

SOCIAL ROLE OF THE RUSSIAN FIRM  
THROUGH XX CENTURY:

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Abstract

This paper discusses the relationship between economic and social activities within the firms. It is interesting to analyse how in a country, like Russia, with very strong state and centralised forms of governance, the labour relations and social, in particular health policy, was conducted by relatively decentralised way. The firms' culture and management are connected with historical and sociological characteristics of the country. Since the beginning of industrial development of Russia two types of firms existed: big state mills and small artisan artels. Each type had some particularity in wage policy and social organisation. Through our century the links were modified along with external institutional transformations within each of these segments. Traditions and modifications may explain why the large firms in modern Russia are monopolies in new market economy, but continue to be artels since their objective is to save the insiders' (and workers' in particular) interests. The high quality of labour force favours the extension of small firms in new immaterial sector of economy, where profitability progresses to the detriment of social sphere.

Principally the firms through compulsory medical insurance fund the health care system. Often, in addition to this contribution, the large firms internalise the health activity, providing services to their own employees

**Introduction**

To determine the firm is in relation with the definition of object of analysis in economics. For 19-th century German economists Amonn A., Liefmann R., Heimann E. Strigl R., and for their Russian followers such as Kondratiev N., Struve P. the object was what in German and Russian literature is called "volkswirtschaftslehre" and "khoziaistvo" respectively and what can be approximately called in English the 'unitary economy'. This is mainly a social concept and its analysis requires the study of human relations (Kondratiev (1931)). The 'unitary economy' does not necessarily refer to individual holding. It may be peasant family 'economy', indicated Kondratiev, as well as the Ford Company or an American steel

corporation. In the last two cases many thousand acting persons are involved in complex economic and social relations. The firm is one of 'unitary economies'.

This paper analyses the Russian firm as an economic institution through economic history and history of economic thought, with special interest for Russian authors. 'Economic institutions don't arise suddenly, don't grow during a night, they don't parvenus without kith or kin, without ancestors or traditions. Their beginnings have usually their-own history', wrote Russian economist Levin (1917).

The paper concentrates on highlighting the nature of Russian firm and its evolution with special interest to the social characteristics.

## **I. Studies of firms through the economic history**

To assess the effects of different forces in modifying the nature and the efficiency of Russian firm, we examine some approaches proposed to study the institutions. Since the end of 19-th century, it is usual to think all economic phenomena exclusively in terms of categories proper to capitalism. The theories are formulated only for application to a wage-earning based society with the profit maximisation as an objective. The new-classical approach examines principally the extent to which a specific institution, the market - seen as mechanism of quasi-physical equilibration of exchange - governed in the past. An unsolved question is why some societies, but not others developed market economy? (North (1977)). Why trusts, moral constraints, under the form of an informal code of ethics, are introduced to control the behaviours in conducting the transactions more in some societies? (Fukuyama (1995)).

In 1924 in a paper about the non-capitalist economic systems Chayanov highlights that Russian (Chinese, Indian,..) society is characterised by completely special motives for economic activity and by special notion of efficiency. Economic science has to analyse the past from economic point of view and to elaborate a specific system for each 'unitary' type of economy. For example, into an economic system in kind, the needs of each unitary productive activity, define the system of consumption, and determine utterly and completely the human economic life. In this case, the latter has a qualitative character: each need must be satisfied into the own economic unit and the product of specified quality must be realised in kind form. In such system the question about allocative efficiency (Is it more profitable to cultivate hemp or reserve the meadow for haymaking?) has no meaning, since the final goods are not

substitute and have not any common measure. The notions of profitability, of economic effort, and of specific 'laws' constraining social life in rural economy in kind are different from the ones usually considered in economic theory, - wrote Chayanov. The difficulty for theoretical analysis is the absence of 'pure culture'. The economic systems co-exist and form very complex conglomerates.

T.Raïnov (1927) highlighted that economic equilibrium is metaphor not an analogy of physical one, and consequently it is wrong to search the utility conservation by analogy to energy conservation in physique. So, growth and progress, so called cumulative causation (Kaldor), are conceivable in social world. What are the reasons for progress? To answer those difficulties, economics proposes two types of developments. On the one hand, economics differs from the mechanical approach by introducing individual or collective knowledge, expectation, rationality, preferences and so on...with the aim to analysing individual behaviours, group formations or the emergence of rules inside a group. The branch of history, called historical institutional analysis, is the game theoretical conceptualisation of institutions as equilibrium. Disequilibrium is a source of action, of recomposition and fundamentally of crisis in institutions.

