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Foreword

The Economic Transition and Integration (ETI) Project at the International Institute for Applied Systems Analysis (IIASA) has built on the institute's tradition of promoting collaborative research between East and West. The ETI Project's proven ability in dealing with issues pertaining to the transformation from central planning to market economies has been valuable for policy-makers and scientists alike. As a result, the government of the Russian Federation turned in 1992 to the ETI Project to organize a series of seminars and provide reports on topics of concern to the government. The Ford Foundation and Pew Charitable Trusts have generously provided financial support for the seminar series.

This report summarizes the contribution of participants at a seminar held at IIASA on 9–11 June 1994, "Restructuring and Recovery of Output in Russia". This workshop had several goals: to understand the root causes and effects of the recent enormous output decline in Russia, to assess the amount of restructuring that has occurred in Russia, and to develop a path of restructuring for recovery of output in Russia. Insights into this broad agenda were made through seminar sections on macroeconomics and public policy, enterprise behavior, unemployment, and domestic and international competition. Under the rubric of these topics, seminar participants presented papers and had discussions ranging from the role of subsidies to measurement problems, from output to employment decline and their relationship to regulation and trade issues. When available, comparisons to the transition experiences of Central European countries were used.

This wide array of paper presentations and discussions was moved to greater depth by the intense willingness of workshop participants from Russia, Central and Eastern Europe, and the West to share their experiences and engage each other with provocative thoughts. Through this process, the workshop was able to move toward a better understanding of what has occurred to output decline and restructuring as well as what the best path to further restructuring and output recovery will be for Russia's future.

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RESTRUCTURING AND RECOVERY OF OUTPUT IN RUSSIA

*Michael Busse**

1 Introduction

From 9–11 June 1994, a workshop was held at the International Institute for Applied Systems Analysis (IIASA) in Laxenburg, Austria on "Restructuring and Recovery of Output in Russia". The seminar was organized by members of the Economic Transition and Integration (ETI) Project at IIASA. The workshop had more than 25 participants from diverse backgrounds including the World Bank, the International Monetary Fund (IMF), the London School of Economics, the Center for Social and Economic Research (CASE) Warsaw, the Russian National Industrial Policy Committee, as well as other key figures from the policy as well as academic world from the East and the West. The workshop was made possible by generous funding from the Ford Foundation and the Pew Charitable Trusts.

There has been an enormous output decline in Russia in the recent past as well as the beginnings of large scale privatization and other forms of restructuring. At mid-stream of the reform process, this workshop was an attempt to evaluate the amount of restructuring and its effects. At this crucial time, such an attempt is both useful and necessary. And despite the hardships of Russia's recent past, this workshop hoped to be optimistic endeavoring to do more than explain output decline and modest restructuring until now (as can be seen in part of the title stating "recovery of output"). It aimed to ascertain which changes are necessary and under what time horizons will a return to output growth come to Russia.

For such a broad sweeping agenda, the culturally, institutionally, and academically diverse body of workshop attendees allowed for a fruitful and innovate discussion of many issues associated with output growth. These topics ranged from measurement problems in Russia to the history of Russian output, to the relation of output to employment and the future of Russian unemployment. Other issues included the extent and significance of privatization, the role and future of subsidies and credits, the extent of competition that has developed and then the need for regulation, the role and future of trade with the former Soviet Republics, some comparisons to relevant examples in Central Europe, as well as some other topics important to understanding restructuring and recovery of output.

An expository presentation has been used in this report to present a brief, objective as well as accurate report of the information, debates, and personal experiences presented at the workshop. The organizers of the seminar wish to thank the participants for their valuable contributions. A full list of names and affiliations is given in the appendix, as well as the program for the seminar.

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2 Macroeconomics and Public Policy

2.1 Measurement

Is it possible that between 1990–1992 unemployment could have remained under 2%, while Russian output suffered a measured decline of nearly 26%? This question reflects one of many curiosities in the Russian economic data which may have valid economic explanations. However, before looking to analyze the data with standard tools, one must consider biases and potential problems in data collection in Russia. Due to the known difficulties with Russian data, an entire session was devoted to measurement issues. And exemplifying its importance was the fact that measurement interpretations were a theme running through the workshop.

Measurement problems fell into three categories.[1] First, the methods and means of data collection in a non-centralized economy are not yet well refined due to the shortness of time, money, and knowledge of sound techniques for accurate measurement. Second, accurate measures at a time of great transition are inherently more difficult. Even the exceptionally good data collection and measurement in the United Kingdom would have great trouble if that country were to undergo a transformation such as the East is undergoing. Third, there are incentives, both historical and current, for the government, businesses, and individuals to both collect data in a biased manner and to hide information from official sources. Under the rubric of these broad categories, measurement issues usually emerge with published data on prices, output, and volume in general, as well as unemployment. Most observers believe that output decline is exaggerated by official statistics; especially in the private, services, and informal sectors output is highly under-recorded, inflation is a bit exaggerated, and unemployment is actually much higher than most data display.

Most output indices suffer great inaccuracy during a transition. A major problem for producer price indices is that they do not account for quality improvements. From year to year, the basket of goods produced is vastly different in a transition economy. For example, VCR's, snickers, or bananas virtually did not exist for Russia a few years ago, while older Soviet-type products have disappeared. This means that the choice of which base year to use becomes especially important. This is even more important for Russia as output levels were purposely overstated in the late 1980's. All these combined have led to an overestimate of the output drop. Because quality is not adequately measured (whether by Paasche or Laspeyres indices), inflation tends to be overestimated. Specific problems with the Russian producer price index are that the data have been collected from a small number of large firms and the prices used are listed or contract prices, not prices actually charged. The consumer price index has faced some of the same transition difficulties, as well as political falsification. For example, the inflation rate for April 1993 was published first officially as 23%, but was then changed to 19%. The earlier figure was set at a time when the data collection agency answered to the Supreme Soviet which wanted higher official numbers.

The participants agreed that output measures have had many problems. It is standard for transition economies to have trouble capturing the output of the new private sector. The techniques used are geared to measure the old public sector, and there are tax incentives for the new organizations in the private sector to under-report. The service sector is more difficult to measure everywhere, but especially in Russia and other former centrally

[1]This section draws heavily on Brigitte Granville's paper, "Measuring the Costs of High Inflation in Economies in Transition: The Experience of Russia Versus the ČSFR and Poland".

planned economies where most services were not considered to be a productive activity before the transition. Although inventory stocks have been built up as a hedge against inflation, this change has been difficult to capture in Russia's high inflation environment. Inflation makes output measurement more difficult as slight inaccuracies can lead to gross distortions. For example, the large profits that one has seen in Russian firms are often a statistical illusion of failures to correct for price changes. At the enterprise level, there is inconsistency in reporting frequency: large firms report every month while small firms report only quarterly thus creating a false seasonality.

