

New forms of labour contract and labour flexibility in Russia

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Abstract

This paper assesses the claims that employment in the new Russian private sector relies heavily on informal and unregistered labour agreements and that the violation of existing labour law by new private employers is driven by their need for more flexible working arrangements.

The paper shows that these claims are unsupported on every count. The new private sector does not rely heavily on informal or illegal forms of employment and there is no evidence that it uses labour more flexibly, in any of the usual senses of the term, than the traditional sectors of the economy. The conclusion is that there is no economic justification for the systematic violation of the existing labour legislation. It is suggested, therefore, that enforcement of the existing law is a precondition for its effective reform in those areas in which it might be a barrier to restructuring.

JEL classification: J41.

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1. Legal violations and the reform of the labour law

The reform of Russia's labour legislation has become a pressing issue for international agencies over the last few years. The World Bank has attached high priority to radical changes in the law as one of the conditions of its Social Protection Adjustment Loan, while the EU's TACIS programme has not been far behind in offering the Russian government advice in this field. Support for ever more radical changes in the law has become something of a credibility test for those Russian intellectuals seeking the favour and patronage of the International Financial Institutions (IFIs). The claim that employers in the new private sector systematically violate existing labour legislation because that legislation impedes the flexible use of labour required by a market economy has been repeated so often that it is almost universally believed in political circles. The conclusion is then taken for granted that job security must be ended by moving away from permanent labour contracts and binding collective agreements towards individual fixed-term contracts of employment regulated under the Civil Code and not under any special labour legislation (Zenkin *et al.*, 1998).¹ However, neither this diagnosis nor the proposals for reform are based on any serious research into the condition of the Russian labour market.

In this paper, we would like to partially redress the balance by referring not only to widely available official statistics and the results of published research, but more particularly to the results of two surveys recently conducted by the Institute for Comparative Labour Relations Research (ISITO), an independent inter-regional research institute based in Moscow. The first, in collaboration with Goskomstat Russia, was a supplement attached to the Labour Force Survey in October 1997 in two regions of Russia (Kemerovo *oblast* and the Komi Republic). The second was a survey of all adults in 4,000 households in four large cities in contrasting regions conducted in April 1998 (Kemerovo, Samara, Syktyvkar, Lyubertsy).² One of the purposes of both of these surveys was to identify the scale and characteristics of employment in the new private sector. In this paper we intend briefly to report the results of the analysis of this data with regard to the problems of labour contract and labour legislation, concentrating on the data from the household survey, which is much more rigorous and with a much more

¹ The cited paper was a report for the Ministry of Labour which was then approved by the Commission for Economic Reform of the Russian Government in January 1998 as the basis of the government's approach to the reform of the Labour Code, led until August 1998 by Mikhail Dmitrev, the Deputy-Minister responsible for meeting the conditionality terms of the World Bank Loan, to introduce a new draft labour Code to the Duma by the end of 1998. At the same time as Dmitriev was using the World Bank loan to promote the New Zealand model of total deregulation, to avoid what he believed to be the negative consequences of European labour market rigidities, the EU was initiating a large TACIS programme in co-operation with the same Ministry of Labour, which set the reform of the Labour Code firmly within the European framework of collective bargaining and social partnership (European Commission, 1997).

² Details of the survey and access to the data can be obtained from the project website at www.warwick.ac.uk/fac/soc/complabstuds/russia.

satisfactory sample than the Labour Force Survey Supplement. But first, we need some indication of the size of the 'commercial sector' of the economy that Kudyukin and his colleagues claim employs 30 million people, or about half the economically active population.

2. How large is the new private sector?

According to the data published by Goskomstat, 42 per cent of the labour force was employed in private enterprises in 1998, but the vast majority of these people worked in former state enterprises in which little has changed but the name. According to the data of the all-Russian polling organization, VTsIOM, for January to May 1998, 13 per cent were working in private enterprises and 3 per cent engaged in individual labour activity, although the classification again is not unambiguous. In our own surveys we asked respondents a series of questions in an attempt to identify what we shall refer to as, and called in one of our key questions, the 'new private sector'. The proportion working in the new private sector varied quite substantially between the different cities.