On the other hand, some authors investigated the societal characteristics of individual behaviours or other definitions of equilibrium. It may be done roughly and for instance in the historical comparative analyses it is not rare to define the development of some standard countries as an equilibrium path and the development of some other countries as deviation from this benchmark. Gerschenkron (1952) suggested, for example, that the British form of industrialisation, based on individual entrepreneurial decisions, was the norm in relation to which German and French types, with important role of the banks, were economically backward. The Russian type, where the state is the agent of industrialisation instead of the banks, represents a further stage of backwardness. More nuance argumentation's may prevail, but the leading idea stay the same in historical studies concerning the heterogeneity of firms in different countries in 20-th century, where the United States fordist type of firms is view as the equilibrium path. The new institutional economic history (Greif (1995)) - try to mitigate the consequences of such a schematisation and to explain how the culture and ethical behavioural norms (as genes in living organism) enforced by the state can imply poor or rich economic performances, and how they can emerge and persist. The contrasting histories of countries developments reflect the differing opportunity sets of the actors, indicates North (1991).

## **II. Social aspects of firms at the end of 19 century**

In 18-th century small production units were major in the industry. But large-scale production exists also. Created by Peter the First the large industry developed owing to state contribution. Two types of firms existed: the 'patrimonial' firms belonging to nobles, and the 'possessional' ('possessionnie') factories belonging to manufacturers, and receiving allocations and subsidies from government. The 'patrimonial' firms were organised on two-shift work. During two months their workers were occupied on hay mowing. Often the salaries were not played.

The Ministry of internal affairs defended the interests of nobles, i.e. agrarian class. It was guided by political and polices considerations. To avoid the interference with public security, this Ministry elaborated precise rules for firms. Especially after the revolutionary movements of 1848 in Europe, the laws within its competence were oriented to preserve the workers labour conditions. In 1811 already the minister of internal affairs Kozodavlev fixed the 12 hours working day, except Saturday, when it was of 6 hours. Women and children were not obliged to work. The wages should be aligned on the wages of free workers under contract. In 1803, for the silk factory of Kupavin, for example, it was decided that wages had to be updated every ten years, taking into account the prices evolution of bread and other workers' consumption goods. The rules of Iaroslavl stipulated for existence of a doctor and a hospital attached to the firm.

The 'possessional' factories made work the state peasants (serfs), vagabonds and convicts. According to law the manufacturer (often the owner of factory) could not divide the firm, could not sell the peasants separately from the factory, and could not change the nature and the volume of production. The state was fixing these parameters. Moreover the entrepreneur could not use the workers for tasks outside the factory, and a sufficient wage should be paid. The working day (about 12 hours) and the productivity ('lessons', i.e. the quantity of items to be produced) were determined by the manager, but the recourse to Finance Ministry was legally authorised in case of misapprehensions. Under some conditions the state might have authorised the no payment of the wages, but proposed to diminish the working time and provided a half time for workers needs. The worker of a 'possessional' firm had guarantee to keep his job, and his wage was secured.

The Finance ministry was the manager of 'possessional' firms, and defender of entrepreneurs' interests. It tries to reinforce the flexibility of management rules and managers' independence of the state tutelage. It considers that entrepreneurs may decide wages reductions, if they allowed distributing the assignats.

Serfdom was removed in Russia in 1861.

In 1859 the 'Project of rules for the factories and the mills of St. Petersburg' was published. A commission including entrepreneurs elaborated it. Several rules have been enforced in order to avoid industrial injuries: the workers' dwelling had to be clean and dry, the temperature should not be less than 13-15°; the men and the women had to be separated; the children younger than 12 were not allowed to work; the persons younger than 16 were not allowed to work in the night (cited from Tugan-Baranovsky (1898)).

A survey performed before the elaboration of this project revealed that the majority of St. Petersburg entrepreneurs were against night work, since it is unhealthy, and difficult to supervise; the workers had concentration problems; the goods produced in the night were of less quality, the lighting and the heating were increasing the costs, and the probability of the fire was high. The reasons for such attitude may be explained. Indeed, in St. Petersburg, the labour force was insufficient, the wages were higher than in other regions, the technological performance was higher, and entrepreneurs could require an important reduction of work time.

