

# Centralisation and collective bargaining in Russia – the effectiveness of trade unions in ten different sectors

Author: Kajsa Borgnäs

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## Introduction

After the break up of the Soviet Union in 1991, a fast and thorough remodelling of the Russian economy has taken place in which both domestic as well as international private companies have come to play increasingly important roles, alongside the state-owned sectors. The planned economy operating during Soviet times was soon replaced by a market-economy and many of the old state-owned companies were privatized or simply closed down. For many workers in Russia the swift transformation of the economy has led to a lowering of wages and a worsening of conditions at the work place which neither the public authorities nor the newly born trade unions have been able to put a stop to.

Alongside the larger trade unions that survived the Soviet break-down, many smaller trade unions in various parts of the country and sectors have been started up. However, despite the fast rearrangement and reforming of the old structure of the trade union movement in Russia, there is a widespread public suspiciousness against most trade unions among workers. Trade unions are generally associated with the old Soviet system and trade union-membership has fallen dramatically in the past decade.<sup>1</sup>

Since the early 1980's, economists have been aware that the level of centralisation in wage bargaining in an economy affects the economic performance of the economy as a whole (measured by the level of unemployment, the inflation rate and wage-dispersion among workers). More specifically, Calmfors and Driffill (C/D) in 1988 discovered a hump-shaped relation between centralisation in wage negotiations and the level of unemployment. According to this theory, in economies where wage bargaining is very centralized one is expected to find the lowest level of unemployment. Economies in which wage setting occurs at a semi-centralised level, with many smaller trade unions, are expected to show the highest level of unemployment and in economies where wages are set with very little or no centralisation, unemployment should be low. The rationale behind the theory is that in economies where bargaining is conducted at the central level by a few encompassing trade unions, the parties will all take the inflationary impact on the economy the higher wages will have, into consideration and thus moderate their wage-demands. In decentralised economies trade unions are either weak or non-existent and thus unable to raise wages at all, which leads to the firms being able to hire many workers. In semi-centralised economies, on the other hand, no party take inflationary tendencies into account but bargain to, and are successful in, raising wages above what companies are able to pay its work-force and unemployment thus rises accordingly.

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<sup>1</sup> <http://www.greenleft.org.au/back/2000/418/418p24.htm>

The C/D-theory of centralisation has been challenged by many economists, but the main rationale behind the theory still seems to hold. Rowthorn in 1992 extended the theory into covering the effects the level of centralisation has on wage-dispersion among workers in an economy, where the hump shaped relationship also seems to hold.

Thus, in short; the C/D and the Rowthorn theories say that trade unions are most effective if they are very centralised or heavily decentralised, and they are least effective if they are semi-centralised.

## **Method**

The empirics on the Russian trade unions examined were collected during a week in Moscow in June 2006, where I met and conducted interviews with 12 representatives both of the 10 different trade unions as well as of the FNPR and the ICFTU. The purpose of the study was twofold, one part building directly upon the other. The first focus was to examine and describe the structure of the trade unions in the ten Russian sectors in which LO-TCO Secretariat of International Trade Union Development Cooperation is financing cooperative projects between Swedish and Russian unions. On basis of the answers in the interviews I thereafter tried to rank the different sectors in how centralised they are in their wage bargaining-structures. My second aim was to try to examine if unemployment and wage dispersion was lowest in the sectors with the most centralised trade unions, and if the C/D analysis about trade unions being more effective the more centralised they are, would hold. Throughout the examination I treated the ten different sectors as separate economies, thus corresponding to the C/D analysis.

The interviews that were conducted to collect empirics were all performed in a similar way. Most of them were oral interviews which took place in Moscow, but two of the trade unions are not located in Moscow and their representatives thus responded to my written questions instead. One interview was conducted in Stockholm. These oral and written interviews serve as the main empirical material in the first part of the paper when interpreting and examining the level of centralisation among Russian trade unions.

## **The formal structure of trade unions in Russia**

The trade unions in the ten sectors I have examined all show a similar formal structure. In fact, there is a formalized structure of national/central, regional and local levels of organization and negotiations in all sectors. The financial structure is also similar among the trade unions as there are national laws and regulations for membership in trade unions.

