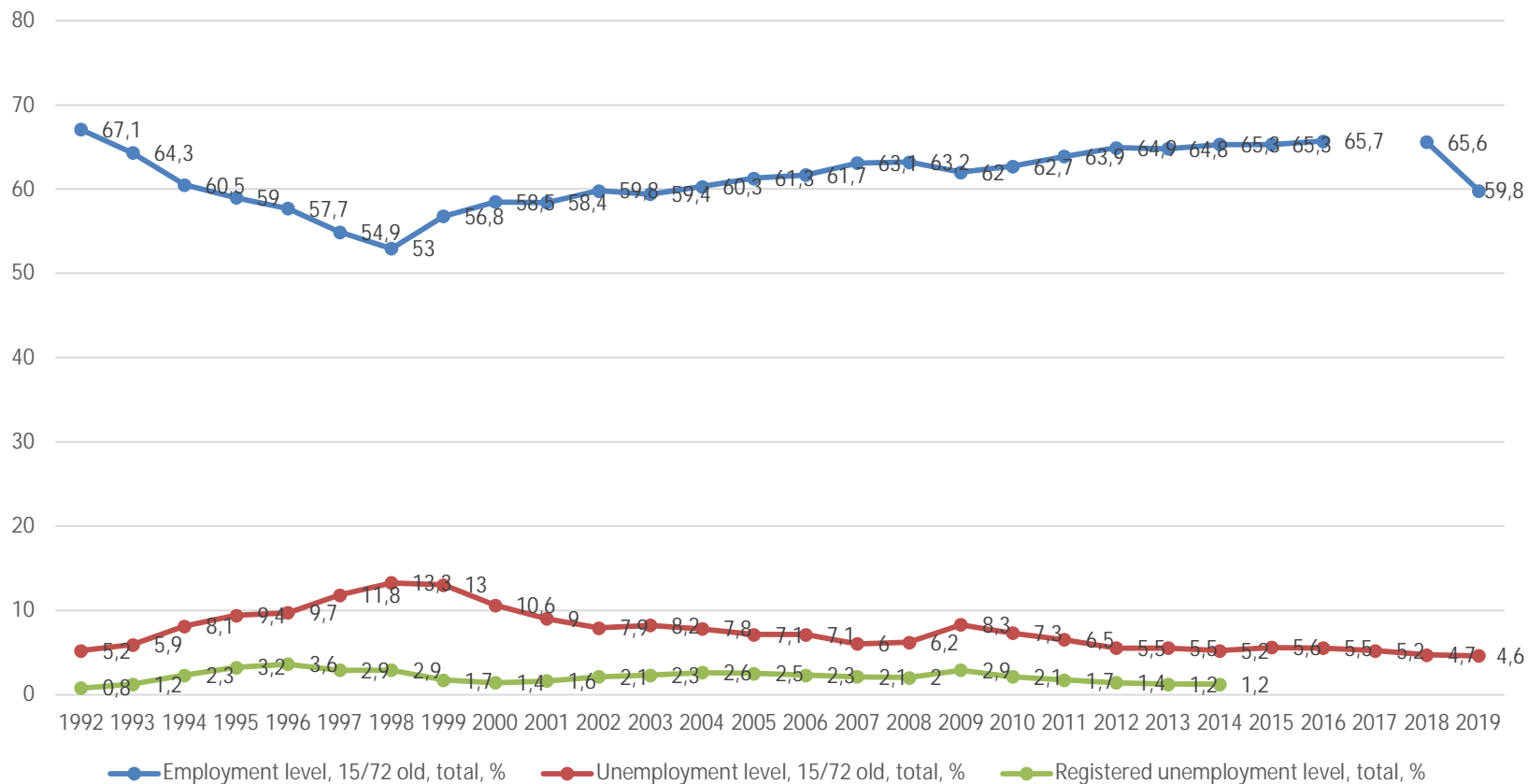
1991-1998 - transformational recession in Russia: a decline in employment, cuts in working hours, and sharp falls in real wages.

1999-2008 - the dynamic post-recession recovery and a rapid improvement in labor market performance.

The economic crisis of 2008 – present.

Employment and unemployment levels in Russia

1992-2019



Employment level discussion

The employment to population ratio has remained unexpectedly high.

It decreased initially by 14.1 pp from 67.1% to 53% (1992 → 1998) but then – during the recovery period - reached 62.7% (2010).

The Russian employment level: a little above the OECD average and significantly above the average for other post-socialist countries.