This project was largely discussed. The opponents insisted on the difficulty to reduce the work time for children and women, since it would reduce the competitive advantage of Russian goods in term of costs. For example, the Moscow firms were less equipped, their labour costs were lower, and therefore they were asking for work time extension.

The first precise rules of employment conditions were issued in Russia in 1886. The forms of labour contract became partly independent on the negotiation between employer and worker. The state inspector determined the labour regulation inside the firm. The reason explaining this legislation lay not only in the pressure exerted by the St. Petersburg employers, but also in the economic recession and in workers movements that coincided with their promulgation. The 1886 law stipulated:

- the wage had to be paid one or twice a month;
- the wage in kind was forbidden;
- it was forbidden to deduce the debt repayments from wages;
- the entrepreneur was not allowed to ask for interests for advanced wage;

- it was forbidden to deduce the costs related to health expenditure and to factory lighting;
- the employment contract could be broken in case of faulty behaviour of the worker such as insubordination, coarseness, ... The strike ring-leader could be jailed or banished. The employers rejecting the rules of wages payment, or using of corporal punishment could be penalised for 300 rubles.

A further law of 1903 made it obligatory upon the entrepreneur to indemnify the worker in case of accidents. The 1905 revolution entailed important changes in the social structure. Stolipin's agrarian legislation made it possible to withdraw from the peasantry. The government granted the workers the right to organise into trade unions. In 1912 the government took an important step in the development of protective labour legislation: accident insurance was extended and the first measures were taken to establish health insurance.

#### *Some facts about social policy in France and Germany*

Since 1880 and till the threshold of WW1, Germany was ahead in health insurance, accident insurance and old age pensions. The system was mandatory, and half of working population was covered in 1910 by health insurance and most of the workers by the industrial accident insurance (Mjoset (1998)).

In France the old age voluntary system existed since 1850. Mandatory state-based system in 1910, but only every tenth Frenchman was covered replaced it. France had no health insurance. The social security became mandatory for everyone and the old age pensions would cover all citizens in 1945/46. The 1898 arrangement for accident insurance was voluntary on the part of the firms (the mandatory system came only in 1946).

### **III. Social aspects of the firms during the Soviet history**

The collective labour organisation in agriculture in 19 century was an important tradition that influences the post-revolutionary discussion about scientific work organisation and firm nature. The state, representing the working class interests, favoured the scientific consideration of the different aspects of labour. For example, Vitke (1925) was convinced that the essence of organisational task consisted in creating a favourable social and psychological atmosphere in working body, in creating so called 'beehive heart'. Dobrinin (1926) elaborated

the 'organisational model' of firm management. The workers were introduced in all the management levels of the firms.

In 1923 special funds were created in each firm (trust) for improving workers life and the firms were obliged to spend for this objective a part of profits. Since, the social protection of the workers and their family by the firms became the main form of labour 'force' formation, avoiding the workers' control, and taking over the sanitary protection of Russian factories of the 19-th century.

During all the Soviet history there existed a notion of 'collectives of workers', and a part of value added was used by the firm for the development of the social sector. These resources were called respectively: "Funds of amelioration of workers and employees life", "Funds of director", "Funds of enterprise", and reached 8% of the total wages. Firms provided a variety of social services: free medical and dental care, the sick leave with full pay, access to recreation facilities, child care services, maternity leave, pensions and housing.

Firms' administration ordered also the consumer goods for their workers. This device played an important role in providing the population with necessities for scarcity periods. For that the firms made barter, direct purchases of agricultural products in the farms, or authorised the commerce inside the firm. Even the own farms, funded by enterprises existed. In 1997 10% of large firms produced the agricultural products for their needs.

#### **IV. The social sector turbulence and new structure**

Since 1988, the firm manager became free from the constraints imposed by the state. Logically he defended workers interests even before the beginning of the privatisation process which gave the legal power for worker-owners to decide how to use the profits in general and for the social needs in particular. However, the survey shows that even in 1991 some directors considered that the social sector and especially housing complicates the firm's financial situation.

Russia is passing currently through processes of recession and of restructuring. The recession is deep, especially in manufacturing. The restructuring plays troubling role in social life. Probably the most archaic industries are disappearing, since the degree of pollution is decreasing.