Table 1. Sectoral distribution of employment, five cities, April 1998, household survey data

	Samara	Kemerovo	Lyubertsy	Moscow	Syktvykar	Total
State enterprises	25.1	22.0	28.5	22.2	28.9	25.3
Government and public services	20.6	29.7	33.2	27.3	36.9	27.9
Privatized	29.6	26.7	24.8	24.7	22.5	26.6
New private	22.0	19.2	13.3	25.5	10.3	18.4
Self-employed	2.7	2.4	0.2	0.3	1.5	1.9
N	1,594	1,089	407	396	868	4,396

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

New private enterprises characterized in this way turn out to be significantly and systematically different from state and former state enterprises and organizations, not least in various aspects of their labour and employment relations. Overall, the survey found that 18 per cent of respondents were employed in the new private sector. It is difficult to translate this into an all-Russian estimate, but a realistic guess would be around 12–13 per cent, which was the proportion employed in the new private sector according to the data of our labour force survey supplement for Kemerovo *oblast* and the Komi Republic as a

whole (for more details see Clarke and Kabalina, 1999).

We were also able to use work history data to get a picture of the evolution of new private sector employment over the period of reform. What is most striking is the sustained growth of new private sector employment since 1994, when the Goskomstat data for employment in small enterprises has indicated stagnation. The dynamics of this series correspond very closely to that of the VTsIOM data, although our estimate of new private sector employment is consistently lower than VTsIOM's estimate of private employment.

Table 2. Sectoral distribution of employment, from work history data

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
State/privatized	99.2	98.7	98.2	97.4	96	95	93.7	91.3	89.1	86.7	84.1	80.7
New private	0.6	1.0	1.2	1.9	2.9	3.9	5.0	6.9	8.8	10.7	12.9	15.7
Self-employed	0.2	0.4	0.5	0.7	1.0	1.1	1.3	1.8	2.1	2.6	3.0	3.6
N	3,774	4,703	4,815	4,965	5,091	5,203	5,292	5,384	5,494	5,596	5,719	5,867

3. The characteristics of new private sector employment

The new private enterprises in our sample are marked by their small size, their recent origin and their concentration in the trade and service sectors of the economy. Three-quarters of these enterprises had been created from nothing, ten per cent had emerged out of state enterprises and ten per cent from other private enterprises. Over two-thirds of all new private sector employment in all four cities is in various forms of trade and services, against only 16 per cent of employment in traditional enterprises in these spheres. New private enterprises account for two-thirds of employment in trade and catering, one-third of employment in services, 20 per cent in construction, but only 10 per cent in industry and transport. Thirty nine per cent of our new private enterprises have ten or fewer employees, against only three per cent of traditional enterprises in this size range, and only eight per cent of new private sector employees work in enterprises which employ more than 100 people, against one-third of traditional sector employees who work in such large enterprises. In the analysis that follows we have controlled for such variables as branch and size of the enterprise, as well as for the different socio-demographic characteristics of the labour force, since new private enterprises are more likely to employ men, employ relatively fewer workers and relatively fewer young and older people, even controlling for differences in branch characteristics, although the labour force is not strikingly different from that of the traditional sector of the economy. Fortunately the sample is sufficiently large, and there is sufficient variation in the responses, that

we have been able to produce positive results from this analysis.

Pay levels in the new private sector are substantially higher than those in the traditional sector, with those with particular skills and with higher levels of education doing especially well. However, in general, the skill level of work in the new private sector is lower than that in the traditional sectors. Although new private enterprises are more likely than traditional enterprises to employ people who have undergone further training since 1990, they are less likely to provide such training themselves, either encouraging their employees to follow training courses with outside agencies, or leaving it to their employees' own initiative to upgrade their skills (Clarke and Metalina, 2000).

While new private sector employees enjoy substantially higher rates of pay than do those in traditional enterprises, they also receive substantially fewer social and welfare benefits. They are even very likely to be denied the legally prescribed minimum benefits of paid holiday, sick pay, compulsory medical insurance and maternity leave. This may well be one reason why new private sector enterprises are less attractive for women and older workers. New private sector employers are also less likely to provide the traditional benefits provided by state and former state enterprises, as well as the new kinds of pecuniary benefit that have grown up with the development of a market economy, although much of the difference in all these respects is accounted for by the small size and the branch affiliation of new private enterprises (Clarke and Kabalina, 2000).

4. Forms of contract in the new private sector

As we have noted, it is widely asserted that customary law and informal agreements prevail in the commercial sector. To assess this claim we need to look at the available evidence on the forms of contract under which people are hired in different sectors of the economy.

Within the framework of the existing law there are essentially three types of labour contract.

First, the traditional form of permanent employment, which can be associated with a non-renewable probationary period. The employment relation may be confirmed in the traditional way, when the employee simply signs an application for work, or it can be embodied in an individual contract of employment. Since an individual contract cannot legally define conditions for the worker inferior to those laid down by the law and collective agreement, such contracts are mainly used to provide senior managers or scarce skilled employees with more favourable terms and conditions of employment. The terms and conditions of employment of those without an individual contract are governed by the Labour Code and the collective agreement. As more and more employers fail to negotiate or renew their collective agreements, a growing proportion of workers rely

entirely on the Labour Code for the protection of their labour rights.³ This makes the revision and effective enforcement of the Labour Code increasingly important for workers.