Unemployment level discussion

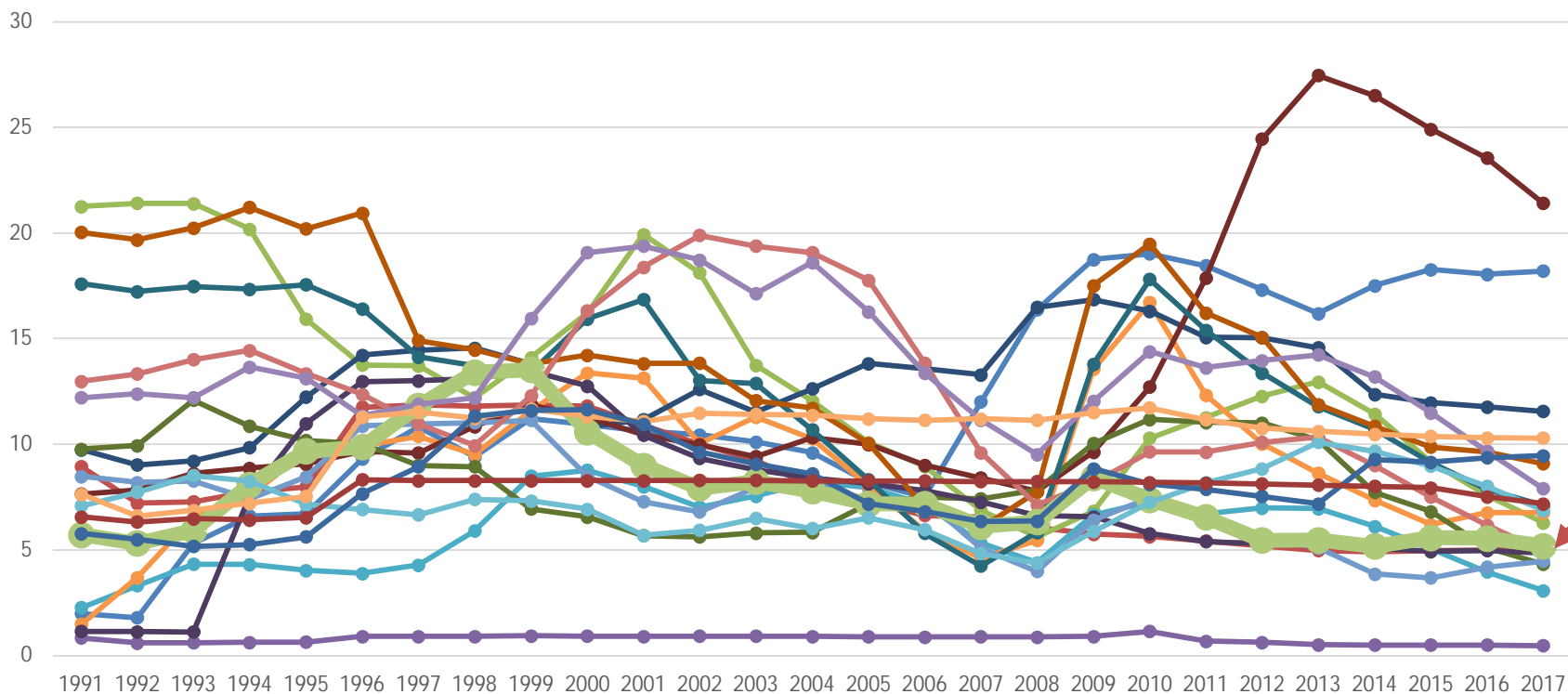
Unemployment did not shoot up in Russia even in the worst economic downturns. No mass layoffs were used.

Total unemployment reached (for a short period) its peak value of 13.3% in 1998.

However, it has never approached peak values typical for some other transition economies (see next slide).

Unemployment in transition countries

Unemployment, total (% of total labor force) (modeled ILO estimate)



- Armenia
- Azerbaijan
- Bulgaria
- Belarus
- Czech Republic
- Estonia
- Georgia
- Greece
- Hungary
- Kazakhstan
- Lithuania
- Latvia
- Moldova
- Poland
- Russian Federation
- Slovak Republic
- Slovenia
- Tajikistan
- Ukraine
- Uzbekistan

Explanations for employment stability

Low inter-firm labor mobility and existing barriers, some of which were inherited from the Soviet past.

Flexible working hours.

Flexible wages.

Low inter-firm labor mobility

An equilibrium outcome of the interaction between dependent workers and paternalistic employers:

- Russian workers were deeply afraid of entering the external labor market mostly because they highly valued firm-provided social benefits.
- Therefore, **on the supply side**, they did their best to keep the jobs they occupied.
- **On the demand side**, paternalistic employers preserved labor and rejected any downsizing.

Flexible working hours

First 5 years of the transition: The annual duration of working hours in the Russian economy was shortened by 12% (15% in industrial sector).

From the mid-90s on: The duration of working time grew rapidly, increasing by 2008 by about 6% in the whole economy and about 16% in industrial sector.

If hours had been stable, the change in employment would have been twice as large as that observed in the crisis and in the recovery, other things equal.

By contrast, in the CEE countries the cyclical dynamics of hours were much more muted.

Reasons for hours to shrink so significantly: multiple

The Russian authorities used legislative cuts of working hours as social and political cushions against mounting hardships.

Cutting hours was one of the cheapest ways to adjust labor costs for firms. Short-time work and forced vacations.

Fast recovery in working hours and the wide use of overtime work limited employment growth in the boom period.

Flexible wages

Shorter hours brought labor costs down but not enough to accommodate the GDP fall → Downward wage flexibility did the rest.

During the 90s: real wages —just|| halved.

The restart of economic growth in 1999 launched a steep recuperation of real wages.

Inflation remained rather high but nominal wages grew even higher.

In 1999-2007 the real wage grew by 10-20% annually and cumulatively tripled over this period!

Wage adjustment

The specific composition of the wage bill that is typical for the majority of Russian firms:

Premiums and bonuses → contingent upon general economic conditions and firm performance → This fraction of wage compensation moves pro-cyclically.

In the crisis ridden year of 1998, the most flexible part of the wage made up on average 27%, while in much more prosperous 2007 it reached almost 36%.

Paying late.

Informal payments.

Composition of wage bill by major components, some sectors, 2005, %

<i>Industry</i>	<i>Fixed tariff</i>	<i>Flexible tariff (Extra payments, premiums and bonuses)</i>
Oil and gas	42	58
Metallurgy	48,4	51,6
Electricity, gas and water supply	52,1	47,9
Machine-building	53,7	46,3
Transportation	59,8	40,2
Food industry	63,7	36,3
Construction	65,2	34,8
Healthcare	65,3	34,7
Retail and wholesale trade	74,2	25,8
Education	75,7	24,3

Paying late

Wage arrears/debts grew explosively over the 90s and were widely discussed in the research literature.