Official unemployment levels remain strikingly low. To count as unemployed, an individual must register with an employment office; but there is little individual incentive to do so. Individuals may be hesitant to register probably because the concept of unemployment is unusual to them and could stigmatize them. Further, transition has made the meaning of unemployment fuzzy. Many work part-time, or are on unpaid leave. Others work in the informal economy. The government may also have political reason to keep official rates low. Generally, labor force surveys are more accurate than aggregate employment statistics and have estimated unemployment 3–4 times higher than reported by official statistics.

There are numerous reasons for why better data collection methods and measures need to be developed. There was consensus among workshop participants that this had to be one of the defining goals for social science in Russia. The reasons for that include the difficulty of analysis without good numbers, for example not knowing the amount and thereby the effect of monetary aggregates. Also, what lies behind an apparent gap between output decline and employment decline hinges largely on accurate measures of output and employment. Further, important international aid decisions are made based on debt/output numbers. One discussant was quite disturbed by IMF measures which he believed greatly underestimated output in the private and informal sectors. Due to these large economic effects, poor measures can have grave political consequences. When the costs of transition appear greater than they are, governments can be brought down.

The rest of this section discusses some attempts at improving statistics.[2] The first improvement in industrial statistics came in late 1992 – early 1993 when the Department of Industrial Statistics of the Goskomstat of the Russian Federation began to calculate industrial output based on volume indices of about 400 natural items rather than on value and price indices. Using this method, annual output growth averaged between 2.8% and 3.8% from 1980 to 1988, slowing to 1.4% in 1989 and increasingly negative thereafter until reaching Russia's most rapid decline of 18.8% in 1992. It appears, however that for 1993 the rate of decline slowed down.

Several estimates of monthly output for 1990–1994 and their constraints were then discussed including the Goskomstat's, Baranov's and the Center for Economic Reform's estimates. The Goskomstat method deals insufficiently with seasonalities and therefore estimates suggested that the level of output in April 1994 was just 9% of December 1990. To avoid using seasonality, Goskomstat uses a percentage ratio of one period to that of a corresponding period in the previous year or an 'evaluation in comparable prices.' It does not, however, allow for comparisons of output in different months of the same year.

Baranov's group selected 40 and later 42 commodities from 10 base branches hoping to reflect the structure of Russian industry in 1990. With these items, they used seasonal and calendar adjustments and also smoothed their levels to remove irregularities. The final index was constructed as a geometrical mean value of these 40 (42) indices assuming

[2]A survey on attempts at improving statistics on the development of aggregate output was presented by Andrei Illarionov, "Dynamics of Industrial Output in Russia in 1990–1994".

January 1990 as 100%. Their results improve on the official government data, but retain several problems: the items selected do not accurately represent today's Russian industry, the statistical method of a geometrical mean value is dubious, and the output numbers look unrealistically smooth from month-to-month when compared with the movement of other major economic indicators.

The Center for Economic Reform's estimate of industrial output in constant prices uses a basket of 372 items from 120 branches covering approximately 70% of Russia's industrial output. Different sectors were weighted relative to their contribution to real output rather than using a geometric mean value. A seasonal adjustment procedure also was used. Their results are quite comparable to the Goskomstat data, but with a better seasonal match to other macroeconomic indicators. This final method was criticized at the seminar for not picking up changing seasonality after August 1992, and for using Russian rather than world prices. It was further emphasized that for many issues in the Russian economy, an accurate consumption index could be of greater value than the production index.

2.2 Monetary Policy and Output Decline

There was both a presentation on general macroeconomic effects on output as well as periodic discussion throughout the workshop concerning the effect of Russian monetary policy on output. One view, without too much dispute, was that in the long-run there is no relationship between tightening money and output decline. However, there was dispute over what and how much the long-run matters for the current Russian situation. One comment summed well the concern with the concept of long-run: "We do not have Asian states in Central Europe: monetary policy has a short-term effect and Russian politics will never allow the long-run to come." Nevertheless, it was stressed that Russia must reduce inflation if they are ever to bring sustained output growth. High inflation is particularly damaging for the private sector. The debate ended with the quandary that for a successful transformation Russia needs monetary restraint, but that monetary restraint has at least short-term effects on factors such as employment which through social unrest and political avenues will not allow Russia to reach the long-run. But some seminar attendees certainly diverged from this view. Others stressed that there would be few adverse effects from monetary restraint. And in contrast, some believed that the economy must and can successfully transform without a quick monetary tightening. A characteristic argument for development without monetary stabilization was that the greatest problem of Russia's industrial development is social stability not monetary stability.

There was also disagreement over the short history of Russian monetary policy in the 1990s. One opinion was that Russia has yet to experience tight money over the past 2 1/2 years. The few moments when monetary policy tightened, many Russians assumed that money soon would become easy. A different opinion suggested that money was tight for the first half of 1992, and then tight again from November 1993 until present. And with each tightening, Russia experienced output drops.

2.3 State Subsidies, Tax Exemptions, Centrally Provided Credits, and the Pattern of Output[3]

Subsidies, both implicit and explicit, are a common legacy for all Eastern European transition economies. However, the rate at which transition economies have been able to reduce subsidies differs drastically across countries. After one year of transition in Russia, subsidies remained a full 34% of GDP in 1992. In comparison, in Eastern Europe on average, subsidies fell to 5–7% of GDP after just one year. By the second year of Russian transition in 1993, although reduced substantially, subsidies remained as high as 10% of GDP.

It was generally agreed that two problems of subsidies are that they give less incentive to restructure and that they create high inflation. Typically, they have been used to meet current expenditures of firms, rather than to support investment. This allows firms to both avoid labor shedding and major production shifts. It gives present firms a comparative advantage over new firms; in effect, they allow higher barriers to entry. Unlike in some other countries, Russian money has not been created to meet external government obligations, but to subsidize firms. As the subsidies are used for current operations and social expenditures creating little or no extra production, the money supply increases lead to inflation. As data indicate, the military industrial complex and other industries with obsolete goods have the highest rate of subsidies.

