

Chapter 1

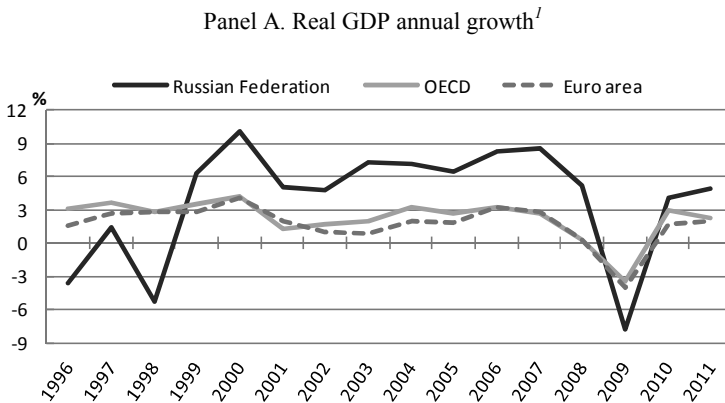
A Dynamic but Segmented Labour Market

The global financial crisis interrupted a protracted period of strong economic growth and poverty reduction in the Russian Federation. Despite a large decline in output, job losses and hikes in unemployment have remained rather modest, and much of the labour market adjustment has taken the form of cuts in working hours and, in particular, earnings. While a recovery is now underway, the Russian labour market remains characterised by significant structural imbalances resulting in widespread segmentation and large earnings inequalities. High worker turnover points to a dynamic labour market, but employment growth has been mostly in lower quality jobs and atypical contracts have increased. Also, regional disparities remain large as poverty traps hinder workers moving across regions in search of available jobs.

1. The global crisis ended a decade of strong growth, but recovery is underway

Between the Russian financial crisis in 1998 and the global crisis that hit the country in mid-2008, the Russian Federation experienced a decade of sustained and strong economic growth (Figure 1.1, Panel A). Real GDP grew at an annual average rate of 7% and nearly doubled over ten years. Given the gradual decline in the Russian population (*cf.* Chapter 3), per capita growth of GDP was even faster. Nevertheless, with GDP per capita at 45% of the OECD average in 2009 (Figure 1.1, Panel B), living standards in the Russian Federation remain below those in most OECD countries.

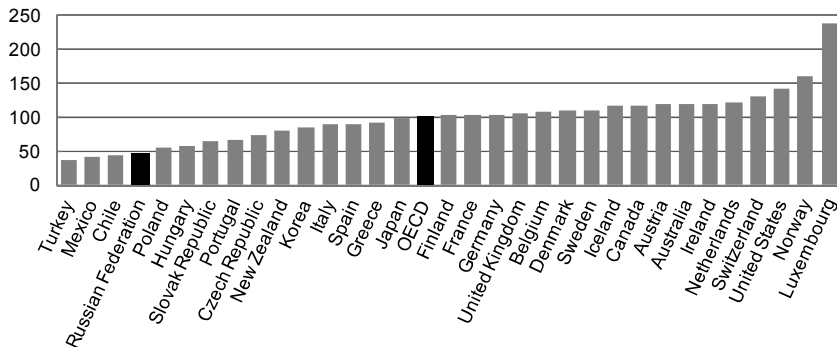
Figure 1.1. GDP and GDP per capita in the Russian Federation and OECD, 1996-2011



1. Figures for 2011 are projections.

Source: OECD *Economic Outlook Database*.

Panel B. GDP per capita in purchasing power parities, OECD = 100, 2009

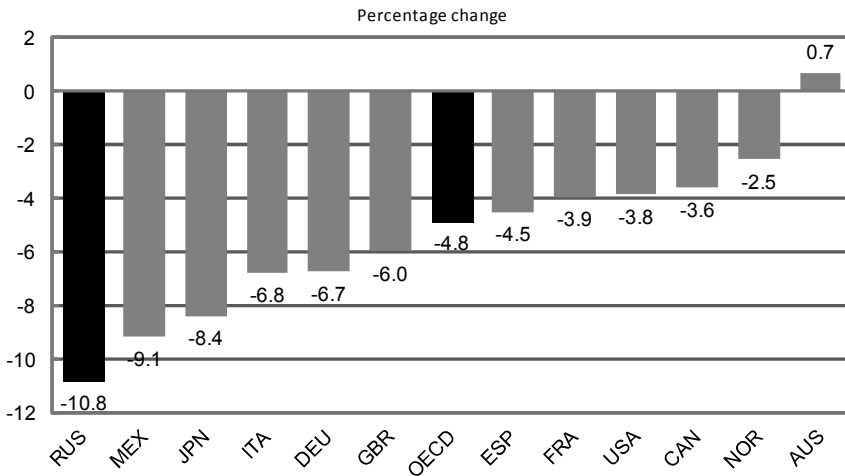


Source: IMF, *World Economic Outlook Database*.

The Russian Federation's strong economic performance prior to the global crisis was fuelled by a number of benign but transitory factors, albeit supported by sound macroeconomic policies (OECD, 2006). Initially driven by catch-up after the transition period and a rebound from the financial crisis in 1998, growth benefited strongly from the developments in the oil industry between 2003 and mid-2008. The surge in commodity prices, and in particular the price of oil, dramatically improved the terms of trade and sparked a boom in domestic demand. By 2007, the Russian economy was showing clear signs of overheating with rising inflation (12% by the end of that year), emerging labour shortages and a real-estate bubble in Moscow and St. Petersburg (OECD, 2009a). The historically low world interest rates and the nominal appreciation of the rouble against the US dollar also created an unhealthy strong increase in foreign-currency borrowing by Russian banks and enterprises.

In part due to these structural domestic vulnerabilities, the Russian Federation was hit particularly hard by the global financial and economic crisis. The collapse of the international capital markets and world trade was further aggravated by a rapid decline in oil prices. The cumulative output loss during the recession amounted to 10.8% in the Russian Federation, considerably larger than the output loss of 4.8% for the OECD as a whole (Figure 1.2). Taking into account the high growth rates in the Russian Federation prior to the crisis, the *cumulative* growth loss – which compares the loss in output with the growth in output that would have occurred in the absence of the crisis – is estimated to be around 19% in the Russian Federation versus 8% in the OECD area (OECD, 2010a).

The Russian economy started to recover in the second half of 2009, and the latest OECD projections expect growth to be around 4 to 5% in 2010 and 2011 (Figure 1.1, Panel A). The economy benefited strongly from a rebound in global trade, a gradual recovery of international capital flows and a large rise in oil prices. At the same time, large fiscal savings accumulated over the past decade allowed the authorities to stimulate demand *via* a sizeable fiscal stimulus package. However, there is a risk that over-reliance on oil revenues to sustain growth could create a new boom-and-bust cycle along the lines of the pre-crisis period.

Figure 1.2. Percentage change in real GDP from peak to trough¹

1. Peaks and troughs are determined using real GDP series in levels. Australia did not have a recession in the 2008-09 period but is shown for comparison purposes over the period 2008 Q3 to 2009 Q2. Canada: 2007 Q4 to 2009 Q2; France: 2008 Q1 to 2009 Q1; Germany: 2008 Q1 to 2009 Q1; Italy: 2008 Q1 to 2009 Q2; Japan: 2008 Q1 to 2009 Q1; Mexico: 2008 Q1 to 2009 Q1; Norway: 2008 Q2 to 2009 Q2; OECD area: 2008 Q1 to 2009 Q1; the Russian Federation: 2008 Q2 to 2009 Q2; Spain: 2008 Q1 to 2009 Q3; the United Kingdom: 2008 Q1 to 2009 Q2; and the United States: 2008 Q2 to 2009 Q2.

Source: OECD *Economic Outlook Database* and OECD *Main Economic Indicators Database* (Russian Federation and OECD area).

2. Real wages remain the main adjustment variable in the labour market

Labour force participation is high despite the economic downturn

Despite the economic slowdown, the Russian Federation enjoys relatively high labour force participation and employment rates, thanks to high employment rates of women. Sustained economic growth prior to the crisis, combined with a decreasing working-age population, led to significant improvements in the labour market. The unemployment rate declined from a historical high of 13.2% in 1999 to 6.2% in 2007 and the share of long-term unemployment (more than one year) in total unemployment was reduced from 47 to 40% over the same period. In several regions, labour shortages started to appear and the demand for migrant workers increased (see Box 1.1). By 2007, 72.8% of the population aged 15-64 was active in the labour market and 68.3% was employed, compared with respectively 70.6 and 66.5% on average in the OECD

(Table 1.1). Women and older workers benefited particularly from the strong labour demand. Only the participation rates for youth (aged 15-24) remained below the OECD average – 40% in 2007 compared with 49% in the OECD – largely due to the high enrolment in education.¹