They emerged in early 1992 and peaked in mid-1998. At that time, about **two thirds** of all wage and salary workers were paid late.

During the path of economic growth wage arrears began to dissipate rapidly. By mid-2008, they made up under **2%** of the monthly wage bill, while the proportion of workers affected was less than 1%.

Salary "in the envelope"

Russian salaries can be white, black and grey.

"**Black salary**" is the salary from which no taxes were paid. For example, you work somewhere, but not officially, so you get "black salary." If they fire you, you won't be able to prove you worked there.

"**Salary in the envelope**", usually meaning **black salary**. You receive your salary in cash in an envelope.

"**Grey salary**", when part of your salary is legal, **white**, and the other is not (i.e. **black, in envelope**).

Salary "in the envelope"

These 'envelope wages' are not used for making overtime payments but, rather, for paying employees a portion of their core wage on an informal basis.

The proportion of total wage received in such a manner can range from 20 to 80 per cent (in the study for Moscow, Williams&Round 2007).

Williams&Round 2007: This is not some minor practice existing in a limited range of occupations or sectors involving small amounts but rather, is a widespread and intrinsic feature of waged employment.

Salary "in the envelope"

In most organizations and enterprises, job applicants in Moscow will hear at the interview, 'your formal salary is . . . (a figure usually from 2 000–10 000 rubles—Euro 40/30–200/150—a month) . . . but your real wage will be higher'.

IT IS BENEFICIAL for these organizations: Various social payments (e.g. maternity leave) decrease significantly; higher dependence of the worker.

BUT NOT beneficial for employees: It reduces not only their pension and unemployment entitlements, but also their ability to gain access to credit.

*Annual changes in output, employment, working hours and
real wages, 2009 to 2008,
percentage points*

	Output	Employment	Working hours	Real wages
Total economy	-7.9	-1.7	-2.4	-3.5
Industry	-10.0	-5.9	-4.8	-5.7
Manufacturing	-15.8	-7.2	-6.2	-7.2

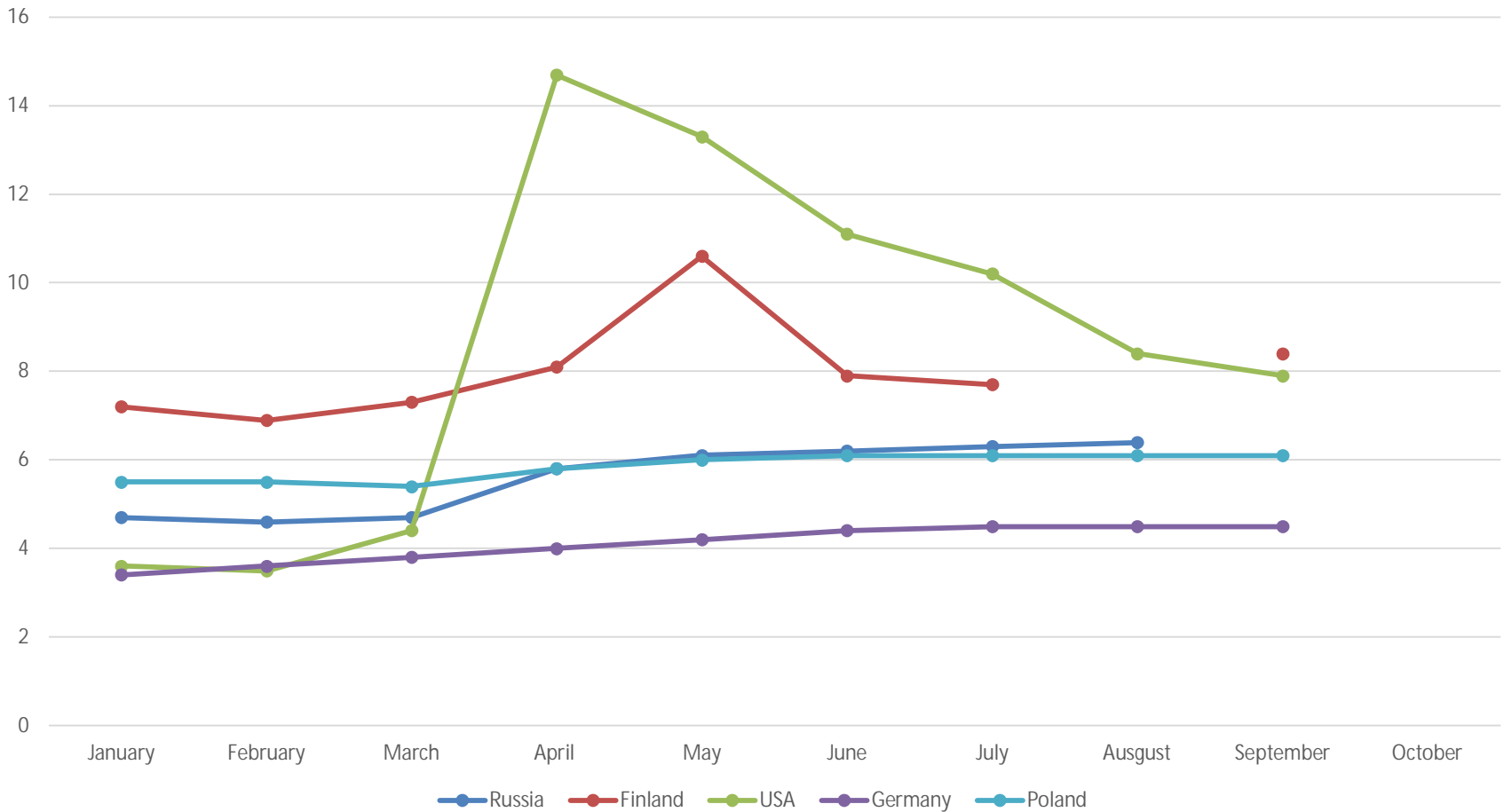
Corona crisis and employment

Unemployment level in Russia in 2020 → 7.3-10.5%
(from 4.6% in 2019)

Expert: "Again enterprises largely practice paying smaller salaries, administrative holidays instead of job termination ". →

Optimistic scenario of 7.3% unemployment rate in 2020

Unemployment rate in 2020, selected countries



Preliminary conclusions

The Russian model is more alive than dead though in a slightly modified form.

