

11 Labor reform in Putin's Russia

Could modernization be democratic?

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Introduction

In the early 2000s a spectre was haunting Russia – the spectre of authoritarian modernization. By then, Russia had been rambling through regime transition for around ten years. These were not years of economic growth, though – quite the contrary, they were years of a deep and protracted recession which culminated in the economic crisis of 1998. As some vital policy reforms got constantly stalled by interest groups and the Communist opposition in the parliament (Hellman 1998; Shleifer and Treisman 2000), it was only natural to wish that the reforms be conducted with an iron fist.

The ghost of authoritarian modernization has been summoned ever since the late 1980s,¹ but only seems to have materialized after Vladimir Putin came to power in 2000. The new president enjoyed wide popularity and demonstrated resolution to accomplish major policy reforms. This allowed the government to conduct a series of important policy changes it had previously failed at. As certain autocratic trends developed by the end of the first Putin administration and a full-fledged electoral authoritarianism consolidated in Russia during his second term, an amalgamated image of Putin's Russia being an example of authoritarian modernization emerged.

The problem with this image is both chronological and substantive. On the one hand, a number of policy reforms, and the more successful ones, were launched in the early years of Putin's rule which were less authoritarian than those of the period afterwards. Indeed, Putin has done much when Russian politics still manifested some democratic features along authoritarian ones (which led observers to characterize it as 'hybrid' [Shevtsova and Eckert 2001]), and markedly stopped policy reforms when Russia became a full-fledged autocracy. Russia's modernization therefore proves problematic in terms of its timing as Russia reformed first and only then slipped into autocracy.

On the other hand, applying the logic of authoritarian modernization to the case of Russia may prove counterproductive because it leads to two additional problems. First is a methodological problem of having so-called non-events for observations (Mahoney and Goertz 2004). The full-fledged authoritarianism (which can be observed in Russia starting from Putin's second presidential term up until

now) proved very sparse reform-wise, especially in comparison with the previous period. One might argue then that autocracy is wrong for policy reforms, but such a claim would require a closer look on failed reforms under authoritarianism. Unfortunately, there are almost no such cases²: thus, authoritarian reforms in post-Soviet Russia are a non-event, which makes it very difficult to substantiate what hinders reforms under autocracy in Russia empirically.

The second problem is conceptual and deals with the fact that the focus on the authoritarian dimension of modernization provides us with an imperfect conceptual toolkit. Isolating the major variable from this toolkit, namely the political regime, would allow for a more nuanced approach. In hybrid polities like Russia, simultaneous regime changes and major policy reforms can be analyzed separately, since they are not always directly linked. In this vein, the analysis of policy reforms would start with finding the correlates of reform success or failure in the period of their conduct, and would then trace those same correlates in the subsequent (reformless) periods irrespective of regime dynamics during these periods. Thus we would be able both to overcome the problem of policy reforms being non-events under certain regime conditions and to treat their correlates in a more specific way. Moreover, given the fact that policy reformers in a hybrid regime often employed both democratic and authoritarian instruments of policymaking, one can analyze at least some cases of policy adoption in Russia in the 2000s regardless of creeping authoritarianism.

This is why understanding the logic of policy changes in the case of Russia would require a more detailed research into those reforms that were actually conducted earlier during Putin's first term: why his government used these political and policy conditions for major changes but was so reluctant to do so later, under full-fledged autocracy. In this chapter I will present some answers to this question. The specific case I deal with – the labor reform of 2000–2001 – allows discernment of a number of important correlates of reform success. Indeed, a reform aiming at deregulating labor relations should in many respects be problematic for democratic government. Such a reform would hurt influential interest groups – primarily, the labor unions – and might be very unpopular among the voters, thus antagonizing the opposition. Being able to overcome those hurdles is the ultimate test of government's reform capacity under democracy.

One can imagine that the drive for "authoritarian modernization" would provide incentives for the government to bypass democratic institutions and circumvent public discussions, similarly to what happened in education reform in the 2000s (see Starodubtsev, this volume). Or, alternatively, the government would go for a partial policy compromise, which may have satisfied major interest groups at the expense of policy efficiency, similarly to the case of pension reform (see Dekalchuk, this volume). However, the labor reform in Russia was adopted with the genuine use of democratic mechanisms and procedures. Moreover, the reformers proved successful in the process of selecting among policy alternatives and building a coalition to support the reform, which they managed to accomplish with only relatively minor compromises. This case study demonstrates that the government can squeeze unpopular reforms through the parliament without relying upon

an "authoritarian modernization" model if its policies are backed by a strong and popular president and when its efforts to secure the support of various actors prove enough to build a broad informal coalition of supporters. The case of labor reform is also revealing because there were two full-fledged attempts at this reform in the late 1990s and early 2000s, and only the latter succeeded. This allows us to trace the ultimate policy success back to the factors that conditioned it in the second try but were lacking in the first attempt, and to consider some effects of policy learning.

