

The Splintering Federation: Changing Positions of Unions in Russia

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The enormous changes taking place in the new countries of the former Soviet Bloc and republics of the Soviet Union are well known. Contrary to the existing capitalistic systems of the Western world which have evolved to their present organization structure through a process of change over many decades and even centuries, these new countries are expected to move to capitalist systems in a few years or at least within a decade. The people are now being asked to change their ways of viewing life. Instead of a system based on security, they have been suddenly asked to adapt to an alternative system which may permit greater freedom but involves also insecurity, something they have not been accustomed to manage.

Each capitalist system of the Western world is a shrouded image of the others but with basic characteristics that unite them through the experiences gained from conflict, enlightenment, controversy, progress, failure, development, and hardship. There were rewards and pain. The rewards often went only to a few while the pain was experienced by the many. The systems were not (still are not) fair. This is also true for the countries which are evolving into new political economic systems. Change is occurring, but benefits and costs are not being shared equally, and crime is rampant.

One institution that is having difficulty dealing with the changes that are transpiring is the official unions (Communist Party and Government-recognized unions) which represented workers at most enterprise levels. Their privilege positions of power has been eroded as new unions have been formed, as income sources have diminished, as privatization has been introduced, and as illegal activities have flourished. Diminishing union influence has been caused by external factors that the unions have not been able to effectively deal with and internal forces that have affected the trust formerly felt by the membership.

The Journal of Social, Political & Economic Studies

As at June, 1993, the Federation of Independent Trade Unions of Russia was still the dominant union covering 85 percent of all employed workers. Of the estimated 75 million people in the labor force, 64 million were linked to the Federation, covering 40 industrial branches.

Besides the Federation, there were 25 registered trade unions, plus another 25 unregistered unions. Only five percent of union workers belong to newly formed (since 1989) organizations representing workers in strategically located industries, disenfranchised communists, specialized and localized workers with utopian leanings, and employee-employer groups which should be referred to as business associations. Of the five to seven million privately employed workers, two to three million belong to the last category.

There are also groups of people that have formed organizations which call themselves "unions;" though they are work-related organizations, the members are not classified as workers because they are not employed. Examples of the diversity of groups called trade unions are the following: Pensioners Trade Union Workers, Unemployed Trade Union Workers, Trade Union Persons Waiting for Apartments, and Prostitute Union Workers.

The major reason new unions were created is that rank and file workers believed the old organization did not represent the workers;¹ the leadership only pretended to serve the workers but really sat on the side of government. This was demonstrated during the coal-miners strike in 1989 when the (past) union leadership and government representatives together negotiated with the committee of the striking mine workers. The striking miners were tired of poor working conditions, safety hazards, poor equipment, low pay and broken promises. The coal-miners strike was national in scope (though most work stoppages in the past were suppressed and illegal since 1929),² whereas the few that did occur previously were local, isolated, and not publicized. (No statistical evidence was kept as to

¹The Federation believes that the new unions are traitors to the cause of union solidarity; this weakens unions' strength and their ability to improve the position of workers.

²Sherman, Howard J. *The Soviet Economy* (Boston: Little, Brown and Co., 1969), p. 164.

number, duration and impact.)³

Traditionally (from the 1930's), unions have been in charge of housing, retail stores, educational centers and training, vacation sites, enterprise media (newspaper, books, pamphlets), safety, grievances, and sports activities and facilities. Besides all the blue-collar workers, white-collar workers from the lowest paid clerk to the enterprise managers or directors are union members. All government bureaucrats and even Ministers and the President belong, as well.

The Federation gets its financial power through a checkoff system, though most workers are unaware of their contributions. One percent of the wages earned by the 64 million members who belong to the Federation is withheld as dues. Dues are taken out of a person's income before the cash wages are received; thus there is no record of the dues payment. Further, to control membership in the union, application forms to join the union (a requirement for enterprise employment) are often difficult to acquire (thus unsavory types or troublemakers can be excluded from the union and enterprise). Not only are many workers unaware they are paying dues, but they may not even be aware they belong to a union, and they certainly do not know how their wages are determined.