The Russian labor market demonstrated its ability to accommodate major negative shocks without large losses in employment and drastic increases in unemployment.

However! This does not mean that this persistent adjustment mode is close to the optimal, given all welfare and productivity related considerations.

Labor institutions in Russia

Do the Russian labor market institutions trade off employment against wages? If yes, then how?

The choice of a particular wage-employment trade-off is a political economy problem and reflects particular social and political preferences.

In Russia, this institutional choice seemed to be made early in the transition and was path dependent in relation to the late Soviet period.

Employment regulations

In Russia, the EPL (employment protection legislation): largely the Code of Laws on Labor (KZOT).

Existing indices tend to confirm that the Russian EPL, as written in the law, should be considered very stringent/strict.

By some estimates Russia is first on the list of the countries with the most rigid EPL: *job protection for permanent workers gets a score of 2.8 against 2.1 for OECD average.*

The rigidity/fixity of employment in Russia 44 vs. 30.8 for OECD average (Doing Business 2007).

Normative Firing Costs in Russia and some OECD countries, number of months and monthly wages

The scope for employment flexibility is largely determined by firing costs introduced by the EPL.

Severance pay: 2-3 months* (+3 months for the Northern and Far Eastern Regions).

*firing costs are constant over the tenure.

For Sweden, Finland, Germany, USA – **0 months!**

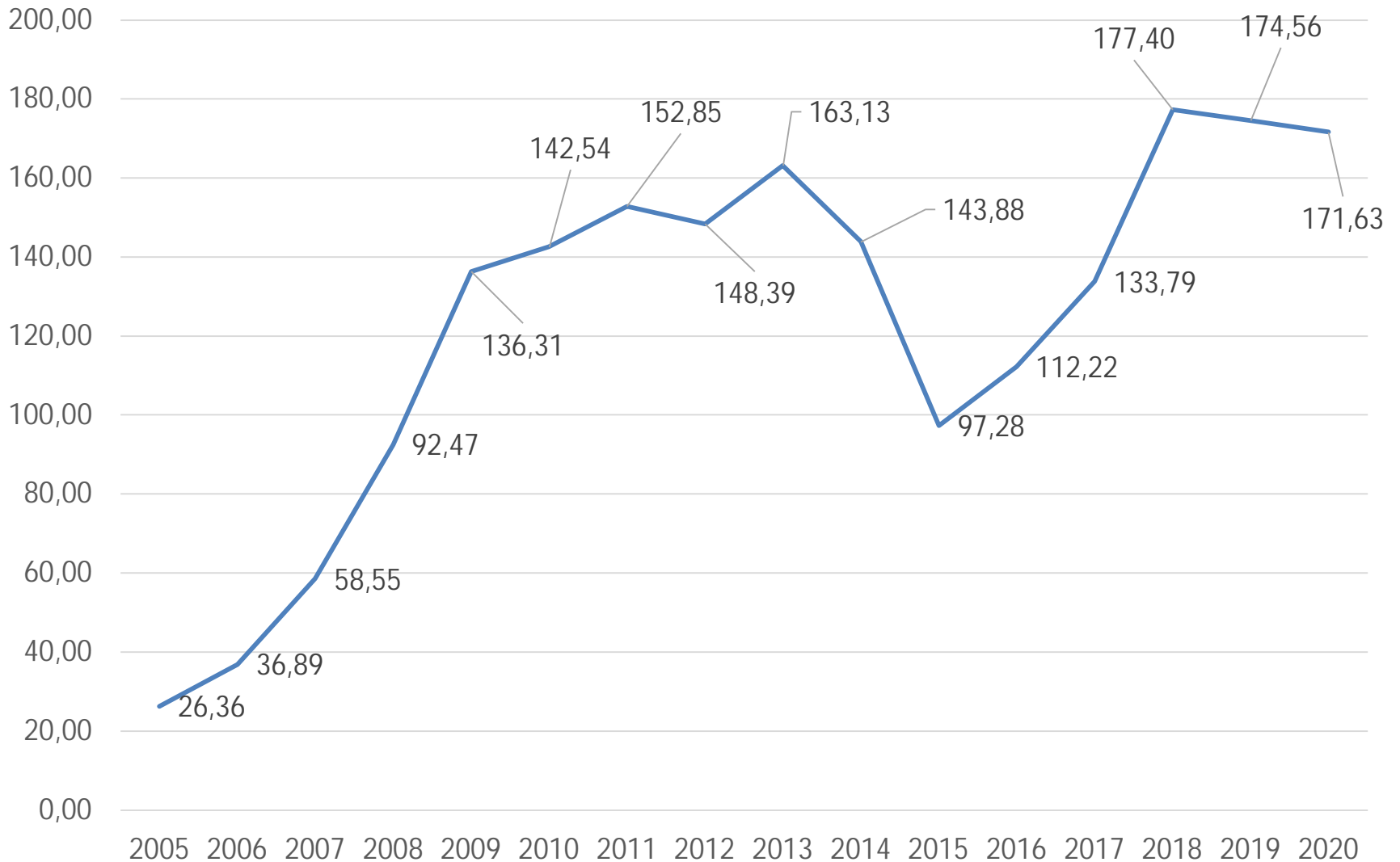
Minimum wage

The minimum wage sets a wage floor and can, therefore, constrain downward wage flexibility.

