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## **Analysis of Present Conditions and Prospects of the Labour Market Development in Russia**

### **Abstract**

*In this article, based on the statistical data analysis, we consider the labour market in the contemporary Russia in face of global economic crises. In our opinion, two kinds of programs should be in Russia interest:*

- *coordination of unemployment benefits with vocational training, retraining or additional education;*
- *using the compelled holidays for additional education and retraining.*

*The target programs directed on strengthening employees' positions with a high educational level on the labour market are extremely necessary in the Russian conditions. In order to decide on specific problems special departments should be created in the Ministry of Work and Social Development of the Russian Federation.*

### **1. Introduction**

The labour market plays an important role in the system of economic relations. There are interests of potential employees against interests of employers, who represent state, municipal, public as well as private organizations. These relations, forming on the labour market, have social-economic nature. They touch the daily needs of the country and refer to major parts of the population.

The level of employment as well as the level of wages are established by market mechanism. One of the results of processes taking place on the labour market is unemployment – negative, in the whole, but practically inevitable phenomena of social life.

Moreover, situation on the labour market is one of the indicators, allowing to judge national prosperity, stability and efficiency of socio-economic transformations. Process of building many layers of the economy as well as its structured transformation dictates a new demand for labour quality, its professional composition and working skills. As a result it intensifies competition between employees. Thus, tasks of the clarification of the influencing factors are actualised. They form the processes on the labour market, they estimate the regularities, trends and development prospects.

The level of employment creates relevant conditions for population reproduction. The standard of living and costs of society depend on selection, preparation, retraining and improvement of employees' professional skills as well as on the material support for the unemployed. Therefore, such issues as employment, unemployment, competitiveness on the labour market and the labour market as a whole are actually ones of the most interesting areas for analysis and research.

The transformational crisis had significant influence on the Russian labour market evolution. On the one hand, Russia did not manage to avoid sharp compression of total demand, followed by prices liberalization and the enterprises' state funding reduction. It had extremely negative consequences for labour demand. On the other hand, under the influence of such factors as break-up of the settled economic relationships, appearing of new structure of relative prices on goods and new production factors, strong intensification of competitions and etc. There was necessity for large-scale resources (including labour force) redistribution.

In this article, based on the statistical data analysis, we consider the labour market in the contemporary Russia in face of global economic crises.

As stated in the title, the structure of this article proposes to clarify the contemporary state of the Russian labour market (in the first part) and to present prospects of its infrastructure development (in the second part).

## **2. Modern conditions of Russia labour market**

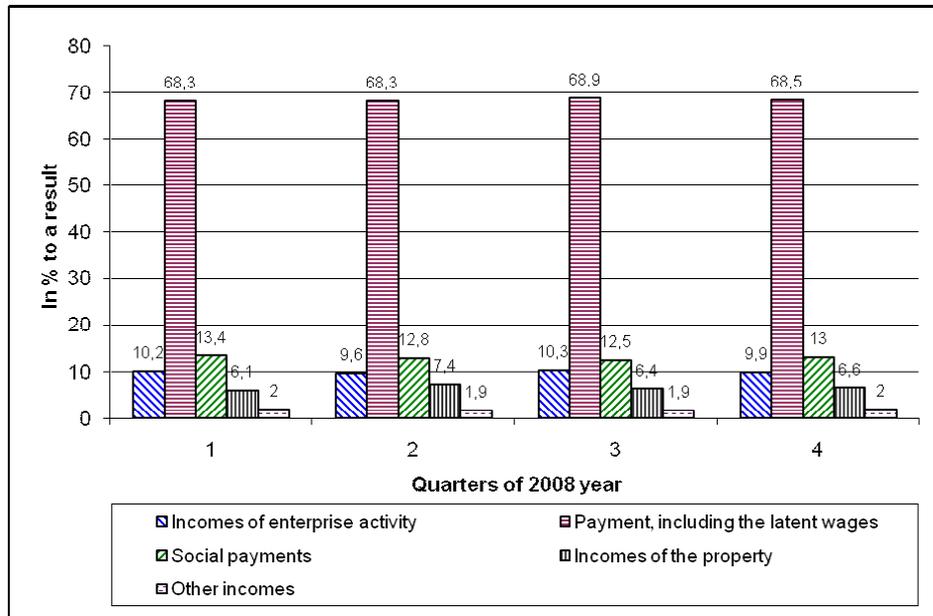
Labour market formation in Russia dictates the necessity to develop employment policy considering national specification and population mentality.

