

Russian Integration into the World Economy and Its Impact on National Labor Market

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Abstract

Integration of the country into the world economy has been widely perceived as one of several ultimate goals of current Russian transformation. Meanwhile, the concept appears to be partly meaningful slogan, partly misdirecting fantasy. Unfortunately, it substantially influenced developments of Russian international economic cooperation during last decade and resulted in many non-anticipated repercussions. In case of national labor market these repercussions revealed themselves in two serious distortions, namely common practices of “payments in kind” and “payment arrears”. In addition to that, enhanced economic interaction of Russian economic agents with foreign counterparts surprisingly enough contributed to the deterioration of labor incentives and motivation.

Keywords: *international economic cooperation, Russian economy, labor market.*

1. Introduction.

The paper below represents an attempt to assess the impact of substantial change in both scope and scale of Russian international economic cooperation on state and certain developments of national labor market in 1990s. The issue seems to be worth investigating due to the following. In spite of the fact that “Russian integration into the world economy” starting from the very beginning of transitional process has been commonly perceived as one of the major goals of the general reform, the author argues that the slogan of integration has been (and still is) largely misleading. Under the circumstances many repercussions of enhanced economic interaction of Russian economic agents with their foreign counterparts appeared to be either totally or largely non-anticipated. With respect to the national labor market (in a broad sense of the word) several peculiarities of 1990s were strongly connected with growth in foreign trade, FDI flows and other forms of international economic cooperation. Two of them, namely distortions and deformations in market mechanism and deteriorated labor incentives and motivation are discussed in the paper.

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2. Russian Integration into the World Economy – Road to Prosperity or Misdirecting Fantasy?

During last decade Russia has passed through a process of dramatic changes that has directly touched every sphere of the country's social, political and business life. It might sound close to trivial, nevertheless it is the fact that each modern transitional process in general, and its Russian edition in particular, represents multidimensional phenomenon. One of its really significant dimensions is constituted by transformation of the whole system of Russian international economic cooperation. With respect to this specific segment of the reform clear-cut strategy seemed to be defined from the very beginning. It looked something like that: Russia should integrate itself into world economy and in order to achieve the aim foreign trade as well as other forms of international economic transactions have to be liberalized and decentralized.

Being almost unanimously accepted, both inside and outside Russia, as a kind of ultimate goal of the reform with regard to its international dimension, concept of country's integration into the world economy is based upon more or less explicit assumptions that, prior to the beginning of transformation process, Russian Federation:

- a) was the closed economy, and
- b) was not integrated into the world economy.

On the first glance, it might look that the assumptions "a" and "b", being formulated precisely as above, are practically identical to each other. Meanwhile, they actually emphasise quite the different aspects of a problem. In addition to that, both these assumptions really are the moot points. Hence, it seems reasonable to look at them in some more details.

In an initial and a strict sense of the word *closed economy* is a purely abstract and theoretical concept¹ of a society in which "no person has any business or trade relationships with anyone outside the area, no exports, imports, or factor movements are permitted across boundaries". (The McGraw-Hill Dictionary of Modern Economics. 98). This meaning is, of course, too narrow. In a more general use the term refers to an economy, which due to different reasons tends to minimise both scope and scale of its interaction (primarily foreign trade)² with the other countries.

So, was Russian economy, say, at the end of 1980s really the close one? In order to answer this question properly we have, first of all, to define the meaning of an adjective "Russian". At that moment for many people inside as well as outside the country it meant "relating to, or characteristic of Russia or the Soviet Union." (Collins Dictionary of the English Language.1338). To treat

¹ One might argue, that no economy of that type exists in the world today. The concept *per se* provides theoretical framework for basic macro-economic models, uncomplicated by international trade, capital or labor migration, etc.

² Special emphasis on foreign trade eventually resulted in a situation when its certain relative indicators (foreign trade turnover either export or import as a percentage of GNP/GDP) are commonly used in order to evaluate how closed or open specific economy is.

“Russia” as another name for “the Soviet Union” was correct, but mainly within the framework of a spoken language, in general. As for the more specific context of the present paper Russian should be clearly referred to Russian Federation only. Albeit the largest, it was just one republic side by side with the others.