Second, short-term contracts of up to five years can be concluded, but only where 'the character of the work, the conditions of its fulfillment or the interests of the employee as well as situations immediately stipulated by law' (Article 17) make it impossible to conclude an indefinite agreement. This restriction of the use of contract labour was introduced in 1992, in conformity with ILO recommendation 166 of 1982, because employers had been transferring their entire labour force onto fixed-term five-year contracts which they used to prevent employees from leaving their jobs voluntarily, while the employer always had the threat of dismissal or redundancy in his hands.⁴ The appeal of such contracts is that they provide a more powerful disciplinary lever over the worker, who has no protection against dismissal at the end of the contract, and they provide a way of getting round the Labour Code provisions on dismissal and redundancy. However, as we shall see, it is by no means clear from the data that this is how such contracts are used.

Third, those who contract to provide goods and services under contracts governed by the Civil Code are considered to be self-employed and beyond the application of the Labour Code. This provides a familiar loophole for those small employers wishing to flout the provisions of the Labour Code with impunity by sub-contracting, but it is also used as a mechanism by which regular employees are contracted to do additional jobs on the side, since it makes it possible to pay them directly without having to formulate a labour agreement.⁵

In Russia it is illegal to employ people on the basis of a verbal agreement. In many countries the law imputes the existence of a contract of employment from the fact of an employment relation, even when no such contractual agreement has been formally drawn up and signed, so that employees with verbal agreements have the same rights as those with a contract, but in Russia a verbal agreement has no legal force and those employed on such an agreement have no protection under the Labour Code. The employment of those on a verbal agreement will usually be unregistered and the employer will not pay any of the taxes and social payments required by the law. This is the kind of informal situation that Kudyukin and his colleagues claim prevails in the new private sector (Zenkin *et al.*, 1998).

Kudyukin's claim appears to be something of an exaggeration. The Russian Longitudinal Monitoring Survey asked respondents in the last quarter of 1998 if

³ Many collective agreements in fact specify terms inferior to those provided by the Labour Code (Chetvernina, 1995, p. 7).

⁴ An indefinite contract can be terminated by the employee by giving two weeks notice in writing, but a fixed-term contract can only be terminated on the grounds of incapacity or violation of the terms of the contract or collective agreement on the part of the employer.

⁵ By Presidential decree the chiefs of state enterprises are employed on such a contractual basis, as are various groups of actors and artistes.

their employment was registered, and 98 per cent said that it was, falling to 92 per cent in privately-owned enterprises. Only just over half of those who were not registered said that it was on the initiative of the employer. One-fifth of those whose employment was not registered worked as shop assistants and one-fifth as cleaners, loaders or janitors (interestingly, in all the datasets it is lawyers who are the most likely professionals to be illegally employed). Sixty per cent were in firms with 15 or fewer employees and eighty per cent had been in the job for less than two years. According to the data of the Goskomstat Labour Force Survey for October 1997 and October 1998, in each year 95 per cent of employees were still employed on the traditional permanent basis, with only 2 per cent each employed on a casual or a fixed-term basis and one per cent under a Civil Code sub-contract (Goskomstat, 1998; Goskomstat, 1999). In ISITO's Supplement to the November 1997 Labour Force Survey, in two *oblasts*, 83 per cent of those in the new private sector were employed on permanent contracts, 4 per cent doing temporary work, 7 per cent on a fixed-term contract and 7 per cent on a sub-contract for particular work. Respondents were not offered the opportunity of saying that they were hired on a verbal agreement. Even 60 per cent of those who said that they were employed by a private individual reported that they were employed on a permanent basis. Similarly, when we look at the data by branch we find that even in street and *chelnoki* trading over half of those responding were employed on a permanent basis. Only in the sphere of private construction and repair was casual and short-term employment the norm.

