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THE CLOSURE OF THE RUSSIAN LABOUR MARKET

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ABSTRACT: This paper reports on recent research on the job search and placement strategies of Russian employees. Wage differentials have increased enormously in Russia, which would lead a labour economist to expect that informal methods of job search would have declined as people have to widen their search to get better jobs while employers open up competition to reduce wages. In fact the data clearly show that it has become increasingly important to have the help of personal and family connections to get a job. This closure of the labour market is on the initiative of employers, who take the opportunity of easier labour market conditions not so much to reduce wages, as to pursue much more selective hiring policies. This helps to explain why very high wage differentials persist, despite the high rate of labour mobility in Russia. Hiring through personal connections not only provides a firmer guarantee of the professional, social and personal qualities of the applicant, but also worsens job matches, and reinforces the 'feudalization' and criminalization of post-soviet management and the social exclusion of those not embedded in appropriate networks.
Key words: labour market; Russia; social exclusion; social networks; corruption

Introduction

A joint mission of the IMF, World Bank and OECD prepared a comprehensive report in 1991 which charted the course of Russia's transition to a market economy. In the expectation that Russia would experience employment restructuring on a massive scale, the experts concluded that 'the key requirement for the pursuit of effective labor market policies will be the build-up of a nation-wide public employment service' (IMF/World Bank/OECD 1991: 137-8). In accordance with this priority, the old labour placement bureaux were taken over by the new Federal Employment Service, which reported record-breaking performances year on year. According to its own data, the number of people

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seeking work through the Employment Service doubled between 1992 and 1995 and, despite the fact that there was no increase in the number of vacancies reported to it over the period, it managed to increase the number it placed in work by more than three times, claiming to find jobs for almost half of those who turned to it for help.

Such a growing labour market role for the Employment Service should hardly be surprising. In the soviet period there were none of the formal labour market institutions that facilitate job changes in developed capitalist economies so that, by and large, people had to find out about job opportunities for themselves, through informal channels. Nevertheless, the chronic labour shortage meant that almost every employer was crying out for labour, so it was usually possible to get a job simply by turning up at the entrance to the workplace, where information about vacancies was routinely displayed. Wage differentials were fairly compressed and working conditions did not vary much so there was not much to choose between one workplace and another. In this situation most people would take the most convenient job, often following the advice of family and friends who worked there already. Personal connections could play a more significant role in getting a specially good position, but nobody anticipated that they would face any problem in getting a job.

Radical economic reform transformed the labour market situation, leading to a sharp fall in real wages and a dramatic increase in pay differentials. The immediate result of falling real wages and increasing pay differentials was a substantial increase in labour turnover, with about a quarter of the labour force leaving their jobs each year.[1] This made it possible for employers to achieve enormous employment restructuring with little recourse to compulsory redundancy. About 25 per cent of all jobs were lost between 1990 and 1998, with a net loss of a third of the jobs in industry and almost half in construction, but substantial increases in employment in trade and catering, finance and insurance, and public administration. All of these changes were achieved with a relatively modest increase in unemployment, to a rate of 12.3 per cent at the end of 1998, as about half those who lost their jobs dropped out of the labour market altogether.[2]

In the face of these dramatic changes we would expect there to be a marked decline in the use of personal, and especially family, connections

1. Turnover just about doubled between 1985 and the early 1990s. Formally, most of the quits were voluntary, but in reality many were induced by low and unpaid wages, short-time working and lay-offs (Standing 1996).
2. For a detailed account of these changes and discussion of data sources see Clarke (1999a: Chapters 1 and 6). There has been considerable discussion of the extent of the 'hidden unemployment' of those formally employed but having neither work nor wages (Clarke 1998; Standing 1996).

in the process of job search. When pay differentials were small and very stable and work was easy to get, it was not necessary to cast the information net wide to find an appropriate job. In the period of crisis the traditional pay hierarchy has been disrupted, pay differentials are much higher and jobs are relatively more scarce, so it is necessary to spread the net much wider in order to find a better job: it may be necessary to look in another industry, another part of town, or even another region. In such a situation, presuming that the network of kin and friends tends not to be widely dispersed, we would expect it to be less likely that the job seeker will have relatives who can help, and not much more likely that he or she will have appropriately situated friends who can provide the necessary information and support.[3] It takes a lot of time to go from place to place looking for a job in an unfamiliar district, so we would expect the informational role of the mass media and the Employment Service to become central, as the IMF/World Bank report had anticipated. Employers similarly find themselves in a new and unfamiliar situation of being able to pick and choose. Rather than welcoming any applicant who comes in from the street, the employer can be more selective, seeking out better qualified, well-motivated applicants who are willing to work for what in most jobs is a declining wage. We would expect from both sides of the labour market that the role of formal intermediaries would increase while the role of personal connections would decline.