The structure of the chapter is as follows. The next two sections analyze two attempts at labor reform in post-Soviet Russia: the first one that occurred in 1997–1998, and then the second, successful attempt of 2000–2001. These two attempts can be treated as two separate case studies, or two stages of a single case. The element of comparison is introduced through referring to the previous experience during the second stage of reform, and through comparing these two stages in the conclusion. Given the empirical country-specific nature of this research, the conclusions I come to are somewhat grounded, but they also provide some considerations for further research.

The 1997–1998 labor reform: the first blood

There is a fair amount of literature covering the substance of labor reforms in post-Soviet Russia. Many writings are focused on labor unions, their efficiency (or, rather, inefficiency) and relative political weight over time (Cook 2001; Crowley 2002; Kubicek 2002; Ashwin and Clarke 2003; Cook 2007; Ashwin 2011). I refer the reader to this literature for a more detailed reading on substantive causes and effects of the labor policies discussed below, while this chapter is confined to a more detailed analysis of the way labor reforms were carried through in the late 1990s–early 2000s.

Reforming labor relations was an important item on the policy agenda ever since the collapse of the Soviet Union. The major piece of legislation in this respect – the old Soviet labor code of 1971 (*Kodeks zakonov o trude*, or simply *KZoT*) – was amended extensively in 1992, with supplementing legislation (such as the 1996 law on trade unions) adopted in the years to come. The goal was to adjust the existent legal regime to the new realities of the market economy. Yet, even recast, the Soviet *KZoT* still remained too Soviet – it was built on a framework poorly related with the nascent Russian market, and certainly did not mean much in the ever-growing informal economy. These problems only got exacerbated as more unsystematic reforming occurred over the years – often in a piecemeal manner and by presidential decrees rather than by laws. Russia needed a complete overhaul of labor market regulation.

Other post-Communist states faced similar problems. Under Communism both prices and wages used to be set through central planning, thus allegedly making for a clever integral solution to problems of unemployment and inflation. Part of this solution was heavy regulation of labor relations in Communist states, including social security and workplace safety regulations. Obviously, some of the more contentious issues for the market economy, such as hiring and firing practices and

collective bargaining, were also regulated very differently in the economies where no unemployment could occur in principle. As post-Communist societies rejected this solution altogether, their major goal became to introduce an efficient and flexible labor market that would match workers with vacancies. But essentially this turn also meant that a number of more specific issues relating to labor relations, ranging from safety standards to layoff protection, were to be resolved at once, which required a big bang welfare reform.

It is tempting to assume that given their similar Communist welfare backgrounds, and following the same reform path prescribed by the Washington Consensus, the new Central and Eastern European (CEE) democracies would arrive at the same destination. Yet this was not the case in general (Manning 2004), and furthermore there was a lot of variation in the way labor markets were reformed in particular (Cazes and Nešporová 2003: 20–29). Differences stemmed from the timing of reform (with Poland reforming as early as 1990 [Kwiatkowski, Socha and Sztanderska 2001] and Russia waiting till 2002) and from variation in political conditions leading to labor market reform. The seemingly identical Communist legacy proved somewhat different, too, especially as the differences got exacerbated by the uneven reform efforts in different countries (Svejnar 1999). As a result, by the mid-1990s the post-Communist labor market landscapes differed significantly, with some countries weathering the transition quite well, while others faced higher unemployment rates and longer spells (Blanchflower 2001).

Overall, though, and despite some significant divergence during transition, the direction of reforms was the same – towards labor market liberalization, which meant shorter-term contracts, easier firing, longer working hours and generally less state regulation. Another common feature of all CEE states stands out prominently – the aggravated weakness of labor unions after the reforms (Crowley and Ost 2001): There is a discussion as to whether the decline of labor unions should necessarily be attributed to the reformers' intentions, or if this was a natural result of the economic calamities the societies went through during transition (Levitsky and Way 1998) along with the Communist institutional legacy, which diminished the autonomy of labor unions from the state (Crowley 2004). As I will show in this chapter, at least in the case of Russia the weakness of labor unions was very much related to the contents of the 2000–2001 labor reform.

