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THE POLITICS OF EMPLOYMENT IN YELTSIN'S RUSSIA:
THE CRUCIAL NEXUS BETWEEN ECONOMIC AND POLITICAL TRANSITIONS

DISSERTATION

Presented in Partial Fulfillment of the Requirements for
the Degree Doctor of Philosophy in the Graduate
School of The Ohio State University

By

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The Ohio State University
1996

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To My Parents
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VITA

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CHAPTER I
INTRODUCTION

Never mind that we are urging on Eastern Europe a kind of capitalism that we in the West would not dare to risk. In the last century and in the years of the Great Depression the survival of capitalism in its original and ideologically exact form was very much in doubt.... The system did survive, however, because the Welfare State mitigated the hardships and the cruelties of pristine capitalism.

- John Kenneth Galbraith, 1990

The progress of economic and political reform in postcommunist Russia has been halting and equivocal. Triumphs have frequently been followed by major setbacks. And victories won are often achieved only with great costs. In addition, the favorable results achieved by reformers in the April 1993 Referendum set the stage for continued wrangling between Yeltsin and the opposition, ultimately culminating in the violent shelling of the country's parliament later that year. Thus, the cycle of reform in postcommunist Russia has paralleled the experience of the classic business cycle: periods of "boom" are quickly transformed into eras of "bust."

In the literature, there have been various explanations offered which seek to discern the reasons for the "muddling"
of reforms in many postcommunist societies. Some have argued that reform setbacks have originated from the extreme degree of elite polarization resulting from the fierce struggle between elites over the "rules of the game" and the spoils of it (Aron, 1993; Breslauer, 1993; Zielonka, 1994).

Others have claimed that the lack of strong mass-elite linkages has continued to constrain or indeed obstruct the progress of reform. The absence of a fully-developed "civil society" has thus left reforming elites cut off from discernible bases of popular support, while demands emanating from society remain unaddressed by government policymakers (McFaul, 1991; Comisso, et al., 1991; Kitschelt, 1992; Schopflin, 1994).

Still others have intimated that the continuation of traditional patterns of behavior - e.g., the continued ambivalence of populations toward values consistent with a developed market economy and a flourishing democracy, the long-held paternalistic instincts of local elites, etc. - has imposed constraints on the processes of reform (MacGregor, 1991; Finifter and Mickiewicz, 1992; McIntosh and Mac Iver, 1993; Crowley, 1994; McIntosh, et al., 1994).

While not discounting the significance of the above factors, some students of democratic transitions and transformative politics have suggested that the variable of "simultaneity" - the necessity to undertake reforms concurrently in both the economic and political realms - has
added an unstable and uncertain factor to the ensuing transition, a factor which greatly differentiates the transitions under way in postcommunist settings from those carried out earlier in other countries (Bunce and Csanadi, 1993; Terry, 1993).

Theorists taking this tack maintain that the cause of frequent reversals in reform is the fact that the processes of economic and political reform are much more interrelated than heretofore demonstrated. They argue that this interactive relationship frequently has provoked severe repercussions for reform processes in both domains. Besides the absence of strong, resilient institutional structures and responsive, professional administrative apparatuses, the recursive and circular nature of the reform processes themselves have impeded movement forward in either domain in many countries which have undertaken such "dual reforms."

In short, advocates of this approach argue that the variable of "simultaneity" has greatly contributed to the muddling of the transitions under way in many postcommunist societies.

One facet of the "simultaneity" issue seized upon by several theorists to explain the "muddling" of postcommunist reform has been the "social costs" of economic transformation (Mokrzycki, 1991; Bruszt, 1992; Bresser-Pereira, et al., 1993; Rose and Mishler, 1993). Here it is presumed that such transitional costs will provoke
considerable mass and elite opposition to reform, thereby impeding the progress of both economic and political reform.

In the course of this dissertation, my principal endeavor is in part to assess the explanatory power of the social cost approach in light of the Russian experience of hesitant, vacillating reform. In so doing, a conscious decision has been made to evaluate the hypotheses raised by the theory through the "lens" of the problem of unemployment. In addition, an effort will be made to account for the weaknesses in the social cost approach by offering a more robust and comprehensive model of postcommunist transition.

Hence, the general goal of the present research is formidable; it endeavors to explain the absence of adequate progress toward democratic development in Russia. Here it is maintained that a major contributing factor to the problematic nature of democratization in Russia has been the course of economic reform,¹ which, in its turn, has been affected by a number of additional factors.

However, it is not enough to simply state that a direct and unilinear relationship exists between economic reform and democratic development in Russia; indeed, it is asserted

¹ By "course of economic reform" I am referring here to both the slow pace and diminished magnitude of economic transformation in Russia during 1991-1993. Of course, the actual pace and extent of Russian economic transformation differed significantly from its architects' original vision.
that an interactive relationship exists between the two variables which has consequences for the progress of reform in both the economic and, ultimately, the political realms.

It is argued here that, although tremendous social costs have been incurred during the initial period of postcommunist reform, mass mobilization against the reform program and widespread political instability have not ensued. This outcome can be explained in part by the peculiar nature of mass-elite relations extant in the post-totalitarian Russian polity.

It is also my contention that economic and, ultimately, political reform were impeded by another variable not previously considered by social cost theorists and one which is also a consequence of Soviet-era political development: governing elites' fears of the potential for a popular revolt or uprising against the social costs of transformation.²

Additionally, it is argued that the social costs of economic transition have acted to further dissuade governing elites from undertaking more resolute reform measures³ by

² Although Przeworski in Democracy and the Market alludes to this factor, he gives it only a brief and passing mention (Przeworski, 1991, p. 166).

In contrast, this research presents a detailed, nuanced and empirical examination of the relationship existing between elite fears of social instability and the course of economic reform.

³ By "more resolute" reform measures, I am referring to the rapid introduction of policies characteristic of the "shock therapy" approach to postcommunist economic
generating increasing popular support for extremist parties and decreasing support for democratic ideals, thereby influencing negatively the progress of Russian democratic development.

Furthermore, oppositional elites have employed the social costs of transition as a weapon in the inter-elite struggle for power, thereby also impeding the course of both economic and political reform. Reform's progress in these two realms has been additionally impaired by the tremendous intra-elite or inter-ministerial conflict evident in the social welfare domain. Thus, it is my contention that the absence of a consolidated political order, in and of itself, has influenced negatively the course of economic and political reform in Russia; indeed, by negatively affecting policy-making processes in the social welfare domain and, hence, increasing the costs of economic transition, the inter-elite and intra-elite conflict generated by the existence of an unconsolidated political order has further

__________________________

transformation, e.g., a restrictive incomes policy, a complete liberalization of all prices, a comprehensive policy of de-monopolization, etc. (For a comprehensive discussion of "shock therapy" see the following chapter.)

Implicit in my argument is the notion that the best possible scenario for postcommunist reformers to pursue is one which undertakes a rapid and comprehensive economic transformation, coupled with the crucial provision of an adequate and extensive social welfare system.
undermined popular support for both democracy and liberal-reform parties.\footnote{The principal arguments of this research will be explicated in greater detail in later pages of the present chapter.}

Having presented a brief overview of my principal arguments, let us turn now to a more detailed and penetrating analysis of the arguments and hypotheses of the "social cost" approach.

**Barrier to Transition: Acute Social Costs**

One aspect of the "simultaneity" issue which several theorists have recently asserted is particularly problematic in postcommunist transitions is the "social policy nexus" that links the political and economic realms (Mokrzycki, 1991; Bresser-Pereira, et al., 1993). As these societies undertake economic and political reforms, often very little attention is given to the proper delineation and construction of well-developed social welfare policies, as more heated battles are fought between elites over fundamental elements of the new system, such as the basic provisions of the new constitutional order or the specific method of privatization to be chosen.

These theorists argue that adequate social welfare policies are critically important for postcommunist societies in transition as they may provide these systems...
with the political stability which is necessary during such periods of immense upheaval. Indeed, they would argue that significant problems have faced the countries in this region when they have encountered the bitter consequences of their reform choice: the transformation from sterile, ineffective centrally-planned economies to market-oriented economies in many cases has not yet resulted in the creation of comprehensive and adequate systems of social welfare, in which the provision of social services is no longer linked to the production of goods in the economy; accordingly, the vast majority of citizens are left virtually unprotected from the uncertainties of the market.

The nature and scope of economic reforms required in postcommunist societies are so fundamental and extensive that it is recognized that vast numbers of people will be pulled from their customary economic moorings and thrown into the ranks of the dispossessed. However, without appropriate policies that mitigate the social costs of reform and provide the necessary time to allow important segments of the population to find their way through the present "economic maze," it is wholly possible, these "social cost" theorists would argue, that certain attempts at implementing either economic or political reform or both will be blocked by demands from society or oppositional forces.
In the past, students of democratization have paid little attention to the role that social welfare policy plays in transitions. Instead, democratization theorists examined in-depth a variety of other structural variables which affected processes of transition, such as "socio-economic modernization" or "regime-type." Prior studies of democratic transitions have not been profoundly concerned with radical economic restructuring and its impact upon political stability or movement toward democratic consolidation. Students of democratic transitions traditionally focused only on the causal line moving from political liberalization to democratization.

That research which did consider to some extent the interplay between economics and politics had the luxury of not having to deal with dramatic restructuring efforts in the economic realm; these studies analyzed processes of transitions occurring in Southern Europe - in countries which were able to defer necessary economic reforms and which had long maintained well-developed systems of social welfare (Maravall, 1982). However, postcommunist countries in transition do not enjoy such "comforts"; indeed, these countries have neither time to delay the inauguration of vital efforts at economic restructuring nor well-developed social welfare systems which are fully compatible with a market-based economic order. Thus, several "transitologists" have recently argued that these additional
economic considerations make the postcommunist transitions more extensive and problematic than their predecessors in Southern Europe and elsewhere (Mokrzycki, 1991; Bresser-Pereira, et al., 1993).

In addition, while not disregarding the dynamic interrelationship which exists between economic and political reform, students of transformative politics have on the whole paid little attention to the role that a well-developed social policy - or the lack thereof - may play in the transition.

Moreover, many Western economists have overlooked the political impact of their radical economic recommendations conveyed to governing elites in postcommunist settings (Kemme, 1991; McKinnon, 1991; Keren and Ofer, 1992; Ofer, 1992). Although on economic grounds such economists may be largely correct in asserting the necessity for a systematic program of radical economic reform, it appears that they have often ignored the political ramifications of their policy prescriptions, i.e., by repudiating concerns for the serious dislocations that such policies inevitably produce.

At times when these economists have pondered the political realm, they appear to embrace traditional,

---

* Indeed, one recent study of economic and social development in Russia conducted by the World Bank failed to mention the vital interrelationship existing between the political and economic spheres (Russia: Social Protection During Transition and Beyond, 1993).
liberal, Hayekian perspectives, claiming in essence that: 1) "economic freedom is an indispensable condition of all other freedoms"; 2) any form of governmental interference in the marketplace is anathema to the development of economic freedom, merely indicating further regression toward the inevitable "road to serfdom"; thus, such theorists implicitly assert that democracy will most surely follow from a path of economic development based upon minimal governmental interference in the "free market" (Von Hayek, 1944; Von Hayek, 1967; Williamson, 1990; Lopatnikov, 1993).* In their view then, politics inevitably grows out of economics.

In response to this notion, therefore, several students of democratic transitions have recently asserted that an exclusive emphasis on inaugurating rapid economic reform brings with it the possibility that political stability may be seriously threatened or eroded (Linz, Stepan and Gunther, 1995). Indeed, these entreaties have been supported by more circumspect Western "shock therapists," who collectively argue that radical economic transformation should be implemented only after significant investment has been made in constructing a social safety net which will make the overall radical reform package more politically sustainable.

* For an assessment of Russian reform by Yegor Gaidar, see Lopatnikov, 1993).
Thus, they would argue that an approach or model of economic transformation which argues for the adoption of radical market reform - in the absence of an adequate social welfare "safety net" - is fraught with serious complications at best. Hence, the earlier "Hayekian strategy" upheld by

Besides introducing coherent stabilization, liberalization and privatization programs, Jeffrey Sachs regards the construction of the "fourth pillar" of reform, i.e., a social safety net, to be imperative (Sachs, 1993). Such sentiments have recently been echoed by many World Bank and I.M.F. economists (Barr and Harbison, 1994, p. 5; Tulin, 1995, p. 13; World Development Report 1995, 1995, p. 13). According to Sachs, such social welfare programs should be funded not only by reducing governmental subsidies to industry, but by significant assistance from Western concerns and governments (Sachs, 1994).

However, in a recent article examining the successes of neo-Communist parties in Eastern Europe, Sachs appears to contradict somewhat his earlier position (Sachs, 1995). While formerly he argued for augmenting the political sustainability of reforms by allaying the social burdens of transition with increased social welfare spending, here Sachs - according to at least one critique - appears to be an apologist for a watered-down version of "Hayekian shock therapy," as he downplays the actual social costs of transition (Kabaj and Kowalik, 1995). Objecting to Sachs' contention that "the living standards of the population did not really drop, if one examines actual household consumption behavior," these "gradualists" claim that it was the overall economic policy recommended by the I.M.F. and Sachs for Poland that provoked the neo-Communist victory and not the populist politicians that Sachs blames (Kabaj and Kowalik, 1995).

It may be likely, however, that superior party organization contributed more to the neo-Communist success in Eastern Europe than have either harsh reforms or "interest-group politics."

* Such an approach may also be tactically self-defeating, for in a democratizing system the "radical reformers" charged with transforming the economy may not be capable of retaining the support of the populace long enough in order to implement their programs of economic reform. The results of recent
some Western theorists and many East European practitioners (Williamson, 1990; Lopatnikov, 1993)* alike is presumed to be fatally flawed and unacceptable since such an approach assumes a unilinear relationship linking the rapid establishment of free markets to a protracted, yet certain development of a democratic polity.

The neo-liberal, "Hayekian" approach to economic reform, therefore, is criticized because it fails to take into consideration the following argument: before an improvement in economic performance can take place in postcommunist economies, it is essential for these systems to experience a "rationalization" of their economic structures. And, as this process ensues, a number of social ills - among them unemployment - inevitably result from the systemic transformation (Chilosi, 1991). However, in postcommunist societies, effective social insurance systems which may act both to speed processes of economic transformation and guarantee social and political stability during the transitional period are not yet in place.

parliamentary elections in Eastern Europe and the Former Soviet Union serve as appropriate illustrations of this phenomenon, as neo-Communist parties have benefitted from considerable dissatisfaction with reform efforts thus far.

The Social Cost Approach: Hypothesized "Paths of Influence"

According to recent "social cost" theories put forward by democratization theorists then, several "paths of influence" are hypothesized to exist in postcommunist societies which may prove to be important for understanding recurrent setbacks in the reform process.

In the aftermath of the implementation of economic reform programs in postcommunist societies, the standard of living of many citizens in the region falls precipitously. As rampant inflation brought about by price liberalization destroys both savings accounts and the purchasing power of wages, a majority of the ranks of the middle-class are thrown into poverty, oftentimes necessitating their participation in various "social" or "unofficial" economies for their very survival (Rose, 1994). The presence of inadequate or ineffective social welfare policies may thus cause various segments of the populace to press their government to slow down the economic and, ultimately, the political reform processes using a variety of methods.

First, actual demonstrations, strikes or other forms of mass protest may function as effective mechanisms of pressure which lessen the resolve of governing elites to push forward with economic reform. In this case, then, the social cost of economic transformation may actually lead to social mobilization against the economic reforms or, indeed, against the government or regime which has implemented them.
Secondly, though not addressed explicitly in the "social cost" literature heretofore,\textsuperscript{10} elite fears and anticipation of such mass protest may act as a significant deterrent to the introduction of socially harmful policies of economic reform.

Thirdly, the casting of votes in referenda or in parliamentary or presidential elections can also be a powerful means of signalling mass dissatisfaction with the reform experience, thereby reducing elites' determination to proceed apace with economic reform. In this scenario, mass-level discontent with the social cost of reform generates increasing support for extremist or anti-system parties, and thereby poses a serious and direct threat to democracy through purely electoral means.

Fourthly, popular discontent with the cost of economic transition may lead to mass-level alienation from democracy in the abstract, as well as to the undermining of the regime's legitimacy. Accordingly, governing elites may be dissuaded from advancing additional economic reform measures.

Lastly, the actual or potential threat of oppositional elites using the issue of the "social costs" of the reform as a weapon against the incumbent government may also be instrumental in stalling reform processes. Oppositional

\textsuperscript{10} Again, the reader should recall Przeworski's cursory reference to this factor in Democracy and Markets (Przeworski, 1991, p. 166).
forces may attempt to manipulate and exploit this issue in order to obtain the support of disaffected populations in their struggle to outmaneuver the government. As a result, the opposition may succeed in forcing the government to pursue less socially-harmful economic policies, i.e., policies of economic gradualism.

Of course, all of the hypothesized "paths of influence" have ramifications for reform in the political realm as well. As we saw above, mass-level discontent with the social costs of transition may not only impede further progress in the realm of economic reform, but also presumably lead to increasing support for extremist parties and alienation from the ideals of democracy.

Likewise, actual or potential mass mobilization and protest against the economic reforms or the regime itself may threaten the overall stability of the political system, thereby endangering efforts toward democratic political reform.

Moreover, as the opposition attempts to bludgeon the incumbent government with the issue of the social costs of the economic transition, the possibility of maintaining a relationship among elite groups that is characterized by mutual trust and respect recedes from view. Therefore, as relations between elites become poisoned, the potential for pact-making among politically significant elites is precluded in the near term and, in addition, the probability
of "elite convergence" (Higley and Gunther, 1991) retreats to an ever more distant past, particularly so if such instability is lengthy and pronounced. Hence, such machinations negatively influence the possibilities for a successful consolidation of democracy.

Thus, by neglecting to fashion the framework of an adequate social welfare system which is fully compatible with a developing market system, postcommunist elites in many cases have run the risk, it is argued, of introducing a substantial amount of political instability into these societies and thereby impeding their own attempts to introduce comprehensive reforms in both the economy and polity. Under these circumstances, the process of economic reform may be halted in its tracks. Moreover, these same tensions, it is presumed, may also block the process of democratic political reform. In short, proponents of the "social cost" approach argue that the realm of social policy should be seen as one important nexus at which the seemingly separate domains of politics and economics are joined.

**Principal Research Objectives**

It is my primary objective to examine the hypotheses raised by the "social cost" theorists in light of the experience of economic and political transformation in the Russian Federation during 1991-1993. Thus, in this
dissertation I intend to examine through the "lens" of the issue of unemployment the interrelationships among economic reform, social policy and democratization in the Russian Federation.

In my view, this particular aspect of the postcommunist social welfare system has been important in affecting the reform processes in both economic and political domains, as the command-administrative system is destroyed and the market economy develops. And, it is my contention that one can most clearly explore the important relationships among the three realms by examining the "politics of employment" in Russia. The term "politics of employment" encompasses the entire range of political activity and conflict among actors at either the elite or mass level that culminates in the adoption or rejection of specific macro-economic policies or administrative decisions that directly influence the level of unemployment within Russian society.

It is my view that the issue of unemployment (both "open" and "hidden" forms) may be the most salient social welfare concern of postcommunist societies in transition. Indeed, as is well known, the economic transformations in the former Eastern bloc have especially threatened this most basic and important "right" which all citizens of the former
Eastern bloc presumably held during the communist past - the guarantee of full employment.\footnote{However, one should recognize that substantial pockets of unemployment existed within the Communist bloc throughout the period of communist rule. In the case of the former Soviet Union, Central Asia's unemployment rates had historically been quite severe (Adirim, 1989; Zaslavskii, 1992).}

In fact, during the Communist era, economic policies in the former Soviet Union and Eastern Europe were quite successful in deliberately providing most citizens with gainful employment.\footnote{Indeed, those citizens avoiding employment were labeled "parasites" and incurred severe penalties, including imprisonment for up to two years.} To be sure, the average national rates of real unemployment in the U.S.S.R. never approached those existing in advanced, industrialized Western democracies.\footnote{Based upon information obtained from the Soviet Interview Project, it has been estimated that even in the pre-perestroika era, the average annual unemployment rate in the U.S.S.R. was 1.2\% (Gregory & Collier, 1988).}

However, as inefficient state firms are forced to adapt to market conditions and their de facto provision of job security is eliminated, the potential for mass unemployment looms large in many of these postcommunist societies. Thus, the first steps toward the market have given birth to the prospect that political instability may arise due to the problems associated with employment (Gauzner, 1993). In such a case, therefore, it has been suggested that the
processes of reform under way in both the economic and political realms may be undermined.

This is especially true for those countries in the region whose populations have a long-standing attachment to the guarantee of full employment. And, evidence collected from popular opinion polls reveals that the population of the Russian Federation has an especially high attachment to the communist-era "entitlement" of guaranteed employment: in 1992 over 90% of respondents believed the State should provide a job for everyone who desires one (Zubova, Kovaleva, Krasilnikova and Mitiaeva, 1992). Indeed, more recent polls continue to register high levels of support for guaranteed state employment among respondents in the Russian Federation (Cline, 1993; Monitoring, 1993; Zerkalo Mnenii, 1993).

In order to limit potential instability resulting from mass unemployment, especially in societies characterized by a high degree of support for full employment, one may recommend the construction of effective programs of unemployment insurance. It is argued here that unemployment insurance may be an important stabilizing factor during economic transitions: it acts as a form of "lubrication" that makes it possible for the dispossessed to "glide" into other positions or occupations. Hence, unemployment

\[\text{\footnotesize \textsuperscript{14}}\text{Since then, the percentage of the Russian population agreeing with such a position has declined, though only slightly (Monitoring, 1993).}\]
insurance may be regarded as a necessary lubricant and one
that is unfortunately largely missing or ineffective in many
of the postcommunist societies, but especially so in Russia.

An effective, well-developed system of unemployment
insurance is particularly deemed essential in a country such
as Russia, where Stalinist central planning resulted in the
development of an exceedingly undiversified economy.
Frequently entire industries are located in specific regions
of the country. Or, often a single factory or enterprise
employs the entire work force of a village or small city.
In such cases, systemic transformations that generate
significant unemployment in certain sectors in the economy
or even within a single factory may profoundly affect
political stability in the country. 18

However, even though the constitutional guarantee
regarding the "right to work" has been dropped by the
Russian leadership, to this date the level of "open"
unemployment in the Russian Federation has remained very
low. 16 Although the reforms begun under Yegor Gaidar were

18 Added to this problem is the fact that under communism,
enterprises acted as social welfare providers. This further
depthens the problems connected with unemployment, as the
regime's antiquated system of rendering social assistance,
while remaining largely incompatible with the demands of
capitalism, causes the loss of a job to be all the more
painful.

16 According to Article 40 of the 1977 Constitution of
the U.S.S.R., "citizens of the U.S.S.R. have the right to work
(that is, to guaranteed employment and pay in accordance with
the quantity and quality of their work, and not below the
state-established minimum), type of job and work in accordance
expected to lead shortly to the bankruptcy of many hundreds of enterprises and therefore significant levels of unemployment, by the end of 1993 the Federal Employment Service in Russia officially recognized less than three-quarters of a million registered unemployed persons in Russia. Moreover, according to Boris Fyodorov, the former Finance Minister known for his radically reformist outlook, in 1993 only eight enterprises had been declared bankrupt (Feder, 1994).

In contrast, countries in Eastern Europe undergoing market reforms were characterized by much larger numbers of open unemployment during a similar period.17 For example, by the end of its first year of "shock therapy" Poland experienced unemployment rates well over 10% of the available work force (Mokrzycki, 1991). Since then, all of the other former Communist countries in Eastern Europe have

with their inclinations, abilities, training and education, with due account of the needs of society." The recently-promulgated Constitution of the Russian Federation treats the subject of employment in a more ambiguous manner (Medish, 1981; Konstitutsiia Rossiiskoi Federatsii, 1993).

17 As well, most analysts would agree that the process of economic transition in most Eastern European countries has advanced farther and proceeded more smoothly than the economic reform program in Russia.

A partial explanation for these results may be the existence of more generous and highly developed unemployment insurance programs, in particular, and social welfare systems, in general, in Eastern European countries than in the Russian Federation (Kharitov, 1993; Russia: Social Protection..., 1993; Fretwell and Jackman, 1994; Krumm, Milanovic and Walton, 1994; Gedeon, 1995; Inglot, 1995). We will return to a discussion of these differences in the following chapter.
experienced comparable levels of unemployment, except the Czech Republic.18

Why then has the level of "open" unemployment - and consequently, the success of economic and, ultimately, political reform - remained highly limited in Russia? Have policymakers, as the "social cost" approach suggests, been forced to re-evaluate their priorities with respect to the radical transformation of the economy, owing to their possible consequences for the level of unemployment in society? If this indeed has been a factor, what forces brought pressure to bear on the leadership -- oppositional elites or society at large? Or, have the changing perceptions of government policymakers regarding the consequences of radical market reforms for political stability caused the pace of transition to slacken? In short, how has the "politics of employment" affected the economic and political reform processes during the initial phase of Russia's postcommunist era?

The "Social Cost" Approach Revisited: Primary Arguments and Hypotheses

By examining the "politics of employment" in Russia in light of the hypotheses raised recently by "social cost" theorists, this dissertation will provide evidence to

18 Whereas many countries in Eastern Europe faced the possibility of 20% unemployment rates during 1994, the Czech Republic was able to maintain an unemployment rate of only 3.5% (Perlez, 1994).
support specific aspects of the "social cost" thesis, while also demonstrating the importance of taking into consideration distinctive features of postcommunist society.

Thus, the task of the present research is considerable and somewhat daunting; what it ultimately seeks to explain is the lack of sufficient progress toward democratic development in Russia in the early postcommunist period. It is my contention that a significant contributing factor to the problematic nature of democratic development in Russia has been the course of Russian economic reform, which, in turn, has been influenced by a number of additional variables.

However, it is far too simplistic to merely state that a direct relationship between economic reform and democratic development exists in Russia; indeed, as we shall see in the

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19 Democratic development denotes the existence of mass- and elite-level behavior and attitudes that are consistent with the advancement toward a democratically consolidated political order in which politically significant elites agree upon the proper powers, prerogatives and roles of principal state actors and institutions and in which a significant and consistent proportion of the enfranchised public support liberal political parties or movements and hold values consistent with the ideals of democracy. Such mass-level phenomena as increasing popular support for anti-system, extremist or non-liberal parties in parliamentary or presidential elections and decreasing support for democracy in the abstract are considered to be convincing indicators of a movement away from democratic development.

20 More specifically, the social consequences of the economic reform course are asserted to be of great importance in explaining democratic development (or the lack thereof) in Russia. We will examine the hesitant, gradual course of Russian economic reform - as well as its social consequences - in greater detail in the following two chapters.
following pages, an interactive relationship exists between the two variables which produces repercussions for reform's progress in both the economic and, ultimately, the political domains.

To begin with, the present research argues that in Russia's case, the hypothesized relationship posited by "social cost" theorists between overt societal demands and governmental response exists only marginally. Here it is argued that, although the Russian economic reform program has engendered significant social costs in the realm of employment issues, e.g., loss of wages for months at a time, a significant level of "hidden" unemployed and some overt unemployment, there has been no great incidence of social instability thus far. Indeed, for a variety of reasons which will be explored in the dissertation, it is presumed that social mobilization - inspired by the social costs of economic transformation - did not function as either a brake on the economic reform process or a stimulus for widespread political instability in the early period of Russia's postcommunist era.

21 The variable "overt societal demands" includes all forms of oppositional mass behavior, e.g., strikes, demonstrations, protests, uprisings, etc. In this study, the existence of this factor has been recorded by examining levels of actual strike activity and the potential for workers to engage in such strikes.
I posit that the lack of strong autonomous mediating groups occasioned by the experience with Soviet totalitarianism impeded the effective mobilization of societal interests against market reforms. Moreover, the continuation into the present era of long-standing institutional relationships that were firmly established during the Brezhnev period of socialist economic development obstructed possibilities for widespread opposition and mobilization among workers.

However, at the same time it does appear that certain hypotheses of the "social cost" approach are supportable in Russia's case. Indeed, the social costs of the transition have affected the trajectory of political and, in turn, economic reform in Russia. That is, as the social costs accompanying economic reform have continued to accumulate, increasing popular support for extremists parties has been recorded, as well as decreasing support for the ideal of democracy. In turn, these results have led policymakers to scale back their efforts to initiate rapid and comprehensive economic reforms.22

Still, the "social costs" approach primarily allocates responsibility for the failure of reform on societal factors. In the Russian case, however, it appears that a

22 Again, it is my contention that the optimum scenario for postcommunist elites to follow is one that is committed to a swift and comprehensive economic transition, combined with the construction of an extensive social welfare "safety net."
critical role was played by oppositional elites in impeding economic and political reform. It is my contention that oppositional elites have been effective in stalling economic reform by using the issue of unemployment as a political weapon against the government. Oftentimes, their motivations for doing so have not been altogether altruistic; indeed, it appears that the issue has been employed by them in order to achieve important gains in the persistent inter-elite power struggle - a conflict that has originated in, and been encouraged by, the inability of the socialist state to remake itself in the image of a "modern" Western democratic state, i.e., from one characterized by a high degree of concentration of power in a hierarchic party-state organization that is at one and the same time commingled with a set of unbounded, inadequately defined pseudo-governing legitimating institutions to one characterized by separate institutions that are clearly delimited and well-bounded by generally agreed upon "rules of the game."

Moreover, here it is argued that besides stalling the economic transition, the widespread incidence of elite conflict - of which the opposition's use of the social costs against the Government is but one example - has also negatively influenced possibilities for political reform. Besides poisoning relations among elites and thereby precluding an elite settlement and further reducing
prospects for democratic development, as the elite conflict continues, it impairs the process of policy-making in the social welfare domain. It is my contention that, insofar as this reduces the competency of the state to respond to such growing social concerns as unemployment, social discontent — already strongly evident given the initial costs of transition — increases, thereby further reducing support for the fledgling democracy and fueling the rise in extremist political movements. Thus, the existence of an unconsolidated political order itself acts as an independent variable which influences negatively policy-making processes in the social welfare domain, economic reform more generally and, ultimately, the progress of democratic development.

In the same vein, the present research argues that intra-branch conflict — again prompted by the deficiencies of the post-Soviet state transition — has succeeded in impeding the progress of both economic and

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2 An unconsolidated political order is one in which the powers and roles of principal state institutions, e.g., the executive, legislative and judiciary, are not clearly delimited by generally agreed upon "rules of the game" and in which institutionalized channels for processing conflict have not been recognized or regularized.

3 Intra-branch conflict denotes the bureaucratic strife, confrontation and struggle for power that emerges between the leaderships or apparatuses of two or more bureaucratic agencies within the Russian executive branch. In the present research it generally refers to the confrontation existing between the Russian Ministry of Labor and the Russian Federal Employment Service.
political reform. By impairing the process of social policy construction, intra-branch conflict causes the mounting transitional costs to accumulate, thereby further undermining the course of democratic development as growing disaffection among the Russian populace obtains. Accordingly, this dissertation will also address the issue of what roles institutional origination and state transformation have played in the "politics of employment" in Russia and the reform process there, more generally.

Critically important also for understanding the changing fortunes of economic and, hence, political reform in Russia has been another variable, one not explicitly addressed in the "social cost" literature thus far: the importance of governmental elites' perceptions and fears regarding the potential impact of radical measures of economic reform upon certain social welfare objectives, i.e., guaranteed employment, and the possible consequences of this for social stability. In fact, the present

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25 The existence of this variable was determined by recording statements made by governing elites either to the press or, more frequently, during the course of personal interviews which implied a direct relationship between the social burdens of economic transformation and the possibility of mass mobilization against the reforms or the regime.

26 Though this factor has not been explicitly considered thus far in the "social cost" literature, it no doubt should be analyzed with this literature in mind. Although in this case the governmental policy response is not motivated directly by societal forces, it is stimulated by elites' fears that social costs resulting from dramatic economic reform measures can potentially lead to widespread social instability.
research argues that even though the Russian public has been exceptionally quiescent, governing elites were apprehensive of a societal backlash in the face of a curtailment of employment opportunities. Indeed, despite leading reformist politicians' assertions that unemployment levels would quickly rise throughout the period, in actuality the evidence points to the fact that the "powers-that-be" wished for unemployment to remain hidden and aspired to retain employment within the enterprise. Thus, the "anticipated reaction" on the part of policymakers has, in and of itself, brought about a scaling back of the economic reform process.

Therefore, the pace of economic reform has languished, in my view in part because certain government policymakers have perceived that the social costs of radical economic transformation would be extremely debilitating. Important government decision-makers have attempted to strictly control the level of unemployment within the country and have preferred to continue managing employment within the

In part, high unemployment did not result due to the micro-level calculations of managers and directors of enterprises in the periphery. These directors were motivated to retain workers at their enterprises for a number of reasons, including concern for the preservation of highly-skilled, stable work collectives which would be needed in better economic times, interest in maintaining social stability in the region, interest in benefiting from certain tax breaks and traditional paternalistic considerations (Kochkina, October 27, 1993). Nevertheless, macro-level economic decisions made in the center have been extremely significant for explaining the phenomenon of continued low levels of open unemployment.
enterprise, e.g., maintaining "hidden" unemployment,\textsuperscript{28} rather than risk the social and political de-stabilization which they presume would ensue from mass open unemployment or "displacement" (vysvobozhdenie).\textsuperscript{29} Moreover, I argue that by scaling back the economic reform process and thereby increasing the magnitude of the social costs of transition, governing elites have impaired the progress of democratic development in Russia; that is, by magnifying the transition's social costs (and extending their duration) with a weak and vacillating approach to economic reform, governing elites - in the absence of an adequately functioning social welfare system - have additionally undermined popular support for democracy and liberal-reform parties and provided those in opposition with an opportunity to further bludgeon the reforms.

Once again, it is my contention that the governing elite's "anticipated reaction" is also a consequence of a

\textsuperscript{28} As well, the ruling elites' efforts to support employment also had unintended consequences for the development of those state institutions responsible for the problem of unemployment. As we will demonstrate in future chapters, since governing elites did not entertain seriously the likelihood of high unemployment, i.e., since such policymakers were unwilling to implement sound, yet socially-damaging structural reforms, scant consideration was given to establishing effective employment organs. Therefore, as the threat of high unemployment increases, the present Russian social welfare "safety net" is critically deficient in many respects.

\textsuperscript{29} As well, government elites feared that such social costs would provide the opposition with a potentially powerful weapon that could be used to destroy the government and its reform policies.
deficient and incomplete state transition. That is, insofar as former institutional structures continue to endure, they condition and circumscribe governing elites' policy responses to perceived or anticipated demands from particular social groups. Thus, in view of their actual distance from society and from significant societal support, governing elites have been quite hesitant to initiate radical, socially-damaging reforms. What is more, attempts by governing elites to transform the state and thereby "shorten the distance" between themselves and specific social groups ultimately failed, as we shall see when we discuss efforts to create a viable "social partnership" organization.

Implications for Theories of Democratization: Sequencing, Simultaneity and the Role of Social Welfare

The nature and scope of the economic changes that have taken place in Russia compel us to explore the interrelationships existing among market reform, social welfare policies and democratization. As the characteristic "welfare props" of command-administrative systems have been forced from the scene, it is my contention that students of democratic transitions should pay attention to the effects these changes have had on the trajectory of market reform in Russia, and on the course of democratic development there.
In the past, the literature on democratization has not sufficiently addressed the effects of dramatic economic transformations on social welfare policies and, in turn, the consequences of this for stability and for prospects of successful democratic consolidation.

Instead, students of democratization focused their attention formerly on a variety of other factors or variables in their analyses. Democratization theorists in the late 1950’s and 1960’s generally focused their attempts at explanation on certain preconditions of democracy. Many scholars argued that, if democratization was to occur, a certain level of capitalist development must be present (Lipset, 1959; Rostow, 1960; Bollen, 1979). Other democratization theorists focused their attention on the political culture of societies to explain the development of authoritarian or democratic polities (McClelland, 1962; Almond and Verba, 1963; Lipset, 1967; Wiarda, 1981). In addition, certain exogenous factors were held to have either hindered or promoted processes of democratization in the Third World (O’Donnell, 1973; Cardoso, 1973; Huntington, 1991).

Many of the hypotheses derived from the development and dependencia literatures have by now been subjected to a great deal of criticism. For instance, many now believe that what earlier theorists believed were preconditions of democracy were actually consequences of it (Barry, 1978;
Hence, these literatures, having developed with the traditional developing world as its point of reference, possess only limited relevance for the Russian case.

The democratization literature of the last decade developed as a reaction to the earlier emphasis on cultural, social, economic and international preconditions. The transitions literature has downplayed the importance of these variables and focused its analysis on the strategic calculations and motivations of politically significant elites in government and nongovernmental societal groupings. These students of democratic transitions argue that socio-cultural, economic, institutional or historical factors may or may not provide a fertile ground for the development of democratizing processes, and instead assert the significance of elite actions as the primary cause of the democratization.

In large measure these studies focus on the elite interactions surrounding the processes of pact-making or settlement in areas concerning the constitutional or institutional make-up of the emerging regime. However, they have tended to neglect issues relating to distributional consequences of economic transformation resulting from the

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\(^{30}\) In addition, early treatises on democratization and modernization were faulted for their Euro-centric biases — values clearly did not by themselves determine the level of development or democracy.

Therefore, a portion of the literature on transitions and consolidation has been faulted for focusing its analysis of political developments on elites, to the relative neglect of other variables. As Karl states, such an enterprise is fraught with the hidden danger of "descending into excessive voluntarism," unless particular historical, economic and institutional constraints are illuminated (Karl, 1990).

Likewise, Stephan Haggard and Robert Kaufman censure the literature on democratic transitions for overlooking the numerous avenues in which the political domain can be influenced or affected by other variables, such as economic crises. In considering the democratic transitions occurring in Eastern Europe and the former Soviet Union today, along with the massive endeavor to institute radical market reforms, one is well advised to take into consideration the literature on structural adjustment (Haggard, 1990; Haggard and Kaufman, 1992; Nelson, 1989; Nelson, 1990; Nelson, 1993). Such analyses of the interrelationship between economic reform and political stability can be informative for events transpiring in the former Eastern bloc.

However, while this Third World structural adjustment literature can be useful for sensitizing one to the vital relationship between structural adjustments and political
reform, the experiences of these regimes are not wholly comparable to the extraordinary changes taking place in postcommunist societies; since the hypotheses Haggard, et al., arrive at are derived from the experiences of Latin America and East Asia, it is my contention that they are not equally applicable to postcommunist settings.  

The Problem of "Simultaneity" and the Issue of Sequencing

While the most recent wave of democratization is taking place in Eastern Europe and parts of the former Soviet Union, the extent of economic change required in these postcommunist societies establishing incipient market

31 For example, Latin American regimes undertook structural and political reforms with a variety of social groups and economic actors taking part in the process. Such was not the case in Eastern Europe, however, where a single elite stratum dominated the scene and where social forces were largely alienated from the reform process (Crawford and Lijphart, 1995, pp. 174-175).

In addition, the fundamental nature of the economic change needed in postcommunist societies, relative to that required in Latin American or East Asian settings, is certain to have implications for the probability of success of attempts at coalition maintenance. Although one of the primary conclusions of the structural adjustment literature asserts that during economic reformation the regime should avoid "stepping on as many toes" as possible - and certainly one should avoid injuring all of them simultaneously - in postcommunist societies, however, the transformation from an entrenched, heavily-bureaucratized, state socialist economic system to a market economy frequently necessitates the trampling underfoot of virtually all economic actors at some point.

Of course, it should be recognized that certain groups will benefit from marketization. However, the number of such groups in postcommunist societies are not likely to be as large as those existing in capitalist countries in the developing world.
economies is much greater than that ever before considered by capitalist regimes - or democratization theorists - worldwide. History offers no cases comparable to the simultaneous processes of dramatic economic and political transformation under way in the postcommunist world today.\textsuperscript{32} Hence, democratic transitions occurring in postcommunist settings are faced with an extremely confounding problem: the dilemma of "simultaneity." Here, then, is another important variable which has the capacity to immensely complicate the transition to democracy, by introducing a substantial degree of instability - both economic and political - into the equation.

However, existing theories in the transitions and consolidation literatures do not specifically address the existence of parallel reforms in these two realms; most of the theories of democratic transition have traditionally focused only upon the causal line moving from political liberalization to democratization.

\textsuperscript{32} Scholarly opinion has been divided on the applicability of the experience and lessons gained from previous transitions in Latin America and Southern Europe in analyzing the East European cases. McFaul (1991), Terry (1993) and Bunce and Csanadi (1993) argue that the "transitions" under way in Eastern Europe and the former Soviet Union are unique and that earlier studies of democratization have only limited value for understanding processes in Eastern Europe. On the other hand, Bova (1991) and Schmitter and Karl (1994), while recognizing the particularities of post-totalitarian politico-economic development, nevertheless contend that the Latin American and Southern European experience can be extremely useful.
Indeed, transitions from authoritarianism in most Southern European countries were not saddled with the extra burden of inaugurating substantial and painful economic reforms at the same time that political reform was being attempted; instead, in these successful cases of democratic consolidation restructuring attempts in the political and economic domains were "decoupled," (Linz and Stepan, 1993, p. 118; Bresser-Pereira, et al., 1993, pp. 84-85; Linz, Stepan and Gunther, 1995, pp. 100, 396-397) with substantial economic reforms following sequentially upon democracy's complete institutionalization.

In each of the cases of successful democratic consolidation in Southern Europe, economic reforms were regarded as essential at the outset of the transitions (Bresser-Pereira, et al, 1993); the economies of Greece, Italy, Portugal and Spain were all burdened with significant structural weaknesses and declining indicators of performance (Williams, 1984, p. 24). In the case of Spain, after having experienced fifteen years of unprecedented growth (Medhurst, 1984), at the outset of the democratic transition the economy was quickly mired in crisis, with Spain experiencing the highest rate of unemployment in all of Europe (Maravall, 1982, pp. 121-122; Linz, Stepan and

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3 Though Maravall does claim that the Portuguese transition trajectory was somewhat different, it certainly did not include the depth and scope of economic transformation required of East European centrally planned economies (Bresser-Pereira, et al, 1993, p. 85).

However, in each of these cases, decisions were reached by politically significant elites to defer needed structural reforms until after political reform had made significant progress; by postponing economic reforms, elites were able to avoid the potential for additional de-stabilization and polarization and concentrate on furthering the political goals of democratic consolidation (Linz, Stepan and Gunther, 1995, p. 396). In hindsight, it is most probable that such sequencing tactics were advantageous for the consolidation of democracy in Spain, Portugal and Greece (Diamandouros, 1986; Bermeo, 1994; Linz, Stepan and Gunther, 1995). Surely other transitologists recognize the importance of minimizing substantive policy conflicts between elites while pursuing consolidation (Valenzuela, 1992); in doing so, paramount importance should be given to the political realm (Diamond, 1990).

Thus, in view of the Southern European experience, several students of democratic transitions have argued that if possible the sequencing of settlements among politically-significant actors should first begin with the political realm; the resolution of conflicts over social welfare policies and structural economic reforms should be realized thereafter (Linz, Stepan and Gunther, 1995, p. 118).
At the outset of the transitions in Eastern Europe, many economists and former students of communist development discounted the Southern European sequencing model as irrelevant and infeasible in much of the postcommunist world (Grilli di Cortona, 1991; Offe, 1991; Staniskis, 1991; Terry, 1993), especially in Russia (Aslund, 1994).

In the end, Russian reformers elected to initiate economic reforms before political restructuring, thereby presumably rejecting the alternative sequencing model offered by the Southern European experience; instead of offering his government as a "sacrificial lamb" (Bermeo, 1994, p. 602) on the altar of democratic consolidation, Yeltsin permitted the Gaidar shock therapists to act as his "kamikaze government."  

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34 As we shall see in chapter 6, there is some indication that President Yeltsin apparently believed the "Southern European sequencing" model was feasible in Russia's case, but ultimately chose to ignore that experience. Twice in his autobiography, Yeltsin lamented not having concluded a political settlement with his opponents before launching economic reforms:

Maybe I was in fact mistaken in choosing an attack on the economic front as the chief direction, leaving government reorganization to perpetual compromises and political games (Yeltsin, 1994, p. 127).

There was not time to pass a new Constitution. We were hurrying with economic reforms and left the political reforms for later. That was a mistake (Yeltsin, 1994, p. 190).

35 In the early days of the Russian economic transition, on numerous occasions Yegor Gaidar referred to his presumed short-lived government in such a manner.
Hence, the present research will contribute to the debate regarding sequencing in the literature on democratic transitions and consolidation by examining the consequences of reversing the Southern European experience for Russia's democratic development and economic transformation.

The Problem of "Simultaneity" and the Issue of Social Costs

The purpose of implementing economic reform measures is to generate long-term growth, eliminate inefficiencies existing in the economic system and increase the overall standard of living of the citizenry. However, such objectives are difficult to achieve in the short-term, especially in postcommunist countries where market institutions and entrepreneurial relationships are slow in developing.

At the same time, however, market reforms impose severe social and economic costs relatively quickly. As well, such economic restructuring especially threatens the pre-existing comprehensive - though from a market-oriented perspective - "deformed" social welfare system that was established decades before in postcommunist countries. Thus, as

36 It is suggested that such social welfare systems were "deformed" because, unlike in the West, the provision of social services in state socialist systems was closely linked to the production of goods in the economy.

37 To be sure, social policy is particularly important in these countries -- countries in which citizens had previously been guaranteed a minimum level of security from all sorts of social ills, such as homelessness, disease, hunger, and of
burdens of transition increase and the "safety net" disappears, several "social cost" theorists have suggested that the process of reform in both economic and political realms may be put in extreme jeopardy, through demonstrations, strikes, electoral protests, etc. (Mokrzycki, 1991; Bruszt, 1992; Bresser-Pereira, et al., 1993; Circautas and Mokrzycki, 1993; Rose and Mishler, 1993).

The present research seeks to empirically test many of the hypotheses derived from this small body of literature. Although this author generally supports many of the assumptions of this theoretical approach, in the final analysis it is my contention that the "social cost" approach must and can be improved upon, especially as it relates to postcommunist states. However, having recognized these limitations, at the same time this author also lauds the social cost approach for directing its gaze on a little-explored aspect of societies engaged in "dual transitions."

Indeed, as a general rule, many economists have tended to focus specifically on the reform processes under way in the economic domain, while downplaying significant political factors in the transition. Some of them have focused on the appropriate model of transition to be followed or the proper course, unemployment.

I will return to this issue in the concluding section of this literature review.
sequencing and pace of economic reforms (Kemme, 1991; McKinnon, 1991; Ofer, 1992). Each of the authors above argues for one or another model of transition, with its particular logic of reform sequencing. Kemme and McKinnon argue in favor of the "big bang" approach, asserting that positive results can be achieved only with the introduction of a consistent set of radical economic reform measures across the entire gamut of the economy.39

However, both authors arrive at their conclusions based largely upon economic considerations; scant attention is focused upon political factors or the social costs of the required reforms.40 Though political factors are entertained in Ofer's analysis, the primary motivation for his recommendation of a more gradual approach is economic: Ofer believes that measures to combat the monopolistic structure of postcommunist economies are necessary before price liberalization is pursued.

As well, earlier studies of democratic transitions focused very little attention on the importance of social policy in the reform process. This omission is surely the

39 Indeed, according to these authors, gradual reforms introduce a contradictory dynamic into the reform process, as new economic principles and elements confront old.

40 Again, as stated in the introductory pages of this dissertation, a number of more prudent economists have recently acknowledged the importance of pondering the political ramifications of implementing radical economic policies (Sachs, 1993; Barr and Harbison, 1994; Sachs, 1994; Tulin, 1995).
result of the fundamental difference between the transitions that took place earlier in Southern Europe and those now under way in Eastern Europe: Southern European societies were fortunate to have had in place during their transitions well-developed social welfare systems which were entirely compatible with a market system. In addition, each of these countries continued to devote an increasing proportion of their GDP to social welfare programs throughout their transition and consolidation phases (Maravall, 1990, p. 25; Linz, Stepan and Gunther, 1995, pp. 118-119).

Though the existing literature on democratic transitions and consolidation has not thus far examined the "social policy nexus" in-depth, it does provide us with a consideration to keep in mind in the postcommunist context: it recommends that the political system in democratizing societies not be overburdened with too many demands lest reform processes become jeopardized. In particular, as Bresser-Pereira, Maravall and Przeworski (1993), Linz and Stepan (1993), the National Research Council (1992) and Maravall (1982) have intimated, established welfare programs should not be undermined in times of rapid transformations of both the political and economic domains.41

41 Indeed, one of the more convincing conclusions drawn from the literature on democratization maintains that a "high level of socio-economic development" is an important facilitating condition for the successful transition to democracy (Lipset, 1959; Rostow, 1960; Higley and Gunther, 1991, pp. 29-30). If this is true, it may not augur well for Russia: in 1993 over 80% of the people were said to be living
Nonetheless, if the transitions literature of the past could be faulted for disregarding the importance of the social costs of economic reform for democratic development, the same can be said for the majority of more recent research. Indeed, while many recent works by students of democratic transitions — as well as those of economists and other social scientists interested in the politics of economic reform — have recognized the salience of the "simultaneity" problem, only a minority of these scholars have explicitly (and empirically) considered the dramatic consequences of the social costs of economic transformation for democratic development and continued economic reform (Comimso, 1988; Kornai, 1990; Comimso, 1991a; McKinnon, 1991; Przeworski, 1991; Bunce and Csanadi, 1993; Kornai, 1993; Terry, 1993).

In his much-touted recent book, Democracy and Markets, Adam Przeworski offers us an initial analysis of the interrelationship between the transitions of both market and polity. After considering the different market reform trajectories possible in postcommunist societies, the author below the poverty level and about half of these were living below the state-established "physiological minimum" level (Degtyar', 1993; Yudina, 1993).

As has already been pointed out above, among those that have pondered the implications of the transition's social costs for democratic development and economic reform are Mokrzycki (1991), Bruszt (1992), Bresser-Pereira, et al. (1993), Circautas and Mokrzycki (1993), Kabele (1993), Offe (1993), Rose and Mishler (1993) and Przeworski (1995). We will reconsider these authors' works in the following pages.
presents a sobering assessment of the consequences of any type of market reform, be it gradual or radical: market reform will result in the deterioration of living standards for the majority of people. And, Przeworski suggests that even a temporary economic slump can undermine the process of either economic or political reform.

However, that having been said, it is Przeworski's belief (along with the "Chicago School" of Western economists and Eastern practitioners) that the "shock therapy" or "bitter pill" approach will ultimately be more successful in extending the transformation than any other approach to economic reform. The swift introduction of the radical approach will presumably allow a more rapid crossing of the "valley of transition," thereby reducing the amount of opposition from society. This approach will also make the likelihood of a return to the status quo less feasible or likely.

However, in the absence of an adequately-functioning social welfare system, might such an approach underestimate the impact of severe economic austerity measures upon the stability of the political system and, in turn, its effects upon the trajectory of democratic development? To be

""As well, keeping the Russian case in mind, Przeworski's model may be criticized for putting too much emphasis upon the amount of pressure the masses can apply at the polls (or otherwise). Indeed, Russian parliamentary elections were not held until almost two years after the inauguration of Gaidar's economic reforms. Thus, Przeworski implicitly downplays the importance of governing elites' perceptions for the
sure, Przeworski all-too-briefly addresses the implications of shock therapy for social welfare programs in former state socialist systems and the impact upon democratization. In addition, the book offers few empirical findings regarding this domain, nor does it address specifically how governing elites propose to deal with, or are affected by, popular concerns in the social welfare arena.

Janos Kornai (1990) may be similarly censured for these same omissions in his otherwise insightful primer on postcommunist economic transformation. Kornai partially compensates for these shortcomings in a more recent work by supporting a re-evaluation of economic priorities that governments should pursue during the transition. Here, he places more emphasis upon increasing production—and, hence, employment—lest mass discontent lead to a "Weimarization" of politics (Kornai, 1993).

Like Przeworski, Terry (1993) contends that the "simultaneity" issue is a significant impediment to the successful transition to a stable democracy and is one of five characteristics differentiating postcommunist

continuation of the reform process in its earliest stage, which (as it is argued in this dissertation) may operate to paralyze the reform process.

"Unlike Przeworski, however, Kornai cautions reforming elites to refrain from adopting the "bitter pill" method, asserting that policymakers should avoid destroying all at once the inefficient state sector during the transition to a market, and indeed should continue granting credits to such industries, while simultaneously encouraging entrepreneurial forces."
transitions from those taking place earlier in Southern Europe and Latin America. However, she does not consider the importance of a well-defined, well-developed social policy for the alleviation of political instability and the attenuation of electoral polarization arising from the social costs of economic reform.

After outlining numerous transformations essential for the successful withdrawal from state socialism, e.g., constructing a responsive bureaucracy, an independent media and appropriate civil-military relations, Bunce and Csanadi similarly overlook the facilitating role that an adequate and effective social welfare policy may play in democratic development, i.e., by enabling societies under strain to endure the "uncertainty" of the transition (Bunce and Csanadi, 1993).

The literature reviewed above has - like much of the transitions and consolidation literature before it - neglected to systematically address the issue of social costs arising from market reforms and the potential recursive effects these social costs may have upon the economic and political transitions taking place in societies. Although the following contributions redress this grievance to some extent, many are found wanting in various respects.
William Moskoff (1993) examines the impact of Gorbachev's attempts to rationalize and reform the overextended social welfare system - particularly in the spheres of pricing and employment - upon the trajectory of the Soviet leader's overall economic reform package. He finds, as does Cook (1992; 1993), that the consequence of such policies was the gradual weakening of the overall economic reform program and not the expected transformation of the system of social benefits. Cook argues that this outcome was determined by the existence of the socialist "social contract," a "covenant" between mass and elite upon which the regime's legitimacy was presumed to rest and, hence, one compact the Soviet elites were not inclined to assail. Similarly, Mokrzycki (1991) and Hausner and Nielsen (1992) have asserted that perestroika eventually failed because it clashed with the existing system of group interests.

Though addressing the social costs of welfare policy transformation as a critical aspect in the politics of Russian economic reform, these studies have not examined the impact of such reforms upon democratic development under rather different political, as well as social and economic, conditions.

The edited volume by James Millar and Sharon Wolchik (1994) does consider to a degree the "social contract" and the "social legacies of state socialism" in Russia's postcommunist era. However, besides being overly-
descriptive, the selections never really entertain the larger question that the editors originally pose, i.e., what impact will these "social legacies" have upon the processes of economic and political transition, and postcommunist development, in general.

In *Intricate Links* (1994), Joan Nelson, et al., examine a variety of links between economic and political transformations, e.g., the role of the bureaucracy in "dual transitions," property rights and the democratic process, etc. While Munoz does examine the consequences of social costs for reform in both domains more substantially than those authors reviewed earlier, he focuses only briefly on the distributive consequences of economic reforms for democracy (Munoz, 1994). In her contributions to the volume, Nelson compensates for this, although her laudable attempt to generalize across countries in Latin America and East Central Europe denies us the "richness" of a more in-depth examination of fewer cases in most-similar regions.49

Similarly, Bunce (1994) also raises the issue of social costs in postcommunist states undergoing "dual transitions" - costs which she asserts (unlike in her earlier work) may possibly derail both economic reforms and democratic development. In addition, Bunce asserts (a la Przeworski in 45

Thus, it is hoped that my focus on the Russian Federation will illuminate more fully the "intricate links" between the social costs of transition, economic reform itself and democratic development in a single country.
Democracy and Markets) that a rapid economic transition is ultimately best for reform; indeed, she argues that "the countries which moved fastest on the economic front show no more economic costs in the first few years of postcommunism than their more slowly-moving counterparts...."4 However, though this may be true of most socio-economic indicators, it is certainly not true of unemployment4; levels of unemployment differ widely between those countries undergoing a rapid transition and those pursuing reform more gradually. This observation may potentially indicate a partial explanation for why reforming elites in certain postcommunist societies, e.g., Russia, have adopted a more gradual approach to economic reform, i.e., the desire to avoid widespread open unemployment and potential political instability.

Certainly, in more recent works Adam Przeworski, et al., have re-evaluated the role that social costs, and particularly that of unemployment, play in the transitional dynamics of postcommunist societies. In Economic Reforms in New Democracies (1993) and Sustainable Democracy (1995), Przeworski reverses his earlier position and maintains in

"Such sentiments have been repeated by both East European practitioners and Western advisors alike (Balcerowicz, 1994; Aslund, 1994). Indeed, Anders Aslund argues that "the social costs of transition are likely to be lowest under a radical reform scenario" (Aslund, 1994, p. 73).

"As Bunce admits half-heartedly, "... there is one indicator that is an exception -- levels of unemployment" (Bunce, 1994, p. 18)."
its stead (along with Maravall and Bresser-Pereira) that renewed emphasis should be placed upon the political implications of postcommunist economic transformation. Thus, they argue a "social democratic," gradualist approach to market reform should be initiated, with an eye to resuming economic growth and lessening the social costs of transition. Many of these same cautionary notes have been asserted by other "social cost" theorists before (Mokrzycki, 1991; Bruszt, 1992; Circautas and Mokrzycki, 1993; Kabele, 1993; Offe, 1993; Rose and Mishler, 1993). However, only a certain few have considered the importance of a well-defined social welfare policy as one factor facilitating democratic development (Bresser-Pereira, et al., 1993; Przeworski, 1995).

The "Social Cost" Approach Amended: Legacies of Socialism

Although it appears that the social costs of economic transformation may have a significant impact upon the processes of economic and political restructuring in postcommunist societies, it is my contention that students of democratic transitions and the politics of economic reform must also take into consideration certain legacies of state socialism that may act to both weaken and augment the hypothesized relationships advanced by social cost theorists. On the other hand, a closer examination of such legacies may reveal that an additional avenue exists in
which the transition's social costs may impede economic
reform and democratic development: an avenue not explicitly
considered in the social cost literature heretofore.

To wit, in the social cost literature, one hypothesized
avenue of influence impeding reforms' progress is that of
mass mobilization, i.e., overt societal opposition
manifested in strikes, demonstrations, riots, etc. However,
is it possible that postcommunist elites may not be subject
to the same societal pressures as those that have confronted
reforming elites elsewhere? Surely certain distinctive
features or legacies of post-totalitarian political
development have caused different transitional dynamics to
emerge in Eastern Europe and the former Soviet Union.

For example, in "Political Coalitions, Economic
Choices," Ellen Commissio addresses the political problems
governing elites confront in maintaining tenuous alliances
and coalitions with societal groupings as postcommunist
governments pursue various programs of market reform.
Commissio considers the question of what consequences would
ensue for political stability from the implementation of a
radical market reform plan that results in great
distributional inequalities -- one not unlike that proposed
and initiated by Yegor Gaidar in late 1991. In the end, she
contends that such a program would not be detrimental for
stability as long as the "losers" remain unorganized (Commissio, 1991a).

However, if one were to examine her thesis from the point of view of the "social cost approach," one could argue that the social costs endured by the "losers" during the transition would appear to be a critical element affecting the governing elite's abilities to maintain alliances or secure group support or acquiescence for their reform policies.

On the other hand, might Commissio have designated the circumstances under which postcommunist elites may undertake structural economic transformation, i.e., when opposing societal forces are unorganized and do not have a "voice"? Indeed, this point appears to be well taken in view of what has transpired in Russia's case: here the "economic losers" have remained largely impassive, disorganized and "without a voice." Thus, the relationship which exists between masses and elites in postcommunist Russia may be considerably different from the pattern which exists in the West. Other scholars have reached similar conclusions (McFaul, 1991; Jowitt, 1992; Kitschelt, 1992; McFaul, 1993; Bryant, 1994; Crowley, 1994; Schopflin, 1994).

Of course, though the masses may remain overtly quiescent due to the existence of tenuous mass-elite linkages, this may not impede them from voicing their concerns at the polls. Hence, disaffected portions of the populace still retain the potential to influence the trajectory of economic and political restructuring in postcommunist societies.
Indeed, Commisso, et al., believe that during the postcommunist transition period a shift to "populist" policies - those that would greatly threaten the success of reform processes - would most likely take place due to the pressure of organized lobbies of opposition located at the pinnacle of the political elite, rather than from mass organizations (Commisso, et al., 1991). Drawing upon an analysis of reform efforts in Latin America and Eastern Europe, the authors claim that the absence of well-organized associations which can count on mass support actually reduces the chances for successful transitions in Eastern Europe; the lack of such groups produces a government that is held hostage by the "narrow lobbies" surrounding it.

It would appear that these considerations have a great deal of relevance for understanding the trajectory of reform in Russia as powerful "lobbies" - oftentimes entwined with existing ministerial structures - have constrained government policymakers in their attempts to push radical reform forward. In this instance, therefore, the absence of strong mass-elite linkages augments the salience of another hypothesized relationship advanced by social cost theorists - that between oppositional and governing elites.

Thus, following Commisso's theses, one may assert that the lack of autonomous, mediating institutions can both act to propel and curtail reform processes in Russia. It would seem then that an elite group aspiring to promote
transitions in both the economic and political realms should pursue a selective policy of constructing strong mass-elite linkages. On the one hand, reform-oriented government elites should strive to construct strong organizations of mass support for reforms which can operate to insulate the embattled reformers from "lobbies" opposed to reform. At the same time, however, these same policymakers should attempt to forestall the development of organized mass associations among the economically disaffected portions of the population.

At the same time, this legacy of weak mass-elite linkages may indicate that another dimension to the social cost approach exists, one not specifically addressed before. That is, owing to an inadequate transformation of state institutions, an "associational chasm" exists between masses and governing elites which effectively limits the policy response of policymakers and thereby, ultimately, negatively influences the trajectory of economic reform and democratic development.

Besides the above, additional elements frustrating postcommunist transitions - and, therefore, diminishing the

"A former official in Poland's first postcommunist Government heartily concurs with the necessity to develop and foster a "direct contact with society" in order to push forward the reform process (Dabrowski, 1992, p. 60). Unfortunately, in Russia's case as we shall see, it appears that reformers failed to create strong ties with societal groups in support of reform."
explanatory power of the "social cost" approach - stem from the same factor discussed in the preceding paragraph: a deficient state transition. Having as their origin the flawed transformation of Leninist state institutions, both inter-elite and intra-branch conflict have adversely affected reform processes. In Russia, the unconsolidated political order that emerged from the ashes of the Communist system encouraged policy conflicts to erupt, thereby further obstructing both economic reform and democratic development (Aron, 1993; Breslauer, 1993; Zielonka, 1994).

With respect to intra-branch conflict, it appears that fissiparous bureaucratic developments may act as important barriers to successful economic transformation and democratic development in societies in transition. Indeed, according to a number of authors, the formation of a professional, unified and well-ordered administrative structure is essential for the establishment of substantial state capacity and, hence, crucial for the consolidation of democracy (Fairbanks, 1991; Kochanowicz, 1994; Maravall, 1994, pp. 24-26).

Recent analyses of institutional change in Russia reveal that an enormous amount of institutional origination, fragmentation, de-centralization and inter- and intra-institutional rivalry has affected the "heirs" of the Soviet state-administrative structure and has impaired the policymaking process (Stavrakis, 1993; Crow, 1993; Aslund,
1995; Colton, 1995; Hanson, 1995; Huskey, 1995), thereby marring the progress of political reform. By examining such processes in Russia’s employment domain, the present research will contribute to a better understanding of the important role these bureaucratic developments play in economic transformations and democratic transitions.

Having taken an initial scan of the existing literature on democratic transitions and transformative politics, it has become clear that the democratization literature specifically, and to a lesser degree, that of transformative politics, have overlooked important interactions between economic and political processes of reform in dual transitional settings. While the transformative politics literature has attempted to deal with the politico-economic interrelationship and does advance various arguments, these scholars in large measure have not tested their assertions through empirical research. In addition, both literatures have neglected to address adequately the specific role that social policy - in the background of existing legacies of state socialism - may play in postcommunist transitions. Thus, the present research will seek to compensate for these apparent shortcomings.
Research Agenda: Data and Methods

This research is based upon a number of data and information sources. In part, it is based upon results obtained from in-depth interviews held in the spring and fall of 1993 with high-ranking former and present officials in the Federal Employment Service, the Ministry of Labor, the Ministry of Social Protection, the Ministry of Economics and the Gorbachev-era State Committee for Labor and Social Questions. Additional data were obtained from officials in the Department of Social Policy within the Presidential Apparatus and from World Bank employees in Moscow and the U.S. Moreover, I have held extensive interviews with high-ranking officials and specialists on employment in certain "oppositional" organizations, e.g., the Federation of Independent Trade Unions of Russia (FNPR), the Russian Union of Industrialists and Entrepreneurs (RSPP) and the International Congress of Industrialists and Entrepreneurs (MKPP). Furthermore, supplementary data regarding problems of employment were obtained from leading scholars at the Institute of International Economic and Political Studies (Russian Academy of Sciences), the Center for Information and Social Technologies (under the Russian Government), the Institute of Labor (under the Ministry of Labor), the Ministry of Finance’s Macroeconomic and Finance Unit, the Institute of Employment Problems, the All-Russian Center for
Additionally, other major sources of data have been journalistic accounts of various forms of political activities taking place during the period of "radical" economic transformation. Of special consideration here are accounts of round-tables or interviews with relevant elites, reports of elite interactions, position papers of significant political groupings, critical speeches of pivotal elites, "lobby" or interest group activities, etc.

Furthermore, I have also obtained a variety of data from a series of Russian public opinion polls, which measure citizen attitudes toward unemployment, its impact upon their lives, participation in strikes or demonstrations, trust in trade unions and other representative institutions, etc. Moreover, a variety of statistics made available to me by various government and non-governmental agencies and institutes have reinforced the research findings.

Of particular importance are articles and legal or normative acts gleaned from several Russian newspapers throughout this period. The newspapers *Delovoi Mir*, *Trud*, *Rabochaia Tribuna*, *Rossiiskaia Gazeta*, *Rossiiskie Vesti* and *Nezavisimaia Gazeta* have been especially useful. Finally, I have uncovered many useful articles in specialized journals devoted to the social welfare policy domain. For example, a number of journals issued by relevant governmental
ministries and Russian trade unions have been quite valuable sources of information, e.g., Chelovek i Trud, Sotsis, Sovetskie Profsoyuzi and Profsoyuzi i Ekonomiki.

**An Analysis of Interrelationships Among Politics and Economics**

As stated earlier, the domains of politics and economics have often been treated by political scientists and economists as though the two were separate and disjointed. We have already seen how students of democratic transitions have often ignored the significant connections which indeed do exist. This dissertation aspires to correct to some degree the collective myopia of the many brilliant scholars who have contributed to this literature.

The remainder of the dissertation will be devoted to fine-tuning and filling out the arguments presented above. Having discussed the thesis of the dissertation and the main research questions to be answered, it is now essential to outline the parameters of the dissertation and to introduce briefly the ensuing chapters.

After briefly examining the different reform trajectories of other East European postcommunist societies, the following chapter identifies and analyzes the importance of several unique features of the Russian reform experience. The chapter continues with a more detailed overview of political and economic reforms in Russia between 1991-1993, while elaborating further on the crucial interrelationships
which have existed between processes of reform in both domains. In addition, besides surveying the disappointing results of reform, the chapter begins to explore the painful socio-economic consequences the reform program has generated.

