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AUTHOR: William Moskoff

CONTRACTOR: Lake Forest College

PRINCIPAL INVESTIGATOR: William Moskoff

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ABSTRACT

Unemployment in the Former Soviet Union

This paper assesses the unemployment situation in the former Soviet Union. There are several arguments made. The first is that there is an inability to count the number of unemployed properly and, therefore, official figures are of limited value for policy making purposes. The second is that at the end of 1991, the official level of unemployment was extraordinarily below the level that might have been expected, given the dismal performance of the economy during the year. This is attributed to the tenacity of the old system and its implicit commitment that everyone has the right to a job. Secondly, it is attributed to a likely substitution of labor for capital in some areas of the economy.

The unemployment that does exist has resulted from a number of causes, including the breakdown in the central planning system, the anti-nuclear movement, and the conversion of defense plants to civilian production. It has not resulted from the usual causes associated with the recessions in western economies.

Unemployment has struck women and young workers disproportionately. It is also extremely high in Central Asia because of the perverse patterns of economic development in the region and the relative immobility of the population.

Unemployment will climb to very high levels when the former republics make the transition to a market, perhaps to as much as fifteen million unemployed. This leaves a number of questions to answer. How can unemployment benefits be provided without

central resources, given the severe maldistribution of economic resources in the former Soviet Union? How can retraining and job placement services be provided, again, in the face of an uneven distribution of resources among the newly independent countries?

The competition for jobs will grow more intense and there may well be pressure on the relatively high employment areas of the country to cope with individuals trying to migrate from the least well off parts of the country. There is likely to be an insistence on the part of the indigenous and dominant ethnic group to keep "outsiders" away from precious local jobs. This tension will mount as the new nations confront the choice between the frightening consequences of the market and the unwillingness of their citizens to accept unemployment.

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William Moskoff
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Unemployment in the Former Soviet Union

Full employment was a promise honored for more than a half century by successive leaderships in the Soviet Union. But even before the country withered away at the end of 1991, so too had job security; unemployment had become a stark reality. Where but a few years ago the question was whether there was a sufficient labor supply in the country, today the preoccupation both within and without the country is about how much unemployment there is and what it might be in the future.

What I will argue is that unemployment is not nearly as high as would be expected given the dismal performance of the economy in 1991 and that this is because of the tenacity of the old Soviet system. That is, part of the legacy of communism is a set of institutions and ways of thinking about the economic world that have shaped the unemployment issue. I will also argue that in spite of potential constraints on the future acceleration of unemployment, things will get a great deal worse.

How Many Unemployed?

Trying to secure dependable estimates of the number of unemployed in the country has been futile. The basic reason for this is that for almost sixty years full employment was the ideologically established norm; there was no need to count what did not exist. But once unemployment began to become a reality and it was readily apparent that there would be even more unemployment, a mechanism should have been established to count the unemployed for all the reasons that it is done in capitalist

economies. In fact, through 1988, 1989 and into 1990, as unemployment increased, no official measure on the number of unemployed was available and it hampered the country's ability to define the extent of the problem, its sources, and how much and what kind of assistance needed to be provided for those without jobs.

One of the problematics in this endeavor is that there is a difference between the standard definition of the unemployed, that is, those who are without work but seek work, and the old Soviet definition that defined all those that were able-bodied and not in school as being unemployed, even if they did not want to work. The underlying ideological principle in the Soviet Union was that every potentially productive member of society should be involved in what used to be called "social production." Using the Soviet definition of "unemployment," it was not possible to distinguish between the truly unemployed, that is those who were out of work and seeking paid employment, and those who were not working and did not care to work, such as a woman choosing to stay at home to take care of young children. Under the Soviet definition, they were both "unemployed."

It was not until the fall of 1990 that the State Committee for Statistics (Goskomstat) reported an official unemployment figure of two million. Goskomstat used the International Labor Organization's definition of unemployment, namely, that a person must be without remunerative employment, must be looking for work, and must be willing to start working at once.¹ The

official nature of this figure notwithstanding, the Soviet Union was still without a method of counting the unemployed. Where it mattered most, in the halls of government, they were really still in the dark as to how to count the unemployed.