It should be mentioned that not only the post-Communist countries reformed their labor markets in the 1990s and 2000s. As a matter of fact, labor reforms became ubiquitous at the turn of the century across the developed world, too. Curiously, to some extent reforms in post-Communist countries must have been an important trigger for the global reform wave. As more post-Communist countries opened to global markets, the Western states found themselves in a competition with the globalized world. Just as the CEE countries were challenged to get rid of the old socialist legislation, so Western Europe was stripping its regulations of excessive labor protection that made it less competitive (Sapir 2006). In this regard, the decline of labor unions became an international phenomenon, which coincided with the rise of new forms of labor relations all over the world.

Note though that for the Western European governments this was not as much a matter of rejecting the outdated unsustainable Communist welfare regime, but rather a meaningful dilemma between market flexibility and social security that Western European countries were accustomed to. Indeed, in most cases governments faced stronger and more coherent labor unions which, unlike their CEE counterparts, were powerful enough to resist the reforms. The task was to reconcile job security with market flexibility (no wonder the buzzword coined for these reforms in the late 1990s was “flexicurity” [Wilthagen and Tros 2004] – a nice combination of the two). Reconciliation was made possible through liberalizing hiring and firing practices and introducing short-term and part-time job contracts while keeping social security guarantees high enough. Importantly, such guarantees were often supplied through “state-supported but mainly trade union-based unemployment insurance [systems]” (Viebrock and Clasen 2009: 10).

To locate the case of Russia within this context we must take into account that whereas the problems Russia faced were substantially most similar to those that other post-Communist countries struggled to resolve in the 1990s, the timing of the reform was rather similar to that of the developed countries. This means that a thorough liberalization that many CEE countries managed to conduct while still having the popular enthusiasm and union support of the first post-Communist years, faced a completely different climate in Russia, with the citizens disenchanted and labor unions in opposition to the government. Ultimately the labor market reform in Russia was less profound and was also very protracted. This combination determined both the mediocre effectiveness of the reform and the political environment it was embedded in.

Why did the labor market reforms go so slowly in Russia? One major reason might be that the political leadership preferred to avoid the risks of mass unemployment during the transformation recession, being afraid of political protests after layoffs (Clarke 1998). And indeed, the scope of labor protests in Russia in the 1990s was fairly limited (Robertson 2007). However, the need for a comprehensive reform of labor relations was finally acknowledged after the 1996 presidential elections, when a deficit in the state coffers urged the government to ask for international financial assistance. Of course, when it was found, it came with some strings attached, with labor reform being part of the structural reforms package that international assistance was conditioned on (Chandler 2001: 324). As the labor reform was included in the list of priorities for the government, a group of experts led by Mikhail Dmitriev, one of the key figures in labor reform for years to come, was invited to conduct it.

Dmitriev's job was to devise the labor and pension reforms, so he took the position of first deputy minister of labor and social protection. Dmitriev also brought along his previous associates, including Tatiana Korshunova, a labor lawyer, and union activists Dmitry Semenov and Pavel Kudiukin (the latter also was a former deputy minister in the Gaidar government). They “were allotted a small office [in the ministry] with a computer and a fax”, as one interviewee put it, where they prepared the labor reform proposal.³

Similar to the situation in pension reform (see Dekalchuk, this volume), Dmitriev's team was not the only group involved in labor reform. An alternative labor reform proposal was developed by yet another group headed by the deputy minister Vladimir Varov. Varov was a ministry old-timer: he had worked in the field since the early 1990s and headed the state inspection for labor safety. Before Dmitriev's appointment, Varov was the deputy minister in charge of labor relations, so no wonder that he headed the second group. The initial idea was that both reform proposals would be discussed within the ministry, and then the best proposal would be presented to the cabinet ministers.

This mode of policymaking demonstrated the approach towards labor and pension reforms taken by the "young reformers". Creating an outside task force within the ministry would allow for sidelining the old bureaucracy and conducting the reform the way "young reformers" and the World Bank wanted it. But this also showed the balance of power within the government at the time, as the "young reformers" failed to persuade the ever-careful Chernomyrdin to push aside the "old bureaucracy" completely, who were still allowed to prepare their own reform proposals.⁴ As a result, the choice between alternative reform proposals would be made only at a later stage, when discussed in the cabinet. This set the central conflict at this first, pre-Putin stage of the policy reform process – between the liberal reformers (outsiders for the respective ministry) and the entrenched "old bureaucracy".

The conflict was settled rather abruptly when in spring 1998 the Chernomyrdin government was dismissed and the new labor minister, Oksana Dmitrieva, was appointed. By that time, two reform proposals were finally ready to be presented to the ministry. Yet, unlike her predecessor Oleg Sysuev, who supported Dmitriev and sided with the liberals, Dmitrieva was more moderate and preferred the alternative proposal prepared by the "old bureaucracy". When the two concepts were discussed in late July 1998 at the ministry college, Dmitrieva openly endorsed the one prepared by Varov and presented by the head of the legal department, Sergey Panin, who was subsequently given one month to finalize the draft (Babaeva 1998b).