It does not exclude the usage of some principles and approaches that are characteristic for employment strategy in other countries with market economy. However, it would be possible only if these principles were adapted to the Russian reality.

A tendency of increasing and simultaneously decreasing in a labour demand has recently appeared in Russia of the latent unemployment processes. The statistics show, that in years 2009-2010 population of able-bodied age people is going to achieve nearby 85.8 million people. The growth of the labour market is also due to a large number of armed forces dismissals (basically on reduction), due to former prisoners, and also migrants from the CIS countries. As a result, our country labour force is increasing, and by the year 2010 is going to reach nearby 86.7 million people. Significant quantitative potential of the Russian labour force supported by still quite good quality indicators (level of education as well as employees' vocational training) could become the base for maintaining economic growth. However, statistical analyses show that as a result of the global financial crisis it does not occur currently. So the number of economically active population by the end of December 2008 was at the level of 75.8 million people, what is more than 53 % of the whole population. The main part of the occupied population is concentrated in organizations that are not small businesses. In December, 2008 52.3 % of an aggregate borrowed number worked there, what is 37.1 million people. At the same time in organizations that are not small businesses 1.7 million people were involved. They have been working on part-time terms as well as on special contracts. This is the equivalent of full employment. The general number of the replaced workplaces for full employment of workers in these organizations determined as total quantity of workers of list structure, part-time workers and the workers performing civil-law contracts in December 2008 was 39.1 million and it was 0.2 million ( or 0.4%) less than in December, 2007.

Nowadays, the main problem of the Russian labour market is connected with increasing demand for highly skilled labour force. The current state policy resulted in a sharp reduction of labour force mobility. Whereas in the year 2005 the total number of persons arrived and left the economy was 27.6 million, in 2008 it was about 20 million - nearly 8 million less. The problem of employment is directly connected with the Russian income policy. In civilized market society high incomes of a great part of working population form simultaneously demand for goods and as a result it is the engine for social and economic development. In Russia there have not been yet conducted any adequate income policy. It can be clearly seen at Fig. 1.

**Figure 1. Structure of monetary incomes of the population in Russia in the year 2008**



Source: Federal State Statistics Service: <http://www.gks.ru/> ; own calculations.

At macro level in crisis conditions it is important not to forget that Russia may feel the results of global financial crisis only in the second half of the year 2009. The latent unemployment plays a role of a buffer between effective employment and open unemployment. It does not allow the unemployment to rise significantly as well as allow avoiding a sharp increase of intensity in a society. As a consequence there is forced partial employment. In the year 2008 the number of part time employed because of the administration initiative was equal to 2.3 million people (5.1% from the average number). Moreover, the number of workers forced to go for a leave without money maintenance (or with partial wages due to administration initiatives) was at the level of about 2.7 million people (2.1% from the average number). The partial employment reached the biggest size in the following areas: transport (29.6%), industry (19.9%), scientific institutions (14.8%), and information services (10.2%). Significant sizes of partial employment, and also complexity with employment made stable such a phenomenon as secondary and informal employment.

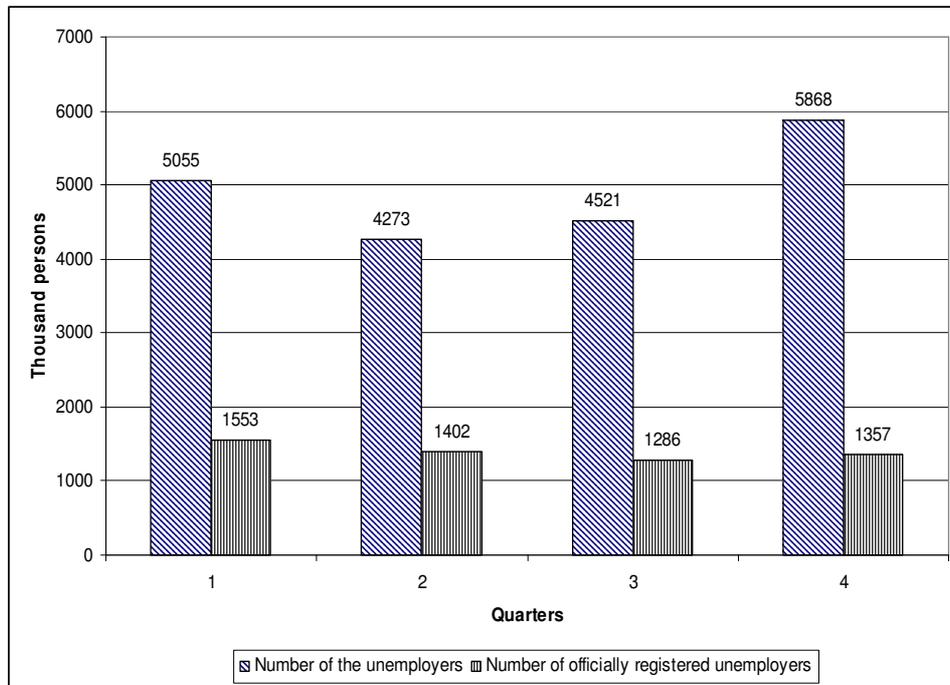
According to the Institute of Macroeconomic Researches (the Russian Federation Ministry of Economy) more than 8 million people have the second job today. The number of persons occupied in the informal sector is at the level of about 25 million, including 7.5 million people for whom this kind of activity