We can get another indication of the extent of registration by looking at the replies people gave to the question in the Labour Force Survey Supplement, where was their labour book? Over 99 per cent of those employed in state and former state enterprises said it was in their main place of work, but over 10 per cent of those employed in new private enterprises or working in family firms and almost half those working for private individuals said that their labour book was somewhere else. This would imply that the scale of 'unregistered employment' is very much less than is often assumed, amounting to no more than 5 per cent of total employment, and is largely confined to individual labour activity and unregistered individual and family enterprises. Of course a large proportion of secondary employment is not registered, but most of this is casual, sporadic and low paid.⁶

We can get more detailed information on labour contracts by using the data from VTsIOM's monthly surveys and from the ISITO household survey. The former provides all-Russian data, the latter a larger and technically superior sample from four cities. The ISITO data also includes a more precise definition of the new private sector and of different forms of contract. This suggests a higher

⁶ The consistency of all the data sources, together with the fact that respondents freely admitted that they were involved in unregistered secondary employment, even if they were at the same time registered as unemployed and drawing benefit, would suggest that there is no special reluctance to admit to unregistered employment.

incidence of new forms of employment than does the RLMS or Goskomstat data.

According to the VTsIOM data from March 1997 to May 1998, the vast majority of those working in state and former state enterprises are still employed on the traditional form of permanent agreement, while about 10 per cent of those employed in state enterprises, 20 per cent of those in non-state joint stock companies, 30 per cent of those in private enterprises and just over 50 per cent of those with foreign ownership were employed on individual contracts or labour agreements. On the other hand, relatively few people were employed on verbal agreements: such agreements are very rare in state and former state enterprises, only 2 per cent are employed on such a basis in companies with foreign ownership and only 4 per cent are employed on such agreements in non-state joint-stock companies. It is only in companies owned by private individuals that a significant proportion, about 20 per cent, are employed on verbal agreements, and, according to the ISITO household survey data, such people are often friends and relatives of the owner.

Table 3. Contractual form of hire by economic sector, VTsIOM data, March 1997 to May 1998

Per cent	State enterprise or organization	State joint-stock company	Non-state joint-stock company	Privately owned	Joint venture	Total
Permanent hire	84.6	86.9	72.5	40.2	41.7	77.5
Contract or agreement	9.3	11.0	21.4	28.8	52.1	13.8
Verbal agreement	1.1	1.5	4.2	22.1	2.1	4.5
Other (entrepreneur, military service, other)	5.0	0.5	1.9	8.8	4.2	1.7
N	4,191	1,731	542	1,099	48	8,126

We can identify the kinds of people hired on individual contracts by running a logistic regression, with the probability of being hired on a contractual basis as the dependent variable.⁷ Here we find that men, younger workers, specialists and skilled workers, those with higher levels of education and those working in non-industrial branches of the economy, are all more likely to be hired on contracts, as well as those in private or foreign-owned enterprises. Managers themselves appear to be less likely to be hired on contracts. However, it would appear that contracts are, as we supposed, used to provide better terms and conditions to employees with skills which are scarce in the labour market.

Specialists and unskilled workers are much more likely to be hired on a verbal

⁷ For space reasons, regression results are not presented here, but the data are available from the authors.

agreement, and managers are much less likely to be hired on this basis. Controlling for all other variables, state enterprises are the least likely to use verbal hiring, and privately-owned enterprises the most likely. Very small enterprises are also more likely than larger enterprises to hire employees on a verbal agreement.

It is clearly not the case that customary law and informal agreements prevail in the new private sector. Nevertheless, the forms of contract and employment relations do differ in the new private sector. The critical question is whether these new forms of contract represent a progressive development, as a response of employers to the need to increase flexibility in their deployment of labour, or whether they are no more than an erosion of the rights and protection of employees. To analyse this question we need to look in more detail at the data derived from the ISITO household survey.

Table 4. Forms of contract by sector of employment. ISITO household survey data, April 1998

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

The majority of employees in the new private sector are hired on the traditional basis of permanent tenure, with or without an individual contract, but a substantial number are also hired on the basis of fixed-term contracts or illegally on the basis of verbal agreements.⁸ When we run a multinomial logistic regression to control for other characteristics of the enterprise and the labour force we find that more or less the same variables are significant in determining who is employed on a permanent contract, rather than a traditional agreement, as we found with the VTsIOM data: men, those with a higher educational level, those in

⁸ It is not uncommon for employees of new private enterprises to be formally registered as 'entrepreneurs without juridical status', which saves the employer the non-wage labour costs incurred by direct employment and provides the employee with tax benefits, but it seems likely that most such people in our survey described themselves as working for a private enterprise on sub-contract or on the basis of a verbal agreement. Twenty-three of the 75 people who said that they were basically involved in individual labour activity also said that they worked in enterprises with more than one employee, but half of these involved only one other person, and the largest number involved was seven. Fifty-seven of the 92 people who described themselves as employers said that basically they used the labour of friends and relatives.

non-industrial branches, younger people and those working in privatized and new private enterprises are all more likely to be working on such a contract, although occupation is not significant on this data.