In fact, however, this has not been the case. The upsurge in the popularity of the Employment Service was a very limited phenomenon, accounting for at most 15 per cent of all hires in 1995, and it has since been reversed. Despite the fact that registration with the Employment Service is a condition for the receipt of unemployment benefit, only a minority even of the unemployed use the Employment Service to help them to find a job, and the Employment Service plays virtually no role in the job-to-job transitions that dominate the labour market. While unemployment increased by almost two-thirds between 1995 and 1998, the number of unemployed people seeking work through the Employment Service fell by almost a third, while the number for whom it claims to have

3. The use of personal connections in job search and recruitment is a normal, if under-researched, practice in capitalist countries. Jenkins et al. (1983) suggest that informal hiring is used less for lower skilled positions, although most other researchers (Rees 1966; Manwaring 1984; Fevre 1989) report that it is more important for manual than non-manual jobs. On the other hand, Granovetter's study found that for managerial positions the higher the income the more likely is the position to be filled informally (Granovetter 1995). We would expect the use of personal connections to decline as it becomes more difficult to find a job, simply because personal connections tend to provide only a limited information network (Granovetter 1973, 1995). Jenkins et al. (1983) suggested on the basis of surveys of employers that the use of informal hiring had been increasing over time, but other evidence does not indicate that its use increased during the 1980s recession in Britain (Fevre 1989: 96).

found work has halved. By 1998 the unemployed comprised a minority of those seeking work through the Employment Service and only a quarter of those it claimed to place in work. Over a third of those for whom the Employment Service claimed to have found jobs were students and pensioners seeking casual and part-time work, and 42 per cent were new labour market entrants, many of whom were no doubt also placed in casual or temporary work, since they do not enjoy the right of the previously employed to reject unsuitable offers (Goskomstat 1999b).

While the popularity of the Employment Service has declined as labour market conditions have deteriorated, the role of personal connections in finding a job has increased dramatically, even among the unemployed. The Labour Force Survey shows that in October 1998, 37 per cent of the unemployed turned to the Employment Service, the same proportion as in 1995, 2 per cent applied to private employment agencies and 19 per cent consulted newspaper advertisements, but 30 per cent still went around employers on their own initiative and a majority, 58 per cent, used the help of friends and relatives, up from only 30 per cent in 1992 (Goskomstat 1999a).

The Labour Force Survey data relate to the methods of job search of the currently unemployed; that is to say, of those who have thus far failed to find a job, rather than the methods by which people actually get their jobs. The latter question can be addressed on the basis of the data collected in the course of a recently completed research project. The data sources comprise case studies of sixteen state and former state industrial enterprises and forty new private Russian enterprises conducted in four cities over a period of three years and three separate surveys. In all of these surveys we asked people about how they got their present job, and in some cases about previous jobs as well. This enables us to get some indication of the ways in which people got jobs in the past, subject to all the usual reservations about recall and selection bias that arise when we use retrospective data.[4] What is most striking about the data derived from

4. The research was conducted within a research programme on the restructuring of employment and the formation of a labour market in Russia, funded by the Economic and Social Research Council and conducted by the regional affiliates of the Institute for Comparative Labour Relations Research (ISITO) in Moscow, Samara, Kemerovo and Syktyvkar. Although the cities are very different, the labour market trends discussed here do not differ significantly between them. The household survey and new private sector case studies were conducted within the framework of a project funded by the British Department for International Development. None of these bodies have any responsibility for the views expressed in this paper. More information on the surveys, together with a large number of reports and working papers can be accessed on the project website at www.warwick.ac.uk/russia, through which the survey data are also available. The main results of the project have been published in Clarke (1999a, 1999b).

our research is not simply that it confirms the minimal role of formal labour market intermediaries, the declining role of independent job search and the considerably increased role of personal connections, but also that it shows the extent to which it is becoming increasingly difficult to get a job other than through personal connections. This phenomenon, which we refer to as the 'closure' of the Russian labour market because most vacancies are accessible only to a restricted set of potential applicants (Fevre 1989; Manwaring 1984; Jenkins 1986), has important implications not only for the analysis of the labour market, but also for the analysis of social exclusion.

The channels of labour mobility

The first survey involved 807 work history interviews conducted with a sample of current employees of sixteen industrial enterprises in four regions of Russia in April 1997. The respondents were asked both how they looked for work and how they actually got the job in relation to every job held since 1985 or the first job, if later than 1985. In order to indicate changing patterns of job search and recruitment we have drawn a dividing line at the end of 1991, which was the starting point for radical reform, although changes in patterns of recruitment were already under way by that date and have continued since (see Table 1).

The second data set to consider is the response to a question that we appended to the official Labour Force Survey in October 1997 in

TABLE 1. Methods of job search and placement, first and subsequent jobs, up to and since 1991, percentage of respondents using each channel

	Job search		*Job placement*	
Percentages	*Upto 1991*	*After 1991*	*Upto 1991*	*After 1991*
Employment Service	2	5	1	2
Personal connections, of which through	51	61	26	44
relatives	18	19	11	15
residence	10	12	3	5
work, education	20	26	10	20
Found independently	26	17	54	48
Through advertisements	3	8		
Administrative distribution	9	1	16	5
N respondents	1,044	999	1,048	999
N selections	1,138	1,267		

Source: Work history survey of 807 respondents in 16 industrial enterprises. Respondents could choose any number of variants in response to the question how they had looked for each job. They could choose only one variant in response to the question how they had fixed up each job.