Table 1.1. Labour force status of the Russian population, 1992-2009

Age	Total				Men				Women			
	1992	1999	2008	2009	1992	1999	2008	2009	1992	1999	2008	2009
Labour force/Population												
15-24	54.7	45.2	43.1	42.7	58.3	49.5	47.5	46.4	50.9	40.7	38.5	38.8
25-54	91.7	88.1	89.0	88.8	94.7	91.0	92.2	92.0	88.8	85.2	85.9	85.8
55-64	40.2	38.5	52.9	51.6	57.1	51.5	66.1	64.1	27.3	28.8	43.0	42.3
15-64	75.7	70.9	73.5	73.2	81.5	76.0	78.2	77.8	70.3	66.2	69.2	69.0
OECD	69.6	70.0	70.8	70.7	82.0	81.2	80.4	80.2	57.4	58.9	61.4	61.3
Employed/Population												
15-24	47.6	34.4	37.0	34.7	50.7	38.4	41.1	37.9	44.3	30.2	32.7	31.4
25-54	88.2	77.9	84.2	82.4	91.1	80.2	87.1	84.9	85.5	75.6	81.6	80.1
55-64	38.4	34.8	50.7	48.7	55.0	46.5	63.0	60.0	25.8	26.0	41.5	40.3
15-64	71.8	61.6	68.8	67.0	77.3	65.9	73.0	70.7	66.7	57.5	64.9	63.6
OECD	64.3	65.1	66.5	64.8	76.2	76.0	75.6	73.2	52.7	54.4	57.6	56.5
Unemployed/Labour force												
15-24	13.0	24.0	14.1	18.6	13.0	22.5	13.3	18.3	13.0	25.8	15.0	19.0
25-54	3.8	11.6	5.3	7.2	3.8	11.9	5.6	7.8	3.8	11.2	5.1	6.6
55-64	4.5	9.7	4.1	5.6	3.8	9.7	4.7	6.3	5.6	9.7	3.4	4.7
15-64	5.2	13.2	6.4	8.5	5.2	13.3	6.6	9.1	5.2	13.0	6.1	7.9
OECD	7.6	6.9	6.1	8.3	7.1	6.4	6.0	8.7	8.2	7.7	6.2	7.8

Source: Rosstat Labour Force Survey and OECD *Labour Force Statistics Database* for OECD averages.

Box 1.1. International migration could alleviate demographic pressure

Migration could play an important role in slowing down the population decline in the Russian Federation, but full compensation of the decline in the natural rate of growth of the population would require a net immigration of 1-1.5 million per year (United Nations, 2008). Nevertheless, the Russian Federation did not have a migration policy until 2007 and, in the light of the current crisis, the Russian government halved the quota for foreign employees in 2010.

There are no consistent and regular statistics available to accurately document migration flows, but a comparison between the 1989 and 2002 Census suggests that 11 million people had immigrated to the Russian Federation during this period, equal to 15% of the Russian workforce (Andrienko and Guriev, 2005). Initially, these were mainly ethnic Russians who were repatriated from other Commonwealth of Independent States (CIS), but by the mid-1990s labour migrants with temporary residence became the largest group. Official statistics capture, however, only a negligible share of temporary labour migrants. Estimations by the Federal Migration Service show that the majority (more than 95%) of the immigrants do not go through official channels (Andrienko and Guriev, 2005). The number of undocumented immigrants is estimated at around 3-5 million, equivalent to 2 to 3.5% of the total population (Neterebsky, 2002; and Mukomel, 2006).

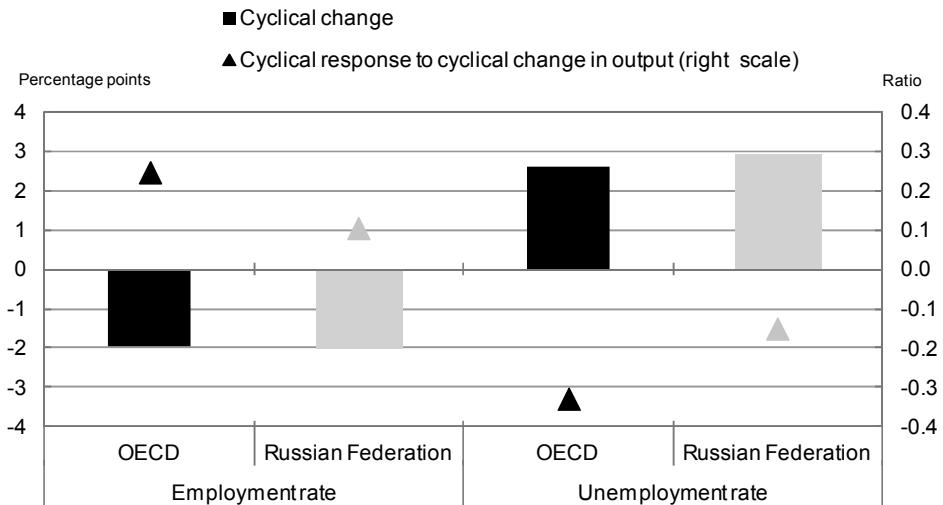
There are no visa requirements for CIS citizens, but all foreigners with temporary residence in the Russian Federation need a work permit. The number of work permits was, however, very limited until 2006 and only granted for a three-month period (migrants are required to leave and re-enter the country to obtain a renewal). Although the Russian Federation's migration policy was significantly liberalised in 2007 to accommodate the high demand for workers in the Russian labour market, the government has again restricted the number of working permits in the light of the current economic crisis (Marat, 2009).

The unregistered nature of the bulk of Russian labour migration makes migrant workers particularly vulnerable to exploitation. They are concentrated in the less regulated labour markets and are willing to accept difficult and low-paid jobs in construction, wholesale and retail trade, agriculture, and public transportation (United Nations, 2008). A small survey carried out by the International Labour Office in 2003 revealed that only 20% of the interviewed migrants had a written contract, and many suffered from various forms of exploitation, including underpayment or wage arrears (39% of the migrants), lack of payment all together (24% of the migrants), and lack of social benefits (90% of the migrants) (Tyuryukanova, 2006).

The impact of the current crisis on employment and unemployment was surprisingly mild relative to the decline in output, although a similar pattern has been observed in a number of OECD countries such as Germany, Japan and Mexico. Figure 1.3 shows the cyclical changes in the employment and unemployment rates during the economic downturn, both in absolute terms and relative to the cyclical change in output.² The cyclical decline in the employment rate in the Russian Federation was about the same magnitude

as in the OECD area (nearly 2 percentage points), but the impact was much smaller relative to the size of the output shock. As a result, the employment rate in the Russian Federation (67% in 2009) remains slightly above the OECD average of 65% (Table 1.1). Similarly, the cyclical response of the unemployment rate relative to the size of the shock was less than half as strong as for the OECD, even though the absolute rise was slightly larger. In 2009, the unemployment rate reached 8.5% in the Russian Federation compared with 8.3% in the OECD (Table 1.1). The average figures for the OECD area hide, however, significant dispersion among member countries (OECD, 2010a). For instance, in countries where a boom-bust pattern in the housing market was a major driver of the recession – such as Ireland, Spain and the United States – job losses have been unusually large. Countries where, similar to the Russian Federation, a sharp decline in exports played an important role in driving the recession – such as Germany, Japan and Mexico – experienced a mild employment response.

Figure 1.3. Cyclical change in the employment and unemployment rates in the Russian Federation and the OECD¹



1. Cyclical changes are calculated as deviations from the pre-crisis trend (covering 2005 Q1 to 2008 Q1) over period during which output growth declined (2008 Q1 to 2009 Q3 for the Russian Federation and 2008 Q1 to 2009 Q2 for the OECD). Data are seasonally adjusted and harmonised unemployment rates are used. See Annex 2.A2 in OECD (2010b) for further details about the calculation.

Source: OECD calculations based on *OECD Main Economic Indicators Database*.

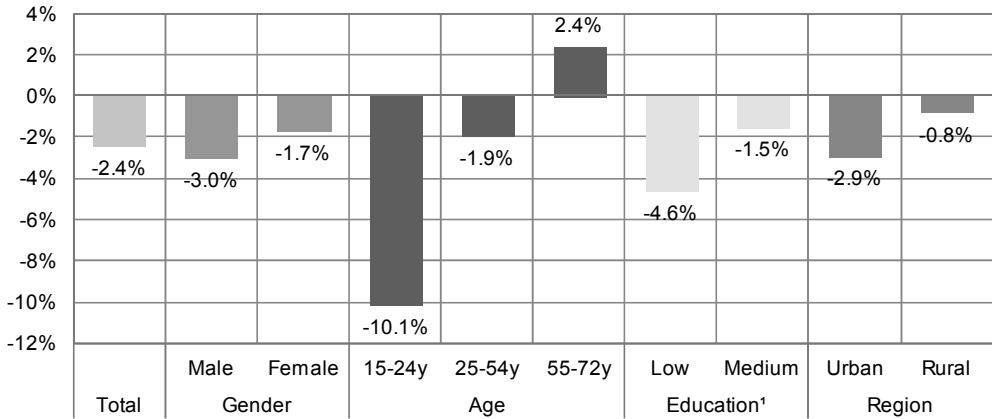
Job losses have been disproportionately large among young workers, while employment continued to grow among older workers. Similar to their counterparts in many OECD countries, youth have always been at a disadvantage in the Russian labour market – their unemployment rate remained in double-digit throughout the 2000s – and their situation has worsened since the start of the economic downturn. Between 2008 and 2009, employment among those aged 15-24 dropped by 10% (Figure 1.4) and their unemployment rate rose to 18.6% (Table 1.1). Employment growth among older workers (+2.4% between 2008 and 2009) is a clear break with the past, even though there are no direct changes in the Russian pension system.³

Partly as a result of the sectoral composition of the crisis, men and urban workers have been hit hardest by the crisis (Figure 1.4). As in OECD countries, employment losses have been particularly large in sectors where men are traditionally over-represented, such as the manufacturing and construction sectors, where employment declined by respectively 9.9% and 9.4% between 2008 and 2009. On the other hand, the sector with a high share of female workers, public health and services, saw an increase in employment by 4.5% over the same period. Employment losses were also much higher for low-skilled workers than for medium-skilled workers.