Some other problems of subsidies discussed at the seminar include the role of intermediaries in transmitting subsidies and the multiple government levels offering subsidies. Intermediaries such as banks and labor unions alter subsidy decisions and allow money to be redistributed for their own favored clients or targets. Financial transfer decisions are made through various mechanisms at the federal, regional and local level. At the federal level, transfers occur through budget investments, direct budget subsidies, subsidized credits, tax benefits, as well as foreign trade benefits. At the local level, there are subsidized credits and investment grants from regional budgets, extra-budgetary fund transfers, and local tax exemptions. Beyond the different levels of government, various federal agencies are involved, most importantly the Ministry of Finance, but also the Ministry of Economy, the Central Bank of Russia (CBR), and the Russian Parliament. The different agencies at different levels of government often have had very poor coordination. This diversity of sources as well as subsidy mechanisms make subsidies even more inefficient.

The seminar discussion indicated that the character of enterprises changed substantially between 1992 and 1993. In 1992, enterprises had negligible tax pressure averaging 3% of GDP, they were net donors to the banking system, and provided significant social care for their labor force. By 1993, the net taxes increased to 12%, enterprises became net borrowers from the banking system, though net capital outflows to countries abroad continued to be high at 6% of GDP. And whereas firms continued to provide social protection to their employees, the inflation tax has been a net sender from households to firms.

The government's professed purpose for subsidies ranges from encouraging investment and structural conversion to replenishing working capital and to compensation for losses due to price controls. Despite the expressed goals, there was consensus at the workshop

[3]For further details on this section see the paper by Lev Freinkman, "Government Financial Transfers to the Enterprise Sector in Russia: General Trends and Influence on Country Macroeconomic Performance".

that subsidies were used to maintain operating procedures and were often a political tool for the political elite to retain support.

There was a divergence amongst the seminar attendees as to when subsidies are still valuable in Russia and what the future might or should bring regarding subsidies. The hard line sentiment was that all subsidies should be ended as they always distort decision-making, cause inflation, and slow restructuring. Another view is that subsidies have some limited uses such as to temporarily sustain single industry towns or when they are used in a verifiable manner as a source of investment for restructuring. The holders of this view were inclined to believe that much of the economic achievements that might occur in Russia will be linearly descendant from the formal state enterprises. Subsidies could also be used in a positive manner to produce raw materials that earn hard currency for Russia or as a vehicle to keep the social peace. Nobody was willing to suggest that the success of Eastern Europe in subsidy reduction could be matched by Russia in the near future.

The future options were therefore to follow the *status quo* with continued high inflation and slow restructuring or continue to reduce subsidies despite possible political hardships. A South Korean and a Columbian scenario were offered as possibilities. The South Korean approach would involve a strong central government completely controlling the decision process and the allocation of subsidies to targeted industries. The Columbian model is one where the national government becomes but one of many players in the battles of multiple interests in the society. The South Korean model was recommended as it would consolidate the subsidy process reducing some of the transactions and biases in the current Russian system. This option would entail a revival of a strong central government which most seminar participants viewed unlikely.

2.4 Trade Credits: Amounts, Timely Payment, and Relation to Output and Liquidity[4]

Credits for enterprises come from three major sources in Russia: banks, governments and inter-enterprise forced credits. The latter became a major problem in Russia as in all other transition economies. Though, there has been less inter-enterprise credit since the middle of 1992. Trade credits were emphasized in this session with a paper that reported the following results. Pre-reform trade credits were quite low in the centrally planned economies with average payment time of only one and one-half months in 1988, as compared to one and one-half to three and half months in western market economies. (Average payment time is the ration of the stock of credit and the turnover.) The current Russian average is one and one-half months, the Polish average is one and one-half months and the European average is two months. Hence, the extent of outstanding trade credits now differs little across countries. The amount of late payments also did not diverge greatly from the West. Even during recent economic downturns, the average payment time rose to only two months in Russia. It was proposed that the low level holds in the East despite the absence of good bankruptcy laws at all, "If an enterprise stops paying, you simply stop shipping." This optimistic view was challenged by the argument that this option greatly aids large firms. Small firms cannot easily stop deliveries as the larger enterprise is often their major customer. However, as the counter-argument suggests, these problems also exist in the West. So they should perhaps simply be seen as a cost of

[4]Much of this section is based on the paper by Mark Schaffer and Qimiao Fan, "Government Financial Transfers and Enterprise Adjustments in Russia, with Comparisons to Central and Eastern Europe".

small firm business and not a unique phenomena that helps large firms dominate Eastern transition economies.

The discussion also touched on some important general relationships, among the monetary policy, payment arrears, wages and employment. Often, when firms are subject to tighter monetary policy, they withhold payments and lower wages and employment. The share of overdue commercial payables was 37% on October 1, 1993 and 45.4% on March 1, 1994. More extreme over this time period was the share of overdue tax payables rising from 22.2% to 46.6%, while that of bank credits changed from 6.85% to 10.8%. It was also asserted that there was a stronger relationship between liquidity and overdue taxes, than fallen output and overdue taxes.

3 Enterprise Behavior[5]

3.1 Privatization and the Behavior of Privatized Firms

Privatization has occurred at a rapid rate in Russia. By July 1994 over 70% of Russian firms will have had their title transferred through various mechanisms to private hands or mixed ownership. From mid-1991 until mid-1993, almost 90,000 entities had been privatized with 15,000 of those cases occurring in firms of 200 employees or more. Privatization in Moscow has occurred faster than elsewhere, accounting for 50% of industrial output and over 60% of firms in the trade sector by the end of 1993. Overall, one estimate suggests that roughly 30% of the Russian labor force was employed outside the state sector.

Most of the Russian privatization has been done with the circumstances of no insistence on budgetary revenues, maintaining labor hoarding, no macroeconomic discipline, and with links of the privatization process to the underworld. With this background, the extent of changes after privatization can be analyzed. The analysis, based on surveys of enterprises, began with a description of what has occurred in supply, production, and demand after privatization. Between 1992 and 1993, most enterprises, 83% in fact, continued their association with their traditional suppliers. Supply problems and shortages still remain an important burden on business as 30% of managers still have difficulty with raw materials supply. Some goods or inputs are just absent on the market. The reason for that is either that the allocation of the traditionally imported raw materials are no longer well organized, or that Russian produced inputs are only profitable for export or only available through barter trade. The supply problems are especially acute between Russia and the other Former Soviet Union (FSU) Republics. Though, the severity of supply shortages is heavily dependent on the financial solvency of the enterprise seeking the supply; generally, fully solvent firms can buy any raw materials on the market.