was the only source of income. As a result, the best part of qualified employees has found their job in a shadow sector of the economy which gives from 10% up to 20% of Russian GDP according to all available information given by the Russian GOSKOMSTAT. In the year 2008, after the corresponding governmental orders (on restriction and licensing of foreign workers), foreign labour force pressure on the labour market became weaker. The number of job hunters of workers-migrants, according to the Russian Federation Ministry of Work and Social Development, was kept within the limit of 550-600 thousands, that was 0.4% of the whole economically active population. However, the scale of illegal migration is today almost at the same level, approximately about 3-4 million people. Changes in the sphere of employment resulted also in the growth of the whole number of unemployed. The number of people not having work but actively looking for it, according to the methodology of the International Labour Organization (ILO) classified as unemployed, has increased at the end of December, 2008 up to 5.8 million. It is also going to increase as a result of the current financial crisis.

Quarterly dynamics of the total number of unemployed and officially registered unemployed in Russia in the year 2008 is presented in Figure 2.

The level of total unemployment has grown and is equal to 7.7%. However, the level of registered unemployment by the employment service offices is still decreasing. In December 2008 it was up to 1.5 million from which 1.36 million received unemployment benefits. The main reasons for such a reduction, as I think, were bureaucratic barriers on payments, seasonal reductions of citizens applying and ending of the initial unemployment benefits reception period for a certain number of people. Despite of the decrease in registered unemployment, the duration of searching a job became stable. In the year 2008 the average duration of registered unemployment was equal to 3 months. Thus, 5% of unemployed being registered in special service offices have been looking for a job more than a year. Still in the total number of unemployment prevail those who left from the last place of work at their own initiative (45%), in connection with organizations liquidation or personnel reduction (30%).

**Figure 2. Dynamics of the total number and officially registered unemployed in Russia in the year 2008**

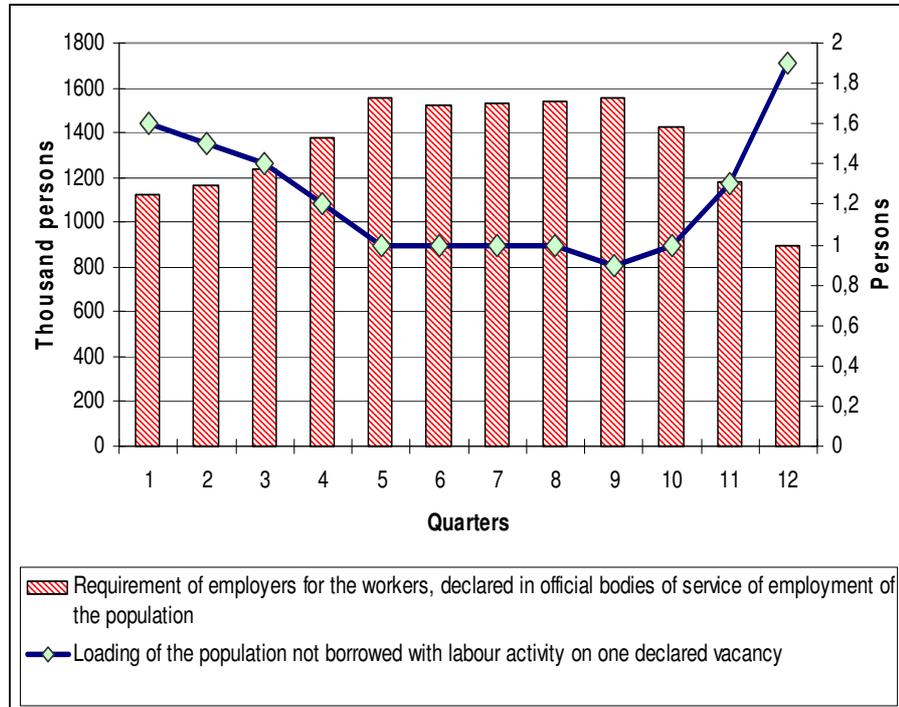


Source: Federal State Statistics Service: <http://www.gks.ru/>; own calculations.