The economic crisis drove the unemployment rates up in nearly all Russian regions in 2009, but the impact varies significantly across the country. The largest increases in unemployment were observed in regions with major industrial and commercial activities, such as the Central Federal District (where the unemployment rate rose from 3.6% in 2008 to 5.8% in 2009) and the Ural Federal District (from 5.5% in 2008 to 8.1% in 2009). However, the highest *levels* of unemployment are still found in the Southern and Siberian Federal Districts (see Section 4).

Figure 1.4. Young men (aged 15-24) and urban workers have been hit especially hard by the crisis

Change in employment by workforce groups for the population aged 15-72, 2008 to 2009



1. Employment data for people with higher education are not comparable between 2008 and 2009 due to a break in the series.

Source: Rosstat Labour Force Survey.

Working hours declined during the crisis

The labour market adjustment during the economic slowdown went beyond changes in employment and unemployment. Similar to a large number of OECD countries where a sharp decline in exports was a major driver of the economic downturn, a significant part of the labour adjustment has taken place through *intensive margins*, such as reduced working hours and wages (OECD, 2010a). As the fall in export demand was probably viewed as a transitory phenomenon rather than as a structural imbalance in the domestic economy, employers, facing labour shortages prior to the crisis, have been reluctant to shed workers and, instead, reduced hours and wages in response to lower product demand.

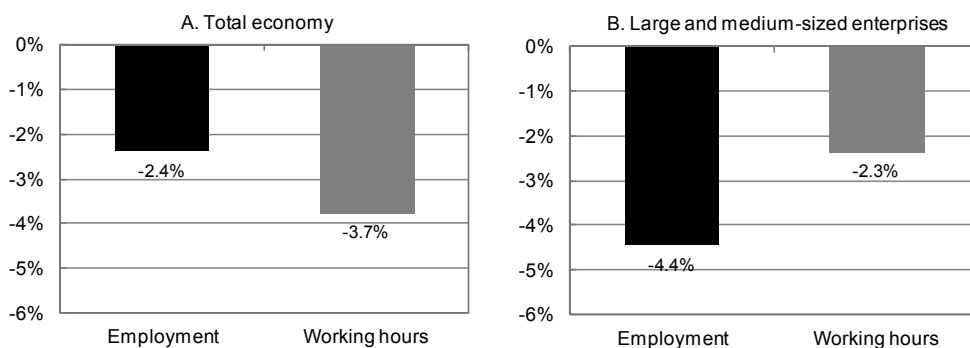
Comparing changes in employment and weekly working hours suggests that the latter accounted for a larger share of the total labour input adjustment in the Russian Federation. While employment declined by 2.4% in 2009, estimates based on the Russian labour force survey show a reduction in weekly working hours by 3.7% in 2009 or about 1.5 hours of working time less per week (Figure 1.5, Panel A). The fall in weekly hours was especially large in secondary jobs (-15% in 2009; Source: Rosstat). For

comparison, total weekly hours actually worked for persons remaining employed in the OECD area fell by a comparable 4% on average in 2009.

Data on large and medium-sized enterprises (LMEs – accounting for 54% of total employment in 2009) show the opposite adjustment pattern, with stronger labour input adjustment through employment rather than through working hours. In 2009, employment in LMEs fell by 4.4%, while annual working hours were cut by only 2.3% (Figure 1.5, Panel B).⁴ Also in OECD countries labour hoarding seems to be more common in small and medium-sized enterprises than in larger firms (OECD, 2010a). As argued by Moscarini and Postel-Vinay (2009), larger firms tend to be more productive and offer higher wages, and thus may find it easier to recruit new workers during the recovery. Nonetheless, the comparatively stronger reaction of employment in LMEs to the economic shock has put in the perspective of the structural decline in LMEs employment. Over the period 2000-07, despite the strong economic growth in the country, the number of employees in these firms fell on average by 1% annually. This negative trend points to a lack of competitiveness, even before the onset of the economic crisis, and many LMEs were probably unable to retain their employees when production declined rapidly.

Figure 1.5. Relative importance of the extensive and intensive margins of labour adjustment in the Russian Federation

Annual percentage changes in employment and working hours, 2009¹



1. The figures on working hours in the total economy are based on the labour force survey, while the working hours in large and medium-sized enterprises are based on employer reports.

Source: Based on Rosstat.

Despite the greater adjustment on the extensive margin, working-time reductions increased significantly in LMEs: between 2007 and 2009, the total number of LME workers affected by involuntary part-time working schemes and unpaid leave multiplied by five and, by 2009, almost one out of ten employees in LMEs were underemployed (Table 1.2). Of those, about 1.9 million people were working reduced hours on the firm's initiative, with each affected employee working three hours less per week on average. Another 1.3 million workers were on administrative leave for 34 days per year on average.

Table 1.2. Underemployment in large and medium-sized enterprises

Workers affected in 2009			
	Thousands	As % of LME employment	Change with respect to 2007
Involuntary part-time work	1 894	5.3%	833%
Administrative leave	1 293	3.5%	226%

Source: Rosstat, *Socio-economic Situation in Russia*.

Labour productivity and real earnings dropped sharply with respect to their pre-crisis trend

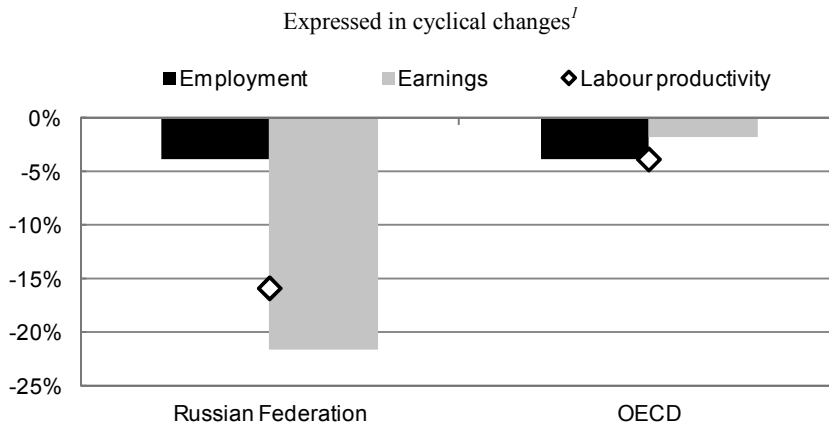
The weak response of employment to the fall in output translated into a sharp decline in labour productivity in the Russian Federation. Measured on a per employee basis, the drop in labour productivity during the economic downturn with respect to its pre-crisis trend was four times that observed in the OECD area as a whole (Figure 1.6). On the other hand, the reduction in hours discussed above suggests that the decline in labour productivity has probably been less severe on a per hour basis than on an employee basis.

The costs resulting from the productivity decline are, however, largely borne by employees through a cut in earnings. Real monthly wage growth remained high initially (+10% in 2008), but became negative in 2009 (-1.6%). When expressed relative to its pre-crisis trend, the cyclical drop in wages surpassed the cyclical decline in labour productivity in 2009 (Figure 1.6).

High inflation rates – 13% in 2008 and 9% in 2009 – gave Russian employers the possibility to save on the wage bill without reducing nominal wages. In 2009, nominal wages grew by 10% against 31% annually on average over the period 2000-08. In addition, the flexible wage-setting system, with 40-50% of the wage depending on the performance of the firm,

allows for an automatic adjustment of wages in times of low production (see Chapter 2). In fact, due to the strong reduction in output, nominal wage growth could even have been expected to become negative in 2009. However, the almost 90% increase in the minimum-wage level in 2009 (see Chapter 2) helped prevent this cut in nominal wages.

Figure 1.6. Cyclical changes in employment, earnings and labour productivity in the Russian Federation and the OECD, 2009



1. Cyclical changes are calculated as deviations from the pre-crisis trend (covering 2005 Q1 to 2008 Q1) over period during which output growth declined (2008 Q1 to 2009 Q3 for the Russian Federation and 2008 Q1 to 2009 Q2 for the OECD). Data are seasonally adjusted. See Annex 2.A2 in OECD (2010b) for further details about the calculation.

Source: OECD calculations based on *OECD Main Economic Indicators Database*.

Wage arrears have played a much more limited role during the recent crisis than during previous crises. Data from the Russian Longitudinal Monitoring Survey (RLMS), a household survey on income and expenditure, suggest that about 6% of the employees were affected by wages arrears, with the majority of them having unpaid wages for less than one month (Denisova and Dorofeeva, 2010). While this is a slight increase from 2008, the scale of unpaid wages is marginal in comparison with previous crises. For instance, in 1998, 64% of the work force had outstanding wages, with the majority of them not being fully paid for more than three months. In 2009, most wage arrears (about 76%) were concentrated in the sectors hardest hit by the crisis, *i.e.* manufacturing, construction and transport (Source: Rosstat).