### **The tripartite agreements**

In the tripartite commission Russian workers, employers and the government are represented. Each party selects 30 representatives who are to meet twice a year to discuss minimum standards and legislation relating to workers' rights (FNPR appoints 25 of the 30 representatives of workers. The other five are appointed by the VKT and the KTR). According to Russian general law, all legislation that is to be put forward the parliament and which concerns labour rights and conditions, must be discussed by the tripartite commission. If it has not been discussed, it can not be adopted by the parliament. Moreover, the tripartite

commission must approve to the legislation if it is to be adopted by the parliament. However, according to the international secretary of the FNPR Anatolij Surin, this process might give the trade union movement insight into the process of legislation, but the commission rarely adopts proposals that are being put forward by the representatives of the workers. Instead, the employers' representatives and the government representatives are often much more successful in agreeing on laws that effectively reduce workers' rights. Except from the Labour Code that was adopted in 2002 the commission has only approved law proposals that makes it easier for international companies to operate in Russia and little progress has been made concerning workers rights or minimum standards. However, most interviewees agree on that the tripartite commission is formally a great means for influencing which law-proposals are being put forward the parliament although as it is today the FNPR do not have the personnel or the resources to work as effectively through the tripartite commission as it would like.

### **Central level bargaining**

The trade unions I have chosen to focus on are all members of the FNPR, which is the central union of trade unions in Russia. There is also two other central unions the VKT and the KTR, which organize around 1,2 million workers each. However, the FNPR is the only union that is recognized at state, as well as at the international, level.

The FNPR organizes about 30 million workers at the moment (down from 42 million a decade ago). The workers are members of 42 different sectorial trade unions or 79 different regional trade unions. The FNPR negotiates with the government (or in the tripartite commission) on general agreements where minimum wages and other minimum standards for all workers of Russia are indicated. These general agreements however, are only recommendations and the sectorial unions may, or may not, be able to agree on the same or higher minimum standards when bargaining at branch level. The general agreement minimum standards, moreover, are set extremely low and are often of little or no practical use for the different unions.

### **Branch level bargaining**

All local unions are members of a certain branch trade union. At this branch level of the specific sector, the representatives of the trade unions meet with representatives from relevant ministries or with employers' associations' representatives (in case there are any). Here, the trade union representatives try to reach branch agreements on minimum standards for the specific sector. These should thereafter be implemented or renegotiated to the better at the regional and local levels. However, if the employers' association or individual employers think they are not able to meet up to the demands or minimum standards of the agreement, they can apply to the relevant ministry not having to adhere to the agreements or laws. The ministry can thereafter, without consulting the trade unions, agree to accept lower standards in the sector or for certain employers.

### **Regional bargaining**

At the regional level, trade unions try to bargain with the regional employers' representatives or regional public authorities to improve the general standards put forward in the general agreement and the branch level agreements. The success of the trade unions at this level depends heavily on the strength of the trade unions regionally and how important the sectors are for the regional economy. However, according to most of the interviewees, it is at the regional level that most trade unions manage to get some improvements in minimum-

standards through. These agreements also (formally) cover all workers in the sector in the region, and standards will differ less between individual enterprises in the same sector if the trade union manages to get its demands through at this level.

### **Local bargaining**

The ability to implement general standards at the local level/enterprise depends on the strength of the local trade union. Sometimes general agreements, branch level agreements or regional agreements are not being obtained, as the local union is not strong enough to force the employers to implement common policies. At other times, the local trade union is strong enough to greatly improve the standards and have the leverage to force the employers to implement the higher standards. According to many of the interviewees, the success of the local trade unions depends on individuals rather than on any structural strength. If the individuals that bargain with the local employers have great skills, have important contacts or some other bargaining leverage, the union is more effective than if the trade union representative does not have the personal contacts needed. Since the structure of the trade unions in Russia all give considerable decision power over economic resources to the local representatives, the quality of the local representatives decide the effectiveness of trade unions locally and the standards may differ widely between enterprises in the same sector.

### **The financial structure of the trade unions**

For all trade unions I have examined, membership dues is the most important and only really reliable source of income. Some trade unions have secondary financial resources, but they are rare and insufficient to build any activities upon. This dependence on membership-dues might be both the strength and weakness of the unions; it theoretically gives the trade unions important independence from external actors but at the same time it is an obvious weakness as the trade unions thus are extremely vulnerable to popular trends.

Today it is no longer formally obligatory for workers to be members of a trade union, as it was during Soviet times. All members of trade unions pay 1% of their reported salary to the trade union in which they are members. From this 1% roughly 65% stays with the local office, 25% goes to the regional office, 6% goes to the central, or national, office to be distributed between trade unions or used in nation-wide campaigns and negotiations, and 4% goes to the FNPR, the central union that bargain for minimum-standards in legislation in the tripartite negotiations.