Kemerovo oblast and the Komi Republic, covering large cities, small towns and rural communities. While the previous survey covered only those currently employed in industrial enterprises, the present survey covers the whole adult population. On the other hand, since the survey relates only to the current job, the time-dependent aspect of the sample will be biased in favour of those with long tenure. Because of the prevalence of the compulsory administrative allocation to the first job before 1992, we have also distinguished the first job from subsequent jobs (see Table 2).

The final survey was based on a single-stage probability sample of all adults in 4,000 households in four cities conducted in April 1998. The survey incorporated a set of questions which sought to specify more

TABLE 2. How did you get your main job? (Labour Force Survey Supplement)

	Before 1992		*After 1991*		*All cases*
	First job	*Subsequent job*	*First job*	*Subsequent job*	
I found out about it from relatives, but I got the job myself	8.7	6.1	10.0	4.8	5.5
I got the job with the help of relatives	5.5	4.9	20.9	10.7	6.7
I found out about it from friends but I got the job myself	6.8	6.6	6.8	8.2	7.0
I got the job with the help of friends	0.8	4.9	7.3	9.3	5.6
I found out about it from acquaintances but I got the job myself	2.8	6.3	1.8	9.3	6.8
I got the job with the help of acquaintances	3.6	4.0	9.1	10.2	6.6
I found out about the job from advertisements or an employment agency but I got the job myself	0.2	1.6	1.4	1.3	1.0
I found the job myself and got it independently	37.7	52.6	26.4	31.8	46.2
I was taken on by distribution	29.0	3.5	7.3	1.5	6.8
I got the job by being directed by the employment service or a private agency	0.6	1.2	3.2	1.9	1.1
I created my own business or am self-employed	0.2	2.1	2.3	6.0	3.2
Other	4.0	6.1	3.6	5.1	3.4
N	466	452	200	839	3,743

Source: Labour Force Survey Supplement, Komi and Kemerovo oblasts, October 1997.

TABLE 3. How did you find this job? (percentage distribution; percentage of those finding jobs for themselves - only one choice). First and subsequent jobs. Household survey data

	Before 1992			*After 1991*		
	First	*Other*	*Total*	*First*	*Other*	*Total*
I did not look for a job, I was directed to it	43	11	22	10	3	4
Personal connections, of which	57	63	61	61	67	66
a relative suggested it	28	18	20	31	16	18
a friend suggested it	23	35	32	27	43	41
a manager suggested it	6	10	9	3	8	7
Through a state or private employment service	4	2	3	6	4	5
Through advertising	3	3	3	9	7	7
I found possible places of work myself	34	28	29	20	16	16
I created my own job	2	4	3	3	6	5
N	532	1,133	1,665	361	2,127	2,488

Source: Household survey in four cities, April-May 1998.

precisely how people had got their jobs. Questions about channels of information and recruitment were only posed in relation to the current or most recent job, with the attendant bias. Nevertheless, the substantive results are very similar to those obtained by the previous survey (see Table 3).

The pattern that emerges from all three data sets is very consistent. The most striking feature is the very limited role played by formal labour market intermediaries in the process of job search and placement. Not only has the administrative assignment of people to jobs declined, but there has also been a dramatic decline in the extent to which people both secure information and actually get their jobs independently.[5] The new institutional intermediaries of the Employment Service, private employment agencies and job advertising have by no means been able to replace the old channels of distribution, administrative transfer and independent job search. Thus it appears that the decline in direct application to the enterprise is not a result of the development of more efficient labour market intermediaries but of a 'closure' of the labour market as jobs have become harder to get. The dominant belief in Russia today is that you can only get a good job through personal connections, and to a considerable extent this belief determines people's behaviour in the labour market. As one respondent put it,

5. This change is much less dramatic on the work history data. This may well be a result of the bias in the sample, since it is certainly much easier to get jobs independently in the declining industrial enterprises that dominate current employment in that sample.

> I did not apply to the employment or labour recruitment services, I found work through friends and acquaintances; I only turned to them, well everyone knows that that is the only way to find decent work.

Personal connections

Personal connections can play a role at different stages in the process of job search and job placement. For those who are not actually looking for a job, a chance remark from an acquaintance might draw their attention to a new opportunity. Those who are looking for a job will often ask their friends and relatives if they know of any possibilities. Those who are choosing between a number of positions may find out more about the jobs through connections at the various alternative workplaces. And, of course, it does not harm your prospects of getting a job if you are a close friend or relative of the employer. This may be a perfectly benign method of hiring, in which the employer hires you because he or she has better knowledge of your skills and experience than of those of other applicants, or it may be a more dubious example of favouritism, nepotism or outright corruption.

Our survey data consistently show that between a half and two-thirds of all those taking new jobs find out about their job through personal connections (for detailed analysis see Clarke 1999a: Chapter 5). The reliance on personal connections has increased steadily over the past ten years, partly but not only because of the decline in the administrative allocation of people to jobs. Those getting their first jobs are substantially less likely to have done so through friends and relatives and, apart from this, as people get older they become less likely to use connections through friends and relatives in getting their job. There are no significant differences in the extent or the forms of the use of personal connections between men and women or according to the level of education. However, young people are substantially more likely to rely on relatives than on friends, with the balance changing progressively in favour of the latter over the years. Those taking jobs in trade or in the new private sector were much more likely to have used friends than relatives to find out about the job, supporting Granovetter's argument regarding the strength of weak ties since these are new spheres of activity, access to which is more likely to need a more widely cast net (Granovetter 1973). The argument is also supported by the fact that those getting jobs through relatives, rather than friends, are significantly more likely to end up in unskilled jobs, suggesting that a wider network is required to get access to better jobs.[6]

6. All differences referred to in the text are statistically significant at the 99 per cent level in logistic regressions controlling for a wide range of other relevant factors. The data are available through our website to researchers who wish to replicate the results or use it for further analysis, subject to minimal restrictions.