The impact of the recent crisis on the labour market diverges to a certain extent from the adjustment pattern that was observed during the transition period in the 1990s, even though wages bore the brunt of the fall in output during both downturns (see Box 1.2). This time, the underlying drivers seem to be quite similar to those observed in some OECD countries. First, given that the drop in output was largely driven by a steep fall in export demand, the recent downturn has probably been seen by employers as a transitory shock rather than as a structural imbalance. Under such circumstances, it is common to find labour hoarding by firms (OECD, 2009b). Second, unlike during the transition period, the Russian government played an active role in encouraging labour hoarding through the introduction of short-time working schemes (see Chapter 2). About half of the workers on involuntary part-time or unpaid leave have benefited from temporary working schemes organised to compensate for their loss in income, albeit at very low pay. Finally, the relatively weak reaction of employment and unemployment to the fall in aggregate demand is also found in other countries with limited support to the unemployed (OECD, 2010a). As unemployment benefits are very low in the Russian Federation (see Chapter 2), workers had strong incentives to stay in employment, even if this was only possible at reduced earnings.

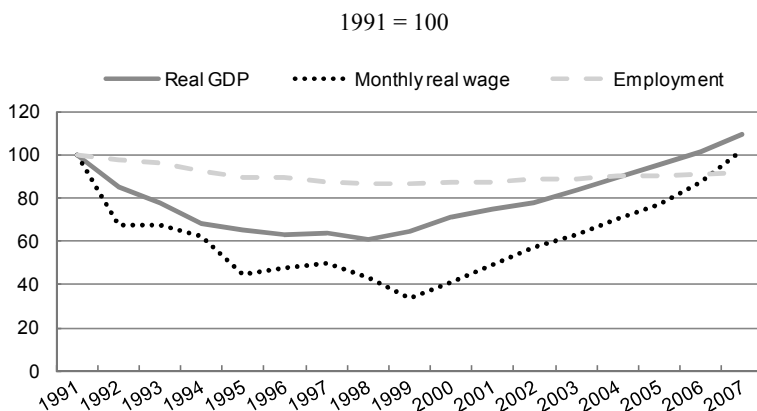
Box 1.2. The central role of wages in labour market adjustment during the transition period

The transition from a command to a market economy in the 1990s brought a deeper and longer recession in the Russian Federation than in most central and eastern European countries. However, while the output loss was accompanied in most countries by large decreases in employment and corresponding increases in unemployment (*i.e.* quantity adjustment), most of the adjustment to the output shock in the Russian Federation occurred through an extreme downward wage flexibility and a reduction in the number of working hours per employee. The decline in employment played only a secondary role. Between 1991 and 1998, output fell by 40%, while employment and monthly real wages decreased by 15 and 66%, respectively (see figure below).

Gimpelson and Lippoldt (2001) showed that significant labour market flexibility was achieved through a combination of mainly three key mechanisms. Depending on their individual circumstances, enterprises resorted to these devices in various combinations:

- A sharp reduction in the number of working hours per worker; the average reduction was equivalent to more than a month per year between 1992 and 1996;
- Flexibility in the overall level of wages, in their structure and their relative levels within the enterprise (*cf.* Chapter 2), and the lack of compensation for high inflation levels;
- Starting from 1993/94, employers who could not pay increasingly resorted to withholding of wage payment.

Labour market adjustment patterns



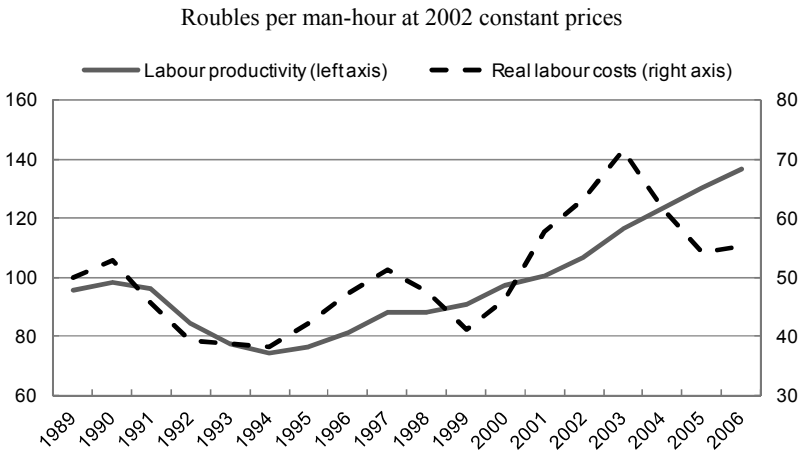
Note: Average monthly wage deflated by consumption price index.

Source: Rosstat, and Gimpelson and Kapelyushnikov (2007).

Such an adjustment was made possible by a strong fear of unemployment among the Russian population, previously used to life-long employment. This contributed to the acceptance of a trade-off between a decrease in real wage and wage arrears on the one hand, and employment on the other. But institutional weaknesses also played a role. Macroeconomic reforms enjoyed priority over institution building – in line with the so-called “Washington consensus” – leaving the country with a set of unreformed or semi-reformed institutions (Gimpelson and Lippoldt, 2001). Institutional loopholes created opportunities for corruption and poor enforcement of laws and contracts. This made wage arrears possible, and more generally damaged incentives for enterprise restructuring and job creation. In this setting, the government not only failed to fulfil its role of arbitrator and guarantor of established rules and regulations, but very often also actively transgressed these rules (failing to pay wages to public servants, paying unemployment benefits with delay, etc.) (Kapelyushnikov, 2003).

Compared with other transition countries, the economic restructuring thus proceeded more slowly. When growth recovered starting from 1999, employment did not follow, as labour hoarding had left many unused reserves. Hence, price adjustment also dominated in the recovery period, with employment increasing by less than 7% between 1998 and 2007, and monthly real wages rose 200%, when real GDP increased by 80% (see figure above). Increased working hours per worker also explain part of the evolution of real monthly wages, but they played less of a role than during the recession. Overall, at least in the manufacturing sector, real labour costs have evolved relatively in line with labour productivity, but with stronger reactions to the cycle (figure below). Their sharp decline in 2004 is due to large reductions in social contribution rates and in the producer price index.

Hourly labour productivity and hourly labour costs in industry, 1989-2006



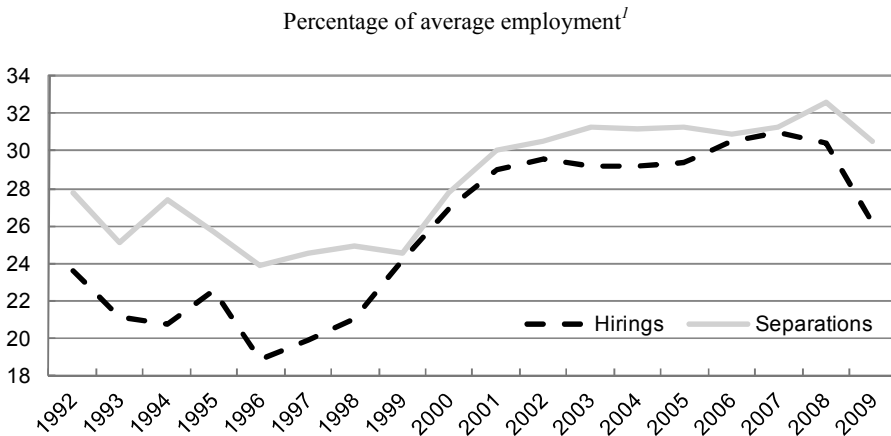
Source: Gimpelson and Kapelyushnikov (2007).

3. The labour market is highly dynamic but strongly segmented

High worker turnover points to structural adjustment

Worker turnover rates are relatively high in the Russian Federation, although comparable to some OECD countries with above-average worker flows. Data on large and medium-sized enterprises in the Russian Federation show that hiring and separation rates hovered around 30% of a firm's average employment in a given year between 2001 and 2008 (Figure 1.7). Given that labour turnover tends to be inversely related to the size of the establishment (Haltiwanger *et al.*, 2008), hiring and separation rates are probably higher in the rest of the economy. Although these data are difficult to compare internationally due to the scarcity of enterprise data on worker flows and differences in coverage, available evidence suggests that worker turnover rates in the Russian Federation are similar to those in France and the United States, two countries with above-average worker flows (OECD, 2009b).⁵ In line with the decreasing share of LMEs in total employment (from 82% in 1992 to 54% in 2009), separation rates have surpassed hiring rates in LMEs since the early 1990s.

Figure 1.7. Worker turnover in Russian large and medium-sized enterprises, 1992-2009



1. The hiring and separation ratios are calculated as the total number of workers who joined/left the firm in a given year divided by the firm's average employment over that same year.

Source: Rosstat.