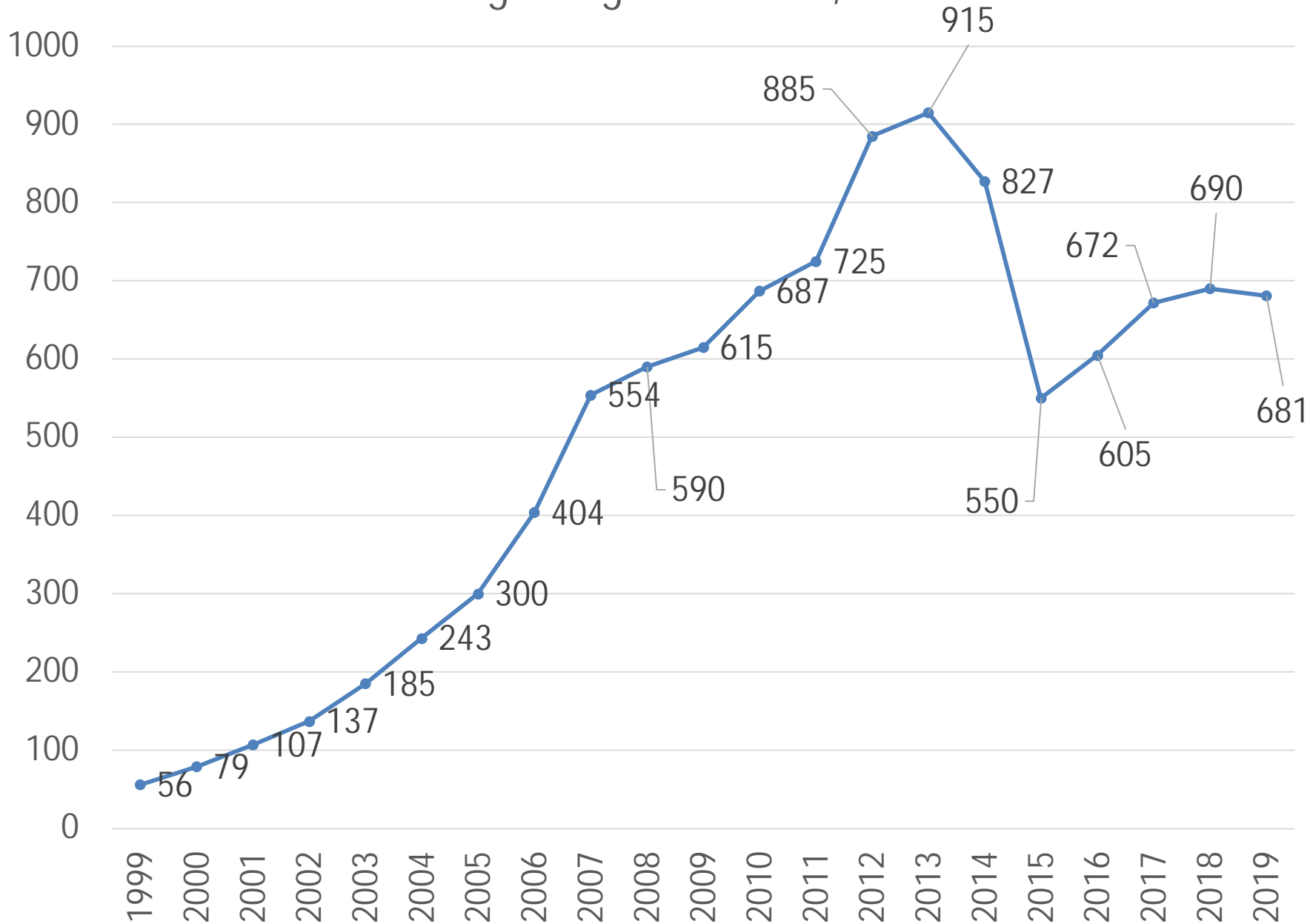
In Russia, during most of the transition period, the minimum wage was fixed at a low level and was hardly binding for the majority of firms in the economy.

Indexation was irregular, lagged far behind inflation, and had a short-run effect on relative earnings.