If contacts are going to provide useful information about the job, let alone the possibility of assistance in the hiring process, it is obviously very important that the chains through which information passes are not too long. In our household survey we asked specifically about how the connections themselves knew about the job (see Table 4).

It is striking that in 98 per cent of cases the person who provided information had contact at most at one remove from the enterprise or organization in question, with around three-quarters of the contacts working there themselves. The increasing importance of having contacts is indicated by the changes in the pattern of such connections since 1991: on the one hand, there has been an increase of almost 50 per cent in the use of more remote connections, indicating that people have to spread their net more widely in order to find a job. On the other hand, there has been a similarly large increase in the use of more powerful connections: those working as managers or with business contacts, rather than working in the enterprise as an ordinary employee.

In the soviet period personal connections were most important as a source of information, the applicant going independently to the enterprise to get the job, having acquired the necessary information. Thus, in our work history survey, only a third of those who used personal contacts as a source of information before 1992 actually got the job through such contacts, almost two-thirds getting their jobs independently. Similarly, in our household survey, almost half of those taking a job before 1992 who found out about the job from a friend or relative had not received any further help from their contact. However, this has changed radically since 1992. Connections nowadays are at least as important in providing direct help in getting the job as they are in providing information about it.

The increasing need to have more positive help in getting a job stands out clearly in our survey data. In the work history survey, the majority who have taken jobs since 1992 got their jobs through connections, despite the fact that most of these people are in undesirable industrial jobs. In the Labour Force Survey Supplement it is very striking that the increased

TABLE 4. How did the person who told you about it know about the job? (of those who were told about the job by a friend or a relative). Percentage distribution, only one choice

	Before 1992	*After 1991*
From an announcement or advertisement	2	2
He or she worked there as an ordinary employee	66	51
He or she was a manager at this enterprise	12	18
He or she had business contacts with this enterprise	6	10
He or she had a friend or acquaintance at this enterprise	14	19
N	747	1,517

reliance on personal connections since 1991 is entirely in the provision of help: for both first-time job-seekers and those getting subsequent jobs there has been no change in the percentage using contacts only as a source of information (around 20 per cent in each case). The dramatic increase has been in the percentage using their connections to help them to get a job, up from 10 to 37 per cent in the case of first-time job-seekers and from 14 to 30 per cent in the case of those finding subsequent jobs (see Table 2). Exactly the same was found in the household survey: there has been a slight fall in the proportion of people receiving only information about their new job from friends and relatives, but an increase of three-quarters in the percentage getting their new job with active help from such personal contacts.

The percentage of all job seekers receiving help from friends and relatives, according to the household survey, has increased from 22 per cent before 1992 to 38 per cent since. Around a quarter of all job placements since 1991 have depended directly on the intercession of an intermediary either providing a recommendation or direct patronage. Those finding out about the job through relatives were more likely to get help than those who relied on friends, but so also were those with a more extensive social network. Those taking jobs in new private enterprises were much more likely to have received help, and not just information, from their connections, and indeed were far more likely to have been appointed to the new job by their connection, indicating the much greater use made of personal connections by new private employers, something we also found in our case studies. In the past, connections were used primarily as a means of getting a better job. Now it is becoming increasingly necessary to have connections to get any job at all.

Independent job placement

The other side of the increasing role of personal connections in getting a job is the decline in the possibility of getting a job independently, through direct application or in response to an advertisement. Our case studies show very clearly that despite their increased bargaining power, managers have become increasingly reluctant to hire people directly 'from the street', positively preferring to redeploy existing employees (Clarke and Donova 1999 - this also saves on redundancy costs) and to recruit new employees from among the relatives and friends of existing personnel. This reluctance to hire people independently is especially marked in new private enterprises: fewer than one in twelve of those taken on by new private enterprises since 1992 have got their jobs independently.

If we look at the detailed occupational breakdown of those getting jobs

independently since 1994, we find that independent recruitment is now largely confined to three contrasting categories of position. First, hard-to-fill jobs, which means primarily low-skilled and low-paid jobs at declining enterprises which are unable to guarantee regular work or to pay wages regularly. A quarter of all those in our household survey who have found jobs independently after 1994 have taken jobs in only four occupations: as cleaners, storekeepers, loaders or security guards. This category is predominantly made up of three distinct groups: first, young people with incomplete secondary education looking for casual work (these are the people who typically take jobs as security guards); second, pensioners who have lost their jobs and are willing to do more or less anything to earn a living (typically taking positions as cleaners and storekeepers); the third group is made up of people who usually have no trade or qualification and who have drifted from job to job (whose traditional occupation is as loaders), sometimes because of drink and a poor disciplinary record, sometimes, particularly in the case of women, as a result of changing personal circumstances that force regular changes of jobs.