Occupation is more significant in determining the probability of being employed on a fixed-term contract. Although fixed-term contracts are significantly more likely to be found in the new private sector, occupational characteristics are a stronger influence on the likelihood of being employed on a fixed-term contractual basis, with professionals and senior specialists, clerical, sales and service personnel and, particularly, more senior administrative and commercial staff being much more likely than ordinary workers to be working on fixed-term contracts. Men are also substantially more likely to work on such contracts than are women.

The new private sector also tends to employ more people on the basis of a sub-contract for a specific job of work. In this case, no other variables have a significant influence, partly because there are so few people working on this basis. However, looking at the breakdown of occupations of these people, it seems clear that about half those working on sub-contract in the new private sector are legitimately working on that basis: they are architects, brokers, drivers, skilled building workers and such trades. The remaining half work in routine occupations, particularly as shop assistants, who comprise one-third of all those working on sub-contract in the new private sector, and it seems likely that these people are being illegally employed on this basis as a means of avoiding paying tax and social insurance, although all of them have short job tenure.

Fixed-term contracts and sub-contracting do not seem to be used by new private employers primarily as a means of reducing the job security of lower-grade personnel. Indeed, in an income regression, although those people hired by verbal agreement earn slightly less than those on a permanent tenure, those working on a contractual or sub-contracting basis earn significantly more than others, controlling for sector and a full range of branch, occupational and socio-demographic variables.

Nor do fixed-term contracts seem to be used as a means of hiring temporary employees. Two-thirds of those working on contracts of up to one year had been in their present job for more than one year, in both the traditional and new private sectors, and just over a third of those in traditional enterprises for three years or more. About half the people with contracts of up to five years in traditional enterprises had in fact been working in their present job for more than five years – indeed fewer, only a little over a third, of those with permanent contracts had been in their present jobs for as long. Sixty per cent of those hired to do a particular piece of work have been in their present jobs for more than a year, and just over 20 per cent have been in their present job for over five years.

Verbal agreements have a rather different status from the forms of contract considered so far. Men are more likely to be employed on a verbal agreement than women and verbal agreements are more common in small enterprises and in the trade sector, but occupation is not significant on this data: overwhelmingly the

most important determinant of verbal contracts is new private sector employment.

Verbal agreements are most common in the smallest enterprises: two-thirds of those hired on this basis are working either for a private individual or for an individual or family business and in many cases they will be friends, partners or relatives of the owner of the business. While a third of employees are hired on a verbal basis in these micro-businesses, only 8 per cent are hired on this basis in incorporated new private enterprises. It would seem, therefore, that in the majority of cases verbal agreements are not used specifically as a means of evading the restrictions of labour legislation, but because they are appropriate in very small, informally organized businesses, particularly in the sphere of trade.

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

There are substantial differences between sectors in the way in which the employee's duties are defined, but these differences are determined by the different forms of contract under which they are hired: the differences cease to be significant once we control for this factor. As would be expected, the duties attached to the post are defined verbally for 90 per cent of those hired on a verbal agreement, but only for a minority of those hired on a contractual basis does the contract actually specify their duties.

Table 5. How are your duties defined?

Per cent	State	Budget	Privatized	New private	Total
Individual contract	8	9	11	22	12
Job specification	71	74	65	26	62
Verbally on hiring	21	17	23	52	26

5. Flexibility, labour contracts and new private sector employment

The main argument in support of a change of labour legislation in favour of less secure forms of employment contract is that the use of illegal contractual forms by new private enterprises is the spontaneous response of new private sector employers to overcome the limitations of existing legislation in order to achieve the required flexibility. However, there has been no research into the extent to which employment is in fact more flexible in the new private sector, nor into the significance of different forms of labour contract. This is the central task of our current investigation.

It has become customary to distinguish different aspects of employment flexibility.⁹ First, numerical flexibility: the ability of employers to reduce the labour force in accordance with fluctuations in production need. This is supposedly facilitated by fixed-term contracts, sub-contractual arrangements and by limited restrictions on the right of the employer to fire an employee. We have already seen that new private sector employers make extensive use of such contractual forms, but we have also seen that this does not appear to have a significant effect on the security of employment of their employees.

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

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

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

5.1 Numerical flexibility

The first form of flexibility to be considered is numerical flexibility: to what extent are new private enterprises more able to adjust the number employed in response to changing production needs, and what is the contribution to any such flexibility of new forms of labour contract?