Types of Unemployment

There are three general categories of unemployment: cyclical unemployment, when there is an inadequate level of total demand for goods and services in the economy to support full employment; structural unemployment, that occurs when the vacancies that exist in the economy do not match the skills that are available; and frictional unemployment, due to regular turnover in the labor market, as when people decide to change jobs. In the Soviet case, cyclical unemployment has not been an issue since the five year plans began. Frictional unemployment occurred for two reasons, first, because of the extraordinarily high labor turnover that was voluntarily engaged in by as many as twenty-five million people a year and secondly, although of much less importance, because there were short-term variations in the demand for labor in a number of industries, as in the case of seasonal employment, a commonplace in the Soviet Union throughout its history.²

Under perestroika we can discern two new phenomena related to unemployment. The first was the emergence of structural unemployment, that is, the growth of unemployment with the simultaneous presence of an allegedly large number of job vacancies. The myriad changes that took place in the functioning

of the economy, intended and unintended alike, gave rise to structural unemployment, the first sizeable amount of involuntary unemployment since central planning was introduced. But a second type of unemployment also emerged, what I will call involuntary frictional unemployment. It resulted from the breakdown in central planning and the frequent interruptions in the flow of capital inputs into production.

Structural Unemployment

There were a variety of sources of structural unemployment. One was the impact of self-financing of Soviet enterprises. The Law on the Enterprise went into effect on January 1, 1988 and among other things, required Soviet enterprises to find their sources of investment funds from their profits. This was a new responsibility for Soviet enterprises which had previously relied on the state budget for their funding. The new law had an impact on employment in unprofitable enterprises. From 1987-1989, 1.6 million people lost their jobs because of the closing of failing enterprises.³ For example, a fall in profitability led to a decline in the ability of Leningrad enterprises to buy more machine tools which in turn led to the loss of 8,000 industrial jobs in the city.⁴

After Gorbachev announced the first substantial cuts in defense spending in his United Nations speech of December 1988, the Soviets began to convert defense-related production facilities to the production of civilian goods in 1989. By mid-1991, about half of the output from the enterprises in the

military-industrial sector was civilian goods.⁵ The shift had an appreciable effect on employment. About 300,000 workers lost their jobs in defense plants in 1990, only 76 percent of whom found jobs in civilian production.⁶ That is, about 75,000 people lost their jobs in the process of implementing the shift away from defense spending.

Russia was disproportionately affected by the conversion process because 82 percent of the former Soviet military-industrial complex is located there.⁷ About eight million people are employed in Russia's defense sector--and when you include families, some thirty million people are dependent on the Russian military-industrial sector.⁸

The very vocal and articulate environmental movement that emerged under the protection of glasnost also had an impact on unemployment. There was an unrelenting anti-nuclear drive in many places in the wake of the April 1986 Chernobyl disaster. Some functioning nuclear power plants were simply closed down, the construction of others was put on hold, and still others were converted to non-nuclear purposes. By the spring of 1991, four years of activity had resulted in the stoppage of construction and design work of sixty nuclear power plants with a capacity about 100 million kilowatts.⁹ Whatever the merits of the antinuclear cause, there is no doubt that the movement's efforts had an effect on employment.

Nuclear power plants were not the only ones to close down. About 26,000 "major" construction projects, representing 500

billion rubles in spending, were closed down during the Gorbachev era, with a resulting loss of a sizeable but unknown number of construction jobs.¹⁰ As part of the restructuring of investment policies, a large number of construction workers lost their jobs, for example, those building pipelines and power stations in Siberia.¹¹

Involuntary Frictional Unemployment

A second major cause of unemployment was fostered by the breakdown in the discipline of central planning at the end of the 1980's. While the nation floundered in a state of limbo because of Gorbachev's ambivalent approach to economic reform, the republics and their constituent enterprises lost faith in the central planning system. The resulting shortfalls in supplies led to unemployment in a number of areas of the economy, including both light industry and heavy industry. At the end of 1990, in about forty clothing factories the weaving and textile divisions shut down because of the shortfall in inputs. In the association Roslegprom alone, 77,000 workers were laid off. And almost 33,000 home workers, mostly mothers with young children, were also laid off, in all cases because suppliers had not sent supplies to the producing enterprises.¹² By early 1991, it was reported that due to the absence of raw material inputs, 340,000 out of 770,000 Russian republic textile workers were out of work and another 100,000 leather, shoe, and sewing industry workers had lost their jobs. The closing of factories kept mounting so that by the spring, more than 400 light industry plants were

reported shut down because of a lack of raw materials.¹³

Workers in heavy industry were also affected. In the city of Donetsk, 800 of the workers at a plant producing large diameter pipe were let go at the end of 1990 because their factory had been unable to acquire crucial inputs from either domestic or foreign sources during the last six months of the year.¹⁴

Who are the Unemployed?