The second category for whom independent recruitment is still a realistic option is skilled workers and specialists with scarce skills. High-skilled workers with trades that are in high demand, such as welders, drivers or skilled building workers, can move around in search of the best wages, and are often employed informally or under short-term contracts. They are much more likely than any other occupational category to find a new job independently, and they are much less likely to use the Employment Service, indicating that they still enjoy a reasonably secure position in the labour market. Fifteen per cent of those who found jobs independently after 1994 in our household survey were skilled tradesmen, almost all of whom were in building trades or were skilled metalworkers.

The third category of occupations in which independent recruitment is still an option is those which may not demand especially rare skills but which are relatively new, with a growing demand, or in which the former system of recruitment has broken down. These comprise skilled office workers - accountants, bookkeepers, secretarial and clerical staff - who accounted for 9 per cent of those who got their jobs independently after 1994; retail trade (shops and catering) and drivers and bus conductors, each of which accounted for 10 per cent of recent independent hires; and those working in public services (health, education and government services), who accounted for 22 per cent of independent hires after 1994. In contrast to these figures, of the 278 people hired through direct application after 1994, only two got jobs as industrial managers, four as engineers, five as technicians, eight as semi-skilled and four as unskilled industrial workers.

Informal relations and the closure of the labour market

Our findings about the working of the Russian labour market seem to conform closely to international experience. Survey data from around the world indicate that far more people find jobs through personal contacts than survey data regarding the unemployed would indicate. For example, while 12 per cent of UK unemployed respondents in the 1993 Labour Force Survey sought jobs through personal contacts, the UK General Household Survey shows that between 30 and 40 per cent actually find jobs through friends and relatives, figures which are similar to US and Japanese data (Granovetter 1995: 140-1), and only slightly below the figures for job transitions since 1991 in our sample.

The prevalence of hiring through personal connections does not necessarily indicate the inadequacy of formal labour market intermediaries, for each channel has its own strengths and weaknesses and the use of each may be appropriate in different situations. For the prospective employee, personal connections provide much fuller and more reliable information about the formal characteristics of the job, such as wages and working hours, but also about working conditions, relations in the collective, the availability of additional benefits, prospects of promotion and so on. Hiring through personal connections has complementary advantages for the employer, who can be assured that the prospective employee has fuller knowledge of the demands of the job, and so is less likely to be disappointed and leave. Where the prospective employee is recommended by a current employee, the employer has a more or less strong confirmation of the appropriateness of the skills and qualifications of the prospective employee, and it may be that the person providing the recommendation will also take on a mentoring role to ensure the integration of the new appointee into the job. Finally, the use of personal connections minimizes the immediate 'transaction costs' since information is distributed in the course of normal interaction, requiring no added input of time or money. From these points of view, personal connections provide a much more efficient method of matching the individual to the job, especially where this is the point of entry to an 'internal labour market' in which such social and personal qualities are most highly valued (Jenkins et al. 1983; Manwaring 1984; Rees 1966).

On the other hand, personal connections will usually define a more restricted set of opportunities than do more formalized channels of communication. On this basis, Mark Granovetter argued for 'the strength of weak ties': close friends and relatives might provide high quality information and be more likely to provide help, but more remote acquaintances would cast the net wider and so be more likely to provide new information about a wider range of possibilities (Granovetter 1973).

The vacancies column of a newspaper or the database of an employment agency will provide information about an even larger number and greater range of jobs than will be thrown up in casual interaction with friends and relatives in the course of a day. In the same way, an advertisement or notification of the vacancy to an employment agency will probably generate many more applicants from whom the employer can choose than would be found through word of mouth.

The cost of relying exclusively on informal channels is the opportunities foregone by limiting the search process. Since it is the employer who commands the scarce resource in this context, it is fair to presume that the paradoxical 'closure' of the labour market that we have noted is on the initiative of the employer: job seekers have to make increased use of personal connections to get a job because employers are less and less willing to hire 'from the street'.

On the basis of our case study research we can identify a number of reasons for the positive preference of employers for hiring through personal connections, despite the fact that this considerably narrows the field from which the employer is able to select candidates for a position.

The most reputable reason, that is most often put forward by managers themselves, is that the person proposing the appointment provides some kind of a guarantee of the professional skills of the applicant. This is especially likely to be the case where there is no reliable system of certification and accreditation of skills. The soviet system of training and accreditation was highly formalized, so that certification was a poor indicator of whether or not somebody had the requisite skills. Moreover, many of these skills are now redundant in market conditions and new skills are required for which there are no established qualifications. On the other hand, the fact that labour turnover was frowned upon meant that there was no tradition of employees being provided with references by a previous employer. In such a situation the employer has to find other means of verifying that the potential employee has the requisite skills. The preference for hiring former employees, colleagues or subordinates can clearly be explained on this basis.[7] In the absence of such direct experience, the fact that a present employee is willing to take responsibility for the applicant may be persuasive testimony to their suitability. Finally, it should be noted that independent hiring continues precisely for those occupations in which skills can more easily be verified: on the one hand, building trades, where it is immediately obvious whether or not a plasterer or bricklayer has the required skills, or in the spheres of health and

7. Yakubovich and Kozina (2000) argue, on the basis of analysis of our work history data, that the increased use of personal connections can be explained in these terms.

education, where the traditional system of certification and regular upgrading of professional skills survives.