As mentioned above, most enterprises even after privatization have kept their former suppliers. As for changes, the most frequent reason for changing customers was the insolvency of the traditional ones. The second most important reason for switching was difficulties in selling products to other FSU countries. Interestingly enough, it still remains somewhat rare for a supplier to switch customers because the buyers no longer want to purchase their products. On average, the high-tech, defense firms, and producers of consumer goods have been more likely to abandon old clients and make new connections especially with private businesses. Despite the continued static nature of supply connections, only 10% of businesses surveyed expressed strong opposition to cooperating

[5]Substantial information in this section was drawn from Irina Evseeva Boeva's paper on "State Enterprises: Adaptive Behavior in Production and on the Market".

with private businesses. Though, the stigma may linger as 45.7% said that they only dealt with private businesses grudgingly and only when forced by extreme need. From some divergent statistics, it is difficult to develop a definite understanding on the nature of competition, only that it likely has a wide variance.

There have been marked increases in barter trade in the last three years. But this increased barter trade apparently has more to do with avoiding taxes than with problems in supply. Tax avoidance, both for the lost revenues of the government as well as its importance in management decisions of firms remains a severe problem. Some seminar attendees viewed it more severe than many other issues in privatization. Barter does have a use in sustaining old trade contracts with some of the FSU republics in absence or shortage of convertible currency. Demand also remains much lower than it has been in recent years. The lack of demand, was viewed by one seminar attendee as more a problem in the privatization process than any supply troubles, as without demand the incentive to change is not sufficiently high.

Regarding employment, there is a decent amount of heterogeneity in the workers hired by private firms, but there is a noticeable lack of professionals being hired.[6] Skilled workers are instead preferred. Although wages were found to rise quickly immediately after privatization, this effect did not last long. Labor hoarding was exhibited in both the public and the private firms. And in aggregate employment, there was little net change after privatizing. So overall, private and state firms followed fairly similar paths regarding employment.

Investment rates have been stable for state and cooperative firms but for other private firms there has been an unambiguous investment decline. As far as pricing behavior, output, and output mix are concerned, they can be better explained by the branch or sector where the production is taking place than the public/private status of the enterprise.

The evidence follows a consistent pattern that at present there is no great difference between state and private firms. But it must still be stressed that the differences may be somewhat greater than the statistical evidence can capture because of the greater extent of barter and unreported trade in the private sector. Still, the supply channels and demand patterns remain similar as well as their output and employment levels. The next question was why the divergence between private and public firms has remained small?

3.2 Characteristics that Allow for Public/Private Enterprise Similarity

To understand the public/private sector similarities, the persons doing the privatization must be considered.[7] In Russia, as in most of Eastern Europe, privatization has occurred mainly by insiders taking control. More precisely, in Russia, privatization generally has only proceeded when it was to the benefit of insiders. However, in more recent Russian privatization the role of outsiders has increased. Many experts think that continuing to allow insiders to dominate the privatization process will prevent restructuring for a further 2–3 years. The questions about insiders, once involved, are how much power they have and whether their interests will differ after privatization is completed. Essentially, will

[6]This was based on a study of 23 Moscow based firms in the paper by Simon Commander and Ruslan Yemtsov, "Privatization in Russia: Does it Matter? Some Early Evidence on the Behavior of Privatized and Private Firms".

[7]This section draws heavily on Simon Commander and Ruslan Yemtsov's paper, "Privatization in Russia: Does it Matter? Some Early Evidence on the Behavior of Privatized and Private Firms".

they follow their *status quo* management techniques until market forces develop or even after the development of market force?

These questions led to a discussion of the goals of private firms in Russia. Managerial goals seem to lie around three factors: the self-preservation of the enterprise, its stable economic performance, and, more recently, the use of different methods of tax avoidance. The first two goals have led to conservative management in the absence of market forces. While the third goal presupposed active policies, it has perhaps also the greatest potential for distortions even once market forces are in With these goals in mind, discussion moved to what factors have kept managers from acting differently.

These reasons emphasize a lack of demand, little or no competition, and the need for stability during uncertain times. As mentioned, aggregate domestic demand has declined dramatically. Perhaps, many managers do not want to take the risk of great change without seeing the possibility of greatly increased returns. Changing production patterns often can be a costly path to finding new demand. Therefore, dramatic change may warrant the expectation of substantial demand increases. Competition also remains low in many sectors allowing managers to continue old practices. One survey showed that 10% of firms feel no competition, 75% have at least some, and foreign firms are felt to be competitive for 24% of enterprises. But at the seminar, the issue of competition levels both in the private and public sectors was left unresolved. It was asserted that the allegiance to old ways and old business connections remains partly a result of habit, and the "old partner network", in fact, works as a hedge against insecurity.

In one survey, it was found that only 9.3% of firms had not changed their production patterns. For those forced to make alterations, 53% cited changes in demand as the reason followed by increased prime costs at 31.8%.

The lack of market forces as well as the insider dominated process have each played a role in the lack of public/private divergence. Hence, a division should be made legally between private firms and *de facto* private firms. This would imply that the number of real private firms, reacting to market forces, is far lower than the official count of private firms. There should be a further division made into firms privatizing early and those doing it later. The firms that became private early did so because it was to their economic or competitive advantage to do so and not following the central campaign of fast privatization. They are much more likely to be profitable and also truly private.

The concluding sense was that the privatization process is still quite new, and given time and the onset of market forces, even insider managers in control will begin to act as private owners. There was some confidence expressed that the lack of market forces more than the uniqueness of former state managers have led to little change in the new private sector. It was suggested that the stabilization effect of the slow movement toward *de facto* private firms could be positive under such unstable socio-economic conditions; it gives security that at least some supply lines and employment levels would remain despite instability.

3.3 Restructuring and Privatizing the Military-Industrial Complex[8]

Many view military restructuring as one of the most important issues in Russia today. Hence, its privatization and conversion warrants a separate session. In 1989, the defense

[8]Much of this section is based on Yevgeny Kuznetsov's paper, "Adjustment of the Russian Defence-Related Enterprises in 1992 and 1993: Macroeconomic Implications".

industry was still 25–30% of the Russian economy and was the greatest recipient of subsidies. At present, it remains large with 25% of overall industrial employment in the defense industry. But, it is less separate, organizationally and technologically, from the rest of the economy than in the past. Indeed, close to 40% of output in the military industry in 1992 was in civilian goods. Nevertheless, the breadth and relevance of separation is a highly disputed topic. There is also dispute over the extent of conservative culture which remains amongst managers.

