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The New Private Sector in the Russian Labour Market

SIMON CLARKE & VERONIKA KABALINA

ACCORDING TO THE DOMINANT MODEL of the transition to a market economy, the leading role in transition should be played by the new private sector as entrepreneurs seize on the new opportunities opened up by the collapse of the old system. As the engine of economic growth, the new private sector should have been the creator of new jobs and employment opportunities for those displaced from traditional state enterprises and organisations. The policy and practice of new private sector employers in the Russian labour market would in this case be a critical determinant of the patterns of employment restructuring in Russia. Surprisingly, however, there has been no significant research into this question. Indeed, since a brief flurry in the early years of reform, there has been no research into any aspect of employment in the new private sector in Russia.¹

In the first instance such research has been impeded by the fact that neither official nor survey data distinguish the new private enterprises that carried the hopes of the reformers from the former state enterprises that have now been privatised. In this article we would like to report on the findings of our own research into the role of the new private sector in the labour market. This research was based on case studies of a selection of 40 new private enterprises in a variety of spheres of the economy conducted between September 1997 and June 1998 and on a detailed survey of all the adult members of just over 4000 households in four relatively prosperous Russian cities conducted in April and May 1998.² The survey included a work history component that sought basic information on all labour market events since 1987. This gives us a large enough sample to permit a systematic exploration of the labour market transitions of employees in different sectors and branches of the economy.

One reason for the lack of research into the new private sector is the difficulty of defining unambiguously what is a new private enterprise, since many such enterprises grew out of former state enterprises and organisations and many retain close connections with traditional organisations and with old administrative and political structures (for a review of the data on new private sector employment see Clarke & Kabalina, 1999). The key feature in the definition of a new private enterprise is discontinuity not only in ownership and in managerial personnel but above all in management structure, and this cannot be determined by any objective indicator, such as the juridical form of the enterprise. Nevertheless, most people have a clear idea of what is meant by a new private enterprise, so we have used the respondents' own definition of their employer to determine the sector in which they work. It turned out

TABLE 1

SECTORAL DISTRIBUTION OF EMPLOYMENT, APRIL 1998, HOUSEHOLD SURVEY DATA, FIVE CITIES

	<i>Samara</i>	<i>Kemerovo</i>	<i>Lyubertsy</i>	<i>Moscow</i>	<i>Syktvykar</i>	<i>Total</i>
State	25.1	22.0	28.5	22.2	28.9	25.3
Budget	20.6	29.7	33.2	27.3	36.9	27.9
Privatised	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
<i>n</i>	1594	1089	407	396	868	4396

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

that almost all our respondents were clear whether or not their place of work fell into the category. A series of supplementary questions provided a consistency check on their answers which indicated that the subjective definition of a new private enterprise is meaningful and consistent.

Table 1 shows the distribution of employment in the cities covered by our survey, the percentage employed in the new private sector ranging from 12% in Syktvykar to 26% in Moscow city. However, this is a considerable underestimate of the significance of the new private sector in the labour market. First, over two-thirds of all secondary employment is in the new private sector, although the majority involves only petty forms of economic activity. If we allow for under-reporting of unregistered secondary employment, this increases the share of the new private sector in total employment by two percentage points and more than doubles the share of self-employment. Second, even if we confine ourselves to primary employment, new private sector employment has been growing fairly rapidly, while labour turnover in the new private sector is considerably higher than that in the state and former state sector, so the new private sector accounts for a disproportionate number of new hires. Thus the new private sector now accounts for over 40% of new hires across our four cities, and for well over half the new hires in the more dynamic labour markets. Finally, the proportion of good jobs that are offered in the new private sector is much higher than this, since the level of earnings in the new private sector, even controlling for such factors as age, education and occupation, is around 20–25% higher than that in the traditional sectors of the economy and, as we will see, a transition to a new private sector job is significantly more likely to be associated with an increase in pay. New private sector employment is heavily concentrated in the spheres of trade and services, with relatively little penetration of industry, construction, transport and communications, and most new private firms remain very small. Nevertheless, it is not unreasonable to assert that new private sector employers are the most important actors in the contemporary Russian labour market. While the crisis of August 1998 dented new private sector growth, particularly in central Moscow, there is every reason to believe that the new private sector has become well enough established to have survived the crisis as well as any other sector of the economy.³

TABLE 2

MAIN CHARACTERISTICS OF NEW PRIVATE SECTOR EMPLOYMENT, HOUSEHOLD SURVEY DATA, FOUR CITIES

	<i>State/privatised</i>	<i>New private</i>	<i>Total</i>
<i>Occupational status</i>			
Managers	6	12	7
Senior specialists and professionals	21	13	19
Technical, junior specialists, upper non-manual	20	14	19
Clerical/sales/service	9	26	12
Skilled manual	26	24	25
Semi-skilled and unskilled manual	18	10	17
<i>Sex</i>			
Men	44	57	46
Women	56	43	54
<i>Age groups</i>			
Under 24	9	16	10
25 to 29	10	18	12
30 to 39	24	30	25
40 to 54	42	31	40
Over 54	15	4	13
<i>Level of education</i>			
Less than secondary	8	5	8
Secondary	22	23	22
Secondary special	41	40	41
Incomplete higher	3	6	4
Higher	27	25	27
<i>n</i>	3466	881	4347

Characteristics of those working in the new private sector

We can identify the salient characteristics of those working in the new private sector from our survey data, which we can supplement with data from our new private enterprise case studies about the hiring preferences of new private employers.

Table 2 shows the main characteristics of new private sector employment compared with employment in traditional enterprises. At first sight the contrasts are striking: the labour force tends to be much younger, with a substantially higher proportion of men. The new private enterprises also employ many more managers and service personnel and fewer specialists and technical personnel than traditional enterprises. Interestingly, the educational level of new private sector employees is, on average, little different from that of traditional enterprises.

However, we should not read too much into these data regarding the characteristics of the labour force, because new private enterprises differ markedly from traditional enterprises in their size, their branch characteristics and also, for obvious reasons, their age. This makes it difficult to identify with confidence the extent to which differences in employment in new private enterprises derive from their property form rather than from other enterprise characteristics. We therefore have to take great care to control adequately for these other factors in reviewing employment in the new private sector.

In fact, when we run a logistic regression controlling for enterprise size, branch and city and looking only at those employees appointed to their posts since 1990 we find

TABLE 3

LOGISTIC REGRESSION, PROBABILITY OF EMPLOYMENT IN NEW PRIVATE SECTOR, THOSE EMPLOYED SINCE 1990

	<i>All branches</i>			<i>Trade, catering and repairs</i>		
Variable	B	S.E.	Exp(B)	B	S.E.	Exp(B)
Years since 1990	0.1752**	0.0150	1.1914	0.2546**	0.0581	1.2900
City (Kemerovo)						
Samara	0.1790	0.1359	1.1961	− 0.2336	0.3462	0.7917
Lyubertsy	− 0.0991	0.1640	0.9057	− 0.7487*	0.3783	0.4730
Syktyvkar	− 1.1171**	0.1832	0.3272	− 1.1460**	0.3787	0.3179
Age group (25–39) at time of hiring						
Under 24	− 0.3090	0.1646	0.7342	− 0.5677	0.3157	0.5668
40–49	− 0.3282*	0.1327	0.7202	− 0.3665	0.2800	0.6932
Over 50	− 0.5434**	0.1708	0.5808	− 0.1220	0.3694	0.8852
Enterprise size (over 50)						
Under 10	3.2764**	0.1709	26.479	− 0.1220	0.3694	0.8852
11–50	1.4152**	0.1257	4.1172	2.5256**	0.3437	12.498
Sex (female)						
Male	0.7245**	0.1215	2.0637	0.6970**	0.2418	2.0078
Education (basic)						
Vocational	0.0681	0.1336	1.0705	0.3547	0.2540	1.4257
Higher	0.1927	0.1759	1.2125	0.2979	0.2647	1.3471
Occupational status (routine non-manual)						
Manager/specialist	− 0.0773	0.1716	0.9257	0.6100	0.3363	1.8404
Worker	− 0.6470**	0.1464	0.5236	0.0491	0.3414	1.0503
Branch (industry)						
Construction	0.4840	0.2092	1.6225			
Transport	− 0.3791	0.2290	0.6845			
Trade	1.0970**	0.1529	2.9952			
Services	0.7749**	0.2247	2.1703			
Social services and administration	− 1.5447**	0.1881	0.2134			
Constant	− 2.7708**	0.2319		− 0.3649	0.2111	
<i>n</i>	4214			545		
Initial − 2LL	4240			643		
Model Chi-squared	1966**			135**		