Besides the financial power held by way of the checkoff system, the Federation controls the Social Security System. President Yeltsin tried recently to have funds transferred to the government, but the attempt failed. By controlling the System, the union has enormous power over its membership, as it is only union members who receive sick benefits during an illness or retirement benefits because of age or disability. Discounting the government, the Federation is the wealthiest organization in Russia and the largest property owner. As an aside, many union leaders have also become quite wealthy, unbeknownst to their members or the general public.

However, the Federation is experiencing financial problems as new worker groups have organized and become aware of the checkoff system. As people have withdrawn from the Federation, receipt of dues has diminished. Also, the new unions have instituted their own checkoff system with the result that dues are no longer being withheld on behalf of the old union and their funds have declined. The Federation has become so financially strapped that workers are

³Turgeon, Lynn. *The Contrasting Economies*, 2nd ed. (Boston: Allyn & Bacon, Inc., 1969), p. 210.

required to pay for their own vacations. Furthermore, the industrial-branch unions are having to sell off property to subsidize the wages of workers who are producing products at costs above price. Unions, by subsidizing wages, are able to keep workers employed even if they are producing goods that go unsold.

The privatization of public enterprises has resulted in mismanagement of the conversion process. In one particular instance, the workers were to receive 51 percent of the shares of stock in a Moscow factory that formerly produced farm tractors but which now produces three types of mowing equipment, but the workers ended up owning only about 10 to 11 percent of the enterprise. The State is to retain 49 percent value of the firm. In January 1992, it was decided that 66,000 shares of stock was to be offered at 1,700 rubles per share to about 1,950 enterprise workers. Each worker would therefore be able to buy about 34 shares each, with a total outlay of 57,800 rubles per worker. Of the 1,950 eligible workers, only about 1,090 bought shares, and then only an average of 12-13 shares, which cost from 20,400 to 22,100 rubles. The remaining shares that went unclaimed could be bought by any worker or workers within the plant who cared to do so. One did; he bought up most of the remaining 51,800 to 52,900 shares for between 88,111,000 to 89,964,000 rubles. It is believed that a private bank with ties to the Russian Mafia was behind the purchase.⁴

For a Russian worker to buy 34 shares of stock with a total outlay of 57,800 rubles would be very expensive and difficult, since the average monthly income for all workers is about 20,000 rubles, and in this particular plant 12-16,000 rubles. The 34-share stock purchase represents about five months' salary plus a substantial risk since the plant is downsizing, producing obsolete products, and not cost-effective. Added to this is the fact that most workers are not experienced in private-enterprise matters and are having difficulty understanding the entire process.

By some unknown method, the enterprise was valued at 220 million rubles. Fifty-one percent of the value was to be sold to the workers (112,200,000 rubles), and the State would retain 49 percent

⁴This information came from a high-ranking member of the Moscow enterprise though verification in a published form is virtually impossible at the present time. Both physical and financial threats have been made against the above member to block disclosure.

with a value of 107,800,000 rubles. The 112,200,00 rubles were divided into 66,00 shares with a price of 1,700 rubles per share. What does it all mean? If only domestic factors and rubles were the deciding influences, the process of privatizing the enterprise may have been fair, but international factors have come into play. Domestic prices have increased at an inflation rate of 1000 percent over the past year, but what is equally disconcerting is the falling value of the ruble compared to other international monies, especially the dollar. In 1986, the dollar and the ruble were about of equal value, but since the value of the ruble fell by June 1993, one dollar could buy 1200 rubles. Thus for those people in Russia with substantial dollar holdings, the purchase price for 52,000 shares of stock at 1,700 rubles per share with a total expenditure of about 88,400,000 rubles is a bargain, for this price in dollar terms comes to about \$75,000 – a very low price to pay for 40 percent ownership of an entire enterprise. The inventory and raw materials would be worth many times the dollar purchase price if sold to international markets. Someone is going to make an enormous profit even if the plant shuts down. What has the union done to protect the worker from being cheated? Nothing. In fact, the union leadership was probably involved with the takeover.⁵