Defense sector adjustment can be seen as two somewhat distinct processes: downsizing and then restructuring. Some of the major issues affecting this adjustment are the fall in military demand, the adjustment towards attempted hard budget constraints, and the redefinition of the boundaries of firms after privatization. Despite severe defense demand shocks, the necessary downsizing and shifts have not yet happened. Other economic sectors have actually suffered far greater size reductions. There are several reasons for this including supply reserves being channelled to world markets, the continued large subsidies, as well as defense production out of line with demand. By channelling supply to world markets, the industry has discovered a sophisticated method of private rent seeking. But much of the surplus inventory is now gone and the defense industry must either begin to restructure and greatly reduce employment or push for even greater subsidies.

Several important issues were deliberated briefly at the seminar regarding downsizing and restructuring. First, the linkages which the industrial complex is able to make with the booming primary sectors such as oil, gas, and forestry will be crucial. Second, the transformation to other sectors will be difficult as traditional military produced civilian goods, such as vehicles, were designed in a way also suitable for military use making cost competition on civil markets difficult. Third, the decision on downsizing or plant closure should not necessarily be based on current profits. These profits are calculated to minimize taxes and to obtain subsidies; they do not necessarily express the financial abilities or efficiency of the enterprise. Beyond this fact, efficiency must be seen as more dynamic than static as year to year there is the potential for great shifts in productive abilities. Fourth, both for the reasons developed above and the low supply of capital, conversion at the plant level will not be possible and mergers will be inevitable. The government should not intervene even at the level of anti-trust action. Interventions will do more harm than good. Even though there are many high skilled scientists in the defense industry, it will be easier to market and re-employ craftsman and skilled workers than high-tech workers. There was strong reservation at the seminar that the current government restructuring plans would forge a new defense sector separated from the civilian economy with conservative managers. Many attendees concluded that to integrate former, inflexible management is crucial for long run success.

4 Unemployment

4.1 Basic Two Sector Model and Flows[9]

A simplified two sector model of unemployment was developed with an ever shrinking public sector and an ever increasing private sector. The key then to unemployment becomes the difference between the rate of outflow from the former sector versus the rate of inflow in the latter sector. When outflows are greater than inflows, unemployment

[9]This section references the paper by Ruslan Yemtsov, "Ingoing and Outgoing Flows in Employment".

rises. The questions of labor flows revolve around their rates both between sectors and from unemployed to the two employing sectors.

For the state sector the rate of outflow (the yearly quits of employees) is quite high compared to other Eastern European countries with a 25% rate. But what is puzzling is that the inflow rate to the state sector is around 20%, an incredible amount of hiring.[10] There was debate over just how heterogeneous the decline across sectors was. In fact, almost 30% of firms are expanding employment, and almost 85% of outflows from the public sector were voluntary quits. This has left needed jobs vacant which must be replaced. These new hires combined with many people moving in and out of the state sector have led to the large inflows. Somewhat surprisingly, most private sector job inflows have come from the state sector employed. This has caused a stagnancy in the flows from unemployment. A gender bias in unemployment is also observed as female unemployment is 65% of the total. In all, despite the steady and low levels of unemployment shown in the next section, there has been tremendous intensity in labor flows.

4.2 Employment Levels

The actual unemployment level as registered at the Federal Employment Services (FES) by those out of work was 1.4% in 1993, and 1.7% in 1994. But this unemployment is generally considered to be an enormous under-count; in a labor force survey, 60% of the unemployed claim to have filed by the unemployment office, but the survey found that only one-third actually had filed. A Labor Force Survey Questionnaire assessed the unemployment at 5.5% and 5.9% respectively in 1993 and 1994. There was consensus that these numbers were more accurate, though perhaps still an under-count. Many reasons exist that individuals might not register as unemployed with the FES such as the low benefits, tax avoidance or even a potential social stigma. The number of involuntary leaves has been often exaggerated for Russia as the category counts anyone who takes leave at any time within the year considered. So the yearly number for 1993 was 6.5%, but for any given time was only between 0.7% and 0.8%. Since December 1993, this number has risen to about 2%. Work hours were also reduced by only 4% in 1993.

4.3 Wage Flexibility and Low Unemployment[11]

Regardless of the difficulties in measurement, it is clear that the unemployment level remains quite low in Russia. Despite roughly a 30% cumulative drop in GDP between 1991 and 1993, employment fell by an average of only 3% in each of these years. Industrial employment fell by less than 15% between the end of 1990 and the end of 1993, while during the same period output fell by roughly 40%. The Russian labor force has been able to endure such severe output shocks due to its extraordinary wage flexibility.[12] The labor supply has been very inelastic in Russia. Despite the large shifts back in labor demand, aggregate unemployment has moved little. However, at this inflexibility of aggregate supply, one has to take into account also the large flows discussed above both into and out of the public sector as well as between the private and public sector.

[10] Yemtsov, p. 3.

[11] This section references the paper by Richard Layard and Andrea Richter, "Labour Market Adjustment—The Russian Way".

[12] Layard suggests that the flexibility is perhaps the most extreme case in the records of the industrial world.

The result is that average real wages had fallen by one-third by early 1992, and since then further. There are several paths by which wage flexibility has worked including lower hourly pay, delayed payment, cuts in work hours, part-paid or unpaid leave and perhaps others. But output has declined far enough in some sectors that, even despite large wage cuts, the price of labor now much exceeds its marginal product. The employment situation was well summarized as a combination of neoclassical heaven, the wage flexibility, and neoclassical hell, labor costs higher than the marginal product.

The lack of unemployment was the next topic for discussion. The bulk of the analysis is best divided into worker reasons and then management reasons for labor retention. The worker reasons included high non-wage benefits, low unemployment benefits, a lack of organization, a sense of identity deriving from the work place as well as the shame associated with the status of being out of work. Social support including health care and housing are provided by the enterprise, and other forms of social support such as child care, meals, food and vacations are subsidized through the employer. If one becomes unemployed, benefits are quite low. Reportedly, the average unemployment benefits are only 12% of the average wage. Surprisingly, this has not become a political issue. The IMF and World Bank cannot even get the issue of a social safety net on the agenda because of a Russian lack of interest. This sentiment was summarized in the quote, "Real men in Russia are not interested in social policy." Perhaps, this is due to the social safety net still being allocated through the enterprises. Third, the trade unions are dead and there is little labor organization in Russia at the moment. This has left no groups to develop an organized front against wage reductions. Fourth, a large part of the Russian identity, perhaps analogous to Japan, derives from the firm. They have a strong 'going to work ethic,' perhaps because unemployment was criminally punishable in the past.