Chapter 3 begins with a brief analysis of the employment situation during the late Soviet era, while highlighting certain systemic peculiarities which have developed as a result of the particular economic model pursued by Stalinist central planners and which have ultimately increased the social costs of the market-based economic transformation. Additionally, a comprehensive examination of the growing problem of unemployment in the Russian Federation since the late Gorbachev period is undertaken; the chapter examines regional variations in unemployment levels and presents a portrait of the main "victims" of unemployment - those groups that have an overwhelming presence among the ranks of the unemployed.

Chapter 4 is devoted to the consideration of the micro-economic impact upon the level of unemployment in Russian society -- that aspect which is affected by staffing and personnel decisions made by directors of state enterprises. This issue must be dealt with to some extent as the micro-economic motivations of enterprise directors are indeed important for understanding why rapid structural reform has not been pursued more diligently, and hence, why relatively
high levels of open unemployment in Russia have not been recorded to date. To be sure, such an outcome is a consequence of the continuation into the present postcommunist period of a traditional Soviet-era institutional relationship between enterprise administrator and worker.

Nevertheless, having dealt with this issue, the analysis then discusses the consequences of macro-economic policies for the level of unemployment in society. To be sure, as one well-known Russian economist has asserted, economic decisions formulated at the center have had important consequences for the level of unemployment within society, directors' motivations notwithstanding (Popov, June 14, 1994).

The next three chapters constitute the central substantive chapters of the dissertation. Each of these chapters examines a specific variable or factor which presumably has influenced the course of the reform process in the economic, political and social policy domains.

The first of these chapters contains an analysis of society's impact upon the reform processes. This section relies in large measure upon public opinion polls which evaluate the Russian people's concerns regarding unemployment and prospects for social mobilization against reform. As well, the chapter evaluates data on strikes between 1991 and 1993.
Moreover, the chapter seeks to explain why in the face of extreme social costs no great degree of social mobilization was recorded: as in Chapter 4, the "legacies" of Soviet socialist political development are found to be at fault, as the absence of strong autonomous mediating institutions inhibit effective societal mobilization. At the same time, however, the chapter does provide evidence demonstrating the deleterious impact of the transition’s social costs upon the course of political reform in Russia.

In the following chapter, we turn our attention to the role that the opposition - in all of its guises - has played in the unfolding events. Here, the influence of several important oppositional elements (i.e., the legislature, corps of directors, trade unions) upon the trajectory of the reform process is evaluated. In addition, after outlining the enormous degree of institutional transformation that has occurred within this policy sphere, we discuss the consequences of intra-branch conflict for the "politics of employment" in postcommunist Russia; this section will address how these phenomena have affected processes of policy-making during the transition period. Once again, we see how various actors - in the context of an unconsolidated political system - have used the social costs of reform to forestall the economic reform program and, in turn, impede the process of political reform.
We then examine how the perceptions and calculations of governing elites regarding the potential social costs of radical economic reform have influenced the evolution and outcome of the reform process itself. Again, this chapter demonstrates the importance of considering the transition in Leninist state institutions (or the lack thereof) for understanding the course of reform in Russia.

The closing chapter will endeavor to draw together the essential findings and conclusions of the research, while re-joining and addressing the main arguments in the dissertation. Moreover, having illustrated the principal substantive and theoretical contributions of the dissertation, possible future research avenues will be explored in the concluding section.
CHAPTER II
The Evolution and Consequences of Postcommunist Reform in Russia

In practically all areas, reform is only at the initial stage, or there's nothing going on at all. Yes, the adjustment still happens, but in the meantime more and more people hate the government and the President. ... the system of government is basically the same as it was under Stalin.

- Boris Fyodorov, Former Russian Finance Minister

Change is occurring in Russia, and it's basically in the right direction. It's frustratingly slow at times and frustratingly inconsistent.

- Charles Blitzer, Chief Economist, Russian World Bank Office¹

Introduction

The preceding statements made by expert observers are two characterizations of the process of politico-economic reform in Russia during the postcommunist era. Though their assessments may differ somewhat, the two specialists clearly agree on one point: the economic and political reforms implemented in the name of "shock therapy" and "democracy"

¹ Both quotations were obtained from an article in the Washington Post (Hiatt, 1994).
have not progressed smoothly and apparently have not lived up to prior expectations.

As stated in the introductory chapter, a variety of explanations have been put forward by theorists emphasizing different factors that may account for setbacks in reform. One may encounter explanations which highlight the significance of the continuation of traditional patterns of behavior, inter-elite wrangling or the lack of a fully developed civil society for understanding the circular nature of economic and political reform in Russia.

Although such factors are not inconsequential -- and they will indeed be explored in this dissertation -- the principal objective of my work is to in part evaluate in light of the confusing and chaotic events in Russia the arguments and assumptions put forward by those scholars who believe that economic and political reforms have faltered in many postcommunist societies due to the painful "social costs" that have accompanied them. To wit, as "radical" economists implement economic reform and the high social pricetag becomes apparent, political instability among both masses and elites will alter the course of reform. Thus, supporters of this approach reject the neo-liberal, "shock therapy" strategy of radical economic reform because it is presumed to be fraught with widespread social disorder and inter-elite discord.
Accordingly, the present chapter offers an introductory examination and evaluation of the reform processes in Russia during the first two years of its postcommunist phase, while highlighting the crucial interrelationship which has existed between reform processes in the economic and political realms. Before doing so, however, the chapter provides a brief comparative analysis of reform efforts in several postcommunist states, while emphasizing the rather unique features of the Russian economic and political transition.

Moreover, the chapter surveys the results of Russian economic reform in a variety of spheres and begins to analyze the consequences of these developments for the society and polity in order to furnish the reader with a point of reference and to provide the essential background data which will be used to support the principal arguments of the dissertation: that, despite the significant social costs associated with the transition in Russia (which are recounted in chapters 2 and 3), the tenuous connection between society and regime has not permitted societal forces to overtly impede reform processes. However, social discontent—inspired by the burdens of transition—has altered the trajectory of democratic development in Russia and has aided in discouraging elites from undertaking reform by generating increasing popular support for both extremist political parties and non-democratic or illiberal ideals.
In addition, both opposition from elites in positions outside of the executive branch and the perceptions of pivotal governmental policy-makers regarding the potential for serious societal disturbances arising from the social costs have resulted in the vacillating, "zig-zag" approach to economic reform and, ultimately, the lack of democratic development in Russia. In the final analysis, these factors stemmed from an insufficient transformation of Leninist state institutions, in which an unconsolidated political order emerged and a long-standing gulf between masses and elites was perpetuated.

**Russian Reform in Comparative Perspective**

Before examining in-depth the course of economic and political reform in Russia, let us begin this chapter by focusing on the various models of postcommunist economic reform advanced in Eastern Europe after the collapse of state socialism in 1989-1991. After briefly analyzing the paths chosen by various states in the region, we will then underscore unique aspects of the Russian course of economic and political transition.

At the outset of the postcommunist era, elites in Eastern Europe wrestled with the difficult issue of transition strategy. The transition strategies that generated the most discussion were the "shock therapy,"
"gradualist" and "Third Road" approaches. While "shock therapy" and "gradualism" advanced as their ultimate objective the creation of Western market systems, they differed considerably; on the other hand, the "Third Road" approach was more ambiguous concerning its ultimate destination - it appeared that private ownership in the economy would be somewhat limited, whereas a strong state-owned sector would be maintained (Brown, 1994; Berend, 1995; Crawford, 1995a).

The "shock therapy" strategy recommends the simultaneous inauguration of a comprehensive program of price liberalization and macroeconomic stabilization. At the same time, the state should pursue "spontaneous" privatization of both small- and large-scale state-owned enterprises, while eliminating controls on foreign trade, finance and investment. Additionally, the creation of functioning financial and capital markets, anti-monopoly policies and state regulatory agencies, etc., is encouraged.

The rapid, simultaneous introduction of such measures is deemed necessary by "shock therapists" as the principal components of a properly functioning market are assumed to be interrelated; if changes are not inaugurated concurrently, the functioning of the nascent economy may be seriously impaired and, what is more, the prolongation of old institutions and economic relationships may impede the progress of the economic transition. Thus, a dramatic break
with the former system is the prescribed medicine of "shock therapists."

"Gradualism" discounts the above arguments. This approach argues instead that the tremendous dislocations resulting from the transition cannot be borne at once; indeed, such burdens may lead either to reform's premature demise or to systemic collapse (Ost, 1995).

Hence, controls on prices should not be lifted simultaneously and across the board; price liberalization should be measured and undertaken in stages. In addition, "spontaneous" privatization should be eschewed not only because it is economically inefficient, but because it may allow the old elite to preserve their power in the emerging capitalist system (Crawford, 1995a, p. 29). Similarly, in order to avoid dependence upon foreign capital or foreign governments, as well as significant adverse economic effects, the "gradualist" approach proposes a piecemeal, selective integration into the international economic order (Guerrieri, 1995). Lastly, the "gradualist" approach recognizes that - shock therapists' beliefs notwithstanding - the creation of properly functioning market institutions cannot take place overnight and, hence, in their absence an economy that had survived the "bitter pill" of macroeconomic stabilization would suffer from serious distortions.

As stated above, the "Third Road" transformation strategy was more uncertain as to its final objective -
"neither market nor state socialism." Undoubtedly, the economic transformation foresaw a continuing, active role for the state in managing the economy. Ultimately, this approach was not applied consistently anywhere in Central and Eastern Europe, as elites abandoned fanciful hopes of creating an Elysian economic order and reconciled themselves to either a version of shock therapy or gradualism.

When considering the different reform strategies selected by specific states in Eastern Europe, it is important to recall the pre-reform condition of their economies. Of course, throughout the 1970's and 1980's all economies in Eastern Europe were experiencing serious difficulties. However, the structure and development of their economies, as well as the type and extent of their difficulties, varied across regime; these differences, played an important role in determining their eventual transition paths.

Chronologically, Poland was the first to initiate market reforms in 1990. Although the Communist regime led by Jaruzelski had initiated reforms during the 1980's, they had little impact upon the deteriorating Polish economy. By the end of the 1980's shortages of virtually all goods prevailed, inflation was rampant, a large monetary overhang existed and the Polish debt burden had ballooned to over $45 billion (Goldman, 1994). Given the existing macroeconomic
circumstances, the Mazowiecki government opted for shock therapy. The decision to inaugurate the "Balcerowicz Plan" was all the more easier to adopt as the Polish government hoped it could draw upon its enormous reserve of popular support to weather the initial shock of transition; in addition, it was perceived that shock therapy was the preferred transition strategy of most Western governments (Brown, 1994).

On the other hand, Hungary’s elite chose to implement a gradualist transition path. Having experienced gradual liberalization since 1968, Hungary’s economy was in a unique position among East European states in 1990. Price and trade liberalization had been pursued extensively, Western investment had been encouraged, important strides had been made in creating nascent market institutions (e.g., a Western-style banking system) and a significant private sector had developed. More importantly, no serious macroeconomic instability endangered the Hungarian economy; it was neither gripped by hyperinflation nor threatened with monetary collapse (as in Poland) (Estrin, 1994; Berend, 1995). Hence, the first freely elected postcommunist government of Jozsef Antall opted for "minimal shock, maximum progress" (Slay, 1992; Estrin, 1994; Berend, 1995).

Although Czechoslovakia’s economy had emerged from state socialism in a relatively strong macroeconomic position with the smallest per capita foreign debt in
Eastern Europe, after a full year of preparation under the direction of Finance Minister Vaclav Klaus radical marketization reforms (similar to Poland's) were initiated in early 1991. Apparently, the decision to adopt shock therapy was motivated by the super-centralized nature of the Czechoslovak economy; indeed, the post-1968 leadership of the Czechoslovak Communist Party had not permitted experimentation with de-centralization as in Hungary and Poland. Moreover, Western political pressure had a hand in the decision, as well as the personal predilections of Finance Minister Klaus (Brown, 1994; Estrin, 1994; Crawford, 1995a).

In the case of Bulgaria and Romania, the first post-1989 parliamentary elections were won by the former Communists and, consequently, their economic policies were rather cautious and conformed initially at least with the "Third Road" approach. However, after the Bulgarian Socialist Party was ousted from government in late 1990, the government of Filip Dimitrov introduced a fairly radical stabilization plan with the encouragement of the I.M.F. By that time, the year-long delay of reform and the collapse of intra-COMECON trade had caused the Bulgarian economy to slide into a persistent malaise. Similarly, Romania's economy was adversely affected by these two factors; however, it appears that the post-Roman elite in Romania subsequently preferred the initiation of a more gradualist
transition strategy than the Bulgarian "fast track" approach (Slay, 1992; Slay, 1993; Brown, 1994; Berend, 1995).

The Russian economic transition path differed significantly from those paths outlined above. Indeed, although the first postcommunist Russian government initially undertook a "shock therapy" program akin to the Balcerowicz plan, for a number of reasons the Russian program was not sustainable. Owing to this inability to sustain the original radical program, the Russian transition path of 1991-1993 was ultimately characterized by several rather unique features relative to other East European experiences.

To begin with, whereas Central and East European countries had been quite successful in striking a macroeconomic balance early on, as we shall see in this chapter Russia's efforts at stabilization failed miserably within the first six months of 1992; this trend continued throughout 1993. The data in Table 2.1 demonstrate the extent of the macroeconomic instability in Russia relative
Table 2.1

Inflation in Selective East European Countries, 1990-1993

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic</td>
<td>18.4%</td>
<td>53.6%</td>
<td>11.0%</td>
<td>20.0%</td>
</tr>
<tr>
<td>Poland</td>
<td>586.0%</td>
<td>70.0%</td>
<td>43.0%</td>
<td>39.0%</td>
</tr>
<tr>
<td>Hungary</td>
<td>29.0%</td>
<td>35.0%</td>
<td>23.0%</td>
<td>23.0%</td>
</tr>
<tr>
<td>Romania</td>
<td>70.0%</td>
<td>161.0%</td>
<td>210.0%</td>
<td>200.0%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>26.0%</td>
<td>334.0%</td>
<td>83.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Russia</td>
<td>6.0%</td>
<td>93.0%</td>
<td>1354.0%</td>
<td>1000.0%</td>
</tr>
</tbody>
</table>


to other East European states.

Russia’s stabilization attempts were frustrated in part by the relatively weak incomes policy of the Russian government; in contrast to much of the practice in Eastern Europe, penalties on excess wages in Russia were meager or non-existent (Marrese, February 1994). In addition, the inability to reign in the money supply and to restrain subsidies to enterprises in the face of an enormous inter-enterprise debt crisis also led to the failure of attempts at stabilization; as Table 2.2 reveals, nowhere in Eastern Europe did the crisis over inter-enterprise arrears hamstring stabilization efforts more than in Russia (Rostowski, April 1994).
Table 2.2
Inter-Enterprise Arrears (IEA) in Selective Countries
(arrears/bank credit)

<table>
<thead>
<tr>
<th></th>
<th>Russia</th>
<th>Poland</th>
<th>Czechosl.</th>
<th>Romania</th>
</tr>
</thead>
<tbody>
<tr>
<td>During the worst eight-month period of each country’s IEA difficulties</td>
<td>0.078</td>
<td>0.60</td>
<td>0.019</td>
<td>0.146</td>
</tr>
<tr>
<td></td>
<td>0.277</td>
<td>0.74</td>
<td>0.024</td>
<td>0.529</td>
</tr>
<tr>
<td></td>
<td>0.558</td>
<td>1.54</td>
<td>0.048</td>
<td>0.740</td>
</tr>
<tr>
<td></td>
<td>0.870</td>
<td>1.67</td>
<td>0.093</td>
<td>1.068</td>
</tr>
<tr>
<td></td>
<td>1.710</td>
<td>1.75</td>
<td>0.125</td>
<td>1.863</td>
</tr>
<tr>
<td></td>
<td>1.952</td>
<td>1.68</td>
<td>0.185</td>
<td>0.316</td>
</tr>
<tr>
<td></td>
<td>2.143</td>
<td>1.15</td>
<td>0.212</td>
<td>0.627</td>
</tr>
<tr>
<td></td>
<td>0.517</td>
<td>0.81</td>
<td>0.212</td>
<td>—</td>
</tr>
</tbody>
</table>


As it was eventually carried out, Russia’s program for privatization also diverged considerably from others implemented in Eastern Europe. As we shall see in a later section of this chapter, although the Russian privatization strategy initially strove to ensure a corporate governance structure for privatized enterprises that would give control to "outsiders," i.e., owners of private domestic and foreign capital, the original privatization program was altered profoundly (Estrin, 1994a; Hare, 1994; Perotti, 1994). The result has been a form of privatization that is largely "insider-dominated" (McFaul, 1995).

As the following table reveals, this experience differs markedly from that of Central and East European regimes.
### Table 2.3
Alternative Strategies of Privatization, Selected Countries

<table>
<thead>
<tr>
<th>How to Privatize</th>
<th>To Whom</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Existing Managers &amp; Workers</td>
</tr>
<tr>
<td>By Sale</td>
<td>Employee/Management Buyouts</td>
</tr>
<tr>
<td>Examples:</td>
<td>Hungary, Romania</td>
</tr>
<tr>
<td>By Free Distribut.</td>
<td>Spontaneous Privatiz., Employee/Management</td>
</tr>
<tr>
<td></td>
<td>Takeovers of Assets</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Examples:</td>
<td>Russia</td>
</tr>
</tbody>
</table>


Indeed, most East European states implemented a privatization program that relied upon a number of methods to return state-owned enterprises to the private sphere. For example, the East German plan relied to a great extent upon investment from foreign and domestic capital, with some amount of restitution to former owners (Carlin, 1994). Similarly, the Czech Republic encouraged foreign involvement, as well as restitution to previous owners; however, much greater emphasis was put upon mass or voucher.
privatization to the general public, in which "no particular group of investors were favored" in the process of privatization. For example, "insiders," i.e., managers and workers, received no more than 10 percent of available shares on average in Czech enterprises (Estrin, 1994a, p. 20; World Bank Discussion..., May-June 1995).²

In addition, it appears that Russia's economic transition differed from the East European reform experience in another important respect: social policy. Available data confirm the existence of more generous and highly developed unemployment insurance programs, in particular, and social welfare systems, in general, in Eastern European countries than in the Russian Federation (Schwartz, et al., 1994).

Data in the following table confirm that Eastern European countries spent a significantly higher proportion of government budgets on social security, welfare, health, housing and education programs than did the Russian Federation during 1992. These figures are supported by

Table 2.4
Percentage of Government Budget

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage of Total Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>34.9</td>
</tr>
<tr>
<td>Hungary</td>
<td>46.5</td>
</tr>
<tr>
<td>Poland</td>
<td>50.9</td>
</tr>
<tr>
<td>Romania</td>
<td>45.8</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>30.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>a &quot;Social welfare&quot; includes expenditure for social security, welfare, housing, health and education.</td>
</tr>
</tbody>
</table>

Source: Barr and Harbison, 1994, p. 16.


Moreover, the findings in Table 2.5 demonstrate that public expenditure on labor market programs in Eastern Europe is considerably higher than in Russia.5

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5 Cash transfers in Poland during 1991 exceeded 16.8% of that country's GDP (Milanovic, 1993, p. 11).

4 Cash transfers in the countries of the Former Soviet Union in 1992 amounted to 8% of GDP on average (Krumm, Milanovic and Walton, 1994, p. 4).

5 The same relationship appears to be true for pension programs (Krumm, Milanovic and Walton, 1994, p. 6).
Table 2.5
Public Expenditure on Labor Market Programs,
Selected Countries, 1991-1992
(as a percentage of GDP)

<table>
<thead>
<tr>
<th>Public Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic</td>
</tr>
<tr>
<td>Slovak Republic</td>
</tr>
<tr>
<td>Hungary</td>
</tr>
<tr>
<td>Poland</td>
</tr>
<tr>
<td>Romania</td>
</tr>
<tr>
<td>Russian Federation</td>
</tr>
</tbody>
</table>


Furthermore, additional sources confirm the notion that East European labor market programs are more highly developed than those in the Russian Federation; in general, Eastern European employment organs have developed extensive, proactive policies for dealing with unemployment problems (Kharitov, 1993; Offe, 1993; Degtiar’, 1994; Fretwell and Jackman, 1994, pp. 183–185; Krumm, Milanovic and Walton, 1994, pp. 11–12; Nesporova and Simonyi, 1994; Perlez, 1994; Schwartz, et al., 1994, pp. 308–309; Gedeon, 1995), whereas Russia has been less successful in this endeavor (Meacher, 1993; Moskvina, 1993; Statisticheskii Sbornik..., 1993).

Hence, in general terms the Russian course of economic transition has been marked by several unique features relative to those of other postcommunist countries in Eastern Europe. Of course, this has had some rather
pernicious consequences for Russian reform. Since repeated efforts at stabilization during this period failed, reformers were unable to introduce rationalizing behavior at the micro-economic level. In addition, as we shall demonstrate in later portions of this chapter (when an in-depth examination of the particular path of the Russian reform trajectory will be provided), the privatization strategy ultimately followed by Russian authorities offered strong disincentives to rationalize economic undertakings at the enterprise-level.

It appears that Russia's distinctive path of economic transition was partially dependent upon its rather unique political transformation - one that was characterized by serious instances of inter-elite conflict brought on by an existing unconsolidated political order. As following sections will demonstrate, this unconsolidated political order severely affected the trajectory of Russian economic reform.\(^6\)

On the other hand, though not fully consolidated, institutional relationships in Central and Eastern Europe were characterized by a much greater acceptance by

\(^6\) Of course, this was not the only factor responsible for obstructing Russian economic reform; other factors, e.g., governing elites' fears of mass instability arising from reform's social costs, the increase in popular support for extremist parties, etc., were also partly responsible for the frustration of reform efforts.
postcommunist elites. Although some arguments ensued over the powers and prerogatives of various institutions and actors, e.g., in Poland between President and parliament, Central and East European polities experienced a much lower level of inter-elite conflict than in Russia and, hence, were much stabler. Indeed, such contention in East Europe never resulted in open warfare between elites.7

The relative absence of inter-elite conflict in the background of market reform in Eastern Europe may have been the consequence of postcommunist parliamentary elections which allowed the "winners" there to legitimate themselves and their proposed programs for economic and political reform.

Hence, in hindsight, critics have chastised Yeltsin for neglecting in the wake of the August 1991 putsch to call "founding elections," - elections which could serve to legitimate the newly-formed government and its proposed policies (O'Donnell and Schmitter, 1986); supporters of "founding elections" argued that the economic reform program chosen by the President might have received more support from newly-elected, presumably "radical" members of parliament; following this logic, a reform-minded parliament would be harder to elect in later years after the masses were forced to suffer years of declining living standards (Aron, 1993; McFaul, 1993; Rutland, 1994). Thus, Yeltsin's

7 Of course the exception here is the former Yugoslavia.
failure to call elections in the immediate aftermath of the August coup reinforced and augmented the political divisions arising between the various camps.

Alternatively, as suggested by Linz and Stepan, the process of economic and political transition in Russia may have been less tumultuous had Yeltsin and his first Government earnestly sought a political "pact" with their opponents before introducing a maximalist economic reform program which was certain to polarize political and economic elites (Linz and Stepan, 1993).

In subsequent sections we will examine how the reform program unraveled in Russia during the early postcommunist period. As we shall demonstrate, the path of reform was ultimately seriously affected by the existence of an unconsolidated political order.

However, before examining the proposed program and actual record of Russian reform, we will examine briefly the dissolution of the Soviet regime and the consequences of it for postcommunist reform. Indeed, the particular way in which the dissolution came about acted to limit the new elite's choice of economic reform strategy.

The Union's Dissolution and Russia's Proposed Reform Program

Under the Soviet command-administrative system which largely remained intact through 1990, economic policymaking
in the former Soviet Union was to a great extent the prerogative of centralized bureaucracies operating from Moscow. These agencies established policy initiatives largely bereft of any considerable input from republican-level institutions.

However, with the election of republican legislatures and executives in 1990 and 1991, conflicts between the center and the republics over economic policy became more and more intense. In addition, the election of Boris Nikolaevich Yeltsin as President of the R.S.F.S.R. in June 1991 greatly increased these centrifugal tendencies. In the on-going battle over economic reform, President Yeltsin stood for the most radical option. His plan to wrest control over policymaking from the center was predicated upon destroying the Union, creating a "rejuvenated" Russian state and defending its sovereign rights (Goldman, 1992, pp. 22-23; Sakwa, 1993, pp. 6, 10).

The first volley had been fired by Yeltsin soon after his election to the post of Chairman of the Russian Congress of People's Deputies in mid-1990 when the Congress adopted the Declaration of State Sovereignty of the R.S.F.S.R., claiming Russian law to be superior to that of the Union. This measure was soon copied by the other fourteen republics, numerous regions and even city districts.

In addition, Yeltsin used economic measures to destroy the Soviet government: by denying the consolidated union
budget revenues raised within the confines of the Russian republic, Gorbachev's ability to control the scope and pace of economic reform degenerated further. Among others, these measures thus eventually led not only to the ballooning of the Soviet/Russian budget deficit and hyperinflation, but also to the de facto de-centralization of political power to the republican governments, the negotiation of the ill-fated Union Treaty in the spring of 1991 at Novo-Ogaryevo and the August military coup attempt.

In the aftermath of the 1991 putsch, the Soviet Union began to unravel at a heady pace. In a few short weeks it had become clear to most observers that the state which Lenin and Stalin had built would be soon dismantled. The subsequent unraveling of the Soviet Union, hastened by the actions of the most prominent political actors in each of the three Slavic republics - Yeltsin, Kravchuk and Shushkevich - at a summit meeting in Minsk on December 8, 1991, immediately brought to the forefront the question of which path to follow along the road toward market reform in each of the three newly-independent states. In Ukraine and Belarus, government elites were more reticent than their...
counterparts in the Russian Federation to seriously consider the issue.

By late autumn 1991 the question had largely been settled in Russia. On November 1, 1991, the R.S.F.S.R. Supreme Soviet had granted Yeltsin powers to rule by decree, thereby apparently allowing him to have a relatively unfettered choice of reform strategy. After considering several alternative strategies in the autumn of 1991, Yeltsin decided to forego earlier associations he had forged with other reformers, such as Grigori Iavlinskii and Yevgenii Saburov.

The government put together by Yeltsin in this period largely consisted of radical economic reformers, led most notably by the new Minister of Economics, Yegor Timofeevich Gaidar. Gaidar and his men persuaded Yeltsin to launch a radical economic reform strategy within Russia rather than pursue more cautious alternatives proposed by Iavlinskii and others that were based upon union-wide reform. Schooled in the Western economic theories of Milton Friedman and Friedrich A. Hayek, these "academics," as they were later derisively labeled by their critics, argued for "shock therapy" a la Poland's Balcerowicz Plan. Gaidar & Company asserted that, owing to the tremendous budget deficit, an

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* Gaidar was later appointed First Deputy Prime Minister in charge of overall economic policy.
enormous monetary overhang and accelerating inflation, such an approach was nonetheless a fait accompli.

As we saw above, the "shock therapy" approach argues for a simultaneous and, at least initially, painful attempt to transform economic relations almost overnight. This approach specifically rejects undergoing a gradualist economic transformation, "for one doesn't attempt to learn to drive on the opposite side of the road by gradually shifting lanes," to re-phrase a well-known criticism of Mikhail Gorbachev's economic reform strategy.10

"Shock therapy" also implies a barely-concealed skepticism of all institutional structures remaining from the ancien regime. Indeed, the approach has as its primary goal the destruction of these existing institutions and the restoration of economic rationality with the implementation of a variety of "technocratic solutions." Moreover, shock therapists believe that the new economic structures that are needed can be developed and the economy corrected in a very short period of time (Murrell, 1993).11 As Gaidar stated in early December 1991,

... during the course of seven to eight months it is possible to achieve the main thing: it is possible to form the market foundation upon

10 In reality, the Gaidar team settled on a variant of market reform less severe than the Polish reform package (Dabrowski, 1992).

11 As will be shown in the next chapter, employment policy in Russia has suffered seriously because of continuing weak institutional development.
which it will be able to build a normal, civilized economy and from which it will be possible later to start the rehabilitation of the national economy (Yegor Gaydar [sic] Interviewed on Economic Reform, December 16, 1991).

Thus, Gaidar’s assembled team advocated immediate price liberalization above all, combined with fiscal austerity, a stringent monetary policy, a convertible currency, the liberalization of the foreign trade sector and eventually privatization of most state-owned enterprises. Continued cuts in expenditure for the military-industrial complex, alongside significant sacrifices made in the "budget" and social service sectors of the economy, were to allow the government to scale back the enormous debt racked up during the Gorbachev period.Indeed, just weeks before imminent price liberalization, the Deputy Prime Minister in charge of social problems stated that the government would be capable of supporting only "the most poor" section of the Russian population; all else would have to fend for themselves (Labor Minister..., 1991).

In fact, specific measures for the re-orientation and re-invigoration of the state’s social welfare sector were largely missing from the radical reformers’ program or were couched only in rhetoric. Much greater attention was paid to calls for fiscal and monetary restraint, "belt-

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tightening" and the like. For example, in his address outlining the general outline of reform before the Fifth Congress of R.S.F.S.R. People's Deputies in October 1991, President Yeltsin spoke at length about the severe economic measures to be implemented, yet devoted only two paragraphs of 88 to the needs of the social welfare sector (Yeltsin Delivers..., 1991). It appears that the radical reformers in Russia embraced a "bare bones, no-frills, trickle-down" approach to social welfare provision.

Thus, the main goal of the reformers was to move as quickly as possible from a decrepit, decaying command-administrative economy to an efficiently-operating market economy by razing everything that was tied to the past system, instituting harsh macro-economic policies, while overlooking needed reforms in the social welfare sector.

"Shock Therapy" Unleashed

The most important policy initiative pursued by the Gaidar team was price liberalization. To that end on January 2, 1992 the proposal to lift state subsidies on most goods and services and to allow the market to determine their worth went into effect. As predicted, the inflation rate was enormous in the period between December 3, 1991 - the day the initial marketization decree was announced - and the end of January 1992; during this period the official rate of inflation was well over 500% (Kirichenko, 1991-
1992). However, price liberalization was not complete, given the fact that important products, such as fuel, continued to be heavily subsidized from the central budget well into the year (The Reforms in Russia, Spring '92, May 24, 1992).

Another important plank of the Russian Government's stabilization program was to balance the budget early on. At the end of 1991, the consolidated budget deficit reached 31% of Russian GDP (The Road to Ruin, January 29, 1994). Gaidar spared no efforts to eliminate this deficit; by the end of the first quarter of 1992 the budget deficit was virtually eliminated through cutbacks in state investment, defense industries and subsidies to enterprises as well as to the social sector (Aslund, 1992).

However, the second quarter budget ran into serious problems. The Yeltsin-Gaidar government had met stiff opposition to their economic policies not so much from Russian society, but from the legislative branch almost from the very beginning. Since providing Yeltsin the powers to rule by decree, the Congress of People's Deputies and its standing parliament, the Supreme Soviet, sought increasingly to challenge Yeltsin and his Government. At the most basic level, this struggle was based upon the conflict over constitutional rights and responsibilities.

Indeed, Russia's leadership inherited its institutional framework from its communist predecessors. Burdened with
such a confused and contradictory set of constitutional principles — one which did not provide for a clear set of institutional boundaries, — the heirs of "August 1991" at first believed they had found a short-term solution by providing Yeltsin with decree-governing powers. However, alarmed by Yeltsin's economic policies and increasingly "authoritarian" behavior, the legislature began to posture for control of important governmental institutions and, ultimately, for control over the content and pace of reform; hence, the existence of an unconsolidated political order began to seriously frustrate reformist attempts at macroeconomic stabilization.

The Chairman of the Supreme Soviet, Ruslan Imranovich Khasbulatov, labeled Yeltsin's government "unqualified, inept and incompetent" and threatened to replace it as early as January, remarking to a delegation of Italian senators,

... in Italy in the post-war era more than forty governments have come and gone and this is nothing special (Sokolov, 1992).

Soon thereafter, Yeltsin's Vice-President, Aleksandr Rutskoi, added that the Russian Government was composed of people who lacked "practical work experience" and that Gaidar's policies amounted to "economic genocide" (Rutskoy [sic] Highlights..., 1991).

By the time the Sixth Congress of People's Deputies convened in April 1992, opposition to Gaidar's reform policies had begun to solidify. It was at this juncture
that the struggle over economic reform and governmental authority first threatened to seriously de-stabilize the Russian polity.

At the start of the Congress, the body refused to confirm any of the President’s agenda proposals. Additionally, the parliament chose not to confirm the second quarter budget put forward by the Government, declaring it too austere. Moreover, the rebellious Congress also voted to dramatically boost public spending by increasing wages in the "budget" sector, indexing pensions and enlarging subsidies to the industrial and agricultural sectors of the economy (Vedomosti S’ezda..., 1992). Furthermore, attempts were made to strip Yeltsin of his decree-governing powers and to put forward a motion of no confidence in his government.

The Congress’ Chairman, Ruslan Khasbulatov, was seeking to defend the right of the Congress and its standing parliament, the Supreme Soviet, to be an effective counterweight to a strong executive in the emerging political system. During the course of the Congress, the Chechen leader continued to condemn Yeltsin and his Government for their "attack on democracy" and their misguided economic policies. Khasbulatov was expressing the opinions of many legislators who were increasingly concerned with the form and structure of the executive branch. Many of them argued that the Council of Ministers or Government should be
answerable to the Congress and its standing parliament, not only to the President (Parkhomenko, 1992; Zuichenko, April 1, 1992; Zuichenko, April 9, 1992).  

In response to all of this, the Gaidar Government threatened to resign. In spite of having suffered ridicule by the Parliamentary Speaker and enduring an embarrassing walk out of the Congress Hall, the Government's position ultimately won out. In the end, Khasbulatov backed down and the crisis was defused when the Congress confirmed a resolution supporting the idea that a "fundamental transformation" of the economy remained necessary (Bruni, 1992).

Still, as a result of the Congress many of Yeltsin's leading supporters were forced to give up their positions. In the end, the President was also forced to relinquish the post of Acting Prime Minister. Thus, the Sixth Congress of People's Deputies marked the first battle in the developing power struggle between the legislature and executive.

In the weeks following the Congress, Yeltsin was compelled again to appoint more conservative individuals to the Government -- men allied with the increasingly

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13 Much of the general discussion of political events in 1992-1993 is based upon a careful reading of Russian newspapers. In general, I have relied throughout upon articles from the more "reliable" Russian dailies of that period, e.g., Nezavisimaia Gazeta, Izvestiia, Kommersant', and Segodnia.
vociferous industrialist union, e.g., Vladimir Shumeiko, Viktor Chernomyrdin and Grigorii Khizha (Background of Deputy..., 1992). One of the most oft-repeated criticisms of the Congress and Supreme Soviet had been the fact that Yeltsin's Government was composed of only radical reformers, people out of touch with society and the requirements of stable economic production. By forcing Yeltsin to include members with "practical experience" into the Cabinet, his opponents hoped to reduce the influence of the "shock therapists" on Yeltsin and thereby soften the blow of economic reform. In doing so, a coalition government was formed from individuals with widely differing viewpoints on reform. This produced serious conflicts within the Government over the content of economic policy -- conflicts which continued to burden policymaking throughout 1992 and 1993.

Another important aspect of the Government's initial stabilization policy was enforcing a strict monetary policy; by March 1991, the real value of the money supply decreased by almost 70% (Murrell, 1993, p. 135). Though successful initially, in the wake of the Congress monetary injections from the Russian Central Bank (RCB) increased dramatically. The RCB continued to set highly negative interest rates, while subsidies to enterprises increased significantly - either financed by the RCB directly or through the Ministry of Finance. Therefore, by the beginning of summer 1992 the
Gaidar reform program had received a number of serious setbacks, not the least of which was the replacement of the Russian Central Bank Chairman, Georgii Matiukhin, with Viktor Gerashchenko, the former head of the Soviet Union's Gosbank and an official not known for his reformist credentials.

Moreover, in response to the uncertainty prevailing in the newly-formed market at the micro-level, firms began to increase sharply inter-enterprise arrears to one another; as they had done so under central planning, enterprises continued to provide lines of credit to each other as a way of circumventing the hard budget constraints imposed upon them by Gaidar and other reformers within the Government.

Some figures are illustrative of the problem. In January 1992 the total debt of state enterprises to one another amounted to 39.7 billion roubles. Added to this was about 400 billion roubles owed to banks by these enterprises. By the end of June 1992, the inter-enterprise debt had increased by a factor of eighty (to 3.2 trillion roubles), whereas enterprise debt owed to banks increased three times (to 1.2 trillion roubles). Inter-enterprise debt continued to grow throughout the summer (Iavlinskii, 1993, pp. 37-38). In order to avert a crisis in the economy and to mollify critics in the newly-formed "industrial union," the Government and the RCB expanded credits
throughout the summer to decrease inter-enterprise indebtedness.

Though the Government made concessions on the indebtedness issue, the dramatic reduction in industrial production throughout early 1992 and into the fall had caused the Government's economic program to continue to receive a great deal of criticism. Not only were the leaders of the Supreme Soviet and the so-called "Red-Brown Alliance" within the standing parliament increasingly assailing Yeltsin's "boys" in Government, in the run-up to the autumn session of the Congress of People's Deputies, the Civic Union ("Grazhdanskii Soiuz") - a formidable centrist grouping nominally headed by the powerful industrialist, Arkadii Volskii, - vociferously renewed their demands for significant changes in both the Government's overall economic reform program and in the composition of the Government itself (Krasnikov, September 22, 1992; Ostapchuk, 1992).

Under the direction of a number of well-known economists, the Civic Union published a document setting forth its evaluation of the Gaidar economic reform period and presenting a number of "correctives" to be added to the Government's reform program (Trinadtsat' Punktov Programmy Vol'skogo, 1992). The program's main aim was to forestall the decline in production by re-introducing state orders (zakaza) for goods and state regulation of prices and wages.
In addition, the economic program advocated the introduction of protectionist policies for indigenous Russian industries (Lantsman, 1992; Reforma po Gaidaru..., 1993; Ellman, 1993).

Besides these measures, important changes in the privatization program were called for in the document and, indeed, were eventually implemented. Due to enormous pressure from the Supreme Soviet and enterprise directors, the radical reformers in government were compelled to include a "second variant" of assigning shares to the population - one that would provide workers and managers with 51% of enterprise equity (Trinadtsat' Punktov Programmy Vol'skogo, 1992; Lopatnikov, 1993; Kashin, 1993; Bim, 1994; McFaul, 1994; McFaul, 1995). As will be shown in the following section, the consequences of such changes were largely negative; in short, it failed to induce both needed restructuring and investment at the enterprise level.

After numerous attempts to bridge the gap between Gaidar's reformist agenda and the remaining points of the Civic Union's economic program in the fall of 1992 - and after numerous attempts to sidestep the ever-present, thorny issue of the relationship between legislative and executive14 - the Government decided to reject much of the

14 In response to a possible attempt by Yeltsin to call a "constituent assembly" to consider a new constitution, and thereby bypassing the country's highest authoritative body (the Congress of People's Deputies), the Supreme Soviet passed a statute which forbade the creation of "parallel structures of government" (Struggle Over Executive Power, 1992).
Civic Union’s economic platform (Lantsman, 1992; Krasnikov, December 1, 1992). In Yeltsin’s opening speech to the Seventh Congress of People’s Deputies in early December, he repudiated attempts to re-establish central control over the economy (Programmnaia Rech’ El’tsina Pered..., December 2, 1992).

The Civic Union responded by siding with the so-called “Red-Brown” alliance in the legislature and rejecting Gaidar’s nomination for the post of prime minister (Alekseev, 1992). Enraged and offended, Yeltsin thereafter called for a referendum to be held to decide who should govern Russia - the legislature or the executive. After encouraging his supporters to boycott the Congress, Yeltsin stormed out of the meeting hall (Vchera v Kremle Nachalos’..., 1992). Later, embarrassed by the meager support he received - only 120 supporters walked out after him - Yeltsin returned to the Congress and accepted the nomination of Viktor Chernomyrdin as Prime Minister (Todres, December 15, 1992).

Meanwhile, the Congress made null and void all attempts by Yeltsin and his government to pare back its powers. At

In addition, Yeltsin’s efforts to seek the support of the regions and republics in his battle with the legislature over political supremacy also led to naught as his opponents responded by initiating similar efforts to establish relations with the periphery. In the process, both sides stimulated and encouraged the development of centrifugal tendencies (Batyryshin, 1992; Todres, November 17, 1992; Todres, November 18, 1992).
the same time, Congress took away some of Yeltsin's powers. Most significantly, the Congress established control over appointments to four very important ministries. In addition, the 7th Session affirmed the Congress of People's Deputies to be the "supreme organ" of political power in Russia. In a very real sense these developments illustrated that political power had shifted somewhat in Congress' favor (Alekseev, 1992; Zuichenko, December 23, 1992).15

However, the loss of Yegor Gaidar and the new Premier's scornful remarks suggesting that Russia needed a "market, not a bazaar" did not mean that reformist forces in the Government had been completely ousted - in the end, the composition of reformers within the Government largely remained the same (Zuichenko, December 16, 1992). Indeed, the reformers received a great boost early in the New Year when Boris Fyodorov, a former executive at the European Bank for Reconstruction and Development, assumed the leadership of the Ministry of Finance.

However, the arrival of Viktor Chernomyrdin - a former Soviet official in the oil and gas sector during the

---

15 As an institution, the Constitutional Court gained as well from the experience of the 7th Congress. The Chief Justice of the judiciary, Valerii Zor'kin, played an important mediating role at the Congress between the President and Speaker Khasbulatov. In the end, the mediation proved successful: both Khasbulatov and Yeltsin affirmed the holding of a subsequent referendum on a new constitution. In addition, the Congress and Yeltsin agreed to sign an ordinance not to upset the delicate balance of power between the two branches of government in the run-up to the referendum (Sherman, 1992).
Gorbachev era - to the post of Chairman of the Council of Ministers caused a great deal of controversy, especially after the new Premier signalled his disdain for Gaidar's reforms by re-introducing price controls on various commodities.

The new government's main aim was to introduce a more coherent "industrial policy" - which was to direct state investment into those sectors of the economy which were deemed most promising (On Government Program..., 1993). In reality, it appears that such a determined, effective policy largely resulted in the indiscriminate burgeoning of credits to all of industry and agriculture, further increasing the friction developing between the Ministry of Finance and the various "industrial ministries" within the Government (Ericson, 1995). A variety of measures passed by the Supreme Soviet in the winter of 1993 further increased the state budget deficit.

In the ensuing months, once again serious disagreements erupted between the President and the Speaker of parliament over the timing and content of the referendum agreed upon at the 7th Congress. Both groups had very different positions regarding which questions should be addressed in the referendum. Besides arguing that questions be included on the referendum regarding the suitability of both early presidential and parliamentary elections in 1994, Khasbulatov wished to append more and more questions to the
actual referendum, presumably in order to muddle the results. Yeltsin, on the other hand, initially wanted the referendum to decide only one question - which branch of government should reign supreme (Slater, March 1-5, 1993; Slater, March 8-12, 1993a; Slater, March 8-12, 1993b; My Khorosho..., 1993).

As the dispute raged, and as the head of the Constitutional Court was perceived as taking openly partisan positions, the Supreme Soviet decided to convene an 8th Extraordinary Congress of People's Deputies in order to review the events of the past several weeks (Sharapov, 1993). On the eve of the Congress, various members of Yeltsin's government suggested that certain "emergency measures" may be considered, i.e., implementing direct presidential rule and dissolving Congress. Many observers agreed that such actions would certainly have been illegal (Rahr, 1993).

In the course of the Congress' proceedings, the supreme legislature voted to strip Yeltsin of the emergency decree-governing powers which were granted to him in November 1991 (Obrashchenie k Grazhdanam..., 1993). Moreover, Congress repudiated the approaching referendum, originally slated for April 11th.

Soon thereafter, Yeltsin delivered an impassioned address to the Russian people, declaring that a form of "special rule" was in the offing and that the referendum
would take place in late April, in part to resolve the lingering crisis between the executive and legislative branches, but also in order to garner support for the President's economic reform program (Boris El’tsin Predlozhil..., 1993; Obrashchenie Presidenta..., 1993).

In the week that followed, the long-simmering conflict threatened to boil over. The head of the Constitutional Court rashly condemned the President's actions, branding the enabling legislation unconstitutional before ever having read the relevant decrees (Zor'kin, 1993).16 Thereafter, the Supreme Soviet hastily reconvened the Congress of People's Deputies in order to censure Yeltsin's actions. On the 28th of March a motion to impeach the President of the Russian Federation was narrowly voted down. A measure to replace the Speaker of the Supreme Soviet also was narrowly defeated (Tsukanova, 1993). Ultimately the issue of the referendum was agreed upon: it would be held in April, but it would not contain the question advanced by the President. Instead, as Khasbulatov had earlier recommended, the referendum would include questions on early elections for both branches of government (Kuzina, 1993; Lin'kov, March 31, 1993; Tsukanova, 1993).

As it turned out, the population's support for the second question on the April 25th ballot - regarding the

16 Such assertions further confirmed beliefs that Zorkin was no longer playing the part of an impartial referee in the inter-institutional wrangling.
continued observance of Yeltsin's socio-economic policy - gave reformers within the government a needed boost of encouragement. Yeltsin's win allowed Premier Chernomyrdin and Finance Minister Fyodorov to reach a compromise with RCB Chairman Viktor Gerashchenko over increasing interest rates, the emission of money and the issuing of credit to enterprises that spring (Chernomyrdin, Central Bank..., 1993).

The compromise did not last into the summer, however, as the mysterious drama of the RCB-proposed monetary reform unfolded: Fyodorov's attempts to restore confidence in the Russian currency were sabotaged by the surprise withdrawal of "old roubles" undertaken by Gerashchenko, in association with Prime Minister Chernomyrdin (Ericson, 1995, p. 49).

In addition, the relations between the parliament and the executive branch soured further in summer 1993. One of the most contentious issues during this period was the drafting of a new constitution. As a result of the April Referendum's successes, Yeltsin had attempted to convene a constitutional assembly in order to advance his version of a "presidential republic" (Ericson, 1995, p. 43). After weeks of wrangling, a compromise draft of the constitution was worked out; however, most regional authorities remained dissatisfied with the document and the method of adopting the constitution remained a subject of controversy.
Moreover, the Supreme Soviet's repeated unwillingness to confirm the 1993 state budget put forward by the Government and its wanton support for additional budgetary expenditures, along with continued wrangling for control over various economic institutions, caused passions to flare between legislature and executive (RFE/RL Daily Report, July 20, 1993; August 26, 1993). By the time summer ended, economic considerations began to take a back seat to more immediate political concerns: the struggle for unrivaled power between the executive and legislative branches.

At the end of August 1993, the increasing divide which had been apparent since early 1992 between Yeltsin and his Vice-President, Aleksandr Rutskoi, became hopelessly irreconcilable. Shortly after re-appointing Gaidar to his Cabinet, Yeltsin began to move against the parliament. Declaring the Supreme Soviet null and void, Yeltsin issued a directive for convening both new parliamentary elections and a constitutional referendum (Ukaz Presidenta..., 1993). Members of parliament responded by barricading themselves within the "Beliy Dom" and electing Rutskoi "Acting President" (Postanovlenie Verkhovnogo..., 1993).

For thirteen days a siege of the parliament was laid by militia controlled by the government. The mock siege was broken when a motley group of hard-line protestors descended
on the parliament building and Rutskoi and his confused associates declared war on Yeltsin and his government. The culmination of the conflict came with the unleashing of horrific violence in Moscow on October 3rd by forces ultimately loyal to President Yeltsin (Grafov, 1993).

Hence, as this section has shown, the failure of Russian "shock therapy" has its origins in part in the continuing inter-elite conflict: a conflict that is a hallmark of an unconsolidated political order.

The Consequences of "Shock Therapy"

The shelling of the Supreme Soviet in October 1993 by Yeltsin’s army loyalists seemed to have provided for a lull in the Russian political battle. However, the results of the parliamentary elections - besides signalling widespread revulsion over the disastrous social consequences of the reform - proved that the respite in the political sphere would truly be very brief,17 in spite of the extensive presidential powers guaranteed to Yeltsin with the passage of his constitution on December 12, 1993 (Konstitutsiia Rossiiskoi..., 1993). Thus, the constant "ebb and flow" of Russian reform continues, with successes and failures

17 Indeed, two of the first acts of the newly-elected State Duma were to set up a parliamentary commission charged with investigating the initial causes of the "October Rebellion" (miatezh) and the response to it, and to release all prisoners associated with the events of October 1993, as well as those involved in the August 1991 Coup and the May 1993 Disturbances in Moscow (Rahr, 1994).
depending upon which groups are in ascendancy at any one time.

Indeed, due to the stinging setback suffered by pro-reform parties in the parliamentary elections - especially that endured by Gaidar's party, "Russia's Choice" (Vybor Rossii) - central policy-makers' desire for undertaking additional economic reforms was seriously moderated. Thus, at a press conference in early 1994 in which he intended to lay out the future economic program of the Government, Prime Minister Chernomyrdin stated that the "period of market romanticism had ended" (Whitlock, 1994).

More recently, however, it appeared that economic reform was once again moving forward, as the government pursued a relatively austere budget for 1995. As Chernomyrdin stated before the State Duma in late October 1994, "We plan strict economic policies. We will not print money that is not backed by goods" (Erlanger, 1994). The ebb and flow of Russian reform endures....

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18 It should be stated here that observers are not in complete agreement regarding the meaning of the 1993 election results, particularly concerning the support garnered by Zhirinovskii's Liberal Democratic Party. Some have argued that the outcome was a result of widespread protest voting against the cost of the government's reform program, whereas others disagree, claiming those voting for Zhirinovskii were concerned about "law and order" issues and the potential for state disintegration (Hough, 1994; Shokarev and Levinson, 1994; Slider, Gimpelson and Chugrov, 1994; Whitefield and Evans, 1994). Others claim that apart from these interpretations, organizational and institutional factors played an immense role in determining electoral results (McFaul, 1994).
Still, what have been the results of the Russian economic reform program as of early 1994? We've already seen that the "shock therapy" program - initially pursued quite vigorously by the first postcommunist government - ran afoul and suffered some serious setbacks. Nonetheless, we've also observed that at times the process does move forward, depending in part upon the constellation of forces at the pinnacle of power.

Indeed, the command-administrative system has been largely destroyed, the private sector is growing, foreign investment has increased significantly, stock markets have been created and citizens may produce, buy and sell whatever goods are deemed necessary.

This progress notwithstanding, it remains a fundamental truth that a great deal has not changed in the economic sphere. Agricultural reform has been particularly limited; until recently, the right to buy land was even in question. The result has been that according to some estimates the government continued to devote during 1994 over one-fourth of the total federal budget to the farming sector (Hiatt, 1994). Moreover, significant and fundamental legislation guaranteeing basic commercial transactions has yet to be passed. Furthermore, as this dissertation will surely recount, the transformation of the social welfare sector received little attention and consequently the work place
remains an important source of social support to many average citizens.

Added to the above is the fact that by and large government apparatchiki continue to hold sway over much economic activity, as licenses are still required in order to export many goods and raw materials, to obtain access to real estate, etc. As a result, corruption in government is endemic and oftentimes unavoidable. The existence of thousands of "mafia" gangs further distorts economic development in Russia, as these criminal organizations seek to maintain and extend existing monopolistic structures (Handelman, 1994). Along with corruption in government and the increasing criminalization of the economy, the process of "regionalization" in many cases has further impeded reform's progress, as local elite groups seek to subvert centrally-mandated economic directives, suppress the development of alternative entrepreneurial activity and maintain their control over economic activity in their "fiefdoms" (Ericson, 1995, pp. 51-54).  

Besides the above factors, various indicators of economic performance portrayed the Russian economy in stark terms as of early 1994. As Table 2.6 demonstrates, the

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19 This does not mean that all attempts to obtain greater economic autonomy from the center end with the adoption of anti-reform economic programs by regional authorities.

20 The figures in this table and several subsequent tables (on industrial and food production) were compiled by Goskomstat, the State Committee for Statistics. As such, one
fall in Russian GDP since 1990 presumably exceeded that experienced by the United States during its Great Depression. By the end of 1993, according to Goskomstat data, GDP in Russia stood at just 62.0% of the 1990 figure. What is more, Goskomstat maintains that the trend continued into 1994, as GDP figures for the January-April 1994 period fell by 17% over that obtained in the corresponding period should recognize that these statistics are somewhat inaccurate, given the fact that much private sector economic activity is not reported to authorities in order to escape onerous state taxes (Epstein, 1995). Accordingly, I have included statistics on gross domestic production which have been compiled by specialists at the World Bank. For more information on the shortcomings of Goskomstat statistics, see the article by V. Kudrov in the October 1994 issue of *Problems of Economic Transition*. Besides criticizing Goskomstat's methodology, however, Kudrov does acknowledge that - with the help of Western institutions, e.g., the I.M.F. - some progress has been made by Goskomstat in bringing their methodology in line with Western accounting methods in the last several years, particularly with respect to "statistics on industrial production, the GNP, and prices" [sic] (Kudrov, 1994, pp. 64-65).
Table 2.6
Russian Economic Indicators, 1990-1993

(expressed in terms of 1990 as a base-year equal to 100)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>100.0</td>
<td>87.0</td>
<td>70.5</td>
<td>62.0</td>
</tr>
<tr>
<td>Industrial Production</td>
<td>100.0</td>
<td>92.0</td>
<td>75.4</td>
<td>63.2</td>
</tr>
<tr>
<td>Agricultural Production</td>
<td>100.0</td>
<td>95.5</td>
<td>86.5</td>
<td>83.0</td>
</tr>
<tr>
<td>Capital Investment</td>
<td>100.0</td>
<td>84.5</td>
<td>51.0</td>
<td>42.8</td>
</tr>
<tr>
<td>Paid Services*</td>
<td>100.0</td>
<td>82.9</td>
<td>68.0</td>
<td>47.6</td>
</tr>
</tbody>
</table>

* This data includes expert estimations of the volume of paid services provided by unregistered enterprises and private citizens.


in 1993 (Sotsial'no-Ekonomicheskoe Polozhenie Rossii, 1994, p. 3).

Table 2.6 also presents official figures on industrial production; here again, figures for Russian industry fell sharply. As with all other centrally-planned economies in Eastern Europe, analysts understood that industrial production would decline during the transitional period; however, the decline in Russia was much larger than most Western observers predicted, including those from the World Bank (McAuley, 1994, p. 10). The 1993 statistics on Russian industrial production represent just 63.2% of 1990 figures.

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21 Figures released recently by Roskomstat (the Russian Statistics Committee) indicate that Russian GDP dropped by 39% from the pre-reform period of 1991 (Russia’s Gross Domestic..., January 18, 1995).
Other Western sources claim that an even worse drop in industrial production took place; according to McAuley, industrial output in the first three quarters of 1993 constituted only 50.4% of the 1989 level (McAuley, 1994, p. 9). Other observers calculated that by March 1994, Russian industrial output had fallen to 47% of the January 1990 level (Rutland, 1994, p. 1120) and that output was declining by 5.1 - 6.3% per month as of November 1993 (Baranov, et al., 1994). A more recent source claims that statistics for 1994 industrial production, like figures for GDP, have indeed continued their descent as the fall in 1994 industrial output "appeared higher than in the two previous years" (Russia's Gross Domestic..., January 18, 1995).

However, recently several Western specialists have asserted that the fall in Russian GDP has been exaggerated (Dobozi and Pohl, 1995; Dobozi, 1995). These World Bank officials correctly argue that a significant portion of new private sector economic activity was not included in former estimates of Russian GDP. Thus, they maintain that data on energy consumption levels present a more realistic indicator of actual aggregate economic output in economies in transition (Dobozi and Pohl, 1995). If true, their analysis suggests that - rather than a 48.7% drop in Russian GDP between 1989-1994 - aggregate economic output in the Russian

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22 Industrial production in 1989 exceeded that of 1990 by just two percentage points (McAuley, 1994, p. 9).
Federation fell by only 21.1% over that same five-year period (Dobozi, 1995, p. 20).

Still, it is important to remember that a great deal of controversy exists over the actual depth of the "Russian depression"; indeed, in a recent book, Anders Aslund, one of the leading advisors to the Russian Government, estimated that the aggregate decline in Russian GDP surpassed 33% in the 1990-1994 period (Schrenk, 1995, p. 16). Nonetheless, it appears that most observers—both Russian and foreign—would agree that a considerable contraction in Russian GDP took place during the 1990-1993 period.23

Reasons for the industrial slump are many: from the strict monetary policies of late 1993 to persistent high manufacturing costs and heavy competition from imported products (Russia Forecasts..., May 27, 1994). Inadequate levels of capital investment can also be counted among the reasons for the output slump. According to one source,

23 Some authors question the validity of statistics confirming the persistent deterioration in Russian industrial production. Indeed, Herbert J. Ellison claims in a recent article that if one includes private sector economic activity, industrial production increased by 41% during 1994, as opposed to assessments of a continued slump in industrial output (Ellison, 1994, p. 1).

On the other hand, another Western economist disputes Ellison's contention, asserting one should approach the subject of estimating private sector activity in postcommunist economies with extreme caution as these estimates are often skewed by political pressures and the inclusion of numerous types of "primitive" economic activity that better fit under the rubric of "flea market capitalism" than an actual market system (Stark, 1994, pp. 6-7).
since 1991 capital investments in the Russian economy have decreased by 61% (Russia's Gross Domestic..., 1995).

By examining industrial production by economic sector, it becomes readily apparent that not one sector in the economy was apparently able to escape the production slump. Indeed, as Table 2.7 demonstrates between 1991 and 1994 all sectors of the economy continued to experience negative output growth, though some sectors performed appreciably better than others. In particular, the fuel and energy sector encountered fewer troubles, apparently due to a relatively favorable potential for export-led production. In contrast, it appears that the chemicals, machine-building and light industries suffered far worse.

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\[24 \text{ Again, one should bear in mind the cautionary note regarding the reliability of Goskomstat statistics.}\]
### Table 2.7

**Industrial Output by Economic Sector**

(as a percentage of previous year’s results)

<table>
<thead>
<tr>
<th></th>
<th>1992</th>
<th>1993</th>
<th>Jan-Jun 1994(^a)</th>
<th>Jan-Jun 1994(^b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric Power</td>
<td>95.3</td>
<td>94.7</td>
<td>93</td>
<td>86</td>
</tr>
<tr>
<td>Fuel Industry</td>
<td>93.0</td>
<td>85.0</td>
<td>86</td>
<td>67</td>
</tr>
<tr>
<td>Ferrous Metallurgy</td>
<td>83.6</td>
<td>83.4</td>
<td>75</td>
<td>57</td>
</tr>
<tr>
<td>Non-ferrous Metallurgy</td>
<td>74.6</td>
<td>81.9</td>
<td>88</td>
<td>51</td>
</tr>
<tr>
<td>Chemical and Petrochemicals</td>
<td>78.3</td>
<td>78.5</td>
<td>65</td>
<td>43</td>
</tr>
<tr>
<td>Machine-building</td>
<td>85.1</td>
<td>84.4</td>
<td>57</td>
<td>43</td>
</tr>
<tr>
<td>Timber &amp; Paper</td>
<td>85.4</td>
<td>81.3</td>
<td>66</td>
<td>50</td>
</tr>
<tr>
<td>Construction Mater.</td>
<td>79.0</td>
<td>82.4</td>
<td>68</td>
<td>46</td>
</tr>
<tr>
<td>Light industry</td>
<td>70.0</td>
<td>76.6</td>
<td>58</td>
<td>36</td>
</tr>
<tr>
<td>Food industry</td>
<td>83.6</td>
<td>90.8</td>
<td>77</td>
<td>55</td>
</tr>
</tbody>
</table>

\(^a\) As a percentage of the results from a similar period in 1993.

\(^b\) As a percentage of the results from a similar period in 1991.


In addition, output in the food industry fell by almost one-half since June 1991. A more detailed examination of declining product output in this sector reveals the depths of the crisis affecting the food industry: output presumably fell consistently for virtually every good presented in Table 2.8.

The great extent of the industrial slump notwithstanding, many economists have maintained that the steep production decline was indeed necessary, asserting that much of the output generated by Soviet industry was of poor quality and produced without any consideration of actual market demand. Resources squandered on such output
would be better utilized once market forces were introduced and structural reforms implemented.

Table 2.8
Food Industry Production, Basic Items

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Processed meats</td>
<td>44.7</td>
<td>39.2</td>
<td>32.2</td>
<td>26.9</td>
</tr>
<tr>
<td>Sausage</td>
<td>15.4</td>
<td>14.0</td>
<td>10.4</td>
<td>10.0</td>
</tr>
<tr>
<td>Milk products</td>
<td>140.0</td>
<td>125.0</td>
<td>65.8</td>
<td>55.0</td>
</tr>
<tr>
<td>Margarine</td>
<td>5.5</td>
<td>4.2</td>
<td>3.8</td>
<td>2.9</td>
</tr>
<tr>
<td>Canned goods (tins)</td>
<td>55.3</td>
<td>46.7</td>
<td>36.0</td>
<td>29.6</td>
</tr>
<tr>
<td>Frozen vegetables (grams)</td>
<td>21.0</td>
<td>38.0</td>
<td>21.0</td>
<td>13.0</td>
</tr>
<tr>
<td>Refined sugar</td>
<td>7.3</td>
<td>6.0</td>
<td>5.0</td>
<td>2.8</td>
</tr>
<tr>
<td>Confectionary goods</td>
<td>19.4</td>
<td>17.8</td>
<td>12.3</td>
<td>11.8</td>
</tr>
<tr>
<td>Non-alcoholic bev. (liters)</td>
<td>19.4</td>
<td>15.3</td>
<td>5.3</td>
<td>5.3</td>
</tr>
<tr>
<td>Mineral waters</td>
<td>6.0</td>
<td>5.1</td>
<td>2.9</td>
<td>2.0</td>
</tr>
<tr>
<td>(half-liters)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salt</td>
<td>28.3</td>
<td>27.7</td>
<td>24.5</td>
<td>14.9</td>
</tr>
</tbody>
</table>

* All goods are measured in kilograms unless otherwise noted.


Thus, a key component of the "shock therapy" reforms was the privatization of much of the state sector. It was hoped that private ownership of industry would alter the wasteful behavior of enterprise directors, raise worker productivity, increase efficiency and generate significant investment. However, though much of industry was privatized by the beginning of 1995, as was intimated above, much of this privatization was nominal and it is not at all clear that the economic behavior of enterprise directors improved.
significantly and Russian industry made notably more efficient.

With the passage of President Yeltsin's decree of late December 1991, the largest privatization program of any postcommunist government was initiated. Additional legislation was pushed through the Supreme Soviet in early 1992. The expected pace of privatization was to be undertaken quite rapidly: all small-scale enterprises and about one-third of all medium- and large-scale enterprises were scheduled for privatization by the end of 1994 (Bush, July 24, 1992).

Most small-scale enterprises - those with less than 200 employees - were to be auctioned off to the highest bidder.\(^{25}\) Having considered the alternatives, the government chose "voucher" privatization as the method to transfer ownership of the larger enterprises.\(^{26}\) Vouchers were distributed to all citizens, who in turn were able to use them to obtain shares or "aktsii" in these enterprises, which were to be transformed into joint-stock companies.\(^{27}\)

\(^{25}\) Many of these enterprises were owned by municipal governments and were involved in food processing and retail and wholesale trade (Bush, February 12, 1993).

\(^{26}\) For an examination of the reasons the Russian Government chose voucher privatization over other possibilities see Slider, 1994b, pp. 372-373 and Fateev, 1994.

\(^{27}\) At the time the value of each citizen's voucher was 10,000 roubles or about 40 dollars.
As we saw above, after much confrontation between the reformers and its opposition in parliament, the government was forced to make changes in its stated privatization policy. In the end, three possible variants of joint-stock companies were devised, instead of the two proposed initially by the radical reformers. As it turned out, the preferred method was the so-called "second variant" - the one which was forced upon the government by the director's corps and which permitted the enterprise employees to buy up to 51% of available stock; in 1992, 64% of all joint-stock companies chose this method, while 34% selected the "first variant" (Obobshchennye Pokazateli..., 1993).\(^2\) By June 1993 about 77% of all privatized companies had chosen the "second variant," whereas only 21% selected the first method. This outcome was of great disappointment to the radicals in government as it was believed that labor collective privatization under the "second variant" would least alter enterprise behavior (Slider, 1994b).

Nonetheless, by mid-1994, the government had surpassed its declared goal of transforming one-third of medium- and

\(^2\) The "first variant" gave enterprise employees one-fourth of the nonvoting shares outright, set aside an additional 10% of the voting shares for them at a discounted price and allowed management to purchase 5% of the shares. The remaining shares were retained by the State Property Committee and could be auctioned for currency or vouchers. The "third variant" was a more complicated method of distributing shares, as it involved significant risk on the part of the labor collective and, thus, was utilized by less than 2% of all enterprises (Linz, 1994; Slider, 1994b).
large-scale companies to the private sector. Anatolii Chubais, the Chairman of the State Property Committee (Goskomimushchestvo), claimed that 70% of such enterprises had been privatized, in addition to nearly 80% of all small-scale businesses (RFE/RL Daily Report, July 1, 1994; Ellison, 1994, p. 1). What is more, privatized enterprises produced a greater share of industrial goods than ever before; in 1993 private and "mixed" (smeshanii) enterprises generated more than 47% of all industrial products (Rossiiskaia Federatsiia v Tsifrakh v 19.93 g., 1994, pp. 34-35). Accordingly, by 1994 many Western observers highly praised Russia's privatization "success story" (Blasi, 1994).

However, numerous officials and scholars have questioned the "successes" of privatization in Russia, asserting that the transformed enterprises are really only quasi-privatized entities at best and the fact that clear ownership rights have not been established forestalls rational economic behavior from taking root (McFaul, 1994; Ericson, 1995, pp. 58, 62). Thus, by undertaking the process of "aktsionirovanie," i.e., becoming joint-stock companies, all that had been accomplished was a limited differentiation of these "recombinant" enterprises from state ownership; they had become by no means wholly private entities (McAuley, 1994, pp. 12-13; Stark, 1994, pp. 7, 13).
Thus, many observers have claimed that although on the books over two-thirds of industry was privatized, this had not significantly changed the behavior of "newly-privatized" enterprises. To be sure, as recently as October 1994 a leading Russian official at the Government's Working Center for Economic Reform confirmed this sentiment, stating:

... the message I tried to convey is that at the micro level and at a level of the main economic agents, i.e., individual enterprises, the changes of behavior and its results occur very slowly. There is a big gap between economic realities and the realization of these realities by the majority of economic entities (Press Conference with Sergei Pavlenko, 1994).

The fact is that, unlike in Central and Eastern Europe, privatization in Russia has largely been "insider-dominated," with managers and directors continuing to control enterprises as they had during the Soviet era. In the vast majority of cases, outside owners have not been able to impose restrictions on or discipline enterprise directors' conduct (Blasi, 1994; McFaul, 1994; Rutland, 1994, pp. 1109, 1120).