Well-defined demarcation of Russia and the Soviet Union from the point of view of international economic activities really makes sense. As for the USSR, it was indeed rather closed towards the rest of the world economy. At the same time, each of its republics, including Russian Soviet Federative Socialist Republic was heavily involved into inter-republican economic cooperation.

Let us take foreign trade as an example and assume that for each individual republic it covers all transactions with the buyers and sellers outside the Soviet Union as well as with the other republics within the USSR. Under the circumstances, foreign trade quotas (measured as an average of exports and imports in percentage of GNP) for the members of “trade-economic alliance” called the Soviet Union were in 1990 mainly within the range of 28-35%. As for Russia itself, the quota equalled to 18.3%. It would be very useful indeed to compare these figures with respective ones for the countries, which hardly anyone could suspect to have closed economies. Namely they are certain Western European states like Greece (27%), Spain (19.8%), France (23%), Italy (20%), United Kingdom (26%). (Trade in the New Independent States. Table 1.8).

It goes without saying that these data should be assessed with certain cautiousness. Indeed, Russian plants and factories interacted with their Ukrainian, Georgian, Estonian, etc. counterparts within the framework of the single national economy. Under the circumstances transactions under review differed from those of Russian economic units with German, Finnish or even Bulgarian suppliers and consumers. Nevertheless, above-mentioned comparison is not totally meaningless. On the one hand, for Russian enterprises both internal and foreign trade was equally executed on the basis of centralized planning (and its element - foreign trade state monopoly). In other words, they were ultimately told to direct, say, 60% of their output to domestic customers and 40% - to the customers abroad. On the other hand, similar type of domestic and foreign transactions combination is frequently used in economic literature. Thus, data above were borrowed from World Bank publication. Another interesting example of the same approach could be provided by Shang-Jin Wei (1996) paper the author compared the scale of deliveries from Canadian province of Ontario to the state of California and to another Canadian province of British Columbia. Both sorts of transactions were called “export”.

Three additional notes should be taken under consideration in order to make this comparison as correct as possible. Firstly, in general, the bigger the country in a geographical sense of the word, the less tends to be (others being equal) its foreign trade quota. Secondly, in general, the higher the level of a country’s economic development the larger is, others being equal, its foreign trade quota.

Thirdly, in contrast to the other countries on the list, Russian geographical location combined with poor transport and communication networks constitutes an additional obstacle to intensive foreign trade activities.

In its turn, the notion of Russia being, prior 1992, *non-integrated into the world economy* also seems to be a questionable one. Here again it seems reasonable to start with the definition. The term “integration” had entered sphere of economics in 1950-60s due to the development of certain specific phenomena within the general framework of economic co-operation between the countries of individual regions (initially Western Europe, later Latin America, Africa, etc.) Since then, in the bulk of economic literature it has two basic meanings. It refers either to a gradual process of interpenetration and mutual adaptation of several national economies, eventually leading to the formation of a single economic body or to the highest type of trade-economic alliance under which fiscal, monetary, social, etc. policies of the member-states are totally unified. From both these perspectives the notion of integration into the world economy is (put it mildly) something misleading.

Hence, with regard to the subject matter of the present paper more conventional meaning of the term appears to be a relevant one. According to it, integration is “the act of combining or adding parts to make a unified whole”(Collins Dictionary of the English Language.791). Under the circumstances one is tempted to ask: what makes the world economy this “unified whole”? what are the basic signs of its wholeness or integrity?

In author’s opinion, the notion of interdependence provides the right answer. Within an integrated system of the world economy each member-state directly or indirectly influences economic performance of the others and, in its turn, depends upon them. If it is so, the Soviet Union in general (as well as Russian Soviet Federative Socialist Republic in particular) without any doubts should be regarded as an integral part of the world economy. The very fact of the Soviet Russia appearance had generated substantial changes in patterns of international trade, capital and labour mobility. These changes resulted from the fact that prior 1917 Russia was already integrated into world economy of that time. The country had relatively intensive trade relations with Britain, Germany, France, and USA. The latter also imported large amount of Russian labour, which left for America in search of a better life. All the mentioned states provided capital inflows into Russian economy, where about one third of private enterprises belonged to foreign investors. (S.S. Ol’denburg. 29; Nove, Alec. 18).