that the differences between new private and traditional enterprises are much less striking, a large part of the difference in the occupational and demographic characteristics of the labour force being accounted for by the different occupational structure of different branches and the fact that new private sector employees have all been appointed relatively recently.⁴

New private sector enterprises are still much more likely than traditional enterprises to employ men, and employ relatively fewer workers and relatively more prime-age adults, but even some of this difference might be accounted for by finer differences in the sectoral characteristics of traditional and new private sector enterprises. For example, if we take the 545 individuals working in trade, catering and repairs, which account for well over half of all new private sector employment, we find no statistically significant differences in the age and occupational characteristics of the labour force in new private and traditional enterprises.

We can also use our work history data to identify differences in recruitment to new and traditional enterprises by age, education and sex, although we are not able to control for enterprise size, branch and occupation in this case. According to these data, since 1990 people in the age range 25–40 have been significantly more likely

TABLE 4
LOGISTIC REGRESSION, PROBABILITY OF TAKING A JOB IN THE NEW
PRIVATE SECTOR SINCE 1990

<i>Variable</i>	<i>B</i>	<i>S.E.</i>	<i>Exp(B)</i>
Years since 1990	0.2013**	0.0133	1.2230
City (Kemerovo)			
Samara	0.4136**	0.0742	1.5123
Lyubertsy	0.1093	0.0905	1.1155
Syktyvkar	-0.5754**	0.0947	0.5625
Age group (25-39)			
Under 24	-0.1836	0.0983	0.8323
40-49	-0.2836**	0.0834	0.7531
Over 50	-0.9431**	0.1273	0.3894
Sex (female)			
Male	0.3672**	0.0729	1.4437
Education (basic)			
Vocational	0.1030	0.0716	1.1085
Higher	0.1126	0.0795	1.1192
Interaction term:			
male*under24	-0.3413**	0.1291	0.7108
Constant	-2.0973**	0.1172	
<i>n</i>	6019		
Initial - 2LL	7126		
Model Chi squared	467**		

than those older and younger to have taken jobs in new private enterprises. On these data, men were also somewhat more likely than women to have got jobs in the new private sector, although there was no difference among those under 25 years old.

Employment strategies in the new private sector

The tentative findings from our survey data are confirmed by analysis of data from our case studies of new private enterprises which indicated that, other things being equal, employers tended to prefer to employ younger men with higher levels of education and some work experience. This is not a preference unique to new private employers: our research in state and former state enterprises came up with a very similar finding, but on the whole new private employers can offer higher wages and so have much greater choice in the labour market, enabling them more easily to realise their preferences.

In interviews, the overwhelming majority of new private employers initially said that they had no particular preference regarding the sex of their employees. However, they began to introduce some reservations once economic factors were brought into consideration. An owner of a recently created firm put it thus:

A small organisation cannot allow itself large overheads. It demands flexibility of its employees. In many cases they must know how to drive a car. Plus a flexible working day. In other words, we need completely flexible employees. And when I tell a woman about the work and I hear: 'Oh, that's a long way to travel', that already rules her out.

It was clear that many employers, other things being equal, preferred to hire a man

to a woman. The following is a typical view expressed by the owner of another private firm:

I cannot allow myself to take on a woman who will decide to have a child in the next three or four years, because this is the period of professional adaptation. Well, if the woman goes off on maternity leave, she has to begin at the beginning and my money will have been spent for nothing.

Employers also tended to consider that young men were more mobile and more ambitious than young women.

The most frequent demands in selecting new employees concerned age and education: whatever the job, employers want to take on people under 35 with higher levels of education, despite the fact that it is well known that the turnover of young people is much higher. The compensation for employers is that they think that young people without family obligations will be likely to work more intensively, including in the evenings and at weekends, and will show more initiative. Many employers also said that they preferred to take on people who were young enough not to have been socialised into the old work ethic, so that they could turn them into employees suitable for work in new conditions.⁵ Several employers felt that young people who were ambitious to make a career were ready to work harder for lower rates of pay. However, employers also complained that many young people were not willing to work hard, had little motivation to work and lacked honesty. For this reason many new employers looked for people closer to 30 years old, by which time they had 'become more mature', rather than younger people 'who do not value a job'. The predominance of hiring through personal connections that is a feature of the new private sector means that quite often the social characteristics of employees are very similar to those of the employer since they are drawn from the latter's social circle.

Employers prefer to hire people with higher education even for low-skilled positions. This is probably why we find no significant difference in the educational level of employees in the new private and traditional sectors, despite the fact that most jobs in the new private sector do not require a high level of skill. In our case study enterprises, in retail trade it was rare to find an employee without at least middle special education and sometimes even the ordinary sales staff had higher education.⁶ Employers gave two reasons for their preference for more highly educated employees. First, the over-supply of people with higher education on the labour market. Second, their greater adaptability and their ability to learn quickly. New private employers particularly need people who are willing and able to learn or to teach themselves on the job because they are working in new areas where there are few people with appropriate skills and few opportunities for people to undertake appropriate vocational training, which employers are in any case unwilling to pay for (Clarke & Metalina, 1999). Educational qualifications are therefore used by new private employers not primarily as evidence of technical skills but rather as indicators of more imponderable qualities such as motivation, attitude to work, a wide range of interests, openness to the new and ability to adapt.

With the collapse of the traditional sectors of the economy, new private employers are able to pick and choose their employees, with highly skilled and experienced workers in almost every trade and profession eager to find a secure and reasonably

paid job. Some employers remarked that they were perfectly happy to hire people with inappropriate qualifications because such people were often only too glad to have a job and so were much less demanding with regard to pay and working conditions. Those with the requisite professional qualifications, by contrast, tend to be more ambitious and demand levels of pay appropriate to their qualifications. Unless such people are indispensable to the firm, new private employers prefer to let them go.

Labour turnover in the new private sector

Our work history data indicate that labour turnover in the new private sector is significantly higher than in traditional enterprises, even controlling for the age, gender and educational characteristics of the labour force (Bizyukov, 1999). The separation rate of those working in new private enterprises is on average over twice as high as that of those working in traditional enterprises. This is partly because new private enterprises themselves are more unstable, with new private sector employees substantially more likely to lose their jobs as a result of the closure of the enterprise, but it is also because many new private sector employers appear to have lost the Soviet preference for employment stability and traditional fear of high labour turnover.