Those working in privatized enterprises are more likely, and those in new private enterprises far more likely, to say that they can be dismissed illegally, without any formal grounds. However, this does not mean that they are any more able or any more inclined in practice to reduce their staff. Traditional enterprises

⁹ On flexibility see OECD, 1986; OECD, 1994; Pollert, 1991. For a recent evaluation of labour contracts and labour market efficiency in western Europe see Schömann *et al.*, 1998.

have had no difficulty in getting rid of staff when they want to do so, by creating conditions in which people leave voluntarily or by persuading them to do so under the threat of redundancy – employment in the large and medium industrial enterprises that were the bedrock of the Soviet economy has halved since the end of 1991, despite the fact that the overwhelming majority of quits continue to be registered as voluntary (Clarke, 1998; Clarke, 1999; ISITO, 1996; Standing, 1996). On the other hand, according to our survey data, staff reductions are less likely to have taken place in new private enterprises and substantially more likely to have taken place in privatized enterprises than in state enterprises and organizations. Of course, new private enterprises are relatively more prosperous, and so would be expected to have much less need to reduce the labour force. Nevertheless, when we introduce indicators of such difficulties into the regression (relatively lower wages, relatively less stable, non-payment of wages, lay-offs and short-time working), we find that new private enterprises are still much less likely to have made staff reductions. The Labour Force Supplement data leads to the same conclusions, but also shows that those in the new private sector are far more likely to leave their jobs as the result of the closure of the enterprise. This would indicate that, as in other countries, the numerical flexibility of new businesses is achieved primarily through liquidation: such enterprises find it much more difficult to survive through difficult times and go bankrupt before they can put any effective restructuring plans into effect.

Those on verbal contracts and those on sub-contract, but not those on fixed-term contracts, are more likely to say that they are liable to summary dismissal, controlling for other factors. However, there are no differences in the likelihood of staff reductions for different forms of employment contract. This would seem to indicate that the greater insecurity of those on illegal forms of contract relates to their greater vulnerability rather than to any greater liability to being dismissed in the course of staff reductions.

Overall, we cannot conclude that new private enterprises display a higher degree of numerical flexibility than traditional enterprises, despite the fact that it is easier to dismiss employees without any formalities, and the evidence is that when they do reduce employment it is more likely to be by liquidation of the enterprise than by making employees redundant. The form of contract has no significance for numerical flexibility, but those on illegal forms of verbal contract or sub-contract do feel themselves to be less secure in their jobs.

5.2 Functional flexibility

In order to identify the degree of functional flexibility, respondents were asked whether they had to do work which was not part of their job description, and whether they had to combine trades. Forty per cent had to work beyond their job description from time to time, and 15 per cent practically always did so, with no significant differences between sectors. Lower white collar and unskilled workers were the least likely to have to work beyond their job description from time to time, while older people, managers and those working in smaller enterprises were

most likely to have to work beyond their job description regularly.

A quarter of respondents sometimes had to combine the work of different professions, and 12 per cent did so regularly, but again there was no difference between new private and other enterprises, nor were there any differences according to the form of contract. Men and those in smaller enterprises were more likely to have to combine occupations, while lower skilled manual and white-collar employees and those working in the public and private service sectors were less likely to have to do so. We can conclude that the extent of functional flexibility is affected by branch and occupation, but that the sector of the enterprise and the form of contract have no significant influence on the degree of flexibility.

5.3 Hours flexibility

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

The determination of working hours is partly a matter of branch and occupation. Thus, managers, unskilled workers and those working in construction and transport are the most likely to be able to determine their own working hours. Men and managers are more likely, and industrial workers are less likely to have to work to finish their job. More senior managers and specialists and older workers are substantially less likely to depend on a superior to decide when they leave work. Those working in industry are much more likely and managers and those working in small enterprises are much less likely to have their working hours defined by law or contract.

However, the sector of the economy is also very significant in determining the flexibility of hours. Those working in the new private sector are substantially less likely to have their working hours defined by law or contract, which is not surprising, but they are also more likely to be able to determine their own working hours, although a large part of the difference here derives from differences in work regimes. Those working in the new private sector are also slightly more likely to have to work to finish the job, and significantly more likely to depend on their manager to determine their hours. The form of contract is not significant, except that those working on verbal agreements and on sub-contracting arrangements are, as we would expect, less likely to have their working hours defined by law or contractual arrangements.

Those working in the new private sector work, on average, longer hours than those working in privatized enterprises, but not significantly longer than those working in state enterprises or the budget sector. Differences in hours worked by form of contract are not statistically significant. There is no evidence that those working in the new private sector or on more flexible contracts have more flexible working hours: indeed the variation of working hours in the new private sector, as indicated by the standard deviation, is less than in the state sector.