We can get some sense of who has been hit by unemployment by looking at the 1991 figures for registered unemployed in the Russian republic. The social composition of the 25,000 people who signed up in the first month Russian workers could register as unemployed could be broken down as follows: 43 percent were blue collar workers, 33 percent were white collar workers, 8 percent were young people, and an unspecified number of women made up a "significant" portion of those registered.¹⁵ However, in the narrower context of the capital, the social composition was quite different. In Moscow, of the first 37,600 unemployed who registered at the city's labor exchange, 90 percent were either office workers or specialists with a secondary or higher education. Perversely, 85 percent of the 96,000 job openings in the city were for blue-collar workers.¹⁶

The Soviet economic bureaucracy, a major target of those carrying the banner of economic reform, employed nearly fourteen million people by early 1988, in more than 800 all-union and republican ministries and departments. Early expectations were

that the personnel in these ministries and department would be reduced by about one-third or about five million people.¹⁷ However, at least in the early stages of the shakeout process, the evidence is that those in the bureaucracy seemed to emerge relatively unscathed after the initial loss of a job.

On the other hand, certain groups have been more at risk than others of becoming casualties of unemployment. One of these groups to be hard hit is women. While there are no systematic national data on the issue of the gender of the unemployed, the Moscow unemployment figures showed that of the 60,000 who registered as unemployed in the first six months after the unemployment offices opened, 70 percent were women.¹⁸ Data from the first two months showed that women were disproportionately the targets of job loss whether they were blue-collar or white-collar workers. They were 80 percent of the white-collar workers that were laid off, explained perhaps by the fact that they predominate in low level jobs. But this does not explain why 75 percent of the blue-collar workers laid off in the city were women.¹⁹ It does not seem imprudent to suggest that sex discrimination is a cause of this pattern.

Second, young people constitute a disproportionate share of the unemployed in the country. The employment situation of young people changed because of two broad reasons. First, the higher education system was taking a smaller percentage of secondary school graduates, and second, the demand for secondary school graduates in the labor market was declining.²⁰ Also,

unemployment is especially high among the young, especially men in Central Asia.

Central Asian Unemployment

Central Asia suffers from great impoverishment and higher levels of unemployment than the rest of the country. It is worth exploring the dimensions of unemployment in this region for several reasons. It is a hotbed of tension. There is a great deal of uncertainty about whether the indigenous ethnic groups are willing to tolerate the presence of "outsiders" as unemployment mounts. Second, there are national implications to all regional economic problems, including unemployment. While labor mobility in Central Asia has not been as high as other parts of the country, massive unemployment could force a shift in behavior and workers could spill into other areas of the country as they seek to find scarce jobs.

What follows is an examination of the unemployment situation in Uzbekistan, Tadzhikistan, and Kirgizia. In Uzbekistan, with a population just under twenty million, perhaps nine million lived below the poverty line in 1990.²¹ By one estimate, unemployment was between 800,000 and one million in mid-1990.²² However, a large number of these people, such as nonworking mothers of large families and seasonal agricultural workers, were probably not unemployed in the western sense of the term. As elsewhere, the republican government really did not know the true number of unemployed.²³ The causes of unemployment are not difficult to identify. In the Fergana Valley the primary reason was the

predominance of a single crop, cotton, in the republic's economy, accompanied by large families and high population density. The narrowness of Uzbekistan's economic base was compounded by the fact that only 8 percent of the cotton was processed in the republic. The spinning, weaving, and sewing of cotton goods took place overwhelmingly in other republics.²⁴ There is a second set of reasons for high unemployment in the region of Karakalpakia. Ecological disasters became a serious problem in this area because the waters from the Aral Sea that used to irrigate this land have dissipated and the water from the Syr-Darya and the Amu-Darya Rivers were wasted. The land is now a semidesert.²⁵

The unemployment situation in Tadzhikistan has been described as a "crisis."²⁶ The Tadzhik population of 5.3 million is about 70 percent rural and only about one-fifth have been employed in industry. There are several problems that face the population. On the one hand, there is a mismatch between the skills demanded and the capacities of the labor force.²⁷ On the other hand, there have been job shortages for the educated so that the economy has not been able to absorb the graduates of higher education institutions, technical schools, and secondary schools.²⁸ As elsewhere, estimates of unemployment are not totally reliable. At the beginning of 1990 it was estimated that about 117,000 young people were only partially employed, doing seasonal work. In the capital city of Dushanbe, about 70,000 were without work.²⁹ A little more than a year later

unemployment estimates were quite a bit higher. It was thought that between 230,000 and 600,000 were unemployed, with the forecast of another 47,000 soon to become unemployed.³⁰ The effect of the dire situation in the republic was to create a class of severely underemployed people, mostly quite young. Towards the end of 1989, it was believed that more than 130,000 young people or about 10 percent of the group were neither employed nor in school.³¹ The consequences have been socially calamitous--the one common characteristic of those involved in vandalism and rioting in the republic was that they were unemployed.³²