There are several reasons why new private sector employers view high labour turnover with equanimity. First, there is plenty of skilled and experienced labour available on the labour market, so that most employees who leave can be replaced without difficulty. Second, many occupations in the new private sector require little skill or experience, so that newly hired employees can quickly slot into place and work effectively. Third, many employees are hired on probationary terms at reduced rates, usually for at least the first six months, so that newly hired workers are relatively cheaper than those who have moved on to more secure terms. Fourth, as one enterprise director commented, 'you care about turnover when there is a collective': if the labour force is fragmented, as is often the case in trade and services, there is no advantage to developing a collectivist ethic. Finally, some employers consider that high labour turnover with the use of probation provides a very effective form of personnel selection: an employee who stays even if pay and working conditions are relatively poor has displayed a commendable level of loyalty. Those who prove themselves to be loyal and effective employees can always be given better terms and conditions to induce them to stay. Thus high labour turnover is used as a positive feature of employment policy in many new private sector enterprises.

This does not mean that new private enterprises do not try to hold on to desirable employees. Although very few have anything that could be called a human resource management strategy, employers commonly tailor the terms and conditions of work to selected individual employees in order to secure their commitment. This might simply involve paying higher wages to highly valued individuals, or it might involve a modern form of the traditional enterprise paternalism through the provision of benefits such as participation in profits, the provision of loans for the purchase of housing, subsidised transport, medical insurance or payment for children's education. Sometimes it involves a relaxation of labour discipline, as in one case in which a key employee was allowed to work flexible hours because he had two other jobs. In

practice, a coherent but diversified employment strategy may arise out of such an ad hoc approach to personnel management.

Most of those leaving new private enterprises, just as in the case of traditional enterprises, do so voluntarily, although this may often be as a result of dissatisfaction with working conditions or of conflicts with management over the terms and conditions of employment. New private enterprises tend to have a much stricter disciplinary code than do traditional enterprises and are much more ready summarily to dismiss employees for violating disciplinary regulations. Those who are repeatedly late or are persistent absentees or arrive for work drunk will soon be dismissed, even if their infractions have been overlooked by their immediate superior. However, as in traditional enterprises, a disciplinary dismissal will rarely be recorded as such. The individual will be recorded as a voluntary quit. As the foreman of a security firm put it, 'why spoil a person's documents? It is hard enough to get a job nowadays. We basically have young lads. They know why we have got rid of them, for them it is a lesson. In due course they will get their wits together, but writing the whole business down will spoil it for them'.

The fact that many employees have been hired through personal connections, particularly in the early stages of development of a new business, can create serious problems for the owners as they try to professionalise their activities and formalise work relationships. Those who have been taken on because they were friends or relatives may lack the skills needed to do the job, but may resent being subjected to more rigorous demands. It is extremely difficult to dismiss such people, although they often leave voluntarily as a result of growing levels of tension and conflict at work. As a woman owner said of somebody hired through a friend, whom she had just dismissed for drinking, 'I sacked him with pain in my heart, but fairly and without pity'—it is such experiences that often lead owners of new private enterprises to renounce informal methods of hiring. However, most entrepreneurs take pride in their instrumentalism, regarding their employees as raw material; they will keep them for as long as they can profit from them or, more often, for as long as they remain loyal. And indeed, the most common reason for dismissal is a loss of trust in the employee: if the employee is suspected of disloyalty or dishonesty his or her contract will be terminated at once.

We have encountered very few cases of redundancy in new private enterprises. This is partly because relatively high labour turnover makes redundancy superfluous and partly because new private enterprises simply close if they run into difficulties. On the very rare occasions when we have observed larger new private enterprises which have made people redundant, those to be laid off have been selected not through any systematic procedure but on the basis of the personal sympathies of the owner of the enterprise. One of the Kemerovo trading firms took a novel approach when it ran into financial difficulties. Instead of falling behind in the payment of wages or sending staff on forced leave, as do traditional enterprises, it dismissed a number of employees, refusing to pay their wages owed on the pretext that they had been fined for poor work. However, some of those dismissed refused to go quietly and took the case to the office of the State Labour Inspectorate, threatening to pursue their claim through the courts. The owner of the firm then explained to the inspector that this had all been a misunderstanding and of course the wages would be paid.

Threatened with court proceedings, the owner indeed paid the wages owed, at least in part. The case was well publicised so that the firm suffered a slump in sales and found it harder to attract staff.

The financial crisis of August 1998 was felt above all by new private enterprises in the financial, tourist and business service sectors. Small firms closed, larger ones cut back the number of their branches and responded in exactly the same way as traditional enterprises had done over previous years of crisis: rather than dismissing staff they sent them on administrative leave, usually without pay, for an indefinite period, so inducing them to leave voluntarily, without the redundancy compensation due to them by law.

Level of pay and qualifications in the new private sector

Although new private sector employers were concerned with minimising their wage bills, particularly as most of them were working under tight cash-flow constraints, they had to pay above average wages to attract employees willing to work in the more disciplined and less stable conditions of the new private sector. To some extent higher pay also compensates for the absence of social and welfare benefits, although the significance of these in state and former state enterprises has been in sharp decline.

On average our respondents working in the new private sector earned about 40% more than those working in traditional enterprises, but it is very difficult to compare pay levels because of the problem of comparing like with like.⁷ If we run an OLS regression to control for various socio-demographic and branch characteristics we find that new private sector employees earn about 20–25% more than those in the traditional sectors of the economy,⁸ controlling for other variables (Table 5).⁹ Overall, men earn 37% more than women, controlling for the other variables in these regressions, so we run the regressions separately for men and women. We can see that women benefit less from working in the new private sector than do men. The introduction of interaction terms between new private sector and occupational categories shows that skilled workers and higher professional employees do especially well in the new private sector, while lower non-manual, clerical and sales personnel and unskilled workers benefit much less. This is confirmed by the subjective assessments of pay, skilled and higher professional workers in the new private sector being much more satisfied with their pay in comparison with those in the state and former state sector than are any other occupational groups. It is likely that this is a reflection of the difference between different types of new private enterprise as much as of higher pay differentiation in the new private sector, with specialised enterprises which provide highly skilled professional and technical services paying high salaries, while those in routine spheres of trade and services do not pay substantially more than do state and former state enterprises. Women managers, most of whom are probably the owners of the business, do especially well in the new private sector, earning more than their male equivalents.¹⁰

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

TABLE 5

OLS REGRESSION COEFFICIENTS, DEPENDENT VARIABLE: LOG OF NORMAL NET MONTHLY INCOME FROM THIS EMPLOYMENT, INCLUDING BONUSES

	<i>Men</i>		<i>Women</i>	
	<i>B</i>	<i>t</i>	<i>B</i>	<i>t</i>
(Constant)	7.25*	152.74	6.74*	129.06
Age (25–54 is reference)				
Under 24	–0.23*	–4.97	–0.23*	–5.52
55–59	–0.23*	–3.94	–0.10	–2.05
Over 60	–0.41*	–7.38	–0.32*	–6.23
Took job since 1991	–0.11*	–3.39	–0.07*	–2.71
Education (technical is reference)				
Primary	–0.25*	–4.97	–0.26*	–4.79
Completed secondary	–0.12*	–3.49	–0.12*	–3.64
Higher education	0.14*	2.88	0.19*	4.92
Undergone training since 1991	0.17*	4.47	0.14*	4.92
Sector (state or privatised)				
New private sector	0.24*	5.77	0.19*	4.50
Up to 100 employees	–0.05	–1.34	–0.06	–2.18
Occupational status (skilled worker is reference)				
Managers	0.14	2.30	0.38*	5.42
Administrative and commercial staff	0.11	2.03	0.05	0.82
Professionals	–0.03	–0.42	0.09	1.62
Junior specialists	–0.12	–1.76	–0.11	–2.09
Routine non-manual	–0.21	–2.30	–0.19*	–3.60
Unskilled workers	–0.21*	–5.04	–0.30*	–6.15
Branch (industry is reference)				
Construction	0.00	0.09	0.03	0.47
Transport	0.12*	2.60	0.27*	5.41
Trade	–0.01	–0.24	0.03	0.71
Services	–0.07	–0.95	0.21*	2.94
Social services and public administration	–0.26*	–6.02	–0.29*	–8.22
City (Lyubertsy is reference)				
Samara	–0.36*	–9.25	–0.27*	–8.08
Kemerovo	–0.12*	–2.88	–0.07	–1.94
Syktyvkar	–0.12*	–2.59	0.03	0.82
R squared	0.212		0.315	
Standard error	0.571		0.543	
Number of cases	1724		2184	