Therefore, in many cases the management of privatized enterprises operated in this early postcommunist reform period in an atmosphere of "soft budget constraints,"

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29 In addition, the interference by local governmental administration in the privatization process and the inability of central government to curb such activity were additional explanations for the less than satisfactory accomplishments of privatization (Press Conference With Sergei Pavlenko, 1994; Slider, 1994b).
relying upon government coffers to remedy budget shortfalls.\textsuperscript{30} Bankruptcy was avoided by managers of privatized enterprises by using the weapon of mass lay-offs against the government as a method of obtaining state subsidies (Kosmarskii, 1993). In addition, by accumulating debt among numerous enterprises, companies remained afloat.

Thus, in terms of enterprise behavior, the management of these "quasi-privatized" enterprises continued to preserve the status quo (McPaul, 1994, p. 46).\textsuperscript{31} Managers continued to rely upon customary sources of supply and distribution, while novel marketing methods were eschewed. Old lines of production were not changed to more cost-effective products which the market place demanded (Slider, pp. 374-75). Excess labor was retained and much-needed investment capital was often consumed through expenditures on social infrastructure. As a leading government researcher claimed:

> If some investment capital appears, either one's own or provided by the state, strangely enough, although everybody understands that production has to be reorganized, most enterprises, as soon as they get investments, promptly direct them into the social sphere, that is the construction of housing, health

\textsuperscript{30} State subsidies to all of industry remained in 1994 at approximately 22\% of GDP; agricultural subsidies amounted to another 7\% of Russian GDP (Rutland, 1994, p. 1120).

\textsuperscript{31} It is important to realize that not all observers appraised the situation so negatively. Peter Rutland argues that some empirical evidence exists which demonstrates that enterprise behavior in Russia has been changed in the wake of privatization (Rutland, 1994, pp. 1120-1122).
and recreation facilities and so on. And when asked about the rationale of such behavior the plant managers reply that they consider this to be investment into factors of their production, into manpower or something like that. This is a very odd line of behavior, but it is a fact (Press Conference With Sergei Pavlenko, 1994).

At the same time, top management took advantage of the lack of outsider control and governmental interference for personal aggrandizement. The fact that the overwhelming majority of privatized enterprises chose the "second variant" of stock distribution meant in reality that the managers became the de facto "owners" of the companies, rather than the work collectives (Boiko, 1993; Crowley, 1994; Slider, 1994b). The enormous temptation to undertake quasi-criminal activities thus existed and tainted the entire process of privatization.  

As part of the overall "shock therapy" reforms, the implementation of bankruptcy proceedings against inefficient, unprofitable enterprises in both the privatized and state sectors of the economy was also slated to be a necessary component of the government's attempt to rationalize economic behavior. Efforts to translate this

---

32 One example of the immoderate behavior of enterprise directors was the tremendous increases in salaries management obtained relative to that of the average line worker. Whereas in 1991 managers' salaries as a rule did not exceed twice the level of the average worker's wage in many enterprises, as of 1994 it has been estimated that management's salaries exceeded worker's wages by as much as one hundred times (Berezin, 1993; Khudiakova, 1994).
into practice, however, were frustrated by political struggles between the parliament and the Russian Central Bank, on the one hand, and the executive branch, on the other, as well as institutional incapacity, and, ultimately, the lack of political will on the part of the executive branch itself.

The Russian Central Bank, as well as the Supreme Soviet, were profligate in disbursing credits to enterprises threatened with bankruptcy. During his tenure as Chairman of the RCB, Viktor Gerashchenko was extremely wary of allowing unprofitable enterprises to go bankrupt (Zasurskii, 1993). On their part, the Supreme Soviet also hindered the bankruptcy process by prolonging the passage of bankruptcy legislation for over a year. Part of the reason for their delaying tactics - besides conservative opposition to the privatization process and economic reform, in general - was the fact that the legislative body did not want to be held responsible for the serious social problems associated with an outbreak of mass bankruptcies (Kosmarskii, 1993).

In the end, after a great deal of lobbying by government reformers, the Law on Bankruptcy was passed by parliament in March 1993. Due to the tremendous opposition from conservatives in parliament, however, the legislation had a number of shortcomings. In particular, the bankruptcy process turned out to be exceedingly complex and lengthy: from the time that a declaration of insolvency was made by
federal authorities, courts of arbitration could take up to eighteen months before legally pronouncing insolvent enterprises bankrupt (Bankrotov Priznaiut..., 1992; Kosmarskii, 1993; 0 Nesostoiatel’nosti (Bankrotstve) Predpriiatii, 1993).

The bankruptcy process was hindered as well because the notion of insolvency was completely new to Russia. Institutions staffed with individuals possessing the requisite skills and expertise did not exist which could be employed to carry out such complicated procedures. The Russians had to start creating the proper structures from scratch. Even after the passage of the Law on Bankruptcy in March 1993, no significant headway had been made in establishing such institutions. Soon thereafter a governmental agency was created - the Federal Administration for Insolvency Affairs (Bankruptcy) under Chubais’ State Property Committee (Goskomimushchestvo) - however, the directorate suffered from many shortcomings, e.g., staffing difficulties, overcoming the "old socialist" behavior of many directors, etc. (Leont’eva, 1993).

In the final analysis, the political will necessary to begin implementing bankruptcy procedures was missing in the executive branch; certain pivotal figures in the Government were unwilling to advance the mechanism and thus the process languished. For example, attempts in 1992 by the Ministry of Finance to undertake an "inventorying of unprofitable
enterprises" in industry lost critical support and the attempt proved to be fruitless. Efforts in 1993 and 1994 to devise alternative methods of dealing with serious non-payments problems in industry and thereby advance the bankruptcy process - by converting enterprise debt into promissory notes or "vekselia" - were also seriously frustrated. Both of these endeavors were terminated or suspended by important governmental figures who concluded the risks of a resulting social explosion would be too great should enterprises become bankrupt and forced to close their gates to workers (Kosmarskii, 1993; Officials Say Russian Non-Payments..., 1994; Russia Investigating..., July 1994).

Thus, although Premier Chernomyrdin stated emphatically at the beginning of 1993 that bankruptcies would be forthcoming, by the autumn of 1993 only a few high-profile cases had been discussed and no enterprises had been declared legally insolvent (Poleshchuk, 1993; Russia's First..., 1993; Karpenko, 1994). However, by the beginning of 1994 some "advances" on this front had been noted by former Russian Minister of Finance, Boris Fyodorov, when he declared sarcastically:

We must have the healthiest economy in the world because we only had eight bankruptcies in the whole country last year (Feder, 1994).

To be sure, a total of eight bankruptcies is an insignificant figure when it was estimated at the time that as much as one-third of Russian industry was unprofitable
("ubytochnyi"), with some industrial sectors faring far worse (Kosmarskii, 1993). For example, in the first half of 1993 the proportion of unprofitable enterprises in the publishing, consumer services and housing and communal services industries ranged from 37-52% of the total (Udel'nyi Ves..., 1993; Sotsial'no-Ekonomicheskoe Polozhenie Rossii, pp. 106-107). By mid-1994 governmental officials claimed that over 2,000 enterprises were estimated to be insolvent and total inter-enterprise arrears in all of industry amounted to over $42 billion33 (Russia Investigating..., 1994; Officials Say Russian Non-Payments..., 1994).

Although the state of the non-payments problem had reached crisis proportions by mid-1994, it appeared nonetheless that a remedy for the problem was not forthcoming. As Nikolai Gonchar, the Chairman of the Federal Assembly’s Budget and Finances Committee, stated:

... it seems that there is no agreement within the Government over which measures to implement to enable us to overcome the crisis of non-payments (Bolmatova, 1994).

Still, one point on which it appeared all members of the Government had agreed by mid-1994 was that mass

33 In actuality, these figures probably over-estimated the extent of the crisis somewhat. For example, having threatened to implement bankruptcy proceedings against various enterprises, government officials found that some of them have conveniently "located" the cash reserves necessary to forestall financial collapse. In many cases, these funds were previously employed in a variety of speculative pursuits (Denisov, 1994; Press Conference With Sergei Pavlenko, 1994).
bankruptcies would not occur. Commenting on the possibility of widespread bankruptcies in an interview in *Moscow News*, the Government's point man for insolvency issues, Sergei Beliaev, stated:

There will not be large numbers of bankruptcy (sic). If enterprises are on the verge, we will take the necessary measures (Denisov, 1994).

Thus, we have seen that by mid-1994 the "shock therapy" reforms unleashed with such vigor by Russia's first postcommunist government and the economic reforms implemented by the Chernomyrdin governments had not achieved their desired objectives. It appeared that sincere efforts were not made in carrying out widespread structural reform; in the interim, old Soviet methods of maintaining enterprise solvency continued to endure. Moreover, nominal privatization tended to be the rule, rather than the exception. Thus, much of Russian industry continued to suffer from the economic irrationality that characterized it during the Soviet era. In addition, since the second quarter of 1992 the government was unable to pursue consistent fiscal and monetary policies. As well, the "wild criminalization" of the Russian economy and rampant corruption in government circles further impeded reform's success.

But how have postcommunist Russia's economic reforms affected the Russian people? Certainly, their lot has
worsened. But to what extent? It is to this question that we now turn.

The Social Consequences of Economic Reform

The primary instruments through which the centrally-planned economic system regulated social policy during the Soviet era were fundamentally administrative in nature. In the absence of market forces, central planners attempted to achieve their socio-economic goals by using bureaucratic procedures to determine price levels, subsidizing the production of a plethora of goods and services, utilizing the enterprise or employing institution as the source of countless welfare benefits and guaranteeing full employment in return for a relatively meager wage.

With the introduction of "shock therapy" in early 1992, however, the government failed to restructure its system of social assistance in a timely and sincere fashion. Indeed, little attention was paid to the social sector for a variety of reasons, not the least of which being that "radical" reformers opposed increased spending in this sphere (King, 1993). The result was a dramatic drop in living standards.

The following pages will attempt to assess the impact of economic reform on society. A range of indicators will be used to appraise the "social costs" of the first two years of economic transformation, including data on income
differentiation, real wage levels, poverty levels, etc.\textsuperscript{3 4}

However, the present chapter will not evaluate the employment situation in Russia as Chapter 3 will be wholly devoted to an extensive analysis of unemployment and underemployment issues.

As predicted by government officials and outside observers, there has been a sharp reduction in the level of expenditure for social protection relative to other "socio-cultural measures" in the Russian Federation’s state budget since 1991. As the following table indicates, the proportion of the "socio-cultural measures" budget spent on social support fell by almost one-half between 1991-1993.

Calls to increase expenditures on not only social protection, but on other social measures have fallen continuously on deaf ears. As the former Minister of Social Protection, Ella Pamfilova, bitterly complained about the meager support offered to society’s downtrodden by her Government:

\begin{quote}
All social problems are considered secondarily. What is more, everything concerning the social sphere, any payments, relief aid, etc., are considered to be brakes
\end{quote}

\textsuperscript{3 4} By using data compiled from a variety of sources, it is hoped that an accurate and reliable picture of Russia’s socio-economic condition during the period under examination will be drawn. As with the economic statistics presented in the preceding pages, however, various Russian statistical agencies provide quite different socio-economic data. For more on the problems of the reliability of Russian statistics, see Iudina, July 29, 1993, p. 15.
on the reform process (Golovachev, 1993, p.1).

Table 2.9
The Russian State Budget:
Expenditures for Socio-Cultural Measures

(in % of total expenditures)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Education &amp; re-training</td>
<td>48.5</td>
<td>49.1</td>
<td>48.7</td>
</tr>
<tr>
<td>Culture, art and mass media</td>
<td>7.2</td>
<td>8.4</td>
<td>7.3</td>
</tr>
<tr>
<td>Health &amp; sports</td>
<td>32.8</td>
<td>33.8</td>
<td>37.7</td>
</tr>
<tr>
<td>Youth programs</td>
<td>--</td>
<td>0.0</td>
<td>0.1</td>
</tr>
<tr>
<td>Social protection</td>
<td>11.5</td>
<td>8.7</td>
<td>6.2</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>


In the background of the first years of economic reform in Russia one may also observe a widening in income differentiation; there appeared an increasing divide between the "haves" and the "have-nots." Indeed, income differentiation had become so excessive in Russia that it prompted the sitting Minister of Labor, Gennadii Melik'ian, to comment openly on the negative consequences of the trend for political reform. While taking part in a Consultative Council for Ministers of Labor from countries in the C.I.S., Melik'ian told the gathering that:

...a very small portion (of the population) have sharply increased the level of their incomes, while a large majority have become impoverished. Such a situation does not strengthen democracy and stability. Now everything is clear: the strict macro-economic
financial policy of 1992 went too far and, thus, the turn towards the resolution of social problems (now) is normal (Kibarov, 1993, pp. 44-45).

The fact that such a statement was made by a senior member of the Russian Government just a few days before the April 1993 Referendum took place -- a plebiscite which was held in part to ascertain the Russian citizenry's degree of support for Yeltsin's socio-economic policy -- is significant.

One obtains a general portrait of the degree of income differentiation by examining the following table, along with considering other statements from authoritative sources.

<table>
<thead>
<tr>
<th>Table 2.10</th>
<th>Income Differentiation in Russia in 1992-1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in percentages)</td>
<td>(according to population group increments of 20% of total)</td>
</tr>
<tr>
<td></td>
<td>1992</td>
</tr>
<tr>
<td>Total income:</td>
<td>100.0</td>
</tr>
<tr>
<td>(population groups)</td>
<td></td>
</tr>
<tr>
<td>First (with lowest incomes)</td>
<td>10.6</td>
</tr>
<tr>
<td>Second</td>
<td>15.3</td>
</tr>
<tr>
<td>Third</td>
<td>19.2</td>
</tr>
<tr>
<td>Fourth</td>
<td>23.8</td>
</tr>
<tr>
<td>Fifth (with highest incomes)</td>
<td>31.1</td>
</tr>
</tbody>
</table>

Source: Sotsial'no-Ekonomicheskoe Polozhenie Rossii, 1994, p. 66.

What the above table does not demonstrate clearly is that the correlation between the average income of the richest 10% of the population and that of the poorest 10% was 3.7:1 in 1992. However, by 1993, the figure had almost trebled,

Moreover, a more recent report asserted that as of early 1994 the incomes of the poorest 10% of Russians were 11 times less that of the wealthiest decile (Babayeva, 1994). Zhukov’s figures were even more ominous: in May 1994 the correlation between the average income of the top 10% of the population and the average income of the poorest 10% of the population stood at 14:1 and the gap continued to grow (Zhukov, 1994, p. 11).  

Still another source states that by the end of March 1994 the average wage of the highest-paid workers (ten percent of those making up the manual labor force) outstripped by 27 times the average wage of the lowest-paid decile of workers (rabochii). In 1991, however, the highest-paid decile received wages only five times greater than the lowest-paid decile (*Rossiiskaia Federatsiia v Tsifrakh v 1993 g.*, 1994, p. 29).

Another method of measuring income differentiation is by utilizing Gini coefficients in order to detect the concentration of income. As one moves from equality of income to the state in which a single agent possesses all wealth the Gini coefficient increases from 0.00 to 1.00 (*Russian Economic Trends*, 1993, p. 31). The following table

---

35 In contrast, comparable income data for China, the U.S. and Latin America would be 3:1, 6:1 and 12:1, respectively (Zhukov, 1994, p. 11).
demonstrates conclusively that wealth in Russia had indeed become more dispersed in the initial postcommunist period. While some amount of income differentiation was to be expected in postcommunist societies in transition, it is also plausible that enormous income differentials can be quite problematic and a threat to social cohesion.36

Reduction in Income and Wages

At the same time that income polarization was taking place, the income and real wages of most Russians have fallen precipitously. However, workers' wages in certain industrial sectors have fared better than others. Additionally, there have been marked regional fluctuations in wage growth.

---

36 For comparison, the Gini coefficient in the U.S. was equal to 0.40 in November 1993 (Narzikulov, 1993).
According to one authoritative World Bank source, the average income in Russia declined by as much as 43% between 1991 and 1993 alone (Nellis, 1995, p. 12).

In addition, the following table demonstrates the impact of the government's macro-economic "stabilization" policies on real wages in the early period of reform.

### Table 2.12
**Index of Real Wages**

(1990=100%)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>54</td>
</tr>
<tr>
<td>June</td>
<td>63</td>
</tr>
<tr>
<td>July</td>
<td>61</td>
</tr>
<tr>
<td>August</td>
<td>60</td>
</tr>
<tr>
<td>September</td>
<td>67</td>
</tr>
<tr>
<td>October</td>
<td>66</td>
</tr>
<tr>
<td>November</td>
<td>62</td>
</tr>
<tr>
<td>December</td>
<td>76</td>
</tr>
<tr>
<td>1993</td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>59</td>
</tr>
<tr>
<td>February</td>
<td>56</td>
</tr>
<tr>
<td>March</td>
<td>59</td>
</tr>
<tr>
<td>April</td>
<td>62</td>
</tr>
<tr>
<td>May</td>
<td>64</td>
</tr>
</tbody>
</table>


Between May 1993 and early 1994 real wages did not grow. Indeed, although the average aggregate wage grew by almost six times from April 1993 to April 1994, real wages in April 1994 amounted to only 89% of their April 1993 level (Sotsial’no-Ekonomicheskie Polezhenie Rossii, p. 68.)

Commenting on the falling Russian standard of living and various proposals periodically advanced to index the wages of the lowest-income groups (maloimushchii), Evgenii
Gontmakher, the former Deputy Minister in the Ministry of Social Protection and one of the country’s foremost experts on living standards and incomes policies, openly questioned in an interview the "shock therapy" approach to financial stabilization, stating:

When I hear from a few officials in the Ministry of Finance, 'Forget the words "indexation,"' I want to take these 'specialists' to poor families' homes and show them how they live (Golovachev, 1993, p. 1.).

As stated above, however, workers' wages in certain sectors of the economy - raw materials production, extractive industries and banking and insurance, especially - were able to keep up with the rate of inflation better than workers in other spheres of the economy, especially in the so-called "budget sphere" (public-sector pay). During 1992, for example, in the "market" sphere of the economy wages grew 17.3 times, whereas in the "budget" sphere wages grew by only 12.8 times (Iudina, 1993, p. 9). Thus, by the end of 1992, the average wage in industry was between 1.6-2.4 times higher than that in the budget sphere, whereas at the end of the 1980's, wages in the budget sphere were only 23-28% less than the average wage in the industrial sphere (Berezin, 1993, p. 37).

37 The "budget sphere" in Russia includes those professionals employed in health care, education, scientific research and culture.
Table 2.13 provides a more detailed picture of wage growth trends in the Russian economy than the preceding table. It clearly shows the wide discrepancies that existed in wages between the "budget" and non-budget spheres.

### Table 2.13
**Real Wages by Economic Sector: Russia, 1992-1993**

(average earnings in January 1993=100)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Industry</td>
<td>111</td>
<td>117</td>
<td>115</td>
</tr>
<tr>
<td>Agriculture</td>
<td>55</td>
<td>53</td>
<td>61</td>
</tr>
<tr>
<td>Kolkhozy only</td>
<td>42</td>
<td>46</td>
<td>54</td>
</tr>
<tr>
<td>Forestry</td>
<td>67</td>
<td>63</td>
<td>74</td>
</tr>
<tr>
<td>Transport</td>
<td>124</td>
<td>134</td>
<td>154</td>
</tr>
<tr>
<td>Communications</td>
<td>77</td>
<td>90</td>
<td>102</td>
</tr>
<tr>
<td>Construction</td>
<td>108</td>
<td>123</td>
<td>140</td>
</tr>
<tr>
<td>Trade and Public Catering Services</td>
<td>63</td>
<td>84</td>
<td>87</td>
</tr>
<tr>
<td>Health care</td>
<td>70</td>
<td>91</td>
<td>106</td>
</tr>
<tr>
<td>Education</td>
<td>56</td>
<td>74</td>
<td>98</td>
</tr>
<tr>
<td>Culture</td>
<td>67</td>
<td>81</td>
<td>99</td>
</tr>
<tr>
<td>Science</td>
<td>54</td>
<td>68</td>
<td>80</td>
</tr>
<tr>
<td>Banking, Credit and Insurance</td>
<td>65</td>
<td>74</td>
<td>75</td>
</tr>
<tr>
<td>Public Admin.</td>
<td>100</td>
<td>226</td>
<td>201</td>
</tr>
<tr>
<td></td>
<td>86</td>
<td>98</td>
<td>145</td>
</tr>
</tbody>
</table>


The fact that much of the wage growth appeared in the raw materials production and extractive industries sector of the economy produced wide regional distributions in income. In particular, the Povolzhskii, Western Siberian, Eastern Siberian and Northern economic regions - regions which include substantial raw material deposits - have experienced wage growth rates far above the national average (McAuley, 1994, p. 28).
A straightforward method of assessing the declining Russian standard of living is by examining the purchasing power of the average wage. The following table records the amount of various food items that could be bought per month with the average wage of a worker in 1990-1992. In virtually all categories the amount had decreased by a significant proportion from 1990 levels.

Table 2.14
Foodstuffs Purchasing Power of Average Wage of a Worker

(kilograms per month)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Meats</td>
<td>95</td>
<td>65</td>
<td>52</td>
<td>36</td>
</tr>
<tr>
<td>Milk products</td>
<td>1,237</td>
<td>1,042</td>
<td>480</td>
<td>456</td>
</tr>
<tr>
<td>Fish</td>
<td>178</td>
<td>118</td>
<td>98</td>
<td>57</td>
</tr>
<tr>
<td>Sugar &amp; confections</td>
<td>137</td>
<td>110</td>
<td>57</td>
<td>58</td>
</tr>
<tr>
<td>Margarine &amp; oil</td>
<td>182</td>
<td>185</td>
<td>76</td>
<td>61</td>
</tr>
<tr>
<td>Potatoes</td>
<td>690</td>
<td>397</td>
<td>335</td>
<td>443</td>
</tr>
<tr>
<td>Vegetables/melons</td>
<td>309</td>
<td>226</td>
<td>170</td>
<td>145</td>
</tr>
<tr>
<td>Fruit &amp; berries</td>
<td>132</td>
<td>125</td>
<td>120</td>
<td>82</td>
</tr>
<tr>
<td>Bread products</td>
<td>675</td>
<td>558</td>
<td>381</td>
<td>361</td>
</tr>
</tbody>
</table>


However, since the average wages of workers (rabochie) in Russia are higher than the average wage of all those employed, the last column has been added in Table 2.14 in order to make the table more representative of all Russians. Figures in the last column (in bold) represent the foodstuff purchasing power of the average Russian wage in 1993. Thus, the addition of the last column indicates that with respect to most foodstuffs, workers were probably more fortunate
than their counterparts engaged in non-manufacturing, non-industrial labor.

As a result, according to Professor Zhukov, as of 1993 the Russian per capita consumption of meat fell to 1965 levels, whereas the consumption of milk products fell to the level of 1957, several years after Nikita Khrushchev launched the "Virgin Lands" Campaign. Even more disturbing was the fact that by 1993 the consumption of sugar in Russia fell to the level attained in 1953, the year that Josef Stalin died! (Zhukov, 1994, p. 8). Moreover, by 1993 at least one respected journalist declared that nearly 15 million Russians were suffering from malnutrition (Khudiakova, 1994, p. 1).

Another method of measuring living standards is by examining the percentage of income spent on various items over time. If in 1990, families on average spent 29.7% of their aggregate income on foodstuffs, by 1993 the proportion of income spent on food purchases had grown by nearly one-half; by 1993 Russian families spent on average almost 42% of their total income on purchases of foodstuffs.38 In

---

38 The figures regarding the proportion of income spent on foodstuffs probably under-estimated the actual state of affairs in that they do not take into consideration the tremendous amount of time and energy spent by most Russians in the cultivation of small garden plots that are a not inconsiderable source of foodstuffs for many families. Indeed, since 1990 the number of Russian families that have begun to till small parcels of land has increased by 67%, from 8.5 million families to almost 14.5 million (Rossiiskaia Federatsiia v Tsifrakh v 1993 g., p. 196). For more information and estimates of the activities of Russian
comparison, expenditures for non-food goods and services decreased by 10% between 1990 and 1993; expenditures on alcoholic beverages and entertainment by 40% each, and various additional expenditures decreased by 20% (Rossiiskaia Federatsiia v Tsifrakh v 1993 g., 1994, p. 277). 30

The Physiological Minimum

Armed with the knowledge that the strict fiscal policy and the price liberalization would bring about a rapid reduction in the standard of living for most Russians, attempts were made to restructure the social safety net in early 1992 in order to more accurately identify the poorest segments in society. To be able to target benefits for the neediest groups it was imperative to create an instrument for classifying the poor, a task for which the state in socialist systems was ill-prepared (Milanovic, 1992, p. 24; Russia: Social Protection During Transition and Beyond, 1993; Marnie, 1993).

families in various "unofficial economies," see Rose, 1993.

30 The figures published by Goskomstat may have seriously under-estimated the proportion of average incomes spent on foodstuffs. Evidence from public opinion polls conducted in 1993 demonstrates that more than half of respondents considered that "almost all" of their family's income is spent on food purchases. Another 20% of respondents claimed that "about two-thirds" of their household income is spent on food (Ekonomicheskie i Sotsial'nye Peremeny, September 1993, p. 43.
After consulting numerous institutes and foreign advisors, early in 1992 the Ministry of Labor set about developing the "physiological minimum," also known as the "subsistence minimum" (prozhitchnii minimum). Formerly in the U.S.S.R., income security was provided through the full employment policies of the State. However, although poverty was not officially recognized until well into the Gorbachev era, researchers in various academic institutes had made calculations of a "minimum consumption budget" for decades prior to perestroika (Degtyar', 1993b; Sivkova, 1994). Leaving aside the troubling methodological problems associated with the construction of the resulting highly-biased indicators, the fact was that in the aftermath of the 1992 price liberalization more than 90% of the Russian population would have been categorized as having fallen below the poverty level according to this indicator.

Indeed, in one region of the country (Altaiskii Krai), the figures for the minimum consumption budget were not even published "for fear that expectations of social assistance would be unduly raised" (Russia: Social Protection...., 1993, pp. 8-9). Thus the Ministry of Labor calculated a more restrictive indicator: the "physiological minimum."

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40 For more information regarding the problems of such measures, see Rimashevskaia, 1990 and Atkinson, 1992.

41 As of February 1994, about 80% of Russians would be living under the poverty level as calculated by the "minimum consumption budget" (Sivkova, 1994).
Since then, this measure has been regarded by the Russian government to be the official poverty level. The indicator has also gained acceptance from international economic organizations, as the "minimum" has been calculated based upon World Bank recommendations (Klugman, 1995, p. 6).42

The physiological minimum is calculated by estimating a food budget necessary to obtain a diet of 2,236.7 kilocalories per day.43 After calculating the cost of the minimum food budget, Russian authorities multiply this sum by 1.25 to obtain the "subsistence minimum" income level, as they assume that low-income individuals will spend approximately 68.3% of their income on food. The remainder of the "physiological minimum" is to be spent on non-foodstuff goods and services, taxes and other necessary purchases44 (Bobkov and Maslovskii-Mstislavskii, 1994, p. 58; Russian Economic Trends: 1993, 1993, p. 32; Sotsial’no-Ekonomicheskoe Polozhenie Rossii, 1994, p. 67).

42 Indeed, in a recent World Bank publication the Russian Ministry of Labor's "physiological minimum" was employed in order to assess poverty in the Russian Federation (Klugman, 1995, p. 6).

43 The selection of foodstuffs to be included in the budget was developed by specialists at the Institute of Nutrition of the Russian Academy of Medical Sciences and was approved by the World Health Organization.

44 Unlike in the previous indicator of poverty, the calculation of the "physiological" minimum does not include expenses for an annual vacation, entertainment expenditures, etc. In addition, it only includes 19 items in the food basket (Sivkova, 1994).
Of course, there are many problems associated with creating a standard indicator of poverty for a country as large as Russia, not the least of which are regional price differences in basic commodities. For example, the prices for the 19 products upon which the physiological minimum is based vary widely across regions. In November 1993 this identical basket of foodstuffs cost 10,900 roubles in Ul'ianovsk, whereas in the Far Eastern region they cost more than three times as much (Firstova, 1993).

Table 2.15 demonstrates that after the initial price liberalization on January 2, 1992 a considerable proportion of the Russian population earned incomes which were below

<table>
<thead>
<tr>
<th>Year</th>
<th>Size of Phys. Minimum (Rubles per month)</th>
<th>Number &amp; Share of Population Having Incomes Beneath Minimum (million persons) (% of population)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>54</td>
<td>1.9</td>
</tr>
<tr>
<td>1990</td>
<td>61</td>
<td>2.3</td>
</tr>
<tr>
<td>1991</td>
<td>154</td>
<td>6.1</td>
</tr>
<tr>
<td>1992</td>
<td>1,895</td>
<td>35.8</td>
</tr>
<tr>
<td>1993</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>5,547</td>
<td>52.8</td>
</tr>
<tr>
<td>March</td>
<td>8,069</td>
<td>51.6</td>
</tr>
<tr>
<td>June</td>
<td>16,527</td>
<td>41.4</td>
</tr>
<tr>
<td>September</td>
<td>28,183</td>
<td>48.4</td>
</tr>
<tr>
<td>December</td>
<td>42,800</td>
<td>32.9</td>
</tr>
<tr>
<td>1994</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>47,189</td>
<td>45.9</td>
</tr>
<tr>
<td>February</td>
<td>54,759</td>
<td>22.9</td>
</tr>
<tr>
<td>March</td>
<td>60,388</td>
<td>16.6</td>
</tr>
<tr>
<td>April</td>
<td>66,536</td>
<td>15.9</td>
</tr>
</tbody>
</table>

the physiological minimum. Indeed, by November 1992 more than 40 million Russians (or 28%) were living beneath the official poverty level (O Razvitii Ekonomicheskikh Reform v Rossiiskoi Federatsii, 1992, p. 29). These figures grew worse thereafter and "bottomed out" during the first quarter of 1993. On average for 1993, 31.9% of the Russian population were living below the physiological minimum; by early 1994, an estimated 26.8% of the population were living below the poverty level (Klugman, 1995, p. 6).

Those most represented among the ranks of the poorest segment in society are families with two children or more, single-parent families and families with either unemployed persons or disabled members (McAuley, 1994, p. 39). Examining the findings of the World Bank's Russian Longitudinal Monitoring Survey (RLMS) in Table 2.16 one obtains a more accurate picture of which families are particularly affected by the economic reforms.

Many of the families making up the impoverished are located in this category because family members earned incomes pegged at either the minimum wage or the minimum

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Comparative figures for the U.S. show that in 1959, 22% of U.S. citizens lived below the poverty level; by 1992 the percentage had fallen to 14.2% of the total population (Bobkov and Maslovskii-Mstislavskii, 1994, p. 57). Of course, the definition of the poverty level in the Russian case is much different from (i.e., more restrictive than) the U.S. government's.

Of those families with three or more children, 72% have incomes below the physiological minimum (McAuley, 1994).
Table 2.16
Composition of Poverty in Russia by Household Head

(September 1992)

<table>
<thead>
<tr>
<th>Family Head</th>
<th>% of Total Citizens in Poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working in Enterprise*</td>
<td>63.0%</td>
</tr>
<tr>
<td>Retired</td>
<td>19.0</td>
</tr>
<tr>
<td>Unemployed</td>
<td>7.0</td>
</tr>
<tr>
<td>Disabled</td>
<td>4.0</td>
</tr>
<tr>
<td>On Maternity Leave</td>
<td>2.0</td>
</tr>
<tr>
<td>Student</td>
<td>1.0</td>
</tr>
<tr>
<td>Other*</td>
<td>4.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

* Working at an enterprise, organization, state or collective farm or cooperative.

* Includes those not working and not seeking work, and those engaged in individual economic activity.

Source: Taken from Russia: Social Protection During Transition and Beyond, 1993, p. 13.

As can be seen from the following table, after mid-1992 the minimum pension usually hovered around one-half that of the physiological minimum. Those receiving the minimum wage suffered even greater. Moreover, when compared with the average wage, the minimum wage and pension figures are particularly troubling.

The plight of the severely impoverished was not lost on some government officials. Remarking on the consequences of such poverty for political stability, Evgenii Gontmakher, a former Deputy Minister of the Ministry for Social Protection, declared:

We have only one path to follow: to stop printing 'empty' money, and re-distribute resources... from the rich to the poorest. Affluent Russians must give a share of their
incomes to enable the poorest to live through the coming years.... This, by the way, is also in the interests of these same rich, for extraordinary developments may occur that like a tsunami will sweep away everyone... (Golovachev, 1993).

Table 2.17
Comparison of Minimum Wage/Pension With "Physiological Minimum"

(roubles per month, selected dates)

<table>
<thead>
<tr>
<th>Year/Month</th>
<th>Physiological Minimum</th>
<th>Minimum Wage</th>
<th>Minimum Pension</th>
<th>Average Wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>61</td>
<td>70</td>
<td>70</td>
<td>297</td>
</tr>
<tr>
<td>1992</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>February</td>
<td>686</td>
<td>342</td>
<td>542</td>
<td>2,004</td>
</tr>
<tr>
<td>April</td>
<td>1,016</td>
<td>342</td>
<td>642</td>
<td>3,024</td>
</tr>
<tr>
<td>June</td>
<td>1,344</td>
<td>900</td>
<td>900</td>
<td>5,067</td>
</tr>
<tr>
<td>July</td>
<td>1,779</td>
<td>900</td>
<td>900</td>
<td>5,452</td>
</tr>
<tr>
<td>August</td>
<td>1,939</td>
<td>900</td>
<td>1,320</td>
<td>5,870</td>
</tr>
<tr>
<td>September</td>
<td>2,163</td>
<td>900</td>
<td>1,320</td>
<td>7,379</td>
</tr>
<tr>
<td>October</td>
<td>2,548</td>
<td>900</td>
<td>1,320</td>
<td>8,853</td>
</tr>
<tr>
<td>November</td>
<td>3,285</td>
<td>900</td>
<td>2,250</td>
<td>10,576</td>
</tr>
<tr>
<td>December</td>
<td>4,654</td>
<td>900</td>
<td>2,250</td>
<td>16,071</td>
</tr>
<tr>
<td>1993</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>5,547</td>
<td>2,250</td>
<td>2,250</td>
<td>15,690</td>
</tr>
<tr>
<td>February</td>
<td>6,755</td>
<td>2,250</td>
<td>4,275</td>
<td>18,672</td>
</tr>
<tr>
<td>March</td>
<td>8,069</td>
<td>2,250</td>
<td>4,275</td>
<td>23,559</td>
</tr>
</tbody>
</table>

Sources: Russian Economic Trends, 1993, pp. 28, 32; Iudina, 1993; Russia: Social Protection, 1993, p. 11; Dinamika Prozhitchnogo Minimuma Naseleniia Rossii, p. 44.

The Impact of the Economic Transition
On Russian Demographics

Other evidence of the declining standard of living in Russia is revealed in a perusal of various demographic statistics. Economists have long recognized these "objective indicators of wellbeing" as important, especially
in countries where data on wages and household expenditure are suspect (McAuley, 1994, p. 15).

The following data are compelling testimony to the degree of suffering imposed upon the Russian people during the period of tremendous economic upheaval and disintegration of the Soviet state. In 1991 for the first time in many years Russia experienced a net loss of population: during this year the number of deaths outstripped the number of births. In 1992 this negative trend grew worse as the population decreased by over 220,000 (Zdorov’е Rossiiian, 1993; Sergeev, 1993). In 1993 the number of deaths surpassed the number of births by over 800,000 (Russia’s Population Declining, Feb. 18, 1994). By mid-1994, available evidence proved that the worsening trend would only continue, as the figures for January-March 1994 showed that 241,000 more Russians had died than were born. Such trends have led the director of the Moscow State Social University to proclaim that:

... a similar reduction in population can be compared with the period of the Great Patriotic War and worse than demographic indicators in Russia during the period of the First World War, and also (during the era of) the foreign intervention and civil strife (Zhukov, 1994, p. 9).

One of the reasons for the decline in population has been increasing mortality rates. Indeed, the mortality rate among Russians increased over the postcommunist period at an alarming rate. The worst changes occurred in the early
months of 1993. As the following table shows, the mortality rate for January-March 1993 was 14.4 deaths per 1,000 people, which represents a 19% increase from the same period in 1992. Since then the mortality rate has continued to increase, though at a declining rate (12.5% over figures from a similar period in 1993). According to the state statistical service, the increase in rates of mortality recently has been closely connected to the growth in infectious and parasitic diseases and alcoholism.

One fact which may give some satisfaction to governmental officials is the most recent data regarding

<table>
<thead>
<tr>
<th>Year</th>
<th>Jan-March</th>
<th>Jan-March</th>
<th>Jan-March</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>11.3</td>
<td>11.2</td>
<td>12.1</td>
</tr>
<tr>
<td>1990</td>
<td>11.2</td>
<td>12.1</td>
<td>14.4</td>
</tr>
<tr>
<td>1992</td>
<td>11.4</td>
<td>9.6</td>
<td>9.6</td>
</tr>
<tr>
<td>1993</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


In a recent article in the World Bank’s newsletter, Transition, an author similarly reports such disturbing demographic trends in Russia. According to Heleniak, death rates in Russia increased by 45% between 1989 and 1994. Mortality rates climbed from 10.7 per thousand in 1989 to 15.5 per thousand in 1994 (Heleniak, 1995, p. 4).

This is supported by findings in a U.N. report on demographic changes in postcommunist countries (Crisis in Mortality, Health and Nutrition, 1994).
birth rates. Compared to the 15.8% fall in the birth rate from 1992-93, it appears that the six year trend of falling birth rates appears to have finally "bottomed out" in early 1994. Indeed, for the first time since 1987, in March 1994 there was registered a 2% increase in the number of births, compared with figures from a corresponding period in the prior year (Sotsial'no-Ekonomicheskoe Polozhenie Rossii, 1994, p. 77).

However, this does not give cause for celebration. Indeed, in a report given in early 1994 by the Head of the Ministry of Labor's Human Resources Department, the fertility index in Russia - which measures the number of children a woman gives birth to in her lifetime - had fallen too low to keep the population stable. The official believes that an increase in the fertility index was not possible before the next millennium.49

In addition to the unhappy picture painted by the above statistics, the average expected life span has plummeted in Russia since the introduction of perestroika in 1986-87; the rate of decline in this indicator has been swiftest since 1991. As table 2.19 demonstrates, the figures for the total

49 The fertility index fell from 1.73 in 1991 to 1.55 in 1992; it is expected to remain at 1.5 until at least the year 2000. In the interim, the population will continue to decrease as a fertility index level of 2.11 is necessary to hold the present population level constant (Russian Population Declining, 1994).
Population were most favorable in 1985 — before Gorbachev launched perestroika — whereas the figures for both males

Table 2.19
Average Expected Life Span in Russia
Selected Years, 1980-1993
(Number of Years)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Pop.</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>--</td>
<td>61.53</td>
<td>73.09</td>
</tr>
<tr>
<td>1984-85</td>
<td>--</td>
<td>62.31</td>
<td>73.32</td>
</tr>
<tr>
<td>1985</td>
<td>70.1</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>1986-87</td>
<td>--</td>
<td>64.91</td>
<td>74.55</td>
</tr>
<tr>
<td>1987</td>
<td>--</td>
<td>65.00</td>
<td>74.50</td>
</tr>
<tr>
<td>1988</td>
<td>--</td>
<td>64.80</td>
<td>74.43</td>
</tr>
<tr>
<td>1989</td>
<td>--</td>
<td>64.40</td>
<td>74.40</td>
</tr>
<tr>
<td>1990</td>
<td>69.2</td>
<td>63.80</td>
<td>74.37</td>
</tr>
<tr>
<td>1991</td>
<td>69.0</td>
<td>63.50</td>
<td>74.30</td>
</tr>
<tr>
<td>1992</td>
<td>67.9</td>
<td>62.00</td>
<td>73.80</td>
</tr>
<tr>
<td>1993</td>
<td>66.0</td>
<td>60.00</td>
<td>73.00</td>
</tr>
<tr>
<td>1994</td>
<td>--</td>
<td>57.30</td>
<td>71.90</td>
</tr>
</tbody>
</table>


and females peaked in later years. Between 1989 and 1994 alone, male life expectancy decreased from 64.4 to 57.3 years, whereas female life expectancy decreased from 74.4 to 71.9 years (Heleniak, 1995, p. 4).

Conclusions

The preceding pages have suggested that the trajectory of Russian reform has differed markedly from that in Central and Eastern Europe. Beside being saddled with the profligate monetary policies of former Soviet republics in the "ruble zone," Russia's experience with economic reform
contrasted with that of East European countries by its failed attempts to both achieve macroeconomic stabilization and introduce a privatization program not dominated by "insiders." It has also been suggested here that perhaps these differences could be explained in part by the relative absence of a consolidated political order in Russia vis-a-vis that in Central and Eastern Europe.

In addition, this chapter has demonstrated conclusively that the economic reforms implemented in earnest by Russia's first postcommunist governments in 1991-1993 have not achieved their desired ends. Russia's gross domestic product apparently fell very sharply, while needed structural reforms have not been realized.

Moreover, the reform program has produced significant social costs for most citizens of Russia. Income differences have sharpened, the level of real wages declined precipitously and millions of citizens continue to live in poverty. In addition, the pain of economic transition caused virtually all Russian demographic indicators to fall sharply; indeed, the deterioration in Russia's demographic situation greatly surpassed that which occurred during the Great Depression in the United States (Heleniak, 1995, p. 5).

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80 Not to mention the growing problem of underemployment and unemployment, which will be discussed more fully in the following chapter.
Given these deplorable findings, why then did the overwhelming majority of Russians remain incredibly quiescent during this early postcommunist period? Why was there no significant opposition from society to the social costs of reform?

Certainly, people were aware of their misfortune and were decidedly unhappy with their economic situation. Public opinion polls administered by the All-Russian Center for the Study of Public Opinion (VTsIOM)\(^1\) throughout 1993 and 1994 clearly demonstrate that a large share of the Russian population considered their family's economic situation to be either "poor" or "very poor": as Table 2.20 shows, between 40-45% of respondents have continued to place themselves in these two categories throughout the polling period. Indeed, though some observers have commented on the

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\(^1\) VTsIOM regularly incorporates this and other questions in its highly-regarded, monthly, nationally representative public opinion polls (Klugman, 1995, *Transition*, p. 6). During each month, over 3900 Russian citizens take part in VTsIOM surveys. The margin of error for these polls is 2% (*Ekonomicheskie i Sotsial'nye Peremeny*, July 1993, p. 13).
Table 2.20
Family's Present Material Condition

(percentage of respondents)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Very good</td>
<td>0.8</td>
<td>0.5</td>
<td>0.8</td>
<td>0.8</td>
<td>0.7</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Good</td>
<td>6.0</td>
<td>7.2</td>
<td>5.7</td>
<td>5.7</td>
<td>6.1</td>
<td>6.1</td>
<td>4.4</td>
</tr>
<tr>
<td>Average</td>
<td>48.1</td>
<td>48.4</td>
<td>46.6</td>
<td>46.6</td>
<td>48.0</td>
<td>50.5</td>
<td>44.5</td>
</tr>
<tr>
<td>Poor</td>
<td>35.3</td>
<td>33.2</td>
<td>33.9</td>
<td>33.9</td>
<td>33.3</td>
<td>33.8</td>
<td>37.4</td>
</tr>
<tr>
<td>Very poor</td>
<td>8.1</td>
<td>7.8</td>
<td>10.9</td>
<td>10.9</td>
<td>9.5</td>
<td>7.2</td>
<td>11.3</td>
</tr>
<tr>
<td>Diff/reply</td>
<td>1.7</td>
<td>2.8</td>
<td>2.1</td>
<td>2.1</td>
<td>2.4</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>No answer</td>
<td>0.0</td>
<td>0.1</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
</tbody>
</table>


improving Russian economy in 1994," the latest poll presented above (March 1994) clearly reveals that more Russians felt their families' economic situation to be worse than at any time during 1993.

Moreover, if one examines data regarding employee satisfaction with current wages, striking conclusions become readily apparent: over 80% of Russian employees were dissatisfied with their salaries during this period. Though there has been some fluctuation in the respondents' choice

---

"Herbert J. Ellison painted a rather rosy picture of economic reform in 1994 in Russia, including an increasing GDP of 41% (Ellison, 1994, p. 1)."
Table 2.21
Level of Satisfaction with Wage Level
(percentage of respondents)

<table>
<thead>
<tr>
<th></th>
<th>3/93</th>
<th>5/93</th>
<th>7/93</th>
<th>10/93</th>
<th>1/94</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compl. Satisfied</td>
<td>2.7</td>
<td>4.4</td>
<td>3.3</td>
<td>3.2</td>
<td>3.0</td>
</tr>
<tr>
<td>Rather Satisfied</td>
<td>9.3</td>
<td>10.8</td>
<td>10.2</td>
<td>9.7</td>
<td>9.4</td>
</tr>
<tr>
<td>Rather Dissatisf.</td>
<td>34.6</td>
<td>37.7</td>
<td>33.7</td>
<td>33.0</td>
<td>36.8</td>
</tr>
<tr>
<td>Compl. Dissatisf.</td>
<td>50.1</td>
<td>43.2</td>
<td>49.5</td>
<td>50.2</td>
<td>47.8</td>
</tr>
<tr>
<td>Diffic. to reply</td>
<td>2.2</td>
<td>2.6</td>
<td>2.7</td>
<td>3.2</td>
<td>2.8</td>
</tr>
<tr>
<td>No answer</td>
<td>1.0</td>
<td>1.4</td>
<td>0.5</td>
<td>0.6</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Source: Ekonomicheskie i Sotsial’nye Peremeny, 1993-1994. (For more on this subject, see Gordon, 1994.)

of categories, the change was modest throughout the period and the absolute number of dissatisfied employees remained about the same, i.e., between 80-85%.

The "social cost" thesis would have us believe that such transitional costs would be accompanied by a marked rise in social and political instability. Yet the question remains with us: what accounts for the remarkable social "immobilization" in Russia in the initial postcommunist period? Traditional Russian culture? The "flatness" of civil society which was already visible at the beginning of the postcommunist era? Continuing patterns of behavior which had taken root during the experience with the Soviet command-administrative economic system? I will return to these questions in Chapters 4 and 5, when in-depth analyses of the causes of social pressures - or the lack thereof - will be provided.
For now, however, let us turn to the examination of the social costs of the economic reform period in terms of unemployment and underemployment. This analysis is essential as unemployment is considered by some to be a crucial issue determining the degree of political stability in societies undergoing dramatic economic transformation (Przeworski, 1993, pp. 180-182). As well, the analysis of the varying patterns of unemployment in Russia not only furnishes us with a description of the public policy problem to be addressed in this dissertation, but, more generally, provides an indicator of the peculiar ways in which the Soviet economic system was incompatible with the demands of market capitalism and, thus, why the transformation of the economy in Russia has been so problematic.
CHAPTER III
The Social Costs of Unemployment and Underemployment in Russia

I am resolutely against mass unemployment, and I would like to repeat once again: Let whoever is pushing the country toward free-market relations be the first of the Soviet unemployed.

- Yegor Ligachev¹

We have missed the time for forming a competitive market, and carrying out de-monopolization and privatization to create a mechanism of free competition and curb price hikes. Therefore, the only way is the Polish shock therapy, and that means an economic recession and unemployment.

- Aleksandr Shokhin²

Introduction

The present chapter provides an in-depth analysis of the social costs of unemployment and underemployment in the Russian Federation. As such, the chapter constitutes an indispensable portion of the dissertation as it reviews the particular policy problem to be addressed in this dissertation.

¹ As quoted in a reply to questions from readers in an article in Pravda on July 11, 1990, pp. 5-6.

Before examining in detail the consequences of Russian postcommunist reform on unemployment and underemployment during 1991-1993, it is essential that the subject is explored in its historical context. During the Soviet era, the communist leadership was largely successful in achieving full employment goals. As a consequence of this success, at the dawn of the postcommunist era the overwhelming majority of citizens continued to regard employment as a state obligation. Thus, it is imperative to explore the unemployment experience in the Soviet context.

In addition, this chapter will discuss critical issues of structural and institutional constraints which developed during the era of centrally-planned economic development and continue to exist. Such factors as the development of hundreds of "company towns," the domination of whole regions by particular industries and the deficiencies of state employment institutions have seriously obstructed the economic transformation. Thus, the particular ways in which the Soviet CPE developed has produced an economic system that is in large measure incompatible with market conditions. The combination of these factors goes without parallel in all other experiences of democratization and economic reform in either Latin America or Southern Europe and, thus, makes the post-Soviet economic and political transformation all that more problematic and potentially polarizing.
However, these cautionary notes notwithstanding, in Russia's case it appears that the social costs in terms of lost employment opportunities did not generate significant social instability during the early transitional period. The answers to why this may be so are discussed in the following chapters; for now, let us examine the Soviet experience with unemployment and the social costs associated with unemployment - both the "open" and "hidden" forms - generated by postcommunist market reforms.

The Soviet Labor Market

At the end of the tsarist epoch, up to 80% of the work force in Russia was engaged in agricultural pursuits. With such a social structure estimates of unemployment rates were rather difficult to determine. However, the existence of urban unemployment in tsarist Russia was beyond dispute. According to L.M. Danilov, at the very least, half a million people were estimated to be unemployed in the major urban areas of Russia in 1913 (Porket, 1989).

Lenin's Bolsheviks acted in 1917 to bring about the revolution and eventually a "communist utopia" in part to end unemployment, a social ill which the communists believed was a horrendous by-product of capitalist development. After taking power in November 1917, the Bolsheviks' first decrees on labor attempted to deal with the burgeoning problem of unemployment, as millions of de-mobilized
soldiers were returning from the front lines. In addition, due to the general economic chaos resulting from the collapse of the transportation system, the closing of enterprises and mass lock-outs, the employment situation in major cities reached catastrophic proportions. To stem the tide of the ranks of the unemployed, Lenin's regime initially established an unemployment insurance program, to be financed by employers. The fledgling Soviet government later created a network of labor exchanges, which were to help balance the demand and supply of labor in their jurisdictions and to render the necessary material support to the unemployed. In addition, under the supervision of the People's Commissar for Labor, Alexander Shliapnikov, the first Soviet Labor Code was established, guaranteeing citizens the "right" to work.  

During the economic period known as "War Communism" (1918-1921), the labor exchanges were closed as the "militarization" of labor become the rule of the day and universal labor duty was introduced in order to "do away with the parasitic classes of society." The distribution of employment was now performed by administrative fiat, as

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3 According to one estimate, 7-10 million World War I veterans were de-mobilized in the first half of 1918, with 1.5 million of these returning to major cities (Zaslavskii, 1992).

4 Of course, in reality the Soviet government compelled citizens to work by establishing both positive and negative incentives, i.e., by tying access to social benefits to the workplace or by labelling non-workers "parasites" and subjecting them to lengthy periods of incarceration.
"labor armies" and vast networks of "concentration camps" were set up throughout the country. During this period, mass unemployment appeared to have been eradicated from Bolshevik-held territories (Lane, 1986).

The period of the New Economic Policy (1921-1928) provided the populace with a needed respite from the economic and political anarchy of "War Communism." While the state withdrew from economic decision-making in the spheres of agriculture, trade and services, unemployment increased greatly over this decade. However, the cause of decreasing employment levels was not due to a recessionary cycle in the economy, but to a significant degree of rural-urban migration, a considerable influx of women into the labor force and the dismissal of many thousands of government apparatchiki, formerly charged with economic planning. Indeed, levels of unemployment during NEP were much higher than that registered in pre-revolutionary times.

With the beginnings of Stalin's first Five-Year Plan in November 1928, the rapid industrialization of the country provided thousands of new jobs for the unemployed and dispossessed. Along with the central plan, a compulsory labor regime was re-introduced. By the end of 1930, the Soviet regime triumphantly claimed to have completely liquidated unemployment within society (Trud v SSSR,
The Communist leadership's "victorious triumph" against unemployment is detailed in Table 3.1.

Table 3.1  
Registered Unemployed in U.S.S.R., 1922-1932

<table>
<thead>
<tr>
<th>Year</th>
<th>Number in thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td>1922</td>
<td>160</td>
</tr>
<tr>
<td>1923</td>
<td>641</td>
</tr>
<tr>
<td>1924</td>
<td>1240</td>
</tr>
<tr>
<td>1925</td>
<td>993</td>
</tr>
<tr>
<td>1926</td>
<td>1183</td>
</tr>
<tr>
<td>1927</td>
<td>1478</td>
</tr>
<tr>
<td>1928</td>
<td>1576</td>
</tr>
<tr>
<td>1929</td>
<td>1741</td>
</tr>
<tr>
<td>1930, April 1</td>
<td>1081</td>
</tr>
<tr>
<td>1930, October 1</td>
<td>240</td>
</tr>
<tr>
<td>1932</td>
<td>---</td>
</tr>
</tbody>
</table>


Indeed, up until at least 1988, the leadership of the U.S.S.R. continued to assert that unemployment did not exist in Soviet society (Gorbachev, 1987, p. 2). Of course, there were instances in which people "avoided socially-useful labor," but such "parasites" were few and far between.°

° On November 7, 1930 an article in Pravda claimed that: "The proletariat of the U.S.S.R., in union with working peasants and under the direction of the leadership of the All-Union Communist Party (bolsheviks), having smashed the class enemies and their yes-men in the bitter struggle for socialism, have dealt the final blow for the complete liquidation of unemployment in the U.S.S.R." (Author's translation from Zaslavskii, 1992).

° One of Iurii Andropov's first measures upon coming to office in the early 1980's was to stiffen the penalties for those people convicted of avoiding employment (Izvestiia, January 13, 1983; Sovetskaia Rossiiia, January 19, 1983).
To be sure, the existence of "mass unemployment" was ended by the beginning of the 1930’s in the Soviet Union. However, contrary to what the leadership professed, frictional, as well as structural, unemployment continued to exist thereafter. Indeed, the former Deputy Chairman of the State Committee for Labor and Social Questions (Goskomtrud) confirmed in an interview in 1993 that these specific types of unemployment were particularly frustrating for the planning organs to manage. When pressed about the level of "open unemployment" in the late Gorbachev period - defined as that number of persons actively seeking work, but unable to find it - the former Goskomtrud official responded that:

... at that time, we did not have an official report made regarding unemployment, because there simply weren’t any problems in this area as exist today (Kostin, 1993).

Other authoritative accounts contradict Kostin’s version, claiming that considerable levels of open

Frictional unemployment is that portion of total unemployment generated due to changes in the economy that "prevent qualified unemployed workers from being immediately matched up with existing job openings." Structural unemployment occurs due to "structural changes in the economy that eliminate some jobs while generating job openings for which the unemployed workers are not well qualified" (Gwartney and Stroup, 1982, pp. 132-133).

Deputy Chairman Kostin estimated that in any one year, 2% of the work force were not participating in "socially-useful labor" due to workers voluntarily leaving one job in search of a better one. Though the Soviets disavowed the existence of unemployment, they nevertheless estimated this frictional unemployment level by calculating the "fluctuation" (tekuchestvo) of labor among state enterprises (Kostin, 1993).
unemployment existed throughout the Soviet period, even though authorities refused to compile statistics on the phenomenon. These reports maintained that the problem of open unemployment increased significantly from the 1970’s onward. The problem was especially serious in Central Asia and the Caucasus republics, where high birth rates combined with low levels of urbanization and rural capital investment created enormous variations in regional unemployment. In some districts of Uzbekistan, for example, youth unemployment rates reached 50%. Moreover, the total number of unemployed in Uzbekistan in early 1987 was estimated to be close to 1 million or 14% of the work force (Ubaidullayeva, 1987; Adirim, 1989). In the same year in Azerbaidzhan, it was reported that over 250,000 persons were not currently "employed in social production" (Azerbaidzhan Faces..., 1987). On the other hand, a great shortage of labor was continuously registered for Siberian urban centers and certain rural areas of Russia (Zaslavskii, 1992; Oxenstierna, 1990).

Be that as it may, one cannot refute the fact that the Soviet regime made a sincere commitment to full employment goals, especially in the core regions of the country. At least one author has claimed that the motivation for retaining this objective was to defend the implicit social contract between the regime and populace regarding full employment (Hauslohner, 1984).
With the advent of perestroika, however, such goals were called into question. In response to various reform measures, such as the early wage reforms and the introduction of the "khozraschyt" cost accounting mechanism in the 1987 Enterprise Law, a certain amount of labor-shedding in state industry resulted. According to one source, as of 1990 three million "surplus" (izbytochnii) workers had been discharged from the state sector and in 1991 another two million followed suit (Zaslavskii, 1993, p. 25)." Besides threatening guaranteed state employment and the income derived from it, such reforms also jeopardized workers' procurement of vital non-wage benefits which were distributed based upon place of work. Therefore, the loss of employment due to economic reform meant much more than merely loss of income.

The Legislative Response to Unemployment

Unemployment statistics were first published in the Soviet Union in late 1990, when the economic results for the year were published. The plan report estimated that over 2

* Presumably, many of the newly unemployed "surplus workers" were dismissed by employers because of serious labor infractions, e.g., habitual drunkenness, poor work discipline, etc.

Of course, not all of the five million "discharged" during the late perestroika era were compelled to leave; many of them left voluntarily to join the ranks of the newly-established private cooperative sector. Indeed, it wasn't until late 1991 that enterprises in the state sector could legally introduce compulsory lay-offs.
million persons were unemployed in the U.S.S.R. (Pravda, October 30, 1990). A study conducted that same year by the IMF, the OECD and the World Bank reported similar findings (Farnsworth, 1990). Thereafter, the heretofore sluggish process of developing a new employment law was stepped up and within a year the "Law on Employment" was adopted (Pravda, January 25, 1991).

For the first time in over half a century, the new law did not claim that citizens possessed a universal guarantee of the right to work. Holding employment was now made a voluntary act; those not working would no longer be derisively labeled as "parasites." Nonetheless, most citizens continued to express support for continued state guarantees of employment; survey data from 1990 demonstrated that 94% of citizens polled "agreed" or "strongly agreed" with the statement "Government should guarantee jobs" (Tolerating Economic Reform).

The only other significant piece of legislation concerning unemployment during the Gorbachev era was the joint resolution of the CPSU Central Committee, the U.S.S.R. Council of Ministers and the All-Union Central Council of Trade Unions, "On the Provision of Efficient Employment of the Population, Improving the System of Job Placement and Strengthening Working People’s Social Guarantees" published in 1988. Although this resolution considered such important policy goals as retraining and job placement, along with the procedures to be followed for the dismissal of workers, the "substantive heart" of the legislation actually endeavored to safeguard workers’ jobs. For example, the resolution asserted that in order to combat rising levels of unemployment, "displaced" workers should be found positions within the enterprises or institutions which released them (Pravda, January 19, 1988; Moskoff, 1993).
In addition, the All-Union legislation directed the various republics to pass legislation concerning employment and shortly thereafter the R.S.F.S.R. legislature enacted a law, "On Employment of the Population" (Sbornik..., 1991). The Russian law differed little from that promulgated at the national level. As with the All-Union law, the Russian legislation mandated that recently-unemployed persons should continue receiving their average wage from their previous employers for a period of three months after dismissal, as long as they registered with the local state employment service or labor exchange within a specified period of time. At the conclusion of the three month period if such persons did not locate "suitable" (podkhodiashchii) employment, they were then categorized as officially unemployed and were able to avail themselves of unemployment benefits. In circumstances in which unemployed persons failed to accept two offers of suitable work from the employment service or in which the client failed to inform the authorities about his or her true employment status, benefits were to be discontinued.

---

11 Citizens of the R.S.F.S.R. would be provided with unemployment benefits amounting to 75% of their previous average wage for the next three months, 60% for the following four months and 45% for the remaining five months. In certain cases, unemployment benefits could be extended beyond twelve months. Moreover, for unemployed persons with dependents, the size of their benefit would increase by 10% for each dependent.
Under no circumstances could a person's benefit fall below the state-established minimum wage, which as we have seen in Chapter 2 is set considerably below the "physiological minimum." However, since the introduction of Gaidar's market reforms in 1992, most unemployed persons have continued to receive the minimum wage benefit as hyper-inflation has eroded the significance of earlier wage scales.\textsuperscript{12}

Besides disbursing unemployment benefits, the Federal Employment Service (FES), the administrative agency charged with dealing with the unemployed, and the FES' regional branch offices\textsuperscript{13} were to provide their clients with proactive services, such as professional counseling, professional training and re-training, re-location assistance, registration in public works projects, etc. The entire array of passive and active measures were to be paid

\textsuperscript{12} It has been estimated that in various regions, up to 80% of recipients obtain the minimum benefit. Moreover, in late 1992 the average unemployment benefit was 3,182 rubles, or 268 rubles less than the established subsistence minimum for that period (Russia: Social Protection..., 1993).

\textsuperscript{13} The Russian FES was originally created as a Committee for Employment directly subordinated to the Russian Ministry of Labor. It was later separated from the Ministry of Labor and obtained control over a network of local job information bureaus which also earlier had been subordinated to an agency within the Ministry of Labor, the All-Russian Center for Job Placement, Re-Training and Re-Orientation of the Population (VTsTPPN). Although these job placement bureaus were set up during the Soviet era to help match the demand and supply of labor in the locality, such institutions were seldom used by job-seekers and, hence, were not very effective (Tsurikov, 1993).
for by the Russian State Employment Fund ("Fond Zaniatosti"), which began operation in July 1991. This Fund - which is administered by the FES - is financed by a contribution from enterprises' wage funds, as well as from local and republican budgets. The overwhelming majority of the employment fund's resources is derived from enterprise wage funds.¹⁴

As we will demonstrate later through an examination of the actual level and usage of funds allocated from the State Employment Fund, the institutional incapacity of the state's employment organs has contributed to the problems associated with unemployment during the economic transition. But, first let us examine the data concerning the amount, location and composition of the officially unemployed in Russia in the 1991-1994 period. In general, although the official data claim that Russia has sustained low levels of unemployment, a variety of additional data will demonstrate that the social costs of unemployment in Russia have been considerably more substantial.

¹⁴ Initially the enterprise contribution was fixed at 1% of available wage funds; however, the contribution rate was later raised to 2% in January 1993 as forecasts showed the number of unemployed recipients would soon dramatically increase. However, throughout 1993, such forecasts proved to be faulty.
The Postcommunist Russian Labor Market

From the very beginning of 1992, various reformers in Yeltsin's government predicted high levels of open unemployment after the first shocks of liberalization and structural reform were felt. Indeed, Fyodor Prokopov, then the First Deputy Chairman of the Russian Ministry of Labor's Committee on Employment, stated in February 1992 that the number of openly unemployed in Russia would quickly reach eight million by the fall (Khudiakova, February 20, 1992). Soon thereafter Yegor Gaidar stated that by the beginning of 1993, he believed those figures could be considerably higher (Interview..., 1992).

Indeed, such apocalyptic predictions had been made during the Gorbachev era, as leaders contemplated the consequences of a market-based economic transformation. In August 1990 Vladimir Shcherbakov, the former Chairman of the State Committee on Labor and Social Questions (Goskomtrud), estimated that possibly 30-35 million people would become unemployed as a result of the economic transition (Khudiakova, August 7, 1990).

Although the predictions of leading reformers within Russia's first postcommunist government were not as gloomy as those of their predecessors, Yeltsin's reformers did anticipate tremendous repercussions from "shock therapy." In this respect they benefitted from the experience with unemployment in Eastern Europe, where reforms in many
countries had been initiated several years before. Within the first year of the inauguration of market reforms, each of the East European countries experienced a dramatic increase in unemployment rates.

For example, by the summer of 1991 Poland's open unemployment rate had surpassed 11%. Soon thereafter, unemployment rates in Bulgaria, Hungary and Czechoslovakia reached 10%, 8% and 7%, respectively (From Labour Shortage..., 1992, p. 8.; Boeri and Keese, 1992, p. 150).

As Table 3.2 demonstrates, since the beginning of postcommunist economic transformations in Eastern Europe official unemployment rates have been increasing rapidly. In what was once East Germany, by the end of 1993 the official unemployment rate reached 25% (Sokolovskaia, 1993). In Slovenia, arguably the most prosperous of the former Yugoslavian republics, unemployment rates soared to

Table 3.2

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>1.5</td>
<td>10.0</td>
<td>12.2</td>
<td>16.5</td>
<td></td>
</tr>
<tr>
<td>Hungary</td>
<td>1.7</td>
<td>9.1</td>
<td>12.0</td>
<td>12.0</td>
<td>12.2</td>
</tr>
<tr>
<td>Poland</td>
<td>6.1</td>
<td>11.8</td>
<td>13.6</td>
<td>14.3</td>
<td>16.6</td>
</tr>
<tr>
<td>Romania</td>
<td>0.5</td>
<td>2.4</td>
<td>9.0</td>
<td>9.3</td>
<td></td>
</tr>
<tr>
<td>Czech Republic</td>
<td>1.0</td>
<td>4.1</td>
<td>2.6</td>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td>Slovakia</td>
<td>1.0</td>
<td>12.0</td>
<td>10.4</td>
<td>12.0</td>
<td></td>
</tr>
</tbody>
</table>

* Unemployment statistics were not available for the separate regions in Czechoslovakia in 1990.

14.3% by mid-1993 (Formirovanie Srednego Klassa..., 1993).

However, based upon data obtained from the Federal Employment Service in Moscow, as of June 1994 barely 1,000,000 people were registered as officially unemployed. This corresponds to a 1.5% unemployment rate for the entire country. The data in the following table provides us with officially-recognized unemployment rates within the Russian Federation since late 1991. Thus, we see that although official unemployment grew in 1993 by 45%, the

<table>
<thead>
<tr>
<th>Table 3.3</th>
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</thead>
<tbody>
<tr>
<td>(in percentages)</td>
</tr>
<tr>
<td>October 1991</td>
</tr>
<tr>
<td>January 1992</td>
</tr>
<tr>
<td>April 1992</td>
</tr>
<tr>
<td>July 1992</td>
</tr>
<tr>
<td>October 1992</td>
</tr>
<tr>
<td>January 1993</td>
</tr>
<tr>
<td>April 1993</td>
</tr>
<tr>
<td>July 1993</td>
</tr>
<tr>
<td>October 1993</td>
</tr>
<tr>
<td>June 1994</td>
</tr>
</tbody>
</table>

Sources: Federal Employment Service statistics; Russian Deputy PM Sees Industrial Output Fall Slowing, 1994.

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* Of those officially unemployed at the end of 1993, however, only 63% were capable of receiving unemployment benefits. It is customary that from 1/3 to 1/2 of all registered unemployed are not receiving benefits at any one time. This fraction of registered unemployed do not begin collecting unemployment benefits until their severance pay from previous employers runs out (Report on Placement..., October, 1993; Russia: Social Protection..., 1993, p. 29).

* According to Goskomstat, a total of 72.3 million people were employed in the Russian economy in 1993 (Meacher, 1993, p. 3).
overall rate was extremely low (Uroven' Besrabotitsa v Rossii..., 1994).

In order to more fully characterize the public policy problem which is being addressed in this dissertation, the following section provides a detailed description of where unemployment is concentrated in the Russian Federation and which segments of society are most affected by it.