However, the prevalence of the use of personal connections in hiring extends far beyond the relatively small proportion of hires that are to skilled trades or professions. Moreover, employers are much more often concerned with the personal qualities than with the professional skills of a prospective employee, even when hiring to a skilled position. Thus, posts are often filled by internal transfer even when the person has none of the required professional skills, while personal recommendations are much more widely and more reliably used to attest to the personal qualities of a potential employee than they are to that individual's professional skills. The key questions we have to ask, therefore, are what are these personal qualities, why are they so highly valued and why can they only be attested through personal connections?

Managers refer to a wide range of personal qualities as being desirable among their employees, including diligence, reliability and a capacity for hard work, none of which can be attested by formal qualifications, but the most important quality of all is that of loyalty, and by loyalty is meant not some impersonal loyalty to an organization, but personal loyalty to the employee's immediate superior, who is normally the person who makes the appointment, a power which line and department managers still jealously guard against all attempts to professionalize systems of personnel management. The counterpart to loyalty is trust: the manager needs subordinates whom he or she can trust.

While a person may be recommended for their personal qualities, loyalty and trust are as much features of the social relation between manager and subordinate as they are inherent personal qualities of those engaged in such a relation. Loyalty and trust express the subjective recognition of the obligations associated with a relationship of dependence, a relationship that is constituted above all by appointment on the basis of patronage. In accepting a job on the basis of patronage, the supplicant is immediately accepting his or her subordination in a relationship of dependence, marked by mutual obligations of loyalty and trust that may persist for a lifetime. A similar relationship is sealed or reinforced with any intermediary who had made representations on the supplicant's behalf. Appointment on the basis of patronage is, therefore, much more than a reflection of the pervasive role of informal relations. It is one of the most important means by which particular kinds of informal relations are constituted and reproduced.

Patronage is important at all levels of the enterprise, but it really comes into its own in the appointment of managers. Although those in manual and lower-level non-manual occupations were more likely to have got their job through personal connections than were managers, professionals

and specialists, in our household survey the latter were more likely to have got some help from their connections, rather than just being informed of the vacancy: 38 per cent of managers who received help in getting their job were actually appointed by their contact. Those taking unskilled jobs were much more likely only to have been put in contact with the employer and much less likely to have actually got the job through their contact.

The premium that Russian managers attach to the establishment of relations of personal loyalty and trust is a reflection of the forms of management that were inherited from the soviet period in which managerial power was constituted not by formal definitions of rights and responsibilities but by informal connections, based on hierarchies and networks of personal dependence (Alasheev 1995). This dependence on informal relations could be seen in the reliance of line management on the commitment and initiative of employees to carry out their work tasks, despite the frequent lack of appropriate and reliable technology and the instability of supplies and sales. It could be seen in the use of informal relations as the means of securing scarce supplies of tools, parts and raw materials from other departments of the same enterprise or from trading partners. It could be seen in the negotiations over the setting and achievement of plan targets and over the distribution of penalties and rewards with higher authorities. Finally, and perhaps most important of all, it could be seen in the reliance of managers at all levels on the loyalty and support of their subordinates in the continual struggle for power and position within the workplace and in the attempt to secure support for the enterprise as a whole from outside (Clarke and Kabalina 1995). In short, reliance on hiring through personal connections is an extension of the reliance on personal connections as the basis of social relations within and beyond the workplace which was a feature of the soviet system of social production.

Far from disappearing with the transition to a market economy, the prevalence of personal relations and the priority of loyalty over any other desirable personal or professional quality appears to have increased considerably. The scope for the exercise of power derived from informal connections was constrained in the old system by the existence of formal hierarchical relationships and formal obligations of managers that were monitored by the parallel management structures of Party control. However weak such control may have been in practice, it has now entirely disappeared so that the tenure of a manager in a state or former state enterprise, from foreman to enterprise director, depends almost entirely and exclusively on the power of that person within the structure of the organization, and that power rests on the extent of his or her personal connections within and beyond the enterprise, including the loyalty of those formally under his or her command. Moreover, the stakes are now

much higher because what is involved in holding managerial power is not only a privileged status position, but command over resources. Thus the transition to a market economy has been associated with a 'feudalization' (or perhaps a 're-feudalization') of the structures of management in which personal connections have become pervasive. The process of appointment has played a critical role in this feudalization of management structures because the collapse of employment means that the job has now become one of the most prized of gifts in the Russian 'economy of favours', and control over the disposal of jobs one of the most critical determinants of managerial power.[8]

The reliance on personal connections is by no means confined to the state and former state sectors. We have already seen that the use of personal connections in hiring, and particularly the use of patronage, is even more extensive in the new private sector, which now accounts for around 40 per cent of all new hires in our household survey. The tendency of new private employers to confine themselves to hiring through personal connections is surprising at first sight, since the skill demands of new private sector employment are relatively low while the wages paid are relatively high (Clarke and Kabalina 1999), so employers should be able to take their pick of an over-stocked labour market. Moreover, it is in hiring to the most highly skilled positions, in which we would expect the employer to get the most advantage from advertising widely, that they are most likely to limit their range of choice. In our household survey only one out of ninety managers and fifteen out of 212 senior professionals and specialists working in the new private sector had got their jobs through direct application. This is indicative of the fact that management structures in the new private sector are marked by an even greater reliance on personal relations of loyalty and trust than are those in state and former state enterprises.