Notes: Coefficients significant at the 99% level are indicated by an asterisk.

maternity leave, particularly if they are hired on a verbal agreement. This may well be one reason why new private sector enterprises are less attractive for women and older workers, who are under-represented in the new private sector. 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 new private sector enterprises tend to pay higher wages than traditional enterprises, by no means all such enterprises are prosperous. One-third of new private sector employees report that they are not able to afford to buy even the most basic provisions, let alone to buy clothing and to pay their housing and communal service charges. People are significantly more likely to lose jobs in new private enterprises as a result of their liquidation. New private enterprises also not infrequently leave

their employees unpaid, although not as often as traditional enterprises, and pay their workers in kind. Where they do owe money for wages, the debt is on average higher in new private than in traditional enterprises. Similarly, when we control for other variables, new private sector employers are no less likely to send their employees on administrative leave or put them on short time than are traditional enterprises.

These data do not seem to support the hypothesis that pay differentiation in new private enterprises can be characterised by a simple core-periphery structure, although this was a conclusion that we drew from an earlier phase of our research, based on intensive case studies of a small number of new private enterprises.¹¹ Pay differentiation in the new private sector is not much greater than that in the traditional sectors of the economy, the ratio of the average pay of the top to the bottom decile being 12.6 in the new private sector and 10.7 in the traditional sector (with no significant difference between state, budget and privatised enterprises in the extent of inequality). The ratio in self-employment is higher, at 14.1.¹² Once we take secondary employment into account the picture changes somewhat, since those who work in the new private sector as a second job are far more likely to work on a casual basis, without a labour contract, but in general even these casualised workers are paid at relatively good rates.

The very high level of pay differentiation in all sectors of the economy implies that the effective pay differentials between traditional and new private sectors may not be anything like as large as the sectoral differences in average pay might indicate. Many of those working on very low pay in the traditional sectors of the economy are people who would have very little chance of getting a job in a new private enterprise because of their poor disciplinary record or because of their age. Those who are attractive to new private sector employers are those who are also able to earn better wages in the traditional sector. In order to make a direct comparison between pay and qualifications in the traditional and new private sectors, we asked our respondents in the work history interviews to compare the pay and skill level of each job they had held with those of their previous one. As can be seen from Table 6, those taking jobs in the new private sector are more likely to have increased their pay in comparison with the previous job than those taking jobs in the traditional sector, and this is particularly the case if they have come from a previous job in a state or former state enterprise.

We can explore this question more systematically by running a logistic regression, the results of which are shown in Table 7. There are significant differences between our four cities, with the more dynamic economies of Samara and Moscow offering greater chances to increase pay by changing jobs. Younger workers have more such opportunities and older workers fewer, but there are no significant differences in the chances of men and women increasing their pay, although men are slightly less likely to have to take a reduction in pay. As usual, we find that the higher the level of education, the more chance people have of increasing their pay. Allowing for these socio-demographic characteristics, we find that the best opportunities are for those returning from a period of study, while those coming back from maternity leave or unemployment and those leaving a new private enterprise or self-employment are uniformly less likely to increase their pay than somebody leaving a job in a state or former state enterprise—hardly surprising given that low pay appears to be the

TABLE 6
CHANGE IN PAY WITH JOB TRANSITIONS BETWEEN TRADITIONAL AND NEW PRIVATE SECTORS

<i>Present workplace</i>	<i>Traditional</i>			<i>New private</i>		
	<i>State and privatised</i>	<i>New private</i>	<i>Unemployed</i>	<i>State and privatised</i>	<i>New private</i>	<i>Unemployed</i>
<i>Previous workplace</i>						
Higher pay than previous job	48	35	32	68	47	49
About the same pay as previous job	29	29	29	15	35	22
Lower pay than previous job	23	36	40	17	18	28

TABLE 7

MULTINOMIAL LOGISTIC REGRESSION, DEPENDENT VARIABLE: PROBABILITY OF INCREASING (REDUCING) PAY ON TAKING A JOB, COMPARED WITH PAY BEING ABOUT THE SAME, JOB TRANSITIONS SINCE 1990

<i>Effect</i>	<i>Increased pay</i>			<i>Reduced pay</i>		
	<i>Estimate</i>	<i>Standard error</i>	<i>Exp(B)</i>	<i>Estimate</i>	<i>Standard error</i>	<i>Exp(B)</i>
Years since 1989	0.026	0.016	1.026	0.074**	0.018	1.076
Age (25–39 reference)						
Under 24	0.076	0.093	1.079	– 0.149	0.113	0.861
40 to 49	– 0.179	0.095	0.836	0.270*	0.106	1.310
Over 50	– 0.828**	0.141	0.437	0.652**	0.130	1.920
Sex (female)						
Male	0.004	0.077	1.004	– 0.133	0.086	0.876
Education (basic reference)						
Technical	0.139	0.085	1.149	– 0.137	0.093	0.872
Higher	0.457**	0.099	1.580	– 0.061	0.113	0.941
Previous employment status (traditional reference)						
New private	– 0.841**	0.127	0.431	– 0.141	0.144	0.868
Self-employed	– 0.157	0.351	0.855	0.720	0.370	2.055
Maternity leave	– 0.655**	0.162	0.520	– 0.117	0.184	0.889
Study	0.420	0.411	1.523	0.643	0.473	1.901
Unemployed	– 0.418**	0.095	0.658	0.353**	0.099	1.423
Sector of employment (traditional reference)						
New private	0.683**	0.090	1.980	0.031	0.106	1.032
Self-employed	1.189**	0.216	3.282	0.068	0.273	1.070
City (Kemerovo reference)						
Samara	0.152	0.092	1.164	– 0.276**	0.104	0.759
Lyubertsy	0.392**	0.112	1.479	– 0.246	0.130	0.782
Syktyvkar	– 0.135	0.105	0.873	– 0.049	0.113	0.952
Intercept	0.274*	0.133		– 0.350*	0.150	

principal reason why people choose to leave their jobs. Finally, this regression confirms that those taking a job in a new private enterprise or, even more, in self-employment are much more likely to increase their pay by doing so, although there is no difference in the likelihood of taking a cut in pay.