The Location of High Unemployment

Determining where relatively high levels of unemployment within the Russian Federation existed in 1991-1993 is important as it reveals the possible reasons for such variations. Examining unemployment from a regional perspective, a number of interesting conclusions can be drawn. (See Figures 3.1, 3.2 and 3.3) First, utilizing the officially-recognized economic regions as a basis of comparison, unemployment in the Russian Federation was more severe in the Northern, Northwestern, Central, Volga-Viatskii and North Caucasus economic regions (NOTE: The key to Russia's economic regions is provided in Appendix B.) Relatively speaking, unemployment affected these regions to a greater extent than in the Ural, West Siberian, East Siberian, Far Eastern and Central-Chernozym economic regions, though these latter areas began to experience an acceleration in official unemployment growth rates during late 1993, especially in the Ural economic region.
Figure 3.1
Unemployment Rate by Economic Region, Jan. 1992
Figure 3.2
Unemployment Rate by Economic Region, Jan. 1993
Figure 3.3
Unemployment Rate by Economic Region, Sept. 1993
Figure 3.4
Russia - Unemployment Rates by Oblasts, Republics, Krais and Okrugs - Jan. 1992
Figure 3.5
Russia - Unemployment Rates by Oblasts, Republics, Krais and Okrugs - Jan. 1993

Moscow - 0.4
St. Petersburg - 1.4
Figure 3.6
Russia - Unemployment Rates by Oblasts, Republics, Krais and Okrugs - Sept. 1993

Moscow - 0.3
St. Petersburg - 1.1
Unemploy. Rt.
- 0 - 0.39
- 0.40 - 0.80
- 0.81 - 1.20
- 1.21 - 1.60
- 1.61 - 2.0
- 2.0 & abv.
In many of the most hard-hit regions, employment in the military-industrial sector was quite significant as a percentage of total employment. Table 3.4 presents data regarding the degree of employment in the military-industrial sector in the total employment structure of Russia's twelve economic regions.

<table>
<thead>
<tr>
<th>Region</th>
<th>% of Total Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian Federation</td>
<td>23.5</td>
</tr>
<tr>
<td>Northwest</td>
<td>30.7</td>
</tr>
<tr>
<td>Ural</td>
<td>30.7</td>
</tr>
<tr>
<td>Volga-Viatka</td>
<td>28.5</td>
</tr>
<tr>
<td>Volga</td>
<td>27.9</td>
</tr>
<tr>
<td>Central</td>
<td>22.7</td>
</tr>
<tr>
<td>Western Siberia</td>
<td>22.7</td>
</tr>
<tr>
<td>Central Chernozem</td>
<td>22.6</td>
</tr>
<tr>
<td>Far East</td>
<td>17.8</td>
</tr>
<tr>
<td>Kaliningrad Oblast'</td>
<td>15.0</td>
</tr>
<tr>
<td>Eastern Siberia</td>
<td>13.9</td>
</tr>
<tr>
<td>North Caucasus</td>
<td>13.7</td>
</tr>
<tr>
<td>North</td>
<td>9.4</td>
</tr>
</tbody>
</table>


As a result of over-concentration of defense industries in many of these regions, the dramatic decrease since early 1992 in state orders (zakaza) for military products possibly contributed to these regions' employment problems; indeed, it was estimated that the production of military goods declined by four times between 1988-1992, which contributed to the loss of 300,000 jobs in the defense industry in 1991 alone (Sillaste, 1993, p. 56). In an interview with the press in 1993 the Chairman of the Federal Employment
Service, Fyodor Prokopov, stated that in 1992 over 640,000 defense workers had lost their jobs in Russia (Sokolovskaia, 1993). 17

Those heavily-affected regions with a relatively small percentage of their labor force involved in the defense sector (the Northern and Northern Caucasus economic regions) were influenced by other factors encouraging high rates of unemployment. For example, various non-Russian republics in the Northern Caucasus economic region have historically been plagued with a significant level of unemployment (Adirim, 1989.) In addition, this region became a veritable refugee camp for incoming migrants from war-torn areas of the "near abroad."

Looking at the incidence of high unemployment on a more specific scale, - that of the oblast' - one can readily evince a pattern. (See Figures 3.4, 3.5 and 3.6) Areas hit hardest by high rates of unemployment are located in a broad swath of the Russian Federation, roughly following the Volga

17 A more recent estimate of job losses suggested that less than 50% of all defense industry workers remain employed in such enterprises (Zisk, 1995b). If we consider that the total number employed previously in the defense sector amounted to 5.4 million people - a rather conservative estimate - then more than 2.7 million of them have "lost" their jobs since 1988 (Russian Economic Reform, 1992, p. 152).

However, when considering job separations in the defense industry one should be careful to make a distinction between those that have been produced by actual lay-offs versus voluntary departures. It appears that much of the "job loss" in the defense sector has been generated by voluntary departures of highly skilled individuals (Zisk, 1995c).
river as it flows through the country.

Many of these areas - such as Ivanovskaia, Iaroslavskiaia and Kostromskaia oblasts - have been hard hit by the decline in production in the light manufacturing and textile sectors of the economy, owing to a loss of cheap raw material inputs from Central Asia and other republics of the former Soviet Union. (NOTE: The key to Russia's oblasts [and other territorial subdivisions] is provided in Appendix C.)

In Ivanovskaia oblast', for example, in the first quarter of 1993 production levels in the textile industry had decreased by 62.5% over a similar period in 1992 (Kubishin and Kosayev, 1993). As a result, according to the head arbitrator of Ivanovskaia oblast', Nikolai Briantsev, by early 1994 almost 3/4 of all textile enterprises in the region were insolvent and were candidates for bankruptcy (Vakhrin, 1994). During 1993 official unemployment rates in the oblast' increased by a factor of three, whereas in certain districts or raions of Ivanovskaia region, the official unemployment rate surpassed 7% of the working age population (Commander and Jackman, 1993; Kuz'min, 1993; Uroven' Bezrabotitsa v Rossii..., 1994). It is interesting to note that although production decreased by almost 2/3 in the three-month period, the total work force in the textile industry decreased by only 11.3% in the same period (Kubishin and Kosayev, 1993).
Ivanovo region has halted production, leaving, according to Adolf Laptev, the regional administration's head, "real unemployment at 25%.... and society on the verge of a social explosion" (Reuters, July 15, 1994).

In other regions - such as Vladimir oblast and the Republics of Mordova and Chuvashia - defense enterprises located in these areas have also suffered from sharp cutbacks in state orders. Since the share of defense industry workers in total industrial employment in each of these regions is high relative to other areas in Russia, employment has suffered. Indeed, in response to state cutbacks, many of the factories in these regions were at a virtual standstill and social pressures were apparently mounting (Kosmarskii, 1993).

Other areas of particular concern in this period were Pskovskaia oblast on the eastern border of the Baltic states of Estonia and Latvia, various non-Russian republics in the Northern Caucasus region (such as Kalmykia, Dagestan and Adygeia), Arkhangeskaia oblast in the extreme north of the country and Kaliningradskai and Sakhalinskaia oblasts, situated at opposite ends of the Russian Federation.

As a comparison between Figures 3.4 and 3.6 will demonstrate, few oblasts experienced an improvement in their

---

The share of defense industry employees to total industrial employment in the republic of Mordova was 45.7% in 1992, in Vladimirskaia oblast, 37.0%, and in Chuvashia, 19.9% (Horrigan, 1992, p. 36).
employment situation between 1992 and 1993. On the contrary, several regions experienced dramatic increases in unemployment rates.\textsuperscript{20}

Who are the Unemployed?

According to one author, Russia's "unemployed... are the most educated in the world - 58\% of them possess higher or secondary specialized education" (Gauzner, 1993). A snapshot of those affected by unemployment also reveals its feminine gender. Indeed, women have been disproportionately hurt by unemployment in the Russian Federation (Biriukova, 1993).

The labor force participation rate of women in Russia had for a long time been very high. It has been estimated that as many as 85\% of all women between the ages of 16-54 in the Soviet Union had participated in the work force during the late 1980's (Commander, Liberman and Yemtsov, 1993, p. 15; Russia: Social Protection..., Vol. II, 1993, p. 91).\textsuperscript{21} Indeed, as the following table demonstrates, all

\textsuperscript{20} Additional data obtained from the Federal Employment Service further corroborates the tendency toward a more inflexible labor market. These data confirm that every Russian oblast suffered a tremendous reduction in job vacancies during 1992. Indeed, the average regional reduction in job vacancies across the entire country was 67.9\% during 1992 (Statisticheskii Sbornik Rynok Truda v Rossii v 1992 g., 1993).

\textsuperscript{21} Once again, the high incidence of female employment in Russia was no doubt the consequence of the selective positive and negative incentives provided by the regime to stimulate employment.
socialist countries were characterized by high female employment relative to that in the West.

Table 3.5
Labor Force Participation Rates
(in percentages)

<table>
<thead>
<tr>
<th>Country</th>
<th>Female</th>
<th>Male</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hungary</td>
<td>75.2</td>
<td>83.6</td>
<td>1990</td>
</tr>
<tr>
<td>Romania</td>
<td>80.6</td>
<td>87.3</td>
<td>1989</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>71.7</td>
<td>68.5</td>
<td>1987</td>
</tr>
<tr>
<td>Albania</td>
<td>86.3</td>
<td>82.0</td>
<td>1990</td>
</tr>
<tr>
<td>Russia</td>
<td>85.0</td>
<td>----</td>
<td>1987</td>
</tr>
<tr>
<td>Austria</td>
<td>53.7</td>
<td>80.3</td>
<td>1988</td>
</tr>
<tr>
<td>France</td>
<td>55.7</td>
<td>75.4</td>
<td>1988</td>
</tr>
<tr>
<td>Germany</td>
<td>54.4</td>
<td>82.9</td>
<td>1988</td>
</tr>
<tr>
<td>Italy</td>
<td>43.9</td>
<td>78.8</td>
<td>1988</td>
</tr>
<tr>
<td>Spain</td>
<td>39.4</td>
<td>77.3</td>
<td>1988</td>
</tr>
<tr>
<td>USA</td>
<td>66.9</td>
<td>85.5</td>
<td>1988</td>
</tr>
<tr>
<td>OECD Europe</td>
<td>53.5</td>
<td>80.9</td>
<td>1988</td>
</tr>
</tbody>
</table>


However, in 1992 women comprised 69.7% of all those officially unemployed in Russia; by 1993 this number had increased to 72.2% (Statisticheskii Sbornik..., 1992, p. 55). According to a more recent study, women who have received higher or specialized education account for nearly 75% of all officially unemployed persons in Russia today (Gendler and Gildingersh, 1994).22 Moreover, in 1993 women

22 In Moscow, women comprised over 80% of those registered as unemployed in 1993 (Statistika Truda..., 1993, p. 48). As well, women were over-represented among the numbers of workers laid-off in Moscow during that year (Merkulov, 1993, p. 14).
accounted for nearly 80% of the long-term unemployed - those on the dole for twelve months or more (Meacher, 1993).

For the most part, the female unemployed previously held positions as office workers or other white-collar jobs ("sluzhashchii") in enterprises and institutes. As such, they held many administrative jobs which were deemed to be non-essential for meeting production goals; thus, persons holding such positions became the most vulnerable segment of the population and were to be sacrificed first as the belt-tightening commenced.23

This is not the only explanation for the over-representation of women among the ranks of the unemployed. Data obtained from specialists in the field reveals a barely-concealed sexism on the part of managers and directors of enterprises and institutes: because women were obliged to fulfill the role of "nurturing" the family and "guarding the hearth"24 it was only natural that they were

23 Indeed, the overwhelming majority of job-openings advertised at Labor Exchanges or in job-placement bulletins in 1991-1993 were for the blue-collar professions.

24 The fact that Soviet women bore primary responsibility in the household for obtaining scarce foodstuffs and consumer goods during the economically-troubled late perestroika era was another reason why managers targeted women as unemployment's first casualties. Indeed, as conditions grew worse, it became more and more impossible for women to spend hours ferreting out such goods while fully meeting the expectations of their employers.
the first ones to be given the axe (Kochkina, 1993). Also, women with children were especially discriminated against in the hiring process, as enterprises must make additional payments in this regard. Indeed, Sillaste found that more than 60% of all female unemployed respondents felt that they had been dismissed for improper reasons and had been discriminated against by their previous employer (Sillaste, 1993, p. 61).

Besides women, first time job-seekers and school-leavers were also disproportionately affected by unemployment during this period. According to data compiled in Table 3.6, more than ten percent of all registered unemployed as of July 1993 were school-leavers.

Table 3.6
Reasons for Unemployment

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lay-offs of workers</td>
<td>41.3</td>
</tr>
<tr>
<td>Voluntary resignations</td>
<td>37.7</td>
</tr>
<tr>
<td>Graduates unable to find work</td>
<td>11.6</td>
</tr>
<tr>
<td>Dismissed due to violation of work discipline</td>
<td>3.6</td>
</tr>
<tr>
<td>Dismissed from Armed Forces</td>
<td>0.9</td>
</tr>
<tr>
<td>Fired for criminal activities or compulsory medical treatment</td>
<td>0.9</td>
</tr>
<tr>
<td>Other reasons</td>
<td>4.0</td>
</tr>
</tbody>
</table>


However, one should realize that even if women desired to return to "domestic service," the husband's wage is not sufficient to maintain the family. Sillaste asserts that although 56% of those polled in her survey of women defense workers said they would be willing to return to the "hearth," only 3% at best are in the position to do so (Sillaste, 1993, p. 62).
These results confirm assertions that the state educational system was not altogether effective in training people for the requirements of a modern market economy during the early postcommunist transitional period. Indeed, according to information obtained in 1992-1993 from a leading Russian newspaper, only one in ten graduates of higher educational and technical institutions were needed in their respective fields of study (Firstova, October 11-17, 1993).26 Another high-ranking employment official has claimed that 50% of students become unemployed upon graduation (Prokopov, 1993, p. 9). In Moscow school-leavers made up 16% of the city's unemployed in 1993 (Zakharov, 1993).27

These facts suggest that if an active policy for employing the population is to be seriously considered, educational institutions should be intimately involved in its planning. However, critics assert that the state educational authorities aren't up to the job. Indeed, one

26 The profile of the unemployed during the NEP period in the Soviet Union was quite similar. Women made up almost half of all those unemployed in 1927, though women constituted less than 30% of the work force. Moreover, young people made up a significant share of the unemployed in 1928 (Lane, 1986, p. 24).

27 Of course, the high rate of unemployment among school-leavers may also be the result of the fact that many of the best and brightest of Russia's students have been emigrating in order to study in Western institutions of higher education. Thus, a small portion of those remaining in Russian educational institutes and who are unable to locate employment upon graduation are presumably not very gifted and are therefore deemed undesirable by many prospective employers.
employment specialist has condemned the fact that there has been no state program developed between the Federal Employment Service, the Ministry of Economics and the Ministry of Higher Education for forecasting what specific categories of workers will be needed in the future (Zushchina, 1993b).

An additional population sub-group which is particularly threatened by unemployment are refugees (bezhentsy) and forced migrants (vynuzhdyonnie pereselentsy). The processes of migration which have taken place in the wake of the collapse of the Soviet Union have dramatically increased the number of migrants among the unemployed in Russia. By the end of 1992, the Federal Migration Service had recorded an influx of approximately 1.5 million refugees and forced migrants into the Russian Federation. For 1993, the migration service anticipated another half million.

No official statistics regarding the number of unemployed among this group was available, although it is probable that a significant portion of this group remains without suitable employment (Kubishin and Kosayev, 1993).

The fact remains, however, that even if all of these affected population sub-groups are totaled, the official unemployment rate remains extremely low in Russia as of late 1994. On January 1, 1995 the Russian Federal Employment Service stated that 1.88 million citizens were officially
registered as unemployed (OMRI Daily Digest, January 25, 1995); this corresponds to an unemployment rate of a mere 2.5%.28

Yet, this official rate masks a great number of "hidden" (skrytyi) unemployed; using International Labor Organization methodology, the Russian State Statistical Committee considered a 6% unemployment rate to be a more accurate representation of the situation in Russia as of April 1994 (Sotsial'no-Ekonomicheskoe..., 1994, p. 74). As we will see in the following section, since early 1994 higher estimates of the "hidden unemployed" have been put forward.

However, initial forecasts of many observers regarding open unemployment in Russia were much less rosy. As we have seen above, official unemployment rates in Central and Eastern Europe were much higher. Indeed, most countries there were confronting unemployment rates approaching 20% in

---

28 When working with official Russian statistics one must recognize that they are notoriously faulty. Reasons for this are numerous. Firstly, the collapse of the command administrative system destroyed the strong ties which heretofore had existed between the ministries in Moscow and individual enterprises in the regions. Freed from central control, enterprises no longer felt themselves under any special obligation to inform their former overseers in Moscow (or Moscow's local minions) about looming lay-offs or potential vacancies. In addition, the methodology used by the Russian employment organs to calculate unemployment rates is quite different from that used by more respected employment organizations, such as the International Labor Organization.

In addition, one should remember that unemployment statistics also varied widely during early Soviet periods (Lane, 1986, p. 22).
Therefore, one would expect a much higher level of open unemployment in Russia, given the experience in the former Eastern bloc countries and given the tremendous fall in production which occurred in Russia itself.

Indeed, postcommunist states in the midst of economic transformation should logically undergo a significant amount of labor-shedding in the process of introducing market incentives. This process ensues due to two factors which are clearly inter-related: 1) the contraction of real demand which originates with the implementation of government stabilization measures; and 2) structural changes arising from the loss of subsidies, changes in pricing mechanisms, the interruption in trading ties and the privatization of state-owned industries.

Still, between 1991-1994 Russia was spared mass open unemployment. It is my contention that, apart from the behavior of actors at the enterprise or micro-level, the actions of important political elites at the center were significant in suppressing the potential for mass open unemployment in Russia in this period. However, the mere absence of significant open or official unemployment does not suggest that the Russian people were not confronted with considerable social costs in this realm.

The exception of course was the Czech Republic with a 3.5% unemployment rate in 1994 (Perlez, 1994).
The "Hidden" Unemployed and the Underemployed in Russia

Although the official unemployment rates may have been low during this period, the social costs in terms of an expanded definition of unemployment were much higher (Kochkina, 1993). If one takes into account the various estimates of the "hidden" unemployed - those unemployed who either are not registered as unemployed by the Federal Employment Service or are underemployed - then the official figures belie the real costs of the economic transition thus far.

Based upon interviews with specialists at the Federal Employment Service, it has been confirmed that those Russians who were unemployed in 1993 and yet did not seek the services of their local employment centers or labor exchanges presumably accounted for at least twice the number of officially-registered unemployed (Meacher, 1993b; Moskvina, 1993).

Many people who became unemployed in this period were not turning to the employment structures for a variety of reasons. Some of these people were either not cognizant of the existence of such bureaucracies in their midst or did not believe they could be of any help. Still other citizens, echoing fears of a revanchist state, believed that

30 Apart from the social costs of unemployment - either open or "hidden" - the economy as a whole pays as well; it has been estimated that for every 1% increase in unemployment, a country's GDP falls by 2-3% (Vishnevskaya, 1993; Zushchina, 1993b).
such employment centers were just additional avenues for unnecessary state intervention into their lives (Meacher, 1993b; Zushchina, 1993).

Others - especially citizens in rural areas - lived considerable distances from these centers and therefore may have been unable to avail themselves of the opportunity to seek such assistance. As the Special Assistant to Fyodor Prokopov told me:

If I lived in the middle of Siberia and three hundred kilometers from the nearest employment center, I'd probably end up thinking I'd just go catch a rabbit somewhere (Meacher, 1993b).

So, the lack of unemployment centers in rural areas was a major obstacle for providing rural citizens with employment services and unemployment benefits (Anatolii Ivanovich ____ and Irina Mikhailovna ____, 1993).

Moreover, the current value of the average monthly unemployment benefit was surely another factor which discouraged people from registering as unemployed; in some cases, it was not even enough to buy a kilogram of good sausage (Kosmarskii, 1993; Meacher, 1993b). Additionally, the low probability of actual clients obtaining such meager benefits discouraged potential clients from using the services of the local labor exchange.

As of 1994 the FES had only 2,300 employment centers for the whole of Russia and often clients had to travel more than 60 kilometers to reach the nearest employment office (Standing, 1994, p. 7).
Others chose not to register with employment authorities because of the bureaus perceived and actual ineffectiveness in finding suitable employment for clients. Indeed, according to one report, most employers (61.5%) in Russia have not recruited new workers from the employment centers and fewer than 5% of all employers have recruited more than 1/4 of their present work force through the local employment bureaus (Standing, 1994, p. 8). Additional reasons for non-registration of the unemployed was the complexity of the task itself and the stigma attached to those who become "unemployed."32

The underemployed are another conspicuous group of citizens who have usually been included among estimates of the "hidden" unemployed in Russia. These people are either working reduced workdays or work-weeks for a variety of reasons, have been placed on leaves of absence with or without pay, suffer intermittent work stoppages or continue to work in unnecessary positions. As Vladimir Varom, the Deputy Minister of Labor, stated:

These people are working for bankrupt firms, living on state subsidies. They are not in fact taking part in the production process and they live on subsidies which are disguised as wages (Russia: Official Data..., 1994).

In the early stages of market reform, the numbers of such people were not calculated. Indeed, only in August 32 In the Soviet period unemployed persons were officially labeled by state authorities to be "social parasites" and such people suffered severe penalties, including imprisonment.
1993 did the Russian State Committee for Statistics (Goskomstat) begin to systematically identify their growing numbers (Rozanova, 1994). To this day, estimates of their number vary significantly.

In early 1994 several reports claimed that the "hidden" unemployed totaled 7-9 million (Deliagin, 1994; Zavody Bez Raboty..., 1994). An official at the Ministry of Labor claimed that their number included 8-17% of those employed in the economy (Rozanova, 1994). A more alarming report in Trud claimed in early January 1994 that the "hidden" unemployed amounted to 11-12 million citizens (Kuz’mín, 1994).

However, officials at the Federal Employment Service have disputed such figures. The Federal Employment Service was not convinced that all of these people should be considered unemployed, arguing that such figures leave out those Russians employed in the underground economy (Khudiakova, 1994). At least one Western labor market expert concurred with this judgement (McAuley, 1994, p. 47). Thus, as of late 1993 the Chairman of the Federal Employment Service stated that in Russia those working reduced hours or on leaves of absence numbered only 3.7 million (RFE/RL Daily Report, October 22, 1993).

An assessment of a particular segment of the "hidden" unemployed - those working reduced hours or on "short-time" - was provided by Goskomstat in August 1992. Their survey
found that up to 16% of all industrial workers were working reduced workdays or work-weeks (Russia: Social Protection..., Vol. I, 1993, p. 105). Since then surveys of enterprises in five Russian regions carried out in 1993 and 1994 by the International Labor Organization revealed that the incidence of "short-time working" increased significantly in virtually all industrial sectors, though especially in the textile and engineering sectors (Standing, 1993, p. 22; Standing, 1994, pp. 28-29).

Regarding a second portion of the hidden unemployed - those persons on administrative leaves of absence with partial or no wages - estimates from Goskomstat indicate that during the third quarter of 1993, almost two million people were on unpaid leaves of absence (Meacher, 1993a). More recent estimates reveal that in the second half of 1993, 51.3 million workdays were lost due to administrative leaves (Rozanova, 1994).

According to the Russian Labor Force Study of 1993, 5.1% of all workers (or roughly 3,770,000 people) were on leave during that year (Standing, 1993, p. 22). By mid-1994 it was estimated that over 20% of workers were on long-term leaves with partial or no payment of wages ("Hidden Unemployment..., 1994).

Table 3.7 demonstrates which industrial sectors of the economy were most troubled by this form of hidden unemployment. One can see that no sector remained
unaffected, however, certain sectors - including the textiles, metal-working, building materials and wood and paper processing sectors of the economy - were most affected.

This particular form of unemployment was severest in many regions of central Russia. According to statistics obtained from the Federal Employment Service's Department for Mass Lay-offs, the five regions in Russia with the highest percentages of workers on administrative leave without pay during 1993 were Leningradskaiia oblast' (7.6%), Kirovskaiia oblast' (9.7%), Vladimirskaiia oblast' (12.6%), the Chuvash Republic (15.2%) and Ivanovskaiia oblast' (16.8%) (Fyodorov, 1993). By early 1994, Ivanovskaiia oblast' had 40% of its work force on administrative leave (Standing, 1994). This is accounted for by the high concentration of the textile industry in Ivanovskaiia oblast'.

Table 3.7
Percent of Workers on "Administrative Leave," by Industrial Sector, 1993-94, in 5 Russian Regions

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Metals</td>
<td>10</td>
<td>4</td>
<td>24</td>
</tr>
<tr>
<td>Engineering</td>
<td>2</td>
<td>7</td>
<td>12</td>
</tr>
<tr>
<td>Food Process.</td>
<td>7</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Build. Mater.</td>
<td>10</td>
<td>9</td>
<td>21</td>
</tr>
<tr>
<td>Text./Garment</td>
<td>9</td>
<td>11</td>
<td>23</td>
</tr>
<tr>
<td>Chemicals</td>
<td>7</td>
<td>7</td>
<td>16</td>
</tr>
<tr>
<td>Wood/Paper</td>
<td>0</td>
<td>1</td>
<td>22</td>
</tr>
</tbody>
</table>

* The five regions were Moscow city, Moscow region, St. Petersburg, Nizhnii Novgorod and Ivanovo.

Source: Standing, 1994, p. 27.
When considering the level of hidden unemployment in Russia one may also wish to include work time lost due to production stoppages, arguing that this constitutes "suppressed unemployment" (Standing, 1994, p. 26). Production stoppages are caused by a number of economic reasons, including either the shortage of materials necessary for production or the lack of finances."

Whatever the cause, it is clear that during 1993 and 1994 production stoppages had become more numerous. According to Fyodor Prokopov, in July 1994 nearly 5,000 enterprises in Russia had stopped working; a year earlier, the number had been 60% lower (Standing, 1994, p. 25). Table 3.8 provides a more detailed account of the problem. The table demonstrates unquestionably that throughout the period increasingly more workers were affected by the incidence of production stoppages. What is more, the mere fact that the number of unprofitable enterprises continued to increase in 1994 indicates that this particular type of "suppressed unemployment" probably grew worse thereafter."

"An official in the Russian Ministry of Labor, Aleksandr Tkachenko, asserted in 1994 that about 1/2 of all production stoppages were connected with the non-payments problem in Russia; an additional 39% of stoppages were connected with the lack of materials (Rozanova, 1994).

Between April 1993 and March 1994 the number of unprofitable enterprises in Russia grew by 54% (Sotsial'no-Ekonomicheskoe Polozhenie Rossii, 1994, p. 107). During 1993 30% of the federal budget was employed to support these failing enterprises (and, indeed, entire industrial branches)(Nikitin, 1993)."
In order to obtain a proper estimate of the underemployed, those excess or "izlishnye" workers not needed at their places of employment should also be tallied.

Table 3.8

<table>
<thead>
<tr>
<th>No. of Enterprises</th>
<th>Working Time Lost</th>
<th>(% of time)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Thous. of workdays)</td>
<td>sheet fund</td>
</tr>
<tr>
<td>1993</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>2811</td>
<td>8539</td>
</tr>
<tr>
<td>February</td>
<td>2441</td>
<td>5979</td>
</tr>
<tr>
<td>March</td>
<td>2541</td>
<td>6112</td>
</tr>
<tr>
<td>April</td>
<td>2642</td>
<td>7166</td>
</tr>
<tr>
<td>May</td>
<td>2406</td>
<td>6653</td>
</tr>
<tr>
<td>June</td>
<td>2237</td>
<td>7052</td>
</tr>
<tr>
<td>July</td>
<td>2047</td>
<td>7788</td>
</tr>
<tr>
<td>August</td>
<td>2087</td>
<td>9640</td>
</tr>
<tr>
<td>September</td>
<td>2438</td>
<td>11567</td>
</tr>
<tr>
<td>October</td>
<td>2407</td>
<td>11385</td>
</tr>
<tr>
<td>November</td>
<td>2772</td>
<td>13849</td>
</tr>
<tr>
<td>December</td>
<td>3262</td>
<td>18990</td>
</tr>
<tr>
<td>1994</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>3789</td>
<td>20198</td>
</tr>
<tr>
<td>February</td>
<td>4280</td>
<td>21814</td>
</tr>
<tr>
<td>March</td>
<td>4800</td>
<td>24189</td>
</tr>
<tr>
<td>April</td>
<td>4955</td>
<td>23705</td>
</tr>
</tbody>
</table>

Source: Sotsial’no-Ekonomicheskoe Polozheniia Rossii, 1994, pp. 11-12.

In order to estimate this, in their surveys of 350 industrial enterprises in Russia in 1993, the International Labor Organization asked managers of enterprises whether or not they could have obtained the same production output with fewer workers. Over 1/3 answered in the affirmative and of these the average percentage of their work force the managers considered to be unnecessary was 6.7% (Standing,
1993, p. 12). The following year, the study revealed that the number of managers answering affirmatively had jumped to 48.2%. As well, their estimates of unnecessary workers increased to over 20% of enterprise employment.

In general, for all enterprises included in the survey - even those in which the directors did not believe they could reduce employment - on average enterprise executives calculated they could cut employment by 9.8%. If these results could be considered representative of Russia as a whole, then according to the Director of the Labour Market Policies Branch of the ILO, "nearly 10% of the (Russian) industrial workforce was concealed unemployment or surplus labor" in 1994 (Standing, 1994, p. 22). This represents a rather sizeable reserve of potential unemployment in the near future.

Thus, the present section has demonstrated that, despite the picture portrayed by official unemployment rates, significant social costs in terms of "hidden" unemployment and underemployment have been shouldered by the Russian citizenry during the initial period of postcommunist economic transition. The fact that a considerable portion of the hidden unemployed were not as yet completely unemployed (i.e., they may be marginally employed) does not diminish the suffering and pain they have been forced to endure during the transition. Indeed, many of these were in constant fear of losing their jobs altogether: a survey in
August 1993 conducted by the All-Russian Center for the Study of Public Opinion found that 42% of respondents believed that in the near future they would likely lose their jobs (Gordon, 1994, p. 12). Undoubtedly, such persons understood that "hidden" unemployment, as Gordon stated, is a phenomenon analogous to "getting used to narcotics - it temporarily takes away the pain, but destroys the organism" (Gordon, 1994, p. 12).

**Structural and Institutional Impediments to Reform**

Thus far we've seen that market reform in Russia generated significant costs in terms of unemployment. Moreover, additional sacrifices in this sphere are certain to materialize if further serious structural reforms are undertaken. The question then arises why has the economic transition been so traumatic in Russia's case? What makes the inauguration of market reform in Russia more difficult and problematic than in other countries pursuing similar reforms, e.g., in Latin America, Southern Europe, or perhaps, even Eastern Europe?

Of course, the explanation is closely connected to the peculiar legacies of Stalinist central planning that left much of Russia's industrial infrastructure largely unprofitable or unusable in its present form. During the Soviet period, investment and employment decisions were made
in the main without any thought given to efficient use of resources or cost of production.

As a result, enormous resources were squandered in creating immense and wasteful industrial sectors that were deemed to be essential by the Communist elite, whereas other sectors, such as the agricultural and service spheres of the economy, remained chronically under-financed. Moreover, in order to achieve supposed economies of scale, the construction of giant enterprises were preferred over smaller ones and the domination of whole regions - or, indeed, particular cities and towns - by specific industries was the norm.

Therefore, the economic strategies underlying Stalinist central planning were without rationality. As one long-time scholar of the Soviet economy put it:

The consequent tragedy for the transforming Russian economy lies in a microstructure of production that cannot produce useful output at a cost less than its value. Further, the production facilities are nonconvertible as ongoing operations.... The parts - the buildings, workers, equipment - are economically usable, but only in radically different configurations and in significantly smaller bundles (Ericson, 1995, p. 63).

As we will see, such an investment strategy created numerous impediments to the rational re-distribution of labor resources necessary for economic renewal. Thus, in order to fully appreciate the depth of the problems confronting a successful Russian economic transition, it becomes necessary to examine briefly each of these obstacles in turn.
One consequence of the Stalinist economic legacy which severely handicapped the state employment service since the beginning of the postcommunist transition was the existence of an extremely unbalanced labor market. During the Soviet period, enormous efforts were expended in training thousands of specialists, for example, scientists and engineers, whose services are no longer needed in the current conditions.

Thus, within the Russian Federation there has been recorded a significant divergence in the supply of, and the demand for, various categories of labor. For example, while an enormous reserve of available white-collar workers continued to exist into 1993, the majority of open positions (80-90%) at the time required the skills held by blue-collar workers (Marnie, 1993, p. 38). As we saw above, with the introduction of market relations in 1992 "sluzhashchii" or white-collar employers were often the first to be discharged. In response, the Federal Employment Service consistently reaffirmed the need for establishing re-training programs for such workers. However, the effective

---

38 Of course, such a situation existed for a long time in the Soviet Union, at least since the late 1970's. An endemic shortage of blue-collar workers was a direct legacy of extensive investment policies, Soviet central planning and the communist ideology which supported them; both labor hoarding on the part of enterprise managers and the fact that the "proletarian" class was relatively well-paid contributed to such an outcome (Oxenstierna, 1990). Nevertheless, the problem of "occupational mismatch" has become much worse since 1992 as a result of efforts to marginalize or de-emphasize various industrial sectors, particularly the defense sector.
implementation of such programs lagged far behind initial expectations.\textsuperscript{36}

As stated above, the Soviet economy was also characterized by relatively large enterprises as a result of bureaucratic intervention and efforts to achieve economies of scale. However, it appears that rather than achieving substantial cost savings, a large proportion of these enterprises were unprofitable (Kornai, 1992, pp. 400-402).

If we compare the size distribution of industrial firms in socialist countries with that existing in capitalist countries, it becomes readily apparent that the industrial firm in the former was much larger in virtually every sector.\textsuperscript{37} Table 3.9 provides some comparative statistics on the incidence of large firms - those employing five hundred or more workers - in both economic systems. The table demonstrates that in every sector save the ferrous metals sector, the percentage of the sectoral labor force employed in large firms in socialist countries was at least double that in capitalist countries.

\textsuperscript{36} Recent evidence pointing to a contraction of the labor market for blue-collar workers - as the number of unemployed "proletarians" begin to outweigh available vacancies - does not make the work of the employment services any less burdensome.

\textsuperscript{37} In a recent World Bank study, Brown, et al., take issue with the conventional wisdom that Soviet industry suffered from gigantomania. They assert that central planners "economized on the costs of central economic coordination, not by building unusually large enterprises, but by not building very small enterprises" (Brown, Ickes and Ryterman, 1994, p. 1).
Using more recent figures and comparing the size distribution of only the smallest manufacturing firms in both Russia and the U.S., one can see from Table 3.10 that the average Russian small firm tended to employ many more workers than its U.S. counterpart.

Table 3.9
Size Distribution of Industrial Firms: International Comparisons, 1970

<table>
<thead>
<tr>
<th></th>
<th>Socialist World(^a)</th>
<th>Capitalist World(^b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL MANUFAC.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) avg. employment/firm</td>
<td>197</td>
<td>80</td>
</tr>
<tr>
<td>b) % employed in lg. firms</td>
<td>66%</td>
<td>32%</td>
</tr>
<tr>
<td>TEXTILES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) avg. employment/firm</td>
<td>355</td>
<td>81</td>
</tr>
<tr>
<td>b) % employed in lg. firms</td>
<td>75%</td>
<td>17%</td>
</tr>
<tr>
<td>FERROUS METALS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) avg. employment/firm</td>
<td>2542</td>
<td>350</td>
</tr>
<tr>
<td>b) % employed in lg. firms</td>
<td>95%</td>
<td>79%</td>
</tr>
<tr>
<td>MACHINERY</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) avg. employment/firm</td>
<td>253</td>
<td>82</td>
</tr>
<tr>
<td>b) % employed in lg. firms</td>
<td>61%</td>
<td>28%</td>
</tr>
<tr>
<td>CHEMICALS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) avg. employment/firm</td>
<td>325</td>
<td>104</td>
</tr>
<tr>
<td>b) % employed in lg. firms</td>
<td>79%</td>
<td>35%</td>
</tr>
<tr>
<td>FOOD PROCESSING</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) avg. employment/firm</td>
<td>103</td>
<td>65</td>
</tr>
<tr>
<td>b) % employed in lg. firms</td>
<td>39%</td>
<td>16%</td>
</tr>
</tbody>
</table>

\(^a\) Includes Czechoslovakia, GDR, Hungary and Poland.
\(^b\) Includes Austria, Belgium, France, Italy, Japan and Sweden.

Source: Kornai, 1992, p. 400.

Thus, in the face of market reform and a depressionary economic cycle, a slump in particular industrial sectors in Russia affected greater numbers of workers than would be the
case in countries with less concentration of total employment in large firms.

Another distortion generated by central planning edicts during the Communist period was the peculiar pattern of industrial concentration imparted to Russia. It is not uncommon for entire regions of the country to be dependent upon a very limited number of industries. For example, more

<table>
<thead>
<tr>
<th>Country</th>
<th>1-4</th>
<th>5-9</th>
<th>10-19</th>
<th>20-49</th>
<th>50-99</th>
<th>100-249</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of firms</td>
<td>27</td>
<td>207</td>
<td>521</td>
<td>1517</td>
<td>2762</td>
<td>5340</td>
</tr>
<tr>
<td>As % of total no of small firms in mfg.</td>
<td>0.3</td>
<td>2.0</td>
<td>5.0</td>
<td>14.6</td>
<td>26.6</td>
<td>51.5</td>
</tr>
<tr>
<td>U.S.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No./firms</td>
<td>112,926</td>
<td>58,598</td>
<td>32,158</td>
<td>65,834</td>
<td>18,661</td>
<td>11,489</td>
</tr>
<tr>
<td>As % of total no. of small firms in mfg.</td>
<td>37.7</td>
<td>19.6</td>
<td>10.7</td>
<td>22.0</td>
<td>6.2</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Source: Brown, Ickes and Ryterman, 1994, p. 47.

than 50% of the Northern economic region's labor force in 1994 was concentrated in the lumber (26.1%), mining (17.1%) and paper industries (7.2%)(Brown, Ickes and Ryterman, 1994, pp. 62-63).

Indeed, a whole region may be dependent upon a single industry. For example, Ivanovskaia oblast's local economy
was heavily concentrated in the textile industry. As a result of supply bottlenecks and industrial obsolescence, as of late 1993 much of Ivanovskaia oblast's textile industry was at a standstill.

A further remarkable example of this phenomenon is the area in Eastern Siberia surrounding the Baikal-Amur Mainline. The Baikal-Amur Mainline or BAM was an enormous and expensive railroad construction project designed in the heyday of Brezhnev's U.S.S.R. which was to aid in the exploitation of Siberia's vast untapped mineral resources. The economy of the entire surrounding territory was centered on the construction project. After the Soviet Union's collapse, the local economy has suffered tremendously, additional investment funds have dried up for the region and local employment service officials asserted in 1994 that the population there was on the verge of a mass exodus (Specter, 1994).

Thus, given the tremendous amount of industrial concentration in Russia, a marked economic downturn in any industrial sector can doom whole regions to extremely high levels of unemployment, underemployment and impoverishment. Among the most unfortunate regions in Russia were those centered almost completely on the defense industry. Regions and cities with a heavy employment profile in the defense

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38 As of 1994, 55% of total employment in the textile industry was located in the Central economic region (Brown, Ickes and Ryterman, 1994, p. 63).
sector have been hit hard by the arms procurement cuts and cuts in spending for defense research and development. For example, Obninsk and Novosibirsk were two of at least 74 cities in the Russian Federation in which 80% of the local workforce is employed in the defense industry (Erlanger, 1993).

One extremely problematic legacy of the Soviet period which continued to befuddle the employment organs into 1994 was the widespread existence of "company towns" - small cities, towns or villages in which there are a few or, in extreme cases, a single employer(s). As a result of irrational central planning edicts established under the ancien regime, thousands of small towns across Russia secured their livelihood from the activities of several enterprises, often producing products for the same industry. In such cases, if the local enterprises become insolvent and are forced to close their gates, the employment services in the region would be hard-pressed to find suitable, alternative employment.

Some statistics may help to illustrate the extent of this problem. One seminal World Bank report asserted that in 11 of Russia's 12 officially-recognized economic regions, between 1/4 and 3/4 of the total regional industrial workforce were employed in industries which had only 1-4 enterprises in that particular locality (Commander and
In certain economic regions - such as in the Northwest, Chernozym and Volgo-Viatka regions - almost half of the workforce in 1994 were employed in "regional monopolies and oligopolies" (Brown, Ickes and Ryterman, 1994, p. 34).

Looking at city-level statistics, as of 1993 up to 90% of all Russian cities had ten firms or less operating in their midst (Commander and Jackson, 1993, p. 25). As Table 3.11 demonstrates, a little less than 50% of all Russian cities had only one enterprise and almost 70% of all cities had three or less firms employing the local labor force.

<table>
<thead>
<tr>
<th>Number of Firms</th>
<th>Number of Cities</th>
<th>Cumul. Percentage of Total Cities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2,097</td>
<td>47.9%</td>
</tr>
<tr>
<td>2</td>
<td>576</td>
<td>61.1</td>
</tr>
<tr>
<td>3</td>
<td>356</td>
<td>69.3</td>
</tr>
<tr>
<td>4</td>
<td>282</td>
<td>75.7</td>
</tr>
<tr>
<td>5-10</td>
<td>693</td>
<td>91.5</td>
</tr>
<tr>
<td>11-20</td>
<td>228</td>
<td>96.8</td>
</tr>
<tr>
<td>21-50</td>
<td>92</td>
<td>98.9</td>
</tr>
<tr>
<td>51-100</td>
<td>33</td>
<td>99.6</td>
</tr>
<tr>
<td>101-200</td>
<td>15</td>
<td>100.0</td>
</tr>
<tr>
<td>&gt; 200</td>
<td>2</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Total = 4,374

Source: Brown, Ickes and Ryterman, 1994, p. 66.

The Central economic region, which includes the city of Moscow, was the only region not characterized by such high levels of concentration.
Moreover, due to the peculiar way in which the provision of social benefits was tied to the local enterprise during the Soviet period, the closure of such enterprises would cause further impoverishment for the locality. Thus, besides threatening local employment and the income derived from it, market reforms also jeopardize workers' procurement of vital non-wage benefits which are distributed based upon place of work.

These non-wage benefits provide the worker with a substantial share of his or her labor income. Such benefits include access to consumer goods, health care, day-care, leisure activities and housing; in addition, according to an unpublished report from the Federal Employment Service, survey data reveal that in 1993 45% of all enterprises managed their own farms from which they supply their work force with foodstuffs (Meacher, 1993a). For most workers, especially in larger enterprises, the benefits listed above were provided exclusively by the employer. Among the reasons for the development of firm-based social benefits was the desire of many directors to reduce labor turnover (McAuley, 1994, p. 5).

As a whole, in 1993 the provision of all non-wage benefits was estimated to amount to 35% of average income for each employee (Russia: Social Protection..., 1993).

Table 3.12 provides a detailed accounting of recent
benefits provision in 340 firms across five regions in Russia during 1993. Two startling observations can be made from these data. First, benefits provision across firms remained extremely similar for both full-time workers and management alike. Secondly, part-time employers received very meager benefits relative to the other two categories. In addition, the study found that counter to what one might expect given the prevailing economic conditions, between 1992-1993 one-third of firms had actually added the provision of new social benefits (Standing, 1994a, p. 38).

Table 3.12
Percentage of Enterprises Providing Social Benefits, 1993

<table>
<thead>
<tr>
<th></th>
<th>Managers</th>
<th>Full-time employees</th>
<th>Part-time employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid vacation</td>
<td>100.0</td>
<td>100.0</td>
<td>39.7</td>
</tr>
<tr>
<td>Rest houses</td>
<td>67.1</td>
<td>67.1</td>
<td>10.3</td>
</tr>
<tr>
<td>Illness benefit</td>
<td>99.1</td>
<td>99.1</td>
<td>65.5</td>
</tr>
<tr>
<td>Health services</td>
<td>49.4</td>
<td>50.0</td>
<td>18.8</td>
</tr>
<tr>
<td>Housing subsidy</td>
<td>13.2</td>
<td>15.0</td>
<td>2.9</td>
</tr>
<tr>
<td>Kindergarten sub.</td>
<td>48.2</td>
<td>49.1</td>
<td>12.1</td>
</tr>
<tr>
<td>Retirement assis.</td>
<td>76.2</td>
<td>76.5</td>
<td>12.4</td>
</tr>
<tr>
<td>Pension subsidy</td>
<td>9.4</td>
<td>9.7</td>
<td>1.2</td>
</tr>
<tr>
<td>Food subsidy</td>
<td>34.4</td>
<td>34.7</td>
<td>23.2</td>
</tr>
<tr>
<td>Transport subsidy</td>
<td>34.1</td>
<td>34.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Cons. goods sub.</td>
<td>21.2</td>
<td>21.2</td>
<td>14.4</td>
</tr>
<tr>
<td>Canteen subsidy</td>
<td>61.5</td>
<td>62.6</td>
<td>40.9</td>
</tr>
</tbody>
</table>

Source: Standing, 1994a, p. 37.

By mid-1994 the trend toward increasing provision of social benefits appears to have subsided, presumably owing to the continuing economic downturn and/or the privatization of formerly state-owned enterprises. In 1993-1994 more
firms had reduced the provision of social benefits (28%) than those that had added them (Standing, 1994b, p. 55).41

To be sure, benefits provision weighed heavily on the enterprise budget and caused many to direct resources away from the development of new technologies. One example will suffice: in the city of Kovrov, a defense industry company town where 58% of the local working population was employed in the defense sector in 1993, the V.A. Degtiarev factory spent 30% of its profits for the enterprise Social Fund (which maintains the health clinic, kindergartens, etc.), 24% was spent on wages, leaving only 20% for the development of new production (Nikolaev, 1993, p. 28).

Among the benefits received by workers, housing is probably the most significant.42 According to estimates in 1993, housing accounted for 14% of the overall labor compensation provided by enterprises (Russia: Social Protection..., 1993, Vol. I, p. 22). Indeed, in Russia a considerable share of housing is constructed and owned by enterprises. As Table 3.13 shows, enterprises in 1993 owned more than one-third of the total housing stock and over 40%

41 Those benefits dropped first by employers were the provision of subsidized vacations, foodstuffs and consumer goods.

42 This is especially true in large enterprises. Commander and Jackman (1993) found that there is a strong and positive correlation between firm size and housing provision.
of the urban housing stock.\(^3\)

However, the phenomenon of enterprise-provided housing has its downside. In view of the high cost of constructing new housing units and the extreme housing shortage which is endemic to Russia,\(^4\) people are understandably reluctant to separate from their employer, even if they are severely underemployed. Thus, the Russian labor force remains largely an immobile one, a quality which does not support

\[\begin{tabular}{l|c|c}
 & Total Housing Stock & Urban Housing Stock \\
\hline
Total Stock & 100.0 & 100.0 \\
State-owned housing & 64.7 & 77.6 \\
Municipal governments & 26.7 & 36.8 \\
Enterprises (self-financed) & 37.2 & 40.1 \\
Enterprises (budget-financed) & 0.8 & 0.7 \\
Other Enterprises/Organizations & 3.0 & 0.5 \\
Housing Cooperatives & 4.0 & 5.7 \\
Privately-owned housing & 28.2 & 16.2 \\
\hline
\end{tabular}\]


\[^3\] However, since the transition many enterprises - especially the unprofitable ones - are attempting to free themselves from the burden of employer-provided and - maintained housing. In many instances employers have concluded agreements with municipal governments to take over their responsibilities in this arena. In at least one locality (Dubna), the city administration has assumed financial responsibility for the social infrastructure in exchange for a promise from local employers not to proceed with mass lay-offs (Rats, 1993; Vetokhin, 1993).

\[^4\] Meager state investment in housing construction characterized all centrally-planned economies which contributed to widespread housing shortages.
the rational re-distribution of labor during economic transformation (Tromliakova, 1993).45

The results are highly segmented labor markets (Brown, Ickes and Ryterman, 1994, p. 34). It is for this reason alone that many specialists have called for an early reform of state housing policy (Mayo and Stein, 1988; Renaud, 1991; Renaud, 1992)46

This section has thus far reviewed the structural impediments to labor market flexibility - impediments which make the process of economic transformation in Russia more problematic than elsewhere. In addition to these structural constraints, certain long-standing behavioral norms of both the managerial and working classes act as impediments to the transition, i.e., by discouraging labor-shedding practices.47 These behavioral norms, e.g., the tendency of managers and directors of enterprises to hoard labor or to act in a paternalistic manner, will be examined in Chapter 4. However, let us conclude this section with an examination of an institutional obstacle to change: the

---

45 For example, it has been estimated that whereas 17-19% of the population of Australia, the United States, Canada and New Zealand changed their residence annually in the early 1980's, the corresponding rate for the Soviet Union was 3% (Russia: Social Protection..., 1993, Vol. I, p. 138).

46 Of course, the existence of restrictions on movement within the country imposed by the "propiska" (or internal passport) also have reduced labor mobility.

47 Such norms also serve as obstacles to worker mobilization against reform's social costs.
absence of effective and well-developed state institutions of job placement and employment.

**State Employment Organs - An Institutional "Vacuum"**

The problem of transition in Russia's case was made worse as the bureaucracy charged with the responsibility for the employment domain - the Federal Employment Service (FES) - was itself beset with many problems associated with its own "newborn" state, among others (See Chapter 6). The fact that state employment institutions were initially incapable and unprepared for massive employment problems was another factor making the transition in Russia more precarious and problematic than those that took place in Southern Europe, or indeed, Latin America.

The Russian Federal Employment Service was created in early 1991, a successor to the Russian Ministry of Labor's Committee on Employment. One of the most serious problems confronting the FES at its inception was a lack of trained staff. In early 1992 the service had roughly 14,000 officials in 2,300 employment centers across Russia (Minutes of the Fourth..., 1993). By mid-1993 the number of employment officials had increased to 24,000 (Sokolovskaia, 1993). Although the employment service increased by more than 40% in fifteen months, this still meant that by early 1994 for every staff member of the FES there were 232 unemployed persons in Russia, whereas the average ratio
between employment staff and the unemployed in Sweden, Austria, Germany and the United Kingdom in 1988 was 1:44 (Russia: Social Protection..., 1993, Vol. I, p. 122).

Thus, the FES remained thinly staffed for at least the first three years of its existence and many towns and villages did not have their own local employment bureau (McAuley, 1994, p. 45). Moreover, much of the staff that were employed were largely untrained for their new duties (Sokolovskaia, 1993; Tsurikov, 1993).

As a result, much of the FES' efforts during 1991-1993 was concentrated on passive programs of social support, rather than centered on implementing proactive programs to lessen the impact of unemployment. An examination of employment fund expenditures in Table 3.14 exposes the paltry sums allocated for training programs: less than 5% of all resources in the State Employment Fund were spent on

<table>
<thead>
<tr>
<th>Table 3.14</th>
<th>Employment Fund Expenditures, 1992</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(in percentages)</td>
</tr>
<tr>
<td>Administrative operations</td>
<td>45.0</td>
</tr>
<tr>
<td>Unemployment benefits</td>
<td>25.0</td>
</tr>
<tr>
<td>Job creation measures*</td>
<td>25.0</td>
</tr>
<tr>
<td>Training, Re-training programs</td>
<td>4.0</td>
</tr>
<tr>
<td>Public works programs</td>
<td>1.0</td>
</tr>
</tbody>
</table>

* Such programs provide local enterprises with credits at below-market interest rates.

such projects. However, during interviews employment officials ceaselessly promoted such programs for the raising of workers' qualifications and for the training and re-training of the unemployed.

In reality, as of early 1994 these programs were only in their infancy." In 1992, for example, less than 2% of those using the FES' services were placed in re-training programs (Statisticheskii Sbornik, 1993, p. 96). Figures for those unemployed citizens re-trained at the expense of the Moscow Labour Exchange were also negligible (Podvoiskii, 1993). Thus, the lamentable fact is that establishing these types of programs takes a great deal of skill and time: two assets the FES unfortunately lacked.49

In addition, the effectiveness of the existing programs has also been called into question. Though the FES does not release employment information regarding those persons having completed their training programs, statistics released by the Institute of Economics (RAN) calculate that in many regions, more than half of such persons remained jobless in 1993 (Kubishin and Kosayev, 1993, p. 15).

48 The training and re-training programs that had existed earlier under the Soviet regime were largely terminated as a result of the destruction of administrative links between the central government and enterprises (Moskvina, 1993).

49 The poor performance on the part of the F.E.S. was also occasioned by the intra-branch conflict between itself and the Ministry of Labor. For more on this see chapter 6.
Moreover, public works programs have likewise received a minuscule share of the total Employment Fund budget. Though surely such programs suffer from the same problems as those mentioned above, the Russian authorities continued to place a great deal of confidence in the potential of public works programs in resolving problems of open unemployment. Looking at the figures above, however, such assertions appear to be quite unconvincing. Indeed, between January 1992 - April 1993, on average less than 1% of the unemployed took part in public works projects each month (Statisticheskii Sbornik, 1993, p. 88).

Furthermore, little expenditure was allocated for the development of small-scale entrepreneurial projects at the local level. Drawing upon the experience in Central and Eastern Europe, the potential of such "incubator" programs to solve local employment problems was asserted to be of great value by various high-level officials of the Federal Employment Service in Moscow (Moskvina, 1993). However, as with funds for re-training and public works, the commitment to providing such proactive measures was lacking. Indeed, during one interview with employment officials in Dubna, Moskovskaia oblast, though the respondents continuously lauded the fruits of such activities, in the end they admitted that they had concluded only one such agreement with an unemployed citizen: to open a "factory" which would
produce knitted garments and would employ five people (Vetokhin, 1993).\

Other passive measures consumed the rest of the 1992 Employment Fund; 25% of total budget expenditures was spent on unemployment benefits. Almost half of expenditures was spent on staff and the physical development of employment offices, the majority of which were in the words of the Chairman of the FES "simply in a disastrous state" (Sokolovskaia, 1993).

The remaining 25% was spent on so-called "job-creation measures" - a euphemism for the act of simply providing enterprises with money in order to maintain existing work places. Such practices are considered by Western advisors to the FES to be counter-productive, as this in many cases allowed enterprise management to postpone necessary restructuring and use the credits to pay workers' wages (Meacher, 1993b). However, in view of the great pressures exerted on employment officials by enterprise management, many local employment centers continued to "invest" in such undertakings well into 1993 (Ivanova, 1993; Vetokhin, 1993).

In the final analysis, the fact that the FES amassed a 28.6 billion rouble surplus in 1992 is additional evidence

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50 In Eastern Europe, a great deal of effort has been made to support the creation of incubator programs which provide low-interest loans to unemployed workers wishing to start a small business. For example, Poland’s labor services granted more than 8,000 loans to novice entrepreneurs in the first year after the employment law was promulgated (Chilosi, 1991).
supporting the view that because of the embryonic nature of the FES, the employment bureaucracy was not fully operational and therefore found it quite difficult to absorb the 28.6 billion rouble surplus most constructively, i.e., by setting up varied and numerous proactive programs.\textsuperscript{51}

Indeed, it would have been much easier to absorb the surplus through extending unemployment assistance or by increasing the monthly benefit (Riabyshev, 1993).

Thus, the data above reveal quite clearly that passive measures, rather than proactive ones, have been the F.E.S.'s most often-used methods of fighting open unemployment.\textsuperscript{52}

As in Eastern Europe, Russia too has had to resort to "paying compensation" rather than utilizing more aggressive policies to meet the threat of unemployment (Przeworski, 1993, p. 146). This surely reflects the problems associated with the undeveloped nature of the employment agency in Russia.

A further reason why the operations of the FES have been hamstrung relates again to the issue of "institutional

\textsuperscript{51} In 1993 the Employment Fund had a surplus of 200 billion roubles. The tremendous amount of the surplus prompted the Ministry of Finance to propose the consolidation of the Employment Fund with the state budget. However, the attempt proved ill-fated as it contradicted the 1991 Law on Employment (Khudiakova, 1994).

\textsuperscript{52} It appears that during 1993 training and re-training programs were emphasized to a greater degree than in 1992. However, expenditures on such programs remained inconsiderable; only 7.6\% of the resources in the Employment Fund were targeted for such programs. Thus, passive measures abounded during 1993 (Khudiakova, 1994).
newness." In many respects the legislation which brought into existence the FES in 1991 and which determined the relationship between the central apparatus and local organs contains numerous defects. According to several sources, because of the continuing struggle for power between the executive and legislative branches in 1993 very few of the essential legislative modifications were enacted and consequently the Law on Employment's shortcomings continued to handicap the agency (Meacher, 1993b; Moskvina, 1993; Tsurikov, 1993).

For example, one problem concerns the faulty method in which contributions to the Employment Fund were collected. The 1991 R.S.F.S.R. Law on Employment stipulated that contributions were to be collected at the raion or local level and then transferred to the oblast and, in turn, to the central authorities. However, before transferring the funds to the center, both the raion and oblast' levels were permitted to deduct 45% of collected revenues, leaving the center with direct control over only 10% of the total Employment Fund budget.

Consequently, the central employment services were not always in the best position to supervise the rational use of the FES' funds at the local level. The raion and oblast employment services often employed the revenues obtained from local enterprise wage funds in a rather imperfect manner, even though they were instructed to co-ordinate
their decisions with the center. Indeed, the central employment authorities were supposed to possess a great deal of control over expenditures of employment funds at all levels (Meacher, 1993; Moskvina, 1993; Tsurikov, 1993; Vetokhin, 1993).

However, numerous examples exist in which regional employment bureaus wantonly used Employment Fund resources for paying salaries to non-FES governmental officials, building roads, constructing housing, etc. (Khudiakova, 1994). Moreover, the Procurator General of the Russian Federation investigated scores of crimes concerning the illegal use of Employment Fund assets by corrupt local employment service officials. Many of these involved the provision of credits to local commercial structures and banks for speculative purposes, not for the creation of additional work places (Stepankov, 1993).

In addition, the fact that the R.S.F.S.R. employment law did not permit central employment bodies to transfer resources between oblasts reinforced existing problems in the employment domain. This means that revenues from resource-rich oblasts with relatively modest levels of unemployment cannot be re-directed to regions with severe difficulties. Therefore, those regions needing funds most

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"The Moscow Oblast' Employment Center was investigated for a 60 million rouble deficit in the regional Employment Fund budget (Stepankov, 1993).
were usually those that had insufficient resources to confront growing problems.

The number of such resource-poor regions was not small: in 1993 across Russia there were a total of ten oblasts that had no financial reserves in their regional employment funds. According to the First Deputy Chairman of the FES, during 1994 their number was expected to increase to about 40 or almost half of all Russian regions (Sokolovskaia, 1993; Khudiakova, 1994).

Moreover, what little funds were available to these resource-poor regions were utilized ineffectively, i.e., for the provision of unemployment benefits. Thus, areas of the country in most need of innovative, proactive employment policies were least likely to introduce them. In addition, the de facto de-centralization of policy-making control to the periphery allowed resource-rich oblasts to continue utilizing employment funds in a sub-optimal manner.

Thus, the institutional "weakness" of the FES - be it of an organizational, programmatic or normative nature - placed a further obstacle in the road of Russia's transition. Added to the serious structural impediments to the rational re-distribution of labor resources in the post-Soviet economy, these factors undeniably caused the economic and political transformation in Russia to be all the more problematic than those that have occurred elsewhere.
The Societal and Governmental Response to the Social Costs of Unemployment and Underemployment

It is my contention that the evidence presented in this chapter has shown that in Russia’s case there have been significant costs associated with unemployment and underemployment, not to mention the considerable socio-economic and demographic sacrifices made by the people of Russia which were delineated in the previous chapter.

The issue of the hypothesized societal response to these costs has been addressed earlier. To briefly restate it, certain scholars of the transition in Eastern Europe argue that the social costs associated with the market transformation - especially those related to unemployment - may generate a severe societal response in the form of social mobilization and instability which may act as an obstacle to further economic and political reform (Mokrzycki, 1991; Bresser-Pereira, et al., 1993).

However, I argue that such social mobilization and/or instability did not occur in Russia during 1991-1993, even though tremendous social costs were incurred. Further, the lack of any strong, responsible and well-organized intermediary organs - especially those most concerned with issues of labor and employment, i.e., trade unions - was in large measure responsible for the absence of a societal response. Of course, the dearth of strong mediating institutions is a consequence of the experience with Soviet totalitarianism.
In addition, I contend that important governmental elites had a hand in curbing the potential for social unrest. It appears that such elites believed it was necessary to restrict the growth in open unemployment. Indeed, although Russia has suffered a tremendous industrial collapse - one greater than that experienced during the Great Depression in the United States - very little open unemployment has ensued.94

It is my conviction that the data presented in subsequent chapters will show that certain governmental elites persisted in their attempts to maintain employment within enterprises. In fact, there is much evidence which supports the belief that important government decision-makers were attempting to strictly control the level of unemployment within the country and preferred to continue maintaining employment within the enterprise,95 rather than risk the social consequences of mass open unemployment or "displacement" (vysvobozhdenie).

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94 The latest official unemployment statistics provided by the Federal Employment Service indicate that 1.88 million people were unemployed in Russia as of January 1, 1995. This corresponds to a 2.5% official unemployment rate (OMRI Daily Digest, No. 18, January 25, 1995). Whereas in the United States in March 1933, 28% of the working population was unemployed.

95 Deputy Chairman Riabyshev of the Federal Employment Service stated that the Employment Fund surplus stemmed from the fact that the number of unemployed was substantially less than that anticipated (Riabyshev, 1993).
Indeed, as far back as mid-1991, leading officials in the R.S.F.S.R. government, who were later to become the overseers of employment and social policies in Gaidar's first "radical" government, proclaimed the necessity to urgently implement various measures to "restrict open unemployment and to transform it into hidden unemployment," in order to avert "menacing... sociopolitical consequences" (Shokhin, 1991). In short, the fear of the potential paralyzing effect upon economic and political reform of social instability arising from unemployment immobilized those in commanding positions of power in the Yeltsin government.

As a result, in 1993 30% of the state's consolidated budget continued to be spent on the support of "unprofitable enterprises and whole industrial branches" (Nikitin, 1993). As well, in comparison with the data for 1992 (See Table 3.6), in 1993 those unemployed as a result of lay-offs from enterprises declined significantly. Data from June and September 1993 indicate that the percentages of the newly unemployed that were laid-off by enterprises equalled 34.5% and 33.0%, respectively; this represents a 17-20% drop in lay-offs relative to 1992 figures (Report on Placement..., June 1993; Report on Placement..., September 1993).

Furthermore, the governing elites' approach to supporting employment also perhaps had an undesired impact upon the development of the organs which were designed to
resolve the employment problem. As will become clearer after reading subsequent chapters, since central governmental decision-makers did not take seriously the possibility of high unemployment, i.e., since such individuals were not prepared to introduce the sorts of rational, yet socially-damaging, structural reforms necessary for the successful transformation of the economy, little attention was paid to creating an effective employment service; therefore, a "minimalist" conception of an employment service was the de facto result (Moskvina, 1993; Vishnevskaia, 1993). Thus, policy-makers believed that existing inflationary policies would keep the majority of the populace protected from unemployment and those citizens that by chance did lose their jobs would benefit from monthly hand-outs from the local employment service. As a result of central policy-makers' minimalist perceptions of the role and mission of the FES, important programs have been obstructed.5 6 Thus, as the threat of unemployment looms ever larger, the "safety net" in place at present is seriously lacking in many respects.

However, before presenting evidence of the governing elites' macro-economic attempts to forestall a dramatic

56 For example, a $70 million World Bank loan which was to be used for the technological improvement of existing employment service facilities in the country's periphery was waylaid by the central government for over a year (Meacher, 1993; King, 1994).
increase in levels of open unemployment, let us first examine in the following chapter the micro-economic or enterprise-level calculations - behaviors which are largely beyond the control of central policy-makers - which have inhibited the displacement of workers, thereby impeding actual structural reform and, hence, genuine economic transformation. Moreover, as we shall see such norms of behavior also contributed in part to the surprising lack of worker mobilization against reform's social costs in the early postcommunist reform period.
CHAPTER IV

Micro-Level Impediments To
Market Transition and Worker Mobilization

Introduction

Although this dissertation is concerned primarily with the macro-economic reasons for the setbacks in Russian reform and, hence, the low levels of unemployment in Russia, a careful examination of the situation necessitates focusing attention on the micro-economic level as well. Indeed, management decisions made at the enterprise-level have been significant for understanding the absence of a great deal of structural transformation and labor shedding in Russia (Popov, 1994); these decisions have been motivated both by the incentives embedded in the former command-administrative economy and by the incentives which have appeared or surfaced as a result of postcommunist economic and political reform. Thus, this brief chapter will explore the impact of micro-economic behavior upon employment, while making a distinction between the incentives which motivate such labor-hoarding behavior that emanate from the former command-administrative and the present postcommunist politico-economic system.
At the same time, such micro-level behavior on the part of enterprise management was in part responsible for the notable lack of societal opposition and worker mobilization to the social costs of the economic transformation.

The Soviet Centrally-Planned Economy: Systemic Incentives for Low Levels of Open Unemployment

As we have seen earlier, under the command-administrative economic system little open unemployment existed. However, the Soviet centrally-planned economy (CPE) was perpetually afflicted with considerable levels of underemployment or "hidden" unemployment. Some labor specialists have estimated that up to 30% of all personnel were underemployed, i.e., "they could be painlessly done away with without hurting the operations of the factory" (Kupriianova, 1993). More reliable estimates claim that 10-15% of the labor force was employed in these "unnecessary positions" (Kostin, 1993).

Whatever their number, underemployed laborers made up a significant portion of the Soviet labor force. The ideological goals of the Communist dictatorship - those that eschewed the existence of unemployment as it occurs in the capitalist West - were in large measure responsible for the existence of the "hidden" unemployed. Macro-economic plans were conceived and implemented in order to absorb excess labor reserves.
However, the calculations of enterprise-level actors were also extremely important for understanding the continued existence of labor hoarding in the Soviet CPE. In large measure, this behavior on the part of enterprise directors resulted from the systemic irrationalities which characterized the command-administrative system and frustrated managerial decision-making at each stage in the production process.

First of all, the existence of "soft budget constraints" for enterprises ensured that such concerns would demand more labor resources than one operating in a Western market economy. State-owned enterprise managers recognized that the State would subsidize their employment decisions, thus resulting in the demand for labor to "grow without limits" (Kornai, 1982; Krumm, et al., 1994).

One former Goskomtrud official interviewed by this author commented upon the lack of budgetary pressures as one important reason for the existence of labor hoarding in the Soviet CPE:

The wage funds of enterprises depended upon the planned numbers of workers in the enterprises. The more workers you had, the greater the wage funds you would receive. So, all enterprises were interested in making the wage funds as large as possible. They would thus increase their work force, both the 'needed' and the 'unnecessary' (Tsurikov, 1993).