The prevalence of informal relations in the new private sector is partly explained by the smaller size of new private enterprises, but it is significantly greater even when we control for firm size. There are two further reasons for this. First, the extent to which economic activity is conducted outside or in violation of the law places a high premium on trust, not only

8. Alena Ledeneva has argued that the system of *blat* is dying out in post-soviet Russia, to be replaced by routine bribery and corruption as the conditions of scarcity in which it thrived are eroded by the money economy (Ledeneva 1998: Chapter 6). However, this is not the case with regard to jobs, which were abundant in the soviet period but have now become scarce. The feudalization of management refers to the tendency for the authority of managers at every level to become primarily dependent on their ability to retain the loyalty and commitment of their subordinates, whether this be the foreman in relation to his workers, the shop chief in relation to the shop, or the enterprise director in relation to the management team (Clarke et al. 1993; Clarke 1995).

in the case of those employees with direct responsibility for finance, accounting, sales or supplies but even of ordinary employees, whose terms and conditions of employment may be illegal and who are often paid a part of their wages 'under the table' as a means of evading tax and social insurance contributions. Second, new private enterprises are if anything more dependent on their personal connections with political and administrative power structures than are former state enterprises and organizations, where such connections are institutionally embedded, and they can secure such connections by giving jobs to the friends and relatives of their powerful contacts. On the one hand, they depend on support of officials to secure orders, contracts, subsidies, licences and investment funds. On the other hand, their activities can be severely impeded by bureaucratic delays in granting registration or permissions and can be severely disrupted by inspections by the tax, public health, labour inspectorates, and so on. One feature of new private enterprises that distinguishes them from former state enterprises in our case studies is the extent to which the chief executive of new private enterprises insists on maintaining personal control over all appointments, even to the most insignificant positions, regardless of the size of the company. This seems powerful confirmation of the extent to which control over appointments is a basis of managerial power, and of the corresponding determination of the heads of new private enterprises to prevent the emergence of competing power centres within the enterprise.

Labour market closure and segmentation

In this paper we have suggested that the primary cause of the closure of the Russian labour market is the 'feudalization' of Russian management, with the primary concern in hiring being to secure the personal loyalty of the employee to the manager who has the power to appoint. This suggestion is supported by the persistence of very high wage differentials in local labour markets. Although the *structure* of wages has not changed very much, the *size* of wage differentials between regions, industries and occupations increased dramatically immediately after the freeing of wages and prices from state control at the end of 1991 and has not subsequently declined.

The persistence of these very substantial wage inequalities would seem to indicate that there are significant barriers to labour mobility that are preventing the erosion of these differentials. Many commentators have noted the barriers to labour mobility constituted by the limited housing market and the residue of the system of residence permits, but the dispersion of wages within local labour markets is substantially greater

than the dispersion between local labour markets, indicating that the restrictions on geographical mobility are not especially significant. Similarly, even within local labour markets differentials within occupations are more substantial than differentials between occupations, suggesting that skill mismatch is not the main determinant of the wage gap.

It is particularly striking that the largest component of wage inequality is the difference in wages *within* occupations *within* local labour markets, which implies that the best chance for most people to increase their wages is by getting a better job in the same occupation in the same locality (Clarke 1999a: Chapter 1). It is not that people are unavailable to take jobs at a lower wage, but it would appear that employers are more concerned to employ those on whom they can rely than to use labour market competition to force down wages. The size of the pay differential commanded by a particular job over the equivalent job offered by other local employers is an indicator of the value of the patronage commanded by the person who has the power to appoint somebody to that job and of the leverage that person has over the employee appointed to the position. The scale of these differentials, which is much greater than could be justified by any economic theory of the 'efficiency wage',[9] therefore indicates the extent of the discretionary power of Russian management. Paying premium wages is not only a means of sustaining the motivation of employees and their commitment to the organization, but is also a means of sealing their personal loyalty to the person who has the power to appoint.

The closure of the labour market implies a high degree of labour market segmentation, since any individual has access to a limited range of jobs, demarcated by his or her social networks, while any employer chooses among a similarly limited number of individuals. Such patterns of segmentation may cross-cut or they may reinforce traditional forms of segmentation rooted in discrimination on the basis of gender, age or ethnicity. Appointment on the basis of personal connections, whether through the internal or the external labour market, will reduce the opportunities of those, such as migrants, who have a limited network of

9. The coefficient of variation (CV) of wages within four-digit occupations within local labour markets, controlling for non-payment, averages about 50 per cent across a range of data sources, with no significant differences between manual and non-manual, skilled and unskilled occupations. This compares to a CV within occupations of 16-23 per cent in a UK study of engineering firms in 1966 and CVs of 11, 13 and 15 per cent for fork-lift drivers in Adelaide, Coventry and Chicago, respectively (cited in Brown et al. 1995). Clark Kerr cites studies of Lester and Reynolds on the wartime US labour market which found that high-wage employers normally paid about 50 per cent more than low-wage employers for the same occupation, although he noted that the more normal dispersion found in peace-time studies was 25 per cent from top to bottom (Kerr 1997: 150). In the Russian data high-wage employers can be paying ten or twenty times as much as low-wage employers.

acquaintances, but it may increase the opportunities of those, such as women, who would otherwise be excluded from employment by discrimination on other grounds.