The reason Dmitriev's proposal for labor reform failed was related to the support that the "old bureaucracy" got from the more left-leaning Dmitrieva.⁵ But in a broader sense, there was a strong mismatch with the immediate economic conditions of the time (just before the financial crisis of 1998) and consequently a conflicting set of problems the labor reform had to resolve in the short and the long run. The second half of the 1990s were years of outstanding wage arrears due to protracted recession and the fiscal crisis of the Russian state. Thus the ad hoc short-term solution supported within the ministry (and in public opinion) was to ensure that wages were paid and people were not laid off. Dmitriev's proposal aimed at a long-term solution through increasing labor market flexibility and boosting economic growth, but the timing for policy changes was so bad that the ministry did not dare to take it.

Finally, one factor Dmitrieva might have had in mind was that after the cabinet approval, the reform proposal would have to go through the Communist-dominated

State Duma, which was ready to block any draft it found too radical. Meanwhile, the need for urgent reform was particularly pressing. By summer 1998 the budget deficit was extremely acute, and the Russian government would not be able to service the external debt. The government was carrying on negotiations with the International Monetary Fund, which was willing to lend money only if the structural reforms discussed earlier were passed by the Russian parliament (Shleifer and Treisman, 2000; Gilman, 2010). This means that Dmitrieva's choice might have been heavily informed by the Duma's tastes.

This context also explains why and how immediately after the 1998 financial crisis the labor reform vanished from the policy agenda. Indeed, many factors contributed to this policy shift, including the changing economic conditions and another government changeover. ~~But unlike the pension reform that up to that moment very much followed the same path (see Dekalchuk, this volume), the labor reform got a second wind when Varov's draft of the Labor Code went through Yevgeny Primakov's government and was introduced to the parliament in March 1999.~~

Two alternative drafts were proposed to the State Duma at the same time. One was prepared by the Communist MP Teimuraz Avaliani. This proposal also had a long pedigree, except it rather had working-class roots. The original authors of the proposal were labor union activists Konstantin Fedotov and Mikhail Polozov of the Labor Academy Fund (*Fond rabochei akademii*), an NGO that had submitted its proposals to reform *KZoT* as early as 1996, when this issue was first raised by the government (Gerasimov 2011). This proposal was first submitted to the Duma in early 1998, when Communist MPs Shandybin, Korsakov, Ionov and Grigor'ev failed to include it in the parliamentary agenda. At last, Avaliani's proposal was finally accepted for the Duma hearings in 1999.

Avaliani's proposal was understandably more left-wing than the governmental draft: it kept most social guarantees provided originally in the 1971 *KZoT* and broadened the powers of the labor collectives, thus giving them a role as a veto player in any labor disputes. In fact, the proposal originated in the "labor" wing of the Communist party and would therefore be to the left even from a median Duma Communist (March, 2002). While the Avaliani Code was the most left-wing of all such documents ever discussed both in 1997–1999 and 2000–2001, a more liberal proposal was submitted around the same time by the *Yabloko* MP Anatoly Golov. *Yabloko* has been trying to claim the issue of labor reform since the 1995 Duma elections, and reforming the area was one of the party's priorities in the second Duma (Gribachev 1999). Substantially the Golov proposal was close to the governmental draft (Novikova 2000; Yakovleva 2000), yet they differed in the bigger role assigned to individual (as opposed to collective) employment contracts.

The three proposals, though different in many other respects, converged on curtailing the powers of labor unions. The unions would lose their say in the firing procedure (provided by the old *KZoT*), and the employer would be relieved of the duty of making regular payments to the unions (which served as a kind of rent, allowing them to maintain the social infrastructure assets belonging to them as a Soviet legacy). Indeed, if any of the three proposals were voted, the unions would

lose both money and the influence they had in labor disputes. This would send Russia along the trajectory already chosen by many CEE post-Communist states.

Yet by the time the three proposals were submitted, Russia had entered the 1999–2000 electoral campaign, which put labor reform on hold temporarily. The last desperate attempt to reform *KZoT* before elections failed when President Yeltsin vetoed the amendments adopted by the Federal Assembly in late 1999. Thus the results of this reform attempt were mixed: the solutions proposed by the major players did not allow for compromise, while some of the major players (most visibly, the liberal reformers and labor unions) had no chance to advance their policy positions in the government or the State Duma. Resolving this policy deadlock was left for after the elections.