Table 1. Industrial pollutants in atmosphere (millions tons)

1990	1991	1992	1993	1994
37	32	28	25	22

Source: RosKomStat (1996) Zdravookhranenie v Rossiskoi Federatsii

At the same time the rapid deterioration of health is observed. The crude death rate in Russia increased from 11 per thousand in 1992 to 15 per thousand in 1995.

Table 2. Life expectancy at berth in Russia

	1992	1993	1994
Total	67.9	65.1	64.0
men	62.0	58.9	57.6
women	73.8	71.9	71.2

Sources: Goskomstat (1996), [www.mednet.com/stat/stat95](http://www.mednet.com/stat/stat95)

The dilapidation of health service and medical facilities, the collapse of the system of social security, and changes in social environment are causes of this situation.

After the price liberalisation in 1992, the firms reduced perforce the ratio of social costs and their housing investments. The subsidies for nurseries, «holiday homes», clinics and other social services plunged. The directors resisted dropping the housing construction because it was the principal method to conserve the low qualified and low remunerated workers. One could imagine that the economic efficiency brings to tearing away the social sector of firm. Moreover, the rules of privatisation concerning the socio-cultural infrastructure were ambiguous: a firm could be privatised with its social infrastructure, but at the same time it was incited to assign it (make over its rights) to the state. Conflicts were frequent, because the local administration tried to get only the buildings containing valuables. The rhythm of firm reconstructing is different in different spheres. Therefore, the reduction of the wages or the delay of the payment are the short run and quick decisions, the employment suppression need more time, and the social activities' transformation is likely a long run process.

Firm surveys of 1993-94 (Dolgopyatova (1995)) shown that at the beginning of transition firms sustained the social activity even if they were proceeding to modify the structure under the market pressure.

Some figures related to the expenditure of small firms can be displayed. In a sense the social expenditure of the newly created firms may indicate the future trends in this field. It appears that new small firms economise on the social funds two times more frequently than the old ones.



Table 3. Shapes of economic and social expenditure (out of wages) in 1993-1994

(% of survey answers)

	All Enterprises	"old"	Newly created
Don't exist	15.1	9.5	18.0
Credit and subsidies	19.5	16.7	20.9
Economic assistance	54.6	58.9	52.6
Sick-leave certificate payment	63.7	74.4	58.4
Medical care	26.5	33.7	22.8
Nutrition subsidy	18.4	23.3	15.5
Nursery	12.5.	11.6	13.1
Transport subsidy	17.0	18.4	16.2
Housing subsidy (rent or purchase)	7.6.	5.4.	8.7
Number of answers	1591	516	1044

Source: Small business in Russia (1995)

The social policy of entrepreneurs reflects the objectives of a firm. When the ambition of growth and development prevailed, the social protection was more important than in the firms oriented toward survival. The financial situation of firms (unstable - stable) was less discriminate for an employee's access to social benefits. Even the firms close to bankruptcy make an effort to ensure sick-leave certificate payment and in many case the medical care.

Table 4. Shapes of economic and social expenditure (out of wages) by managers'

objectives and financial situation of firms in 1993-1994 (% of survey answers)

	Manager objective		Financial situation		
	Development	To survive	Unstable	Not quite stable	Stable

Credit and subsidies	23.7	20.0	29.8	21.8	31.8
Economic assistance	66.7	60.3	59.6	70.2	68.2
Sick-leave certificate payment	73.7	77.5	83.0	83.5	76.2
Medical care	33.9	25.9	34.0	36.7	43.0
Nutrition subsidy	24.2	17.4	23.4	34.0	24.9
Nursery	15.2	13.2	14.9	17.6	18.4
Transport subsidy	22.6	16.6	19.1	25.0	22.4
Housing subsidy (rent or purchase)	10.7	5.5	4.3	10.1	15.4
Number of answers	769	471	47	188	370

Source: Small business in Russia (1995)

A survey of the 142 Russian firms' managers has been realised in 1996 by Lefèvre. The sample comprised the firms of seven regions: Vladimir, Ekaterinbourg, Voronej, Nijni-Novgorod, Samara, Saratov and Perm. All of them belong to manufacturing. 61 % of enterprises had worker collective as the main shareholder, 9 % were owned by local state authority, 8 % by other enterprises, and 3 % by foreign shareholders. All managers consider the social benefits as an important component of their firm, since a non-negligible share of employees are occupied in social services. For example, one firm producing electricity in Ekaterinbourg with 1940 employees conserved 25 % of them in social services. In this case the social sphere could not be considered as annex activity.