The management reasons include the effects of the excess wages tax, costs of severance pay, advantages to firm size regarding power and government subsidies, a parental tradition amongst management, and finally a degree of manager optimism. The excess wages tax gives firms an incentive to reduce the average wage within their enterprise by paying some employees unrealistically low wages. The reason is that in computing taxable profit, the average wage-cost over more than six times the minimum wage is heavily taxed. For wages above this threshold, a 35% tax rate is levied. This gives firms a substantial incentive to keep or even employ more low wage workers. The marginal cost of these workers is then quite low if not zero. It has also allowed firms to pay high wages to keep crucial workers employed at the firm by offsetting these wages with multiple low wage employees. If a worker is made redundant, the firms must pay the worker 3 months severance pay: this only may prevent some firms from firing large groups of workers.

Another reason for labor retention is that management sees a large firm as both a source of individual power and as a social good. They know that the government has incentive to retain high employment rates in order to maintain the social peace. Hence, government subsidies may flow with greater fluidity to firms that retain or augment their employment levels. There is also a parental attitude amongst management that they must take care of the workers. Finally, some surveys show that managers have been overly optimistic about firm success relative to eventual output amounts.

4.4 Comparison of Russian Unemployment with Eastern Europe[13]

As many countries of Eastern Europe began earlier and now have progressed somewhat further than Russia in market transitions, the conference decided to examine Eastern European employment issues since 1989. The countries examined included Poland, Hungary, Slovakia, Bulgaria, the Czech Republic, and Romania. Besides for the Czech Republic and Romania, the countries observed similar employment responses to output decline.

The drop in paid employment was roughly proportional to output drops. While the Czech and Romanian cases also had 20% to 30% drops in output, their levels of unemployment remained very low. The lack of unemployment has several explanations. First, there was a massive outflow of the labor force into self-employment or retirement. Second, these two countries had very soft budget constraints with continued subsidy to state enterprises. This is more similar to Russia and in sharp contrast to the 18,000 bankruptcy petitions in Hungary for 1992–1993. Third, the employment/labor cost mix in the Czech Republic and Romania was sharply different than in the other four. Unit labor costs in 1992 were significantly lower than in 1989 contrasting with the higher rates of the other countries. This was partly accomplished in the Czech case through an agreement for prohibitive wage increment taxation and wage subsidy schemes. A fourth suggestion was that it was the generous benefits offered for the unemployed in the other countries of Eastern Europe which led to their high unemployment levels. However, it was claimed that this had little proof as tightening the unemployment compensation in Slovakia had little effect on unemployment. A suggestion was made that perhaps the low Czech unemployment is affected by the large number of Czech workers employed in Germany. On further debate, data was given that since 1989 at most 2% of the Czech labor force was in Germany.

Other characteristics of Eastern European employment are that there is a fairly strong linear negative relationship between wages and firm size: the smaller the firm the greater the wages. Likewise, profitable firms were both more likely to pay greater bonuses and were more likely to be smaller in size.

Questions then arose as to the availability and desirability of the Czech scenario for Russia. The employment situation is better, but clearly lazy state enterprises have been able to sustain themselves through soft policies. An item to weigh in this analysis is the extremely high duration of unemployment for individuals in Eastern Europe and the relatively stagnant pool of unemployed which have been created. Reasons given are similar to those explained earlier for the Russian case: that flows are largely from job to job rather than from unemployed to employed; that new private firms are mostly created by insiders, and once formed these groups do not expand; and that there is perhaps a skills or spatial mismatch for the unemployed. The danger is clear that a shrinking large firm sector combined with an insider-dominated, small firm sector could leave many in long-term unemployment. For a country such as Russia, with the potential of even greater political instability than Eastern Europe, the unemployment potential of the hard budget constraint scenario must be reckoned with.

4.5 Is Wage Flexibility and Low Unemployment Good, Sustainable: What Does the Future Hold?

In 1993 and early 1994, everybody waited for the great waves of unemployment to beat down upon Russia, but it did not come. What came instead was wage flexibility and

[13]This section references János Köllő's paper, "Unemployment—The East European Experience".

employment of different forms such as part-time or non-paid. From the standpoint of neoclassical economics the wage flexibility is good, but the worker retention when wages dip below the marginal product is bad. From a different viewpoint, the situation was interpreted as neither good nor sustainable as wages will soon fall below a livable wage rendering continued employment meaningless. Another view suggests that the excess wages tax has been a driving force in keeping Russian unemployment low. What began as a small program to defend workers and contain cost-push inflation has become a major source of profits for firms acting as a subsidy. Thus, as with other subsidies, it cannot long be sustained for a successful transition. Further, a prediction was made that the trade unions will arise again in Russia. As union strength increases, wage flexibility will decrease. It was also stressed that wages have been the only entity in the Russian market with flexibility and that this cannot last.

So what can and should occur in the future? The expectation of soon to arrive massive unemployment is now less expected. The warning from Eastern Europe is that long-term unemployment is the keen evil to be avoided as a large spate of unemployment will not be disbursed quickly. But, short-term unemployment is good and healthy; it might allow people to look harder for more work. The fact that the share of industrial employment is down is a strong sign of real adjustment. However, this adjustment is working at a very slow and distorted pace. The development of a social safety net, such as a social security system, does not appear to be in Russia's short-term future. The discussion, however, ended with little certainty about the future of unemployment, as if it depended more on the subsidy policies of the government and on how much non-market mechanisms might be employed by managers, than on the forces of the market.

5 Domestic and International Competition

5.1 Background to Competition and Monopolies in Russia[14]

Russia has an incredibly high level of monopolization in production. One general definition of monopoly used was, "a market situation where consumers lack choices due to a variety of reasons which then allows some producers to enjoy special conditions for their work and enables them to impose their will on customers." Perhaps the most extreme case of monopolies are the natural monopolies. The problem with natural monopolies is that they use their position to increase prices faster than their costs rise. For example, in the first quarter of 1994, prices in telecommunications grew 2.7 fold while energy prices rose 1.5 fold and other inputs 1.8 fold. The generally understood natural monopolies in Russia include the pipeline transportation for gas, oil and oil products, production and transmission of electricity, railroads, transport to remote regions, and some telecommunication services. The current methods to regulate natural monopolies include specification of mandatory groups of consumers, different types of price regulation, regulation of investment activities, and review of mergers, acquisitions, and transactions of shares. There is now widespread belief that the policies need to be updated and improved in some manner. But how this was to be done was highly contested.

[14]The following section references papers by Irina Starodubrovskaya, "Monopoly, Competition and Barriers to Entry in Russia" and by Vladimir Capelik, "Antimonopoly Policies and Regulation of Enteprises in Russia".