The 2000–2001 labor reform: the liberals strike back

The status quo bias prevailed in the labor reform by late 1999 because of two major conflicts. One was the policy battle between liberal economists who had entered the government in the mid-1990s and the old ministerial bureaucracy that tried to temper their reform-oriented zeal. The major political conflict between the president and the Communist-dominated Duma (Shleifer and Treisman 2000; Remington 2001) was also hardly conducive to major policy reforms. The 1999–2000 electoral cycle changed the overall Russian political landscape completely. The country went through the presidential succession in late 1999–early 2000 and came up with a new president and his new government. The elections also reshuffled the Duma substantially by ending the Communist majority and pumping a lot of fresh blood into the parliament. Unlike its predecessor, the third State Duma (1999–2003) was full of Putin's loyalists: not only the pro-Putin Unity (*Edinstvo*) party, which relied upon the new president's popularity, but also its rival Fatherland-All Russia (OVR), backed by the governors' political strength, as well as some other parties and groups, such as the Union of Right Forces (SPS) and People's Deputy (*Narodnyi deputat*, ND), which sought alliances with the government.

These profound political changes put an end to many political conflicts of the late 1990s, such as the confrontation between the president and the State Duma. Should the pensions and labor reform packages have been put to the vote in the second Duma, this confrontation could have made adopting them very problematic.⁶ The dramatic change in the political landscape in 2000 opened a window of opportunity for reform but also created a number of new challenges.

The major challenge for the government was building up a viable coalition to support the policy reforms. Despite the political loyalty of the State Duma majority to Putin, policy preferences of MPs were rather diverse, while political alliances within the parliament were also uneven. The deal between the pro-government *Edinstvo* and the Communists divided committee chairmanships between the two parties, with Communist Gennady Seleznev appointed the speaker. Conceived to drive back OVR, this alliance also left out some of the influential actors, such as the SPS, which counted among its members many powerful figures from the

previous liberal governments and was closely associated with the liberal wing in Putin's entourage. Their association with the pro-Putin forces was symbolically sealed when SPS leader and ex-prime minister Sergey Kirienko personally handed a heavy volume of policy reform proposals to Vladimir Putin in the late 1999, which Putin publicly endorsed by saying he "supported some of the ideas of the program straight away" (*Kommersant Vlast* 1999). Observers expected (though maybe wishfully) that the new pro-government coalition would include *Edinstvo* and SPS, with SPS determining the economic policies.

There were specific manifestations of these novel political conditions on the labor reform front. Indeed, the 1999 Duma elections brought in some new influential players. For the labor reform, particularly important was that a number of labor union leaders became MPs. Partly this happened because the unions anticipated a labor reform and sought an opportunity to influence it. After the 1995 unsuccessful attempt to run in the State Duma elections, the unions' primary strategy was to lobby the parliamentary parties – this strategy was used extensively by the biggest union, the Federation of Independent Trade Unions of Russia (*Federatsiya nezavisimyykh profsoyuzov Rossii*, FNPR). Much of the FNPR's effort to lobby the Second Duma (1995–1999) was in vain, though. And as their political influence increased against the background of large-scale strikes in the second part of the 1990s (Robertson 2007), the FNPR decided to step up the strategy and go straight to the Duma (Ashwin and Clarke 2003: 53–55).

Another reason for large union leadership mobilization was the search for eligible notables to be included on the party lists in late 1999 as both *Edinstvo* and OVR competed in a warm-up fight before the presidential elections (Clarke 2001; also see Hale 2004: 182–185). As a result, a number of unionists were nominated by the parties and got elected (Kubicek 2002). Some of these new MPs formed a working group that by May 2000 introduced a "unionist" draft of the Labor Code in opposition to the governmental proposal. At the same time, after the 1999 Duma elections, some of the "old blood" involved in the labor reform was pumped out: two MPs who authored alternative labor code proposals, Golov and Avaliani, failed to get reelected, and their proposals lost even slight chances to be approved.

Finally, following the presidential elections a new government was formed, which brought along a new comprehensive reform program. This program had been prepared under the auspices of a newly established think tank, the Centre for Strategic Research (CSR) since December 1999. A group of liberal economists in charge of the program was chaired by German Gref. As soon as the program was ready, it was presented as a ten-year plan for socio-economic development, and Gref was appointed to the post of minister for economic development and trade to implement it. The Gref Strategy was approved by the government as "Main Directions of the Socio-Economic Policy of the Russian Government for the Long-Term Perspective" (also known as the Gref program or Strategy-2010) in summer 2000. Despite the major breakthrough in the overall reform strategy, the changes in governmental position on labor reform were minimal, and although Mikhail Dmitriev headed the new labor reform effort, the government decided to secure

continuity with the previous policy directions and endorsed the initial proposal (authored by Varov) already submitted to the Duma in 1999.