The strong increase in worker turnover rates after the growth rebound is related to structural changes along various lines in the Russian economy:

- *Change in the ownership mix resulting from the economic restructuring.* The transition towards a more market-oriented economy was accompanied by a sharp decline in employment in state-owned companies – which used to have lower turnover rates. Their share in total employment decreased from 70% in 1992 to 32% in 2007, while private domestic and foreign companies saw their share increase to 56 and 4% in 2007, respectively (Source: Rosstat).
- *Sectoral reallocation away from the manufacturing sector towards services sectors.* Worker turnover rates are highest in the trade and repair sector, hotels and restaurants, as well as in the construction sector; they are about average in the manufacturing sector and lowest in public sectors (Table 1.3). The sectors with high turnover rates are also those sectors with the most dynamic employment growth, in particular trade and hotels and restaurants, and the financial sector, where employment grew by more than 30% over the period 1998-2007. By contrast, employment decreased in agriculture, mining and quarrying, and manufacturing.

- *Rise in fixed-term employment.* The use of fixed-term contracts was relatively strictly regulated until 2002, but the New Labour Code significantly liberalised their use (see Chapter 2). The share of fixed-term labour contracts in total salaried employment rose from 3.8% in 1999 to 7.6% in 2008 (Figure 1.8). When civil contracts and oral agreements, which consist mainly of short-term contracts,⁶ are included, the share of temporary work in total salaried employment reached 14% in 2008. This figure is comparable to many OECD countries and higher than the OECD average (12% in 2008).⁷ As employment losses during the recent economic downturn have been well above average for workers with temporary contracts, their share in total dependent employment dropped accordingly in 2009.

Table 1.3. Employment by main economic sector in the Russian Federation¹

	2007			Employment growth 1998-2007
	Hiring rates	Separation rates	Share in total employment	
Wholesale and retail trade; repair of motor vehicles	68%	58%	17%	39%
Hotels and restaurants	60%	58%	2%	32%
Construction	55%	53%	8%	19%
Fishing	53%	63%	0%	3%
Real estate, renting and business activities	37%	38%	7%	9%
Agriculture, hunting and forestry	36%	47%	10%	-24%
Financial intermediation	36%	26%	2%	62%
Other community, social and personal service activities	35%	34%	4%	22%
Transport, storage and communications	33%	35%	8%	10%
Manufacturing	32%	34%	17%	-5%
Electricity, gas and water supply	30%	32%	3%	5%
Mining and quarrying	30%	30%	2%	-11%
Health and social work	20%	20%	7%	6%
Education	17%	18%	9%	0%
Public administration and defence; compulsory social security	17%	14%	5%	23%
Total	31%	31%	100%	7%

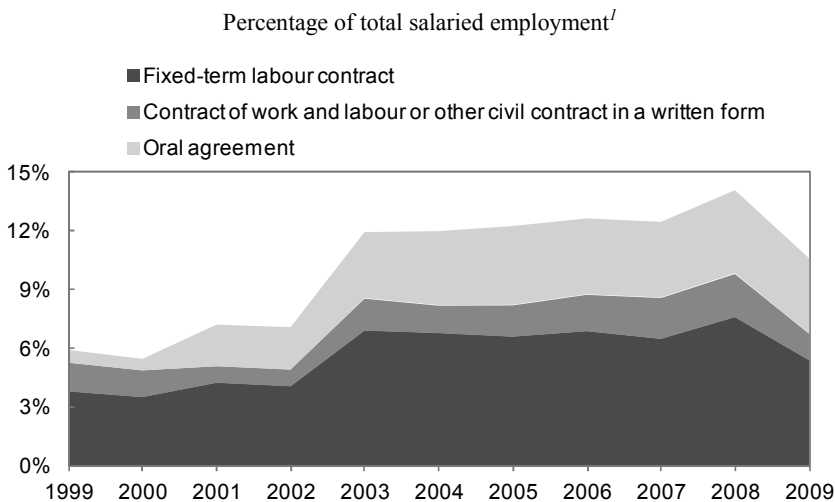
1. Sectors are sorted by decreasing employment growth over the past decade. The sectoral classification is based on the OKVED classification, which is compatible with ISIC-NACE.

Source: Based on Rosstat.

Overall, employment growth has been mostly in lower quality jobs. Since the early 1990s, net employment creation has taken place only in the non-corporate sector – *i.e.* those enterprises owned by individual entrepreneurs, such as own-account workers and individual entrepreneurs and their employees. Corporate employment – *i.e.* in enterprises registered as legal entities – on the other hand, saw a more than 20% decrease between 1990 and 1998, remaining stable at around 46% of total non-farm employment during the economic recovery in the 2000s (Figure 1.9).

Although it is difficult to know precisely to what extent, workers in the non-corporate sector are much less likely to be covered by labour regulations and social security than those in the corporate sector (*cf.* Chapter 2). For instance, until 2010, employees of non-corporate businesses were not entitled to the regular unemployment benefit, but only to the minimum benefit. In addition, laws tend to be less enforced in this sector, which is more difficult and costly to supervise (*cf.* Chapter 2).

Figure 1.8. Use of temporary contracts in the Russian Federation, 1999-2009



1. The remaining part of total salaried employment is permanent written labour contracts.

Source: Rosstat Labour Force Survey and Federal Employment Service.

Figure 1.9. Evolution of non-farm employment by legal sector, 1990-2006

1. Non-farm employment in the non-corporate sector is calculated as the difference between non-agricultural employment and non-agricultural employment in the corporate sector.

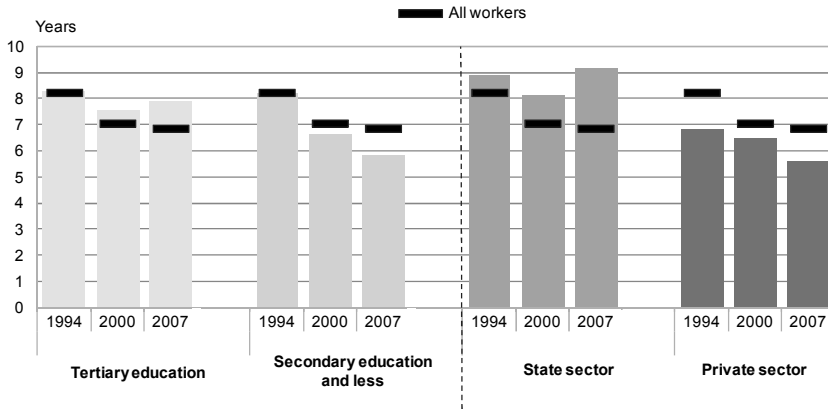
Source: Administrative reporting of large and medium-sized enterprises, Rosstat.

The labour market is segmented and the majority of separations are voluntary

Available quantitative and qualitative analyses suggest that certain groups of workers show high mobility in the labour market, while other groups remain in the same job despite poor working conditions, reflecting the segmentation of the labour market both on the labour supply and on the labour demand side. Gimpelson and Lippoldt (2001) found that both separation and hiring rates were higher for smaller, less profitable and less productive firms, which pay lower wages. The growth recovery after 1998 does not seem to have changed the situation significantly. A large share of Russian enterprises seems to be able to survive only by containing wage and non-wage labour costs and providing poor working conditions to their employees. Golikova *et al.* (2008) – based on a survey of the manufacturing sector in 49 regions of the Russian Federation undertaken in 2005-06 – find that dispersion in average labour productivity *within* sectors is considerably larger than among sectors. Inefficient enterprises are most often relatively small in size, located in small and medium-sized towns in underdeveloped regions, and mainly focused on the local market. They owe their continued existence to low wages and the use of existing fixed production assets, even though they are worn out and outdated. High entry and exit barriers explain the prolonged life of these ineffective businesses (see also OECD, 2009a).

Turnover has been very high among the low-qualified blue-collar workers (Gimpelson and Lippoldt, 2001). Figure 1.10 shows that average tenure has decreased significantly for workers with relatively low educational attainment, while that of high-skilled workers actually increased after 2000. Schwartz (2003) argues that the high hiring rates have often reflected the need to hire low-skilled workers for the same particular types of jobs, in general under arduous conditions, involving few skills, paying low wages and offering few non-wage benefits. At the same time, these bad working conditions imply that the workers often do not stay long in the firm, hereby nurturing the high separation/high hiring loop.

Figure 1.10. Average tenure by educational attainment and sector, 1994, 2000 and 2007



Source: OECD calculations based on the Russian Longitudinal Monitoring Survey.

Most of the time it is the worker's *own* decision to leave the firm, as illustrated by the fact that the vast majority of separations are registered as voluntary. The share of voluntary separations or quits in total separations reached more than 70% since 1998 (Table 1.4); by comparison, this figure was around 55% in the United States in the 2000s outside crisis times and less than 20% in France in the early 2000s. While some of these “voluntary” separations may not be such in practice given the limited options facing workers (see Chapter 2), the fact that their share has risen after the financial crisis of 1998 and remained high even during the recent economic crisis indicates that there is a strong voluntary element.

Table 1.4. Voluntary and forced separations, 1992-2009

Percentage of total separations¹

	1992-1998	1999-2006	2007-2009
Voluntary quits	66%	76%	77%
Forced separations	8%	5%	5%
Other separations	26%	20%	18%

1. For large and medium-sized enterprises only.

Source: Administrative reporting of large and medium-sized enterprises, Rosstat.