The threat to civil order that resulted from high unemployment in Tadzhikistan was also present in Kirgizia, where there is a population of 4.5 million, more than 60 percent of whom are rural. In the capital city of Frunze, the main participants in spontaneous demonstrations held in early 1990 were young and unemployed. There were an estimated 100,000 unemployed in the republic at the time and large numbers of unemployed young people who had come to the city from the countryside in search of jobs. They were living in what were described as horrible conditions--semibasements, barracks and crowded dormitories. Then a rumor spread that thousands of refugees were coming from Azerbaijan to the city and that they would receive apartments.³³ These demonstrations not only displayed the anti-outsider mentality of ethnic groups in the country, they also showed the volatile feelings over the issues

of employment and housing.

There has been substantial agreement among observers that unemployment led to the rise in crime in the country. When the crime rate rose by 37 percent in Turkmenia in the first four months of 1989, the authorities claimed that one explanation was the increase in unemployment. At the time there were 200,000 unemployed workers, including 50,000 adult males who were not working because of a "lack of jobs in the republic."³⁴

The Problem of Refugees

There is a special variant of the unemployment problem that is caused by the inter-ethnic tensions in a number of republics, especially in Central Asia and the Baltics. In the main, the targets of the indigenous group's anger were typically ethnic Russians, who subsequently left these areas in large numbers because of the discomfort and sometimes danger they felt living in a hostile environment. By the spring of 1990, there were about 600,000 refugees in the country. In Armenia there were 230,000, in Azerbaijan, 210,000, and in the RSFSR, more than 150,000.³⁵

There were a variety of reasons why Russians were the victims of campaigns in non-Russian republics. Principally, they were handy scapegoats for the imperial policies pursued by the central government over decades of rule at a time when nationalism became a great force within many republics. We may use as an example Uzbekistan where the nationalist Erk (Will) Party adopted a nativist stance. "The Erk Democratic Party is

the first party in Uzbekistan and in Central Asia that gives pride of place to the interest of the indigenous nationality...."³⁶ After riots in Fergana in June 1989, about 177,000 Russians, many of whom were highly skilled specialists, left Uzbekistan "under duress" in 1989. The migration continued in 1990,³⁷ as tensions mounted in the aftermath of conflicts in neighboring Tadzhikistan where there were riots after rumors spread that Armenians fleeing Baku were going to receive preferential treatment in the allocation of scarce apartments.³⁸ The Tashkent newspaper was filled with the advertisements of Russians trying to exchange their apartment for one in any Russian city, so desperate were people to leave the republic.³⁹

In Tadzhikistan itself, anti-Russian sentiments had a significant impact. In the first seven months of 1990, some 23,000 Russians left the republic. These included not only workers in the construction industry and the Ministry of Light Industry, but personnel seen as absolutely vital to running the local economy.⁴⁰ In Estonia, Russians were regarded as the "least welcome." They were literally regarded as a fifth column in the republic.⁴¹

A couple of republics put up barriers to entry of anyone, including refugees. Fearful of refugees coming into their republics, both Estonia and Moldavia erected immigration quotas. Moldavia allowed immigration equal to 0.05 percent of the population in 1991, which meant a quota equal to about 2,000 people.⁴² The Estonian parliament imposed an immigration quota

of 2,290 people at the beginning of the same year.⁴³

Unemployment was an obvious result of the refugee phenomenon. Regrettably, there does not seem to have been any follow-up on the problem and consequently it is not known how many of the refugees experienced only short-term unemployment, how many were victims of long unemployment, or how many may never have found a job.

Unemployment Legislation

There were two important pieces of legislation on the unemployment question during the Gorbachev era. The first came in January 1988 when unemployment was first emerging as an issue. The second was signed into law three years later, in January 1991, when there were many more unemployed and a recognition that the problem was growing. The 1988 legislation was a joint resolution originating with the old party and government hierarchy structure; the second was a law that came out of the Supreme Soviet, the parliament.

The text of the joint resolution reflected the ambivalence of Gorbachev's political and economic leadership. On the one hand, there was the longstanding socialist commitment to everyone's right to have a job and on the other there was recognition of the burden of an inefficient economy. Thus, the resolution said: "All working people...should be confident that their right to work is really guaranteed. At the same time, every worker, specialist and office employee must work properly, at peak efficiency...." The issue of efficiency versus equity,

which every market economy had struggled with in the twentieth century, had now become part of the Soviet agenda. Perestroika was walking a tightrope high above the ground with many holes in the net below. The resolution considered the retraining, job placement, and the dismissal of workers. Regarding the first two, the resolution was merely a statement of desiderata without the commitment of additional resources to deal with unemployment. For the time being, the leadership had sidestepped some of the tough issues.