By the end of the year 2008, according to the data declared by Employment Service, the requirement of employers for the workers has decreased. In December 2008 the level of officially registered unemployed was equal to 1.9 people per one vacancy. More detailed data on dynamics of employers requirement for the workers registered in Population Employment Service Offices are presented at Fig. 3.

From the analysis presented, we can come to the conclusion that the situation on the Russian labour market became so difficult as a result of the global financial crisis.

**Figure 3. Dynamics of employers requirement in the workers declared by Population Employment Service Offices in Russia in 2008**



Source: Federal State Statistics Service: <http://www.gks.ru/>; own calculations.

### 3. Prospects of the labour market development in Russia

In Russia, where for many years there dominated official ideology of full employment, unemployment at the level of 6-8% (according to the ILO) is perceived as painful. This situation is aggravated by lack of available mechanisms to help the unemployed and lack of the resources which the State could grant for these purposes. However, according to the international standards such a rate of unemployment is not catastrophic. The main problem is not in the rate of unemployment but in processes and tendencies it reflects. Behind an identical synthetic parameter various situations in essence in the sphere of employment may be hidden.

In conditions of active labour market, a large number of people loose their jobs within a year due to different reasons. However, duration of such periods is

not long. The example may be the USA, which is the world leader in the number of workplaces created annually. Dynamism of the American labour market promoted the formation of «a new point of view» at unemployment as a widespread but a short-term phenomenon. Americans however, are seriously concerned by new workplaces of poor quality. The problem of their «enrichment» is today one of the key problems in the American employment policy.

Different situation is in Europe, where a characteristic feature of the labour market is the concentration of unemployment in certain segments. In that area the level of unemployment is increasing, density of long-term unemployment is relatively high and as a result those people are losing contact with the labour market, as well as losing their knowledge and skills. The threat of the so called «unemployment culture» formation demands from governments paying more attention to their rehabilitation.

However, in all the cases the employment policy is focused on a key strategic task - to give each able member of a society not simply a job but the possibility to develop and realize their inner potential in the highest degree and receive worthy compensation for their work. The policy how to help the unemployed is the main part of the general strategy and it defines its basic directions. Special attention is given, firstly, to long-term unemployment as it is a problem of possible human capital loss (which is a leading component of each country). Secondly, the attention is paid to the youth as the potential of acquisition and human capital effective utilization may be not realized there. Thirdly, the attention is given to experts-professionals as to the most expensive and valuable category of workers.

In Russia, the real danger is in the area of workplaces structure and human potential degradation. It is the result of employment reduction in branches demanding high quality employees, employment growth in the sphere of trade and in the intermediate activity mainly within the limits of informal sector. Besides there is an increase in long stagnant unemployment lasting for a period of more than 6 months.

In our opinion, the employment policy should be concentrated on the marked problems. It seems that it is possible to take some measures and programs used in countries with developed market economy. The majority of them (except Sweden) spend the most part of resources allocated to employment policy on passive measures - payment of unemployment benefits. At the same time the tendency to strengthen a role of active measures is distinctly seen. However, not all of them can be widely used in Russia.

So, the active measures directed to labour demand regulation require substantial financial expenses. Therefore, applying them in the Russian

circumstances is probably possible only in very limited scale in the areas of spot unemployment.

Particularly, it is a question of paying some grants (within a limited period) to enterprises that employ certain contingents of the labour force. The aim of that aid is to cover at least part of wages for these employees. As a rule, such a measure is used to stimulate hiring of long-term and young unemployed. Subsidizing the employment usually is not followed by any additional workplaces. It promotes employing contingents with the least favourable perspectives. As a result, the structure of labour supply and labour demand is improving and the natural rate of unemployment is decreasing.