Because the old unions are not representing their workers, new unions have evolved. They are most effective where they have strategic economic and/or industrial power. The Coal Miners Union (100,000+ members), Pilots Union (15,000+ members), Air Traffic Controllers Union (8,000+ members) and Locomotive Engineers Union (2,000+ members) have either economic or industrial power, or both. When the coal miners went out on strike in 1989, it was a spontaneous action, not sanctioned or supported by the leadership, that threatened the well-being of the entire economy and many industries dependent on coal. The government promised to meet almost all the demands set forth by the miners. Further threats and actual strikes have raised the average income to about 200,000 rubles per month for miners. These unions mentioned above are politically active and have an affiliation with parties to the left of center. Even

⁵This author attended a factory interview June 20, 1993, where a factory executive explained the privatization process. The union leaders and the new 40% owner spent a vacation together at company-union expense in Hawaii, USA, a very expensive trip by Russian standards.

the AFL-CIO is seriously considering recognizing their existence, which could result in international funding. Where possible, these unions have instituted a checkoff formula to raise money to further their cause. Another group that has splintered from the Federation is the Communist union. It has about 100 locals and represents 12 to 15,000 members. Its members are mostly disenfranchised Communist-party workers, workers who lost their jobs in the declining defense industry, former military personnel and others who have experienced decline of high salaries, elimination of fringe benefits and lost prestige. They would like to return the economic-political-social system to the old days during the 1960's and 1970's, when work was guaranteed and wages were high. Some of the locals are affiliated with the extreme left that would like to see the USSR reassembled and even expanded. Most members are elderly, but some young extremists have joined.

Finally, there are unions whose memberships are few in number (30 to 40 per union) and who have taken extreme positions in forming a new economic order. They would like to see enterprises owned and controlled by workers, and they believe unions should play a significant role in the operation of government. In contrast to these unions are the employee-employer groups who want limited government involvement, and expansion of the private sector and reliance on the profit motive.

In the future, unions will find they have a diminished role to play. The government will try to reduce their power by taking certain privileges away from them. If their control over the health and retirement funds is ultimately taken over by the government, the Federation's control over its membership will diminish. The greatest threat comes from losing the process of collecting dues through the checkoff system. If this occurs, union income will fall and funding for all the projects that the Federation is responsible for will decline. If the Federation can no longer provide for its membership, there will no longer be a need for workers to belong; they may join other unions or not belong to one. If other unions grow in numbers and strength, conflict between unions may result. Whatever kind of economic-political-social system evolves from the present state of affairs, it seems inevitable the role of the old union will be diminished; but also inevitably new power groups will emerge to fill the void.

Using the Private Sector to Deter Crime

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The Failure of the Criminal Justice System

The U.S. criminal justice system costs billions of dollars to operate each year, and the cost is growing rapidly as police, courts and prisons are added. As Table I shows:

- In 1965, the justice system cost taxpayers \$4.6 billion, or about six-tenths of 1 percent of gross domestic product (GDP).
- By 1993 the cost had grown to about \$100 billion, or 1.57 percent of GDP.
- The number of justice system employees grew from 600,000 in 1965 to nearly 2 million in 1993.¹

Despite these increases in spending and personnel, the number of serious crimes reported to the police is near an all-time high [see Figure I] and the number of violent crimes reported to the police is at an all-time high [see Figure II].² The more resources government applies to the war on crime, the less effective they seem to be. In light of this government failure, is it possible that the private sector could be more successful?

¹ Author's estimate based on straight-line projection. As this is written, President Clinton and Congress are preparing to authorize much more spending on anticrime measures.

² The nation's other major crime measure – the National Crime Victimization Survey – is based on a representative sample of approximately 49,000 households. It shows a steady decline in both violent and property crime since it began in 1973. While no one has satisfactorily explained the differences between the victimization survey and the FBI Uniform Crime Reports, the two crime measures differ in many respects, including the crimes covered, the reporting populations and so on. Part of the difference, however, is attributable to improved reporting procedures by the police forces across the nation and a gradual increase in the percentage of all crime reported to the police by victims. See Federal Bureau of Investigation, *Crime in the United States, 1992*, pp. 386-87; U.S. Bureau of Justice Statistics, *Criminal Victimization 1991*, October 1992, p. 4; and U.S. Bureau of Justice Statistics, *Crime and the Nation's Households, 1992*, August 1993, p. 2.