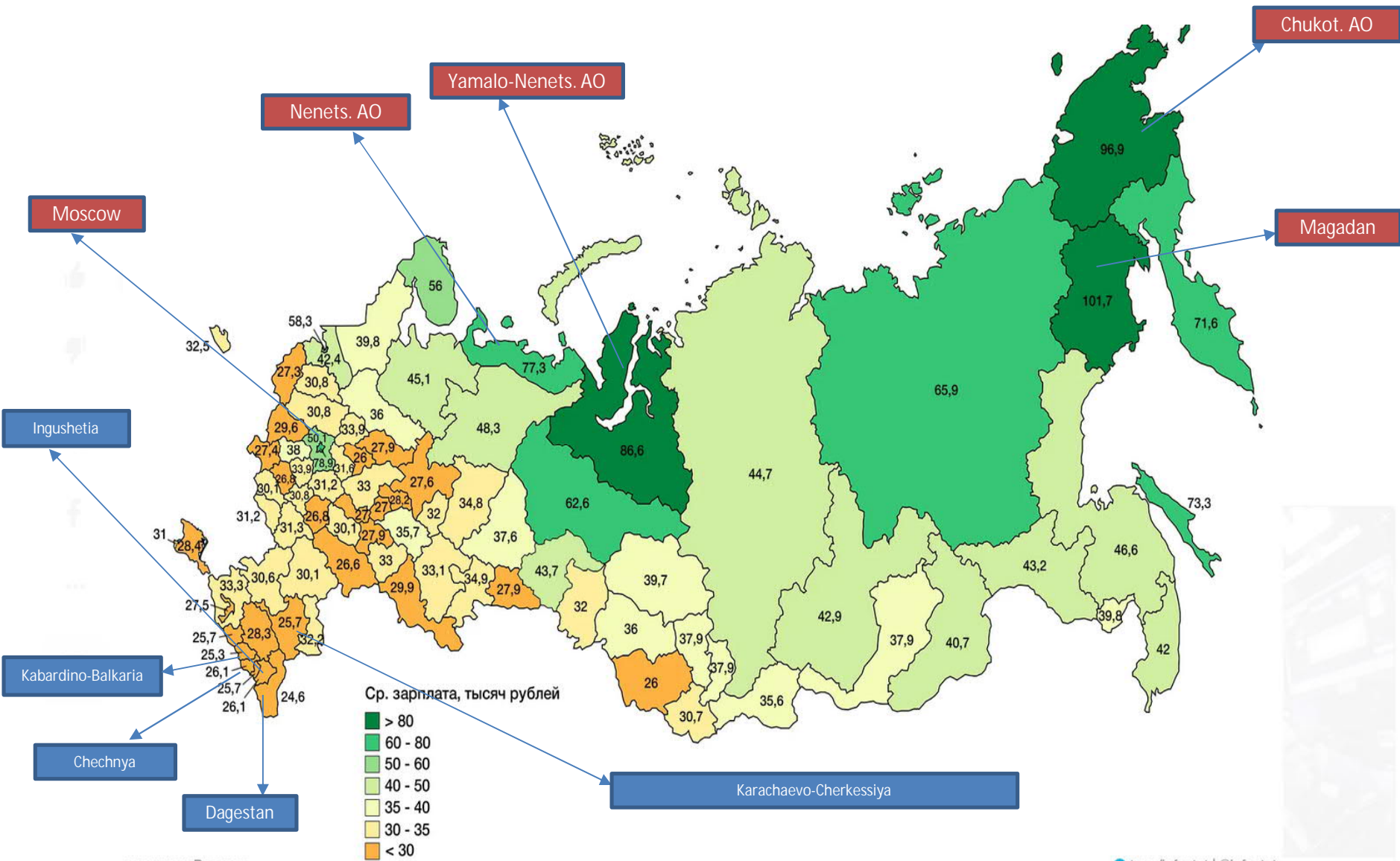
Minimum wage per month, USD



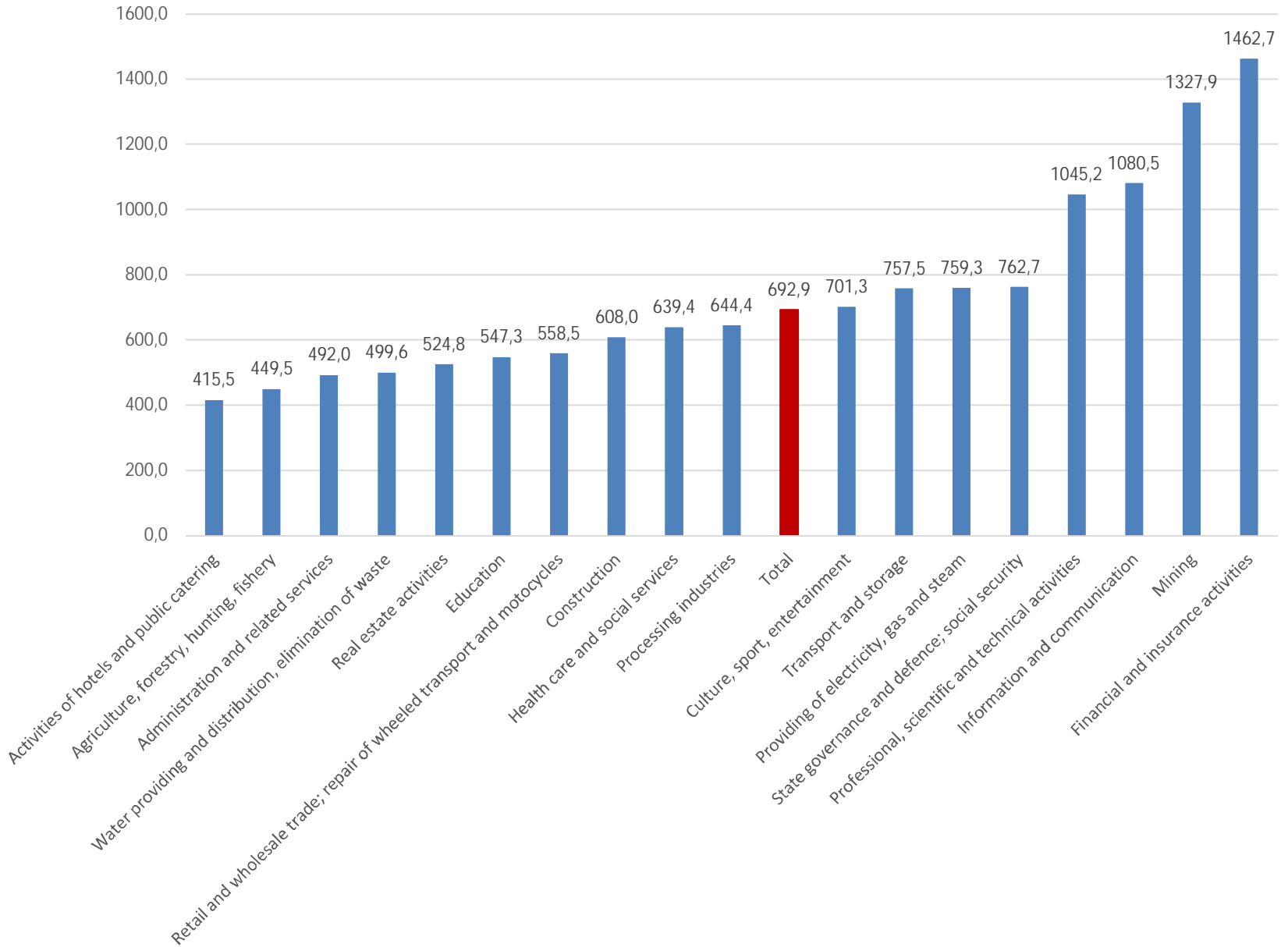
Average wage in Russia, USD



Average wage across Russian regions, 2018, thousands of rubles (ER--63 rubles per USD)



Average monthly wage by industry, USD, 2018



Unemployment benefits

Russia entered the transition: no open unemployment → no social protection targeted at the unemployed.