Attractive but an expensive measure is the state direct investing in new workplaces. Its absolute advantage is its addressed character. Even minimal resources for such programs like financing infrastructural projects (roads and bridges constructing), in countryside as well are the most rational way of using them. It does not only allow employing people, but also gives an impulse to develop regional economic activities which may create additional opportunities for employment. It is expedient for a state to invest directly in target programs such as workplaces creation in order to assist processes of employment disabled and partly disabled people.

In our opinion, active measures directed to complex regulation of labour supply and labour demand may have better prospect in Russia. The key place among them occupies rational use of all the flexible forms of employment. In the West in the last decade the flexible employment is developing very fast. There have appeared new categories of employees who traditionally are busy in a certain firm but at the same time are performing a piece-work for different employers in accordance to the flexible working schedule. This process, however, is ambiguous and often is quite painful. Therefore it is necessary to analyze possible consequences of implementing in Russia flexible forms of employment and suggest the adequate regulations in this area.

It seems very important to assist rational distribution of partial employment on the basis of flexible working hours. For example, the governing body of Volkswagen Concern as a result of compelled reduction of manufacture volume and subsequently decrease in labour demand offered 150 variants of four-day working week to the employees. In this way the company managed to keep the qualified labour and the employees had the opportunity to manoeuvre their time choosing the most convenient mode of work. Such a decision that does not demand additional financial resources, in our opinion, seems to be better than forced holidays for a part of occupied or introduction obligatory 1-2 days-off.

Flexible forms of employment spreading in Russian situation are important due to the fact that multi-variant approach to employment gives the possibility to combine work according to the speciality which demands corresponding vocational training, knowledge and experience with work within the limits of the informal sector, which does not demand special qualification but brings the certain income allowing to be above a poverty line. We are sure it would slow down the degradation of a cumulative labour force.

One more measure of the flexible employment realization assistance is the development of holiday system. In this plan very important is Denmark's experience. The Danish program that is operating since the year 1994 is very interesting. It gives employees the right to receive paid holidays in full or in part within 1 year for updating education and also gives the opportunity for child care to both parents (children up to 8-year old). Vacancies should be given to the unemployed on the terms of temporary employment. The purpose of this program is to improve employment structure as a result of voluntary rotation. Holidays for updating education are especially encouraged.

In a number of Latin American countries there have been developed programs for civil employees that have the opportunity to take advantage of voluntary long-term holiday's stimulation. The aim of such programs is to provide the civil employees an opportunity to leave their job for some period of time and enter into an individual business. For those who are on a long-term holiday the right to length service and to pension is kept, a lump sum allowance of several monthly wages rate is paid. As the experience shows it does not lead to a decrease in the capacity of state machinery.

The main direction of the employment policy is to support formation of small business structure. In the majority of countries the basic part of new workplaces is currently created not in large enterprises but in middle and small ones. This direction seems to be a perspective for Russia though it demands not only financial resources, but also qualified personnel for various consulting services, business-incubators, etc. Very important role plays the selective character of such support. These programs should be focused, first of all, on those potential businessmen and the micro enterprises that are producing the necessary output and the services demanding high quality labour force.

#### 4. Concluding remarks

Taking into account the presented experiences of the developed market economies one should consider a strengthening of passive labour market policy. In our opinion, two kinds of programs should be recommended in Russia:

- coordination of unemployment benefits with vocational training, retraining or additional education;
- using the compelled holidays for additional education and retraining.

The targeted programs directed on strengthening employees' positions with a high educational level on the labour market are extremely necessary in the Russian conditions. In order to decide on specific problems special departments could be created in the Ministry of Work and Social Development of the Russian Federation.

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#### Streszczenie

##### ANALIZA OBECNYCH WARUNKÓW I PERSPEKTYW ROZWOJU RYNKU PRACY W ROSJI

*Przedmiotem artykułu jest sytuacja na rynku pracy w Rosji w okresie globalnego kryzysu gospodarczego. Analizy przeprowadzone w artykule są oparte na oficjalnych danych statystycznych. Autorzy proponują wdrożenie dwóch programów:*

- *programu powiązania zasiłków dla bezrobotnych ze szkoleniami zawodowymi i dodatkową edukacją,*
- *programu wykorzystania przymusowych urlopów pracowniczych na dodatkową edukację i szkolenia przekwalifikowania siły roboczej.*

*Programy te powinny wzmocnić pozycję wykwalifikowanej siły roboczej na rynku pracy. W celu ich wdrożenia należy utworzyć specjalne departamenty w Ministerstwie Pracy i Rozwoju Socjalnego w Rosji.*