Additionally, the existence of frequent supply bottlenecks caused enterprise managers to retain scores of "izlishnie" or unnecessary workers who could be utilized at
the last minute (during the inevitable "storming period") in order to fulfill production quotas in the event the required materials arrived (Freeman, 1992). As well, directors retained excess workers in order to compensate for slack labor discipline; due to the lack of strong work incentives, e.g., high wages or credible threats of dismissal, it was commonplace that a considerable portion of an enterprise's labor force was absent or unable to work effectively (Gora, 1993; Kuznetsov, 1994). Other reasons for the phenomenon were also prompted by the systemic weaknesses of the centrally planned economy, e.g., uneven regional development, the immobility of rural labor resources, etc. (Kornai, 1992).

Furthermore, managers of state firms kept extra hands employed in order to meet the capricious demands of local party organs. Such organs frequently commandeered public employees for work on state farms. As one former civil servant told me:

... we always had more workers at enterprises than was necessary, because sometimes we would be sent to harvest potatoes. For example, we are scientists here at VTsION. But, every autumn, everyone - beginning from Professor Levada and ending with Professor Zaslavskaja - was sent to harvest potatoes or carrots. Thus, in order that our work here would not suffer, there were always more people employed than was necessary (Kupriianova, 1993).

Lastly, it has been suggested that the traditional paternalism of enterprise directors was in part responsible for labor hoarding during the Soviet era. Thus, rather than
lay-off unnecessary workers, the managerial elite believed it was their responsibility to keep them employed. Evidence for this assumption is provided by results from a poll taken in 1990. In response to the question "Who in your opinion should provide for unemployed people looking for a job?" it appears that directors of state enterprises felt as strongly

<table>
<thead>
<tr>
<th>Table 4.1</th>
<th>Who Is Responsible for the Unemployed?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direcors</td>
<td>Specialists</td>
</tr>
<tr>
<td>The State</td>
<td>25</td>
</tr>
<tr>
<td>Local Soviets</td>
<td>7</td>
</tr>
<tr>
<td>Charity</td>
<td>4</td>
</tr>
<tr>
<td>Trade Unions</td>
<td>23</td>
</tr>
<tr>
<td>Enterprises</td>
<td>40</td>
</tr>
<tr>
<td>No one</td>
<td>7</td>
</tr>
<tr>
<td>Don't Know</td>
<td>9</td>
</tr>
</tbody>
</table>

* The respondents could select more than one answer.

as did other social groups that the enterprises were responsible for looking after the unemployed (Zaslavskaiia and Kosmarskii, 1992, p. 109).

Further consideration of enterprise management’s traditional paternalism will be provided in the following section, when it is suggested that such norms - although connected to an incentive structure created by the command-administrative economy - continued to influence the
employment decisions of postcommunist Russia's managerial elite.

The Continuation of Soviet-Era Managerial Employment Practices

In the wake of postcommunist economic reforms in Russia, it was expected that enterprise managers would begin to shed excess labor. However, available evidence points to the continued existence of labor hoarding practices on the part of the managerial elite in Russia throughout the early transitional period.¹

In a survey of 41 firms conducted by the World Bank in late 1992, approximately two-thirds of the sample stated that excess employment did exist at their enterprise (Commander, Liberman, Ugaz and Yemtsov, 1993, p. 24). Regardless of firm size or branch, excess employment was estimated to be between 8-14% of the enterprise work force (Commander, Liberman and Yemtsov, 1993, p. 25).

In 1993, a more extensive survey - one which polled 350 Russian firms - revealed that almost 38% of all directors believed they could produce the same level of output with fewer workers. On average, they estimated the level of excess employment at their enterprises to be 6.7% of the current work force (Standing, 1994a).

¹ Labor hoarding exists in Central and Eastern European economies in transition as well. However, the phenomenon has not been as marked as in Russia (Gora, 1993).
An I.L.O. survey conducted in 1994 demonstrated that even more enterprise managers believed they were holding on to superfluous employees: 48% of directors felt that they could produce the same output with fewer workers. In general, enterprise management in this study believed they could reduce employment by roughly 10% without hurting output. (Standing, 1994b).

And, although enterprises weren’t faring well during the economic transition – indeed, more than 30% of all enterprises were reportedly unprofitable as of March 1994 – the managerial elite still hesitated to dismiss these unnecessary workers (Sotsial’no-Ekonomicheskoe Polozhenie Rossii, 1994, p. 107).² Indeed, in a survey of 1,200 enterprise directors, the overwhelming majority believed that the economic situation of their enterprise had not improved in 1993 relative to that of 1992. (See Table 4.2).

² Contrary to conventional wisdom, results from the 1993 I.L.O. Russian Labour Flexibility Survey reveal that employment in state enterprises fell more quickly than that in private and joint-stock enterprises (Standing, 1994a, p. 19).
Table 4.2
Directors' Evaluations of Enterprise Performance

"How has the economic situation changed at your enterprise during 1993 in comparison with 1992?"

<table>
<thead>
<tr>
<th>Response</th>
<th>Average Enterprises</th>
<th>State Enterprises</th>
<th>Privatized Enterprises</th>
<th>Private Enterpr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consid. better</td>
<td>4</td>
<td>0</td>
<td>2</td>
<td>16</td>
</tr>
<tr>
<td>Little better</td>
<td>15</td>
<td>13</td>
<td>14</td>
<td>16</td>
</tr>
<tr>
<td>No change</td>
<td>26</td>
<td>27</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>Little worse</td>
<td>25</td>
<td>28</td>
<td>24</td>
<td>22</td>
</tr>
<tr>
<td>Consid. worse</td>
<td>30</td>
<td>32</td>
<td>34</td>
<td>13</td>
</tr>
</tbody>
</table>

Source: Ekonomicheskie i Sotsial'nye Peremeny, 1994, No. 2, p. 44.

However, in the background of this continuing economic malaise, managers did not attempt to reduce the enterprise work force.

Indeed, as was seen in Table 3.6, voluntary resignations were responsible for the high number of wage separations that did occur. Furthermore, the 1992 World Bank study found that only 17% of job separations were motivated by "explicit job reduction decisions" taken by enterprise management (Commander, Liberman and Yemtsov, 1993, p. 24).

As can be seen from the data in Table 4.3, directors of enterprises truly attempted to avert mass lay-offs of workers in 1993. Only one percent of respondents stated that they had instituted "mass dismissals" in response to the question "What are you doing to keep people employed?"
of state and privatized enterprises regarding options selected in order to deal with the crisis of "hidden" unemployment is striking. (Particularly noticeable as well is the fact that private enterprises were less willing to be saddled with "hidden" unemployment than other enterprises.)

Other studies present similar findings. A poll conducted by the Expert Institute of the Russian Union of Industrialists and Entrepreneurs found that once again directors preferred to retain the work collective over other strategic goals, such as "increasing profits," "increasing
Table 4.3
Methods for Retaining Workers

"Is there 'hidden' unemployment at your enterprise? If so, what are you doing to keep people employed?"

(percentage of those polled)*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>doesn't exist, vacancies do</td>
<td>10</td>
<td>17</td>
<td>10</td>
<td>7</td>
</tr>
<tr>
<td>Workers are</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>fully employed</td>
<td>30</td>
<td>19</td>
<td>27</td>
<td>53</td>
</tr>
<tr>
<td>Reduce workday, work-week</td>
<td>34</td>
<td>40</td>
<td>38</td>
<td>12</td>
</tr>
<tr>
<td>Institute leaves of absence</td>
<td>35</td>
<td>35</td>
<td>40</td>
<td>18</td>
</tr>
<tr>
<td>Do not take on new workers, but continuously</td>
<td>37</td>
<td>42</td>
<td>41</td>
<td>18</td>
</tr>
<tr>
<td>reduce work force bit by bit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carry out mass lay-offs</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>3</td>
</tr>
</tbody>
</table>

* The sum of the percentages may be greater than 100% since managers were able to choose more than one measure.


the volume of production" or "increasing the volume of sales." As well, when confronted with strategies to improve their financial situation, the directors opted to lay off workers only as a last resort (Nabiullina, 1993, p. 68). Another survey of 140 directors conducted in 1992 found that in answer to the question "What is necessary in order for the enterprise to quickly adapt to the present situation?" only six respondents chose "reducing the work force" as the measure of first priority (Goncharin, 1992).
Thus, in general, rather than seeking increased investment, sales or profits, the majority of Russia's directors were oriented toward maintaining the work collective in this early reform period. Their priorities were, as one scholar has written, "jobs, wages and housing, in that order" (Rutland, 1994, p. 1121).

Motivations for Continued Labor Hoarding in the Early Postcommunist Reform Period

A multitude of reasons have been put forward which attempt to explain the seemingly irrational behavior of management in the sphere of enterprise employment in the early postcommunist period. One explanation often cited in the literature and by interviewees is the traditional paternalistic values held by enterprise management. This hypothesis asserts that the specific economic culture of the managerial elite assimilated during the Soviet era continued to exist into the new era and has impeded the directors corps from choosing rational labor shedding policies. As a former First Deputy Minister of Labor related to me:

... we are a very collectivistic society and the mentality of both the managers and of blue-collar and white-collar workers is very clannish (Kosmarskii, 1993).

Thus, the argument goes that since management had no prior experience with dismissing workers in the past, they found it quite difficult to initiate such endeavors during the transitional period from plan to market (McAuley, 1994,
Especially since, in many cases, dismissals meant certain impoverishment.

Managers realized that their factory was the only means of employment for workers in the region. In addition, the loss of a job also meant the loss of many enterprise-provided benefits, e.g., housing, kindergartens, medical services, etc. Thus, managers strove to maintain employment (McAuley, 1994, p. 51; Savvateeva, 1994).3 As one scholar commented on the phenomenon:

These directors have always worked in this plant and their employees have been working for this plant for 20-30 years, so they know that it will be very difficult to find new work for them. So, as long as they can receive money from the State, as long as they can pay their workers, they try to maintain the status quo. Especially in small towns and in cities far removed from the center. This is where the actual problems are (Ozhyogov, 1993).

According to an advisor to the Russian government on privatization, the paternalistic instincts of directors remained rather strong well into 1994. A recent survey demonstrates that Russian managers hesitated to dismiss up to 20% of their labor force as they recognized a well-designed and effective social welfare "safety net" had not been put in place (Blasi, 1994). Though indications are

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3 Other examples of director's paternalistic behavior is the high percentage of all funds for public works programs provided in 1992 by enterprises (74.6%), rather than from other official sources. Indeed, only 16.7% of all expenditures for such programs was obtained from the Russian Federal Employment Service (Statisticheskii Sbornik Rynok Truda v Rossii v 1992 g., 1993, p. 93).
that managerial behavior has reportedly begun to change recently, one must realize that the paternalistic relationship between directors and their work force was "still alive and very strong" as of mid-1994 (Gimpelson, 1994, p. 15).

And, as the following quotation makes clear, the average worker enthusiastically embraced such paternalistic behavior:

We have a very interesting, spontaneously emerging mechanism of defense from unemployment at the enterprise level. The greater part of Russian directors prefer not to dismiss people and are content with low labor productivity. This tradition of paternalism allows the director to consider himself to be some kind of a "father figure" for his employees. And, regarding employees, they too prefer to get lower wages, while maintaining certain employment guarantees (Kudiukhin, 1993).

Another explanation cited by employment specialists for continued labor hoarding was the desire of directors to maintain the work collective in the hopes that the economic crisis would soon subside (Degtiar', 1993; Kochkina, 1993; Kokin, 1993). As an official in the Ministry of Economics' Social Policy Complex claimed in 1993:

They (directors) all have uppermost in their minds the belief that there will be some kind of financial support or that they will restore the economic ties between enterprises, say, in Kazakhstan, Ukraine, etc. They are hoping that the chain of non-payments will end (Anan'ev, 1993).

Furthermore, this assumption is supported by survey evidence from 1993. According to a World Bank survey, in
two-thirds of all cases, enterprise management claimed retention of the work collective was motivated by the belief that output would soon expand (Russia; Social Protection..., 1993, p. 109).

Thus, in the event that the economic situation of the enterprise improved, enterprise managers calculated that much of the enterprise work force would be needed to expand production. In addition, the fact that the work force of a particular enterprise may be highly-skilled stimulated the directors to retain them. Such workers were not easy to replace, especially:

... if the enterprise is a high-tech firm. If they (managers) lose these well-trained cadres, they would not be able to restore these losses very easily or cheaply. Indeed, sometimes it is impossible if a city is far removed from the center of Russia - one which has essentially drawn their personnel from outside this city - for that enterprise to draw new workers to it. Thus, directors put them on short-time or reduce their wages (Kupriianova, 1993).

Indeed, as we have seen in Chapter 3, the existence of segmented labor (and housing) markets in Russia would seem to support directors' decisions to preserve their work collectives during the early transitional period.

Concerns about social instability arising from unemployment also purportedly encouraged management to hoard labor in the transitional period. Directors believed that mass dismissals of workers would provoke social tensions to increase in their localities. Therefore, some managers
responded by attempting to distribute temporary unemployment among all workers which increased overall employment (Kashin, 1993).

This factor was particularly consequential in so-called "company towns," where there were few or possibly a single employer(s). A sociologist who studies employment problems for Russia’s foremost polling organization claimed that the possibility for social instability in the event of mass dismissals would be great, saying:

If a large group of workers were to be let go in this city, this would be tantamount to a catastrophe for this city. In such cities, a disaster would then of course ensue, i.e., social instability would sharply intensify (Kupriianova, 1993).  

According to one researcher, enterprise directors were not only concerned with instability in their regions, but within their factories as well. Based upon interviews with scores of managers, the analyst claimed that management was confronted by pressures - sometimes violent - from their own work collectives. The sociologist stated that in many enterprises:

4 Of course the possibility exists that labor hoarding continued not because directors feared actual social instability in the aftermath of mass dismissals, but because enterprise administrators were able to avoid "hard budget constraints" by using the threat of unemployment and resulting social instability as a weapon against the central government. Indeed, a wealth of evidence exists which supports this thesis (Kosmanskii, 1993; Karpenko, 1994; McFaul, 1994; Melik’ian, 1994). Therefore, insofar as management kept receiving state subsidies there was no incentive to alter their enterprise behavior, i.e., to dismiss workers. I will address this argument in detail in Chapter 6.
... there were many labor conflicts, conflicts between the administration and their personnel. And the ability of work collectives to pressure their managers regarding employment levels was great, owing to the threat of instability at the plant. So, traditionally the personnel had strong instruments to influence the directors concerning employment and unemployment issues (Kosals, 1993). 5

In addition, local government officials wholeheartedly supported and aided managers' in their attempts to avert mass unemployment in their localities (Gimpel'son, 1994, p. 16). These local and regional governmental elites were very much concerned about the possibility of large bankruptcies taking place in their area for a number of reasons. As one government official reported to me:

This would mean first of all a sharp drop in their local budgets - because a certain amount of enterprise taxes goes into local budgets. Also, there is a very real sense that they (local governmental figures) don't want to allow any kind of social tensions in their territories (Anan'ev, 1993).

Thus, these local and regional governmental elites added their voices to those of enterprise directors clamoring for subsidies from the federal government.

---

5 However, some enterprise management teams have begun to deal "more effectively" with such pressures as pickets, sit-ins and strikes. In the face of such actions, it has been reported that directors frequently have obtained the assistance of private security firms (and sometimes have used OMON forces) in order to implement decisions regarding employee dismissals (Kosals, 1993).
Although surely the factors outlined above were taken into consideration by management when making employment decisions, other sources have cautioned that additional incentives associated with the new realities of the postcommunist politico-economic system have stimulated directors to continue labor hoarding practices. Though surveys and interviews with directors may have suggested that "traditional paternalism" was the primary factor inhibiting labor shedding, in reality there may have existed a mixture of other self-serving motivations that acted to suppress mass dismissals.

Besides the desirability of both maintaining the enterprise work force and suppressing social instability, electoral considerations played a part in understanding the existence of labor hoarding (Kokin, 1993; Ozhyogov, 1993). Enterprise directors did not wish to antagonize the local electorate before elections, as they have often run as candidates for local governmental posts. Accordingly, as one scholar remarked:

If you know our system of local authorities, almost all directors of larger enterprises were members of the local soviets or even the Supreme Soviet. And so, they may presently be at the same time both directors of enterprises and also representatives in the regional governmental structures: in the city soviet, in the regional soviet. And I am sure they do not want to lose these positions. And they are thinking constantly about the upcoming elections. Therefore, they of course don't wish to have a large level of unemployment in their cities, in their regions (Ozhyogov, 1993).
Additionally, it has been suggested that directors chose not to dismiss their unnecessary workers in this period because the process of privatization had not yet been completed. Indeed, the privatization process offered managers great rewards if they could successfully manipulate enterprise workers to follow their proposals for privatization and enterprise restructuring (Crowley, 1994; Gimpel'son, 1994; Pistor, 1994; McFaul, 1994; Rutland, 1994; Zisk, 1995a).

Thus, it was irrational for directors to aggravate or alienate their work collectives with threatened dismissals or enterprise restructuring before the privatization process had been completed or even before the initial shareholder meeting had been held (Bush, 1994; Pistor, 1994). As one governmental official stated:

The situation hasn’t reached the explosive stage in part because the process of privatization hasn’t yet ended. While the leaders of enterprises have not yet become complete owners of their enterprises, they still hold onto workers (Anan’ev, 1993).

Of course, restructuring plans which may have lead to a significant reduction in the enterprise work force would probably have resulted in the rejection of the current management by the majority of the "insider" shareholders - the work collective. Hence, during the privatization process enterprise management was in a very high level of dependency vis-a-vis the work collective.
Since the directors not only desired to manage their enterprises but also wished to own a considerable portion of them, they assumed the role of "paternalistic directors" in order to curry favor with the collective (Anan’ev, 1993; Gimpel’son, 1994). One strategy, thus, was to maintain employment.6

Furthermore, it was noted that the phenomenon of labor hoarding continued throughout this early period as well so that management could retain their high salaries. Since in many cases the director’s wage depended upon the size of the enterprise, it would have been irrational for them to reduce their work force below a certain level. One employment specialist thought this factor to be exceedingly important, saying:

If the factory is small, then a certain wage will be assigned to its director. But, if it is a giant - for example, an automobile factory - then this is quite another factory. And the director of this enterprise will have a higher salary. Therefore, directors are always aspiring to maintain their factory’s position; they may reduce their work force, but only to a certain level (Kupriianova, 1993).

Moreover, it has been suggested that there were additional incentives connected with the new postcommunist order which obviated managerial-induced labor separations. For one, it was presumed to be more cost effective for the

---

6 The real test of directors’ paternalistic protestations begins once the privatization process has been fully completed. Early indications demonstrate that some labor shedding has begun (Standing, 1994).
firm to keep workers underemployed - particularly by putting them on unpaid or partially paid leaves of absence - as this released management from the responsibility to pay severance payments (equalling approximately three months of the average wage of each worker dismissed). It was hoped that by putting workers on extended leaves of absences, workers would eventually leave of their own volition, thereby forfeiting their separation payments.

However, even if workers chose not to quit under these circumstances and the enterprise administration was later forced to dismiss them, the severance payments would have been much smaller in real terms given the level of inflation extant in Russia during 1991-1994 ("Hidden" Unemployment..., 1994; Standing, 1994).

As well, employers may have put a part of their collective on unpaid or partial leaves of absence in order to avoid having to pay a 38% tax on wage funds. This allowed directors to lower the average wage in the enterprise, upon which the wage tax is calculated (Kosmarskii, 1993; Standing, 1994a). Thus, it was profitable for enterprise managers to nominally retain their

---


8 The tax on wage funds was instituted shortly after the market reforms were initiated in 1992. Currently, if the average wage at an enterprise is greater than six times the minimum wage, the 38% wage tax is imposed.
work force, but to pay them very little (Savvateeva, 1994).

Under such a system of taxation of enterprise wage funds, it also allowed employers to hide a mass of profits from the taxation authorities. As a former governmental official explained:

The enterprise directors are able to retain more income in this way. They retain workers for only the minimum wage, while they earn a share of every ruble (from the wage fund) for themselves, for their profits. Here is a simple economic incentive for this type of behavior. It is a result of imperfections in our taxation system, but it also has certain consequences for the labor sphere (Kosmarskii, 1993).

Hence, the system of wage fund taxation perhaps help us to explain why in a World Bank survey of enterprise managers, one-fourth of them stated in 1993 that their excess workers - comprising between eight and 14% of total employment - were not a significant financial burden to their enterprise (Commander, Liberman, Ugaz and Yemtsov, 1993, p. 24).

Conclusions

Whatever their motivations, managers of enterprises in Russia continued to practice labor hoarding policies throughout 1991-1994 which both forestalled a mass displacement of workers and succeeded in artificially depressing levels of open unemployment. Thus, microeconomic level behavior has been important for understanding in part why economic reform stalled and, hence, why no great
level of open unemployment in Russia was recorded during this period.⁹

In addition, such micro-level managerial behavior was crucial for understanding why worker mobilization against the reform's social costs did not materialize in the initial postcommunist period. Indeed, since workers in large measure found themselves both "sheltered" from the tragic consequences of "open" unemployment by their employers and dependent upon their employers for continued employment, the potential for oppositional behavior among them was strictly circumscribed.

In the following chapter, we will expand upon this argument when we explore an additional, related factor circumscribing societal or worker opposition to the social costs (e.g., unemployment and underemployment) of economic transformation - the lack of strong, autonomous, mediating institutions between elites and masses.

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⁹ However, macro-economic factors have also been critical for understanding these developments (Popov, 1994); indeed, chapters 6 and 7 will examine the factors which have inhibited labor displacement, as well as economic and political reform more generally.
CHAPTER V
The Societal Response to Transitional Social Costs

Introduction

The preceding chapters have attested to the fact that the economic reform program launched by Russia's first postcommunist governments have generated enormous social costs for the majority of Russian citizens. However, with the introduction of "shock therapy" in early 1992, the Gaidar government and its successor failed to restructure Russia's system of social assistance in order to meet these challenges.

The result has been a dramatic drop in the population's living standards. Income differences have increased, real wages have fallen, millions of citizens are living below officially-established "minimalist" poverty levels and millions more endure the pain of unemployment and underemployment.

With these developments in mind, a number of scholars have argued that without the establishment of appropriate social welfare programs that can act to alleviate such social costs, efforts to implement economic and political reforms may be obstructed by societal mobilization.
(Mokrzycki, 1991; Bresser-Pereira, et al., 1993), especially when such reforms threaten to bring about extreme levels of unemployment (Przeworski, 1993, pp. 159, 165-166).

It is hypothesized that societies experiencing extreme social costs may induce their governments to curtail the economic reform process by holding widespread and prolonged demonstrations, strikes or other forms of mass protest or by signalling their aversion to continued economic reform with extensive protest voting during parliamentary or presidential elections.

In Russia's case, it appears that the social costs in terms of increasing poverty and lost employment opportunities - though tremendous - have not generated significant social instability. In fact, the research presented in the first portion of this chapter demonstrates that in Russia's case, the hypothesized relationship between

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1 According to Przeworski, the level of unemployment in a society in transition is extremely important as this economic variable largely determines the dynamics of public opinion vis-a-vis the program of economic reform (Przeworski, 1993, p. 165).

2 Again, it should be emphasized that not all observers hold similar opinions regarding what the results of the December 1993 Russian parliamentary elections signified. Although a few scholars have argued that the results were due to widespread protest voting against the social costs of the government's reform program, others have disagreed, claiming in particular that those voting for Zhirinovskii's Liberal Democratic Party were concerned about "law and order" issues and the potential for state disintegration (Hough, 1994; Shokarev and Levinson, 1994; Slider, Gimpelson and Chugrov, 1994; Whitefield and Evans, 1994).
societal demands and governmental response existed only marginally.\(^3\)

The question then arises as to why the overwhelming majority of Russians remained incredibly quiescent in the initial postcommunist period? Surely it cannot be because the Russian people were uninformed of their present situation. Indeed, people were aware of the social costs of the transition in terms of unemployment and were decidedly unhappy with their economic situation. A possible explanation for the absence of social instability during 1992-1993 is examined in the second section of this chapter.

Nevertheless, widespread discontent with the social cost of economic transformation may have triggered other less explosive, albeit no less ominous problems for the future of Russian reform: a lack of support for democracy and increasing support for extremist parties. This argument will be explored in the final section of the present chapter.

\(^3\) However, although the tenuous connection between society and regime has not impeded the reform process in Russia significantly, both opposition from elites in positions outside of the executive branch and the perceptions of pivotal governmental policy-makers regarding the potential for serious societal disturbances arising from the social costs have contributed to the vacillating, "zigzag" approach to Russian economic reform. These factors will be discussed at length in the following two chapters.
The Social Costs of Transition and the Russian Citizenry: Evaluation and Response

Opinion surveys conducted by the All-Russian Center for the Study of Public Opinion have demonstrated that the Russian people's fear of becoming unemployed has continued to grow since the late Gorbachev years. In November 1989, a little more than 40% of those polled believed that unemployment was a major threat; by August 1993, opinion polls showed that more than 80% of the Russian people feared unemployment (Kupriianova, 1993).

In addition, surveys show that people have become more aware of unemployment in their community. The data presented in Table 5.1 demonstrate that the Russian citizenry have become increasingly more cognizant of unemployment in their midst. During the period under examination, the proportion of those respondents having no close personal experience with unemployment declined by over

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' Most of the opinion polling data presented in this chapter is based upon three series of representative surveys conducted by the well-respected Russian polling firm, VTsIOM (the All-Russian Center for the Study of Public Opinion), and funded principally by the Soros Foundation. The first series included 12 monthly surveys of the adult population of Russia, conducted by representative sample of nearly 4,000 adults living in the Russian Federation. The margin of error for these surveys was 2%. The second series included three working population surveys, conducted by representative sample of over 2,000 individuals. The third series included three population surveys, conducted again by representative sample of over 2,000 individuals. The margin of error for the latter two series of opinion surveys was 3%. For more on VTsIOM's sampling methodology, see Ekonomicheskie i Sotsial'nye Peremeny: Monitoring Obshchestvennogo Mneniia, May 1993, No. 1, pp. 7-10.
30%, whereas the proportion of respondents with three or more unemployed friends, relatives or acquaintances grew by almost 70%.

Table 5.1
Personal Experience with Unemployment

| Are their unemployed persons among your relatives, friends and acquaintances? |
|---------------------------------|----------|----------|----------|----------|----------|
| None   | 54.2    | 50.1    | 48.2     | 43.9     | 37.7     |
| 1-2 people | 31.3    | 30.6    | 33.4     | 35.4     | 39.6     |
| 3 or more | 9.6     | 11.9    | 12.7     | 15.9     | 16.3     |
| Diff. to answer | 4.7     | 7.3     | 5.5      | 4.7      | 6.2      |
| NA     | 0.1     | 0.1     | 0.2      | 0.1      | 0.2      |

Sources: Ekonomicheskie i Sotsial'nye Peremeny, 1994, No. 3.

However, at the same time, the Russian people still felt strongly about state-supported employment during this period. The data in Table 5.2 unquestionably confirm that a significant portion of the population believed fervently that it was the state’s responsibility to provide guaranteed

Table 5.2
Opinion on State Guarantees of Employment

| How do you feel about the following statement: The State must guarantee full employment and not permit unemployment. |
|---------------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Completely agree                                            | 64.1       | 53.8       | 50.3        | 49.5         |
| Somewhat agree                                              | 15.0       | 17.7       | 22.5        | 25.3         |
| Somewhat disagree                                            | 11.0       | 15.7       | 13.7        | 13.9         |
| Completely disagree                                          | 6.8        | 7.3        | 6.9         | 6.2          |
| Difficult to answer                                          | 2.9        | 5.5        | 6.3         | 5.1          |

Source: Komozin, 1993.
employment; on average, 74.5% of respondents over the four polling periods agreed with state-guaranteed employment.  

Some observers claim that an even higher percentage of the Russian population recognized the State's implicit responsibility in this domain. As a former First Deputy Minister of Labor suggested during an interview:

In 1987, about 70% of our population believed that unemployment under socialism was not possible. Nowadays, about 25% think that unemployment is not possible, so the majority of the population understand that unemployment is inevitable, but if they are asked about whether the government must give them a place to work or not, 90% definitely say 'yes' (Kosmarskii, 1993).

A number of other opinion surveys allow us to gauge more generally the level of citizen dissatisfaction with the overall results and course of Russian economic reform. The results presented in Table 5.3 demonstrate that throughout the polling period a tiny minority of Russians felt that the country's economic condition was favorable. A somewhat larger share of the population considered Russia's economic state to be "average" or "middling;" over the entire polling period, an average of 15.2% of the citizenry believed

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8 The data in Table 5.2 were obtained by sociologists at the Institute of Sociology (Russian Academy of Sciences). At four times in 1992-1993 surveys of over 2,000 adult citizens were undertaken in twelve regions of Russia, including European Russia, Siberia and the Maritime Provinces. The four representative samples of adult citizens were given personal interviews by the team of sociologists.
Russia's economic situation to be "average." In contrast, the vast majority of Russians regarded the present economic

Table 5.3
Evaluation of Russia's Present Economic Situation

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Very good</td>
<td>0.2</td>
<td>0.0</td>
<td>0.2</td>
<td>0.4</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Good</td>
<td>0.5</td>
<td>1.1</td>
<td>0.9</td>
<td>0.8</td>
<td>1.1</td>
<td>0.6</td>
<td>1.9</td>
<td>0.8</td>
</tr>
<tr>
<td>Average</td>
<td>10.1</td>
<td>13.7</td>
<td>15.4</td>
<td>16.2</td>
<td>16.5</td>
<td>18.2</td>
<td>17.6</td>
<td>14.0</td>
</tr>
<tr>
<td>Bad</td>
<td>52.5</td>
<td>50.9</td>
<td>48.5</td>
<td>50.7</td>
<td>48.9</td>
<td>47.1</td>
<td>51.1</td>
<td>51.7</td>
</tr>
<tr>
<td>Very bad</td>
<td>25.3</td>
<td>20.5</td>
<td>21.5</td>
<td>19.9</td>
<td>22.1</td>
<td>19.4</td>
<td>17.1</td>
<td>21.4</td>
</tr>
<tr>
<td>Diff/answ.</td>
<td>11.4</td>
<td>13.7</td>
<td>13.4</td>
<td>12.0</td>
<td>11.3</td>
<td>14.6</td>
<td>12.2</td>
<td>11.7</td>
</tr>
<tr>
<td>NA</td>
<td>0.1</td>
<td>0.2</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.0</td>
<td>0.0</td>
<td>0.3</td>
</tr>
</tbody>
</table>

Sources: Ekonomicheskie i Sotsial'nye Peremeny, 1993, No. 7; 1994, No. 3.

condition to be "bad" or "very bad": on average, over 71% of all Russians polled during the period held such opinions.

When asked about their family's economic situation, respondents appear to have provided more positive responses overall. The data in Table 5.4 reveals that between 4.7% - 7.7% of the population at any one time believed their family's material condition to be "good" or "very good." A much larger number of those polled (a mean of 48.5% across the polling period) believed their family's economic situation to be typical of the average Russian household. However, a substantial and consistent minority of respondents (42.9% on average) considered their household's material condition to be below average. This significant share of the population represents those most injured by the postcommunist economic transformation.
Table 5.4
Evaluation of Family’s Present Material Condition

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Very good</td>
<td>0.8</td>
<td>0.6</td>
<td>0.5</td>
<td>0.8</td>
<td>0.3</td>
<td>0.6</td>
<td>0.7</td>
<td>0.3</td>
</tr>
<tr>
<td>Good</td>
<td>6.0</td>
<td>6.4</td>
<td>7.2</td>
<td>5.7</td>
<td>5.7</td>
<td>5.6</td>
<td>6.1</td>
<td>4.4</td>
</tr>
<tr>
<td>Average</td>
<td>48.1</td>
<td>50.9</td>
<td>48.4</td>
<td>46.6</td>
<td>50.7</td>
<td>50.4</td>
<td>48.0</td>
<td>44.5</td>
</tr>
<tr>
<td>Bad</td>
<td>35.3</td>
<td>30.6</td>
<td>33.2</td>
<td>33.9</td>
<td>32.7</td>
<td>34.7</td>
<td>33.3</td>
<td>37.4</td>
</tr>
<tr>
<td>Very bad</td>
<td>8.1</td>
<td>9.3</td>
<td>7.8</td>
<td>10.9</td>
<td>8.3</td>
<td>7.0</td>
<td>9.5</td>
<td>11.3</td>
</tr>
<tr>
<td>Diff/answ.</td>
<td>1.7</td>
<td>2.1</td>
<td>2.8</td>
<td>2.1</td>
<td>2.2</td>
<td>1.8</td>
<td>2.4</td>
<td>2.0</td>
</tr>
<tr>
<td>NA</td>
<td>0.0</td>
<td>0.1</td>
<td>0.1</td>
<td>0.0</td>
<td>0.1</td>
<td>0.0</td>
<td>0.1</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Sources: Ekonomicheskie i Sotsial’nye Peremeny, 1993, No. 7; 1994, No. 3.

Similarly, the data assembled in Table 5.5 provides us with another indication of the tremendous burdens Russian economic reform has placed on a majority of citizens. In general, fewer than 10% of respondents viewed the current situation in positive terms, whereas a majority of citizens consistently recorded a considerable measure of difficulty
Table 5.5
Evaluation of the Current Situation

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Things are not so bad and it is possible to live.</td>
<td>7.3 10.1 9.7 9.1 8.1 7.6 6.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Life is difficult but one can endure it.</td>
<td>52.4 53.9 50.9 49.7 51.3 51.9 52.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Our miserable situation has become unbearable.</td>
<td>34.5 29.3 33.8 34.7 34.2 34.7 34.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Difficult to answer</td>
<td>5.8 6.3 5.4 6.3 6.5 5.2 5.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. NA</td>
<td>0.1 0.5 0.2 0.1 0.0 0.6 0.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: Ekonomicheskie i Sotsial'nye Peremeny, 1994, No. 3.

in their daily lives. At the same time, on average over one-third of respondents expressed feelings of utter resignation and despair.

It is not unexpected, therefore, that the proportion of respondents espousing fairly negative views about their current situation [i.e., those choosing responses (2) and (3) in Table 5.5 above] was fairly comparable to the share of respondents in the following table either voicing little confidence in the future or expressing difficulty in answering the question. Thus, apparently the economic hardships encountered during the postcommunist reform period have in part accounted for almost three-fourths of the Russian population expressing a general lack of confidence in the future.
Certainly, very few citizens expressed much confidence in the way in which economic reform has been implemented in Russia. The findings in Table 5.7 indicate that only a small minority of respondents believed that reform has been implemented correctly. On average, another 30% of respondents believed that the reform program needed only a few correctives during the period under consideration.

Table 5.6
Confidence in Future

<table>
<thead>
<tr>
<th>Are you confident in your future?</th>
<th>April 1993</th>
<th>August 1993</th>
<th>October 1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>16.1</td>
<td>14.0</td>
<td>20.7</td>
</tr>
<tr>
<td>No</td>
<td>69.6</td>
<td>72.1</td>
<td>69.1</td>
</tr>
<tr>
<td>Diff. to answer</td>
<td>14.2</td>
<td>13.6</td>
<td>10.1</td>
</tr>
<tr>
<td>NA</td>
<td>0.2</td>
<td>0.3</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Table 5.7
Evaluation of Reform’s Progress

Do you think that the economic reform in Russia is now being properly realized?

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Reform proceeds correctly.</td>
<td>6.1</td>
<td>5.4</td>
<td>2.0</td>
</tr>
<tr>
<td>2. Reform needs a few correctives.</td>
<td>36.5</td>
<td>27.0</td>
<td>24.4</td>
</tr>
<tr>
<td>3. Reform needs to be carried out completely differently.</td>
<td>20.6</td>
<td>22.7</td>
<td>24.3</td>
</tr>
<tr>
<td>4. It is necessary to stop reform and return to that which existed before 1985.</td>
<td>19.4</td>
<td>14.5</td>
<td>23.0</td>
</tr>
<tr>
<td>5. Difficult to answer</td>
<td>17.2</td>
<td>30.2</td>
<td>26.1</td>
</tr>
<tr>
<td>6. NA</td>
<td>0.2</td>
<td>0.3</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Sources: Ekonomicheskie i Sotsial’nye Peremeny, 1994, No. 3.

However, the number of respondents expressing either view declined considerably during the polling period; as of February 1994, barely one-fourth of all respondents evaluated reform’s progress in generally positive terms.

In contrast, those advocating radical revision of the reform program - be it through progressive or regressive change - have gained moderately over the period; by early 1994, their number exceeded those viewing reform’s progress favorably [i.e., those choosing responses (1) and (2) in Table 5.7] by nearly a factor of two. Eight months earlier the supporters of the existing reform program had outnumbered those desiring radical regressive or progressive revision of the reform [i.e., those choosing responses (3) and (4)].
Similarly, it appears that the experience with economic reform and the attendant social costs may be responsible for the declining support for a market economy registered among the Russian population. As the data in the following table demonstrate, support for an economy governed by market relations decreased by almost 35% over the polling period. At the same time, support for state planning increased by a smaller, albeit significant proportion (21%).

In view of such convictions on the part of the Russian populace, and given the considerable social costs they have born in terms of unemployment, underemployment, falling living standards, etc., one may hypothesize that a significant degree of social mobilization in opposition to such social costs, in general, and the economic reform program, in specific, should have been expected.

### Table 5.8
*Which Economic System Is Preferable?*

<table>
<thead>
<tr>
<th></th>
<th>June 1993</th>
<th>October 1993</th>
<th>February 1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>State planning</td>
<td>34.2</td>
<td>32.6</td>
<td>41.4</td>
</tr>
<tr>
<td>Market relations</td>
<td>39.4</td>
<td>32.6</td>
<td>25.7</td>
</tr>
<tr>
<td>Difficult to answer</td>
<td>26.3</td>
<td>34.1</td>
<td>32.8</td>
</tr>
<tr>
<td>NA</td>
<td>0.1</td>
<td>0.6</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Sources: *Ekonomicheskie i Sotsial'nye Peremeny*, 1994, No. 3.
Yet, a wealth of evidence demonstrates that the hypothesized societal response to the social costs of the Russian economic transition was largely missing. Firstly, opinion polls indicate that in 1993 and early 1994 a majority of respondents believed that strikes would not take place (See Table 5.9). Data for 1992 similarly indicate that the Russian populace was generally fairly reluctant to confront their government with mass demonstrations and protests; indeed, according to one analyst, the "most explosive" point was the end of 1991, just before price liberalization was initiated. Thereafter, this measure of social explosiveness was constantly decreasing throughout 1992 (Kiselev, 1993).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Possibly</td>
<td>31.8</td>
<td>27.5</td>
<td>32.9</td>
<td>32.7</td>
<td>26.9</td>
<td>26.6</td>
<td>32.4</td>
</tr>
<tr>
<td>Unlikely</td>
<td>50.7</td>
<td>54.2</td>
<td>51.2</td>
<td>50.5</td>
<td>55.1</td>
<td>56.6</td>
<td>53.2</td>
</tr>
<tr>
<td>Diff. to answer</td>
<td>17.3</td>
<td>18.3</td>
<td>15.7</td>
<td>16.6</td>
<td>17.8</td>
<td>16.8</td>
<td>14.3</td>
</tr>
<tr>
<td>No answer</td>
<td>0.2</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
<td>0.2</td>
<td>0.1</td>
<td>0.1</td>
</tr>
</tbody>
</table>


As one might expect, however, the results differed according to place of residence. In general, respondents living in Moscow, St. Petersburg and other major cities felt that demonstrations were far more likely to take place than those respondents residing in smaller cities and villages.

Whereas at the end of 1991 approximately 74% of respondents asserted a general willingness to go on strike, by the end of 1992, the percentage of the population supporting such measures had decreased to 27% (Kiselev, 1993).
In addition, Table 5.10 demonstrates that an even greater percentage of respondents were unwilling to take part in such demonstrations in the event they actually occurred. Only in August 1993 did more than one-fourth of all respondents claim they would take part in such demonstrations. Explaining society’s passivity, one political analyst for the World Bank in Moscow stated that:

The populace now is much less politically active than before; it is tired of politics. People are concentrating more on everyday problems, problems at home, at work, etc. I think this a normal cycle. When you have an explosion, e.g., in August 1991, the population must soon ‘come down.’ It cannot stay politically active for long (Kiselev, 1993).

Moreover, as can be seen from worker responses in Table 5.11, the level of strike activity reported by respondents in Russia during the period was very low. In all polling
periods in which the question was asked, over 95% of all those surveyed asserted that strikes had not developed at their enterprise.

Table 5.11
Opinion Polling on the Existence of Strikes

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>2.9</td>
<td>2.8</td>
<td>3.1</td>
<td>3.4</td>
<td>3.3</td>
<td>2.3</td>
</tr>
<tr>
<td>No</td>
<td>95.3</td>
<td>95.7</td>
<td>95.4</td>
<td>95.6</td>
<td>96.0</td>
<td>97.7</td>
</tr>
<tr>
<td>No answer</td>
<td>1.8</td>
<td>1.6</td>
<td>1.5</td>
<td>1.1</td>
<td>0.7</td>
<td>0.0</td>
</tr>
</tbody>
</table>


In those strikes that actually did occur, it appears that a majority of workers in the labor collectives did not personally take part in them. For example, of those 2.9% of the respondents asserting in March 1993 that a strike had taken place in their enterprise within the last month, only 38.6% of them (or 28 respondents) actually took part in the strike. In November 1993, still less than half (43.6%) of those respondents claiming to have had strikes in their enterprises in that month (or 2.3% of all respondents) actually took part in them. This represented just 25 striking workers out of 2,472 total respondents.

Indeed, the overwhelming majority of respondents believed that striking would only make the situation worse. As Table 5.12 demonstrates, no more than 20% of all respondents believed holding strikes was necessary.
Contrary to what one might expect in the West, among professional classifications, managers (руководители) were most in favor of holding demonstrations and strikes, whereas

\begin{table}
\centering
\caption{Opinions on Strikes}
\begin{tabular}{lrrr}
\hline
 & 4/93 & 8/93 & 12/93 \\
\hline
In the defense of their rights workers must now extensively resort to demonstrations and strikes. & 11.7 & 18.7 & 12.8 \\
In the situation of today's economic crisis, we must refrain from demonstrations and strikes. & 56.4 & 52.7 & 59.2 \\
Difficult to answer & 31.8 & 28.3 & 27.9 \\
No answer & 0.1 & 0.3 & 0.2 \\
\hline
\end{tabular}
\end{table}

Sources: Ekonomicheskie i Sotsial'nye Peremeny, 1993, No. 2; 1994, No. 2.

office workers (служащие), i.e., those arguably suffering most from unemployment and low wages, were least likely to hold such views (Ekonomicheskie i Sotsial'nye Peremeny, 1994, No. 2, pp. 74, 85).*

Additional evidence demonstrates that the results obtained for the periods in 1993 by VTsIOM are not anomalous. Surveys conducted by Komozin reveal that in mid-1992 nearly 60% of respondents claimed that carrying out

* Another possible anomaly was the fact that those most likely to strike were receiving the highest incomes; however, this can be explained by the fact that those receiving the highest wages were also the most skilled, were in most demand, and, hence, held the most "labor power."
mass demonstrations, meetings and strikes would not improve the situation in the country (Komozin, 1993).

Statistical data on labor unrest in Russia during 1991-1993 demonstrate further that the option to strike was chosen less often by work collectives as time went on. During 1991 2,314,200 work-days were lost due to strikes in the Russian Federation. Of this figure, 86% of work-days were lost in industry alone (Rossiiskaia Federatsiia v Tsifrakh, 1992, p. 69).

During the first quarter of 1992, strikes took place at 35 industrial and construction enterprises in Russia, incurring losses of 35 million rubles. Workers involved in strikes during January-March 1992 numbered 268,000. These results compared favorably with data on strike activity during a similar period in 1991. During the first quarter of 1991, 120 strikes were registered in industry and construction and losses surpassed 107 million rubles. Moreover, in January-March 1991 573,000 work-days were lost as a result of labor unrest, more than twice the total of 9

* In 1989, 7.3 million work-days were lost due to strikes in the U.S.S.R. A year later, this figure had increased by over 40% (Milovidov and Shulus, 1993, p. 16).

10 Of course, the strikes that took place throughout the U.S.S.R. in 1989-1991 were often motivated by quite different concerns than those that surfaced after the August 1991 putsch. A large element of the earlier, Gorbachev-era strikes was political in nature, especially those of early 1991.

In sum, during 1992 1,700,000 work-days were lost due to strikes, or approximately 70% of the 1991 figure. However, it is important to recognize that the quantity of strikes in the critical industrial sphere of the economy sharply decreased in 1992 relative to earlier years. Indeed, 90% of work-day losses in 1992 were concentrated in the "non-productive" sectors of the economy, i.e., in the medical and educational sectors (Andreenkova and Voronchenkova, 1993, p. 27). This differed sharply from what had occurred in earlier years; in fact, so distinct was the difference that Acting Prime Minister Yegor Gaidar reported to the Russian parliament in December 1992 that

... during the ten months of toughest reform, the time lost through industrial strikes was six times less than it was in 1991. It is becoming harder and harder to get people to turn out for strikes and demonstrations (Teague, 1993, p. 40).

By 1993 labor unrest in Russia had become even more isolated and sporadic. During the year, the number of work-days lost due to strikes declined significantly over that of 1992: only 238,300 lost work-days were registered throughout the Russian Federation. This figure equalled just 10% of the 1991 total (Yearbook of Labour Statistics, 1994, p. 1086). In addition, strikes were recorded at only 265 enterprises, institutions and organizations in Russia during 1993, i.e., a figure four times less than the number
registered in 1992 (Ekonomika i Zhizn', No. 6, February 1994, p. 9).

Thus, the accumulated evidence demonstrates that, although the Russian economic reform program has generated significant social costs, especially in the realm of unemployment, very little overt social instability or worker mobilization against economic reform was recorded in the early postcommunist period. However, the "social costs" approach essentially ascribes to societal forces the responsibility for reform's failure.

Indeed, scholars supporting this approach presume that such transitional costs would be accompanied by a noticeable increase in political instability. In Russia's case, however, the hypothesized association between social mobilization and governmental response was only slightly significant for understanding the trajectory of reform. In short, social mobilization did not act as a significant constraint on the economic reform program in the initial period of Russia's postcommunist era.

Yet, these results beg the question: why has there been no prolonged, overt opposition from society to the social

11 According to an authoritative source, however, labor unrest has been increasing recently in the Russian Federation. Strikes increased significantly in January 1995 relative to the same one-month period in 1994. In January 1995, 95 organizations went on strike demanding payment of unpaid wages (OMRI Daily Digest, No. 36, February 20, 1995).
costs of reform? What accounts for the extraordinary social "immobilization" in Russia? Is it attributable to traditional Russian culture? Or do patterns of behavior (such as those explored in the preceding chapter) assimilated during the Soviet era by both managers and workers alike (e.g., the "paternalism" of the enterprise director and, in turn, worker "dependency" upon their managers) provide us with an explanation for this phenomenon?

It is my contention that while these considerations do play a certain role in the explanation, other factors were more important in understanding why society did not express its "voice." Indeed, it appears that postcommunist elites in Russia, and possibly those in Eastern Europe, may not be subject to the same societal pressures as those that have confronted reforming elites elsewhere due to certain distinctive features of post-totalitarian political development.

**The Origins of Social "Immobilization" in Russia: Inchoate Mass-Elite Linkages**

I argue that the underdeveloped nature of civil society — already clearly apparent at the inception of the postcommunist era — was essentially responsible for the resultant social "immobilization" in Russia. The absence of a developed civil society was generated by that society’s experience under the hierarchical and centralized Leninist
regime. Thus, the lack of mature, strong mass-elite linkages at the outset of the postcommunist era did not permit Russian society to have a "voice."

Indeed, when evaluating the role this factor, i.e., weak mass-elite linkages, played in the postcommunist economic and political transformation, it was apparent that governing elites considered that significant opposition from society had not transpired because of it (Kudiukhin, 1993; Ponizyov, 1993; Sil'vestrov, 1993). Commenting on this consideration, a former Deputy Minister of Labor declared that:

... the very low level of self-organization of society - practically, the absence of civil society in Russia - has resulted in the situation in which those in power are now quite independent from society. Really, we have no strong trade unions, no strong entrepreneurial organizations, and so on. So, it (i.e., the government's independence from society) is a very old tradition, a very dangerous tradition and I'm afraid that we'll live within this tradition for many years (Kudiukhin, 1993).

Therefore, I argue that, in particular, the lack of strong and effective professional trade unions - those social organizations most concerned with issues of labor and employment - was in large part responsible for the absence of a societal response to the transition's excessive social costs.¹² Of course, the dearth of such strong mediating

¹² Again, the "dependent" relationship which exists between workers and management as a result of scarce employment opportunities and considerable enterprise-provided social benefits does not provide workers with adequate
institutions is a consequence of the experience with Soviet totalitarianism, when the entire might of the security and party apparatus was directed toward unearthing and extinguishing any independent and opposing voices.

**Labor Unions in Postcommunist Russia**

Russia's postcommunist labor movement has been strongly conditioned by the experience with Soviet totalitarianism. In the Stalinist centrally-planned economy, labor unions were given the task of communicating to the work force the party's economic objectives and improving worker productivity, thereby acting as a "transmission belt" between the ruling party and society. The unions were strictly subordinated to CPSU organs at all levels and did not take part in setting wage rates or in resolving industrial conflicts. In short, the Soviet trade unions had no experience of acting in defense of workers' interests (Prostiakov, 1993).

The party organs also delegated to the trade unions the responsibility for administering and fulfilling the social welfare goals of the government. Thus, the primary task of the All-Union Central Council of Trade Unions (VTsSPS) - the association which joined together all branch unions throughout the former Soviet Union - was to allocate to incentives to confront management with reasonable demands (Crowley, 1994; McFaul, 1995).
workers and their families such benefits as places in sanatoria or vacation resorts, day-care centers, kindergartens, housing, etc. (World Labour Report: 1993, p. 40).

Gorbachev's perestroika eventually allowed "alternative" trade unions to develop, ones which were genuinely concerned with the interests of their workers first and foremost, and not those of the state. The best example of such unions was the development of the miners' union (the Nezavisimyi Profsoiuz Gorniakov) which took place in the aftermath of the tumultuous summer 1989 miners' strikes.

However, perestroika also threatened the interests of the "official" unions, which had by 1990 transformed themselves from the VTsSPS into the General Confederation of Trade Unions (VKP) - an alliance of trade unions throughout the Soviet Union which supposedly granted republican-level affiliated unions more independence than had VTsSPS. The "official" unions were either ambivalent or outwardly hostile to economic reform, believing that union control over enterprise social funds and state property holdings would be weakened. During the August 1991 coup, the VKP openly sided with the conspirators, whereas the position of the "official" unions of the Russian republic - the Federation of Independent Trade Unions of Russia (FNPR) - remained somewhat irresolute (Clarke, 1993, p. 147).
In the wake of the collapse of the Soviet Union, FNPR succeeded the VKP as the sole representative of the "official" trade union movement within Russia. By early 1992 FNPR consisted of 40 branch and 70 regional trade union organizations (Milovidov and Shulus, 1993a, p. 6). According to various sources, since that time FNPR has repeatedly claimed to have between 50-65 million members (Teague, 1993; Milovidov and Shulus, 1993a; Shcherbakov, 1994).

At the end of 1994, according to Mikhail Shmakov, the newly-appointed Chairman of FNPR, his organization represented 92% of all unions in Russia. However, with the inclusion of six powerful industrial unions that were formed in agreement with the Russian "official" unions, FNPR's organization represented at that time 96% of all the unions in Russia (Shcherbakov, 1994).

Though in theory FNPR appeared to be an enormous and powerful trade union, in reality it was a very marginal player in the initial postcommunist political arena. The federation suffered from many of the same problems that plagued its former parent organization. The organization received much criticism for efforts to quash a drive toward

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13 Up until late 1991, FNPR - a constituent part of the General Confederation of Trade Unions - had increasingly been enmeshed in conflict with the leadership of the union-wide trade union organization.

14 These figures indicate that FNPR represents between 68-89% of all Russian employees.
greater de-centralization by member unions (Baglai, 1993). In addition, due to the bureaucratization of the central apparatus, union functionaries continued to be alienated from ordinary members. Lastly, due to their close association with party structures under the ancien regime, FNPR's ruling structures were perceived to lack legitimate authority. Indeed, a popular anecdote has it that the official trade unions were "cemeteries for former party workers" (Milovidov and Shulus, 1993a, p. 8).

Thus, the "official" trade union movement in Russia was not able to depend upon popular support. This point is not lost on senior officials of FNPR. Indeed, a Secretary of FNPR's ruling Council agreed with this characterization in 1993, stating:

Of course, this is a natural process. This is connected with many reasons. During the Soviet period trade unions were a principal ingredient of the system of state direction and they worked very well. And I think that we should never have destroyed such a system from the point of view of the social guarantees for workers. And as far as we were not successful in maintaining this - and we were very guilty before the people in this - then for us we had to attempt naturally to find our own functions, responsibilities and obligations to the workers. The majority of the leaderships of the trade unions at all levels weren't prepared for such changes in our functions. That is, there has been a weakness in our capability to lead the workers (Solov'yov, 1993).

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16 In many cases, the leadership of FNPR has denounced member union's attempts to create unions along professional lines, rather than following the branch principle.
During the initial postcommunist era then, the "official" unions were in somewhat of a quandary: while they lost many rights to take part in major decisions at the enterprise level, the "official" unions were unsure of their rights and responsibilities at the enterprise (Clarke, 1993).

However, membership in the "official" unions remained unusually high; indeed, research conducted in 1993 by social scientists at the Academy of Labor and Social Relations demonstrated that 96% of all "official" trade union members were not contemplating leaving such organizations in the near future. By 1996 the researchers expected FNPR to lose only 10% of their total membership (or five to six million members) (Milovidov and Shulus, 1993b; Tatarnikova, 1993).

At the same time, the new or "alternative" trade unions were not able to successfully challenge the old unions by attracting millions of new members and creating strong organizations. Since 1989 several independent trade unions have been created. However, membership rolls of

---

16 For example, under the ancien regime managers of state enterprises could not discharge a worker without the approval of the enterprise trade union. Though after 1992 trade unions continued to have such powers, it appears that they have not been exercised conscientiously.

17 According to research carried out in 1991, only .3% of FNPR dues-paying members desired to leave the "official" unions in order to join the "alternative" unions (Milovidov and Shulus, 1993a, p. 9).
"alternative" trade unions have been fairly meager," the central apparatuses of such unions obtained financial support from foreign sources rather than membership dues and, hence, ties between the leaders and members remained rather tenuous (Shcherbakov, 1994).

A wealth of data exists which demonstrates the weak linkage existing during this period between workers and the trade unions, be they "official" or "alternative." According to a poll taken in late 1992, the overwhelming number of respondents believed that the successors to the Soviet-era trade unions deserved little or no trust; less than one-fourth of all respondents said they deserved either "complete trust" or "some trust." More surprising was the fact that only 11.2% believed the new, "alternative" trade unions were either completely or mostly trustworthy (Zerkalo Mnenii, 1993, p. 39).

---

18 According to several sources, as of 1994 the two most prominent independent unions in Russia - Sotsprof and the Independent Miners' Union - have memberships totaling no more than 500-600,000 workers (Teague, 1993; Shcherbakov, 1994).

19 Despite the low levels of trust in trade unions held by workers, many of them were presumably remaining in the old unions for fear of losing the not inconsiderable social benefits provided by the trade unions. According to a poll of workers, 39% of them remain members of the "official" trade unions out of sheer inertia and force of habit, 32% stay because of concern over their social welfare benefits and 7% of respondents were afraid of a conflict with the enterprise's trade union committee. Only 14% believe that the trade unions were the "most capable organizations in defending the rights and interests of their members." The remaining 8% offered no response (Milovidov and Shulus, 1993a, p. 9).
When asked to evaluate the role trade unions play at the enterprise level (See Table 5.13), respondents once again overwhelmingly answered that their unions were not important players. Indeed, over time it appears that

**Table 5.13**

Existence and Role of Trade Union Organization

<table>
<thead>
<tr>
<th>Do you have a trade union organization at your enterprise? If so, what role does it play?</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 1993</td>
</tr>
<tr>
<td>There is no such organ*</td>
</tr>
<tr>
<td>A sufficiently significant role</td>
</tr>
<tr>
<td>A highly insignificant role</td>
</tr>
<tr>
<td>Difficult to answer</td>
</tr>
<tr>
<td>No answer</td>
</tr>
</tbody>
</table>

* It is important to recognize that workers in private enterprises were much more likely than their counterparts in state and privatized enterprises to claim that trade unions did not exist at their work. In August 1993 over two-thirds of workers in private enterprises answered that trade unions did not exist, whereas only 8% and 13% of workers in state-owned and privatized enterprises, respectively, responded likewise.

Sources: *Ekonomicheskie i Sotsial'nye Peremeny*, 1993, Nos. 3 & 7.

workers' evaluations of trade union activity became more critical. Of course, the low evaluation of trade union

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20 These sentiments are apparently supported by some additional empirical findings as a World Bank study found that trade unions played virtually no role in decisions concerning enterprise employment in over 90% of the firms surveyed in 1992 (Commander, Liberman, Ugaz and Yemtsov, 1993, p. 24).

21 An opinion poll taken among youths demonstrates that this particular segment of the population was even more skeptical of the role that trade unions could play in Russian society. In answer to the question, "Can today’s trade unions
activity may have been a critical factor determining the level of worker support or trust in such institutions.\(^2\)

Regarding the existence of strike committees ("stacheychny komitet") at the enterprise, only a small minority of respondents knew of the existence of such organs. As the data in Table 5.14 reveal, the overwhelming majority of the remainder either could not evaluate their role or believed them to be wholly ineffective. In general,

\[^2\] As well, in many cases public confidence in unions may possibly have remained low as a result of management’s successful attempts to co-opt trade union representatives into supporting the enterprise administration’s objectives, particularly with regard to privatization (Clarke, 1993; McFaul, 1995). (On the other hand, where the "official" unions have not been persuaded to follow management’s directives, directors reportedly favor the creation of "alternative" unions)(Kudiukhin, 1993).
Table 5.14
Existence and Role of Strike Committees

<table>
<thead>
<tr>
<th>Do you have a strike committee at your enterprise? If so, what role does it play?</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 1993</td>
</tr>
<tr>
<td>There is no such organ</td>
</tr>
<tr>
<td>A sufficiently significant role</td>
</tr>
<tr>
<td>A highly insignificant role</td>
</tr>
<tr>
<td>Difficult to answer</td>
</tr>
<tr>
<td>No answer</td>
</tr>
</tbody>
</table>

Sources: Ekonomicheskie i Sotsial'nye Peremeny, 1993, Nos. 3 & 7.

less than 1% of respondents felt strike committees were important actors at the enterprise level.

Given the findings in Tables 5.13 and 5.14, it is not surprising, therefore, that surveys show employees rarely approached their enterprise trade union when faced with difficulties in the work place. Over two-thirds of employees holding a grievance chose not to turn to their union organization for assistance in resolving the dispute. As Table 5.15 demonstrates only 22% of respondents on
Table 5.15
Utilization of Trade Union's Assistance

<table>
<thead>
<tr>
<th></th>
<th>April 1993</th>
<th>August 1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turned to trade union for assistance</td>
<td>19.5</td>
<td>24.5</td>
</tr>
<tr>
<td>Turned to other organ.* for assistance</td>
<td>8.3</td>
<td>6.7</td>
</tr>
<tr>
<td>Did not seek assistance from any organization</td>
<td>71.4</td>
<td>67.6</td>
</tr>
<tr>
<td>No answer</td>
<td>2.7</td>
<td>0.9</td>
</tr>
</tbody>
</table>

* Managers sometimes by-pass enterprise trade unions by concluding "collective agreements" (kollektivni dogovor) with Unions of Labor Collectives (CTK), not with the trade unions. Earlier the right to sign such agreements was given only to the enterprise trade union. (The CTK do not always have representatives of trade unions on them.)(Solov'yov, 1993).

Sources: Ekonomicheskie i Sotsial'nye Peremeny, 1993, Nos. 3 & 7.

average over the two polling periods petitioned their trade unions for assistance in settling employee grievances.23

Thus, worker trust and confidence in trade unions remained low throughout the period under consideration.

Comparing with other state institutions, even those that have historically held low levels of public confidence, e.g., the organs of state security, trade unions were considered by

23 In addition, in those cases in which employees sought the assistance of such organs, trade unions were unable to succeed in defending workers' interests more than half of the time. Their continued ineffectiveness may tend to reinforce the lack of confidence workers have in their trade unions.
Russian citizens to be less trustworthy. As of February 1994, less than 10% of respondents believed trade unions merit "complete trust" and over one-third of citizens considered them to be completely untrustworthy (See Table 5.16).  

Table 5.16
Trust in Trade Unions

<table>
<thead>
<tr>
<th>With which statement do you agree?</th>
<th>6/93</th>
<th>10/93</th>
<th>2/94</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade unions deserve complete trust.</td>
<td>13.3</td>
<td>11.2</td>
<td>9.7</td>
</tr>
<tr>
<td>Trade unions deserve some trust.</td>
<td>25.4</td>
<td>22.9</td>
<td>20.8</td>
</tr>
<tr>
<td>Trade unions do not deserve any trust.</td>
<td>35.9</td>
<td>32.9</td>
<td>37.5</td>
</tr>
<tr>
<td>Difficult to answer</td>
<td>24.5</td>
<td>31.1</td>
<td>31.4</td>
</tr>
<tr>
<td>No answer</td>
<td>0.8</td>
<td>1.9</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Sources: *Ekonomicheskie i Sotsial'nye Peremeny*, 1994, Nos. 1 & 3.

When asked to hypothesize why the work force lacked confidence and trust in the "official" trade unions, FNPR officials resolutely asserted in 1993 that the loss of the "consumer relationship" between unions and workers, i.e., the union provision of social benefits to employees, was to blame (Bulgakova, 1993; Solovyov, 1993).

Consequently, low levels of public confidence and trust in existing trade union organizations was an important reason for understanding the lack of a strong linkage between union leaders and mass membership and, hence, a

---

24 In comparison, 21.2% of respondents felt the security organs were deserving of complete trust, whereas only 18.3% believed such institutions were entirely untrustworthy.
powerful labor movement in Russia during this period.\textsuperscript{25} Ultimately, such institutional factors were in part important for understanding the absence of widespread social mobilization in the early postcommunist era.

\textbf{The Impact of Economically-Inspired Discontent upon Societal Support for Democracy}

The foregoing sections have established that, although the Russian populace was frustrated and dissatisfied with both the reform program and the social costs of transition, in large measure the citizenry of Russia did not chose to mobilize in opposition to them. Certain factors associated with the institutional development (or non-development) of the Soviet and post-Soviet states were cited as causes of society's quiescence.

That having been said, it is entirely plausible that society's widespread disaffection with these transitional social costs may have generated additional significant problems for Russian reform: decreased support for democracy and increased support for extremist or anti-system parties. There certainly appears to be no shortage of evidence supporting this contention. Several recent studies of mass-level political behavior in Russia indicate a strong

\textsuperscript{25} An additional factor conditioning the fortunes of the labor movement in Russia was the Government's approach to "social partnership" construction and, hence, its successful efforts to neutralize the "official" unions. For more on this, see the following chapter.
relationship existed between economic dissatisfaction and decreasing support for democracy (Hough, 1994; Whitefield and Evans, 1994; Zimmerman, 1994).

Based upon a nationwide survey of over 2,000 adults administered in summer 1993, Whitefield and Evans contend that the Russian population had "drawn negative lessons about market democracy from the transition" experience (Whitefield and Evans, 1994, p. 38). Finding that there existed a strong relationship between "economic attitudes and political values," the authors present a wealth of data demonstrating that in general individual experience with reform weakened commitment to democratic values, thereby creating a "widespread basis of public antipathy to the reality of the market and democracy" (Whitefield and Evans, 1994, pp. 54-57).

As one might expect given the poor results of economic and political reform in the Russian Federation, the authors find that their respondents' evaluation of the existing market and the experience with democracy to be rather low; almost three-fourths (70%) of their respondents evaluated the market negatively and a majority (56%) of them evaluated democracy negatively. Even more significant is the fact that the authors discover that commitment to the ideals of democracy among those polled was "worryingly low": only 49% of respondents were committed to those ideals (Whitefield and Evans, 1994, p. 47).
Similarly, Hough's research also observes a definite relationship between the impact of economic reform upon respondents' welfare and their opinions regarding democracy; those most harmed by the social costs of transition expressed the most negative views about democratization and political reform in Russia (Hough, 1994, p. 16).

Evaluating the results of the 1993 Russian parliamentary elections in terms of the population's general attitudes toward economic reform and democratization, Hough believes one survey question was particularly well-suited to measuring respondents' dissatisfaction with democracy in Russia since 1989. Table 5.17 displays respondents' opinions about the economic results of democratic reforms. It is clear that an overwhelming majority of respondents

<table>
<thead>
<tr>
<th>Economic Consequences of Democratization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democratization was necessary for the destruction of socialism which had led the country to economic difficulties.</td>
</tr>
<tr>
<td>Democratization was a good idea, but its realization increased economic difficulties.</td>
</tr>
<tr>
<td>Unlimited democratization led to a collapse of the economy in our country.</td>
</tr>
<tr>
<td>Don't know.</td>
</tr>
<tr>
<td>No answer</td>
</tr>
</tbody>
</table>

believed that democratization was clearly responsible in part for the decline in Soviet and post-Soviet economic performance.

Likewise, Zimmerman's survey research buttresses the findings of the aforementioned research. Analyzing in part mass and elite attitudes toward democracy and the market, the author finds that while support for "markets" and "democracy" remained high among elites, among the general populace very negative attitudes toward these concepts have been scored (Zimmerman, 1994, pp. 104, 108). Among other findings, the author discovers that only 43% of the general public held a positive attitude toward a liberal democracy and overall only 17% of the general public could be considered "market democrats," i.e., those in favor of both a market economy and a liberal democracy.

According to more recent polls, the Russian populace continued to view democracy negatively well into 1994. Results from surveys conducted 16 months apart by the All-Russian Center for the Study of Public Opinion found a fairly large and stable portion of the population believed that the basic tenets of Western democracy were not consistent with Russian political traditions. (See Table 5.18.) Almost 50% of the respondents in both the June 1993 and October 1994 polls felt that such principles were at odds with Russian tradition, whereas only a little more than one-fourth of the population believed these tenets were not
Table 5.18
Are Russian Political Traditions
At Odds with Western Democratic Principles?

(in % of number surveyed, rounded to nearest whole number)

<table>
<thead>
<tr>
<th>Question</th>
<th>June 1993</th>
<th>October 1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you agree that the principles of Western democracy are incompatible</td>
<td>24</td>
<td>23</td>
</tr>
<tr>
<td>with Russian traditions?</td>
<td>21</td>
<td>25</td>
</tr>
<tr>
<td>more or less disagree</td>
<td>18</td>
<td>19</td>
</tr>
<tr>
<td>Completely disagree</td>
<td>11</td>
<td>8</td>
</tr>
<tr>
<td>Difficult to answer</td>
<td>26</td>
<td>25</td>
</tr>
</tbody>
</table>


at odds with political conventions in Russia.