5.2 When is Regulation Needed in Russia?

The discussion began in the general terms of when regulation is necessary. It was stressed that under competition, no regulation is necessary. The example of the Moscow-Leningrad train line was offered as an example of a good which now through other transport possibilities had sufficient competition to not need regulation. Generally, when things can operate without regulation, you should not begin to regulate. Essentially, do not infringe on a market in expectation that it will need regulations. There was agreement that a skilled, politically neutral bureaucracy with a strong government was quite useful to successful regulation.

One reason regulation is necessary is that the monopoly sector makes entry potentially much more difficult slowing the rise of the private sector. Further, regulation could put greater controls on private managers transferring funds to non-productive activities like personal consumption. The cases of Russian entrepreneurs' heavy investments in foreign real estate was cited. There was a dissenting attendee who viewed this activity as rational and perhaps beneficial for firms in a high inflation economy. But most viewed this kind of investment as not only bad, but of an illegal quality in most countries.

Despite the apparent need for regulation, Russia's regulatory potential faces many constraints. First, the regime in Russia is weak and the bureaucracy is corrupt, unskilled, and politically biased. For example, a standard view coming from the Russian government was that price liberalization was a mistake, and that now more price controls are needed. This attitude could exacerbate shortage problems. Another problem with the government in regulation is that the regulation of prices and profit rates is not initiated to halt the non-competitive actions of natural monopolies, rather advocated by conservatives attempting to slow down reforms.

A further circumstance that makes the control of monopolies difficult is that regulation can be more difficult under extreme inflation. Though, this view was somewhat disputed with examples of Latin American regulation under high inflation. But in Russia the problem of severe measurement problems is aggravated further by the inflation. This combination has and will continue to make many forms of regulation difficult.

Monopolies, in part through the confusion of mismeasurement and inflation, have found ways to avoid regulation. One way is to minimize operations in price regulated markets by switching to other products. This caused shortages in some markets and drove prices up in others. Regulation can also allow a monopoly to sell at low prices, and use this position to get higher market share. Further, if profit margins are regulated, firms will play around with their profit levels by maximizing expenses, or by having customers delay payments to get around a regulation.

5.3 Options Other Than Regulation

Although in some areas more regulation in Russia would be desirable, the above circumstances hint that possible other vehicles should be employed to reach the goal of functioning competitive markets. The first way is to find ways to allow for entry. This has already been occurring due to declining demand and increasing import penetration. There is also evidence that exit and entry is not greatly restricted in many sectors. Despite low Russian investment resources, those enterprises which are dynamic in the new market conditions can find financing. There are now lower barriers for import competition, more diversification of economic activities across enterprises, greater conversion of defence enterprises, and rapid private sector development in trade and finance. But

despite this positive movement, better bankruptcy laws would be of substantial use to facilitate exit.

Industrial policy was a lively topic of discussion in lieu of competition and market structures. The creation of industrial financial groups was discussed as a way to organize institutions for industrial policy. There were several possible models of financial groups discussed running from an extreme of heavy government intervention in the market, to one where the state helps established business groups through negotiation and selective support, to an option of self-spontaneous industrial groups arising. These industrial policies are advantageous due to the lack of stock market development and capital scarcity as a way to stimulate investment in industry, and help industry in the internal market. They are also seen as a way of getting final prices lower and gathering the competitive structures necessary for the world market. The experience from Latin America suggests that there was more willingness to buy equity in these groups than single firms since they are more diversified. They also have the advantage of being able to offer each other internal loans.

But there are many potential pitfalls in industrial financial groups. First, applying to all types, the Mexican and Chilean experiences show that these groups must be implicitly supported by the state. When enough citizens have their savings in industrial groups, then the government is forced to bail them out when trouble arrives. It was suggested that this is part of the reason Mexico and Chile have now moved toward privatization. In Latin America, the experience also instructs that as the groups grow bigger, their financial fragility can actually grow.

In general, the heavily government involved option was frowned upon. There was no faith that the Russian government could pick, organize and support efficient operations. The situation would evolve into a giant competition for subsidies with a biased bureaucracy. One example of the trouble was cited the government's choice in 1992 of small businesses to support through 1998. Since the decision to pick up units to support was based on current knowledge and market conditions the scheme was bound to be obsolete soon.

The South Korean model demands a strong government with a neutral and skilled bureaucracy, which Russia does not have. It also needs the government and businesses to have what was referred to as "encompassing interests." The government must have reason and incentive to be acting in the long term interest of the country. So, for example, although the Kuomintang in Taiwan in 1949 was weak, the encompassing interests helped their industrial policy succeed. There was generally consensus that the recent Presidential Decree in Russia to allow what is happening naturally to happen legally is good, namely the rise of self-spontaneous groups. But there was little belief that the present Russian government can play a more positive than negative role in this process.

5.4 Inter-Republican Trade: Has it a Future?

The percent of trade between the FSU republics remains extraordinarily high, ranging from 70% to 95% of trade for republics other than Russia. But despite the high percentages, the volume of trade between republics has fallen greatly. Most pertinent is the drop in trade volume between Russia and the other FSU states. Due to factors surrounding the ruble zone, the lack of funds in the republics, less subsidies from Russia, and rising raw material prices, the future extent of Russian trade with the Republics is uncertain. How these trade issues resolve themselves is crucial for the Republics, but also of high

importance for Russia. After all, the fall in inter-republic trade is seen as a major source of output decline.

One model to learn more about the structure of trade took the energy sector as an example.[15] The sector was justified as an example because its sales parallel industrial output, it is easy to measure, and it has an external market. It assumed three distinct markets for energy: a domestic, a Commonwealth of Independent States (CIS), and an international. Russia was assumed to be a price discriminator in each. The findings over time were that the prices converge. If so, there will be little price difference and Russia will lose its price discriminating ability. This will lead, without huge subsidies for CIS purchases, to the decline or end of supply to the CIS and further decline in Russian output.

These findings were not accepted by many at the workshop for a variety of reasons. First, the energy sector is not ideal as a case study. It covered 72% of Russian exports to the FSU in 1992, but only 29% as early as 1990. Further, low international oil prices have temporarily suppressed the international market. Energy also avoids the issue of reorientation to western markets. Manufacturing or chemicals which have both exhibited decline and have multiplicative effects would have been better to use. The idea of Russia as an international price discriminator was also questioned.