Table 5. Opinion on the sources of social sector funding (the portion of respondents, %)

(Who must fund the social protection of population?)

	Number of firms	%
Federal state	100	70.4
Local authorities	43	30.3
Enterprises	40	28.2
Regions	33	23.3

Population itself	12	8.4
Private sector	0	0.0
Others	5	3.5

Two answers were accepted, the total is larger than 100%.

Source: Lefèvre, C (1998)

The social infrastructure of enterprises is rather various. 80 % of firms own canteens, and the large share of them own polyclinic and housing for their employee use.

Table 6. Social infrastructure possessed by surveyed firms (spring 1996)

Type	Yes, own actually		Not, actually, but owned for 10 previous years		Never owned	
	Number	%	Number	%	Number	%
Canteen	114	80.3	14	9.9	14	9.9
Shops	103	72.5	10	7	28	19.7
Nursery	64	45.1	32	22.5	44	31.0
Hostel	106	74.6	11	7.7	25	17.6
Housing	92	64.8	21	14.8	28	19.7
Polyclinic	79	55.6	12	8.5	49	34.5
Hospital	16	11.3	11	7.7	108	76.1
Youth camp	59	41.5	14	9.9	66	46.5
Holiday houses	60	42.3	14	9.9	66	46.5
Cultural centre	41	28.9	14	9.9	82	57.7
Sport club	43	30.3	8	5.6	85	59.9

Source: Lefèvre, C (1998)

This assortment provides for 88% of workers an access to five types of social infrastructure, and for 71 % of them the access to eight types. The size of firm is important in view of the scope of social sphere. For example, we can see it on the numbers of health infrastructure.

Table 8. Enterprises owning hospital by number of workers (% into each group)

	< 500 workers	500 – 2 000	2 000- 10 000	> 10 000	In average
Yes	0	6	22	50	11
Not	100	94	78	50	89

Source: Lefèvre, C (1998)

Table 9. Enterprises owning polyclinic by number of workers (% into each group)

	< 250 workers	250 – 2 000	> 2 000	In average
Yes	17	54	77	56
Not	83	46	23	44

Source: Lefèvre, C (1998)

The Russian firms, which have not or have insignificant social infrastructure, are the small enterprises or ones where the foreign capital is a dominant shareholder. According to managers point of view the weakness of social protection in this class of firms has historical origin, related to their size, more than the recent appropriation by foreigners.

### *Social insurance programmes*

Since 1993 the mandatory medical insurance exists in Russia. This insurance guarantees the minimal level of health care. Income losses due to health deterioration are funded by social insurance. Both types of insurance for employed population are financed by firms' contributions. The firms' payments for mandatory health insurance represent 3.6% of wages funds and 5.4 % for social insurance. Moreover the employer payments 28% represent of wages funds for retirement fund and 2% for unemployment fund.

In addition to mandatory loaning the Russian firms pay complementary money (table 9)

Table 10. Social contributions in plus of mandatory contributions

	%	Number of enterprises
Financial help (exceptional)	86.6	123
Drug refunding	67.6	96
Subsistence	58.5	83
Family allocation	45.1	64
Allocation due to work accident	45.1	64
Sell at reduced prices	40.8	58
Birth allocation	38.0	54
Transport subsidy	38.0	54
Pension supplement	28.2	40
Free distribution of foods	7.7	11

Source: Lefèvre (1998)

In average these voluntary money contributions represent 10 % of enterprise salaries.

### Conclusion

The economic relations into the firm are non-markets ones. The current development of markets in Russia goes to the detriment of firm as sociological unity. Externalisation of many subsidiary activities touches upon health, child and resting activities also. The state or the market (insurance) will be in long run under obligation to provide assistance to unemployed, young an elder population, as it is a case in Western countries. Indeed, since earlier 1980 age and health became the most important programmes in Europe, but the support to families have been marginalised. Actually in West Europe about 10-20 % of social programmes is funded by the state, 50-60 % by the employer, and about 30 % by employee.

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