We would expect segmentation to be reflected in patterns of wage differentiation. In our survey we find that, controlling a range of variables, those who had got their jobs before 1991 through personal connections earn significantly more today than those who had got their jobs through other channels, but this is not the case with those who have got their jobs more recently. This may reflect the fact that personal connections were important in the past only for getting better jobs, whereas now they are important simply to get a job, but it may reflect the fact that it takes time for the advantages of personal connections to come to fruition: we found in many of our interviews that people had taken a lower-paid job just to get in to the enterprise in which they would hope later to progress. On the other hand, we find that those who had active help from a personal connection in getting their job since 1994 do earn significantly more than those who did not.

We would expect personal connections to have a greater pay-off for those who have to overcome discriminatory barriers and we do find that there are very substantial differences when we compare men and women, even though men are just as likely as women to use the help of personal connections to get a job. We can see from the wage regression results in Table 5 that a woman who knows someone who can help her get a job earns on average 9 per cent more than a woman who does not, if she got her job through personal connections she earns on average 10 per cent more than somebody who did not, and if she was appointed by her connection she earns on average an additional 18 per cent. In the case of men none of these variables are at all significant, although most of the other significant coefficients are very similar.

It is important to stress that hiring through personal connections in Russia is not the innocuous practice that it might appear at first sight. First, it tends to be an inefficient method of job-matching, since the appointment draws on a restricted range of applicants.[10] Second, it plays a critical role in reproducing and reinforcing the feudalization of management, in which managers occupy their positions as personal fiefdoms, which they exploit to their own political and material advantage, at the expense of the organization and society as a whole. Third, it greatly facilitates the perpetuation of a wide range of illegal and socially undesirable management practices by making it much more difficult for

10. This might be one reason for the very low returns to education shown by Russian wage regressions. A standard Mincerian quadratic regression run on a range of data sources explains only between 4 and 11 per cent of the variation in hourly wages.

TABLE 5. OLS regression: dependent variable: log of women's normal monthly wage

	β	*Standard error*	*t*
(*Constant*)	5.294	0.140	37.844
NAMES A CONNECTION	0.086	0.032	2.706
HOW DID YOU GET THE JOB? (INDEPENDENT REFERENCE)			
ADMINISTRATIVELY ALLOCATED	0.156	0.044	3.531
THROUGH PERSONAL CONTACTS	0.095	0.031	3.015
I WAS HIRED BY MY CONTACT	0.182	0.049	3.695
CHARACTER OF TRANSITION (FROM OUT OF LABOUR MARKET REFERENCE)			
JOB-TO-JOB TRANSITION	0.042	0.035	1.196
TRANSITION FROM UNEMPLOYMENT	∓0.105	0.037	∓2.825
SECTOR (STATE AND BUDGET REFERENCE)			
PRIVATIZED	0.045	0.034	1.309
NEW PRIVATE	0.220	0.046	4.817
FEWER THAN 50 EMPLOYEES	∓0.084	0.029	∓2.881
AGE (years)	0.055	0.006	8.633
AGE SQUARED	∓0.00067	0.000	∓9.152
TENURE IN THIS JOB (YEARS)	0.0036	0.002	1.755
EDUCATION (BASIC OR LESS REFERENCE)			
VOCATIONAL SECONDARY	0.133	0.031	4.283
HIGHER	0.303	0.042	7.159
PROFESSION (SKILLED WORKER IS REFERENCE)			
MANAGERS	0.390	0.071	5.507
PROFESSIONALS	0.125	0.056	2.242
LOWER SPECIALISTS	∓0.069	0.054	∓1.278
ADMINISTRATIVE AND COMMERCE	0.063	0.060	1.052
SERVICE STAFF	∓0.168	0.052	∓3.216
UNSKILLED WORKERS	∓0.296	0.049	∓6.036
BRANCH (INDUSTRY REFERENCE)			
CONSTRUCTION	0.014	0.072	0.197
TRANSPORT	0.285	0.053	5.383
TRADE	0.016	0.045	0.360
SERVICES	0.202	0.073	2.780
BUDGET SECTOR	∓0.260	0.039	∓6.598
N		2,181	
Adjusted *R* squared		0.319	

Note: The regression also included dummy variables to control for difference in wage levels between the four cities and for the impact of non-payment of wages and the payment of wages in kind.

investigating authorities to acquire evidence of such practices. Fourth, while appointment through personal connections may enable some to overcome other forms of discrimination, the closure of the labour market denies access to jobs to those who are not embedded in appropriate social networks and so is likely to compound social exclusion. The

formalization and professionalization of hiring within an appropriate anti-discriminatory regulatory framework would not only mark a step forward in economic reform but would also be an important step towards unravelling the ties of patronage and dependence that still bedevil Russian society.

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