Table 6. On whom or what does the length of your working day mainly depend?

Per cent	State	Budget	Privatized	New private	Total
On me	5	8	7	11	7
I have to finish the job	29	33	27	38	31
On the manager	15	12	16	30	17
Defined by law, agreement or contract	51	47	51	21	45

Control over working hours is closely connected with the work regime. Those in the new private sector and those working on more flexible contracts are not significantly more likely to have a flexible work regime, but those working in small enterprises and those working on sub-contract or on the basis of a verbal agreement are much more likely to determine their own working hours. This freedom seems to contrast with other responses which suggest that employees in small enterprises and those on flexible contracts are more subject to arbitrary managerial authority. The apparent contradiction dissolves if we assume that these features are all aspects of a greater informality of working relations.

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

We saw in the last section that new private sector enterprises did not appear to differ significantly from traditional enterprises in the degree of functional flexibility, and that the form of contract was also not a significant determinant of such flexibility. There is some evidence that new private enterprises display a higher degree of 'hours flexibility', in the sense that working hours are less likely to be determined by law or contract and more likely to be determined by the manager or, particularly, by the worker him or herself, part of the difference being determined by differences in work regime. However, it is not at all clear that managers in the new private sector are any more or less able directly to determine the hours worked than are managers in the traditional sector: employees in the new private sector are no more likely to work flexible hours than those in the traditional sectors of the economy, and the hours they normally work are in fact less varied than in the traditional sectors, although they are more likely to work overtime. It would seem, therefore, that new private enterprises differ

from traditional enterprises in the lesser degree of formalization of employment relations, with managers and employees more likely to make their own decisions, than in any greater degree of flexibility. This conclusion is confirmed by the fact that the contractual form has no significant influence on the degree of hours flexibility.

5.4 Payment systems

Management may not have direct control over the hours and intensity of work, but may exercise control indirectly through an incentive payment system which links payment to work done. It is therefore interesting to explore the extent to which enterprises in different sectors, and employees on different forms of contract, are paid according to different systems.

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

Table 7. Forms of payment

Per cent	State	Budget	Privatized	New private	Total
Individual piece rate	9	5	13	19	11
Collective piece rate	6	2	11	11	7
Time pay	81	91	68	53	76
Mixed time and piece	4	1	6	7	4
Payment on commission	1	1	2	10	3

As against this, those employed in new private enterprises are much less likely to be paid a bonus than those in traditional enterprises (21 per cent as against almost half). Small enterprises and those in the spheres of construction, trade and the public sector are less likely to pay bonuses so that when we control for branch and enterprise size, those working in privatized enterprises are also less likely to receive a bonus than those in state enterprises and organizations. Of those

receiving a bonus, the size of the bonus is larger in trade and services, for those working on a verbal agreement and for those working in privatized enterprises, but not significantly larger for those working in the new private sector and does not vary by form of contract. The bonus is more likely to be variable in small enterprises, in transport and for those working on verbal agreements. Controlling for these factors, it is not significantly more likely to be variable in new private enterprises.

Table 8. What proportion of your pay is in the form of a bonus?

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

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

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

Table 9. On what does the size of your bonus mostly depend?

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

6. Authoritarian management

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

We have seen that employees of new private enterprises are much more likely to face the threat of illegal dismissal, without any formal grounds. New private sector employees are also much more likely to be fined arbitrarily than are employees of traditional enterprises (37 per cent against less than a quarter).¹⁰ Those hired on purely verbal agreements or working on sub-contracts are also much more likely to be liable to be dismissed or fined illegally.

Those working in the new private sector are much less likely to have breaks at fixed times and are much more likely to take a break when they think it is necessary or to fit in with the needs of production. However, the apparently greater dependence on the manager's permission in the case of new private sector employees ceases to be significant once we control for other factors, particularly

¹⁰ Those working in the trade sector are also more likely to face illegal dismissal and arbitrary fines, regardless of property form.

because those working in trade are substantially more likely to have to get the manager's permission to take a break or to fit in with the rhythm of production and substantially less likely to have fixed breaks.¹¹ The form of contract is again not significant in this respect.

Table 10. When do you take breaks from work?

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

The other side of the employment relation is the extent to which employees have channels through which to represent their interests and to bargain with management, through trade union organizations and the negotiation of collective agreements.

Collective agreements are much less likely to be found in non-industrial branches of the economy and in smaller enterprises, but even allowing for these factors, collective agreements are far less likely to be reported from new private enterprises than from traditional enterprises. As we would expect, they are also far less likely to be found in enterprises which hire people on the basis of verbal agreements.