A lively debate arose as to whether the Russian government even had monopoly power domestically. It was strongly stated that the suppliers often have the power. This led to a debate of who controlled the pipeline and how crucial it remains. The sense that came out of the discussion was that there are bureaucratic and technical constraints with transport through the pipeline, but the bureaucratic ones are greater. One researcher explained that the pipeline is actually full, but full means only 60% of capacity due to speed and pressure change possibilities. There was no consensus on how much of a natural monopoly the pipeline remains or how crucial regulation of the pipeline will be.

In the future, the capacity to pay for imports will be hugely important in Russian–CIS trade. To finish the workshop, several important issues in the future of Russian–CIS trade were discussed. Will Russian state credits to the Republics continue, can they be stood for in Russia politically? If not, will debt for equity swaps in the FSU Republics be a feasible solution? Russia would like this solution, but is fearful to suggest it as the foreign businesses in Russia might want to try the same policy with Russia. If this type of trade cannot be worked out, how far will Russia allow the FSU states fall before doing something? A final puzzle was why one noticed so little FSU lobbying in Moscow?

6 Conclusion

The workshop came to a close with some areas of common understanding, some sharp divergence of thought particularly regarding future policies, and some necessary and pressing research agendas related to workshop themes. There was agreement that caution must be used when analyzing official Russian data. More and better attempts at independent data collection, implementation of better techniques, and the use of surveys and case studies is needed to have a true picture of the Russian economy. Some of the mysteries of the Russian economy could perhaps then be made clearer: how much output has fallen, how great inflation has really been, how much unemployment there is, how large the private sector has become, and others.

[15]This section references Pavel Teplukhin and Tanya Normak's paper, "Inter-Republican Trade, Pigou and Decline of Industrial Production".

Much of the disagreement at the workshop ran along the great divide of appropriate speed of restructuring for Russia. There were those that believed that the rate of real privatization has been too slow, that too much labor hoarding has occurred, and that inflation reduction has not and will not have long-run effects on output. Workshop attendees with this viewpoint i.e., restructuring must go faster to insure a successful transition, worried most about entrenched powers re-establishing control. Viewpoints on the side of more moderate reforms were most concerned with social stability and political sustainability of policies along the path of restructuring. Attendees with this belief were apt to believe that future value can arise from some of the current structures in Russia. The debate areas where these different viewpoints manifested themselves were on the value of the excess wages tax, the necessity to halt inflation, the need to insure competition and remove barriers to entry, and issues around the removal of subsidies. At the workshop's conclusion no consensus could be hashed out over how much of the old system should be subsidized in some manner, whether at the employee or firm level, to keep the socio-political stability necessary to both continue reforms and continue them in a manner that Russian living standards remain bearable.

There were clear research needs displayed in many employment issues, how and when to regulate, how to get better data, how to foster competition in historically monopolistic sectors, as well as in many other research areas to come to a better understanding of what has and what will occur in Russia's economic mystery tour.

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APPENDIX 1

PROGRAM OF THE WORKSHOP ON

Restructuring and Recovery of Output in Russia

IIASA, 9–11 June 1994

Thursday, 9 June

14:00 OPENING REMARKS

- Peter E. de Jánosi, Director of IIASA
- Merton J. Peck, Leader, Economic Transition and Integration Project

14:15 SESSION I: Macroeconomics and Public Policy — *Chair:* János Gács

- GOVERNMENT FINANCIAL TRANSFERS TO THE ENTERPRISE SECTOR IN RUSSIA: GENERAL TRENDS AND INFLUENCE ON COUNTRY MACROECONOMIC PERFORMANCE
  by Lev Freinkman
- GOVERNMENT FINANCIAL TRANSFERS AND ENTERPRISE ADJUSTMENTS IN RUSSIA, WITH COMPARISONS TO CENTRAL AND EASTERN EUROPE
  by Mark Schaffer
  Discussant: Richard Layard

16:00

- DYNAMICS OF INDUSTRIAL OUTPUT IN RUSSIA IN 1990–1994
  by Andrei Illarionov — *Discussant:* Helen Boss
- TWO YEARS OF ECONOMIC REFORMS IN RUSSIA. MAIN RESULTS
  by Marek Dabrowski — *Discussant:* Donal Donovan

Friday, 10 June

08:45 SESSION I: continued — *Chair:* János Gács

- MEASURING THE COSTS OF ENDING HIGH INFLATION IN ECONOMIES IN TRANSITION: THE EXPERIENCE OF RUSSIA VERSUS THE ČSFR AND POLAND
  by Brigitte Granville — *Discussant:* László Csaba

10:00 SESSION II: Enterprise Behavior — *Chair:* Richard Layard

- STATE ENTERPRISES: ADAPTIVE BEHAVIOR IN PRODUCTION AND ON THE MARKET
  by Irina Boeva
- PRIVATIZATION IN RUSSIA: DOES IT MATTER? SOME EARLY EVIDENCE ON THE BEHAVIOR OF PRIVATIZED AND PRIVATE FIRMS
  by Simon Commander
  Discussant: Peter Havlik
- ADJUSTMENT OF THE RUSSIAN DEFENCE-RELATED ENTERPRISES IN 1992 AND 1993: MACROECONOMIC IMPLICATIONS
  by Yevgeny Kuznetsov — *Discussant:* Merton J. Peck

13:30 SESSION III: Unemployment — *Chair:* Marek Dabrowski

- INGOING AND OUTGOING FLOWS IN EMPLOYMENT
  by Ruslan Yemtsov — *Discussant:* Andrei Illarionov
- LABOR MARKET ADJUSTMENT—THE RUSSIAN WAY
  by Richard Layard and Andrea Richter — *Discussant:* Judith Shapiro

16:30 • UNEMPLOYMENT—THE EAST EUROPEAN EXPERIENCE
by János Köllő — *Discussant:* Andreas Wörgötter

Saturday, 11 June

08:45 SESSION IV: Domestic and International Competition
Chair: Petr O. Aven

- MONOPOLY, COMPETITION AND BARRIERS TO ENTRY IN RUSSIA
  by Irina Starodubrovskaya
- ANTIMONOPOLY POLICIES AND REGULATION OF ENTERPRISES IN RUSSIA
  by Vladimir Capelik
  Discussant: Alexander Kalin

10:30 • INTER-REPUBLICAN TRADE, PIGOU AND DECLINE OF INDUSTRIAL PRODUCTION
by Pavel Teplukhin and Tanya Normak — *Discussant:* János Gács

12:00 End of Workshop

APPENDIX 2

LIST OF PARTICIPANTS FOR THE WORKSHOP ON

Restructuring and Recovery of Output in Russia

IIASA, 9–11 June 1994

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