When we look at changes in skill level with a change of job (Table 8) it appears that the new private sector does not offer any greater opportunities for employees to increase their skills than do traditional enterprises, but a move to the new private sector is more likely to imply a move to a job which does not require previously acquired skills. When we examine the regression results in Table 9 we can see that the possibility of increasing skill level is markedly greater in Lyubertsy, where people have all the opportunities of the Moscow labour market at their disposal. Samara does not benefit from its economic dynamism in this respect, probably because it already has a very highly skilled labour force being forced out of the military industrial complex, although people in Samara are not significantly less likely to face deskilling when they change jobs. Again we find the young facing many more opportunities than the old, although the young are much more likely to take a job not requiring any previous skills, which is to be expected since they will have much less of a personal investment in their existing trade or profession. We find no significant differences between men and women in the likelihood of either increasing skill or of facing

deskilling, but women are substantially more likely to take a job that does not require previous skills. This is in keeping with the greater likelihood of women changing their occupations in response to changing pressures over the life-cycle that is observed in almost every country. Those with higher education are much better placed to take a job with a higher skill level, but they are also more likely to experience deskilling, while there is no significant difference in the extent to which people of different educational levels change their trade or profession. Those returning from a period of study are far more likely than any other group to have increased their skill level or to have changed occupation, which is hardly surprising, while those taking a job from unemployment are much more likely to accept a loss of skill or to have changed occupation, although they are not significantly less likely to have managed to increase their skill. Finally, those taking a job in the new private sector, and especially those entering self-employment, are significantly more likely to have taken a job which did not demand their previous skills than those taking a job in a traditional enterprise, although they were no less likely to have experienced either an increase or a reduction of skill.

Getting a job in the new private sector

Labour market outcomes are not only determined by the preferences of employers but also by the preferences and the labour market behaviour of employees. In this section we will briefly report the results of our analysis of labour market behaviour as it concerns the new private sector, based on our household survey data, the Labour Force Survey Supplement conducted in October 1997, and the work history survey that we carried out in April 1997. An analysis and a full discussion of these data have been presented elsewhere (Clarke, 1999a). Here we are concerned only with the distinctive characteristics of the labour market behaviour of those taking jobs in the new private sector. The two principal features that mark hiring in the new private sector are, first, the fact that those taking such jobs are much more concerned about the level of pay than are those taking jobs in the traditional sector and, second, that overwhelmingly the most important way of getting a job in the new private sector is through personal connections.

The first point to emerge clearly from the data concerns the motivation of those taking jobs in new private enterprises, who in all three datasets were much more concerned about the level of pay, had no interest in social benefits and very little in the closeness of the job to their home. On the basis of the work history data, but not the labour force survey data, pay has become a less significant motive for those taking jobs in the new private sector since 1991, which would not be surprising since before the end of 1991 only the new private sector escaped state wage controls. In the past, few people took jobs in the new private sector because of the promotion prospects, but this has become an increasingly significant motive since 1991.

Jobs in the new private sector are highly desirable and employers are in a strong position to pick and choose whom they hire. It should not be surprising to discover, therefore, that all three of our surveys showed that personal connections were far more important for getting a job in the new private sector than in the traditional sectors of the economy, even when controlling for enterprise size (indeed the size of

TABLE 8
CHANGE IN LEVEL OF SKILL WITH JOB TRANSITIONS BETWEEN TRADITIONAL AND NEW PRIVATE SECTORS

<i>Present workplace</i>	<i>Traditional</i>			<i>New Private</i>		
	<i>State and privatised</i>	<i>New private</i>	<i>Unemployed</i>	<i>State and privatised</i>	<i>New private</i>	<i>Unemployed</i>
<i>Previous workplace</i>						
Higher skill than previous job	26	29	18	25	25	15
About the same skill as previous job	45	38	35	35	49	31
Lower skill than previous job	14	13	22	14	8	15
Work not comparable in skill	15	20	26	26	18	39

TABLE 9

MULTINOMIAL LOGISTIC REGRESSION. DEPENDENT VARIABLE: PROBABILITY OF INCREASING (REDUCING; NOT COMPARABLE) SKILL ON TAKING A JOB, COMPARED WITH SKILL BEING ABOUT THE SAME. JOB TRANSITIONS SINCE 1990

<i>Effect</i>	<i>Increased skill</i>			<i>Reduced skill</i>			<i>Not comparable skill</i>		
	<i>Estimate</i>	<i>S.E.</i>	<i>Exp(B)</i>	<i>Estimate</i>	<i>S.E.</i>	<i>Exp(B)</i>	<i>Estimate</i>	<i>S.E.</i>	<i>Exp(B)</i>
Years since 1989	0.034*	0.017	1.035	0.053**	0.020	1.055	0.023	0.018	1.023
Age (25–39 reference)									
Under 24	0.404**	0.099	1.498	0.076	0.131	1.079	0.405**	0.102	1.499
40–49	−0.386**	0.103	0.680	0.086	0.117	1.090	−0.297**	0.105	0.743
Over 50	−0.585**	0.161	0.557	0.873**	0.138	2.394	0.054	0.140	1.056
Sex (female)									
Male	−0.123	0.082	0.885	−0.132	0.095	0.877	−0.420**	0.083	0.657
Education (basic reference)									
Technical	0.170	0.095	1.185	−0.017	0.105	0.983	−0.046	0.089	0.955
Higher	1.050**	0.104	2.857	0.338**	0.123	1.402	−0.074	0.112	0.929
Previous employment status (traditional reference)									
New private	−0.093	0.133	0.911	−0.429*	0.184	0.651	−0.211	0.144	0.809
Self-employed	0.391	0.351	1.478	−0.365	0.561	0.694	1.080**	0.323	2.945
Maternity leave	−0.105	0.176	0.900	0.088	0.218	1.092	0.032	0.182	1.032
Study	1.246**	0.418	3.477	0.153	0.683	1.165	1.358**	0.453	3.888
Unemployed	−0.079	0.106	0.924	0.531**	0.109	1.701	0.692**	0.096	1.997
Sector of employment (traditional reference)									
New private	−0.019	0.095	0.981	0.044	0.113	1.045	0.548**	0.093	1.730
Self-employed	0.170	0.242	1.185	0.475	0.271	1.608	1.736**	0.196	5.673
City (Kemerovo reference)									
Samara	−0.076	0.100	0.927	−0.086	0.117	0.917	−0.170	0.098	0.844
Lyubertsy	0.388**	0.116	1.474	0.098	0.141	1.103	0.099	0.120	1.104
Syktyvkar	0.023	0.112	1.023	0.262*	0.126	1.300	−0.359**	0.117	0.698
Intercept	−0.975**	0.146		−1.594**	0.171		−0.757**	0.144	

the enterprises is, in general, not a significant variable in this respect) and for the year in which the person changed jobs (since personal connections have become more important over the period of reform). In the work history survey we found that work-related or education-related contacts were overwhelmingly important for getting a job in the new private sector: almost two-thirds of those who got a job in the new private sector found out about it through such connections, while 50% of all hires were achieved with the help of such connections, about three times the figure for state and former state enterprises.

The labour force survey supplement data confirmed the findings of our case study research and our work history interviews, that new private enterprises hire predominantly through personal connections. The data also showed that advertising was a much more important source of information than the Employment Service. Over 70% of our respondents working in new private enterprises had found out about their jobs through personal connections, primarily through friends (over half of all hires), 12% through advertisements, 4% had created their own jobs and only 9% had found out about their jobs by going round employers, little more than one-third of the figure for state enterprises, while only 3% had got their job through the Employment Service, little more than half the figure for state and former state enterprises.