Following these major shifts in the Russian political landscape, the configuration of actors in the field of labor reform changed, too. As the reformers were busy preparing Strategy-2010, the new unionists in the Duma managed to organize into a coherent group and submitted their alternative draft of the Labor Code, a document that kept many of the guarantees of the old *KZoT* to workers and the unions intact, and differed very significantly from the more market-oriented governmental proposal. This upset the emerging fragile balance of having to choose between three proposals, two of which were relatively similar (and moderate), and the third sponsored by the Communists and very unlikely to harvest a broader support. The hearings of the parliamentary working group had to be postponed in order to allow the MPs to examine the unionist proposal (Khayrullin 2000).

The unionist proposal had a number of obvious political merits. It was largely based on the existent *KZoT* and reinforced most of the social rights already guaranteed by the 1971 document. This made it look more attractive in the public opinion compared with the governmental proposal that sought to liberalize labor relations by extending working hours and allowing for more flexibility in hiring and firing workers. "The Group of Eight" (as the eight MPs behind the unionist code proposal were dubbed) used this advantage to build up support for their initiative. In a remarkable show of strength, they organized a fierce media campaign against the "liberal" code and attacked Gref and Dmitriev personally (both reputed to be cutthroat liberals), labeling their proposal anti-labor and anti-people.

Ironically, although Dmitriev was promoting the governmental proposal, this draft was not too liberal, and was not very dear to him either. As he explained in an interview in October 2000, the government planned to push the code through the Duma in order to at least liberalize hiring and firing practices, and then amend it in the years to come (Reznik 2000).

This change of heart was not as much a concession to the Duma, but rather to the president, who wanted the new Labor Code adopted as soon as possible. Over time, however, it became clear that taking a more moderate stance did not work for reformers. The preliminary hearings in October 2000 turned into a clash between the government officials and the Group of Eight, accusing the government of committing "the most large-scale violation of labor rights" (Sazonov 2000). It was clear that the first reading of the Labor Code planned for December 2000 would fail.

The government sought ways to overcome Duma reluctance to support its proposal. Previously the political fragmentation of the legislature allowed the government to build support even for its most controversial proposals without having to cede too much (Remington 2006). This solution was not possible in the case of labor reform because the Group of Eight was built across faction lines: the group leader was Andrey Isaev from OVR, but some members of the group came from the Communists, and there were also SPS and *Edinstvo* MPs. All of them were unionists and were more responsive to their union constituencies than to the party discipline (which was generally rather low at the time).

An alternative solution was to build a counter-coalition within the Duma to split the vote and win some advantage for the governmental draft. At Dmitriev's suggestion, such a group was formed around MP Andrei Selivanov from SPS. The group composition mirrored that of the Group of Eight: it also included eight MPs from different parties (SPS, *Edinstvo*, the Liberal Democratic Party of Russia), which led to allegations that the motion was a maneuver to confuse the MPs before the first reading (Zakatnova 2000). The text submitted by the "impostor" Group of Eight was also very close to the liberal draft prepared by Dmitriev in 1997, as if intended to underscore the moderate tone of the official governmental proposal (Boguslavskaya 2001) and send a signal that the government could play harder.

Yet, this trick did not matter much when it came to voting in December 2000. Indeed, the Group of Eight had a large extra-parliamentary support. Apart from coming from different factions, members of the group also represented different labor unions. The group leader Andrey Isaev came from the FNPR, the biggest union, which succeeded the old Soviet All-Union Central Council of Trade Unions, which was disbanded in 1991. The FNPR enlisted millions of members across the country and was the most powerful union organization, even though its self-declared independence (the *N* in the title stands for *nezavisimaya*, independent) was often questioned, and its influence was rather a matter of enduring inertia which came from its monopolist position in Soviet times. The All-Russian Confederation of Labor Unions (*Vserossiyskaya konfederatsiya profsoyuzov*) also endorsed the Group of Eight (its vice-president Anatoliy Ivanov was a member of the group). This union had a different genesis. It was only formed in 1995 and represented the powerful motor-car, metallurgical, and mining unions. These were the new energetic unions (as opposed to the old dull FNPR), which they proved during the storm of strikes in 1998 and especially during the "rail war" when miners blocked the railroads across the country.