Later, being one of the two world “super-powers”, the USSR directly influenced allocation of certain amount of natural, financial and labour resources in the USA and its allies³. At the same time,

³ One could quote literally thousands of so called “sovietological” books and papers, which either explicitly or implicitly assumed that the development of Soviet economy constituted the important (in certain cases even crucial) element of environment Western economies operated in.

in spite of foreign trade state monopoly and closed economy, the Soviet Union was not totally secured from both short- and long-term external pressure and developments⁴.

Taking under consideration everything pointed above one could argue that the motto of Russian integration into the world economy neither provided sound basis for the adequate assessment of pre-transitional development nor reflected real needs and necessities of national economy within the framework of post-Soviet transformation. Both governmental regulating agencies and economic agents were largely misdirected by this motto towards purely quantitative expansion of international economic cooperation regardless of overall costs and medium-term (say noting about long-term) repercussions. The sad fact that Russian GDP in 2000 equalled in constant prices to 69.1% of its 1991 level as well as many other negative developments of last decade at least to some extent originate from above mentioned misdirection.

To put the point a bit differently, oversimplified perception of the nature and possible effects of international economic cooperation resulted in large amount of non-anticipated negative developments, tensions and conflicts. The society was equipped neither intellectually and morally nor institutionally to handle all these problems properly, so they caused substantial damage. Within the specific context of the present paper further discussion is focused on several similar issues reflecting peculiarities in operation of modern Russian labor market.

3. Distortions and Deformations of Labor Market

The process of transformation in Russia gave birth to some kind of a new (in comparison with previous history of the country) phenomenon. It might be tentatively called “Russian market”. At the same time in some of its very significant aspects it clearly doesn’t fit any more or less standard notion of the market. It is rather a “pseudo-market” than a proper one. In addition to such distortions as extremely high level of barter transactions or widespread use of “conventional monetary units” typical to capital, real estate and consumer durables markets, at least two sorts of deformations are directly related to labor market. Namely they are: “payments in kind” and “payment arrears”.

Being challenged by dramatic and almost permanent lack of monetary resources substantial amount of enterprises with respect to their employees quite often really had nothing but just two options – either to use some alternative means of payment (except money), or not to pay at all. The

⁴ Some people would argue that the very status of “the great power” (say nothing about “the super-power” one) means that the country, which enjoys it, is more or less independent from external influence in its decision-making process. From the point of view of world integrity notion it seems to be wrong or at least too categorical. It goes without saying that extent of external pressure upon certain great power is less, than upon non-great one. But it still exists, at least in an economic field. Probably, some kind of an asymmetrical interdependence concept might be elaborated in order to reflect the situation adequately.

former route brings us to the practice of “*payments in kind*”, the latter – to the practice of “*payment arrears*”.

One might speculate which of two represented the least of two evils. Indeed, in case of “*payments in kind*” companies allocated certain share of their final output (or some consumer products they happened to receive through barter transactions) to pay wages and salaries. Under the circumstances particular person could get, say, 10 bicycles or 20 pairs of woman shoes as his/hers official income. Then he/she had to sell the product to any customer he/she managed to find in order to get “live money”. In other words, companies largely shifted the burden of their problems on to employees and stepped aside. In contrast to that, in case of “*payment arrears*” companies openly kept responsibility and didn’t pretend to fulfil their obligations.

The damage caused by “*payment arrears*” and “*payments in kind*” didn’t confine to material losses and human sufferings whatever their significance was. In addition to that, institutionally they distorted substantially (if not largely destroyed) one of the basic pillars of the market economy *per se*. The point is that under the circumstances free prices, which, according to the standard perception, have to be the main source of information for the economic agents failed to do that. *De facto* the prices gradually became more and more irrelevant.

“*Payments in kind*” provided here the most obvious example. While paying wages and salaries in kind companies calculated prices of the products according to their regular pricelists (either retail or wholesale ones). When employees sold these products either to the final consumer or to some kind of middleman, they normally couldn’t afford to charge that much. Not only they did get substantially less, the prices for the same product differed significantly depending upon all variety of individual peculiarities (time, place, personal character, etc.) of otherwise very similar persons. At last (but not at least) practice of “*payments in kind*” imposed certain extra costs (definitely material, quite often moral as well) on the employees who sold the products they got from their companies, which didn’t pay for that activity.