In the household survey too, those taking jobs in the new private sector relied much more heavily on the help of friends. Almost half had found out about their current job from a friend and 28% had got the job with the direct help of a friend, against a third of those who had taken a job in a traditional enterprise since 1992 who had found out about the job through a friend and 19% who had got the job with the help of a friend. Overall, 68% of new private sector employees had found out about their current job through a personal connection (a friend, relative or former manager), almost three-quarters of whom had received direct help in getting the job through that connection. Almost half the connections were managers or had had business contacts with the firm, rather than being an ordinary employee or merely a friend of a friend. Some 15% had actually been given the job by their connection. A further 9% had created their own job and 10% found out about the job through an advertisement, but only 8% had used the traditional method of visiting enterprises to look for work. Only 2% had found out about the job through the Federal Employment Service, against 5% finding jobs in traditional enterprises since 1992 through this channel. A further 1% had found out about the job through a private agency.

Hiring strategies in the new private sector

The survey data indicate the overwhelming importance of hiring through personal connections in the new private sector but cannot tell us the extent to which the predominance of this form of hiring reflects the preferences of employers or those of employees. On the one hand, personal connections are likely to provide potential employees with much better information about the availability of vacancies and the characteristics of the job than are any other sources, so the predominance of the use of personal connections as a source of information is probably best explained as a reflection of employees' preferences. On the other hand, however, the extent to which people cannot get a good job without influential personal connections would seem to

indicate that it is the employers' preferences that determine the predominance of this form of hiring. The fact that they pay high wages enables them to pursue a much more selective employment strategy, part of which involves their preference for hiring people they know or who can be vouched for by somebody close to them. To get a better understanding of employers' hiring preferences we have to go back to the case study data.

The typical new private enterprise passes through a number of stages of development, at each of which the employment policy of its management is likely to change. The enterprise is typically organised by an individual or a small group of individuals who initially have no or very few hired employees. If the enterprise is successful it expands by bringing in new partners and/or employees, so that the nucleus of the labour collective is created and the organisational structure of the enterprise is put in place. The formation of a social and technological nucleus of the enterprise is a necessary condition for the reproduction and expansion of the enterprise which characterise the following stage of development. If this stage is successfully negotiated it is frequently followed by the stabilisation of the business, although the most successful enterprises may continue to expand.

In the earliest stages of development of practically every one of the new private enterprises that we have researched the owners of the enterprise have relied almost exclusively on building up the core of the enterprise by hiring through personal connections, starting with friends and relatives, with the basic criterion in recruitment being their reliability and commitment. In some cases the possession of social connections, especially with the structures of state power, is also a desirable quality of the employee. One of many examples of the hiring preferences of new employers is expressed in the following extract from an interview with the general director of a trading company:

I employed those who had a good enough attitude to their work, and on whom one can rely, because not all the professionals with whom I have worked turned out to be good people. For me it was important, on the one hand, that these people were good specialists, and on the other, that it is possible to rely on them. I turned to my acquaintances, knowing that they are professionals and also decent and honest people. However, in the hiring and selection of staff, decency is more important for me than professionalism.

We find a very similar motivation among the majority of the heads of firms differing widely in their size and activity: from high-powered intellectuals setting up innovative firms to mechanics setting up an unregistered garage.

From the case study data we can identify a number of objective and subjective factors that predispose new private employers to hire primarily through personal connections.

First, the informality of hiring is dictated by the informal aspects of business. The small new business is very vulnerable to competitive pressure, especially in its first few months, and many newly created enterprises start their existence straddling the formal and informal economies. Even in the subsequent activity of the enterprise there may be much that should not be known by 'outsiders', and this gives rise to the increased need to preserve the confidentiality of information about the firm. That is an important reason why at this time the employer prefers to look for employees

among those closest to him (or, more rarely, her): he or she needs reliable people, 'my' people, even if they are not professionals. Many firms at this initial stage employ only relatives and close friends.

Some security firms prefer to hire through personal connections because of the danger of the work, rather than for economic reasons. According to the owner of a security firm, 'you must work with people you know, who will not desert you because you are a friend, and for whom the question of honour is greater than that of money'. Many firms never grow beyond this stage of informal hiring and remain, in fact, family businesses, particularly in the spheres of trade and services, probably in part because of the shadow activities of these firms.

Second, hiring through friends and relatives helps very small enterprises to resolve the problem of the control and 'manageability' of the labour collective, making it possible to create a good atmosphere and to avert the risk of the kind of opportunistic behaviour that is common among workers in trade, notably stealing the stock or the proceeds.

Confining hiring to the single channel of personal connections also promotes relations of personal dependence of the workers on the employer. Behind the slogan 'we are one family' which is declared by many employers, we sometimes find quasi-patriarchal relations of rigid vertical subordination and direct dependence of the hired workers on the owner.

Third, the scarcity of resources which the owner usually faces in the first stage of the activity of the firm is an objective restriction: there is neither the money nor the time nor the staff to devote to employment issues. It turns out that personal connections offer the cheapest channel of hiring: the employer uses what he or she already has and does not have to create, namely, accumulated social resources.

Fourth, the orientation of the owner of the enterprise to the development of the business, whether he is seeking to make a fast buck or has a long-term perspective, has significant implications for his employment policy. If he intends to develop the business, and objective conditions are favourable, he soon finds himself confronting the limitations of informal hiring. Informal norms of behaviour, which are associated with the hiring of friends, are not compatible with the intensification of labour and the strengthening of discipline that soon become necessary in the face of competition. Some new private sector employers at this stage in the development of their business categorically refuse to hire friends and relatives. One owner proclaimed: 'I have not taken and will not take a single person into the firm on a phone call. It is my principle'. Another had reached the same conclusion from his own hard experience: 'I have come to the firm belief that I will not take a single person through any kind of *blat* ever again. I shall avoid it whatever the circumstances ... The very idea of the practice of hiring "your own people" should be expunged'.

From the case studies it appears that there is a close connection between the degree of informality of employment relations and the use of informal channels of hiring. If production relations are restructured and formalised, this tends to be followed by a restructuring of hiring practices as well. Demands of professionalism and skill become increasingly important, in addition to rather than in place of the personal qualities noted above, as the firm becomes established and continues to develop. The size of the enterprise is not a critical influence on the demands made of

candidates for hiring, although the sphere of activity obviously imposes certain restrictions on the skill requirements and preference for the use of this or that channel of hiring.

Those enterprises whose success depends on the professional qualities of their employees, particularly those providing business services (finance, investment and insurance), are the most likely to abandon hiring through friends and relatives at an early stage of their development. This does not mean that they abandon hiring through informal channels: the owners and managers of such firms generally come from professional circles and usually have a wide network of professional contacts which they use if the enterprise requires new specialists.

One particular use of channels of professional connections is in the poaching of employees from other firms, often those with which the management has business contacts. This is most common among innovatory firms, which can attract the best specialists because they can offer more interesting work, and the wealthier firms, which can offer higher wages. Such poaching is almost exclusively from other commercial firms, since the managers' view of traditional enterprises is that in those companies there is 'too narrow specialisation, routine work, they have lost any breadth of outlook'.

We have already noted above the tendency for new private enterprises to hire people with higher education, even for routine unskilled jobs, because they feel that those with higher education 'learn everything more quickly and adapt more quickly and are open to new things and work hard' and because educational qualifications are felt to be some indicator of desirable personal qualities (Barzel, 1982, p. 42). However, it should also be noted that there is a downside to this practice, since many such employees do not stay long in the job because they become bored and frustrated and dissatisfied with pay and working conditions.

Thus, we find two contrasting tendencies in the behaviour of new employers in the labour market: on the one side, a marked preference for hiring through friends and relatives; on the other, a desire to reduce or eliminate such forms of hiring in favour of hiring on the basis of professional qualities, though still often through personal connections. The latter tendency is connected with the growing scale of the activity of the enterprise and the extent of the formalisation of labour relations, including the methods of hiring, in response to problems that arise with the management of friends and relatives. Managerial preferences vary depending on the situation and on their experience, but the general tendency seems to be for a shift towards professional channels of hiring.