With the backing of unions throughout 2000 the Group of Eight made its claim to represent the interests of labor very visible. Indeed, it succeeded at blemishing the government-sponsored proposal as utterly capitalist in public opinion, and thus made it almost impossible for a median Duma MP to support the governmental bill openly.⁷ As a result, during the first reading in December 2000 the argument was so heated that both sides preferred to postpone the reading for March (Izvestiya 2000).

To overcome the Duma resistance, the government needed additional means of persuasion, but first of all it needed a framework where negotiations could start and where those means could be applied. Indeed, one lesson of the labor reform was that sometimes the government could not just bring in a proposal and wait for the Duma to approve it. A mechanism for negotiation and co-optation of at least some of the union strongmen should have first been created. In this situation, the standard practice would be to convene a conciliation committee at the Duma (which the Group of Eight insisted on), but the experience of debating the issue publicly in late 2000 proved that this would hardly be productive. The government sought a separate arena to discuss the issue, probably wishing for a backroom deal.

The government also sought to avoid hearings in the Duma labor and social affairs committee, known to be problematic as it was chaired by the hard-line Communist Valery Saykin. Thus in its search for a separate negotiations platform, it arrived at creating a special working group.⁸ But even as the discussion was driven away from the committee hearings, there still remained powerful members of the unionist opposition who needed to be persuaded, even though now the persuasion process would be hidden from the public eye. Indeed, as the negotiations kept stalling, Vladimir Putin had to get involved when he asked the parliament to "speed up revision and adoption of the Labor Code" in his 2001 address to the Federal Assembly. He also insisted on the new code being developed on the basis of the governmental draft.⁹ Initially this approach seemed unrealistic, but the way out of the deadlock was found when the government managed to split the unionist coalition by proposing to the FNPR a near-monopoly status compared with the other unions. This solution was reached through introducing a single collective agreement clause to the draft code and fixing the minimal membership threshold for a union to bargain with employers at 50 percent of all the employees (in most instances, none of the other unions was comparable to the FNPR in numbers of members). The deal was sealed when Putin endorsed Mikhail Shmakov, the incumbent president of the FNPR, which helped him get reelected (Kadik 2001). This deal paved the way for a consolidated draft of the Labor Code to reach and pass the first reading in July 2001 and then be adopted by late December 2001.

The consequences for the substance of the new Labor Code were obvious. On the one hand, the government managed to get its own way with a moderate liberalization of labor relations. Some of the provisions that the unions were fighting furiously in late 2000, such as extending the working hours, were incorporated only partly and stated vaguely. Thus, the working week remained forty hours long as it was in the old *KZoT*, but the new Labor Code enabled the employer to resort to overtime work more easily. The new code also allowed for a broader use of short-term contracts, which should have made the labor market more flexible. A big step towards liberalization was made as the unions were stripped of most of the powers to contest layoffs and to participate in management decisions which they enjoyed according to the old *KZoT*. Essentially, the government managed to get rid of the most anachronistic provisions, but the Labor Code remained rather labor friendly.

On the other hand, to build the coalition the government had to incorporate the organizational interests of the biggest (and the most outdated) of the unions into the Labor Code: hence the new provisions that played in favour of the FNPR alone while significantly reducing the powers of the other unions. This allowed the FNPR to hold back its stagnation temporarily by raising the entry barriers and reducing union pluralism, but it also meant that unions were made a less efficient tool for employees to protect their rights. In a broader comparative perspective, the case of Russia fits two dimensions of labor reforms: like most post-Communist countries, it needed a profound liberalization of the labor market, yet unlike them it only managed to conduct major policy changes very late, when the unions had already consolidated to resist it. Hence a middle-of-the-road reform with specific provisions to secure union support became the only feasible solution.

Conclusion: democratic policymaking under a hybrid regime?

The second attempt to reform labor relations in Russia was more successful than the first try. What specific factors that were missing in 1997–1998 helped pass the proposal through the State Duma in 2001? One obvious answer would be the personal involvement of Putin, a popular and active leader. His personal resolution to have the new Labor Code adopted was obviously strong enough that he was ready to spend some of his political capital on building up a broad coalition in support of the reform where there was no such support initially. Note that in the first reading the draft of the Labor Code was endorsed by only 52 percent of the MPs, and even this marginal support was hard-earned. Also, the change of broader political conditions during the third Duma convocation played a certain role. And although the new Duma did not oppose the executive as fiercely as its Communist-dominated predecessor, it was not so easy for the government to persuade the legislature. Only by the end of its term was the new party of power, United Russia, formed, and it was ready to rubber-stamp almost any initiative the Kremlin proposed (Gel'man 2008: 918): yet in 2000–2001 this was not the case at all. What made the difference was the amount of resources available to the government and to the president. These resources were wisely invested in major reforms. The government performed much better in drafting and advancing its proposals and proved a unified actor with a consolidated approach to policy reforms. Also, soon enough the government realized that political and institutional reforms aimed at securing its positions brought larger dividends.