According to four of the interviewees this financial structure is a great weakness since different trade unions in the same sector differ greatly in strength at local level and there is very little means to be redistributed among different local unions. The strength of the local union thus depends heavily on how many members it organises locally rather than how many workers are organised in the entire sector. The effect of this is that trade unions in the same sector and members of the same branch-level union, can have, and have, very different abilities to carry out further negotiations or secure the implementation of common policies at the local level. Thus, the workers in the same sector and members of the same branch-level union can not expect to get the same out of the central negotiations and might have very different salaries or working conditions albeit in the same sector. The ability to implement national policies locally depends on the initial strength of the local trade union. Further, according to many of the interviewees, local trade union representatives are more likely to

spend money on meeting short-sighted popular demands by local members, such as providing dachas and banjas (Russian recreation houses and saunas) for the use of members. These policies contributed to the popularity of the trade unions during Soviet times and for local representatives depending on local popular support for their continued work, spending money on social activities is often an easy way to keep members happy. Also, the benefits provided at the local level to the members could be part of the collective agreements agreed upon at the central level, if the unions at the central level were strengthened – but at the local level representatives often prefer to distribute these benefits to members themselves.

The fact that so little money is being canalized to the central level of the trade unions is an important challenge to the entire trade union movement in Russia. This means that the leverage of trade unions in bargaining centrally is being undermined from within the unions themselves, as not enough financial resources are being used in strengthening the unions in central bargaining. There is also a continuous power-struggle over financial resources between top-, regional and local representatives and many of the interviewees question whether the correct number of members are being reported to the central level at all. This is all very damaging for the relations between representatives at different levels of the unions and may be an obstacle when trying to agree on common policies, activities and priorities.

Changing the financial structure of the trade unions is thus an important challenge for the trade unions. Local representatives look to secure high membership-levels through short-sighted, but popular, policies, and at the same time they undermine the ability of trade unions to bargain centrally for higher minimum standards. As there is no other source of financial support representatives centrally cannot push too hard to get a larger share of the membership dues as it might lead to conflicts and more people dropping out of trade unions. As there is no wide-spread general knowledge among the people of Russia of what membership in a trade union is good for and how important central bargaining is, social activities become the (only?) way of trade unions to motivate their existence. With this concrete, socially oriented, focus there is also little risk of “free-riding” as membership is required in order for people to be able to use the social benefits (dachas and banjas), whereas bargaining for general minimum-standards would not require the individual worker to be member of a trade union.

Thus, there seems to be an important trade-off within the trade unions of Russia at the moment: membership-rates are falling, the unions have little leverage at the central level but in order to keep the remaining members happy, short-sighted social activities need to be provided. This in turn requires that a large percentage of membership-dues stay at the local level, where it in the long run does little to improve general standards for all members.

### **The level of centralisation among employers**

A feature that all interviewees mentioned as an important obstacle to more effective bargaining was the lack of centralisation among employers in the sectors. There is no formalised structure for employers' associations and most employers are not part of any association at all. This makes it very difficult for the trade unions to secure that common policies are being implemented, as many employers are not part of the agreements and are thus not bound by them. However, in two of the sectors, the trade unions have actively helped push through an employers association simply by organising formal meetings among employers

in the sector. The representatives of trade unions in these sectors were both much more hopeful about the effectiveness of negotiations in the future.

## Concluding remarks

After having run a regression-analysis on both the level of centralisation among trade unions and effectiveness, as well as on the level of centralisation among employers and effectiveness, some interesting, and surprising, results emerge. Although the ten trade unions examined differ in many respects, some features seem to hold in all of them and there seem also to be some formal restructuring that most of the interviewees can agree upon is being needed.

First: although there seems to be no clear pattern of trade union centralisation leading to higher effectiveness in bargaining (contrary to the C/D expectation), there seems to be a correlation between centralisation among employers and effectiveness instead. Thus, in the sectors in which there is some degree of centralisation among employers into associations, where trade unionists could be rather certain of policies being implemented, the trade union interviewees also thought they were being more effective in their bargaining and implementation of minimum wages and standards.

Second: the financial structure needs to be re-structured within most sectors. Workers in the same sector belonging to the same central trade union should have the same right to wages and standards independently on how strong the trade unions are at the local enterprise. This requires more money being canalised to the central level to be redistributed among local trade unions and different enterprises as well as used in central negotiations. It is also necessary to make sure that there are enough resources and skilled people to take part in the tripartite commission.

Third: it is necessary to help local trade union representatives educate and inform members and workers about the importance of central-level bargaining and thus get members' support in pulling resources from the local level to the central level. Moreover, effectiveness in negotiations at the central, regional or local levels should not be depending on individual skills alone, but should be guaranteed through formal structures.

Thus, after having very briefly examined the trade union movement in Russia, I have become aware that much work lies ahead, that support for unionization in most sectors is falling and that ineffectiveness could potentially be met through attracting more, or redistributing, financial resources and battling old structures. Although all of these challenges are great, I have also come to meet many engaged and skilled people who truly think that in order for workers of Russia to meet the demands of the new international economy, they need strong labour rights and trade unions, now more than ever.