As the employment structure is formalised and the process of hiring becomes more systematic the enterprise becomes more open to the use of formal intermediaries in the labour market and to the use of more diversified hiring practices. The enterprise may establish a personnel department, or at least make one member of staff responsible for personnel questions, although such duties are mostly reduced to the traditional tasks of registration of those being hired and leaving and the preparation of statistical reports. Indeed, as new private enterprises grow they become increasingly like traditional enterprises in the forms and structures of personnel management. Thus, as in traditional enterprises, hiring tends not to be the responsibility of the personnel department or manager but is devolved to a lower level, where the line

manager uses his or her own channels of personal connections to try to find a needed employee, or is handled directly by the general director, who mobilises his or her own contacts. Sometimes the manager might ask the personnel department to help, for example by placing an advertisement, but even if the first application is made through the personnel office, it is usually the line manager who has the final word, although formally the owner or general director retains the right to make the final decision.

Once the enterprise has matured and its staff has reached its full complement, the behaviour of the employer tends to change. The channels used in the search for new employees are differentiated depending on the number employed, the financial position of the firm and its structure, the particular skills required and whether the position is permanent, temporary or only casual.

The managers and specialists who make up the skeleton of the firm are still, as a rule, hired through personal, normally professional, connections, and this is also typically the case when the firm is seeking to expand into new spheres of activity, when it wants people who are trusted and reliable. In conditions of economic and institutional uncertainty, hiring through personal channels also continues to be dominant for 'responsible' positions, related to the management of financial and material flows.

In looking for ordinary employees and workers, employers appear increasingly ready to turn to the services of formal intermediaries: private employment agencies, advertising in the mass media, much more rarely state labour exchanges and employment centres. The larger the enterprise, the more likely it is to turn to such intermediaries, with enterprises below one hundred employees being much less likely to use them. Larger enterprises both have a bigger demand for labour, which cannot necessarily be met through informal channels, and tend to have more formalised employment relations, including somebody responsible for employment issues.

The mass media are used most often to advertise positions for general and unskilled workers (salespersons, cashiers, cloakroom attendants, loaders, bakers, waiters and so on) in catering and retail trades, although sometimes positions as managers and specialists are also advertised. The main problem with finding employees through advertisements, according to the employers, is the 'large volume of work'. The general director of a small firm explained why he does not use advertisements thus: 'if you advertise, there will be a long queue and you spend a lot of time interviewing'. Nevertheless, we found cases in which the employers thought that it was worth advertising, especially if they needed a lot of unskilled employees either because of rapid growth or because of high labour turnover as, for example, in a fast food chain, whose low wages and poor working conditions led to a very rapid turnover.

Some innovative enterprises have re-established the old system of making direct connections with higher educational institutions to hire young graduates. For example, in one investment company this channel of recruitment has been formalised: the management of the firm maintains regular contact with the relevant faculties of the leading Moscow higher education institutions, making presentations several times each year during which they take a look at the final year students.

New private enterprises turn to hiring through state and private employment services less often than to other channels. Although they quite often turn to private agencies in the attempt to hire specialists, they tend to be very critical of these

agencies and think that they are not much better than the state employment service. The problems, as the employers see them, are, first that the employer and the intermediary have different aims. As one director put it, his firm wants 'to find the useful people that we need, but their aim is to sell (in the case of the state employment service, to get rid of troublesome people they do not want)'. Secondly, the intermediaries do not take any responsibility for the workers they supply. The employers feel that they should provide a trial period and give some kind of guarantee, but they do not. The employers are convinced that the agencies do not make any effort to check the qualities of those they send for jobs, they do not complete a questionnaire and they do not even check the information provided by the worker against his or her work-record in his or her labour book. The result is that employers find that labour turnover is high among those hired through agencies and, if they have to pay for those services, they prove expensive. This disdain for the use of private employment agencies is reflected in our survey data, which show that, although such agencies are used primarily by new private employers, very few of our respondents said that they had got their job through this channel and, in our work history survey, those who had got jobs in this way had not stayed long. Nevertheless, there has been a marked proliferation of such agencies in the last two years. Even if they do not provide much of a job placement service, they clearly have other functions which appear quite lucrative for their owners.

New private employers are much more likely than traditional enterprises to hire people for temporary work by using the 'spontaneous' labour exchanges that have grown up in the traditional places where men gather. For example, loaders can be found hanging around shops and beer stalls, drivers with cars gather near the railway stations and so on. It is enough for the employer to tell one person that there is work and if he needs it he will quickly find himself a whole brigade without any trouble.

Finally, however, it is important to stress that however much the process of hiring may come to be formalised, and however important may be the professional skills of the employee, the personal qualities of 'decency', 'reliability' and 'initiative' are still regarded by most new private employers as being of critical importance. And whatever the position may be, personal loyalty to the chief and the firm is seen as an essential qualification for work in a private concern.

Conclusion

The new private sector has become an important agent in urban labour markets in Russia, accounting for between a third and a half of new hires, and probably for the majority of hires into good jobs. New private sector employment is predominantly in small enterprises and is heavily concentrated in trade and services, with much less penetration in industry, construction and transport. Although some new private enterprises offer highly skilled professional services, in general the skill levels required by new private sector employers are not particularly high. People taking jobs in the new private sector or starting their own businesses are much more likely than others to be engaging in an activity which does not demand any of their previous skills.

New private sector employers prefer to hire men in their early 30s with a good

work record and a relatively high level of education, despite the limited skill demands of the jobs. On the other hand, the preference for a well-educated work force is tempered by the fact that new private employers want loyalty and commitment from their employees, rather than professionalism or independence of mind. Although levels of pay in the new private sector are substantially higher than in traditional enterprises, other benefits are markedly fewer, the level of discipline and intensity of labour demanded is much greater and the stability of employment much less than is offered by traditional employers. Thus, employment in the new private sector is not as attractive as it might at first sight appear, and many new private sector employers face rates of labour turnover even higher than those of the traditional sector: in some of our case studies enterprises reported turnover exceeding 100% per annum. Over 80% of our respondents who were working in traditional enterprises or organisations expressed a positive preference for working in the state sector. Even one-third of those working in the new private sector said in our survey that they would prefer to work in a state enterprise.

In our case studies, many workers in traditional industrial enterprises expressed a strong antipathy to working in the new private sector, while employees of new private enterprises often spoke nostalgically of the social environment of their old workplaces. This means that in practice new private employers are not necessarily in such a strong position to pick and choose in the labour market as might appear at first sight. These factors probably explain why the labour force in the new private sector is not as markedly different from that of traditional enterprises as one might expect if one paid attention only to the stated preferences of the employers. Younger and more highly educated men may provide the most flexible and adaptable labour force, but they are not likely to prove the most loyal, disciplined and cheapest of employees. Older people, and particularly women, with lower levels of education may be more willing to put up with relatively worse wages and working conditions without complaining.

The preferences of employers are also strongly constrained by the prevalence of hiring through personal connections, which is closely connected to the informality of employment relations and the illegality of much economic activity. The barriers that such hiring practices establish to competition in the labour market may be one reason for the persistence of such high earnings differentials in Russia, since only those with connections have access to the better-paid jobs in the new private sector. At the same time, hiring through personal connections facilitates the reproduction of the informality and illegality that have proved such an obstacle to the establishment of normal economic relations in Russia.