All in all, this brings us to a whole set of very different prices charged for the same product. The situation is badly compatible with standard perception of market economy. The effect of abovementioned distortions is in a way similar to that of hyperinflation, which many radical and consistent advocates of economic liberalism vigorously condemn for destroying fundamentals of the market.

In real life both “*payment arrears*” and “*payments in kind*” frequently went hand by hand and became pretty common in mid-1990s. Nowadays national economy is mostly free from the latter distortion. As for the former, examples of 1 – 2 months arrears are frequently reported by mass media, for example, with respect to various public health, educational, and similar institutions financed from regional and local budgets. Last year in addition to constant criticism of the

authorities some judicial instruments were introduced to handle the problem. According to them, in case duration of arrears exceeds 15 days certain economic sanctions can be legally applied against infringer.

One might ask, whether all distortions and deformations discussed above have anything in common with “international dimension” of Russian transition? Both in terms of indirect and direct influence the answer is yes. These problems appeared more or less in line with the process of internationalization in Russia. Most of the firms at that period started to reconstruct their business substantially. Unfortunately, not all of them were ready for the developments. On the one hand, enhanced international economic cooperation of Russian economic agents in 1990s resulted in particular in additional competitive pressure imposed upon many industries of national economy as well as on specific companies. All that not only contributed to the economic crisis but also largely promoted differentiation between losers and winners in competition. On the other hand, both “payment arrears” and “payments in kind” ultimately resulted from the deficit of monetary resources, which, in its turn, was largely caused by rigid monetary policy of financial stabilization. Precisely this type of policy was for several years (in spite all counterarguments) “strongly recommended” to Russia by IMF. It goes without saying that respective decisions were technically and probably ultimately made by Russian authorities. Nevertheless the level of their “sensitivity” towards advices given by IMF seemed to be pretty high.

4. Deteriorated Labour Incentives and Motivation

One of really controversial developments within the framework of the transitional process directly relates to labour incentives and motivation. One could argue that with respect to a large share of Russian population these attributes are at least partly lost in comparison with the previous period. Nowadays many people are less inclined to participate in various types of useful publicly recognized activities, which are considered to contribute to wealth of nation growth.

Certain historical retrospect might help to assess the development properly. As a matter of fact, relatively low level of labour motivation had been traditionally typical for Russian peasants – for a long time overwhelming majority of the population. They had tended to believe that those who had been industrious had never become wealthy indeed. This attitude had resulted partly from severe climate and natural conditions, partly from pretty common examples of social malpractice and injustice with respect to the stratum.

As for the Soviet era, one might claim that developments of the discrepant character had taken place during more than seven decades. On the one hand, almost from the very beginning of the period within the framework of so-called “war communism policy” substantial elements of totally equal distribution of certain goods and services had been executed. Despite the fact that this policy

had been abandoned as early as 1921, certain features of “an equalization approach” (rationing as the clearest example) accompanied further history of the country and from time to time revealed themselves open enough. In addition to that, the general notion of socialist society by definition assumed a relatively high (in particular in comparison with capitalism) level of income and wealth/property distribution equality. Prophets of anti-socialism like Ludvig Mises or Friedrich Hayek constantly used this fact in order to argue that the system intrinsically missed proper labour incentives.

On the other hand, the official doctrine, which seemed to be not entirely irrelevant with respect to the real development of the Soviet Union, claimed distribution according to the amount and quality of labour to be both the major and the ultimate principle for the formation of a remuneration system. In terms of public morale and social values precisely people who were considered to contribute common prosperity and wealth more were praised and honoured. Cosmonauts, prominent scientists, writers and actors as well as the builders of strategic electric power stations, plants and railroads were the official heroes of the society.