In fact, if anything else changed in the political settings it was the stronger presence of interest groups advocating particular policies in the Duma. In the field of labor reform in particular, it manifested itself in the higher unionist representation. One obvious effect of union lobbying was that the government faced stronger resistance and had a harder time pushing through its proposal. A less obvious and probably more important effect is that the issue could not be taken off of the agenda and postponed as simply as it was done in 1998. Indeed, the Group of Eight had enough persistence to proceed with reform and even take the initiative in their own hands. It is therefore highly unlikely that the government could downplay the need for labor reform. Crucially, this feature provides for more commitment to the ongoing reforms for all parties, and means that politicization of policy reforms is in fact a double-edged sword. Under democratic government this feature would increase chances of not succeeding with reforms due to lack of compromise between the parties: where the politicization is too high, there is a risk of persistence of the status quo. Yet depoliticization of policy changes under autocracy would lead to lowering the politicians' commitment to reforms. Ultimately, as the costs of policy reform often outweigh its benefits to the reformer (at least in the short run and assuming the reformer is risk averse), there would be no commitment, and therefore no reform at all. To draw up a balance, while democracies would sometimes fail to conduct policy reforms due to excessive politicization, autocracies would fail all the time for complete lack of it.

This means a positive answer to the question posed in the title of this chapter. Russia could modernize democratically. Moreover, when there was modernization in post-Soviet Russia, it was essentially democratic. And if Russia resumes modernization, it will do so under democracy. The case study of the 2000–2001 labor reform also suggests that the major reason why policy reforms stalled as Russia moved toward authoritarianism was the lack of political commitment to reforms.

Notes

- 1 In Russian political lingo the most active proponents of this approach are known as the so-called ‘systemic liberals’ – a group of experts and politicians standing in favour of economic modernization at the expense of democratic freedoms (Gel’man 2005: 236–237).
- 2 One notable (and highly instructive) exception is probably the police reform (Taylor 2014).
- 3 These were the typical working conditions for all post-Soviet reformers when they were introduced into the existent bureaucratic establishments. Similarly to Dmitriev’s encroachment to the labor ministry in 1997, in 1990 Anatoly Chubais put together his first reform squad and brought it to St. Petersburg city administration. The reformers were stationed with the old Soviet planning bureaucracy (“who were not glad to see their new neighbors”) at the City Planning Committee of Leningrad (*Lenplan*). The young reformers “understood that a room, table and a telephone is all the power they had” (Pis’mennaya 2013: 29).
- 4 Which also goes in line with Chernomyrdin’s credo: “one should not put two eggs into the same basket”.
- 5 In an interview dating back to July 1998 Mikhail Dmitriev mentions disappointedly that the two working groups (his and Varov’s) “has only just reached an agreement” about the common draft, but now “the tension is escalated artificially” between the two all over again (Babaeva 1998a). Most probably, the new minister played a central role in these events.
- 6 Traces of the presidential confrontation with the Duma within the labor reform are plentiful. Indeed, the attempt to introduce the Communist draft in early 1998 was essentially blocked by the government. Many other minor amendments to the old *KZoT* were also rejected. Most important was the amendment to toughen employer’s liability for wage arrears passed by the Duma but vetoed by president Yeltsin in the summer of 1999.
- 7 The minister of labor Alexander Pochinok who lobbied for the governmental draft of Labor Code in the Duma was desperate. When Pochinok’s wife gave birth to their son in December 2000, Valentina Matvienko, the then deputy prime minister for social affairs, congratulated the recent father by wishing him to have the Labor Code adopted at least before his son starts working himself (*Profil’* 2000).
- 8 The working group coordinator Oleg Kovalev from *Edinsvo* would later acknowledge it was a huge advantage that the Labor Code was not prepared by the labor and social affairs committee as “certain parties may have a numeral superiority in a committee, whereas in the working group all factions are represented proportionately, which is very important to keep the right balance of interests” (Sadchikov 2001).
- 9 As the audience started growling, Putin grinned and toned it down by adding: “I said ‘on the basis of [the governmental draft]’, ‘on its basis’” (“Poslanie Federal’nomu Sobraniyu Rossiyskoy Federatsii” 2001: 47, 50). The reason this was so important is that after the December 2000 standoff it was decided that both the unions and the government would put their proposals aside and would go back to the drawing board. Apparently, by spring 2001 the government changed its mind.

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