Apart from this self-imposed barrier, and the related dissatisfaction of employers with both public and private employment services, neither our case studies nor the analysis of the survey data have identified any particular barriers to the growth of the new private sector in relation to the labour market or employment policies. No employers complained of skill shortages, nor did any complain of having to pay excessive wages to secure labour of the necessary quality. While the Labour Code in principle restricts the right of employers to punish or to fire workers without good cause, and the Employment Law prescribes relatively generous severance pay for redundant employees, none of this legislation presents any kind of barrier to the

chosen employment practices of new private employers, any more than it ever has to employers in the traditional sector. Similarly, like traditional employers, many new private employers fail to provide their employees with contracts, refuse to pay statutory benefits, force employees to work illegally long hours and deny them required breaks in the working day, all with impunity.

In general, new private sector employers in Russia take a very short-term view in their employment decisions, which is hardly surprising given the very high degree of economic instability with which they have had to cope, but which is not a positive phenomenon from the point of view of the development of the Russian economy and society. This short-term perspective is manifest not only in their labour market behaviour but also in their failure to develop effective management structures, in the informality of hiring and firing practices, in the failure to pay taxes and social insurance contributions, in the failure to abide by the civil and criminal law and in the failure of new private enterprises to invest in training.

In sum, we can conclude that the new private sector in Russia has become a major provider of new jobs, but few of the jobs on offer make substantial demands on the skills of the Russian population and they provide them with very few opportunities further to improve their skills. While pay levels are generally higher than in the state and former state sector, they are not sufficient to make employment in the new private sector a universally attractive proposition. While the new private sector has an important role to play in the Russian economy, even after the crisis of August 1998, its growth is no substitute for the long postponed rejuvenation of the industry, construction, transport and communications that lay at the heart of the Soviet economy and have been barely touched by the expansion of the new private sector.

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¹ The principal surveys were carried out by the World Bank: a survey of 99 manufacturing firms in St Petersburg (Webster & Charap, 1995), a survey of 180 companies in eight *oblasti* conducted in 1992 (Sheppard, 1995) and a 1994 survey using an ad hoc sample of 45 *de novo* manufacturing private enterprises constructed by VTsIOM (Richter & Schaffer, 1996). There have been a few studies of small business or of small and medium enterprises within which new private firms are distinguished from state and former state enterprises, the most comprehensive survey being that conducted by the Institute for Strategic Analysis and Development of Entrepreneurship (1995). Stephen Batstone has recently conducted a survey of small business in Kemerovo (Westhead & Batstone, 1998). See also the OECD report on small business prepared primarily by Vadim Radaev (OECD, 1998).

² The survey and case studies were part of a project on 'New forms of employment and household survival strategies in Russia', funded by the UK Department for International Development, within the framework of a wider project on employment restructuring financed by the Economic and Social Research Council, neither of which bodies are responsible for any of the opinions expressed in this article. The fieldwork was carried out by four local research teams of the inter-regional Institute for Comparative Labour Relations Research (ISITO) in Syktyvkar, Kemerovo, Samara and Lyubertsy, a Moscow satellite city. The results have been discussed at a series of seminars in Croatia, Moscow and the UK. In this article we also refer to data from two previous surveys: one was run as a supplement to the Goskomstat Labour Force Survey in Kemerovo *oblast'* and the Komi Republic in October 1997, primarily as a pilot for the household survey. The other was a detailed work history survey of a sample of 800 respondents drawn from 16 state and former state industrial enterprises across our four cities in April 1997. Details of the surveys, project papers, and many other research materials are available on our website at: www.warwick.ac.uk/fac/soc/complab-studs/russia/. The survey data are available to researchers on a restricted basis. A summary of the findings in relation to the new private sector has been published in Clarke (1999b).

³ According to the data of the labour force survey, employment in financial intermediaries fell by 8% between October 1997 and October 1998, against an overall fall in employment of 4%, but employment in trade and individual services increased (Goskomstat, 1998, 1999).

⁴ We have run appropriate regressions for all the data discussed in this article and only draw attention to characteristics of the new private sector when they are statistically significant, controlling for other relevant factors, at least at the 95% level. These factors normally include the city, the branch of the economy, the size of the enterprise and the sex, age, education, contractual and occupational status of the respondent. However, the fact that traditional and new private enterprises differ so much in age, branch and size and that the different aspects are closely related to each other means that it is difficult to disentangle the influence of these different factors. Normal diagnostic tests have been conducted and regressions have been run with different combinations of variables to test the stability of the coefficients. Our survey covers four contrasting cities, not all Russia, and is representative only of those cities. All regressions have been run separately for the four cities. Although the incidence and structure of new private sector employment is different in the four cities, the results are not substantially different, unless noted in the text, although, because of the smaller size of the sample, fewer relationships are statistically significant. For all of these reasons results of the analysis have to be regarded with caution. We have run the same regressions on the labour force survey supplement data, but do not report the results here unless they are significantly different. In all tables, ** indicates that coefficients are significant at the 99% level; * that they are significant at the 95% level unless otherwise stated.

⁵ This was a very common prejudice in the sphere of trade, where new private sector employers did not want salespeople brought up in the Soviet 'service ethic'. On the other hand, some older-established trading firms had softened their resistance to employing more mature and experienced staff when they found that they had underestimated the demands of the profession in imagining that they could hire inexperienced and untrained young people who would work honestly and efficiently.

⁶ In our household survey 10% of sales assistants in new private enterprises had degrees, against 3% in traditional enterprises. In the Russian Longitudinal Monitoring Survey data for October 1998, 2% of sales assistants in firms which still had a government shareholding had higher education against 14% in firms which were wholly private (numbers are small, so these differences in each case are on the margin of statistical significance at the 95% level).

⁷ Richter & Schaffer found in the World Bank's survey of 45 manufacturing firms in the new private sector in 1994 that wages were on average 17–23% higher than in state or privatised firms, with the premium being enjoyed mostly by manual workers (Richter & Schaffer, 1996, p. 261). This was on the basis of reporting by the firms themselves, which are likely to under-report pay, particularly of their managers and specialists.

⁸ The question of wages is a difficult one in the context of widespread non-payment, so we asked a number of questions about income in this survey. The results above relate to the amount that people say that they receive net in a normal month including all bonuses. In the Russian context it is not really appropriate to apply an hours correction since almost everybody normally works full-time. However, men and those in the new private sector do work longer hours than women and those in traditional enterprises, so that both men and women earn 18–19% per hour more in the new private sector, controlling for everything else.

⁹ All the variables are dummies, which facilitates interpretation of the coefficients, each of which represents the proportionate change in wages associated with the presence or absence of that characteristic.

¹⁰ Training significantly increases income, but neither the number of times the person has trained nor the duration of training are significant. Those who are still in the same job as before 1991 earn significantly more than new entrants and than those who have had to change jobs. There are no significant differences in wages between state and privatised enterprises, nor by age between 25 and 54. Enterprise size is, surprisingly, not a significant factor in determining wages in this dataset.

¹¹ Institute for Comparative Labour Relations Research, Moscow and Centre for Comparative Labour Studies, University of Warwick, 1996. The different conclusions may be partly because this study concentrated on relatively large enterprises, mostly in industry, while the majority of new private sector employment is in small enterprises in the sphere of trade and services.

¹² The Gini coefficients for hourly wages are 0.46 for the self-employed, 0.38 for the new private sector and 0.36 for those in traditional enterprises. The Gini overall for both individual and household incomes is 0.38, the same as that quoted by Goskomstat for household income in the first half of 1998.

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