The presence of a trade union is even less likely to be reported by new private sector employees than is the presence of a collective agreement, although a collective agreement can only legally be signed by a trade union. Trade unions are also substantially less likely to exist in privatized than in state or budget sector enterprises, in smaller enterprises and in branches of the economy outside industry and transport. It is interesting to note that significantly more women than men appear to work in enterprises with a trade union organization. There is much less likely to be a trade union organization in enterprises employing people on illegal forms of contract: verbal, sub-contract or fixed-term contracts. Or, alternatively, where there is a trade union organization, it is much less likely that the employer will have recourse to illegal forms of hiring.

¹¹ Managers and unskilled workers are also much more likely to be able to take a break when they think it is necessary and much less likely to have breaks at fixed times. As workers get older they become progressively less dependent on the permission of a superior to take a break, but are more likely to have to take their breaks at fixed times, as are women and those working in industry. Managers and professionals are less likely to need the permission of a superior to take a break.

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

Table 11. Trade union participation

Per cent	State	Budget	Privatized	New private	Total
Is there a collective agreement at your enterprise	76	60	76	23	63
Is there a trade union at your enterprise?	85	79	75	10	68
Are you a member of a trade union?	69	62	65	10	56

7. Conclusion

We can conclude our discussion quite briefly. We have seen that there is no empirical foundation for the assertions on the basis of which a huge campaign, well-funded by the World Bank, to reform Russia's labour legislation has been conducted.

- There is no evidence that the use of unregistered labour is extensive, at least beyond the sphere of petty economic activity.
- Illegal forms of contract are not widespread, even in the new private sector.
- There is no evidence that fixed-term contracts are used on a large-scale as a means of weakening the position of the employee.
- There is no evidence of the widespread use of sub-contracting as a means of avoiding payment of tax and social benefits.
- Verbal contracts are primarily to be found in individual partnerships and family businesses. Those hired on such contracts have less job security, lower pay and lower job satisfaction than other employees.

- The use of illegal forms of labour contract has nothing to do with increasing flexibility in the use of labour. There is no evidence of greater functional, numerical or hours flexibility in the new private sector, and the form of contract is not a significant determinant of any aspect of flexibility.

The strongest conclusion that we can draw about the difference in employment relations between new private and traditional enterprises is the greater informality of employment relations in the former. Such informality is not in itself necessarily a bad thing, but it does mean that the individual employee is subject to the whim of the manager or owner of the enterprise. While an employee who is in the manager's favour may enjoy comfortable and relaxed working conditions, and be allowed a considerable amount of discretion, an employee who is not so favoured risks being subject to arbitrary authority, including assignment to unpleasant jobs, the requirement to work unpaid overtime, punishment and even dismissal, without having access to any consultative, administrative or legal procedures through which to appeal against his or her treatment. The fact that the characteristics of employment relations appear to differ very little in substance between state and new private enterprises, and barely differ at all according to the form of labour contract, is a strong argument in favour of a greater degree of formalization of employment relations in new private enterprises, to require them at least to operate within the framework of the law. Such an enforcement of the law would protect the rights of their more vulnerable employees, without to any significant extent affecting their economic activity. Moreover, because such illegal practices are not widespread, beyond the confines of individual and family businesses, there should be no practical problem in securing the enforcement of the law to provide adequate protection to employees in the new private sector and the traditional sectors alike. This study has produced the data which makes it possible to endorse the recommendation of the OECD report on small business in the Russian Federation that 'Special attention should be drawn to the labour relations and social protection of workers in SMEs. These issues have usually been neglected, and available data on the subject are scarce. Given the principal weakness of trade union influence in the SME sector, general regulation of the contracting system is required in order to prevent SME workers from unfair and unsafe conditions in the workplace' (OECD, 1998, p. 99).

The fact that illegal forms of contract are rare does not mean that there are not other gross and widespread violations of labour legislation which seriously compromise the health and security of employees without bringing any compensating benefits to the national economy. Since 1996 only one-third of all employees report that they have been paid their wages in full and on time each month, in accordance with the law. Something like five million people have been illegally sent on administrative leave or are working short-time at any one time. Over one-fifth of all industrial workers are officially reported as working in conditions which do not correspond to the health norms and, while the proportion working in such conditions has increased sharply in all branches of production in recent years, the proportion receiving compensation for such

suffering has been in equally steady decline. Unless steps are taken to enforce the law in those areas which are central to the protection of the basic rights of employees, there is little prospect of employees readily consenting to amendments to legislation in other areas, such as the transfer of employees to other work, where the law, were it to be enforced, might present some barrier to restructuring.

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