During the years of transition, in contrast to what might look like natural and logical course of events, disincentive and low labour motivation roots of the previous epochs really got very substantial nourishment. Various factors (each of them taken separately may be of minor importance) jointly interacted to generate the trend. Namely these factors especially evident in mid-1990s were at least the following:

- tremendous amount of various TV and radio games there the prizes (sometimes very expensive indeed) gained by the winners mostly resulted from the strike of a good luck, occasional fortune but not of a long and heavy work;
- the main place of employment for a very significant amount of ordinary people (workers, school teachers, engineers, scientists, etc.) did not provide them with the bulk (or sometimes even with any tangible share) of their income. Under the circumstances part-time employment, job-sharing and moonlighting became common indeed. More than that people tended to have not two but frequently three or four various jobs⁵. As a result they neither could properly focus on their obligations nor even tried to take each of the occupied positions seriously. The verb “to spin” (not “to work”!) was more and more in use with respect to this pattern of behaviour;
- lack of a clear and commonly accepted system of social priorities. It was not so unique for the representatives of a younger generation to name as the most desirable and prestigious position in modern Russia that of a leader of the criminal gang or “foreign exchange prostitute” (woman who provided her services to the foreigners);

⁵ It is worth emphasizing that “various” stands here not as much for the names of employers as rather for the types of activities. A teacher of physics at the secondary school might simultaneously be an accountant of a small company and in addition to that a guard at the parking place.

- relatively high level of actual emigration and even higher propensity to emigrate, which were mainly typical for most qualified and active segment of a labour force. One might argue that for these people the emigration resulted in particular from poor labour conditions and insufficient incentives. This is, of course, true. At the same time with respect to the phenomenon under review a kind of vicious circle eventually emerged. Indeed, the more of capable and talented young men and women left the country, the more were the rest prone to follow their example and the less were the motives to work hard at the homeland;
- extreme greediness of the many representatives of a new elite. At least some authors claimed that the latter extracted and redistributed in own favour too large share of the GDP. In a sense this was similar to the effect of excessive taxation described by famous “Laffer curve”. The only difference related to the fact that it was not the state which imposed tax burden on the person but rather certain individuals.

With respect to four out of five abovementioned factors (with possible exception of moonlighting issue) “international dimension” of Russian transition appears to be clearly relevant. Indeed, discussing both TV games and distorted system of social priorities one could easily refer to social and cultural globalism as one of the key driving forces of the phenomena under review. To quote Robert O. Keohane and Joseph S. Nye Jr.: “An important facet of social globalism involves imitation of one society’s practices and institutions by others: what some sociologists refer to as “isomorphism”.” (Governance in a Globalizing World. 5). In our specific case the bulk of games on Russian TV originate from foreign (mostly American) prototypes. Cult of money promoted by Western pop-culture contributes substantially to social degradation of many representative of modern Russian society.

Emigration in general, «brain drain» in particular, by itself is a pure display of internationalisation. It traditionally constituted one of the basic types of international economic cooperation. One should bear in mind that negative repercussions of emigration from Russia are not focused on deteriorating labour motivation only. Depopulation of the country⁶ and declining birth rate are to certain extent supported (both directly and indirectly) by labour force outflow. As for “brain drain”, it really constitutes serious problem for Russia. In a short run it means direct economic losses estimated by some experts up to 60 bln. USD annually. In a long run the trend puts significant barriers to the future development of fundamental and applied science, higher education, public health, etc.

Extreme greediness of many “new Russians” was and still is by all means closely connected with enhanced international economic cooperation. At least three points are relevant here. Firstly,

⁶ According to some forecasts by the middle of the century total Russian population might contract down to 80 – 110 mln. people in comparison with more than 140 mln people nowadays.

representatives of the stratum under discussion largely imitated “Western prototypes” in many components of their consumer preferences and behaviour. Secondly, they spent substantial share of their income on foreign products and services and even more significant – on foreign real estate. Thirdly, the majority of “new Russians” tended to make their money either directly or at least indirectly within the context of various international economic transactions. Notorious capital flight notion is a good example of the point.

5. Conclusion

Hopefully soon enough relevant adjustments (in a broad sense of the word) will be introduced resulting in elimination or at least substantial contraction of abovementioned distortions and drawbacks. But for sure it won't happen automatically. More than that, for proper results of market mechanism performance it is not sufficient just to destroy the barriers and obstacles. Necessary prerequisites – institutional, legal, psychological, but also intellectual – have to be created. One could argue that sound and active state involvement matters a lot. Only under these conditions enhanced international economic cooperation might become for Russia really “win – win game”. It seems to be true with respect to national economy in general as well as regarding the country labor market development in particular.

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