What is more, according to Boris Grushin of the polling concern, "Vox Populi," the population's attitudes toward democracy were more negative in 1995 than they were in 1993. Only a little more than 20% of the respondents had a positive attitude towards democracy, whereas 55% of the population evaluated democracy negatively (OMRI Daily Digest, September 20, 1995, No. 187).

Other potential evidence demonstrating the decreasing support for democracy among the Russian population may be the decline in levels of trust or confidence in representative institutions registered in public opinion polls during 1992-1993.\(^{26}\) Taken separately, the polling

\(^{26}\) Although this indicator may speak more to the issue of the effectiveness of these institutions in resolving societal problems than providing direct evidence of support for
data presented in Tables 5.19 and 5.20 demonstrate that in general: 1) respondents' trust or confidence in most representative institutions fell over time; 2) only a small minority of respondents consistently expressed complete confidence in any institution during any given period; and 3) the proportion of respondents expressing difficulty in answering the questions increased over time.  

27 The exception here being trust in regional authorities in Table 5.20.  

28 The exception here being that regarding the Constitutional Court in Table 5.19.
Table 5.19
Trust in Various Representative Institutions

Do you fully trust (1), generally trust (2), have little trust (3) or have no trust (4) in:

<table>
<thead>
<tr>
<th>Polling Period</th>
<th>Russian Gov't</th>
<th>Supreme Soviet</th>
<th>Court C.P.D.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Fully</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5/92</td>
<td>14.3</td>
<td>7.3</td>
<td>4.5</td>
</tr>
<tr>
<td>12/92</td>
<td>11.3</td>
<td>4.9</td>
<td>4.3</td>
</tr>
<tr>
<td>3/93</td>
<td>13.2</td>
<td>8.0</td>
<td>---</td>
</tr>
<tr>
<td>6/93</td>
<td>13.0</td>
<td>5.3</td>
<td>3.6</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2) Generally</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5/92</td>
<td>27.4</td>
<td>22.4</td>
<td>19.4</td>
</tr>
<tr>
<td>12/92</td>
<td>24.9</td>
<td>20.8</td>
<td>21.5</td>
</tr>
<tr>
<td>3/93</td>
<td>23.5</td>
<td>23.4</td>
<td>---</td>
</tr>
<tr>
<td>6/93</td>
<td>26.1</td>
<td>25.3</td>
<td>11.6</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3) Little</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5/92</td>
<td>33.2</td>
<td>37.9</td>
<td>45.1</td>
</tr>
<tr>
<td>12/92</td>
<td>30.9</td>
<td>37.1</td>
<td>41.4</td>
</tr>
<tr>
<td>3/93</td>
<td>27.0</td>
<td>32.4</td>
<td>---</td>
</tr>
<tr>
<td>6/93</td>
<td>26.9</td>
<td>35.7</td>
<td>33.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4) Have No</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5/92</td>
<td>21.6</td>
<td>25.0</td>
<td>22.9</td>
</tr>
<tr>
<td>12/92</td>
<td>28.2</td>
<td>29.1</td>
<td>23.8</td>
</tr>
<tr>
<td>3/93</td>
<td>30.0</td>
<td>24.5</td>
<td>---</td>
</tr>
<tr>
<td>6/93</td>
<td>29.7</td>
<td>24.4</td>
<td>42.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diff./answ.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5/92</td>
<td>3.7</td>
<td>7.1</td>
<td>7.8</td>
</tr>
<tr>
<td>12/92</td>
<td>4.7</td>
<td>8.1</td>
<td>9.0</td>
</tr>
<tr>
<td>3/93</td>
<td>6.3</td>
<td>11.7</td>
<td>---</td>
</tr>
<tr>
<td>6/93</td>
<td>4.3</td>
<td>9.3</td>
<td>9.2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Pollsters did not question respondents in March 1993 about their level of trust in the Supreme Soviet.

b In 1992 pollsters did not query respondents as to their level of trust in the Congress of People's Deputies (C.P.D.).

Sources: Zerkalo Mnenii, 1993, Nos. 1, 2 & 3.

The data in Table 5.19 were obtained by sociologists at the Institute of Sociology (Russian Academy of Sciences). At three times in 1992-1993 surveys of over 2,000 adult citizens were undertaken in twelve regions of Russia, including European Russia, Siberia and the Maritime Provinces. The four representative samples of adult citizens were given personal interviews by the team of sociologists. The surveys' margin of error is 3%. For more on the the sampling
Survey research conducted by Rose provides evidence of even greater distrust of two of these representative institutions (Rose, 1994a, p. 26; Rose, 1994b, p. 53). In a representative sample survey conducted in June-July 1993, the author found that trust in the President and the Supreme Soviet was extremely low; only 33% of respondents trusted Yeltsin, whereas 67% distrusted him. The Supreme Soviet methodology used by the Institute of Sociology see Zerkalo Mnenii, March 1993, pp. 3-5.

Table 5.20
Confidence in Various Representative Institutions

<table>
<thead>
<tr>
<th>Polling Period</th>
<th>President of Russia</th>
<th>Russian Government</th>
<th>Regional Authorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complete</td>
<td>6/93</td>
<td>27.8</td>
<td>17.9</td>
</tr>
<tr>
<td>Confidence</td>
<td>10/93</td>
<td>25.8</td>
<td>17.8</td>
</tr>
<tr>
<td></td>
<td>2/94</td>
<td>19.7</td>
<td>11.2</td>
</tr>
<tr>
<td>Some Confidence</td>
<td>6/93</td>
<td>31.9</td>
<td>36.9</td>
</tr>
<tr>
<td></td>
<td>10/93</td>
<td>32.6</td>
<td>33.6</td>
</tr>
<tr>
<td></td>
<td>2/94</td>
<td>34.5</td>
<td>35.4</td>
</tr>
<tr>
<td>No Confidence</td>
<td>6/93</td>
<td>23.7</td>
<td>21.4</td>
</tr>
<tr>
<td></td>
<td>10/93</td>
<td>22.4</td>
<td>21.7</td>
</tr>
<tr>
<td></td>
<td>2/94</td>
<td>26.5</td>
<td>25.5</td>
</tr>
<tr>
<td>Diff. to answer</td>
<td>6/93</td>
<td>15.7</td>
<td>23.0</td>
</tr>
<tr>
<td></td>
<td>10/93</td>
<td>18.6</td>
<td>24.9</td>
</tr>
<tr>
<td></td>
<td>2/94</td>
<td>19.2</td>
<td>27.4</td>
</tr>
<tr>
<td>No answer</td>
<td>6/93</td>
<td>0.9</td>
<td>0.8</td>
</tr>
<tr>
<td></td>
<td>10/93</td>
<td>0.9</td>
<td>1.9</td>
</tr>
<tr>
<td></td>
<td>2/94</td>
<td>0.2</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Sources: Ekonomicheskie i Sotsial'nye Peremeny, 1994, Nos. 1 & 3.
scored particularly low on this measure; a mere one-fifth of respondents expressed trust in the Supreme Soviet, whereas four-fifths of those surveyed distrusted the parliamentary body (Rose, 1994a, p. 26). Even more shocking were the results from a nationwide survey of over 3,500 Russians conducted in March-April 1994; here researchers found that trust in either institution had declined by almost one-half in less than a year (Rose, 1994b, p. 53).

It is plausible that the particular policy-making style of the Russian leadership may have reinforced declining societal trust or confidence in representative institutions, thereby further damaging prospects for genuine Russian democratic development. In Russia, market reform during 1991-93 was inaugurated from above by the Russian executive branch using presidential decree powers with little consultation with other political forces and certainly with little consideration given to explaining the course of reform to society.30 As two respondents asserted in early 1993:

The Government has not done enough in preparing the people for what to expect. Before each part of the reform is implemented, the Government should explain to the people what they are doing. But, this does not happen here. The Government just immediately implements reforms without telling anyone in advance. We just don’t know what tomorrow will bring.

30 Indeed, during 1991-1993 the Russian Government was often chastised by its opponents for implementing the reforms in a "neo-Bolshevik" manner (Arbatov, 1992).
Without question our Government should change its methods for implementing economic reform. The economic reform program must include the education of the populace as one of its foremost aims (Issachenko, 1993).

It is necessary to explain to the people what the situation is, what are their prospects, what the future will bring. If you compare today's system of ideological support with the Bolshevik system following the 1917 Revolution, theirs was much better. Of course, theirs was a lie, i.e., that 'the factories, enterprises and land are yours.'

We need to do something similar - provide a similar system of ideological support, but of course, not to lie to the people. We need to do something to show people that they can expect a better future. We must explain to the people what are the purposes and goals of reform, what will occur after two to three years... (Matskovskii, 1993).

Certainly, the fact that many of today's "democrats" in government were yesterday's Communist nomenklatura causes such policy-making styles to survive into the postcommunist era.31 Again, such methods may have served to alienate the Russian public from their "representative" institutions and, therefore, aided in weakening prospects for democratization. This view was supported by a former Deputy Minister, who spoke about his Government's inappropriate and erroneous policy-making style and the affect it has had on the Russian masses:

Practically, from my point of view, it is a

31 As one insightful observer noted, "... the leadership of our country is the same as before - in the '70's and '80's. How can our President be a new leader in these new times when he was the First Secretary of one of the greatest regions in Russia, where there was a very strong party influence? Can he act as a new leader should?" (Issachenko, 1993).
kind of social irresponsibility. And I suppose, that if the government and the President attempted to carry on real reforms, they should first tell the people the whole truth about the potential obstacles in the way, i.e., they should explain to the people the burdens which will fall upon their shoulders. And when we (the Government) have said, 'Oh, it will be half a year and there will be signs of progress.' Or when we say, 'In autumn we will see an improvement in the situation' - it produces a negative effect. And nowadays I am sure that a majority of people do not believe anybody. Though they are able to declare their support for Yeltsin in this or that situation, or they can evaluate Gaidar for better or worse, in reality they do not believe anybody or in anybody. And this situation is very dangerous, as practically all historical experience demonstrates that real social transformation can be produced only with some dose of social optimism. And now we don’t have any optimism. From one point of view, it is a sign of society’s maturation - that it doesn’t like to be lied to (anymore). But, on the other hand - it is this problem - that we have a more pessimistic social consciousness than the actual situation should have produced (Kudiukhin, 1993).

In addition to the decreasing support for democratic ideals and declining levels of trust in representative institutions registered in public opinion polls, dissatisfaction with the burdens of transition may also have generated increasing support for extremist or anti-system political parties and movements.

In a recent article devoted to an examination of the 1993 parliamentary elections, Sakwa maintains that there has been a marked increase in support for extremist parties (Sakwa, 1995). The author argues that this can be
demonstrated by comparing the combined voting results of the four reformist blocs in the December 1993 parliamentary elections (a total of 34.21% of the vote for Russia's Choice, Yabloko, the Party of Russian Unity and Accord and the Russian Movement for Democratic Reforms) with either the vote received by Yeltsin in the June 1991 presidential elections (57.3%) or the 58.6% of the votes received by his forces in the April 1993 referendum (Sakwa, 1995, p. 212).

As well, the total share of the vote received by reformist blocs at the December 1993 elections compares quite unfavorably with the 43.31% obtained by extremist parties (Ziuganov's Communist Party of the Russian Federation, Lapshin's Agrarian Party of Russia and Zhirinovskii's Liberal Democratic Party of Russia). Although the results of the 1993 parliamentary elections shocked the world, Sakwa points out that sociologists had correctly identified a steady rise in support for "national-socialist sentiments" during the year preceding the election (Sakwa, 1995, p. 218; Polis, 6, 1993, pp. 74-75).

To be sure, since the beginning of the postcommunist era in late 1991, a not inconsiderable section of the Russian population has expressed a longing for an

\[\text{\textsuperscript{32}}\text{The author also contends that the rise in popularity of Vladimir Zhirinovskii between 1991-1993 is further evidence of the increasing strength of extremist groups. Support for Zhirinovskii increased from 7.8% in the elections for President in June 1991 to 22.92% in the 1993 Russian parliamentary elections (Sakwa, 1994, p. 215).}\]
authoritarian resolution of the crises at hand. The data presented in Table 5.21 demonstrate that during 1993-1994 a relatively stable and significant segment of the population were in favor of a return to a strong dictatorship; although on average over the three polling periods 42.5% of the

Table 5.21
Support For Dictatorship

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>23.0</td>
<td>28.7</td>
<td>24.4</td>
</tr>
<tr>
<td>Disagree</td>
<td>43.9</td>
<td>40.0</td>
<td>43.6</td>
</tr>
<tr>
<td>Unable to say definitively</td>
<td>33.0</td>
<td>30.2</td>
<td>31.8</td>
</tr>
<tr>
<td>NA</td>
<td>0.1</td>
<td>1.0</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Sources: Ekonomicheskie i Sotsial'nye Peremeny, 1994, Nos. 1 & 3.

Russian people disagreed with such an authoritarian solution, approximately one-fourth of the population were consistently in support of a "strong hand," while another one-third of the population unfortunately remained uncommitted.

Moreover, it appears support for "national-socialist sentiments" at the polls has not declined much since the 1993 elections. Indeed, in the aftermath of the October 1995 Volgograd City Duma elections (in which almost 200 candidates took part), all but two of the 24 legislative seats were won by Communist Party candidates (OMRI Daily
In addition, in the run-up to the December 1995 parliamentary elections, a well-respected Russian pollster stated that of the four political parties expected to surmount the 5% barrier in the upcoming December 1995 parliamentary elections, the Communist Party of the Russian Federation was expected to lead the pack with the support of 14% of the electorate (OMRI Daily Digest, October 10, 1995).

The most dramatic evidence of the increasing strength of extremist parties were the results from the December 1995 parliamentary elections. Here, radical or reformist parties performed quite poorly, not the least because of an excessive splintering among their ranks. Indeed, the entire party system was characterized by an excessive fragmentation. Whereas in the 1993 parliamentary elections only 13 movements or parties took part in the electoral contest, in the December 1995 parliamentary elections 43 blocs or parties were registered with the Central Electoral Commission to contest the elections. The result in part has been fewer parties surpassing the 5% barrier in the 1995 parliamentary elections; compared with eight parties gaining representation in parliament on the basis of the party list vote in 1993, only four parties cleared this barrier in the December 1995 vote. They were, of course, the Communist Party of the Russian Federation, the Liberal Democratic Party, the Our Home Is Russia electoral bloc and the Iabloko party.

3 Of course, one should realize that because Volgograd is located within Russia's so-called "red belt" region, support for Communist Party candidates has consistently been greater here than in other areas of Russia.

4 Indeed, the entire party system was characterized by an excessive fragmentation. Whereas in the 1993 parliamentary elections only 13 movements or parties took part in the electoral contest, in the December 1995 parliamentary elections 43 blocs or parties were registered with the Central Electoral Commission to contest the elections. The result in part has been fewer parties surpassing the 5% barrier in the 1995 parliamentary elections; compared with eight parties gaining representation in parliament on the basis of the party list vote in 1993, only four parties cleared this barrier in the December 1995 vote. They were, of course, the Communist Party of the Russian Federation, the Liberal Democratic Party, the Our Home Is Russia electoral bloc and the Iabloko party.
movements, thus ensuring each splinter grouping's inability to clear the 5% barrier. Indeed, as Table 5.22 demonstrates, the most popular among the three, Yegor Gaidar's Russia's Democratic Choice/United Democrats, received a mere 3.9% of the vote (Segodnia, December 27, 1995; OMRI Daily Digest, No. 249, December 27, 1995).

Similarly, Grigori Iavlinskii's party, Iabloko, received a smaller percentage of the vote in the 1995 elections than in Russia's first postcommunist parliamentary elections (7.86%) (Sakwa, 1995, p. 213; OMRI Daily Digest, No. 249, December 27, 1995). Even though it was able to surpass the 5% barrier with 6.89% of the vote, Iabloko was expected to improve upon its 1993 performance, especially considering the significant amount of pre-election publicity it received when the Central Electoral Commission initially denied the party the opportunity to contest the elections.

The "party of power," Our Home is Russia, also performed rather poorly. Despite the advantages of access to state institutions and substantial funds, Prime Minister Viktor Chernomyrdin's party was barely able to obtain 10% of

---

38 These would be Russia's Democratic Choice/United Democrats, the 89 Bloc and the Democratic Russia/Free Trade Unions bloc. The latter movement failed to clear the signature-gathering hurdle and, therefore, was unable to compete in the elections.

In the aftermath of the election, Aleksandr Iakovlev, a prominent member of Russia's Democratic Choice/United Democrats blamed leaders of the various small democratic parties for the "serious, but well-deserved defeat" of the democratic camp at the elections (OMRI Special Report, No. 15).
the vote. This showing was enough to clear the 5% barrier, thereby obtaining 44 seats in parliament from the party list vote, but it was not sufficient to stave off defeat in numerous single-member constituency contests (Burtin, 1995).

Like Gaidar’s party, the remaining small reformist parties were unable to surmount the 5% barrier. Sergei Shakhrei’s Party of Russian Unity and Accord (PRUA) fared exceptionally poorly, compared to the results achieved by that party in the 1993 elections (6.76%). Receiving only 0.36% of the popular vote in the parliamentary elections of 1995, Shakhrei soon abandoned his governmental post for the Duma seat he won in a single-member constituency.

Taken together, the share of the party vote received by the reformist parties was significantly smaller than that received by those forces in the parliamentary elections of 1993. The total share of the 1995 vote received by those parties mentioned above equals a disappointing 21.34%. Even with the inclusion of a number of ideologically compatible parties, their share of the party list vote amounts to only 25.97% (Sevodnia, December 27, 1995). These results indicate a considerable loss in support for reformist

---

36 The parties forming this reformist bloc included arguably Russia’s Democratic Choice/United Democrats, the 89 Bloc (receiving 0.06% of the party list vote) Iabloko, Our Home is Russia, the Party of Russian Unity and Accord, Konstantin Borovoi’s Party of Economic Freedom (0.13%), Irina Khakamada’s Common Cause bloc (0.68%), Boris Fyodorov’s Forward, Russia! movement (1.96%), the Pamfilova-Gurev-Lysenko bloc (1.61%), Gavriil Popov’s Social Democrats (0.13%) and the Independents Bloc (0.12%).
parties since the 1993 elections when Russia’s Choice, Iabloko, PRUA and the Russian Movement for Democratic Reforms received 34.21% of the party list vote.

It appears that the decreasing support for reformist parties coincided with increasing support for the conservative opposition, on the whole.\(^3\) Gennadii Ziuganov’s Communist Party of the Russian Federation performed exceedingly well with 22.3% of the party list vote, almost doubling their results from the 1993 parliamentary election (12.4\%(OMRI Daily Digest, No. 249). According to an article in Nezavisimaia Gazeta, the Communists received more votes than any of its rivals in 70 of Russia’s 89 regions (Konstantinova, 1995). Indeed, the Communist Party also outperformed all rival parties in the single-member constituency contests, obtaining over one quarter of all these mandates (58 out of 225 seats).

As Table 5.22 demonstrates, the Agrarian Party was not as successful as the CPRF. In fact, the Agrarian’s were unable to clear the 5% barrier in the 1995 elections, more than halving their results from the December 1993 vote (7.99\%).

Similarly, the Liberal Democratic Party of Russia lost a significant share of their 1993 electoral support; the

\(^3\) However, whereas the Communist Party of the Russian Federation scored a major success at the polls, the two other conservative parties who competed in the 1993 parliamentary elections, the Agrarian Party and the Liberal Democratic Party, fared poorly at the 1995 polls.
percentage of votes cast for Zhirinovskii's LDPR from the party list vote fell from 22.92% in the 1993 elections to a little more than 11% of this vote in the most recent

Table 5.22
1995 Election Results

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CPRF</td>
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<td>0</td>
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<tr>
<td><strong>Total</strong></td>
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<td><strong>225</strong></td>
<td><strong>450</strong></td>
<td><strong>97.7</strong></td>
<td><strong>429</strong></td>
<td><strong>141</strong></td>
</tr>
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</table>

a Beside PWSM and LDPR, 10 other electoral associations won a seat in a single-member constituency contest.

b A number of additional parties won several single-member constituency contests in the 1993 parliamentary elections. They have not been mentioned here for sake of brevity.

Abbreviations: Communist Party of the Russian Federation (CPRF), Our Home Is Russia (OHIR), Liberal Democratic Party of Russia (LDPR), Agrarian Party of Russia (APR), Russia's Democratic Choice/United Democrats (RDC), Power to the People (PP), Congress of Russian Communities (CRC), Women of Russia (WR), Forward, Russia! (F-R!), Ivan Rybkin's Bloc (IRB), Pamfilova-Gurev-Lysenko (P-G-L), Party of Workers' Self-Management (PWSM) and Communists-Working Russia (C-WR).

parliamentary elections. Though the LDPR came in second in the party list vote (after the CPRF), it appears that much of their earlier supporters decided to cast ballots for alternative "national-patriotic," rightist parties and movements.

Though electoral support for the Agrarian Party and the LDPR was halved between the two parliamentary elections, it appears that support for conservative or extremist parties and movements in general increased over the period. Whereas in the 1993 elections such extremist parties received 43.31% of the party list vote, in December 1995 the sum of the party list vote cast for them totaled at least 47.08%. This increase represents a 9% growth of their 1993 electoral base of supporters, as opposed to the "democrats" (or reformists) loss of 24% of their 1993 electoral supporters.

As with the democrats and the Agrarian Party and the LDPR, the vote for centrist political groupings appears to have been divided among a plethora of largely new parties. In particular, the Women of Russia party appears to have been affected negatively by the party system fragmentation; its share of the party list vote decreased by 43% in the 1995 elections, thereby denying Lakhova's party much of its

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38 The parties forming the extremist bloc included arguably the Communist Party of the Russian Federation, the Agrarian Party, the Liberal Democratic Party, the Power to the People electoral bloc (receiving 2.1% of the party list vote), the Great Power Social Patriotic movement (2.59%), Communists-Working Russia (4.52%), the Russian Movement of All the People (0.13%) and Dzhuna (0.48%).
representation in parliament. Due to its inability to surmount the 5% barrier, the party’s parliamentary representation fell from 23 to 3 (Izvestiia, December 22, 1995).

Indeed, the inability of 39 parties to clear the 5% barrier, resulted in a magnification of the parliamentary strength of those four parties that did.39 As Table 5.22 demonstrates, added to the successes achieved by the Communist and Agrarian parties and the Power to the People electoral bloc in single-member constituency contests, the ranks of the extremist parties in the Duma increased significantly over that obtained in 1993.40 The extremist parties’ share of Duma seats increased from 36.4% in 1993 to 52.6% of the parliament elected in December 1995.

In addition, although the most radically reformist party of 1993 - Russia’s Choice - lost the majority of its parliamentary representation as a result of the 1995 elections, it appears that the ranks of the reformist and/or pro-government parties in parliament were not decreased to a

39 That is, the CPRF received 44% of those seats allocated on the basis of the party list vote, the LDPR received 22.2%, OHIR, 20% and Iabloko, 13.7%.

40 The number of seats obtained by the Communist Party of the Russian Federation alone in the 1995 elections (157) almost reached the total number of seats obtained by all extremist parties combined (164) in the 1993 parliamentary elections.
significant degree. Their share of the seats in parliament remains at about a quarter of the total.41

Thus, the preceding analysis of the 1993 and 1995 parliamentary elections suggests not only a continuation of the trend toward increased support for extremist parties among the Russian citizenry, but an increasing polarization of parliamentary ranks. Indeed, with extremist parties gaining considerably as a result of the 1995 elections, the voices of the democratic reformers in parliament appears to have been muffled somewhat.42

**Concluding Remarks**

The initial portion of this chapter revealed that despite the extreme burdens placed upon the Russian population by the economic transformation, widespread social instability did not ensue in large measure. However, the

41 Of course, here we are not taking into consideration independent candidates elected from single-member constituencies. Their present placement in the various camps will have to await further analysis of their actual position on issues discussed at the Duma’s proceedings.

One interesting result of the 1995 elections was a reduction in the number of successful independent candidates. The number of independents elected in single-member constituency contests decreased by 45.3%, from 141 elected at the 1993 polls to 77 in December 1995 (Sakwa, 1995, p. 213; Izvestiia, December 22, 1995).

42 Soon after convening the new State Duma, a Communist, Gennadii Seleznev, was elected Chairman of the Duma. In addition, Communists were elected to chair 10 of the 29 available Duma Committees (Kommersant-Daily, January 20, 1996).
final section has demonstrated that such social costs may have given rise to potentially more harmful phenomena for the developing Russian proto-democracy: the lack of popular support for democratic values and ideals and an increase in support for extremist or anti-system political parties or movements.

As well, it has been argued here that social mobilization against the costs of transition failed to develop due to the absence of a mature, well-developed civil society. Thus, the lack of strong intermediate organizations in postcommunist Russia -- along with those norms of behavior held by both manager and worker alike that were discussed in the preceding chapter -- continued to obstruct the "voice" of the public; a public that continues to be disenfranchised and deeply harmed by the social costs of Yeltsin's economic reform program.

Indeed, in my view it is largely because of the dearth of such institutions that the economic reform program has been able to accomplish certain objectives, e.g., an austere incomes policy affecting a significant share of the work force: "That is, insofar as the "economic losers" remain essentially disorganized and apathetic in postcommunist societies, governing elites have had the opportunity to

3 In addition, the Government was able to implement such deleterious policies by continuously maneuvering between various elite interests, for example, by occasionally shifting alliances between the "official" and "alternative" trade unions. For more on this, see chapter 6.
undertake structural economic transformation which generates considerable social costs."

However, the present institutional status quo also has its "negative" side: the lack of such mediating organizations makes governing elites that much more hostage to important lobbying organizations at the pinnacles of power. Indeed, the absence of well-organized mediating associations which can count on mass support may actually reduce the chances for successful transitions in postcommunist societies. The absence of such groups produces a government that is held hostage by the self-seeking "lobbies" surrounding it.

Indeed, this factor is important for understanding the fate of Russian economic reform as influential "lobbies" - oftentimes intertwined with governmental structures - have acted to circumscribe policy-makers' efforts to expand reform. Thus, one may conclude that the absence of such independent, mediating organizations can at the same time

"This does not mean that certain specialized professional groupings have not obtained important successes by pressing their demands upon government. Indeed, by virtue of their considerable bargaining power, coal miners, air traffic controllers and transport workers have secured considerable concessions from the Russian government. I will briefly return to some of these groups' activities in Chapter 6.

The fact that this factor did not hamper the Russian government in its political maneuverings vis-a-vis the trade union movement says less about the significance of this factor than about the weaknesses of the "official" and "alternative" labor unions.
act to push forward and constrain economic reform in transforming postcommunist polities.

As well, besides perhaps making governing elites hostage to important lobbying interests, the lack of legitimate, popularly-based mediating institutions may also in future seriously damage attempts made by such elites to manage actual social instability through appropriate and effective channels."

In the absence of actual, overt mass mobilization against reform then, what factors have constrained Russian reform? It is my contention that at least two other important variables have been significant in influencing the course of economic and political reform in Russia.

Firstly, as will be shown in Chapter 6, opposing elite groups have effectively hindered economic reform by utilizing the social costs of unemployment as a political weapon against the Russian Government. To be sure, interview data suggest that governing elites believed that such social costs would furnish these opposing groups with a strong weapon, leading possibly to both the removal of the Government and its reform program. Thus, it appears that

"Thus, the Russian government’s successful attempts to manipulate the trade unions at the Tri-Partite Commission may in future backfire on it. For more on this, see the following chapter."
another hypothesized "path of influence" in the social cost approach is supported in Russia's case.

Secondly, ruling elites' perceptions of the potential social costs of economic reform, especially that of unemployment, and the deleterious consequences of these social costs for societal stability was a critical factor restricting the pace of economic reform. Indeed, as Chapter 7 will demonstrate, research findings indicate that in spite of the fact that the Russian populace was extraordinarily "immobilized," governing elites have been extremely wary of a reaction from society in response to a sharp increase in unemployment. Consequently, the ruling elites' "anticipated reaction" prompted a curtailment in the pace and scope of economic reform.

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7 I've already partially shown in the preceding chapter how such perceptions held by managerial and local elites has worked in part to forestall processes of labor-shedding at the micro-level.
CHAPTER VI

Exploitation of Reform's Social Costs by Oppositional Elites - The Influence Upon Both Economic and Political Reform

Introduction

After examining the impact of societal factors upon the course of Russian economic reform in the preceding chapter, we have seen that widespread societal opposition to reform's social costs did not prove to be a significant impediment to market transformation. Instead, the Russian citizenry have largely remained impassive in the face of considerable economic hardship.

At the same time, however, it seems likely that such social costs have influenced the Russian citizenry's views regarding democracy; indeed, the burdens of economic transformation appear to have generated among the populace an increasingly skeptical view of democratic ideals and increasing support for extremist political parties and movements.

Still, in addition to the impact of the transition's social costs upon support for continued democratic political reform, what factors have succeeded in stalling economic reform's progress? Have the social costs of reform been at all important in hindering the economic transformation? If
so, in what manner have they been used to obtain concessions from the governing elite?

It is my contention that the second hypothesis raised by the "social cost approach" - that concerning the oppositional elites' exploitation of the costs of economic transformation - has been supported in Russia's case. This hypothesis assumes that opposing elite groups may successfully moderate the governing elite's reformist economic course by using the issue of the social costs of transformation as a political weapon against the incumbent government. The actual or perceived threat of oppositional groups using such an issue in order to obtain the allegiance of discontented sections of the population may induce governing elites to scale back their reformist economic aspirations, especially in those circumstances in which inter-elite struggle is extremely intense.

Based upon numerous interviews with representatives from Government and oppositional groups alike and an in-depth analysis of a variety of published sources, I contend that Government opponents have sought to manipulate the issue of the economic transition's social costs in order both to frustrate the progress of the Government's economic reform program and to use it as a lethal weapon in persistent inter-elite power struggles. Furthermore, the fact that such endeavors did have their desired effect has
been supported by interviews with numerous former and present Russian governmental officials (Kosmarskii, 1993; Kudiukhin, 1993; Kupriianova, 1993; Moskvina, 1993; Silʼvestrov, 1993, et al.). In general, then, it appears that such activities on the part of the Government’s opponents were in part successful in extracting concessions from pivotal governmental figures, thereby altering the trajectory and pace of economic reform in Russia.

However, as we shall see, certain oppositional groupings were more successful in this endeavor than others. Oppositional groupings within the Supreme Soviet, the directors’ corps and regional elites were particularly successful in manipulating the issue of social suffering associated with the market-based transformation to obtain their desired ends. However, due to the weaknesses associated with the post-Soviet labor movement as outlined in Chapter 5, the "official" trade unions were unable to effectively use the issue of the social cost of transition as a potent political weapon against the incumbent Government. In addition, as I shall demonstrate in this chapter, the Government’s successful efforts to manipulate

1 Moreover, as I shall briefly point out in the present chapter, a widespread intra-branch struggle for power and influence within the executive branch has further acted to impede the progress of economic and, ultimately, political reform.

2 Of course, these various groups were certainly not distinct forces; indeed, their memberships (and interests) frequently overlapped.
activities in the Tri-Lateral Commission on the Resolution of Social-Labor Conflict - a "social partnership" organization set up in late 1991 to ostensibly further conciliation between representatives of government, labor and entrepreneurial structures - also diminished the effectiveness of the "official" unions in their struggle for influence and power.

Thus, we see evidence of a "two-level game" being played by members of the Russian elite. On the one hand, an inter-elite power struggle took place, with political actors and groupings continuously shifting positions and changing alliances in the hope of outmaneuvering rival elites. These battles were confined solely to the elite stratum, largely bereft of any significant input from the masses. On the other hand, opposing elite groupings were in an ardent, albeit vain struggle for the hearts and minds of the masses. Indeed, each party regularly appealed for support from the masses, wishing to secure the allegiance of significant sections of the populace; it was hoped by all that such an allegiance would influence favorably the

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3 I have labeled this particular struggle "vain" because - as we have seen in the last chapter - much of the populace remained exceptionally immobilized. However, one should not discount the influence that the perception of oppositional maneuverings vis-à-vis the masses had on the course of Governmental policy. The Government was indeed troubled by the idea that the "opposition" (in any of its guises) would - allied with the increasingly outspoken extremist political groupings - seize power (Kolosov, 1993; Kosmarskii, 1993; Kudiukhin, 1993; Matskovskii, 1993; Kullberg, 1995).
group's position in the incessant inter-elite jockeying for power. Thus, the social cost of economic transition was a convenient issue which opposition forces could employ to both captivate the masses and, hence, prevail in the inter-elite struggle (Issachenko, 1993; Matskovskii, 1993).

To be sure, in such an atmosphere of intense inter-elite struggle, it is not surprising that criticisms of Government that focused on the social costs of reform have acted to hold that Government’s policy prescriptions "hostage." Indeed, remarking upon the trajectory of economic reform in Russia in late 1993 - and the impact that the opposition’s criticisms have had upon it - one advisor to government circles stated:

I am sure that the main reason for the behavior of our government is the political struggle going on. Our government is in a defensive position each day. Each day they feel as if this day will be their last; that tomorrow will bring another government (Matskovskii, 1993).

At the same time, the internecine conflict among a variety of institutions and elite groups over economic reform - which resulted from the failure to delineate and clarify the functions and powers of politically significant institutions in postcommunist Russia - has had, in and of ___________

4 The initial notion of the existence of an elite-held "two-level game" strategy grew out of a discussion with Judith Kullberg at The Ohio State University.

5 The lack of agreement regarding the fundamental "rules of the game" does not only affect inter-institutional or inter-branch relations. As we shall see in the discussion of
itself, a deleterious impact upon the prospects for further
democratization. As the struggles have ensued among state
institutions and political groupings over economic reform,
the policy-making process in the social welfare sphere has
been negatively affected. Insofar as this has impaired the
ability to develop and implement effective policy measures,
it has provided opponents of economic and political reform
with additional resources to utilize against those in
government.

In short, the lack of agreement regarding the "rules of
the game" has, therefore, acted as an independent variable
upon the policy process. By diminishing the possibilities
of effective policies being generated, support for democracy
- already weakened as we have seen in Chapter 5 by the
social costs of transformation - is further undercut by the
seeming ineffectiveness of those in power to institute sound
policies which can act to mitigate the burdens of
transition.

Sources of Oppositional Activity:
The Supreme Soviet

The Supreme Soviet of the Russian Federation, along
with its parent body, the Congress of People's Deputies,
acted throughout the early postcommunist reform period as a

the struggle between the Ministry of Labor and the Federal
Employment Service in this chapter, the absence of consensus
on the basic "rules of the game" also affects intra-branch
relations.
source of extreme pressure upon the Gaidar and Chernomyrdin governments. Though oppositional forces within the Russian parliament increasingly criticized all aspects of the Governments' reform programs, especially Gaidar's monetarist agenda, they focused especial opprobrium on the social costs of the Governments' plan of market transition. Indeed, throughout the period the leadership of the Russian parliament aspired to anchor the prevailing political debate to the immense social pain and misery that market reforms produced, all the while pressuring either the Government or other state institutions to issue grants,

6 One way of doing so was for the parliamentary leadership to attend or address the various extremist rallies and demonstrations that took place during 1992-1993. Though the linkage between Yeltsin's parliamentary opposition (and their allies) and the extremist rallies was most conspicuous in September and October 1993, the association had developed much earlier.

7 The Central Bank of Russia is often given blame for releasing, under pressure from the Supreme Soviet, a tremendous amount of credit in the early reform period, particularly in summer 1992 (Chadajo, 1994; McAuley, 1994, p. 50).

However, an unconventional view holds that the Central Bank was neither wholly, nor even significantly, responsible for this credit expansion and, instead, the Russian Government itself was accountable for these emissions. Supporting this perspective, a senior Western advisor to the Russian Government, commenting upon the source of these credits, stated: "But, we know that it's the Government - that it's not the Central Bank. I mean, it's the Ministry of Finance that agrees to the credits. Most of them, if not all of them, but most of them. I don't know the proportion, but I do know that it's the majority. And I think I've heard some fairly senior people in the Government say: 'Yes, of course, the Ministry of Finance agrees with these credits'" (Meacher, 1993).

Thus, as Mr. Gerashchenko, the former Chairman of the Central Bank stated, it appears that the Russian Government thought it very convenient to use the Bank as its "whipping
credits or subsidies to industries and enterprises in order to ameliorate the deleterious consequences of economic transition for both worker and manager (Petrin, 1993).

Shortly after the launching of economic reform in January 1992, claims were frequently made by representatives of parliament that the Government's program was "anti-people" and would bring about "economic genocide." Such statements were accompanied by appeals for amendments to the Government's reform program (Sokolov, 1992).

By the time the 6th Congress of People's Deputies closed in April 1992 - the gathering at which the first open brawl between the legislative and executive powers took place - the parent body had singled out unemployment as an immediate and growing concern, directing the President and his Government to make averting mass unemployment its first priority (Text of Congress Decision on Economic Reform, 1992).

In hindsight, it is difficult to separate such statements of the parliamentary leadership's "genuine" concern for societal suffering from the general inter-institutional, inter-elite struggle for power which evolved over the early reform period. Indeed, it appears that the parliamentary leadership's strategy was to utilize these social costs and society's attitudes toward them, especially
that regarding unemployment, as a weapon in its struggle for institutional supremacy vis-à-vis the executive branch.

Apparently, the Government fearfully viewed its parliamentary opponents' strategy as both effective and damaging. As one labor market analyst with close ties to the Russian Government's Ministry of Labor claimed:

... the government realized that the people knew that the Supreme Soviet was indexing pensions, wages, et cetera.... And (the population knew) that the government was pursuing an 'anti-people' course. Therefore, they (the government) were afraid of the Supreme Soviet (Rakitskii, 1993).

The Government, therefore, was forced to respond to this threat in kind, by demonstrating that it was concerned about the people's suffering and that they were developing effective policies to meet the challenges in this sphere (Degtiar', 1993; Kudiukhin, 1993).

* According to one sociologist at the All-Russian Center for the Study of Public Opinion, the leadership of the Supreme Soviet was extremely interested in the population's attitudes regarding reform, especially their opinions regarding unemployment. The researcher also asserted that the parliamentary leadership used the people's concerns regarding guaranteed employment in the power struggle (Kupriianova, 1993).

* Again, one should not discount the influence that parliamentary machinations vis-à-vis the populace had on Governmental policy. The Government was indeed fearful that the opposition - in league with vocal extremists - could wrest power from them.

To be sure, one of the reasons why the "democrats" in Government were so fearful of the parliamentary opposition's attempts to provoke social mobilization is because they themselves had utilized such maneuverings in order to overthrow the system of power in 1991 (Kosmarskii, 1993; Kudiukhin, 1993; Matskovskii, 1993; Kullberg, 1995).
Further confirmation of the Government's concerns regarding the parliament's "social cost trump card" - and the Government's participation in the "two-level game" itself - was provided by a former Deputy Minister of Labor during an interview in late 1993. Asserting that the Government was only concerned with social policy as it affected the power struggle between itself and the parliament, he maintained that during his tenure:

... they (the Government) became interested in it (social policy)... when, for example, there would be elections or before the referendum. In a slapdash manner they would then make some kinds of decisions about social problems (Shpil'ko, 1993).10

Such political intrigues were presumably entered into by both sides in nearly every policy area which was affected negatively by economic reform.11 Regarding employment of the population, however, such maneuverings between

10 Indeed, this Deputy Minister cited the lack of a "serious approach" to constructing social policy on the part of pivotal members within the Government as one reason for his eventual resignation.

11 For example, the battle between parliament and the executive branch over the Pension Fund is another instance in which one sees evidence of the parliamentary opposition engaging in a "two-level" power struggle. On the one hand, the Supreme Soviet desired to obtain control over the ample resources in the Pension Fund - the richest extra-budgetary fund in Russia into which employers pay a tax equaling 35% of their wage funds - in order to maintain the purchasing power of elderly citizens as a means to securing their political support. On the other hand, parliament also used the altercation surrounding the Pension Fund "simply as a forum in which to wage its struggle for power" (Degtiar', 1993). By controlling such an important state institution as the Pension Fund, then, parliament was in some way increasing its overall power.
adversaries were particularly evident in two specific cases: legislation on enterprise bankruptcy and the institutional status of the Federal Employment Service.

The Confrontation over the Federal Employment Service

The struggle over the Federal Employment Service and the not inconsequential resources in its Employment Fund is an excellent example of the political machinations in which both branches of government participated and is indicative of the larger inter-institutional struggle for power. As we shall see, on the Government's side, retaining operational control over the Federal Employment Service meant defending the very authority of the Government. On the parliamentary side, the conflict was both motivated by the desire to win over a certain section of the populace and to score an important victory over the Government for control of a significant state institution (Meacher, 1993). Thus, here again we see evidence of a "two-level game" of struggle taking place.

In response to legislation concerning employment passed by the legislature of the U.S.S.R. in early 1991, the R.S.F.S.R. Supreme Soviet passed its own law in April 1991, entitled "On Employment of the Population in the R.S.F.S.R." (Ekonomika i Zhizn', No. 22, 1991, pp. 18-20). This law established the State Employment Service (Gosudarstvennaia
Sluzhba Zaniatosti Naseleniia\textsuperscript{12} as the main state agency responsible for dealing with questions concerning unemployment, e.g., the re-training of workers, organizing public works projects, rendering services and paying unemployment benefits to clients, analyzing and projecting long-term trends in the labor market, etc.

Established upon the network of Job Placement Bureaus ("Biuro po Trudoustroistva") already in existence, the State Employment Service was to also include the R.S.F.S.R. State Committee on Employment and similar Committees on Employment established at other territorial-administrative levels, i.e., at the provincial, republic, territory, region, city and district levels. In general, such Committees were to be subordinated to legislative bodies ("sovet narodnykh deputatov") at each level, with the State Employment Service ultimately subordinated to the R.S.F.S.R. Supreme Soviet.

Along with the State Employment Service, the new legislation set up the State Employment Fund (Gosudarstvennyi Fond Zaniatosti Naseleniia R.S.F.S.R.), the resources of which were to be primarily obtained from a 1\% tax imposed upon enterprises' wage funds. The substantial resources of the Employment Fund were employed to finance the various proactive and passive operations of the State Employment Service.

\textsuperscript{12} The Federal Employment Service is the successor to the State Employment Service.
Based upon the German experience with labor and employment organs, the R.S.F.S.R. legislation sought to create a separate state institution dealing solely with issues of unemployment; the State Employment Service was not to concern itself with other general labor issues, e.g., industrial relations, wage scales, etc., which were under the purview of the already existing R.S.F.S.R. Ministry of Labor (Kudiykhin, 1993).13

However, after the August 1991 coup the liberal faction within Yeltsin's entourage deemed it organizationally correct to create a unified Russian ministry that would deal in a coordinated fashion with both problems of unemployment and more general labor market concerns. In a political sense, the merger also seemed logical as the heads of these state agencies were two like-minded, liberal reformers. Thus, with Yeltsin's decree of November 6, 1991, a united Ministry of Labor and Employment - subordinated to the executive branch - was created, with Aleksandr Shokhin as Minister of Labor and Employment and Fyodor Prokopov as Chairman of the Committee for Employment within the Ministry.

13 In addition, the prevailing struggle for authority between Gorbachev's Union and Yeltsin's Russian republic was a further motivation for the creation of an entirely distinct State Employment Service separated from union structures. Had the State Employment Service been subordinated to the Russian Ministry of Labor, the S.E.S. could potentially have lost its "autonomy," as the Russian Ministry of Labor was still nominally accountable to Goskomtrud, the union-level State Committee for Labor and Social Questions.
(Gontmakher, 1993; Kostin, 1993; Meacher, 1993; Moskvina, 1993).  

As the institutional rivalry for political pre-eminence erupted in the aftermath of the launching of market reform, the Supreme Soviet undertook in earnest serious discussions over the legal status of the newly-created unified Ministry. In the end, a decision was made in the spring of 1992 to refer the matter to the Constitutional Court, which eventually judged the President's decree amalgamating the two structures to be unconstitutional (Kudiukhin, 1993).

After considerable pressure from the parliamentary leadership during the 6th Congress of People's Deputies, Yeltsin himself intimated that some changes were in the offing, stating that "the necessity has arisen today for a serious reorganization of the Ministry of Labor and the Employment of the Population" (Kudiukhin, 1993; "Yeltsin Reports on Economic Reforms....," 1992). Thus, despite serious intra-governmental opposition, on June 15, 1992 Yeltsin issued a decree formally partitioning the state bureaucracy and creating both the Ministry of Labor, headed

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14 Aleksandr Shokhin headed the Ministry of Labor until he was named Deputy Premier for Foreign Economic Relations in 1992. Fyodor Prokopov still heads the Federal Employment Service.

The decision to separate the ministry was probably occasioned by the need for the Government to grant some concessions to parliament in the wake of the stormy 6th Congress of People’s Deputies. In addition, the Government apparently did not want to risk the chance of alienating the Constitutional Court¹⁶ on this relatively minor issue and at an inopportune time (Kudiukhin, 1993).¹⁷ Indeed, larger

¹⁵ Yeltsin’s decree also separated from the Ministry of Labor and Employment of the Population its Committee on Migration and created a Federal Migration Service (Kostin, 1993; Tromliakova, 1993).

¹⁶ The Russian Federation’s Constitutional Court was created in mid-1991 with the passage of a law by the Russian Supreme Soviet. Charged with defending the newborn Russian state’s increasingly discredited Soviet-era constitution, the fifteen judges of the Constitutional Court initially sought to dutifully discharge their duties. As the inter-branch controversy between executive and legislature heated up during 1992 and early 1993, the Court was looked upon to mediate the dispute and to help maintain a balance of power. However, after labeling the President’s attempt to hold a referendum “destabilizing” and later hastily denouncing Yeltsin’s bid to introduce a "special rule" in March 1993, the Constitutional Court was perceived by many - Yeltsin’s supporters among them – as having openly sided with the parliamentary opposition; the Court’s impartiality was thereafter in question. In the wake of the October 1993 Rebellion, the Constitutional Court was disbanded by Yeltsin.

¹⁷ Moreover, it appears that personnel decisions played a role in Yeltsin’s decision to divide the ministry. After vacating the post of Ministry of Labor (while retaining his post as Deputy Premier in charge of Social Policy), Aleksandr Shokhin was forced to choose a former official from Goskomtrud, Genadii G. Melik’ian, to head the Ministry of Labor. Faced with a rather conservative official leading the ministry, Shokhin appears to have lobbied hard for the ministry’s separation, in order to allow the newly-created Federal Employment Service to maintain its autonomy under the
questions of constitutional significance were looming on the horizon.

Based upon interviews with numerous officials, including executives in both the Ministry of Labor and the F.E.S., it is my contention that the leadership of the Supreme Soviet, headed by parliamentary speaker Ruslan Imranovich Khasbulatov, were motivated to challenge the Government’s controversial position on the status of the F.E.S. by at least two factors.

Firstly, examined in light of the increasing battle for supremacy between the legislative and executive branches, the parliamentary leadership’s desire to nullify Governmental control of an important state institution was altogether understandable (Kudiukhin, 1993). To deny the executive branch a victory here meant another feather in Khasbulatov’s cap; a "win" for parliament would in some way increase its authority and standing in the long run (Kolosov, 1993; Rakitskii, 1993). Concerning this motivation, an advisor to the Chairman of the F.E.S. stated:

For a long time this place had no legal status at all.... The parliament wanted the F.E.S.

committed liberal Fyodor Prokopov, Shokhin’s former colleague. Regarding the Deputy Premier’s calculations, an advisor to Prokopov asserted that: "I think that Mr. Shokhin recognized that it wasn’t a bad thing. He sees himself as having made a very terrible mistake in appointing Melik’ian. And that this separation would at least sort of contain the damage" of Melik’ian’s appointment (Meacher, 1993).

18 Similar conflicts took place over the status of the Central Bank of Russia and the Pension Fund.
to be answerable to Parliament. But had it become a State Employment Committee, it would have somehow enhanced parliament's role in this area. Whereas, while it was nebulous, there was always this question to what extent this place was also answerable to the Government. That is, had it been answerable to parliament, that meant the strengthening of parliament in some sense (Meacher, 1993).\footnote{Moreover, allowing the Presidential decree to stand meant parliament was forfeiting its legislative authority, as the R.S.F.S.R. Law "On Employment of the Population" had not been amended in the interim.}

Secondly, it appears in hindsight that the parliamentary leadership wished to politicize the use of the Employment Fund and score points with the masses by promising to stem the tide of unemployment (Kudiukhin, 1993; Matskovskii, 1993). The parliamentary leadership was thus attempting to use the employment issue to gain popular approval. Expounding on this powerful weapon in the parliamentary's arsenal, Meacher maintained that the leadership of the Supreme Soviet exploited the unemployment issue throughout 1992, continually declaring that:

...'unemployment is wrong, it's sort of evil, it's terrible and we mustn't have it and we've always stood by not having it.' So that's their platform - and it's a major part of their platform (Meacher, 1993).

Therefore, by denying the Government effective control over the F.E.S. and appointing their own team or "komanda" to leadership positions within the agency, it was presumed that the Supreme Soviet would in effect control the activities of the employment bureaucracy (Shpil'ko, 1993).
Accordingly, the Supreme Soviet would be in an excellent position to use the ample resources in the Employment Fund to forestall mass lay-offs by issuing subsidies inappropriately to enterprises to maintain employment levels, as well as to assuage the concerns of a powerful interest group - enterprise directors. Commenting upon the motivations driving the Supreme Soviet leadership, the Deputy Chair of the F.E.S. asserted:

I'm sure they would have liked to get a hold of the Employment Fund - which is the second richest government agency.... and they felt that if they could control this agency, they could prevent the unemployment problem. And to a degree, that's right. You know, if you get the employment service to sort of dish-out subsidies to industries, just to pay wages, that's employment. And that's the sort of thing they would have done (Moskvina, 1993).

In the end, although the parliamentary leadership was unable to secure the appointment of their "komanda," Yeltsin was pressured to split the bureaucracy.

Still, the consequences of the altercation between the executive and legislative branches over the F.E.S. were far-reaching: the struggle affected the employment service by leaving it in a state of "institutional limbo" and, in turn, the struggle frustrated attempts to implement effective reform policies in this domain. Moreover, insofar as the successful implementation of important social welfare programs was impeded by such inter-institutional wrangling, popular support for further democratic political reform may also have been undermined.
However, the institutional indeterminacy in which the Federal Employment Service found itself, along with the lack of progress in unemployment policy formulation [and, indeed, the very obstruction of economic and, ultimately, political reform in general], was also inspired by the intra-branch struggle for power and influence between two agencies within the executive branch itself: the Russian Labor Ministry and the F.E.S. This intra-branch (or inter-ministerial) conflict was motivated as well by the absence of distinct boundaries and clear lines of authority among governmental institutions following the collapse of the Soviet state.

Owing in particular to the serious consequences of this phenomenon for unemployment policy development and the course of economic reform more generally, before proceeding with the further examination of the inter-branch conflict between the Supreme Soviet and the executive branch it is necessary to devote brief attention to this additional, albeit unrelated,\(^{20}\) factor which acted to impede reforms' progress.

\(^{20}\) By "unrelated," the author wishes to imply that intra-branch conflict is distinct from the type of conflict between "the government" (broadly conceived) and "oppositional groupings." Of course, on some level the two (i.e., both inter-branch and intra-branch conflict) are most certainly analogous in that: 1) they both originate from the failure of the postcommunist state to demarcate clear institutional boundaries and delineate specific powers for these distinct institutions; and 2) they both produce similar consequences, i.e., the obstruction of economic and political reform.
A Digression on the Causes and Effects of Intra-Branch Conflict: The F.E.S. Versus the Ministry of Labor

Besides the general inter-branch confrontation between executive and legislative powers, an intra-branch struggle for authority within the government among a variety of actors also generated deleterious consequences for the course of economic and political transition in Russia. Fueled by the blurred lines of authority among government institutions, a continuous competition for administrative control and preeminence took place among the major institutional actors resulting frequently in prolonged stalemate and policy stagnation (McAuley, 1994, pp. 13, 55; Russia: Social Protection During Transition and Beyond, 1993, pp. 91-92). This, in turn, may have affected the level of popular support for continued democratic political reform.

It is my contention that we can examine this phenomenon most clearly by considering the conflict in the labor and employment sphere between the Ministry of Labor and the Federal Employment Service. As we have seen in the present chapter and in Chapter 3, the Russian F.E.S. was originally created as a Committee for Employment directly subordinated to the Russian Ministry of Labor. It was later separated from the Ministry of Labor (becoming the State Employment Service) and obtained control over a network of local job information bureaus which also earlier had been subordinated to an agency within the Ministry of Labor, the All-Russian

Since 1992 the two state bureaucracies have remained separate but they continued to clash over a variety of issues concerning the sphere of labor and employment. Indeed, their confrontation over matters of policy comes in various guises: from ill-fated attempts by the leadership of the F.E.S. to alter the character of, or forestall the promulgation of, Presidential Decree No. 471 and Government Resolution No. 99 (legislation which was initiated in part by the Ministry of Labor in order to increase its standing in the eyes of superiors\(^2\)) (For more on this affair, see

\(^2\) Indeed, the leadership of the Ministry of Labor expended a great deal of political currency in order to obtain the passage of these executive branch acts and achieve its Machiavellian goals vis-a-vis the Federal Employment Service. As a political insider recounted:

"So, then it was a matter of bureaucratic technique to push this draft through all this administrative machinery, to get it on the President's table. Practically, there are several stages.... The most serious filter really was to put it on the President's table. It depends first of all on some personal relationships of interested Ministers or some persons from the President's administration or from the government apparatus, their relationships with each other, and with some persons close to the President. So, as we see that this decree is signed, Melik’ian was successful" (Kudiukhin, 1993).
Chapter 7.) to the different methodologies used by either agency to estimate actual unemployment.\textsuperscript{22}

As a result of such altercations, a great deal of rancor exists between the employment service and the Ministry of Labor. Indeed, when asked to characterize the relationship between the two organs, well-informed officials responded:

\textbf{Bad. Just bad. What do you mean what are our relations? I'm not even so sure that}

Another source reveals the specific route to Presidential approval followed by the Minister of Labor, Gennadii Melik'ian. Commenting on the motivation of both Melik'ian and his liaison, an official within the Presidential Apparatus stated that:

"Deputy Premier Iurii Iarov got it to the President on Melik'ian's behalf as this would increase the standing of both men. In addition, Melik'ian and Iarov are close friends.... And, as a rule, Iarov nevertheless decides in favor of Melik'ian, rather than (F.E.S. Chairman) Prokopov" (Gontmakher, 1993).

As the above case makes clear, personal connections, rather than following customary bureaucratic channels, should not be underestimated as a method for advancing one's policy preferences in Russia. Further support for this basic principle of Russian policy-making is provided by a former First Deputy Minister of Labor. The official responded that his team or "komanda" in the Labor Ministry frequently were able to introduce decree drafts to President Yeltsin in 1991-1992 via Deputy Premier and Minister of Labor Aleksandr Shokhin, who "was very often in the presence of the President and we therefore used this 'chain' very often - providing Shokhin the documents which needed to be looked over and Shokhin gave these directly to the President" (Kosmarskii, 1993).

\textsuperscript{22} Until 1994, there existed a wide discrepancy in the estimates of Russian unemployment between the F.E.S. and the Labor Ministry. A number of sources claimed the discrepancy was due not only to the differing methodologies used by either agency to appraise unemployment, but also owing to political considerations (Rakitskii, 1993; Tsurikov, 1993).
there is any positive communication to my knowledge (Meacher, 1993).

To say that our relations were neighborly I am not able to say. We don't believe that until today we have succeeded in dividing up the responsibilities and problems that each agency should occupy itself with... (Kolosov, 1993).

There is a great deal of competition between them. Between the Ministry of Labor and the F.E.S. there exists an enormous rivalry. They don't like each other very much and don't work together at all (Gontmakher, 1993).

The F.E.S. and the Ministry of Labor are in a struggle for the unemployed until the bitter end. And if they make a wrong step, that will be the end of the unemployed (Klokov, 1993).

The conflict itself was caused by a number of factors, all of which stem from the inability of governing elites to transform the highly centralized Soviet state into one characterized by separate institutions with distinct mandates and clear lines of authority. Chief among these factors was the desire on the part of the Minister of Labor to regroup the agencies which had once been part of the R.S.F.S.R. Labor Ministry and, ultimately, the U.S.S.R. State Committee for Labor and Social Questions (Goskomtrud). Thus, Labor Minister Melik'ian apparently thought it necessary to re-subordinate to the Russian Mintruda (Ministry of Labor) not only the Federal Employment Service, but also the newly-established Federal Migration Service and elements of the Ministry of Social Protection (Minsotszashchiti) in order to increase the standing of his
Ministry (Kolosov, 1993; Kosmarskii, 1993; Petrin, 1993; Tsurikov, 1993). As a former official in the Ministry of Labor characterized the Labor Minister, Melik’ian is a man that "according to his mentality, is of yesterday’s world" (Gontmakher, 1993). Thus, upon coming to power in 1992 he brought to the Russian Labor Ministry his old "team" - cadres that had been working with him since he began his work at Goskomtrud in 1978 and began to search for ways to accomplish the resurrection of the State Committee for Labor and Social Questions (Kosmarskii, 1993).

The Labor Minister himself stated in an interview in early 1993 that he was against the separation of the Federal Employment Service from the Ministry of Labor in mid-1992, 23 There have also been attempts by Labor Minister Melik’ian to re-subordinate employment and labor institutions in the regions to the central apparatus of the Ministry of Labor. As one official commented, at the central governmental level Melik’ian has "...tried to put through a regulation which at the regional level would once again re-integrate the local employment service with the local administrations.... So he’s worked away at sort of putting things back the way they were" (Meacher, 1993). Thus, the power struggle between the two state agencies is also conditioned by the need for affiliations in the territories.

As a result of this struggle, in the periphery there have developed myriad types of labor and employment organs, each with its own distinctive pattern of institutional subordination (Anatoliu Ivanovich, 1993; Moskvina, 1993).

24 A former official in Goskomtrud has claimed that the top leadership of the Russian Labor Ministry in late 1993 were "always high up in Goskomtrud, in the Union Ministry of Labor. They were members of the partkom (the party committee) in Goskomtrud" (Afan’asev, 1993). The official also added that after 1991, "... they suddenly overnight became democrats."
saying "what has happened here is that that structure which should work out and determine policy has been chopped into pieces" (Kirillova, 1993, p. 11). Continuing, Melik’ian recounted that in time there will be a more decisive categorization of these organizations’ various duties, concluding the interview ominously with the thought that "there are many of us who believe that there must be administrative subordination" in this realm (Kirillova, 1993, p. 12).^25

A further rationale for the ensuing power struggle, as well as the attempt by Mintruda to regroup structures lost, has been the feeling that in the aftermath of the ministerial partition in 1992 the Ministry of Labor has lost many of its previous functions (King, 1993; Riabyshev, 1993).^26 The Ministry lost its administrative control over most issues concerning employment, migration, social welfare, pensions and wage-setting for all but the budget

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^25 In the interim, however, the Labor Ministry has attempted to reassert its authority in the employment, migration and social protection domains by creating parallel structures to study these issue areas. As a result, a great deal of duplication of work exists between the bureaucracies concerned (Fyodorov, 1993; Kudiukhin, 1993; Moskvina, 1993; Tkachenko, 1993; Tromliakova, 1993). Alternatively, it has been suggested that there are certain problems today which no state agency is analyzing, e.g., the social consequences of privatization, social differentiation across Russia’s regions, etc. (Gontmakher, 1993).

^26 Indeed, when interviewing officials of the Ministry of Labor in late 1993, I was astonished by bare desks and a general aura of inactivity. This contrasted greatly with my experiences at the Federal Employment Service, the Ministry of Social Protection and other government agencies.
sector. According to a World Bank official, "there are only two areas where it (Mintruda) has work: the relations with trade unions and those with the I.L.O. And that is a very small scope of work" (Petrin, 1993).

Another official within the Federal Employment Service was more to the point, stating that the struggle was also motivated by the need for resources:

They are envious that 90% of any 'Department of Employment and Labor' in any country is actually the employment service and that's where the resources are. The industrial relations section of such departments is also a very important issue, but it's not very comfortable work for starters and there are no resources in it. So, Melik'ian feels that Prokopov (the Chairman of the F.E.S.) has got 90% of 'The Department' basically, and he has his (Melik'ian's) 2,500 centers, and he's got a World Bank loan for 70 million dollars. And Melik'ian is livid about this. Absolutely livid (Meacher, 1993).

Of particular importance in this respect are the resources in the not inconsiderable Employment Fund, which has been controlled since its inception by the F.E.S. According to a number of respondents, the struggle for these resources determines to a certain extent the relationship between the two state agencies (Afan'asev, 1993; Gontmakher, 1993; Kochkina, 1993; Petrin, 1993). As one employment specialist asserted, "naturally a few people in the Ministry of Labor believe that the money should be in their hands solely. And this determines the struggle. For whoever has the finances will determine the real situation" in the labor and employment sphere (Kokin, 1993).
Lastly, personal and political rivalries and animosities between the leaders of both state organs played a role in defining the larger institutional relationship (Kosmarskii, 1993). Commenting on the enormous political pressures confronting today's Russian governmental elite, one Western advisor astutely observed:

> These are new people. They are making their whole position... and they don't have a lifetime behind them in a way of record. Their whole past doesn't really count. And a lot of them are all brand new to this business. They only have really two-year work records, in a sense. So, there's an enormous amount of what we'd call 'office politics' (Shapiro, 1993).

Thus, in such a turbulent and competitive environment, personal relationships can truly influence larger institutional relationships.  

The results of this constant jockeying for pre-eminence between the two state bureaucracies had a number of deleterious consequences. First of all, the struggle left the F.E.S. in a state of institutional indeterminacy. Between 1992 and early 1994, plans to re-structure the entire social policy domain continued to be promoted by various forces within the Government. The last known proposal was advanced by Minister Melik'ian himself in early 1994, who proposed (unsuccessfully) to wholly re-absorb both

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27 To further support this view, a personal acquaintance of Yegor Gaidar's has recounted that in part the ongoing conflict between the Ministry of Economics and the Ministry of Finance in late 1993 was precipitated by personal animosities between Ministers Gaidar and Fyodorov (Kosmarskii, 1993).
the F.E.S. and the Ministry of Social Protection into the Labor Ministry (King, 1994). Such intrigues have kept the leadership of the Federal Employment Service in a continual state of vigilance, thereby diverting their energies from their principal responsibilities.28

Indeed, the ineffective reorganization of the labor and employment bureaucratic structure29 during 1991-1994 contributed greatly to the stagnation of policy reform in these spheres. As a well-informed high-ranking official acknowledged:

The consequences are simple. They include the fact that we are getting late with the enactment of decisions in these areas. This is the trouble.... So today we have a very big problem with effectiveness (Gontmakher, 1993).

28 Of course, not all proposals for administrative restructuring have worked against the F.E.S.' interests. In late 1993, a proposal devised by Evgenii Gontmakher under the auspices of Yegor Gaidar sought to create a leaner social policy structure by creating a sparsely-staffed "Ministry of Social Policy" which would operate as the policy-making and coordinating organ for the entire social policy sector, while allowing its subordinate administrative agencies, e.g., the Federal Employment Service, the Federal Migration Service, the proposed Federal Pension Service, etc., to retain broad powers of control over their specific spheres of specialization. If promulgated the proposal promised to decrease duplication and parallelism, as well as dislodge conservative forces in the Ministry of Labor (Gontmakher, 1993). However, since the proposal's success depended in large measure upon the outcome of the December 1993 parliamentary elections (which ended in ignominious defeat for the "democrats"), the draft recommendation was shelved (Petrin, 1993).

29 Once again we see that an important assumption of "shock therapists" was incorrect, i.e., that new institutional structures could be created quickly to meet the demands of a post-command-administrative economy (Murrell, 1993).
Thus, to a certain extent this intra-branch struggle which has been inspired by the absence of separate and bounded institutions in postcommunist Russia - and additional ones like it within the executive branch$^{30}$ - have ultimately contributed to the muddling of economic reform in Russia. In addition, such intra-branch conflicts, by forestalling the development of essential programs of social support and thereby increasing both the magnitude of the transition's social costs and the duration of them, have also affected negatively the process of political reform.

Having considered the significance of intra-branch (or inter-ministerial) conflict for the course of transition, let us return to the examination of the more general inter-elite (or inter-branch) struggle over the social costs of economic reform.

The Controversy Surrounding Enterprise Bankruptcy Legislation

Revisiting our discussion of the conflict between parliament and president, it is apparent that the confrontation surrounding the development and implementation of bankruptcy legislation was both motivated by the desire on each side to prevail in the inter-elite struggle for

$^{30}$ For further examples of such conflict in government structures, see Alekhin, 1993 (re the Ministry of Social Protection, the Ministry of Labor and presidential structures) and Shevelev, 1993 (re various environmental bureaucracies).
power and by the aspiration on the parliament's part to secure the support of the masses, while providing succor to the influential corps of directors.

Bankruptcy legislation had been first discussed in 1990, during Valentin Pavlov's rule as Soviet Prime Minister, but with little practical results. In deciding in late 1991 to introduce "radical" shock therapy reforms in the now independent Russia, Boris Yeltsin signaled the need for real progress to be made in passing effective bankruptcy legislation. In his address to the 5th Congress of People's Deputies in October 1991, Yeltsin stated that the 1992 budget would call for a "substantial reduction in appropriations for the support of inefficient plants..." (FBIS-SOV-91-209, 1991).

However, it wasn't until well after the 6th Congress of People's Deputies in April 1992 that the Government's bankruptcy bill was examined by the Supreme Soviet. On its first reading in late May, the bill was rejected by the legislative body, prompting Acting Prime Minister Yegor Gaidar to avow that a "very serious blow" to reform had been struck (Zuichenko, 1992).

At the bill's second reading one month later, the parliament once again rejected the legislation and put off further discussion of the bill indefinitely. Many deputies in the Supreme Soviet, led by Communists, "patriots," and members of the director's corps, stated that the

In the meantime, Yeltsin responded to perceived legislative inactivity by enacting his own "Decree on Bankruptcy" on June 15, 1992, which was scheduled to be in effect until the parliament passed its law on bankruptcy. However, having been affected by the parliament's constant denunciations of the proposed bill's deleterious consequences for Russian society, the President's decree stated that only certain enterprises would be affected and provided specific guarantees for employment (Kosmarskii, 1993).

Nevertheless, the parliamentary leadership was incensed with the President's legislation, with Speaker Khasbulatov calling the decree "the worst of all" presidential decrees passed thus far. Moreover, offended by the fact that the decree was not discussed with his powerful directors' lobbying group, the Russian Union of Industrialists and Entrepreneurs, Arkadii Vol'skii threatened that "we will find" those officials responsible for putting the decree on bankruptcy before the president for signature (FBIS-SOV-92-121, 1992).

One other repercussion of Yeltsin's decree was that it stimulated the Supreme Soviet to pass its own bankruptcy
law. Thus, in late 1992 the Law "On Insolvency (Bankruptcy) of Enterprises" was passed by the parliament, but was not scheduled to come into force until March 1, 1993. However, between the second rejection of the bankruptcy bill in June 1992 and its November enactment, many parliamentary deputies considered that the bill's most potent measures had been diluted by the opposition within the Supreme Soviet (Bankrotov Priznaiut Bankrotami Tol'ko Cherez God, 1992). In addition, because a series of accompanying legislative acts were missing, the bankruptcy legislation was unable in effect to operate (Bankroty Est', Bankrotstv - Net, 1993). Furthermore, the resulting law proclaimed that many enterprises in pivotal industries would not be permitted to go bankrupt, owing to the fact that they were critical to the consumer industry, e.g., the light and food industries, vital to the livelihood of certain regions or essential to other industries (Demchenko, 1993).