The safety net to cushion emerging social costs had to be created from scratch and without delay.

Its designers were caught between expectations of high unemployment and fears of being too generous.

Unemployment benefits

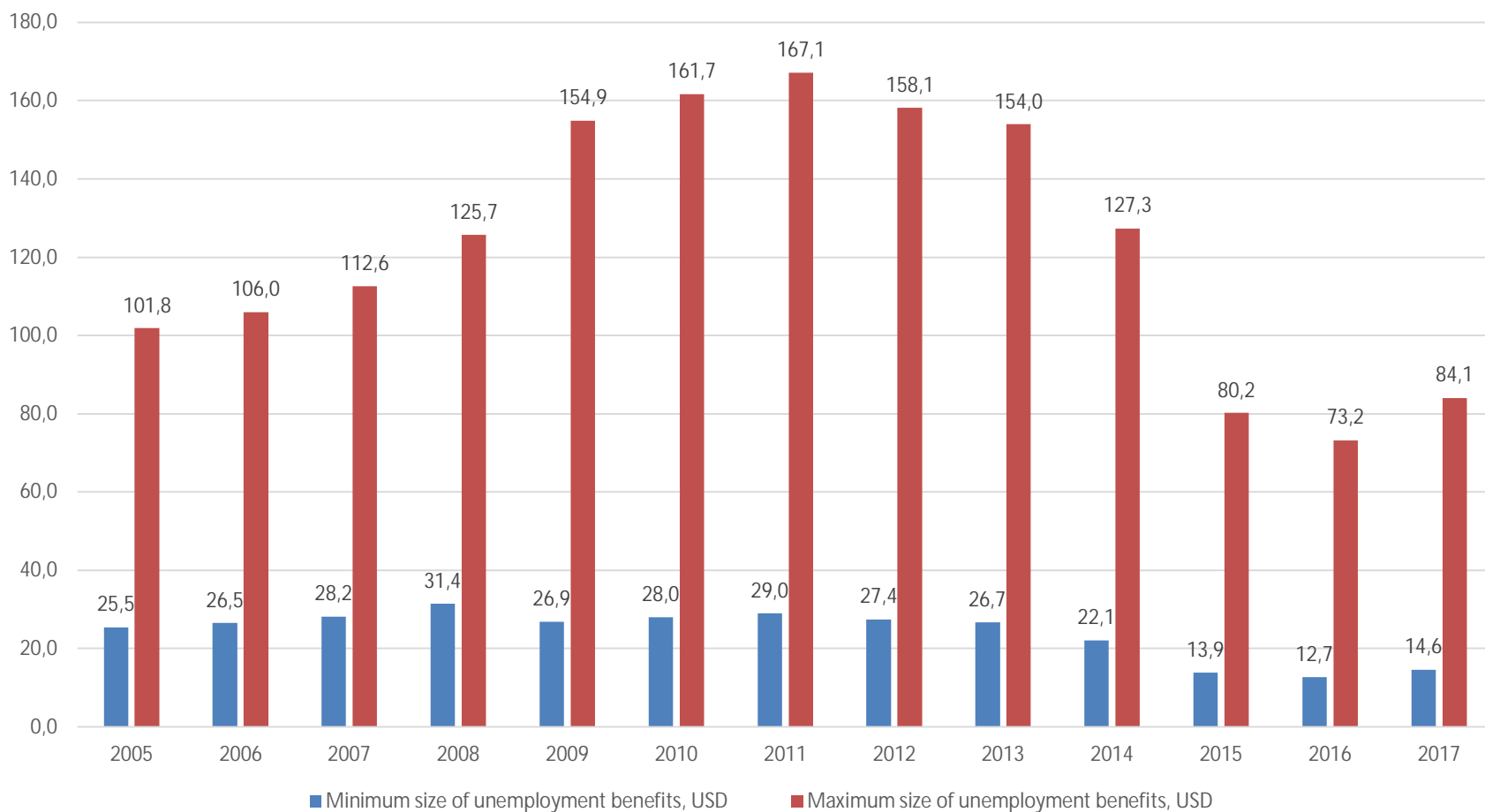
Throughout the 90s, **the share of annual GDP budgeted for labor market policies** remained remarkably low:

Less than 1% in Russia → in Hungary or Poland, e.g., reached 1.3 and 2.25% (UN Commission for Europe, 2003).