At the same time, a sizeable group of low-skilled workers, with poor labour market prospects, stay in their jobs despite deteriorating employment conditions. As an example, Lukyanova (2006) shows that the gap between public and private sector wages rose between 1994 and 2003, with state workers experiencing slower growth of real wages in all percentiles. Yet, average job tenure is almost four years longer in the state sector than in the private sector (see Figure 1.10 above). Workers staying in the state/public sector are more likely to be in their late 40s or 50s and to be women (Schwartz, 2003). Denisova *et al.* (2007), studying worker transition patterns over 1994-2006, find that the outflow of females from the public/state sector was lower than that of males – consistent with the fact that many families in the Russian Federation diversify risks across sectors, with males typically working in the private sector and females in the state/public sector.

International comparison is difficult, but *informal employment* seems to be rather limited in the Russian Federation. The share of non-salaried workers in total employment – a very rough indication of informality, but easily comparable across countries – was 7% in 2007, compared with more than 25% in the OECD member countries Chile and Mexico (OECD, 2010a). Rosstat's labour force surveys allow for a more accurate description of informal employment by looking at the number of employees without a contract, unregistered self-employed and people engaged in agricultural activities for sale. These estimates suggest a similar prevalence of informal employment, around 8% of total employment (Table 1.5). The highest prevalence of informality is found among employees working for households and individual entrepreneurs (34% of them have no contract), self-employed (29% of them are not registered) and people engaged in household production for sale. On the other hand, less than 1% of the employees working in firms or institutions have no contract.

Table 1.5. Informal employment in the Russian Federation, 2007¹

	Thousand of workers	Share in total employment of the respective group
Employees without contract	2 506	3.8%
<i>Working for firms, establishments, farms</i>	298	1%
<i>Working for households and individual entrepreneurs</i>	2 207	34%
Non-salaried workers	3 027	58%
<i>Unregistered self-employed</i>	895	29%
<i>Household production for sale</i>	2 132	100%
Total	5 533	8%

1. The statistics presented in the table cover only main jobs; informal employment in secondary jobs is not taken into account.

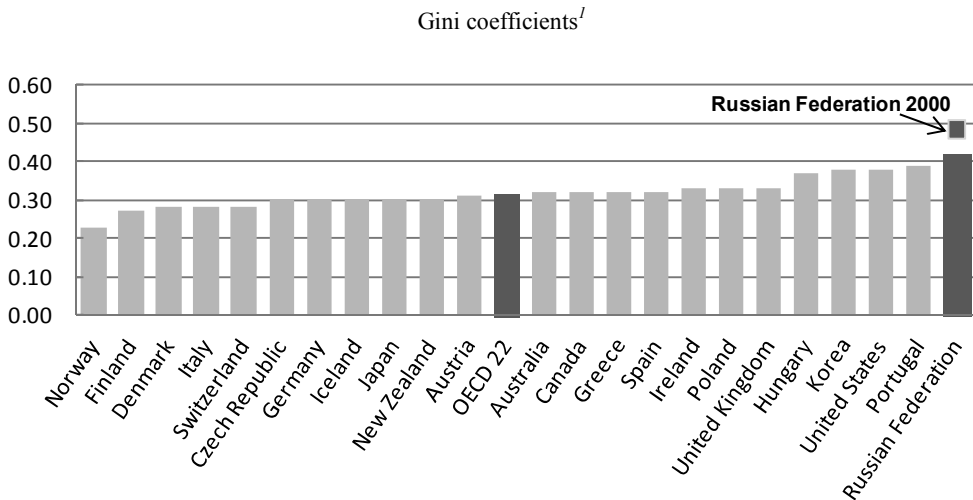
Source: Rosstat, *Economic Activity of the Population, 2008*.

Large wage inequality is related to regional variation

Despite a decline in wage disparity since the turn of the century, wage inequality in the Russian Federation remains larger than in any OECD country (for which data is available). According to Rosstat's estimations, the Gini coefficient of average monthly earnings reached 0.42 in 2009, far above the OECD average of 0.32 (Figure 1.11). Since 2000, the Gini coefficient of wages has been steadily declining, mainly driven by a more rapid wage growth for workers in the bottom half of the earnings distribution (Rosstat, 2009). Reasons behind this trend can be found in the strong labour demand in low-skill industries, such as mining and construction, but also in the improved compensation in the public sector and the strong increases in the minimum wage in 2007 and 2009 (Gorodnichenko *et al.*, 2010).

The most important driver of the Russian Federation's wage inequality is the regional variation in earnings (even after controlling for workers' characteristics and industry structure). Regional wage disparities are in the first place the result of the large geographical differences in the cost of living. For instance, the ratio of the cost of fixed consumer goods between the most expensive region and the least expensive region was 2.4 at the beginning of 2010 (Source: Rosstat). Regional wage dispersion can also be associated with the significant wage premium in the Far Northern regions as compensation for precarious job and living conditions (Lukyanova, 2006).

Figure 1.11. Wage inequality in the Russian Federation, 2000 and 2009 and selected OECD countries, 2008



1. Small differences in the calculation of the Gini coefficients across countries may lead to under- or over-estimation of the wage inequality. For instance, the inclusion of part-time salaries in the calculation of the Russian Gini coefficients may slightly overestimate inequality.

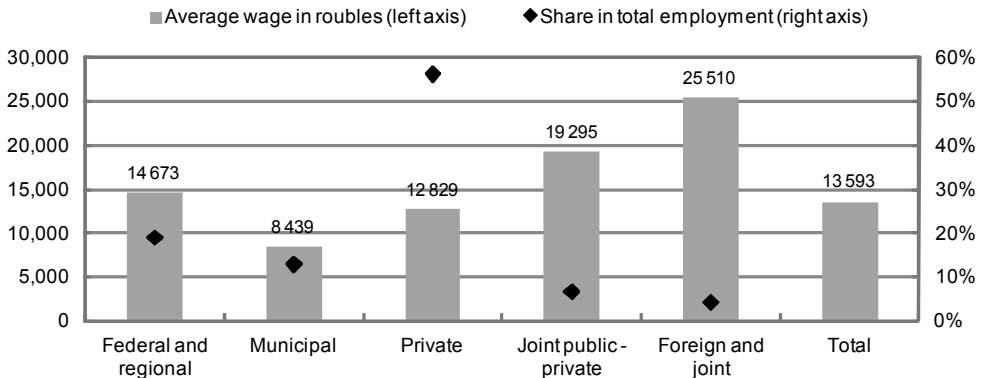
Source: OECD calculations based on the *OECD Earnings Distribution Database*; Rosstat, *Work and Employment Yearbook 2009*.

Wages also differ substantially across ownership. The lowest wages can be found in the municipal sector, at 62% of the average wage level in 2007 (Figure 1.12). The highest wages, on the other hand, are paid in foreign companies or in Russian-foreign joint-ventures, reaching 188% of the average monthly wage. The vast majority (56%) of the employees are, however, employed in private Russian companies, earning on average RUB 12 830 per month (or about USD 430).

A significant proportion of the population living in a household with at least one worker are poor, the so-called “working poor”. In 2008, nearly 15% of individuals living in one-earner households in the Russian Federation had an income below the minimum subsistence level (RUB 4 593 in 2008, or 40% of the median income), while 7% of individuals living in two-earner families were poor. Although data on OECD countries are not directly comparable since a poverty threshold of 50% of median income is used (instead of the 40% threshold used in the Russian Federation), on average 14% of individuals living in households with one earner are poor in the OECD area.

To cope with low wages, Russian workers have resorted to secondary activities to supplement their income. Multiple job-holding has developed particularly after the 1998 crisis, jumping from about 1.2% of the employed population in 1998 to 6% in 1999. Since 2001, it has remained at around 4% of the employed population, close to the EU average of 3.7% (OECD, 2008b). The majority of these second jobs are in the agricultural sector (2.8% of the employed population had a second job in marketed agricultural activities in 2007) and in the informal sector. Also, a significant share of the employed population – almost 16% in 2007 (*Source: Rosstat*) – engages in subsistence farming, although it has tended to decrease over the past years (from 24 million persons in 2002 to 19 million in 2007).

Figure 1.12. Average monthly wage and share in total employment by type of ownership, 2007



Source: Rosstat, Work and Employment Yearbook 2009.