Therefore, here again we see evidence of a "two-level strategy" employed by the parliamentary opposition in its struggle with the executive branch. Firstly, the Supreme Soviet used the bankruptcy legislation as yet another forum in which to wage its struggle for primacy vis-a-vis the executive branch. By opposing the Government's plans tooth and nail at every turn, the parliamentary leadership hoped that a "battle of the laws" might end in a victory for them, thereby increasing the legislature's overall stature.
Despite the decree-governing powers which the President continued to hold in 1992-1993, the Supreme Soviet - using the bankruptcy issue among others - aspired to reassert its legislative authority.\(^\text{31}\)

Secondly, again the parliamentary leadership sought to politicize the issue of bankruptcy, along with all of its attendant deleterious consequences for society. Thus, by seeking to gain control over the law's eventual shape, the Supreme Soviet was able to water down the legislation's most damaging measures in order to restrain unemployment and maintain industry, and then used this "achievement" to strengthen their bases of support among the populace, as well as the influential corps of directors.

In hindsight, it is altogether probable that the connection of the bankruptcy law with unemployment of the populace in the political debate was used at this juncture as a smokescreen by the parliamentary opposition in order to respond to a more influential lobby - enterprise managers. Whatever the actual motivations, the parliament's tactics

\(^{31}\) Even members of Yeltsin's Government spoke out about the impropriety of the Presidential decree on bankruptcy. Vladimir Shumeiko, since late 1993 the head of the new parliament's Council of Federation, asserted in 1992 as a high-ranking Cabinet member that, although Russia could rely upon the presidential decree on bankruptcy in the interim period, in the long run it would be "difficult because legal procedures can only be established by the representative organ - the Supreme Soviet. The president does not have the right to do this - we now have the Constitutional Court, we have the separation of powers, and this principle must be kept inviolate" (Parkhomenko, 1992).
were successful in compelling the Government to respond in kind (Kashin, 1993; Kosmarskii, 1993; Tkachenko, 1993).

The parliamentary leadership acted to hold back resultant unemployment and maintain industry first of all by designing a very lengthy process of bankruptcy. In order not to create serious socio-economic consequences, i.e., unemployment and industrial collapse, the legislation mandated that an 18-month period would normally proceed between the initiation of bankruptcy proceedings and the actual declaration of enterprise insolvency (Tkachenko, 1993). In addition, by delaying the promulgation of the Law "On Insolvency (Bankruptcy) of Enterprises" and accompanying legislation, the Supreme Soviet thereby in effect extended employment guarantees for millions of Russian workers and safeguarded industry.

Indeed, the reason why bankruptcy legislation took so long to be promulgated on the whole, as well as why the law's measures were rather innocuous, was that the Supreme Soviet did not want to be responsible for the enactment of such a socially-damaging statute (Kashin, 1993). As an official involved in the development of the Government's bankruptcy bill stated:

Everybody understood that bankruptcies will end in mass unemployment. (And) the parliament - they understood things quite well - because if the parliament implemented the Law on Bankruptcy (as it stood), they would be punished and blamed. And everybody would then claim that they (the parliament) were their first enemy. And nobody wanted to
be the person who is backing this very unpopular decision (Kosmarskii, 1993).

In hindsight, it appears that the Supreme Soviet, after passing their "watered down" version of the law on bankruptcy, were successful in politicizing the issue of unemployment arising from a potential wave of mass bankruptcies and were able to forge this issue into a potent weapon to be used against the executive branch (Kosmarskii, 1993).

Indeed, the Government soon responded to this political threat or weapon held by the Supreme Soviet by adopting its own more conciliatory posture regarding enterprise bankruptcy. The day before the 1993 referendum on the Government's socio-economic policy was to be held, in an address to the country Yeltsin promised that any restructuring accompanying enterprise bankruptcies would not engender great social costs. Yeltsin asserted that, although:

The restructuring of the national economy is impossible without some unviable enterprises going bankrupt.... this must not affect people or their staff. Bankruptcy in this country will mean the state will have a special tutelage over enterprises (Yeltsin Addresses Nation, 1993).

In addition, Yeltsin specifically declared the need for those working in bankrupt enterprises to obtain further state-provided employment guarantees.

Moreover, in the aftermath of the referendum victory, the newly-appointed First Deputy Prime Minister, Oleg
Soskovets, summed up the Government's selective industrial policy stating that there was a possibility of declaring certain enterprises in Russia insolvent, but not until consideration had been given to the "enterprise's social significance and social protection for its staff" (Soskovets Gives News Conference on Industrial Policy, 1993).

Prime Minister Viktor S. Chernomyrdin similarly had signaled the Government's intention to pay close attention to the social costs of enterprise bankruptcy when he revealed to the Supreme Soviet in January 1993 that the Government was carrying out a detailed examination of the firms which were considered bankrupt. Nonetheless, the Premier explained that:

In the extreme cases they will have to resort to bankruptcy procedures, which, by the way, does not mean that the enterprise should close down and the people thrown out to the streets.... The state has to help them to reorganize themselves... while all the norms of social and legal protection for workers are being strictly observed (Chernomyrdin, Nechaev Address Supreme Soviet, 1993).

In early 1993, Boris Fyodorov, the Minister of Finance and arguably the most "radical" shock therapist in the Chernomyrdin Government, explained the reasons for the Government's cautious approach to bankruptcy and confirmed that the parliament's politicization of the bankruptcy issue had affected Government policy. In an interview in Komsomolskaia Pravda, Fyodorov proclaimed:

I personally don't know of a single enterprise that has yet gone bankrupt. The fact is, no
one wants to assume responsibility. Everyone wants to be popular (Savvateyeva, 1993).

Thus, the executive branch itself was compelled to take part in the elite struggle for popular authority initially inaugurated by the parliamentary leadership. The result was that by the end of 1993, bankruptcy legislation had had no perceptible effect: insolvency proceedings were introduced against only eight enterprises (Feder, 1993).\textsuperscript{32} As one high-ranking official in the Ministry of Labor related to me:

The Law on Bankruptcy does work. However, if one considers the amount of real influence it has had, that is indeed another matter (Tkachenko, 1993).

Consequently, the conflict between parliament and executive was successful in delaying policy-making in this crucial realm and, hence, impeded the overall progress of economic reform. In addition, such inter-elite conflict—and the intense policy paralysis and continued social suffering which it engenders—may also have caused the prospects for successful democratic political reform to ultimately recede even further, as popular support for democracy decreases and support for radical parties intensifies.

\textsuperscript{32} Indeed, according to Sergei Beliaev, the then head of the agency charged with the implementation of bankruptcy proceedings against insolvent firms, the Federal Directorate for Insolvency (Bankruptcy)(under Goskomimushchestvo), his organization was barely operational by late 1993 (Leont'eva, 1993).
The Corps of Enterprise Directors

The directors' corps is yet another powerful interest group which was instrumental in defining the trajectory of the economic transformation taking place in postcommunist Russia. As a general rule, enterprise managers resisted Gaidar's radical approach to market reform, especially the Acting Prime Minister's strict monetary policy. While generally in favor of the Government's privatization program, most directors favored the continued state support of industry - a measure diametrically opposed to the "shock therapy" strategy of reform. As evidence of this, in a poll of enterprise directors in late 1992, nearly 80% preferred to look to the state for investment purposes (Starodubrovskaja, 1994, pp. 64-66). Thus, directors have consistently and successfully sought to obtain credits

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3 Of course, I do not mean to imply that the directors' corps was a monolithic association of managers, with all participants acting in concert and pursuing similar objectives.

34 The researcher - a World Bank economist - selected 105 directors or deputy directors to answer (in personal interviews) questions relating to the economic transformation. The enterprises which the directors represented were of varying sizes, were involved in varying economic activities and had varying ownership statuses. The majority of the enterprises were located within Moscow or in Moskovskaia Oblast', while the remaining firms were located in the regions of Central Russia, Ural and Volga-Viatka. For more on Starodubrovskaja's sampling methodology see Starodubrovskaja, 1994, pp. 57-59.
from various governmental sources,36 thereby constraining the ability of the Government to effectively implement a consistent economic reform program.36 And, as we observed above with respect to the legislature, such an outcome can negatively affect the goals of political reform as well.

In large measure, enterprise managers have sought to lobby the government in a variety of ways, either directly (in person or through ministerial connections) or indirectly through various directorial lobbying organizations.

Direct lobbying of high-ranking governmental figures was often most effective, especially if the supplicant was a manager of a large enterprise (Starodubrovskaya, 1994, p. 62). Indeed, directors of the biggest enterprises were often able to command a hearing before pivotal governmental officials. As one World Bank source related, these directors:

... prefer to act independently when it comes

36 Of course, enterprise directors do not only lobby the executive branch for credits; both the Supreme Soviet (as we have seen above) and the Central Bank of Russia have also obtained considerable attention from various industrial and agrarian lobbies. However, here we will only be concerned with their machinations vis-a-vis the executive branch.

36 And the numbers of applications for "l'gotnye kredity" (or credits with negative rates of interest) are quite large. In the 3rd quarter of 1993 alone, nearly 4,000 applications for such credits, with a value of 9.4 trillion rubles) were registered with the Council of Minister's Commission on Credit (Bekker and Leont'ev, 1993). These credits were in large measure utilized to pay wages (Gontmakher, 1993). For example, it has been estimated that in the military-industrial complex in 1993, up to 70% of all state credits were used to pay workers' salaries (Ozhyogov, 1993).
to obtaining credits from the Government and go directly to Staraia Ploshchad (Kiselev, 1993).

And, as former Deputy Prime Minister Boris Fyodorov described the practices of enterprise directors in a television interview, they:

... come to the Government, as it were, a crumpled slip of paper in hand, asking for a billion, and... get it immediately. No need to develop business plans, to make calculations, to consider different options and so on (Fedorov Interviewed on Congress, Economic Situation, 1993).

Moreover, managers' calls for subsidies or credits were frequently accompanied by threats of instability in their factories or surrounding regions (Commander, Liberman and Yemtsov, 1992, p. 8; Kashin, 1993). Examples of such directorial threats of impending social instability abound.

In February 1994 the general director of the "Krasnoiarsk Machine-Building Factory" called upon both the President and Prime Minister for subsidies for the enterprise in the wake of alleged threats from the work collective to "close off roads," blockade buildings and create a general atmosphere of instability (Tarasov, 1994). A similar situation was presented to the Government by Evgenii Brakov, the general director of the "ZIL Automotive Factory" in Moscow (Karpenko, 1994). The day after at the Metallurgical Combine in Magnitogorsk, a "company town" located in the Urals, factory officials threatened social instability if state credits were not forthcoming from the
visiting First Deputy Prime Minister, Oleg Soskovets (Giant Urals Steelworks Still Hooked on State Cash, 1994).

The Russian Minister of Labor, Genadii Melik'ian, recounted in a speech before the Russian VIP Club in early 1994 how enterprise managers strive to browbeat officials in his ministry, the ministry charged with managing industrial relations," wording their requests for subsidies thusly: "... unless the government delivers on its promises in two or three weeks we will make life miserable for you" (Melik'ian, 1994). A former Deputy Minister of Finance similarly found directors' conduct both disgraceful and objectionable, stating:

Not having received money for their production, they begin to blackmail the government with strikes, to demand the cancellation of those debts for which the government is not responsible (Zhagel', 1993).

In addition, data obtained from interviews with managers at the Stoilensk Integrated Mine-and-Mill Works in Staryi Oskol also support the view that directors employed the threat of social instability as an effective "bargaining chip" in discussions with central governmental figures. Located deep in the heart of the Kursk Magnetic Anomaly and employing over 7,000 workers, the Stoilensk Works was faced

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"... According to one labor market specialist, however, most enterprise directors don't harass the Ministry of Labor for subventions. Instead, "they go directly to the Presidential structures and intimidate the 'powers-that-be' that there will be masses of people thrown out onto the streets" (Kuz'min, 1993)."
with an impending mass lay-off in 1992-1993. However, skillful negotiation by management with officials in Moscow helped to avert "negative consequences" from arising. Thus, it appears that in this case, those above and in many others, the "bargaining chip" of social instability was a useful ploy (Boiko, 1993; Churilov, 1993).

Indeed, as a former First Deputy Minister of Labor related, such threats, especially that concerning unemployment, were used effectively by directors to obtain credits and subventions. In the most revealing statement provided yet by a governmental official, the former official stated:

... that up to now, unemployment is a very powerful political weapon. And practically it's the only weapon the managers have now in their hands. If they have large quantities of people under them, it is the only way to request low-interest credits, or for some other commitments from the Government. Thus, these people (their employees) are used as a political instrument (Kosmarskii, 1993).

Asked to provide an example of director's "blackmail potential" during his tenure in the Government, the official recounted an incident that took place during a meeting of the Government's Currency Committee (Valiutnyi Ekonomicheskii Komitet), headed at the time by Aleksandr Shokhin:

In 1991 and 1992, I was a member of this committee. And, sometime in 1992 a number of administrators from mines and directors of various enrichment factories in Vorkuta came to us and they... declared that if you don't give us either the money for the wages of
their employees or the frozen credits from the International Economic Bank - they were screaming about the 2-3 million dollars that had been frozen by the International Economic Bank - then the enterprises and the related mines will just stand idle. And these enterprises supplied us with a certain metal of great importance and quality and we could never stop work at these mines because this would stop the production of such metals needed for our economy. So, this was a direct threat: either the allocation of credits or the closure of the enterprises and mines (Kosmarskii, 1993).

In the end, realizing that such closures could provoke social instability, the Currency Committee caved in to the demands of the enterprise and mine administrators.

In his autobiography, Yeltsin himself has commented upon how it had been extremely difficult to refuse such personal appeals from influential directors:

So if some middle-aged industrialist comes to me and says in a worried voice, 'Boris Nikolaevich, I have worked for forty years in the petroleum industry.... Such-and-such is happening. There are such-and-such statistics. It's a nightmare; everything's going to hell in a handbasket,' of course I lose my patience. I feel I have to make some changes (Yeltsin, 1994, p. 168).

Besides meeting high-ranking government officials personally, enterprise directors also relied upon a vast network of ministerial contacts to aid them in their lobbying efforts. Despite progress in privatization in the early years of reform, many enterprises continued to maintain close links with their former governmental overseers up through 1993. Thus, according to one former
advisor to the Russian Government, all industrial branch ministries were staffed with persons holding a "centrist position of moderate or slow reforms" and therefore actively lobbied on behalf of their present or former enterprise clients to obtain financial support (Aslund, 1992, p. 6). 38

The importance of such close working relationships should not be underestimated. A former official in the Ministry of Labor described the process by which a significant portion of state subsidies were obtained by industry. Commenting on the great benefits derived from such personal contacts, the official recounted that:

... obtaining pressure from an acquaintance from the corps of directors, a representative of a particular branch industry then comes to the Ministry of Finance and contacts his colleague in the Minfin Department which has responsibility for his particular industrial sector. When they have come to an agreement they proceed to one of the Deputy Ministers of Finance.... I am afraid that in this situation much depends upon personal relationships between different people (Kudiukhin, 1993).

In addition to such close ministerial contacts, pressure from directors culminated in personnel changes in government that brought to power individuals closely allied with such interests, who vigorously acted as lobbyists for various industrial sectors. According to Aslund, the appointments of Vladimir Shumeiko, Grigorii Khizha and

38 Of course, as progress in privatization moves forward, it is quite probable that such enterprise-ministerial ties will not be as strong (nor as significant) as they once were.
Viktor Chernomyrdin in 1992 were motivated by such concerns (Aslund, 1992). Another well-known supplicant for state subsidies who owed his appointment to pressure from vested interests was Aleksandr Zaveriukha, Deputy Premier in charge of agriculture. Indeed, upon coming to power, Zaveriukha stated brazenly: "I have arrived in order to give you (the agricultural industry) money" (Bekker, 1993).

However, such personnel decisions obviously were not orchestrated directly by individual enterprise managers. Such momentous occurrences resulted from the activity of important groupings or associations of industrialists. According to Boris Yeltsin, pressures exerted by such associations were responsible for the personnel decisions mentioned above which ultimately culminated in the unleashing of a torrent of state subsidies to industry. As Yeltsin relates, pressures from the Russian Union of Industrialists and Entrepreneurs (RUIE), the earliest and best known directorial association comprising managers from over 2,000 industrial enterprises, were particularly intense:

Once again I began meeting with factions, deputies, and political movements. The meeting with Civic Union was very chilly." I sensed that the members were talking from a

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39 The Civic Union was a political bloc founded in early 1992 comprising representatives from Vice President Aleksandr Rutskoi's People's Party of Free Russia, Nicholas Travkin's Democratic Party of Russia, and representatives from the Russian Union of Industrialists and Entrepreneurs (RUIE), headed by Arkadii Vol'skii.
position of strength and invoked their contacts with the military-industrial complex. I came away from this meeting with the unpleasant impression that I had stood before them like a schoolboy giving an account of some transgressions (Yeltsin, 1994, p. 203).

It appears that through such personnel changes and the continuation of aggressive lobbying (oftentimes invoking the threat of instability and work stoppages), the RUIE was able to effectively constrain the reformist wing within the Government and encourage the adoption of a gradualistic economic reform program, one more favorable to enterprise directors throughout all of Russia.

Regarding the ever enigmatic lobbying that goes on between the Government and the RUIE, a Consultant at the RUIE's Expert Institute asserted that:

Questions of this nature (regarding obtaining policy preferences for enterprises) are discussed through formal channels and through direct channels, first of all. They are all personal acquaintances, by the way. They call one another, sometimes meeting in working groups. Or, during situations of pure happenstance in their spare time. You know, with us, things do not go on as they do in developed countries. Things are not always visible at the top (Kashin, 1993).

Thus, the RUIE was able to obtain significant rewards for enterprise directors as a whole by forming an outspoken interest group with well-placed contacts at the pinnacle of government and at the foundation, as well.

40 Indeed, RUIE lobbying activities also took place at lower governmental levels. Regarding the vast network of lower-level contacts maintained by RUIE-affiliated research foundations, a well-placed informant asserted: "We have very
However, it is important to recognize that the strength and unity of the directors' corps has often been exaggerated; to be sure, the corps of directors has never been a monolithic bloc (Starodubrovskaia, 1994, p. 66). Not all enterprise managers have the same interests, even those operating in the same industrial sector. And, it is this factor which permitted Yeltsin's Governments to achieve a certain amount of maneuverability vis-a-vis the directors' corps. As a former Deputy Minister of Labor explained:

The Government can maneuver between [sic] certain interests because they (these interests) do not form a united front, actually. And so, the government can in this situation exploit these differences, forming coalitions with some now, changing them later (Kudiukhin, 1993).

Still, the inability of the post-Soviet state to obtain a greater degree of autonomy vis-a-vis the "corps of directors" did in part undermine the Government's capacity to proceed more forcefully with economic reform."2

close contacts with many who work in the Government. Not only with those at the top, but with those people who work in working groups, who prepare documents, etc. With many of them we studied at the university. We have many contacts from the Soviet period and personal ones as well" (Pogosev, 1993).

"Nevertheless, it appears that the influence of the RUJE waned considerably in 1993, especially after the parliamentary elections in December. As Anders Aslund intimated, their early successes can be explained in part by the fact that the RUJE was the first genuine pressure group to appear in postcommunist Russian politics (Aslund, 1992, pp. 10-11).

"In a recent article, McFaul convincingly demonstrates how the "directors' corps" was able to frustrate reformers' attempts to implement their version of privatization. The result of course has been "insider privatization," wherein
Moreover, by undermining necessary economic reforms, such behavior may also have influenced negatively prospects for further democratization in Russia.

Regional Elites

Additional sources of pressure constraining central policy-makers' policy choices were elites from the periphery of Russia. Indeed, available evidence demonstrates that from the beginning of reform many of these elites successfully manipulated the issue of the social consequences of reform in order to obtain certain advantages. These regional pressures gained even greater importance during 1993, as regional elites increasingly began to take advantage of the inter-branch struggle for power going on at the center.

As was true during the Soviet era, Russia's regional authorities continued to be closely tied to the prospects of enterprises operating in their midst. In many cases, these authorities may have been quite dependent upon a few large enterprises for the continued employment of the population and the effective delivery of social services in their regions. It is not surprising then that such elites were actively involved in lobbying central organs on behalf of enterprises located in their environs (Horne, 1994, p. 88).

managers have obtained de facto ownership and operational control of state enterprises and have impeded necessary institutional transformation (McFaul, 1995).
In many cases it appears that regional elites pointedly raised the problem of social instability arising from mass unemployment in their territories as a means to obtain state support. One interviewee asserted that in Chita oblast in late 1993, officials at the local employment bureaus had not paid unemployment benefits for several months due to the lack of resources. Given the rate of unemployment in the region, oblast leaders used the possibility of a "social explosion" to obtain funding from the center (Tsurikov, 1993).

Other respondents claimed local elites were not acting in a manipulative manner vis-a-vis central authorities but, on the contrary, were acting out of genuine concern for preserving social peace. As an official in the Ministry of Economics' Social Policy Complex explained:

...local and regional organs of executive power... are very much concerned about large bankruptcies in their territories. These authorities are bringing their demands to Moscow, to certain Ministries, to the Government and are asking for subsidies or credits. They all know that the bankruptcy of large enterprises in their territories means high unemployment.... (Thus) there is a very real sense that they don't want to allow any kind of social tensions in their territories (Anan'ev, 1993).

43 The Employment Fund of each locality consists mainly of contributions from enterprise wage funds. Since many enterprises in Chita oblast at the time were without resources themselves, the local Employment Fund was similarly affected.
In Dubna, a formerly "closed" city in Moscow oblast, local authorities were also concerned with the issue of social instability arising from high unemployment in 1992-1993. Established in 1955 as a center for nuclear research, Dubna had by 1992 35,000 workers employed in atomic research and related construction industries. In the aftermath of the implementation of "shock therapy" in early 1992, it became apparent that about 15% of the city's work force, i.e., 5,000 workers, were categorized as "excess" workers and were destined to be thrown into the streets.

As an interim plan to maintain employment in the city and preserve social peace, local authorities agreed with directors of enterprises and research institutes in Dubna to transfer the social support obligations of the enterprises to the local administration. In exchange, the city's employers agreed to abandon plans to introduce mass lay-offs of workers. Indeed, the agreement mandated that enterprise funds freed up by the transfer of social services to the city budget were to be used for the creation of new working places (Pod Garantiiu Sokhraneniia Rabochikh Mest, 1992; V Roli Kamikadze, 1992; Vetokhin, 1993).

As a consequence, social peace was maintained within the city and minimal changes in employment were registered. However, the city's new obligations nearly bankrupted the local budget, forcing city officials - in the background of "increasing social tensions" - to besiege the oblast and
central governments with requests for subsidies (Rats, 1993)."

Although some Governmental members viewed such requests skeptically (Krushel'nitskaia, 1993), there is ample evidence which suggests that pivotal central actors believed such "impassioned" appeals from regional elites to be convincing (Kosmarskii, 1993; Kudiukhin, 1993; Sil'vestrov, 1993). Indeed, in a review of economic events to the Russian Council of Ministers, Russia's First Deputy Prime Minister, Vladimir Shumeiko, described the effect such regional pressures had on the Government. Such requests, accompanied with apocalyptic warnings "foretelling mass production stoppages, unemployment, famine and even civil war," forced the Government "to drastically increase the amount of credit channeled into the national economy" (Rossiiskie Vesti, 1993).

In addition to successfully obtaining federal subsidies using the issue of social peace, regional officials were also adept at playing the "sovereignty card" to obtain their desired ends. Given the continuing legislative-executive struggle going on at the center, some regions were able to exploit the issue in order to obtain special funding or to interfere in the policy-making process with the purpose of

"Part of the reason why many regions were extremely dependent upon the center for state subsidies was the existence of the archaic, super-centralized taxation system in Russia (Kudiukhin, 1993)."
initiating or transforming policies deemed important to their interests.

As a former high-ranking member of the Government stated regarding the regions' potential of using the issue of sovereignty to secure state subventions:

Each region tried to have some preferences for itself, and what was very interesting was that in 1992 and the first half of 1993, the less obedient to the center was a region, the more money from the center it got. The majority of dotations were given by the central government to Tatarstan, Bashkortostan, Iakutia, etc. It was a form of blackmail: 'If you don't give us money, we'll proclaim our independence' (Kudiukhin, 1993).

Similarly, regional interests were able to initiate or transform government proposals. According to one government official whose ministry was charged with developing a "Special Program for Assistance to Priority Territories," regional interests were pivotal in inaugurating and designing the program. In particular, the official asserted that lobbyists from the territories were especially interested in determining the criteria which would determine the regions for priority assistance. Consequently, as the official stated, these special interests "...tried to prove to us that each of them were such kinds of territories. All of them demanded assistance, subsidies" (Klokov, 1993).

Moreover, another governmental official explained that regional interests have also at times gained an effective veto over the development of various initiatives within his ministry. As evidence of this, the respondent mentioned an
aborted program concerning the redistribution of duties and responsibilities in the employment sphere between federal and regional levels. While describing the impact that the regions' exploitation of the issue of sovereignty had on governmental policy, the official affirmed that the ministerial proposal was ultimately vetoed,

... as this decision was intimately connected to the opposition that was in existence between the executive and legislative powers at the center and, therefore, the Council of Ministers did not want to make a direct entry regarding this matter or to consider which party was correct and therefore they settled on a decision which had an advisory character, and not one which told the regions how they should act in this sphere of activity (Tkachenko, 1993).

Thus, either through manipulating central governmental figures' fears of social instability or through exploiting the power struggle which gripped the center through 1993, regional elites were able to secure important "favors" from the federal government in the form of state subsidies or policy concessions. Indeed, an indication of how powerful such regional interests have become was afforded to me by a high-ranking member of the Presidential Apparatus. Asked to comment on their role in policy-making, the Director of the President's Department of Social Policy stated:

Thus, when we here are developing decrees regarding just about anything, we must always take into consideration the influence of certain groups of regional interests (Sil'vestrov, 1993).
Once again, therefore, we see that the weakness of the post-Soviet state - e.g., the government's inability to secure a greater degree of autonomy from regional elites - acted to hamstring the process of economic reform in Russia. In turn, given popular dissatisfaction with the deleterious consequences of economic transition, the obstruction of an effective reform program (caused by the lack of inter-elite concord) has to a certain degree affected the course of political reform. Insofar as the social burdens of economic reform continue to plague a majority of Russians, it appears that popular support for extremist parties increases at the same time support for democracy seemingly falters.

The "Official" and "Independent" Trade Unions

As we have seen in Chapter 5, since the "official" trade unions - the successors to the Soviet trade unions - suffered from a number of problems, such trade unions were generally not capable of acting as effective opponents to the executive branch in Russia. Yet, these problems did not prevent their leaders from attempting to exploit the social costs of transition for their own benefit (Kosmarskii, 1993; Rakitskii, 1993; Solov'yov, 1993).

Ultimately, however, the "official" unions failed to rally the workers around slogans of "governmental ineptitude" and "indifference to social suffering," primarily due to the lack of strong worker-union linkages,
but also, as we shall see, because of the Government's successful attempt to manipulate the trade union movement.

Nevertheless, one should not conclude that all Russian labor unions were entirely ineffective and neutralized. In particular, it appears that certain specialized, professional "independent" unions were able to secure important successes in pressing their demands upon government. The so-called "independent" trade unions that were established outside of the "official" unions among miners, transport workers, pilots and air traffic controllers gained considerably in their negotiations with government. In large measure, these unions achieved success because they stood in a powerful bargaining position vis-a-vis the Russian Government.

For example, the Independent Miners' Union ("Nezavisimyi Profsoiuz Gorniakov" [NPG]) was probably the most successful trade union in the early period of postcommunist reform. Having been established in the autumn of 1990, the union played a leading role in the anti-Gorbachev economic and political strikes of early 1991 and in the ultimate drive for Russian state sovereignty vis-a-vis the Soviet state. Allied at the time with various democratic forces, e.g., Democratic Russia, it apparently had a good working relationship with the incoming government of Boris Yeltsin in late 1991.
After "shock therapy" was introduced, NPG successes in negotiations with Gaidar’s Government over wage increases and employment issues were secured due both to their strong bargaining position and their strategic importance to Yeltsin’s forces. In the face of strike threats from the weaker "official" miners’ unions (Teague, 1992), the Gaidar Government was able to achieve "acquiescence" from the stronger NPG trade union by providing them with significant financial incentives. As the First Deputy Minister of Labor at the time commented in 1993,

The negotiating process which averted a significant number of strikes... was done primarily by Kudiukhin and Shokhin. There was an unending conversation resulting in unending compromises.... And, I think, as in all countries, when the miners are disgruntled, they are paid-off (Kosmarskii, 1993).

The NPG also obtained government support due to their political importance in the inter-elite struggle for power. Having been on Yeltsin’s side since the August putsch catapulted Yeltsin to power, the miners constituted an influential political support group that was earnestly sought after by the President. As a former government official in the Ministry of Labor stated:

(For Yeltsin)... it was a political problem. They (the miners) were the supporters of Yeltsin. He needed their support. And (thus) the coal miners were given a lot of money in 1992, by Gaidar actually, and practically it was one of the main reasons for inflation (Kudiukhin, 1993).
Time and again, the Government courted the miners’ union. Before the April Referendum in 1993, Yeltsin decided once more that he needed their continued support. Thus, by granting them further concessions before the approaching referendum - including promised wage increases - the Yeltsin forces were able to secure the support of the miners of Vorkuta, Tiumen and Kuzbas in the referendum (Driakhlov, 1993).

Yeltsin himself discusses his close political association with the miners in his recent autobiography. Echoing the oftentimes difficult relationship which existed between them, Yeltsin reports:

Everyone knew that the miners had a special relationship with me, ever since the days in 1989 when the Inter-Regional Group called for a general strike and they responded with one of their own political demands: the resignation of Gorbachev. Vorkuta and Kuzbas were coal-mining areas I had visited a number of times and to which I would certainly return. Their demands were harshly formulated at times, and they expected a great deal from me, but they supported me during the tough reforms (Yeltsin, 1994).

However, after the October 1993 Rebellion when Yeltsin’s forces emerged triumphant in the struggle for power, the importance of continued miners’ support had apparently diminished, as later the Government forced the miners’ union to agree to a re-evaluation of the state’s plan for coal production. The subsequent draft proposals sought to curtail significantly activities in many unprofitable mines (Driakhlov, 1993).
Indeed, as a former Minister affirmed in December 1993, the backing of the miners was no longer critical for the Russian Government:

Nowadays the situation has changed, because the political support of coal miners is not so urgent for the central Government. That's why they are now on a hunger strike in Vorkuta. I suppose that the Government will pay far less attention to this problem now that the parliament has disappeared. And, if coal miners go on strike, we have a lot of coal in storage. So the metallurgical plants won't shut down the very moment the coal miners go on strike. The situation is like that which existed in Britain in the early 1980's (Kosmarskii, 1993).

Despite the limited successes achieved by various smaller "independent" unions, the "official" labor movement in Russia remained very weak during late 1991-1993, as it had during the Soviet era (Prostiakov, 1993; Rats, 1993). In fact, a former official in Goskomtrud, the State Committee for Labor and Social Questions, characterized the "official" unions as "nonexistent" (Afanas’ev, 1993).

Again, as I have demonstrated in Chapter 5, this was the consequence of weak mass-elite linkages between trade union functionaries and the membership rank-and-file. However, in addition, the labor movement in Russia remained weak and ineffective due to the Government’s successful attempts to manipulate activities in the Tri-Lateral Commission for the Regulation of Social-Labor Conflicts.
The "Social Partnership" Experience: Governmental Manipulation and Trade Union Ineffectiveness

An additional factor conditioning the fortunes of the labor movement in Russia was the Government's approach to "social partnership." Based upon a wide variety of sources, including in-depth interviews with relevant elites, I contend that the Yeltsin administration sought successfully to split the trade union movement in order to diminish its effectiveness. Indeed, the Russian Government used the Tri-Lateral Commission for the Regulation of Social-Labor Conflicts - the "social partnership" organization set up to mediate labor and employment issues among representatives of the government, trade unions and employer organizations - primarily in order to divide the trade union movement.

The federal Tri-Partite Commission was formed in late 1991 and early 1992 by a series of Presidential decrees and Governmental Resolutions, in response to a proposal put forth by the "official" trade unions (FNPR). Similar tri-lateral structures were to be formed at local levels. Such structures were to aid in the implementation of "radical economic reforms and the reinforcement of social concord," by concluding annual agreements between the three parties on general and sectoral wage and employment conditions and by mediating industrial conflicts. In addition, trade unions and employers' associations were given the right to discuss with the Government the preparation of all "normative acts
Many trade union functionaries believed that such venues would offer the labor unions a significant opportunity to exert influence over questions concerning labor (Vlasov, 1993). However, as the following quotation demonstrates, not all trade union functionaries agreed:

We were forced to make a social partnership with them. We were forced to do this, although I think personally it was an insane thing to do. The fact is that with this Government, they don't have any regard for us, especially for the trade unions. They don't have anything in common with us and it will not be so (Solov'yov, 1993).

It appears such concerns were justified as the Government used the forum to manipulate the various "alternative" and "official" trade unions. Indeed, the Government's approach was clear from the very start - when negotiations over the composition of the Commission began in earnest.

The leadership of FNPR became extremely disgruntled when in 1992 the Government reserved for them only nine of the 14 trade union seats on the Tri-Partite Commission. The remaining five union seats were given to smaller "alternative" unions, which represented a little more than 5% of total union membership in Russia (Vlasov, 1993).45

45 According to Pavel Kudiukhin, a former Deputy Minister of Labor and presently the Head of the Expert Council of "Sotsprof" (an "independent" trade union), membership in the "alternative" trade unions amounted to only one-half million
The FNPR leadership believed that by allocating 36% of the seats on the Tri-Partite Commission to such independent unions the Yeltsin government was being wholly unfair to the "official" unions.

Indeed, by assigning five positions on the Commission to the independent unions the Government ensured in 1992 that no single trade union grouping could obtain exclusive bargaining and representation rights. Thus, FNPR was not able to ram through its proposals without obtaining the backing of the other unions (Milovidov and Shulus, 1993a, p. 18). The fact that this was often very difficult to do (as the "alternative" unions, e.g., "Sotsprof," the NPG, the Federation of Air Traffic Controllers' Trade Unions, etc., were generally pro-government), led to charges that the independent unions were created by the Government in order to bring about a schism in the trade union movement (Vlasov, 1993).""

As one Secretary of the FNPR's ruling Council remarked:

Sotsprof was financed from the very first from governmental sources - and during Shokhin's tenure as Minister of Labor it was even located in the building which houses the Ministry of Labor. And all of these trade unions' foreign travel is paid from the

in 1994, with the largest unofficial labor union being "Sotsprof" (Kudiukhin, 1994, p. 77).

""The inability of the "official" and unofficial unions to agree upon membership in the Tri-Lateral Commission's trade union "working group" also caused relations between the opposing union groupings to remain acrimonious (Kirillova, 1992, p. 87).""
government's pockets and their leaders receive their wages from the ministries (Solov'yov, 1993).

Such claims have been supported by other officials as well. The Vice-President of the C.I.S.-wide General Confederation of Trade Unions stated that both "Sotsprof" and the National Miners' Union (NPG) obtain their funding from quasi-governmental sources (Iargin, 1994). Other sources claim that the leadership of the independent unions are "skillfully used" by Government members at Commission meetings in order to obtain the state's desired ends (Markov, 1993; Mironov, 1993).

Thus, such governmental machinations soured relations between the Government and the "official" unions in 1992. However, commenting on the promise held out by the appointment of Viktor Chernomyrdin as Prime Minister in late 1992, Igor' Klochkov, the then Chairman of FNPR, stated in early 1993:

There is a real chance in the beginning of 1993 for the government to turn away from a policy of confrontation toward the construction of an effective and active system of social partnership (Ostapchuk, 1992).

FNPR's grievances were redressed in 1993 - to the misfortune of the "alternative" unions and liberal members

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*In addition, an American trade union functionary has stated that it has been the policy of the U.S. State Department to support certain splinter trade union groups in Russia in order to undermine the "official" trade unions in Russia. It appears that at least $7 million has been spent in support of such "alternative" unions (Perry, 1994).*
of the Government's faction in the Tri-Lateral Commission - when the new Russian Government headed by Viktor Chernomyrdin chose to adopt the suggestions of Igor' Klochkov, the Chairman of FNPR, regarding union representation on the newly-reorganized Tri-Lateral Commission.

The impetus for the change in the government's approach appears to have been, not only the change in Government, but also the appearance of the new Minister of Labor, Genadii Melik'ian - an official with close ties to the "official" unions." Thus, as a result of pressure from both Melik'ian and Deputy Prime Minister Vladimir Shumeiko, FNPR obtained greater rights of representation in the Commission, leaving reform-minded members of the Government's team no choice but to resign from the Tri-Lateral Commission. As one of them later explained, "Melik'ian and Shumeiko were

"Melik'ian's arrival also signalled the beginning of major personnel changes within the Ministry of Labor, as reform-minded officials were replaced by former party apparatchiki from Soviet-era Ministries and State Committees (Kosmarskii, 1993). After such personnel changes, officials in the Ministry of Labor reportedly had established much closer relations with the "official" trade unions (Tkachenko, 1993). Indeed, FNPR Secretary Solov'yov characterized its relationship with the Ministry of Labor after 1993 as a "two-way street," but with the Russian Government as a whole, as "poor" (Solov'yov, 1993). Such a relationship presumably developed due to the fact that the new leadership at the Ministry of Labor largely consisted of former officials from the U.S.S.R. Goskomtrud, a body which had clientelistic ties to the All-Union Central Council of Trade Unions (VTsSPS), the predecessor to FNPR.
attempting to give the old unions great representation in
the halls of the tri-partite commission" (Kudiukhin, 1993).

The Government’s new approach notwithstanding, FNPR
continued to negatively evaluate the activities of the
federal Tri-Partite Commission, labeling the organ
"indecisive," "ineffective" and ultimately a "nonviable
mechanism" (Bulgakova, 1993; Solov’yov, 1993). 49
Frequently, a quorum of governmental members was not even
achieved; when the requisite number were in attendance,
FNPR representatives claimed the proceedings often became
rancorous. As one Tri-Partite Commission delegate told me:

... if we have to sit there and discuss and
discuss a question, it is because we are at
odds with the Government. More often than
not, we demand one thing and the Government is
against it. It’s very difficult. We talk and
talk and talk and once again we are back at
the beginning (Bulgakova, 1993).

49 Explaining why the Commission was "ineffective" and
"nonviable," a leading "official" trade union functionary
mentioned the weakness of its negotiating partners on the
Governmental side. The official maintained that "... the main
shortcoming is the fact that we don’t have a government,... we
have a country that is run by Goskomimushchestvo (the State
Property Committee) and Minfin (the Ministry of Finance). All
the remaining members of the Government are merely 'empty
places,' that is, one hundred and fifty 'positions without
business' that cannot implement even one decision. And if
they do make them, they aren’t fulfilled because they are
subordinated to Minfin and Goskomimushchestvo.... And this is
very important for a social partnership: how effective can...
agreements be if they are signed and written by people who are
not answerable for these decisions?" (Solov’yov, 1993).

50 According to more recent newspaper reports, the
Government side frequently failed to obtain a quorum – the
attendance of at least two-thirds of its delegates – well into
Although senior trade union functionaries claim they took part in the preparation of all laws and normative documents connected with labor issues, at the same time they maintain that:

... as a rule, the Government doesn’t take into consideration the position of FNPR. It appeared the highest levels wanted serious work, but it turns out that it was only politics. I personally evaluate it as only political maneuvering - all of this 'social partnership' mumbo-jumbo. It was useful for them and for those who had political goals. The main thing is of course that the government here is attempting to demolish and break the unity of the trade union movement (Solov'yov, 1993).

Even a former member of the Government’s delegation to the Tri-Partite Commission claimed the Government had not demonstrated a constructive approach to the proceedings and that "social partnership remains a game of high politics" (Kudiukhin, 1993; Kudiukhin, 1994, p. 71). Indeed, the former Deputy Minister of Labor asserted that from the Commission’s inception different people had widely divergent ideas about the mechanism’s purpose and how it should function.

For reform-minded individuals in the Government, the Tri-Lateral Commission was to be modeled after successful social partnership organizations in Austria, Germany and Sweden (Kirillova, 1992, p. 86). Thus, such members were attempting:

... to create a really civilized system of conflict resolution.... For other people,
like Burbulis,\textsuperscript{51} it was first of all a measure to manipulate social subjects, e.g., the trade unions, employers' organizations, etc.... For the trade unions, it was mainly some field of political game. There was competition between all the new unions, and it was the same for entrepreneurial organizations. For them, it was some kind of lobbying organization where they could meet with government representatives... (Kudiukhin, 1993).

Insofar as the reformist view regarding the construction of a "social partnership" with trade unions and employer organizations never gained the upper hand within the Government, the Yeltsin administration chose to forsake serious dialogue for political machinations.

In the final analysis, the Government chose this course of action as it realized that the "official" unions were not able to depend upon the support of significant numbers of workers. As one official in the Ministry of Labor said in 1993, the Government considered FNPR to be "as before, a paper tiger, incapable of organizing any sort of serious mass action" (Zasurskaia, 1993).\textsuperscript{52}

\textsuperscript{51} Genadii Burbulis was a close associate of Yeltsin in the early years of reform and was the first Coordinator of the Tri-Lateral Commission.

\textsuperscript{52} In addition, the Government's hostility toward the Tri-Lateral Commission's "official" union representatives grew as the divide between the executive and legislative branches increased in 1993. For their part, the "official" unions supported the actions of the Supreme Soviet, where a trade union "lobby" of 80 deputies existed (Vlasov, 1993).
Thus, though an interesting experience, the Tri-Partite Commission ultimately was a failed one (Kudiukhin, 1993). Having been developed virtually overnight, it suffered from a number of difficulties, among them the absence of a sufficient normative or legislative foundation (Gladkii, 1993; Kiselev, 1993, p. 19), the lack of a specific "mentality" among all participants which eschews confrontation and values constructive dialogue (Maslova, 1994, pp. 80-81), the undeveloped nature of the various sides of the social partnership "triangle," especially with regard to employers' associations (Kirillova, 1992; Kiselev, 1993, p. 17; Kudiukhin, 1993), and the irreconcilable differences which inhibited the various factions on a particular "side" from achieving a degree of solidarity (Kirillova, 1992, p. 85).

In addition, for the "social partnership" to operate effectively, it was essential that all three "partners" had separate interests and pursued separate goals during the

"Sergei Vasil'ev, an advisor to the Russian Government, supported this view, labeling the development of the Tri-Lateral Commission a "mistake" in 1993 (Ol'sevich, 1994, p. 60).

Since that time, events have demonstrated that the forum continues to be plagued with failures, as the "General Agreement for 1994" had not been signed by the Commission's delegates as of early April 1994. The document was to have been ratified by the Commission's participants the previous December (Debaty Zatianulis', 1994).

"Indeed, in Russia's periphery, tri-lateral agreements had hardly been concluded as of late 1993; in many cases, tri-partite structures hadn't even been formed (Kostin, 1993)."
negotiations. However, for the Government in particular, this was impossible; indeed, it was not unusual that various government agencies were pursuing radically different ends. As a former government participant stated, it was a "basic mistake when representatives of all these Ministries sat down on the same side as the Government, with all of their varying interests." Therefore, rather than a "Tri-Lateral Commission" it may have been more precise to call it a "Seven-Lateral Commission" (Kudiukhin, 1993).

Yet, in hindsight, the Commission's failure was ultimately the result of the Russian Government's insincere approach to the "social partnership" negotiations. Such an approach was motivated by the Government's desire to manipulate the trade union movement, thereby reducing the risk of effective union opposition to the Government's program of economic reform.

**Conclusions**

The present chapter has demonstrated that the Russian Government was besieged from all quarters with pressures to restrict the scope and progress of economic reform. The leadership of the Supreme Soviet, the "official" trade unions, along with significant industrialist groupings and various regional interests, all opposed at one time or

**Moreover, this chapter has also demonstrated that widespread intra-branch conflict has also had a deleterious impact upon the course of economic and political transition.**
another the Russian Government's plans for economic transformation; oftentimes these oppositional factions acted in unison to forestall Governmental initiatives.

This chapter has further confirmed that each group attempted to restrain governmental economic initiatives - or, indeed, obtain a decisive victory in the inter-elite struggle for power - in part by utilizing the social costs of the economic reform as a political weapon against the Russian Government, i.e., by appealing to the masses in the interests of the masses.56

Moreover, interview data do suggest that, in the background of the ensuing inter-elite conflict brought about by the failure to reach agreement on the powers, prerogatives and boundaries of state institutions and actors, these oppositional maneuverings (especially those emanating from the Supreme Soviet leadership which were directed at the growing presence and mobilization of extremist parties and movements in 1992-1993), did make the Russian Government sensitive to the social costs of economic reform. In short, Government elites feared the social costs of transition - especially those concerning unemployment -

56 However, certain oppositional groups were more effective in manipulating the Government with the issue of the transition's social costs. In particular, the director's corps, the legislature and regional elites were quite effective in using the issue to secure subsidies or policy concessions from the Government. As we have seen, the "official" labor unions were somewhat less successful in achieving their desired ends.
being used as an effective political weapon against the incumbent Government. Accordingly, the economic reform trajectory was subsequently altered in order to alleviate such pressures.  

Such inter-elite machinations undoubtedly poisoned relations between these elites and, thus, further impeded the construction of an elite-level political settlement and progress toward democratic consolidation in Russia.

In hindsight, President Yeltsin himself lamented not having concluded a political settlement with his opponents before launching economic reforms. Twice in his autobiography, The Struggle for Russia, Yeltsin acknowledged the error, stating:

Maybe I was in fact mistaken in choosing an attack on the economic front as the chief direction, leaving government reorganization to perpetual compromises and political games (Yeltsin, 1994, p. 127).

There was not time to pass a new Constitution. We were hurrying with economic reforms and left the political reforms for later. That was a mistake (Yeltsin, 1994, p. 190).

In addition, the Russian Government also attempted to "liberate" itself from these pressures by maneuvering between factions within the various opposing groups. As we have seen, the most successful illustration of this tactic was the Russian Government's manipulation of the trade union movement in the Tri-Lateral Commission negotiations. In addition, the Government sought to maneuver among various industrialist lobbies, though the results here were less favorable. Nevertheless, the Government was able to obtain a measure of freedom from such pressures by maintaining alliances with certain groups and changing them as it became necessary (Kudiukhin, 1993).
At the same time, the "muddling" of economic transformation - caused by the incessant internecine warfare among elite groups and state institutions - may have seriously impaired the prospects for successful democratic development in Russia in an alternative fashion. Indeed, insofar as the continuous jockeying for political pre-eminence deleteriously affected the policy-making process (e.g., by impairing the creation of a comprehensive unemployment insurance program) and prolonged the economic crisis, additional social dissatisfaction with the continued costs of economic transition may have been generated, thereby increasing popular support for extremist groups, alienating individuals from the ideals of democracy and constraining attempts by representative institutions to build legitimacy.

However, as we shall see in the following chapter, additional factors were responsible for the curtailment of reform in Russia's case. Indeed, the perceptions of pivotal governing elites regarding the consequences of radical economic reform for political stability within Russian society played a major role in curbing reform processes in 1991-1993.
CHAPTER VII

Barriers to Economic Reform:
Elite Perceptions of Permissible "Social Costs"

No one is thinking of laying all the difficulties and deprivations of the introduction of the structural re-orientation on the shoulders of the population, to throw the people out onto the streets.

- Aleksandr Shokhin,
  Deputy Prime Minister¹

To use a purely monetaristic approach and not notice what’s going on in society means the cost of a social explosion could be dearer.

- Iurii Iarov,
  Deputy Prime Minister²

Introduction

Thus far, we have considered the significance of several variables in forestalling economic reform in postcommunist Russia. Chapter 5 demonstrated that overt social mobilization did not act as an important constraint on the Russian economic transformation. Indeed, the Russian population have for the most part remained quiescent and have stoically endured the pain of the transition. At the

¹ Shokhin’s quotation was taken from an article reviewing the Russian economy’s performance in 1994 (Shokhin, 1994).

² The Deputy Prime Minister in charge of social policy was quoted in a Reuters article, "Russian Jobless Could Hit 14.5 Million by End of 1994," April 6, 1994.
same time, however, it appears that the costs of the transition have generated substantial and increasing support for anti-system or extremist parties, while reducing popular support for democracy per se.

In addition, the preceding chapter revealed that opposing elite groups have not passively accepted the social costs of reform, but have in some cases actively exploited such costs to their advantage in the inter-elite struggle for power. Consequently, oppositional elites were quite capable of obstructing the progress of reform.

The present chapter considers the extent to which the perceptions of governing elites concerning the permissible levels of transition-related social degradation have affected the trajectory of economic reform. In other words, have governing elites themselves scaled back reform because they perceived the costs of economic reform, particularly that of unemployment, to be politically de-stabilizing? Has this anticipated reaction of government elites, in and of itself, brought about a scaling back of the reform program? This variable has not heretofore received significant attention in the literature on democratic transitions (Przeworski, 1991; Bresser-Pereira, et al., 1993; Bryant and Mokrzycki, 1994).

In Russia's case, this factor does indeed appear to have been significant, at least in the initial period of
postcommunist reform.\textsuperscript{3} As will be demonstrated throughout the chapter, data obtained from elite interviews and additional primary and secondary sources confirm that Government policy-makers perceived that the "social costs" of particular reform policies, especially that of mass unemployment, may have produced, once implemented, significant social mobilization and political instability.\textsuperscript{4}

Cursory evidence culled from oppositional elites' remarks certainly supports this view (Iavlinskii, 1993, p. 69). As one of Grigorii Iavlinskii's senior research associates at the renowned Center for Economic and Political Research (EPICenter) maintained:

One can say that unemployment is feared equally by the population and the government. Incidentally, this is why state agencies for a long time preferred to offset production slumps with new emissions of paper money,\textsuperscript{5}

\textsuperscript{3} Again, the present study spans essentially a two year period - beginning with the inauguration of market reform in late 1991 and ending with the 1993 October Rebellion and the parliamentary elections of late 1993.

\textsuperscript{4} Policy-makers were not only fearful of widespread social mobilization, but also instability gripping certain sectors of the economy. For example, governing elites were particularly concerned about opposition among the miners, as they remembered the pivotal role that miners had played in the economic and political strikes of 1989 and 1991 (Kudiukhin, 1993).

\textsuperscript{5} Indeed, as we have seen before, for a variety of reasons (e.g., inter and intra-branch conflict, the institutional weakness of the newly-created employment organs, the paucity of funds, etc.) the Russian Government was incapable of devising proactive policies of employment in the early postcommunist period. We will return to this matter in
sacrificing the already very low living standard of broad strata of the population to the idea of full employment (Iarygina, 1991).

Thus, the evidence in this chapter will reveal that, even though the Russian population remained exceptionally quiescent throughout the period, governing elites were apprehensive of a societal backlash in the face of a curtailment of employment opportunities. Ultimately, these elites believed that such political instability would necessitate the abandonment of the reform program, as well as the loss of power to conservative forces opposed to further economic or political reform. As the current First Deputy Minister of Labor revealed during an interview:

> And I can say this very succinctly even - that the Government is not considering the problem of destroying production and paying unemployed people, in order to make inflation disappear. This is not in the offing. What is more, we consider that today when the lack of investment is serious.... if there is no investment, there will be no work places. What is more important today then? To throw these people out for the sake of effective employment, so that the day after they will take pitchforks and hammers after us? It is clear that this would be stupid! And incorrect.... Therefore, we believe that today we have to keep people at the enterprises, rather than search for effective employment of the people (Kolosov, 1993).^6

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^6 Such perceptions are not only held by national elites; parallels exist at the local levels, as well. In Chita oblast' local elites, afraid of the potential for social instability arising from possible mass lay-offs at the region's enterprises, established measures to impede such processes from taking place (Anatolii Ivanovich _____ , 1993).
As a result of such perceptions and fears, certain governing elites attempted either to arrest the reform's progress, in the hopes that at a more propitious date reform processes would be spurred onward or to "demonstrate" that the Government was truly concerned with the issue of unemployment, by instituting various policy measures which had no discernible impact, but served the purpose of propagandizing the Government's regard for society.  

By examining policy-makers' statements concerning the general macro-economic strategy of the Russian Government during early 1992 and, more importantly, by examining two specific "decision points" or "crucial junctures" which culminated in the rejection or adoption of a particular policy, it is my contention that these elite perceptions and calculations will be illuminated and the thesis under consideration supported. In the final analysis, the significance of this variable for understanding the ultimate trajectory of postcommunist reform in 1991-1993 was prompted by the inability of authoritarian, Leninist state institutions to recast themselves from ones which kept societal forces at a distance to ones which were capable of both channeling the positive energies of society into

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*Indeed, such measures, such as the Presidential Decree "On Additional Measures to Support the Citizen's Right to Work," were frequently introduced at opportune times in the electoral cycle, i.e., in the run-up to the April 1993 Referendum.*
sources of support for governing elites and the negative forces into acceptable avenues of conflict resolution.

**Russian Reformers: Radical or Reticent?**

A careful reading of Russia's first years of economic reform reveals that, besides opposition from their rivals, governing elites' perceptions of the consequences of radical reform for political stability were significant for understanding the zigzag, wavering trajectory of economic transition.

Indeed, the first significant modification in the Russian Government's financial-credit policy - the policy "correction" in mid-1992 that released billions of rubles in credit to financially-strapped enterprises - was motivated in part by such concerns.

Since the introduction of Gaidar's "shock therapy" reform policies in early 1992, enterprises across Russia had become increasingly pushed toward insolvency. The tough fiscal and monetary policies of the first quarter of 1992, along with price liberalization and technical problems plaguing the banking sector, generated an enormous increase in inter-enterprise arrears.

Still, Gaidar persisted in the idea that the Government's strategy was correct and implicitly regarded the reform's social consequences, particularly that of unemployment, to be of only secondary importance. In fact,
after discussing the law-like relationship existing between inflation and unemployment* in the background of the growing inter-enterprise debt problem, Gaidar nonetheless asserted his opposition to freeing up credit, preferring the resultant unemployment:

We feel nevertheless that the choice has to be made in favor of a speedy stabilization of the consumer market and lowering of the rate of price rises, and that at present this is decisive. As time goes by, towards the end of the year, problems relating to employment will gain increasing significance for us ("Gaydar [sic] Reviews Consequences of Reforms," 1992).

Within weeks of this statement, however, the Government's tight money policy had virtually bankrupted Russian industry. One source maintained that by the end of the first quarter, up to 80% of all enterprises were on the verge of bankruptcy (Kotliar, 1993). Whatever the actual figures, it is certain that a significant portion of Russian enterprises was facing insolvency and mass lay-offs were imminent, presenting the Government with the serious political problem of high unemployment.

Consequently, senior government officials began to speak of the need to "make certain financial transfusions (in order) to prevent such a social problem as unemployment" from appearing, especially in the agricultural and defense

* Gaidar was referring to the Phillips Curve. Named after a noted British economist, A.W. Phillips, the "curve" and the body of literature associated with it presumably allow policy-makers to make a trade-off between inflation and unemployment, so that less of the former can be secured by enduring more of the latter (and vice versa).
sectors* ("Officials Cited From 15 February Reform Conference," 1992, p. 45.)

As we have seen in previous chapters, opposition from the corps of directors was significant for understanding the path of economic reform in Russia. Indeed, after analyzing evidence obtained from interviews with Russian officials in government and certain oppositional groups, as well as other primary and secondary sources, it is my contention that pressures on the Gaidar Government from the so-called "industrial lobby" caused in part the first major policy reversal in early 1992, i.e., the disbursal of a torrent of credit to industry which had the effect of seriously impairing Gaidar's macro-economic reform strategy.

During the growing crisis in industry, the leaders of the "corps of directors" spoke vociferously about the threats of the continuation of Gaidar's policies: they would ultimately lead to an enormous decline in production, a deterioration in the defense capabilities of the newly-formed Russian state, mass bankruptcies and unemployment.

Indeed, as we have seen in the last chapter, one threat which the industrialists particularly used to great advantage was that of massive unemployment and social instability. By playing upon the Government's fears of strikes, demonstrations, etc., the industrial lobby was very

* This quotation was from an address presented by Aleksandr Shokhin, then the Minister of Labor and the Deputy Prime Minister in charge of social policy.
successful in securing state credits for industry (Kashin, 1993; Kosals, 1993). As a senior research consultant at the Russian Union of Industrialists and Entrepreneurs’ Ekspertnyi Institut recalled, industrialists used scenarios such as the following to unnerve the Government and thereby induce it to relax its strict financial-credit policy:

’If the severe credit policy is continued then in the "unneeded branches" - e.g., machine-building, chemicals, raw material branches, light manufacturing industries - they would be severely affected. In practice, if this occurred, then in very many regions there would be zones of social poverty (zony sotsial'noi bedstvii). Because in many small cities... there is one factory and around it is one small settlement. If the factory closes, the city would die. In Moscow there are many large enterprises which if they were to die, and their work force thrown onto the streets, who knows what would happen.’ They (the Government) were also afraid of this. And (thus) the directors of enterprises softened the situation (Pogosev, 1993).

However, in addition to pressures from such rival forces, it appears that the perceptions of pivotal governmental elites regarding the consequences of a continuation of a tight money policy for unemployment, and ultimately, for political stability were also important, in and of themselves, for understanding the rejection of such an austere financial-credit policy. In fact, after analyzing interview data obtained from Russian officials in both government and oppositional groups, it is my contention that changes in central policy-makers’ beliefs concerning the potential deleterious political consequences of
continuing to deny credits to industry in part caused the policy reversal (Bulgakova, 1993; Gontmakher, 1993; Kokin, 1993; Kolosov, 1993; Kosmarskii, 1993; Rakitskii, 1993; Tkachenko, 1993, et al.).

For instance, the Deputy Prime Minister overseeing the Government's social policy spoke early on of the need to avert mass unemployment and its attendant political consequences, thereby implicitly signalling the end of "shock therapy" and a strict credit policy. In an Interfax report, Aleksandr Shokhin spoke of the perilous choice confronting the Russian Government:

Generally speaking, additional issues spell great danger. The Government, however, has to choose between a high rate of inflation and overwhelming decline of production output, multiple bankruptcies and enormous growth of unemployment.... on the one hand, we shouldn't succumb to hyperinflation; on the other, we should sustain all the leading branches and enterprises (italics added) ("Shokhin on Reconstruction, Reorganization," 1992).

Additional firsthand accounts revealed that the decision ultimately made by Government officials was not an altogether difficult one. The perceived consequences of financial stringency precluded pivotal Government elites from choosing that option, as "the Government was afraid of this 'social blow,' this 'social explosion,' and so the
government tried to prevent such a course of events" 
(Kudiukhin, 1993; Moskvina, 1993).  

Perhaps the turning point in the reassessment period of the Government's approach to macro-economic policy occurred when President Yeltsin began to believe in mid-1992 that Gaidar and his "fellow travelers" in government were making decisions entirely divorced from reality. Indeed, Yeltsin has written of this and his resultant disappointment with the radical reformers in his latest autobiography: 

Soon it became evident that the Gaidar government, which was rapidly making one decision after another, was in complete isolation. Gaidar and his people never traveled around the country to take the pulse of the nation (Yeltsin, 1994, p. 158). 

Consequently, it appears Yeltsin made the decision to opt for higher inflation, rather than suffer excessive levels of unemployment. In fact, during an interview in October 1992 with journalists from Trud, Yeltsin clearly indicated his antipathy toward high unemployment and feared the political consequences of it:  

The Russian Government's course is geared 

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10 Perhaps one factor promoting the "skittishness" of post-Soviet (and Soviet) governing elites was the lack of longstanding experience with any sort of social opposition or mobilization. Indeed, before 1989 mass demonstrations, rallies or strikes largely had not occurred. Thus, to such elites, any demonstration meant instability, or at least the threat thereof. 

Again, one of the reasons why the postcommunist Government was afraid of social mobilization was because they had witnessed the effectiveness of social protest in weakening the Soviet regime (Kosnarskii, 1993; Kudiukhin, 1993; Matskovskii, 1993; Kullberg, 1995).
toward preventing large-scale unemployment and helping people pull through somehow.... At the same time I cannot agree with those who reproach us by saying that reform has virtually been betrayed. It is making headway. We are keeping a balance, otherwise we would have to pay too high a price and would jeopardize first and foremost civil peace and stability in Russia. And we must in no way allow a social explosion to occur. It would sweep away all the reforms and visit incalculable misfortunes upon the people... (Golovachev, Lepskii and Potapov, 1992).11

Accordingly, the Government's credit policy was slackened and Russian industry was sheltered from mass bankruptcy and the attendant unemployment. Thenceforth, it became apparent that the extent of unemployment in Russian society was a significant factor determining the severity of the Government's financial-credit policy (Layard, 1992; Kosals, 1993; Ozhyogov, 1993; "Russian Labor Minister Addresses ILO Conference," 1993).12

11 Although he had earlier declared that "the new armies of unemployed cannot count upon great support from the Government," in the wake of the settlement of the credit crunch even Acting Prime Minister Gaidar belatedly admitted the necessity for a "go-slow approach" toward unemployment during an address to the Supreme Soviet in the fall of 1992, stating that "... at present, that problem (unemployment) is becoming a most important issue for social conflict" ("Gaydar [sic] Sees Mass Redundancies in Arms Industry," 1992; "Gaydar [sic] Addresses Supreme Soviet," 1992).

12 However, even though radical reformers within Government continued to rail against credit emissions to state enterprises, in fact many Government reformers sanctioned them. As a radical former Deputy Minister of Labor asserted, "though Fyodorov and Gaidar and that whole line of reformers in the Government pronounced that they needed to cut back on dotations to industries, and they criticized the Central Bank for subsidizing them, in a real sense because the reformers feared uprisings, or some kind of social tensions, they were more or less quite inclined to go along with financing these
In the next two sections of this chapter, we will examine two policy proposals which illustrate more precisely the fears that governing elites had of mass unemployment. Each of these proposals either was rejected or inspired by a combination of factors: however, of paramount importance were the elite perceptions of the consequences for political stability of mass unemployment.

The Campaign for Inventoriong Loss-making Enterprises

Shortly after the liberalization of prices was initiated in early 1992, various reform-minded officials within the Russian Government and the Ministry of Finance began to speak about the necessity for proceeding with genuine structural reform. Accordingly, such officials considered that an appraisal of state-owned industry was an essential step in the structural transformation of the economy, i.e., classifying industrial enterprises according to whether such enterprises were profitable or not. After having come up with a comprehensive register of debt-ridden enterprises, it was thought that the improvement of state-owned industry as a whole could be brought about best by introducing selective bankruptcy proceedings against those enterprises deemed hopelessly unprofitable.

enterprises" (Kudiukhin, 1993). Indeed, the Government as a whole found it rather useful to use Gerashchenko's Central Bank of Russia as a "whipping boy" in order to help maintain its reformist image in the West (Meacher, 1993).
At this time it was believed that from one-fourth to one-third of all state enterprises in the Russian Federation were unprofitable ("planovie ubytochnie predpriiatiiia"). Such enterprises existed on state-provided handouts, funds which - unlike government credits - were never reimbursed by state industry to the federal budget. The majority of these enterprises were inside the military-industrial complex, as well as in public services, e.g., virtually every municipal transportation system (Kudriukhin, 1993). In the background of Gaidar’s strict fiscal and monetary policies, such concerns had become a great strain on the government resources. As one government participant reported:

After the first steps of price liberalization, we understood that this problem had switched from a closed one to an open problem. We understood that we had to do something to deal with it, because it’s impossible for the budget in the situation we were then in: to continue granting these unreturnable credits to industry (Kosmarskii, 1993).\(^\text{13}\)

Hence, those officials championing a bankruptcy program for industry needed first to generate a detailed register of state enterprises which were hopelessly unprofitable.

\(^\text{13}\) Vladimir Kosmarskii was a First Deputy Minister of Labor in 1991-December 1992. During most of that period Kosmarskii actually led the Ministry of Labor, owing to the fact that the Minister of Labor, Aleksandr Shokhin, was preoccupied with the responsibilities of his other office, Deputy Premier in charge of social policy. After leaving his post in December 1992, Kosmarskii was employed as a senior analyst in the Government’s "Saburov Institute," the Center for Information and Social Technologies located on Staryi Ploshchad. He now works at the Economic Analysis Institute in Moscow. For more on Kosmarskii, see Aslund, 1995, p. 91 and Ingwerson, 1995.
However, even merely advocating the creation of an inventory of loss-making enterprises was infeasible during 1992 due to the lack of political support at the "very top level" in the executive branch. As the First Deputy Minister of Labor stated, the proposal to conduct an inventory of troubled firms was "just mere talk in 1992, which never resulted in any decisions, actually" (Kosmarskii, 1993).

Indeed, even the reformist wing of Government, in the face of the difficulties it had confronted with its harsh credit policies that year, approached the subject of inventorying loss-making enterprises extremely cautiously. This came as a surprise and a shock to one radical reformer in government service, who asserted:

For me it was hard to assess the evolution of Yegor Timurevich’s\(^4\) position (on this). It has always been surprising to me that at the same time that they (the reformist wing in Government) are carrying out market transformations, that before the country somehow remains the question of bankruptcy.... As a result, today I believe we have a phantasmagorical economic situation. Everything that one sees is 'hidden.' We have 'hidden' unemployment and bankruptcy is also here 'hidden'... when a mass of unprofitable and indebted enterprises are all the same continuing to work, they are not closed, their property is not resold, the employers or owners are not changed, etc. Thus, I am not able to say that I sense their (the reformist wing's) real and actual activity in this domain (Shpil'ko, 1993).

\(^4\) The interviewee is referring to the then Acting Prime Minister and Minister of Economics, Yegor Gaidar.
In early 1993 the idea of conducting a serious assessment of the profitability of state enterprises was seized upon once again. This time the proposal benefitted by a strong advocate in the newly-appointed Deputy Prime Minister and Minister of Finance Boris Fyodorov. According to former officials in the Ministry of Finance, Fyodorov understood that serious progress could not be made in implementing a strict credit or finance policy unless something was done about the unprofitable enterprises. Taking the "Treasury view," Fyodorov recognized that billions of rubles in subsidies could be saved by turning off the "ruble spigot" to state enterprises that manufactured products which were entirely unneeded. While acknowledging that this would lead to higher levels of unemployment, Fyodorov considered that this alternative was much less painful for the economy as a whole than allowing firms to continue to be driven out of business by high inflation rates (Shapiro, 1993).