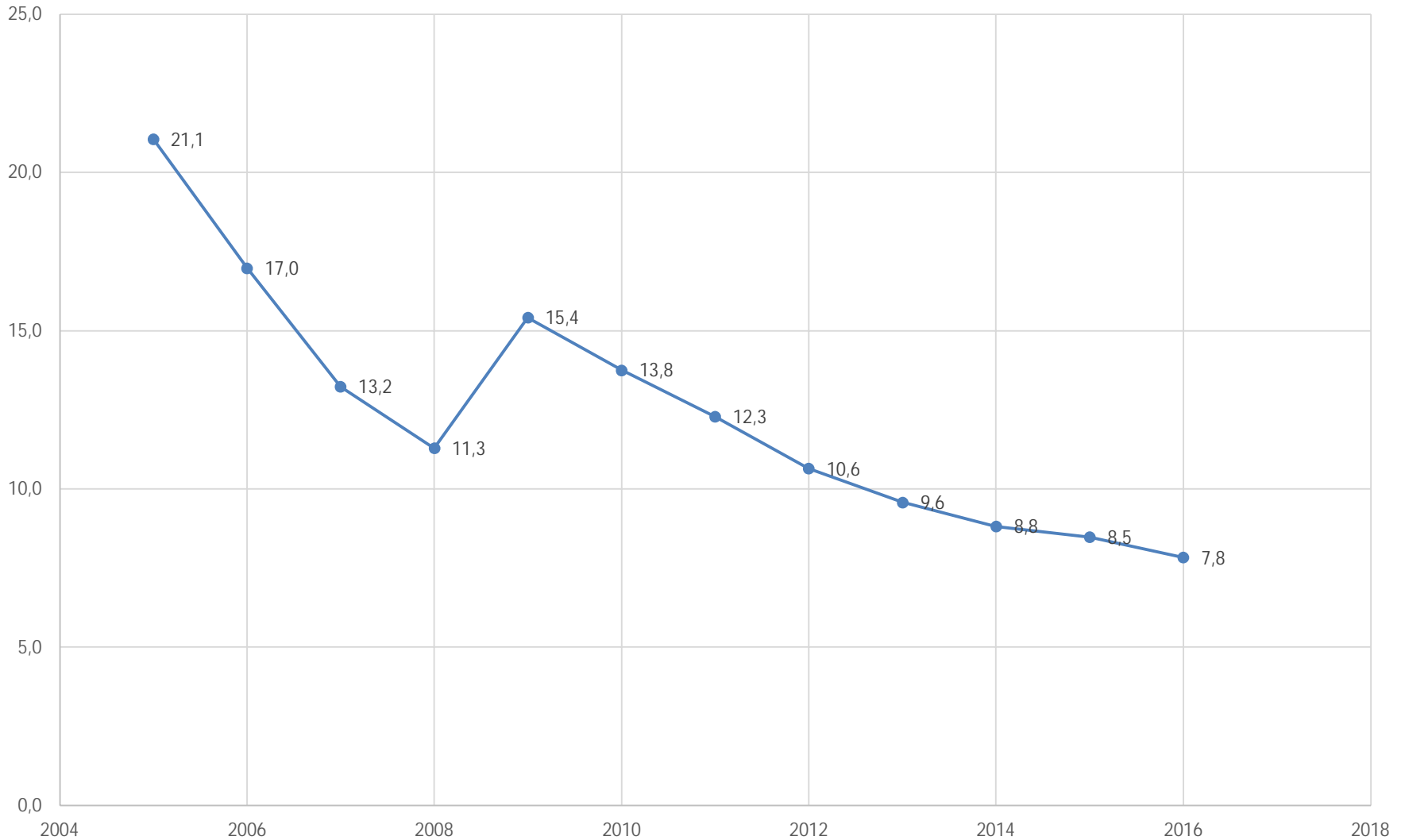
In the 2000s, this share became almost negligible.

Total spending on passive and active labor market policies remained less than 0.1% and it only approached 0.2% in the crisis 2009 due to additional spending.

Unemployment benefits in Russia, USD



Ratio "monthly UB/monthly average wage", %



Unemployment benefits at present

There are more job places in the economy than unemployed people – should be able to find a job quickly.

First year:

3 month – 75% from previous salary;

4 month – 60%; 5 month – 45%.

From the second year – minimum unemployment benefits – about 14 Euros; changes almost every year.

Trade Unions

TU density was close to 100% at the start of the transition.

Federation of Independent Trade Unions in Russia (was established in 1990). →

- Includes 122 industrial trade unions across the country (20 million members).
- Can include both employees and employers which contradicts international experience.

Rival organization – Confederation of Labor of Russia (1995). →

- much smaller but more dynamic.
- includes about 20 national and interregional trade unions (2 million employees).

Trade unions and wage agreements

A very rigid corporatist arrangement inherited from the Soviet past.

The wage setting in Russia seems to be highly centralized and coordinated.

It has a multi-layer bargaining/negotiating structure:

Tripartite agreements – between government, trade unions and employers. Tripartite agreements can be at national, regional and industry levels.

Main tripartite agreement – on national level – between Federal government of Russia, representatives of Russian trade unions and Russian employers.

Trade unions and wage agreements

Firms → completely constrained in their wage policy; almost no room is left for either upward or downward decentralized wage adjustments.

However! This conclusion would be completely misleading since it ignores important nuances concerning the functioning of the system.

Over one third of the total wage is not contracted at all and remains contingent upon performance.

TU initiatives (at any level) are easily blocked by the government and are accepted only if the government agrees.

→ The whole corporatist structure largely decorative and shallow.