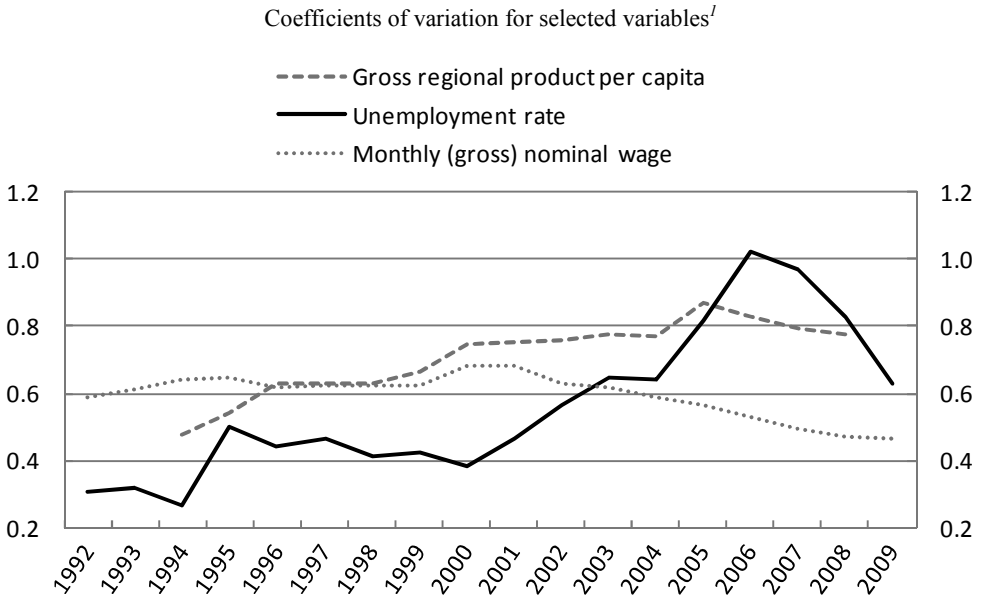
4. Regional disparities are large but declining

The overall labour market situation described in Section 2 masks strong differences across Russian regions. The best-performing regions include the major cities (Moscow and St. Petersburg) and surroundings, and regions rich in natural resources. Until 2008, unemployment was nearly non-existent in the Central and North-Western Federal Districts, with an unemployment rate of 0.9% in Moscow and 2.0% in St. Petersburg (Rosstat Labour Force Survey). Employment rates reached 70% or more in those regions, as well as in some northern regions rich in natural resources (Yamalo-Nenets and Chukot) (Rosstat Labour Force Survey). The majority of the Russian Federation's inactive and unemployed people reside far away from these

major industrial and commercial centres. In 2008, the highest unemployment rates (for the population aged 15-72) were recorded in the populous regions of North Caucasus, reaching 19% in Tuva, 36% in Chechnya and even 55% in Ingushetia. Also several regions in southern East-Siberia and the Republic of Komi in the North West registered unemployment rates above 10%.

The coefficient of variation for regional unemployment rates nearly quadrupled between 1994 and 2006, but declined strongly in the subsequent two years (Figure 1.13). The initial rise in regional variation reflected both a strong increase in the maximum regional unemployment rate (up from 15% in 1992 in Dagestan to 67% in 2006 in Chechnya) and a strong decline, especially since 2000, in the minimum regional unemployment rate (down in Moscow city from 5.8% in 1999 to 0.8% in 2007). The decline in cross-regional variation since 2007 was initially the result of a drop in unemployment rates in a couple of regions with exceptionally high unemployed rates, while in 2008, unemployment started rising as a result of the economic crisis in many industrial and commercial regions with typically low initial unemployment rates. Nevertheless, the ratio of the maximum to minimum unemployment rate still reached 20 in 2009. As a comparison, the max/min ratio ranged from 2 to 7 in the OECD area in 2003, with the exception of two outliers, Iceland and Italy, which recorded a ratio of respectively 10 and 21 (OECD, 2007b).

Regional variations in labour market outcomes are related to unequal regional growth and a strong concentration of jobs in the most prosperous regions. The highest levels of gross regional product (GRP) per capita are found in the main cities, Moscow and St. Petersburg, and in regions rich in natural resources and energy endowments. These are also the regions attracting the highest share of foreign direct investment (Svedberg *et al.*, 2006). The rapid rise in the price of oil and other natural resources over the past decade further contributed to the increasing GRP per capita differentials. By 2008, GRP per capita in the richest region (Tyumen Oblast) was 24 times that of the poorest region (Republic of Ingushetia) and the coefficient of variation almost doubled since 1994 (Figure 1.13).

Figure 1.13. Regional disparities in the Russian Federation, 1992-2009

1. The coefficient of variation is defined as the ratio of the standard deviation to the mean.

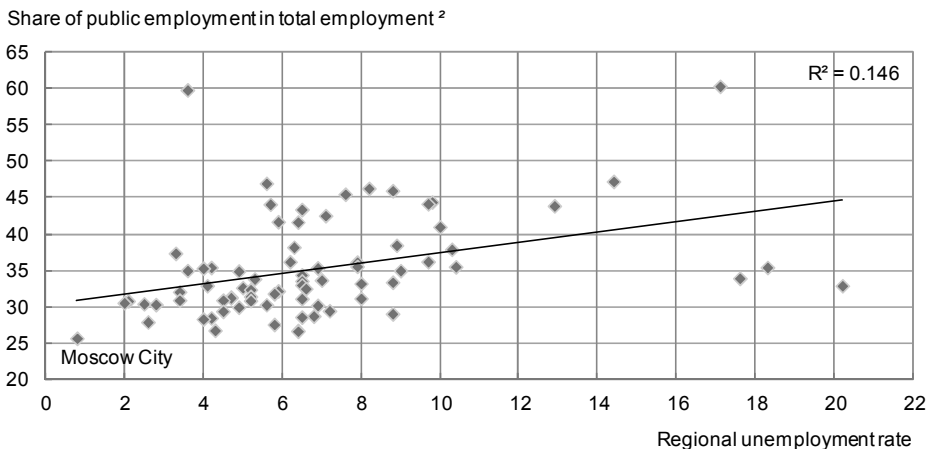
Source: Rosstat Labour Force Survey and OECD calculations.

The divergence in economic growth is, to some extent, related to geographical preconditions (such as the availability of natural resources or strategically attractive location) and the concentrated industrial structure inherited from the Soviet planned economy, with many towns and even entire regions still depending on the performance of a single industry or a single enterprise (one-company towns). There are, however, also a number of institutional and political factors driving the difference in performance of Russian regions, such as the ability and willingness of the local governments to implement (and enforce) economic reforms, and the relationship between the authorities and local enterprises. During the transition to a market economy, the combination of a weak federal government and the lack of a consistent legal framework allowed the new corporate powers (the so-called “oligarchs”) to exert strong pressure on local politics and to influence the pace and direction of economic reforms according to their own interests (state capture) (Svedberg *et al.*, 2006). These politically powerful firms continue to create obstacles for the emergence and development of (often more productive) small businesses. Regions with a lower degree of state

capture tend to have higher growth rates and a higher share of small business activity (Mosina, 2006).

The regional divide is also visible in the relative importance of *public employment*. In regions such as Chechnya and Ingushetia, more than 50% of the working population is employed in the public sector or in establishments owned by federal, regional or municipal governments. Overall, there tends to be a positive, albeit weak, relationship between a region's unemployment rate and its share of public employment in total employment (Figure 1.14). In areas with limited private sector demand, local and regional governments tend to use public employment as a kind of social insurance, notably through hiring in public administration.

Figure 1.14. Regional unemployment and the importance of public employment, 2007¹



1. Two extreme outliers were excluded to improve the readability of the graph. These two regions are Chechnya and Ingushetia with an unemployment rate of respectively 53% and 47%, and a share of public employment in total employment of respectively 55% and 52%.

2. Public employment covers all employees working in firms and establishments owned by federal, regional or municipal governments. This definition includes the public service sector (such as health and education sector and public administration), but also employees working in state-owned enterprises.

Source: Rosstat, *Central Statistical Database and Regional Yearbooks*.

Poverty traps hinder internal migration

With high and increasing inter-regional dispersion in economic development and unemployment rates, one would expect people to migrate from poor to wealthier and more dynamic regions. Although statistical information is limited, evidence suggests that internal migration is very low

and has been decreasing over time. According to the official statistics reported by Rosstat, the number of Russian citizens changing their place of residence declined from 4.7 million in 1989 to 1.9 million (or 1.3% of the population) in 2005 (United Nations, 2008). However, as not all migrants register in their new place of residence, the flow of internal migration is probably much larger in reality.

The main obstacles to internal migration are the underdevelopment of financial and housing markets. As people have major difficulties to borrow to pay the migration costs, only those with relatively high incomes are able to afford migration (Andrienko and Guriev, 2004). According to Andrienko and Guriev's estimations, one third of the Russian population is locked in such poverty traps. In addition, an underdeveloped housing market and the lack of access to mortgages keep the rents high in the cities and make them unaffordable to village people.⁸

The low number of officially registered internal migrants is also related in part to administrative barriers. In order to get access to official jobs and local services such as social benefits, kindergartens, school and healthcare, migrants are required to register at the police department of the city of arrival. Even though registration should be granted to all applicants by law, some local authorities (e.g. in Moscow and Krasnodar Krai in the South West) tend to abuse the system and request bribes and deny registration (Light, 2007).