At the very least, Fyodorov believed the campaign for classifying state enterprises according to their potential for profitability was essential in order to simply present unprofitable enterprises and their directors with a threat of insolvency, to "show them that the life they used to live is over" (Kosmarskii, 1993; Shapiro, 1993). As a Western advisor to the Ministry of Finance stated,

... if you tell enterprise managers that they are loss-making and that he is going to lose
his job, you get a very different reaction than any other kind of threat you make. So that’s another reason for it (Shapiro, 1993).18

Thus, in February 1993 Fyodorov assembled a team of government experts from the Center for Social and Information Technologies and the Working Center for Economic Reforms in order to conduct the appraisal of loss-making enterprises. The team set about devising complex models which would presumably determine the profitability of enterprises in the Moscow, Vladimir and Iaroslavl regions.

However, within less than a month, support for such a program was withdrawn at the very highest levels of government. This support was revoked because, as one former official responded,

Mr. Yeltsin was very afraid of mass unemployment. And everybody advising him realized that bankruptcies will end in mass unemployment. And it (the enterprise evaluation program) was a political threat for everybody, a social threat for everybody within the Government. And, no government which is at the beginning of hyper-inflation can afford mass unemployment for itself. It is a political death for the Government (Kosmarskii, 1993).

After a short while even Minister Fyodorov realized that the crusade for "industrial evaluation" was futile.

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18 The response by directors threatened with the loss of their positions has been the liquidation of outstanding debts with an immediate infusion of capital which had been squirreled away elsewhere. According to an economic advisor to the Russian Ministry of Finance, it is estimated by governmental sources that the annual illegal flight of capital abroad had reached $12 billion by 1993 (Shapiro, 1993).
According to one astute political participant, Mr. Fyodorov realized that if he were to try to implement both financial stabilization - which would make him a very unpopular man (even within the Government) - and the appraisal of state-owned firms, he would not survive as either a Deputy Prime Minister or as a politician (Kudiukhin, 1993).

Consequently, the proposal to create an inventory of troubled enterprises remained just that throughout 1993 - a proposal.

In the above instance then, we see that the primary cause for the withdrawal of the "industrial evaluation" project was opposition from senior officials within the Yeltsin administration. In particular, President Yeltsin and Prime Minister Chernomyrdin themselves were not willing to risk the downfall of the regime, owing to their fears that going ahead with such a policy would inevitably lead to massive unemployment and tremendous instability (Gontmakher, 1993).

In addition, it cannot be ruled out that the proposal for inventoring loss-making enterprises was rescinded in

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To be sure, remaining politically viable was extremely important for Minister Fyodorov, who had his sights fixed on the position of Chairman of the Central Bank of Russia (Shapiro, 1993).

Again, Deputy Prime Minister and Minister of Finance Boris Fyodorov ultimately declined to press forward with the policy as he understood that by advancing the proposal at that juncture both his government portfolios and his political career would be put in jeopardy.
March 1993 also due to the governing elites' concerns that the opposition might use the issue against the Government in the upcoming April Referendum (Kosmarskii, 1993).18

Thus, the policy proposal was shelved for an indefinite period. Although government policy-makers, e.g., Prime Minister Chernomyrdin, continued throughout 1993 to play lip service to the idea of structural reform, and therefore, the necessity to evaluate the profitability of state industry,19 the Government's actual structural reform policy continued to favor prolonging the process of de-subsidization of monolithic, out-dated and over-manned industries.

Executive Branch Policies Forestalling Mass Unemployment

Soon after the personnel changes in the Russian Government were solidified in the wake of the disastrous 6th Congress of People's Deputies in late 1992, the newly-confirmed Chernomyrdin Government presented its economic restructuring plan for the near term. One significant ill the new structural policy was supposed to address was the growing problem of unemployment. Indeed, the structural reform program included special mention of the need to

18 However, since presumably it was not widely known that the Ministry of Finance was considering the policy, electoral considerations may not have been of great significance.

19 See, for example, Chernomyrdin's speech to the Russian Council of Ministers on August 6, 1993 (Ekonomicheskie Mery Pravitel'stv..., 1993).

In the background of the restructuring program, an "innovative" program was developed wholly within the Russian Ministry of Labor which sought to strictly control the level of open unemployment in Russia. This program would eventually serve as the core of both a Governmental Resolution and a Presidential Decree.

According to data obtained from interviews with leading former and present officials of various Russian governmental agencies, a mixture of motives helps to explain the promulgation of these two executive acts. Once again, of paramount importance were the concerns of leading governmental members regarding the potential de-stabilizing consequences of mass unemployment. In addition, electoral considerations presumably played a role in the policy's adoption. As well, the personal political ambitions of certain officials within the Ministry of Labor were

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20 According to at least two sources, some consultations were held with representatives of the "official" trade unions (FNPR) during the formative stages of the policy's development (Kokin, 1993; Tkachenko, 1993.)
significant in inspiring the decree's development and eventual passage.21

On April 21, 1993, President Yeltsin signed his name to Presidential Decree No. 471, entitled "On Additional Measures In Defense Of The Employment Rights of Citizens Of The Russian Federation" (O Dopolnitel'nykh Merakh..., 1993). This decree sought to preserve existing jobs, postpone mass lay-offs at state enterprises and limit the increase in unemployment. It also set the stage for the promulgation of a series of other supporting normative acts, which were later formulated by either the Russian Ministry of Labor or additional relevant state agencies, i.e., the Federal Employment Service, the Ministry of Education and the State Committee for Higher Education.

Most significantly, the Presidential Decree directed the leading executive organs at all territorial-administrative levels of the Russian Federation to determine in consultation with central executive organs the "acceptable level of unemployment" (dopustimyi uroven' bezrabotitsy) for their respective regions. This level of "acceptable" unemployment was to be ascertained by taking into consideration local labor market conditions, while keeping in mind "the economic and financial possibilities

21 Thus, here again one can observe the influence that intra-branch (or inter-ministerial) conflict had upon the course of reform.
for the social support of the unemployed, the preservation and development of working places and the introduction of measures for the amelioration of the social consequences of long-term unemployment" (O Dopolnitel’nykh Merakh, 1993; "Yeltsin Decree Protects Employment Rights," 1993).

The decree also instructed that in the event the "acceptable" level of unemployment was surpassed, special measures for the limitation of its growth would be introduced. Among other measures, the directive mandated that, in cases where enterprises are pronounced insolvent, no less than 70% of such enterprises’ employees should be guaranteed jobs at state enterprises formed on the basis of the bankrupt firms. Moreover, a portion of the funds received from the privatization of state and municipal enterprises was to be directed toward the organization of public works projects.

Presidential Decree No. 471 grew out of a Resolution, "On the Organization of Efforts to Assist Employment in the Conditions of Mass Lay-Offs (Vysvobozhdeniia)" confirmed on February 5, 1993 by the Russian Council of Ministers (Ob Organizatsii Raboty..., 1993; Tkachenko, 1993). In the event of mass lay-offs, Resolution No. 99 provided, among

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"Mass lay-offs" were defined as the following: a.) the liquidation of an enterprise with 15 or more employees; b.) the reduction in force of 50 or more employees in 30 days, 200 or more employees in 60 days or 500 or more employees in 90 days; or c.) the dismissal of more than 1% of an enterprise’s work force in regions with less than 5,000 employed people (Ob Organizatsii Raboty..., 1993, p. 1).
other measures, assistance for the creation of new working places, the organization of professional re-training programs and the temporary suspension of employers' rights to employ new workers to fill vacant work places. However, the most significant measure provided for in the Resolution was the right of local legislative organs, upon the recommendation of the employment service, to temporarily suspend for up to six months - depending upon the level of local unemployment - enterprise management's right to dismiss employees (Ob Organizatsii Raboty..., 1993, p. 6).23

Taken together, these two executive branch policies were motivated by the desire on the part of governing elites to keep unemployment from surpassing a "socially acceptable" regional level of unemployment;24 it was believed by these

23 For accompanying policy recommendations to this Council of Minister’s Resolution, see "Metodicheskie Rekomendatsii...,1 1 1993.

24 Indeed, the first reference to creating such an "acceptable" level of unemployment was provided by Vladimir Shumeiko, then First Deputy Prime Minister, during an address on prospects for the economy in 1993 ("Continuation of Shumeiko’s Speech of 16 February 1993," 1993). Soon thereafter, as legislation on bankruptcy was nearing passage in the Supreme Soviet, Ministry of Labor officials seized the idea for themselves and began to devise the program which would ultimately serve as the basis for the Governmental Resolution and the Presidential Decree. According to well-informed officials, this new program was initiated by Labor Minister Melik’ian and First Deputy Minister of Labor Kolosov. The formulation of the program was left to officials within the Labor Ministry’s Directorate for Labor Market Policy (Kudiukhin, 1993; Tkachenko, 1993).
elites that political stability would be endangered if these limits were exceeded (Bulgakova, 1993; Kokin, 1993; Kosmarskii, 1993).

A superb illustration of such elite concerns was provided by First Deputy Minister of Labor Kolosov. Asked to comment upon the motivations for the two executive acts and the possibility of mass unemployment in Russia, Kolosov asserted:

I don’t think in Russia in 1994 there will be mass unemployment. But in various regions - where, for example, there is one factory, and all at once it starts to re-orient its production, there will be certain consequences, and here of course will be mass unemployment.

For us, this is the most dangerous. Because, in the end, we have already gone through a shock - and if the Polish Government has gone through a period of 300% inflation, we’ve already gone through 3,000% inflation - and therefore, I consider that the position of the Government should be to forestall this (mass unemployment).... We can never be inflexible in this regard.

Because a certain region may be dangerous for all of Russia. And here, I don’t wish to propagandize, but in principle I think that it is preferable to have a more stalling approach in terms of these developing events. At least for the next one or two years.

The alternative is the extremes: either the red flag or the white one. This is dangerous. Because today’s situation is such that any ‘match’ in the employment sphere can start the ‘fire’ of social tensions burning (Kolosov, 1993).

Thus, as the current Minister of Labor, Gennadii Melik’ian, stated in early 1993 Russia’s reform-minded elites needed to re-orient their thinking regarding unemployment. Melik’ian argued that such officials must not
continue to merely forecast the number of unemployed and assess an ever greater unemployment benefits tax upon enterprises’ wage funds, but "make a fundamental decision as to what number of temporarily unemployed people might be socially safe" (Khudiakova, 1993).

In addition, Labor Minister Melik’ian championed the need for "acceptable" levels of unemployment by citing the Russian people’s characteristic acceptance of the notion of a paternalistic State. Asserting that though in Eastern Europe unemployment rates may be high, he stated that in Russia the masses would not accept such levels as the citizenry is still used to a paternalistic State. And, should the Russian Government fail to support "acceptable" levels of employment among its people, Minister Melik’ian maintained - revealing once again the concerns of elites regarding unemployment’s repercussions for political stability - that "the social consequences would be unpredictable" (Sotsial’naia Programma Pravitel’stva, 1992).²⁵

²⁵ Moreover, Government officials promoted the notion of "acceptable" levels of unemployment in Russia by pointing to the unique conditions of its labor market. Of course, due to the lack of an adequate housing market and poor transportation and communication networks, labor mobility in Russia was (and is) extremely low. As an official asserted: "We have small labor markets in Moscow, Ural, Ekaterinburg, etc. But they are separate, unlike in America. In America, you can travel and work throughout the country. In Russia the people live in one place their whole lives. Territorial mobility is non-existent. To move from the Urals to Moscow it is very difficult. It is easier to move from the Urals to the U.S. or Germany" (Klokov, 1993).
Nonetheless, these executive branch acts were considered by several employment specialists and government officials to be ineffective and, ultimately, impossible to implement (Fyodorov, 1993; Kosmarskii, 1993; Rakitskii, 1993). For one, the indicator to be used in order to formulate "acceptable" regional levels of unemployment had not been developed as of early 1994 - almost one year after the executive acts were promulgated. Indeed, there were significant disagreements within the Ministry of Labor itself regarding what the notion of "acceptable level of unemployment" actually meant (Tkachenko, 1993).

Moreover, after the dispute within the Ministry of Labor was resolved, further discussion of the term by employment specialists and researchers was postponed on several occasions in late 1993 due to the politically-

As a result, Russia's labor market is highly segmented and, thus, certain regions may become inundated with tremendous unemployment problems; hence, the necessity to devise regional levels of "acceptable" unemployment.

Commenting upon the irrelevancy of Presidential Decree No. 471, one local employment service director ridiculed the decree as being "only of a formal character" (Vetokhin, 1993).

According to a Ministry of Labor official charged with formulating Presidential Decree No. 471 and Governmental Resolution No. 99, Labor Ministry jurists rejected the term "acceptable level of unemployment" (dopustimyi uroven' bezrabotitsa) as overly vague, as the term "'acceptable' (dopustimyi) could be easily loosened to mean 'otpushenii' (unleashed)" (Tkachenko, 1993).
charged nature of the issue (Kuz'min, 1993). In addition, some government officials even rejected the possibility that such an indicator could ever be objectively constructed; therefore, attempts to construct such an indicator were presumably motivated by the aspirations of conservative-minded government officials to bureaucratically regulate matters as they had during the Soviet era (Kosmarskii, 1993).

As well, even if the indicator ascertaining the "acceptable" levels of unemployment for the regions had been developed, the Ministry of Labor was wholly incapable of fulfilling its obligation to monitor the social-labor

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28 Expounding upon events which took place during a scientific discussion on the criteria to be used to formulate the "acceptable level of unemployment," the Deputy Rector of the Institute of Employment Problems reported to me that: "...a couple of days ago, I was at a meeting in the Ministry of Labor and there was asked a question: 'What criteria will be used to decide this "level?"' Vice Minister Kolosov immediately rejoined that 'we cannot publish our ideas about this at this juncture because there has not been any decisions made at the top.' And when we heard this we were silent for a while. That is, I was at a scientific discussion that was convened to talk about this theme, and the bureaucrat actually said, 'Hush this up please, we haven't yet made a decision.' And the discussion ended right then and there" (Kuz'min, 1993).

29 Commenting on the irrational aims of governmental authorities, a former First Deputy Minister of Labor asserted that: "It's a very peculiar thing because, for instance, the first item in the first paragraph of this decree is about the 'highest level of unemployment' allowed in each region. You know, this is ridiculous. Because we can't put unemployment levels on some normative basis" (Kosmarskii, 1993).

Nevertheless, one Labor Ministry official continued to insist that, although the indicator had not been developed, the two executive branch policies were still both operational and effective (Klokov, 1993).
situation in the periphery: unlike during the Soviet era, the Labor Ministry now received information from enterprises only on a voluntary basis (Sil’vestrov, 1993).

Regardless of whether or not the executive branch directives were effective, what factors prompted their enactment? As the following analysis demonstrates, a combination of factors influenced the establishment of both policies.

According to an analysis of numerous primary and secondary sources, it is my contention that the enactment of these policies was not inspired by overt pressures emanating from society. Instead, it appears the directives were in large measure developed independently of any actual societal pressures and were signed into law because important policymakers in the executive branch believed that the advent of mass unemployment would be very de-stabilizing for the regime, possibly causing the downfall of the regime.

Indeed, by early 1993 very few regions in Russia had experienced a significant growth in the incidence of mass layoffs.

The means by which a change in government could be brought about are potentially varied. Although the historical record would appear to suggest that a popular uprising fueled by mass unemployment would be unlikely to bring about a regime change, the quotation above by Labor Minister Melik’ian - as well as the one by his deputy, Valerii Kolosov, on page 22 - are clear indications that Russian governmental elites believed such an outcome was indeed possible.

The possibility of extremist parties using the issue of unemployment and social degradation to come to power democratically is another method for realizing a change in
along with the political and economic reforms which it promoted. Thus, the governing elite's fear of the potential for political instability caused by mass unemployment was the primary motivation for the adoption of these policies - policies which forestalled the possibility of mass lay-offs (Kosmarskii, 1993; Kudiukhin, 1993; Moskvina, 1993; Sil'vestrov, 1993; Tkachenko, 1993, et al.).

An excellent example of elite concerns for instability caused by high levels of unemployment was provided by Minister of Labor Melik'ian in early 1993 during an interview. Comparing Russia's condition to that of other countries, Melik'ian stated:

I think that Russia greatly differs in this situation from other countries in Europe and the U.S.A. For us, such unemployment levels as they have, this would be unbearable. A social explosion would simply be unavoidable (Kirillova, 1993, p. 11).

He continued the interview by asserting that government policy-makers "in the highest echelons of power" understood that it was imperative to avoid such a situation by using active financial-credit measures, i.e., by determining "the socially acceptable level of employment and, accordingly, government. To be sure, the electoral fortunes of Hitler's N.S.D.A.P. increased in line with levels of unemployment in the late 1920's and early 1930's. [Between 1929 and 1932 unemployment in Germany increased from one to six million; at the same time, the percentage of the vote garnered by the Nazi party increased from 2.6% in 1928 to 37.3% in July 1932 (Dalton, 1989, p. 18)] Certainly principal governing elites have invoked such historical parallels in the Russian case (Gaidar, February 23, 1993, "Veimarskii Sindrom" Ugrozhает Rossii).
formulate our budget and financial policy" (Kirillova, 1993, p. 12).

Moreover, government policy-makers were also fearful that growing unemployment could be used by the opposition to gain popular support. As chapter 6 demonstrated, elite oppositional groupings had attempted to exploit the issue of unemployment for political reasons. Indeed, Aleksandr Rutskoi invoked the issue of unemployment just days before the April 1993 Referendum, saying:

The country will not be able to withstand a continued production slump, unemployment above 4-5 percent, and inflation on the order of 30-40 percent a month.... During the transitional period the State must be the leader of the reforms and set their course. It cannot shirk its responsibility for the fate of enterprises and those working at them... (Rutskoi, 1993, p. 4).

Therefore, the promulgation of these directives, it was presumed, would diminish the potential of the opposition using supposed governmental indifference toward the problem of unemployment as a political weapon against the incumbent Government (Kolosov, 1993; Kosmarskii, 1993; Sil’vestrov, 1993).

Related to this, it appears that electoral considerations were a factor in the enactment of these policies, particularly with respect to Presidential Decree

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32 And, as chapter 5 confirmed, as the social costs of transition continued to deepen, increasing support for opposition and/or extremist parties at the polls was registered.
No. 471. The fact that the decree was signed in time for release to the press before the April 25, 1993 Referendum increased its political value for the elites at the very pinnacle of the governmental hierarchy (Degtiar', 1993; Klokov, 1993). This was proof positive that the Yeltsin regime was really working for the "good of the populace," at a time when anxiety over continued guaranteed employment began to weigh heavily on the Russian masses (Ekonomicheskie i Sotsial'nye Peremeny, 1994, p. 63).

As a former Deputy Minister of Labor recounted, the decree was being prepared feverishly in late March 1993 — less than one month before the upcoming Referendum was to take place. Commenting upon one motive for the decree, i.e., electoral concerns, the former official asserted:

... it is a very interesting thing that there were attempts to prevent some consequences of processes which had not yet begun. For example, there is some kind of irrational fear of bankruptcies, though it is clear that bankruptcy doesn't mean in any case the total dismissal of all personnel. But, in the mass consciousness, it is understood just so: bankruptcy means that everybody will be dismissed, everybody will become unemployed, and so, such decrees play a role of some kind of 'social therapy.' It is better to say even 'psychological therapy.' To reassure the people (saying), 'You see, that we are doing our best to prevent all this mass

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3 Further evidence supporting the view that Presidential Decree No. 471 was promulgated in part for electoral purposes is provided by the fact that the methodology for devising the indicator used to ascertain the "acceptable level of unemployment" for Russia's regions had not even been considered by the Ministry of Labor prior to the decree's enactment (Klokov, 1993).
unemployment' (Kudiukhin, 1993).

In addition, other considerations were important for explaining the implementation of these policies. The personal political ambitions of leading officials within the Ministry of Labor were also in part significant for explaining the enactment of both directives. Commenting upon this factor, this same high-ranking former official in the Ministry of Labor maintained that Labor Minister Melik'ian and his deputy wanted to increase their Ministry’s stature in the Government, especially vis-a-vis the Federal Employment Service. The interviewee explained:

First, for Melik'ian, there was always a task: what should the Ministry of Labor do to increase its political standing in the Government? So, according to his experience during the last years... he was used to writing some very large, expansive programs. So, when he took over the post of Minister of Labor, one of the first things he said was: "We should write serious programs of social policy and social protection." And, as they (these programs) were too academic [boisterous laughter] and without real practical application, so then there was an idea that we should prepare not only programs, but also real documents. And then there was the idea of this decree. And though I don't consider this decree very effective in practice, nevertheless, he (Melik'ian) tries to at least proclaim some more socially-oriented policy, though in a very traditionalist sense of the

34 Deputy Labor Minister Kudiukhin considered that one of the most serious vices of the Government in the social sphere was that many thought about social policy very traditionally, i.e., "simply as an omnipotent State, on the one hand, and this non-organized population, on the other." He considered the Government's uni-directional social policy - wherein the State supports its citizens, without any thought given to promoting the "self-organization of the population," i.e., to
word 'social policy' (Kudiukhin, 1993).

Thus, cognizant of the fears of mass unemployment held by senior governmental members, the leadership of the Ministry of Labor believed that it could exploit these fears and, thus, gain appreciably in the intra-branch competition for authority between various institutional bureaucracies by promoting such "well-reasoned" policies. Therefore, the implementation of Governmental Resolution No. 99 and Presidential Decree No. 471 would serve the purpose of enhancing the image of the Labor Ministry leadership in the eyes of their superiors, i.e., Iurii Iarov, the Deputy Prime Minister in charge of social policy, Prime Minister Chernomyrdin and President Yeltsin (Kudiukhin, 1993; Moskvina, 1993; Sil’vestrov, 1993).

Another former high-ranking official corroborated the notion that the directives were established in part to further the political ambitions of Minister Melik’ian and the Ministry of Labor (Kosmarskii, 1993). Expounding upon the necessity and importance of advancing legislation in order to serve the interest of one’s own department and political career, the former First Deputy Minister of Labor asserted that:

You should know that all laws, all decrees are the result of gambling, political gambling. Political artifice, actually, in which each assist people in protecting themselves - to be extremely problematic and deleterious to the cause of reform (Kudiukhin, 1993).
Ministry and the apparatus are quite separate players, with their own goals. And each is trying to gain favor with those at the top (Kosmarskii, 1993).

Asked why the passage of legislation itself was significant for furthering one's political ambitions, the former official responded:

Well, you know, just to be able to say that 'I am the author of this,... they are my ideas. I am more capable, you see, than the king, himself.' Sometimes it is purely petty bureaucratic motivations trying to take greater control over matters (Kosmarskii, 1993).

Therefore, besides the perceptions of pivotal elites regarding the consequences of mass unemployment for political stability in Russia, additional factors were of some consequence in the enactment of Governmental Resolution No. 99 and Presidential Decree No. 471.

The Continuation of "Reticent" Reform

In the aftermath of the implementation of these executive branch policies and the April 25, 1993 Referendum, the Yeltsin Government continued to be concerned about the impact of high levels of unemployment upon both political stability among the populace at-large and among certain specialized groupings. Accordingly, the Russian Government continued to implement policies designed to forestall mass unemployment and their perceived consequences.

To circumvent the potential for instability arising among the "hidden unemployed," i.e., those working short-
time or on forced leaves of absence, the Federal Employment Service, upon instructions from the Russian Government, issued an Order (prikaz) in August 1993 compensating with resources from the Employment Fund those individuals not receiving wages from their employers (Degtiar', 1993; O Predostavlenii Kompensatsionnykh..., 1993). This Ministerial Order not only assisted those "hidden unemployed" in securing a portion of their unpaid wages, but also aided in avoiding open unemployment by keeping people marginally employed. Commenting on the rationale for the Order, the Deputy Chairperson of the Federal Employment Service stated,

It's only for those enterprises who cannot provide their workers full-time work because of their 'objective reasons.' So the F.E.S. and the Government prefer to support these people working at these enterprises.... (It is) better to pay them benefits, than to have all these negative consequences of being unemployed (Moskvina, 1993).

Moreover, to ensure political stability among various specialized sections of the populace, the Government made concessions on matters relating to employment. For instance, fearing the liberalization of prices on coal in summer 1993 would eliminate many thousands of mining jobs and, hence, bring on a wave of damaging strikes, the Government decided to proceed cautiously and continue its
massive program of state subsidies to the coal sector (Driakhlov, 1993).

As a former Deputy Minister of Labor in charge of managing industrial disturbances recalled, the Yeltsin Government feared the loss of subsidies and resultant unemployment could cause the Government to fall:

... many people in the Government actually remembered the 1989 summer strikes and the 1991 spring strikes and that was really uppermost in their minds when they were making this decision. Because there was a mythology that the miners played a role in dismissing the old Communist regime and... that they can, for example, press the (present) Government and make it retire (Kudiukhin, 1993).

Additionally, attempts in September 1993 to enact a variety of presidential decrees which would have accelerated the process of enterprise bankruptcy were quashed by high-ranking officials due to the unemployment problems their adoption would generate. As a result, an official involved in the preparation of the aborted legislation believed that mass bankruptcies would not be typical for Russia for the forthcoming two or three years.

The same official recalled that even reform-minded members of the Government were against implementing such policies. After discussing the disapproval of the decrees by conservative members of the Government, the respondent reported:

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35 By some estimates, more than two-thirds of Russian mines were unprofitable and could not exist without massive state dotations (Kudiukhin, 1993).
And Gaidar said that 'it is a very complicated problem, we need some time to discuss it.' So, even now, it (enterprise bankruptcy) is a closed topic for consideration among the Governmental men (Kosmarski, 1993).

Besides the perceptions of elites regarding the deleterious consequences of unemployment for political stability, the upcoming December parliamentary elections had some bearing on the trajectory of Russian economic reform during the remainder of 1993. According to reports from several sources, leading figures in the Government were once again concerned with the potential impact unemployment could have upon the opposition's chances for success in the elections (Gontmakher, 1993; Kosmarski, 1993; Sil'vestrov, 1993).

Indeed, during the immediate pre-election period, Government members attempted to arrest the possibility that the opposition could use the unemployment issue to make gains in the election by vigorously promoting the creation of an innovative program to manage unemployment and other critical social problems. Titled the "Conception of Social Policy in 1994," the new program developed by the Ministry of Labor and additional appropriate "social bloc" ministries sought to prevent once again mass unemployment from occurring (Kolosov, 1993; Kuz'min, 1993). As a high-ranking

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36 Accordingly, in 1993 30% of the state's budget was spent on the support of unprofitable enterprises (Nikitin, 1993; Shapiro, 1993).
official in the Ministry of Social Protection stated in November 1993:

The Minister of Labor is proposing a document. His position is to not allow mass unemployment - the position of Chernomyrdin. They are proposing that in those regions where the level of unemployment has reached a critical level, they want to enforce administrative means of forbidding firings or displacement. This is being done with the elections in mind (Gontmakher, 1993).37

Conclusions

This chapter has demonstrated that a partial explanation for the low level of open unemployment and, hence, the slow pace of reform, in Russia is provided by pivotal governing elites' concerns about the political instability which they presume would accompany mass unemployment. As a result, members of the Russian Government persisted in their attempts to maintain employment within enterprises.

Indeed, as this chapter has confirmed, there is much evidence which supports the notion that principal government decision-makers have attempted to strictly control the level of unemployment within the country and preferred to continue managing unemployment within the enterprise, rather than

37 However, according to an article in Izvestiia, although the new social policy program was fully prepared, as of April 1994 no one - apart from members of the Government and department heads - had ever seen it. For more on the document, see Khudiakova, 1994.
risk the social consequences of mass open unemployment or "displacement."

As far back as mid-1991, leading officials in the R.S.F.S.R. government, who were later to become the overseers of employment and social policies in Gaidar’s first "radical" government, proclaimed the necessity to urgently implement various measures to "restrict open unemployment and to transform it into hidden unemployment," in order to avert "menacing... socio-political consequences" (Shokhin, 1991; Moskvina, 1993). In short, the fear of the potential paralyzing effect upon economic and political reform of social instability arising from unemployment immobilized those in commanding positions of power within the Yeltsin government. Thus, in and of itself, this "anticipated reaction" on the part of governing elites has generated a cautious approach toward Russian economic reform.

The most candid illustration of the role this factor played in the determination of the trajectory of Russian economic reform was provided by a former Deputy Minister in the Ministry of Social Protection, who is currently employed as a high-ranking official in the Presidential Apparatus. Commenting upon the impact elites’ fears of unemployment have had on the direction of economic reform, the official asserted:

Yes, it has had the most direct influence. I would even have to say here that it is not
the fears of the Government so much, but the fears of the President. Because in our current situation there is a very simple choice: either inflation or unemployment. In the present situation, the President prefers only inflation. He is afraid of the day when there will be massive unemployment, when there will be great political and social forces which will be able to fall upon (napadat’) him.

Therefore, the choice was made... that: ‘We prefer high inflation to unemployment.’ And you can see that we have only a very low official rate of unemployment. But, we must (also) point out that the position of Chernomyrdin is very close to the position of Yeltsin. Very close (Gontmakher, 1993).38

As well, the chapter has demonstrated that certain policies affecting the level of unemployment in society were in part either introduced or rejected at crucial electoral junctures in order to parry the blows of the opposition. Indeed, as the following two quotations confirm, governing elites were keenly aware of the potential impact of unemployment upon governmental stability:

It is dangerous for all. In the first place, of course, for the Government. If they don’t resolve the problem, then there will be another Government, and then a third, fifth, etc. (Sil’vestrov, 1993).

And we see that in no developed country is a high unemployment level allowable. And what if there are no working places free here, and I were to conduct myself as a Polish official? For four years they’ve (the Poles) been laying off people, and then they sit and wait for

38 Commenting upon the possible political repercussions of a reformist defeat at the upcoming elections, the official presciently forecast that "after the elections, if Chernomyrdin remains Prime Minister, then Gaidar will not be around long. Thus, the side which doesn’t want a mass of unemployment will have won" (Gontmakher, 1993).
what will happen. And then tomorrow there will be another Government, it would be more 'red' than today's (Kolosov, 1993).

Once again, the importance of this variable (i.e., the "anticipated reaction" of governing elites in the face of potential mass instability) for understanding the pace and scope of Russian reform is the result of an incomplete and inadequate transition of Leninist state institutions. By failing to bridge the longstanding mass-elite "divide," Russia's reformers denied themselves the possibility of securing significant sources of societal support for continued reform, while prolonging their longstanding enthrallment with the notion of a possible spontaneous and uncontrollable social mobilization.

Epilogue:
The Significance for Russian Policies of Employment

In the final analysis, the Government's attempts to support employment may perhaps have had an undesired affect upon the development of the system which was to be developed in order to resolve the employment problem. Since important governmental policymakers did not take seriously the possibility of high unemployment, i.e., since such elites were not inclined to implement the sorts of logical, yet socially-damaging, structural reforms necessary for the successful transformation of the economic system, scant attention was given to the idea of creating effective employment organs; a "minimalist" conception of an
employment service was the de facto consequence39 (Moskvina, 1993; Tkachenko, 1993; Vishnevskaya, 1993).

Thus, government policymakers considered that existing inflationary policies would continue to keep the majority of Russia’s citizenry safeguarded from unemployment and those citizens that by chance did suffer the loss of a job would benefit from monthly hand-outs from local employment organs. As a result of central policy-makers’ minimalist perceptions of the current role and mission of the F.E.S., the initiation of significant programs have been obstructed. For example, a $70 million loan from the World Bank which was to be used for the technological improvement of existing employment service facilities in the country’s periphery was delayed by the central government for more than 14 months (Meacher, 1993; King, 1994).40

39 When asked to expound further upon the calculations of elites with respect to unemployment, the Deputy Chairwoman of the Federal Employment Service asserted: "You see, it’s very difficult to solve this problem. They can forecast that they should have problems (with unemployment) in two years, but first of all, it is a very unusual problem for us. So, that’s why... maybe you know this Russian proverb: ‘Poka grom ne gremit, muzhik ne perekrestitsia.’ It means that ‘no one in Russia would do something before they have to do it.’ So, the leadership thought that maybe in two years we will have a problem (with unemployment), so the response from them was ‘let’s wait two years, and then solve it if it occurs.’ You see, that’s the essence of the problem" (Moskvina, 1993).

40 In addition, due to the rapid pace of transition, governing elites were unable to formulate a consistent and sound social policy - including effective policies of employment - in Russia. Commenting on this, a former First Deputy Minister of Labor stated: "Unfortunately we were forced to follow events as they occurred. That is, in reality we did not determine events, we ran after them. Therefore, policy
Interview data support the view of the lack of progress in the formulation of proactive policies to combat unemployment and the construction of an effective employment service. Commenting on the potential for a dramatic increase in open unemployment in the wake of privatization, a government researcher expressed his personal belief that the present administration had done little to stem the tide of unemployment:

I am certain that there can be another thing: that really this process of open unemployment can be(gin) immediately after the finishing of the processes of privatization.... In these conditions, I am afraid that the real level of unemployment can be very high. I am afraid that our Government is only now speaking about the need for bankruptcies and more strict policies, but when it will be(gin) in reality, they will not be ready. Because they are only talking about it, they aren’t doing anything. They must use this opportunity which they have now for creating this system of social insurance, but they really are doing nothing in this field (Ozhyogov, 1993).

Moreover, a senior official in the Presidential Apparatus’ Department for Social Policy further supported this conviction. When asked whether or not the state employment service was prepared for unemployment, the respondent replied:

was restricted to a mere compensating character. We didn’t direct the processes - we followed after them and tried to take away the most important tensions. And in this situation we are not able to talk about any kind of ‘social policy’ of the Government, in general. This was absent.... Such a ‘social policy’ existed only in words. That is, either it was a political slogan or irresponsible chatter" (Kosmarskii, 1993). Such a view of transition-specific policy-making is supported elsewhere, as well (Nove, 1994).
Not very much so. Poorly prepared, I would say. At the beginning of the reform no one thought about creating a program of adaptation to the market - especially a social adaptation program. Only now, when it is right under our faces - that real open unemployment is at our throats - has it been noticed by us that this is the weakest link in the program of economic reform for us. The most weak place. And the most dangerous, naturally (Sil’vestrov, 1993).

Consequently, as the Russian Government in 1994-1995 altered its macro-economic policy in favor of a less inflationary path, ¹ open unemployment has inevitably begun

¹ The Russian Government’s more tolerant position vis-a-vis unemployment can be explained by a number of factors. Firstly, in the aftermath of the destruction of the Supreme Soviet in October 1993 and the inauguration of the "Yeltsin Constitution" in late 1993, the Russian President and Government obtained a reprieve from attacks by the opposition and gained significantly in the inter-elite struggle for power (King, 1994).

Secondly, during the course of 1993, the majority of the lobbies surrounding government decided it was now in their interest to fight inflation. As one observer noted, "... even the industrial and agricultural lobbies agree now that we should do something with inflation. It was very strange, but they really believed at first that this enormous inflation would help the economy - by keeping people working, etc. But now it is clear to them that we can’t continue subsidizing throughout the country" (Petrin, 1993).

Lastly, although governing elites’ perceptions of the impact of unemployment upon political stability have not changed, these elites have come to the conclusion that a less inflationary macro-economic policy was the only way out of the economic dilemma. As a World Bank official put it, "They are scared of unemployment. I think they are scared of social pressures, but on the other hand I think they believe quite genuinely that they (the Russian masses) are going to have to put up with it.... It’s just the result of the fact that the choices are awful. They view Ukraine as what will happen to Russia if they don’t introduce the necessary reforms" (King, 1994).
to grow. However, as the threat of mass unemployment looms ever larger, the "safety net" in place at present is gravely deficient in many respects and, in a very real sense, two years have been lost in which the Russian Government could have made significant investments in the development of both employment policy and the employment service. The consequences of both of these factors for the future political stability of Russia may be momentous.

42 The magnitude of the emerging unemployment problem in Russia should not be under-estimated. Indeed, expounding upon the reasons for the paucity of World Bank-sponsored employment-adjustment programs in Russia, a high-ranking official stated: "I suppose it's because - and this is off the record - ... there are some problems which are almost too big for us."

43 When asked to evaluate the Russian Government's budgeted expenditures for social welfare since the beginning of the economic transition in late 1991, one World Bank representative maintained that:

"We don't think that Russia is over-spending, if anything, in this area. We might disagree as to the degree to which they ought to be spending more. But I don't think any of us feel that they're over-spending. I mean, the proportion of GDP that is spent on health, education and other social programs is very modest by international standards" (King; 1994).
CHAPTER VIII
Findings, Conclusions & Implications

Introduction

As we have seen from the preceding pages, the path of economic and political transformation in Russia has been riddled with obstacles and progress has often been difficult to achieve. Reform has gone forward haltingly in some areas, while in others progress has been slight at best.

Since the dawn of the postcommunist era, a variety of theories have been put forward to explain the "muddling" of the transition in Russia and those in other Central and East European polities. Some view inter-elite conflict as the chief reason for the sluggish pace of transition (Aron, 1993; Breslauer, 1993). Others consider the lack of mature civil societies in postcommunist countries to be a pivotal factor determining reform's progress (McFaul, 1991; Kitschelt, 1992; Bryant, 1994; Schopflin, 1994; Zielonka, 1994). Still others contend that traditional patterns of behavior and interaction at society's micro-level are significant for understanding the postcommunist transitional experience (Hahn, 1991; Finifter and Mickiewicz, 1992; Crowley, 1994; McFaul, 1995).
However, several students of democratic transitions and the politics of economic reform argue that the social costs of economic transition have significantly impeded the progress of postcommunist reform (Mokrzycki, 1991; Bruszt, 1992; Bresser-Pereira, et al., 1993; Millar and Wolchik, 1994). It is presumed that the transitional costs will generate significant societal opposition to reform - in the form of strikes, demonstrations or electoral protest - thereby inhibiting its progression. Moreover, it is hypothesized that oppositional elites will exploit the social costs of transition in order to curry favor with the masses, paralyze the reform process and, ultimately, replace the current governing elite.

Research Findings

In this dissertation, one of the main aims of my research has been to evaluate the explanatory power of the social cost approach, highlighting aspects of the thesis which are supportable in the Russian case, while underlining those that are not. In so doing, a conscious choice was made to examine the hypotheses raised by the theory through the "lens" of the issue of unemployment.

At the same time, an effort has been made to account for the shortcomings of the social cost thesis by considering distinctive features of postcommunist society;
in the process it is hoped that a more robust and comprehensive model of postcommunist transition has emerged.

Consequently, the task of this research has been onerous; ultimately, it has sought to explain the absence of satisfactory progress toward democratic development in the Russian Federation in the early transitional period. It has been my argument that a major contributing factor to the problematic nature of democratization in Russia has been the course and consequences of Russian economic reform,¹ which itself has been influenced by several additional factors.

Nonetheless, it is not sufficient to hypothesize that a linear relationship exists between the course and consequences of economic reform and the progress of democratic development in Russia; as we have observed throughout the present research, an interactive and recursive relationship exists between the two which generates consequences for the progress of reform in both the economic and political realms.

As Chapters 2 and 3 demonstrated, the social costs of Russian economic transformation have been dear. Russian income differentials have widened, poverty levels have increased and mortality rates have risen sharply. In

¹ Once again, here I am referring to both the sluggish pace and diminished magnitude of the Russian economic transition in 1991-1993; the actual pace and extent of this economic transformation contrasted considerably from the reforming elites' initial design.
addition, although registered open unemployment remained relatively low during the period under investigation (in contrast to other countries in Eastern Europe in the early 1990's), employing an expanded definition of unemployment yielded a much higher level of Russian unemployment. Indeed, according to the foremost Western expert on labor market trends in Russia, in 1994 approximately 10% of industrial labor could be counted among the unregistered "hidden unemployed" (Standing, 1994, p. 22). Thus, the data do confirm a dramatic increase in social suffering borne by the Russian people.

Still, the social cost thesis would suggest that - in view of the considerable burdens the Russian masses have borne - widespread societal opposition would obtain. However, as the findings in Chapter 5 revealed with respect to actual strike activity or the potential for it, no such sweeping societal mobilization occurred in Russia during 1991-1993; instead the population was largely quiescent. Thus, it appears that my hypothesis which contends that mass mobilization - stimulated by transitional social costs - has not functioned as either a brake on the economic reform process or a stimulus for widespread political instability in the early period of Russia's postcommunist era has been borne out.

In response, it has been my contention in Chapter 5 that the Russian masses remained passive not merely due to
cultural factors, i.e., the characteristic stoicism of the Russian people. More importantly, the lack of well-developed and strong mass-elite linkages has inhibited the masses' "voice" from either vocalizing or being heard by the ruling elite. In the sphere of labor this factor was most apparent in the largely debilitated trade union movement; indeed, the data in Chapter 5 revealed the tenuousness of existing ties between workers and their trade unions.

Additionally, as we saw in Chapter 4, the continued high level of worker dependence upon enterprise management - another conspicuous feature of the former command-administrative economic system and one that has been reinforced during the postcommunist era - strictly circumscribed acceptable worker behavior during this early transitional period.

Accordingly, the assertion that the absence of strong, independent mediating groups and the existence of worker dependency vis-a-vis management (occasioned by the experience with Soviet totalitarianism) inhibited the effective mobilization of societal interests against market reforms appears to have been upheld.

At the same time, it does appear that specific assumptions in the "social cost" approach were supported in the Russian case. The findings do indicate that the social costs of economic transformation have influenced the pace and magnitude of political and, ultimately, economic reform
in Russia. The data in Chapter 5 appear to confirm that societal dissatisfaction with the consequences of market reform - while not manifesting itself overtly in terms of mass mobilization - seems to have prompted both an increase in popular support for extremist political parties and movements and has affected negatively support for democracy and democratic institutions\(^2\) in Russia.

Indeed, social discontent with the consequences of economic reform appears not only to have generated increasing support for communist and "national-patriotic" parties and movements in consecutive parliamentary elections and decreasing popular support for democracy in the abstract, but - as additional findings in chapter 5 demonstrated - it seems likely that such economically-inspired discontent also has contributed to a reduction in public confidence in Russian state institutions during the first two years of the postcommunist era (\textit{Ekonomicheskie i Sotsial'nye Peremeny}, 1993, No. 4, pp. 40-41, 1994, Nos. 1 & 3; \textit{Zerkalo Mnenii}, 1993, pp. 12-13; Rose, 1994; Whitefield and Evans, 1994). Related to this were data in chapter 5

\(^2\) During Poland's first year of economic reform, this factor was responsible for a dramatic fall in the public's confidence in representative institutions (Bresser-Pereira, 1993, pp. 170-174). As Adam Przeworski affirmed regarding the Polish public's confidence in a variety of state and non-state institutions two years after market reforms had begun: "The two chambers of parliament, the government, the two trade unions, and the political parties - all the representative institutions and organizations - had negative net scores" (Bresser-Pereira, 1993, p. 173).
which demonstrated that the particular policy-making style of the Russian leadership may have reinforced declining societal trust or confidence in these representative institutions, thereby further damaging prospects for democratic development in Russia.

In turn, as findings in Chapter 7 indicate, these discouraging electoral or attitudinal results have in part prompted policymakers to scale back their efforts to initiate radical economic reforms.

However, regardless of the societal response to the social costs of Russian economic transition, I have concluded that oppositional elites have effectively employed these same social costs - especially that regarding unemployment - in their political struggle with the governing elite and, in turn, such machinations have influenced the course of both economic and political reform in Russia. As the evidence in Chapter 6 documented, a number of opposing elite groups, e.g., the parliament, the directors' corps, regional elites and "official" trade unions, employed the social costs of transition as a political weapon against the incumbent Government in order to realize significant gains in the unremitting inter-elite struggle for power - a confrontation that emanated from the incapacity of post-Soviet elites to come to an agreement
about the specific roles, powers and prerogatives of emerging postcommunist state institutions.

In response, governing elites attempted to deny the opposition the possibility of using unemployment as an effective weapon by restricting levels of open unemployment, i.e., by scaling back the economic reform process. Thus, it appears that in the end - again apparently due to the absence of strong societal associations in support of government economic initiatives - governing elites were ultimately held hostage to oppositional lobbying and political maneuvers.

Furthermore, it has been asserted here that besides obstructing the economic transformation, the widespread occurrence of elite conflict - of which the opposition's utilization of the social costs of unemployment against the government is merely one illustration - also negatively affected possibilities for democratic development in Russia. As we have seen in Chapter 6, besides sullying relations among elite groups and, hence, hampering an "elite settlement" and further decreasing the likelihood of democratic development, as the elite conflict persisted, it marred the policy-making process in the social welfare domain. Insofar as elite conflict diminished the capacity of the state's welfare agencies to ameliorate such growing social problems as unemployment, popular discontent - already quite conspicuous in view of the initial costs of
economic transformation - grew and thereby further reduced support for the fledgling democracy and its representative institutions and fueled the rise in extremist political movements.

Therefore, it would appear that the contention that the existence of an unconsolidated political system, in and of itself, acted as an independent factor affecting negatively the policy process in the social welfare domain, economic reform more generally and, ultimately, the advancement of democratic development in Russia is supported by available data.

Similarly, data in Chapter 7 demonstrated that the widespread existence of political and personal rivalries between bureaucratic elites within the executive branch's social policy domain have adversely affected the policy process in this realm. Indeed, elite conflict in this arena ensued primarily due to the partition of the Soviet-era State Committee for Labor and Employment (Goskomtrud) and the resulting struggle for power and pre-eminence among its various institutional successors. Hence, the findings appear to confirm the assertion that intra-branch conflict - also inspired by the shortcomings of the postcommunist state transformation - succeeded in thwarting the development of both economic and, ultimately, political reform. By delaying the construction of both an effective social policy and capable labor and employment organs, intra-branch or
inter-ministerial conflict prompted social costs to mount, thereby additionally reducing societal support for both liberal-reform parties and democracy in the abstract, thus frustrating further Russia's advancement toward democratic development.

In addition, it has been my contention that another variable not explicitly considered by scholars championing the "social costs" approach - one supporting the view that the behavior of politically significant elites is of particular importance in transitional settings - was important for explaining the slow pace and diminished magnitude of Russian economic reform, as well as the problematic nature of democratic development in that country. Governing elites' fears regarding the likelihood of political instability resulting from extreme social costs, i.e., high levels of unemployment, also played a significant role in determining the trajectory of the Russian reforms. As the interview data in Chapter 7 suggested, these elite fears caused government reformers to proceed cautiously with economic transformation and restructuring. And, as the findings in both Chapters 5 and 7 demonstrate, elite decisions were made on the basis of these perceptions, rather than upon any real and measured phenomena of increasing social demands and/or social instability.
Thus, although extreme social costs in terms of an expanded view of unemployment have been incurred in Russia, the fact that high levels of open unemployment have not appeared is evidence that governing elites were concerned about the possibility of political instability accompanying high unemployment. In short, ample evidence has been presented which supports the view that important governing elites in Russia sought a middle ground between mass unemployment and high levels of inflation, opting to sustain high levels of "hidden" unemployment, rather than presumably endangering social peace by acquiescing to a massive increase in open unemployment; accordingly, the "anticipated reaction" on the part of policymakers has, in and of itself, prompted an attenuation of the economic reform process.

At the same time, it appears that this "anticipated reaction" also had an effect upon the course of Russian democratic development during this period; that is, insofar as the fears of possible instability led to the scaling back of the economic reform process, policymakers aided in thwarting the advance of democratic development in Russia by increasing the magnitude of the transition's social costs (and extending their duration), thereby further eroding popular support for both democracy in the abstract and reformist political parties; thus, by magnifying the social costs of transformation through the adoption of an
indecisive and vacillating approach to economic reform,³
governing policymakers - in the context of an inadequately-
functioning system of social welfare - have unintentionally
couraged the further growth in support for extremist
parties and illiberal, non-democratic ideals, while
furnishing oppositional elites with additional opportunities
to bludgeon the reform process.

Again, it has been argued here that the existence of
this variable, i.e., the governing elite's "anticipated
reaction," is associated with the deficiencies of the post-
Soviet state transition. Indeed, Leninist state
institutions proved to be incapable of bridging the
"associational chasm" between elites and masses; as we have
seen in Chapter 6, postcommunist attempts to remedy this
feature of the Soviet state - such as efforts to construct a
viable "social partnership" organization - ultimately
failed.

Consequently, in view of their distance from the masses
and from significant sources of societal support, government
policymakers were quite reluctant to introduce a radical
reform program that resulted in tremendous dislocations,
e.g., high levels of open unemployment.

³ Again, implicit in my argument is the assumption that
the best possible approach to postcommunist economic
transformation is one that implements a swift and
comprehensive economic transition, in combination with the
crucial provision of an extensive and adequately-functioning
social welfare "safety net."
And, as the concluding comments in Chapter 7 revealed, the governing elites' efforts to maintain employment negatively affected the development of the state organs of labor and employment. Because senior government leaders did not consider that large numbers of workers would become unemployed - since they eschewed introducing damaging structural reforms - the development of an effective labor and employment service was also adversely affected. This factor may result in grave consequences for the future of political stability and democratic development in Russia, especially as open unemployment becomes more pronounced.

Implications for Russian Democratization

Upon reflection, the conclusions reached in this dissertation and from a careful reading of postcommunist Russian history do not suggest that a transition to democracy in Russia is assured. Indeed, for a variety of reasons, the probability of consolidating democracy in Russia any time soon is rather remote.

For one, the lack of well-developed, strong mediating institutions in Russian society indicates that the citizenry will continue to have little opportunity to influence or restrain governmental decision-making. The disastrous invasion of Chechnya is merely the latest illustration of the governing elite's persistent unwillingness to be hamstrung by the "vagaries" of public opinion. Thus, the
age-old tradition of an autonomous Russian/Soviet elite cut off from discernible bases of societal support or restraint continues into the present. Indeed, the reader may recall from a previous chapter the insightful and candid observations made by a former member of the Russian ruling elite:

(T)he very low level of self-organization of society - practically, the absence of civil society in Russia - has resulted in the situation in which those in power are now quite independent from society. Really, we have no strong trade unions, no strong entrepreneurial organizations, and so on. So, it (the government’s independence vis-a-vis society) is a very old tradition, a very dangerous tradition and I am afraid that we’ll live within this tradition for many years (Kudiuikhin, 1993).

In addition, data presented in Chapter 5 suggest that the Russian citizenry’s commitment to democratic development remains questionable at best. Increasing popular support for extremist, anti-system parties, decreasing support for democracy in the abstract and low levels of trust in representative institutions and governing elites all represent ominous departures from the inculcation of attitudes consistent with a liberal, tolerant society and, thus, the path of democratic consolidation.

Moreover, the prospects for "elite convergence" in Russia in the near term are not favorable. Data presented

4 Of course, the prime example of elite dissension in Russia was the October Rebellion of 1993 when armed conflict erupted between opposing elite groups. However, "elite convergence" or "settlement" continues to be elusive in
herein demonstrate that postcommunist oppositional elites are not averse to exploiting the social costs of transition, particularly that of unemployment, in order to secure a victory in the persistent inter-elite confrontation. Such machinations unquestionably poison relations between these elites, thereby further precluding a political settlement and democratic development. Additionally, in Russia’s case, the continuing presence of inter-elite conflict appears to further frustrate the inculcation among the citizenry of attitudes supportive of democracy. That is, as this elite dissension impairs the development and introduction of essential reforms, a large portion of the Russian population - confronted with the economic transition’s mounting social costs - continues to hold illiberal political beliefs and to support extremist political movements.

The Russian Postcommunist Transformation: Implications for Existing Theory

Given the experience of Russian reform, the model of transition proposed by those theorists advocating the "social cost" approach - though in some respects quite convincing - is found also to be somewhat unsatisfactory. Indeed, the data from the present case study confirms that

Russia, especially given the uncertain state of President Yeltsin’s health (and the intense struggle for power which would ensue following the demise of both the President and the "Yeltsin Constitution") and the approaching divisive electoral campaign for the Russian presidency.
the "social costs" approach alone cannot explain the totality of Russian economic and political reform, or the lack thereof. The revised model of transition suggested by the present Russian case study shows that we must not only add an additional variable to the "social cost" thesis as it presently stands, i.e., elite perceptions of acceptable or permissible social costs, but also revisit, draw upon and refine contending theories that seek to explain the "muddling" of transition in postcommunist societies.

The present research does confirm several hypothesized avenues of influence suggested in the social cost approach. The burdens associated with economic transformation have indeed affected the trajectory of economic and, ultimately, political reform in Russia; in large measure, this transpired as a result of the population's increasingly anti-democratic electoral and attitudinal behavior.

However, the research data also demonstrate the need to revise this existing theoretical approach by proposing and appending an additional avenue of influence that may alter the course of economic transformation and democratic development: elite apprehension or fears of widespread political instability brought about by the introduction of socially-damaging structural reforms. In the Russian case this factor was quite significant for understanding reforms' progress.
Having said this, the data also reveal that a full understanding of the Russian case cannot be achieved solely by analyzing events with the social cost framework and its hypotheses in mind. Indeed, the findings in Russia's case indicate that certain legacies of past socialist political development were significant in influencing the ultimate course of economic and political reforms there; in addition, the data confirm that such legacies also either mitigated or augmented the significance of certain hypothesized avenues of influence within the social cost approach.

For example, the expected societal response to the social costs of economic transformation was mitigated by the distinctive and traditional norms of behavior of both workers and management that developed as a result of the experience with the Soviet command-administrative system and were reinforced by a new worker dependence which emerged after the destruction of that economic system. In addition, the hypothesized societal response to the transition's social cost was found to be disconfirmed in Russia's case because of the absence of strong mass-elite linkages, e.g., professional trade unions, which effectively operated to mute the voice of the Russian dispossessed.

On the other hand, this same socialist legacy also served to augment the significance of the relationship proposed in this research between elite fears of political instability and reticent reform and doubtful democratic
development. That is, the absence of substantial links between elites and masses also occasioned the "anticipated reaction" from the governing elite, as the leadership recognized the deep "associational chasm" that separated them from significant sources of societal support and, consequently, led the governing elite to reject the path of radical reform lest such a path result in a widespread and uncontrollable "social explosion." Indeed, governing elites were constrained in their maneuver by their own beliefs about, and perceptions of, the volatility of Russian society. It was their belief - long-standing among Russian and Soviet elites - that at any time a tidal wave of social indignation (possibly associated with oppositional attempts to provoke or exploit such a response) could inundate the Government and destabilize the entire political system.

In addition, other factors associated with the legacy of an inadequate transformation of Leninist state institutions were in part responsible for the particular Russian reform trajectory which eventuated. Certainly the

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5 In his memoirs, Nikita Khrushchev discussed the political dangers facing the Soviet leadership (i.e., riots and demonstrations like those that occurred in Poland in 1970) if the economic expectations of the populace were not addressed (Khrushchev, 1974, p. 146). Similarly, in introducing his "New Economic Policy," Vladimir Lenin implicitly acknowledged the political risks (e.g., the recurrence of widespread peasant uprisings and military insurrections a la Kronstadt) accompanying the continued utilization of the confiscatory policies of "War Communism" (Lincoln, 1989, pp. 514-515; Tucker, 1975, pp. 503-510).
intra-branch or inter-ministerial struggle for power adversely affected the course of Russia's transition; as the conflict between the Russian Ministry of Labor and the Federal Employment Service revealed, the incessant jockeying for preeminence in the labor and employment sphere contributed to the stalemate of economic reform - as the formulation of effective policies to combat unemployment have been relegated to the "back burner" - and, ultimately, impeded the progress of democratic development; that is, as policy stalemates caused by such bureaucratic confrontation increased the magnitude of reform's social costs, disaffected citizens began to desert both liberal-reform parties in favor of those extremist political groupings promising increased social assistance and the end to socially-damaging reforms.

Moreover, the inability of elites to transform poorly-delimited Leninist state institutions into ones clearly differentiated according to roles, powers and prerogatives severely handicapped the Russian transition path. Indeed, the inter-elite conflict which resulted - of which efforts to exploit the transition's social burdens was merely one manifestation - had an independent impact upon the policy-making process which, in turn, adversely affected the progress of economic reform and democratic development.

In addition, the significance of this institutional legacy of communist political development was magnified by
another legacy discussed above: the dearth of strong mass-elite linkages. Thus, while in one sense permitting the governing elite a greater degree of maneuver, the absence of such linkages served to constrain the governing elite by keeping them hostage to oppositional elite machinations. Since the governing elite in Russia had no stable and developed social foundation to rely upon, it ultimately became quite vulnerable to opposition machinations and lobbying.6

Indeed, due to Russia's "proto-civil society" (Bryant, 1994), i.e., that factor sheltering the country’s governing elite from the same degree of societal pressures as have confronted reforming elites elsewhere, a fast transition may have been anticipated. The fact that that didn’t transpire was intimately bound up both with the character of inter­elite relations and the particular (and peculiar) nature of mass-elite relations; thus, in the absence of a mature civil society and developed mass-elite linkages, the particular transition path that resulted in Russia depended all the more upon the character of inter-elite relations and the governing elite’s perceptions of society.

6 In hindsight, the ruling elite can be criticized for neglecting to construct linkages with societal groups and to fashion a reliable network of political support. Indeed, as witnessed in the events at the Tri-Lateral Commission on the Regulation of Social Conflicts, the Government’s manipulation of its various "social partners" destroyed an opportunity to forge links with a number of important social organizations. This squandered opportunity may one day be regretted, particularly if social tensions continue to increase.
Thus, findings in the present research would appear to support that body of theory which argues that certain "legacies" of communist development - in the social, economic and politico-institutional spheres - survive into the present era and continue to affect the progress of economic reform and democratic transition by shaping actors' interests and circumscribing their behavior (Jowitt, 1992; Terry, 1993; Crawford, 1995; Crawford and Lijphart, 1995; Hanson, 1995; McFaul, 1995). 7

Thus, it is my belief that the present research has contributed to the study of comparative politics, as well as to the fields of postcommunist and Russian politics.

Firstly, it has provided an in-depth exploration of an area of Russian public policy which has not received much attention heretofore. In addition, this study has informed our understanding of policy-making processes in postcommunist societies - processes that also have not been adequately examined.

7 Certainly, in Russia's case a variety of additional factors - such as the dearth of strong, resilient autonomous mediating institutions, a persistent inter-elite struggle over the "rules of the game" and the spoils of it, incessant rivalries between state institutions, elite perceptions of a volatile public and deeply-rooted norms of behavior - have each played a significant role in Russia's attempts at postcommunist economic and political restructuring and have thereby distinguished that country's transformation from others in Latin America and Southern Europe.
Beyond these substantive achievements, the present study has contributed to the literature on democratic transitions and consolidation in a number of ways. Besides underscoring the particular difficulty of undertaking "simultaneous" reforms, it has provided further evidence demonstrating the advantages of undertaking such "dual" reforms sequentially, if it is at all possible. Indeed, the Russian case illustrates the deleterious consequences for both economic reform and democratic development of reversing the sequencing strategy followed by Southern European countries in the 1970's and 1980's; the research has demonstrated that the absence of a consolidated political order may have an independent influence upon the policy-making process which, in turn, may negatively affect the course of democratic development.

Moreover, the examination of the little-explored nexus between politics, economics and social welfare has demonstrated that a well-defined social welfare policy may be an important facilitating condition for democratic consolidation in societies undergoing "dual transitions"; certainly, this study has shown that the absence of an adequate "safety net" in Russia's case produced damaging consequences for democratic development.

Thus, we have seen that many of the hypotheses of the "social cost" approach have been borne out by the research findings. However, the present study adds a significant new
dimension to this approach, i.e., that relating to elite fears of potential political stability.

Lastly, with regard to the more narrow "social cost" approach or, indeed, the larger literature on democratic transitions and consolidation, the present research also contributes to existing theory by highlighting the constraints imposed upon democratic development in postcommunist societies by certain socio-economic and politico-institutional "legacies" of the previous order.
APPENDIX A

List of Interviewees


Anatolii Ivanovich ______ and Irina Mikhailovna ______. December 6, 1993. Author’s personal interview with the Head of the Chita City Employment Center and the Head of Chita’s Minsk Raion Employment Center. Moscow.

Biriukov, Nikolai. October 22, 1993. Author’s personal interview with political scientist at the Moscow State Institute of International Relations. Moscow.


Bulgakova, Inna Aleksandrovna. December 1993. Author’s personal interview with employment specialist and the Assistant to a Secretary to the Federation of Independent Trade Unions of Russia’s (FNPR) Ruling Council. Moscow.


Driakhlov, Nikolai Ivanovitch. November 1, 1993. Author’s personal interview with professor and Chairman of Moscow State University’s Department of Labor Politics. Moscow.


Gladkii, Ivan Ivanovitch. November 29, 1993. Author’s personal interview with the former Chairman of the U.S.S.R. State Committee for Labor and Social Questions (Goskomtrud) and the Chairman of the Board of Directors of the International Center for Social-Labor Problems. Moscow.

Gontmakher, Evgenii Shlemovich. December 6, 1993. Author’s personal interview with former Deputy Minister of Labor and Head of the Ministry of Labor’s Department of Living Standards and Social Support of the Population, former Deputy Minister in the Ministry of Social Protection and present official in the Presidential Apparatus’ Social Policy Complex. Moscow.


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Irina Mikhailovna ______. December 6, 1993. Author’s personal interview with the Head of Chita’s Minsk Raion Employment Center. Moscow.
Issachenko, Tat’iana Mikhailovna. 1993. Author’s personal interview with economist at the Moscow State Institute of International Relations. Moscow.


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Kiselev, Denis Aleksandrovich. March 17, 1993. Author’s personal interview with the Unit Chief of the World Bank’s Current Analysis and Information Department. Moscow.


Kochkina, Natal’ia Viktorovna. October 18 and 27, 1993. Author’s personal interviews with Senior Researcher and specialist on employment issues at the Ministry of Labor’s Institute of Labor. Moscow.


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Kostin, Leonid Alekseevich. November 24, 1993. Author's personal interview with former Deputy Chairman of the U.S.S.R.'s State Committee for Labor and Social Questions (Goskomtrud) and Professor at the Academy of Labor and Social Relations. Moscow.

Kudiukhin, Pavel Mikhailovich. October 27 and December 1, 1993. Author's personal interview with former Deputy Minister of Labor and Member of the Tri-Lateral Commission of the Russian Federation. Moscow.


Minichini, Margaret. October 15, 1993. Author's personal interview with Project Manager of Chemical Bank's Special Project on Banking Reforms in Russia. Moscow.

Osovtsov, Aleksandr Abramovich. 1993. Author’s personal interview with former member of Moscow’s City Council, Chairman of the City Council’s Standing Committee on Social Policy and member of the Coordinating Committee of the Democratic Russia Movement. Moscow.


Shpil’ko, Sergei. 1993. Author’s personal interview with former Deputy Minister of Labor and present Chairman of the Committee of Tourism. Moscow.


Stepankovskii, Borish Aleksandrovich. 1993. Author’s personal interview with a former member of Moscow’s Krasnopresnenskii Raion chapter of the Union for the Struggle Against Unemployment in the U.S.S.R. Moscow.


Zushchina, Galina Markovna. October 21 and November 1, 1993. Author's interviews with Professor and Head of the Department of Employment and Labor Problems at the Academy of Labor and Social Relations. Moscow.
APPENDIX B

Key to Figures 3.1-3.3:
Economic Regions of the Russian Federation

I. North
II. Northwest
III. Central
IV. Volgo-Viatka
V. Central Chernozem
VI. Volga
VII. North Caucasus
VIII. Urals
IX. Western Siberia
X. Eastern Siberia
XI. Far East
XII. Kaliningradskaja Oblast'
APPENDIX C

Key to Figures 3.4 - 3.6
Russian Federation, Oblasts, Republics, Krais, and Okrugs

I. North

1. Arkhangel’skaia Oblast’
   2. Nenetskii Autonomous Okrug¹
3. Vologodskaja Oblast’
4. Murmanskaia Oblast’
5. Republic of Kareliia
6. Republic of Komi

II. Northwest

8. Leningradskaja Oblast’²
9. Novgorodskaja Oblast’
10. Pskovskaja Oblast’

III. Central

11. Brianskaia Oblast’
12. Vladimirskaja Oblast’
13. Ivanovskaja Oblast’
14. Tverskaja Oblast’ (Kalininskaia Oblast’)
15. Kaluzhskaja Oblast’
16. Kostromskaja Oblast’
18. Moskovskaja Oblast’
19. Orlovskaja Oblast’
20. Riazanskaja Oblast’
21. Smolenskaja Oblast’
22. Tul’skaia Oblast’
23. Iaroslavskaja Oblast’

¹ An indented entry signifies territorial subordination to the preceding entry.

² Separate entries for St. Petersburg and Moscow are not provided on maps due to space limitations. However, unemployment rates for these cities are provided in the lower right-hand corner of Figures 3.4 - 3.6.
IV. Volgo-Viat ski i

24. Nizh eg orod skaia Oblast’
25. Kirov skaia Oblast’
26. Republic of Marii-El
27. Republic of Mordova
28. Republic of Chuvash

V. Central Chernozem

29. Belgorod skaia Oblast’
30. Voronezh skaia Oblast’
31. Kurskaia Oblast’
32. Lipetskai a Oblast’
33. Tambov skaia Obl ast’

VI. Volga

34. Astrakhan skaia Oblast’
35. Volgograd skaia Oblast’
36. Samarskaia Oblast’
37. Penzenskaia Oblast’
38. Saratov skaia Oblast’
39. Ul’ianov skaia Oblast’
40. Republic of Kalmykia
41. Republic of Tatarstan

VII. North Caucasus

42. Krasnodarskim Krai
43. Republic of Adygeia
44. Stavropol’skii Krai
45. Republic of Karachaev-Cherkessiia
46. Rostovskaia Oblast’
47. Republic of Dagestan
48. Republic of Kabardino-Balkariia
49. North Ossetian Soviet Socialist Republic
50. Republic of Ingushetia
51. Republic of Chechnia

VIII. Urals

52. Kurganskaia Oblast’
53. Orenburg skaia Oblast’
54. Permskaia Oblast’
55. Komi-Perm iaskii Autonomous Okrug
56. Sverdlov skaia Oblast’
57. Cheliabinskai a Oblast’
58. Republic of Bashkortostan
59. Republic of Udmurtia
IX. Western Siberia

60. Altaiskii Krai
   61. Republic of Altai
62. Kemerovskaia Oblast’
63. Novosibirskaiia Oblast’
64. Omskaia Oblast’
65. Tomskaiia Oblast’
66. Tiumenskaia Oblast’
       67. Khanty-Mansiiskii Autonomous Okrug
       68. Iamalo-Nenetskii Autonomous Okrug

X. Eastern Siberia

69. Krasnoiarskii Krai
   70. Republic of Khakassia
   71. Taimyrskii Autonomous Okrug
   72. Evenkiiskii Autonomous Okrug
73. Irkutskaiia Oblast’
   74. Ust’-Ordynskii Buriatskii Autonomous Okrug
75. Chitinskaia Oblast’
   76. Aginskii Buriatskii Autonomous Okrug
77. Republic of Buriatiia
78. Republic of Tuva

XI. Far East

79. Primorskii Krai
80. Khabarovskii Krai
   81. Evreiskaia Autonomous Oblast’
82. Amurskaia Oblast’
83. Kamchatskaia Oblast’
   84. Koriakskii Autonomous Okrug
85. Magadanskaia Oblast’
   86. Chukotskii Autonomous Okrug
87. Sakhalinskaia Oblast’
88. Republic of Sakha (Iakutia)

XII. Kaliningradskaia Oblast’

89. Kaliningradskaia Oblast’
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