5. Educational attainment of the workforce is high, but average quality is rather low

The workforce is highly educated, with mainly technical qualifications

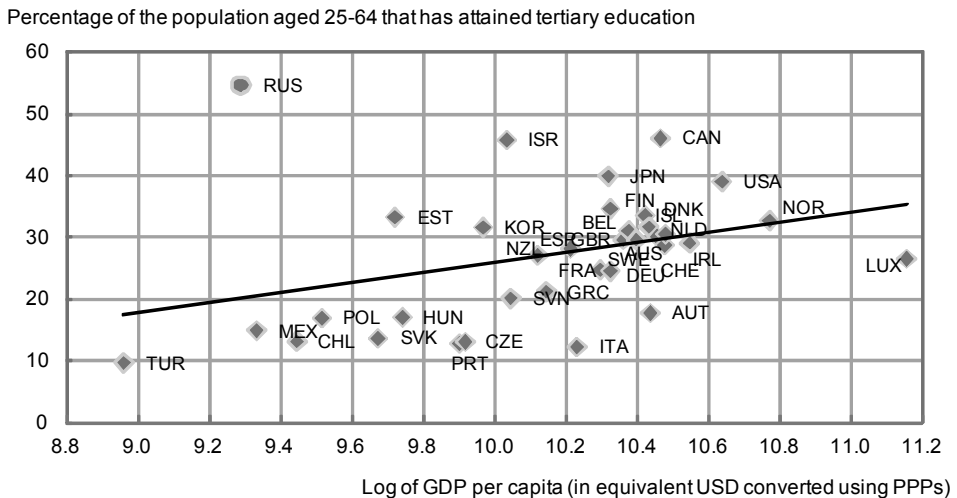
The Russian Federation has one of the most educated workforces in the world and the demand for higher education continues to increase. In 2005, 55% of the Russian population aged 25-64 had attained tertiary education, a level higher than any OECD country. The high educational attainment is even more striking when comparing the Russian Federation with OECD countries with a similar level of GDP per capita (Figure 1.15). Over the period 1990-2005, the number of students enrolled in tertiary institutions rose 1.9 times, illustrating that the high educational attainment of the Russian workforce is not merely a heritage from the communist period, but continues to improve (Kapelyushnikov, 2008).

High educational attainment in the Russian Federation comes from the large proportion of the population (34% in 2003) with a tertiary education type B qualification (OECD, 2007a). These programmes are typically

shorter than those of tertiary type A institutions and focus on practical, technical or occupational skills. A peculiar feature of the Russian educational system is that students can enter tertiary type B institutions after having completed only lower secondary school and can thus not be classified as tertiary students in the strict sense (Kapelyushnikov, 2008). If we consider only educational attainment of tertiary type A attainment, the Russian Federation still scores better than the OECD average, but ranks only eleventh among OECD countries (OECD, 2007a).

On the other hand, according to the new data set on educational attainment of Barro and Lee (2010), the Russian Federation ranks only 25th compared with the OECD countries in terms of average years of education. In 2010, the average number of years of schooling for the population aged over 25 years was 9.8 years in the Russian Federation compared with 10.6 years on average in the 31 OECD countries.

Figure 1.15. Educational attainment in the Russian Federation and the OECD, 2005¹



1. 2003 for the Russian Federation; and 2004 for Chile.

Source: Based on OECD (2007a), Table A.1.3a.

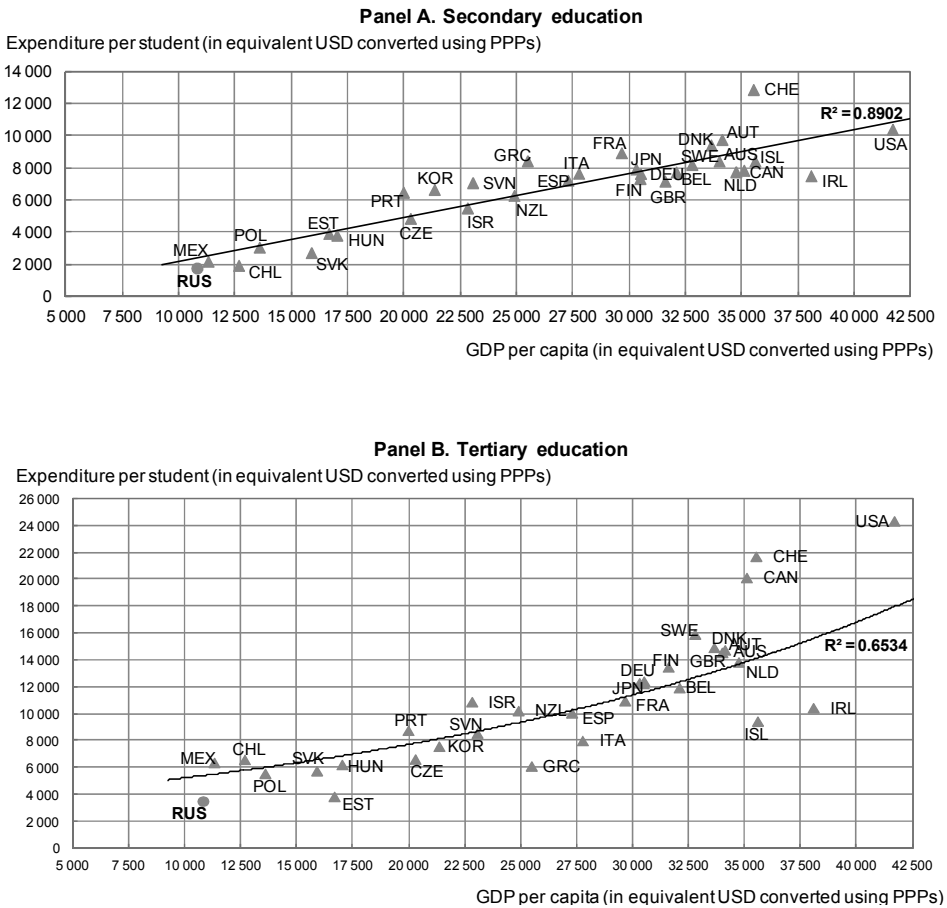
Low spending affects the quality of education

Despite the country's educational achievements, the Russian Federation fares less well in terms of *quality* of education, as perceived by its scores in the OECD Programme of International Student Assessment (PISA). The Russian Federation ranks only 26th compared with the OECD countries in

the performance of 15-year-olds in science, just before Italy and Portugal (OECD, 2008a). The low scores on the PISA test in part relate to the greater emphasis in Russian schools on the acquisition of encyclopaedic knowledge as opposed to problem-solving, innovative thinking and creativity (Fretwell and Wheeler, 2001).

Figure 1.16. Annual expenditure on educational institutions per student relative to GDP per capita, 2005

In equivalent USD converted using PPPs, by level of education



Source: OECD (2008a), Chart B1.6.

Limited spending on education is likely to affect the quality of education as well. In 2005, the Russian Federation spent around 3.8% of GDP on education, while education expenditure within the OECD area ranged from 4.2% of GDP in Greece to 7.4% of GDP in Denmark (OECD, 2008a). For secondary education, the annual expenditures per student are more or less in line with those OECD countries with a similar GDP per capita (Figure 1.16, Panel A), but total expenditures per student in tertiary education lag behind (Figure 1.16, Panel B). The latter is related to the high enrolment rates in tertiary education and the very low wage levels for teachers and professors (65% of the average wage in 2008, *cf.* Rosstat).

Notes

1. The share of young people who are neither in education nor in employment or training (NEET) is low in Russia relative to the OECD average (7.8% versus 13.1% in 2007, *cf.* OECD, 2008b).
2. Cyclical changes in employment and unemployment rates are calculated as deviations from their respective pre-crisis trends over the period during which output growth declined. See Annex 2.A2 in OECD (2010b) for further details about the calculation.
3. One reason could be that older workers (aged 55 and over) are relatively cheap employees, with average wages at around 85% of the average wage level of prime-age workers (25-54 years) (*Source:* 2009 October Wage Survey Rosstat). Many pensioners continue working while drawing pension benefits and are thus willing to accept lower wages. See Chapter 4 for more information regarding the Russian pension system.
4. In part, the opposite adjustment pattern might relate to differences in the data sources. The figures on working hours in the total economy (Panel A) are based on responses of adults who were interviewed as part of the Russian labour force survey and may be subject to considerable reporting error. The figures for large and medium-sized enterprises (Panel B), on the other hand, are based on employer reports.
5. LMEs in Russia are defined as enterprises or organisations (including non-market-oriented state institutions) with more than 100 employees (in industry, transport and construction) or more than 50 employees (in other sectors). In France, the hiring and separation rates in enterprises with more than 50 employees were around 37% over the period 2001-07 (*Source:* Déclaration de Mouvements de Main-d'Oeuvre, DARES). In the United States, hiring and separation rates for establishments of the same size averaged around 50% over that same period.
6. We cannot be sure, however, whether these two types of contracts solely consist of temporary contracts. According to the Labour Code, all labour contracts should be settled in a written form, and oral agreements are thus illegal by principle. There are, however, some workers with very long tenure dating back from Soviet times when contracts often did not exist, who have not signed a contract. Yet,

most of the workers with oral agreement contracts are seasonal and casual workers, household workers, etc. “Contract of work and labour or other civil contract in a written form” are mainly used for workers executing temporary, irregular or specific jobs or providing certain services. However, in some cases this type of contract is used to restrain workers’ rights (see Chapter 2) and hence masks permanent labour relations.

7. As the activities of subcontracting agencies are not regulated by law, there is little or no information available on the number of subcontracted workers.
8. For example, if all costs associated with migrating to Moscow from a town situated at 200 km away from the capital are taken into account (*i.e.* the cost of moving, registration (*propiska*) and job searching, and the difference in rent), a painter would start making profit only one and a half years after his arrival in the city (Svedberg *et al.*, 2006).

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