The failure to confront the emerging joblessness was reflected in the resolution's statement that the first line of defense against unemployment was to find released workers jobs within the enterprise that had just fired them. The substantive heart of the resolution was its effort to protect worker rights. There was a dismissal procedure which required management to give workers two months notice if they going to lose their jobs. A person losing his job was also entitled to a severance allowance equal to one month's pay, instead of the two weeks which they had previously been allowed. In addition, if a person did not find a job, the former employer was required to give the worker another two weeks wages.⁴⁴ At the level of official policy making, there was simply no real understanding of what it meant to fight unemployment.

Three years of experience with unemployment was a great teacher. The January 1991 legislation was a serious document that took great pains to define the problem and to establish a

framework for ameliorating unemployment.⁴⁵ There was also a second important dimension which distinguished this legislation from the 1988 document. The changed political landscape had accorded the republics new status and consequently the new division of power and responsibility between the center and the republics was explicitly recognized in the new law.

There were two key changes in the right of citizens to work. The first was to be found in Article 5 which spelled out the State Guarantees of the Right to Work. In the new order, the state guaranteed a free education and retraining, freedom to choose one's job, free assistance in finding a job, protection against job discrimination. There was the promise of a job for at least three years to specialists graduating from state schools. But no longer was there a guarantee of a job. Section IV detailed the benefits for someone who loses a job.

The second crucial change was that work was now defined as a voluntary act. No longer could able-bodied people who did not work automatically be placed in the pejorative category of "parasite" or "vagrant" (Article 4). Article 2 defined the unemployed as "as able-bodied citizens of working age who for reasons that do not depend on themselves do not have work and earnings (income from work), who are registered with the state employment service as persons seeking work, who are able and ready to work, and to whom that service has not made offers of a suitable job." Suitable work meant jobs that matched people's education, considered their age, length of job experience, and

the distance they would have to travel to work (Article 3).

Unemployment Benefits

For the first time since 1930, "unemployment benefits" became part of the government's responsibility after the new legislation went into effect. There were both philosophical and practical considerations. Not only were such benefits ideologically alien, but the state was now faced with another large social assistance program at the very time that its capacity to finance such programs was shrinking. Confusion reigned as well because the nation was faced with questions that never had to be asked before: How much money would the state need for the program? Who was to pick up the tab, the center or the republics? Who would be eligible for these benefits? How could eligibility be determined and who would be the final arbitrator of who was unemployed?

The January 1991 employment legislation went into effect immediately, except for payment of unemployment benefits, which were to begin six months later on July 1. The basic terms were that if people lost their jobs they were entitled to receive their average wages for a period of three months, provided that they registered with the employment service within days after they are laid off. If at the end of this three month period they do not have "suitable work," they then become classified as unemployed and eligible for unemployment benefits. While the actual length of time one can receive benefits is determined at the republic level, the minimum period was specified as 26

calendar weeks during a 12 month period for people who lost their jobs and 13 calendar weeks for people trying to find a job for the first time.

Funding for the new unemployment benefits has been a problem at both the central and republican levels. First of all, the six month delay in beginning the payment of unemployment benefits was because there was not sufficient money.⁴⁶ Because of funding problems only eleven of the republics agreed to start paying unemployment benefits on July 1.⁴⁷

The RSFSR had set aside one billion rubles for unemployment benefits and Ukraine had allocated 200 million rubles, with the intention of increasing this amount to two billion before the end of 1991. But the Central Asian republics, beset by great poverty, had not allocated a single ruble for unemployment benefits.⁴⁸

Employment Services

The labor market under central planning had consisted of two main segments. One segment was a labor market that worked much like that of a market economy. In this market, workers were free to find their own jobs with the state and enterprises were free to hire whomever they wished. The high level of voluntary turnover in the labor market is evidence of how much freedom there was in this part of the labor market. On the other hand, the labor market under the dominant central planning also had a strong component of administrative direction. Workers who graduated from higher education institutions were assigned their

first jobs. Outside of their state jobs, with certain rare exceptions, individuals were not really free to sell their labor on the market as they chose, although many did so anyway on the black market as doctors, carpenters, tailors, etc.

Employment bureaus (byoro trudoustroistva) had been established in 1967 to help alleviate the labor shortages that were being felt in the country at that time.⁴⁹ They were neither intended to cast a wide net nor to register the unemployed and they were opened only in selected Soviet cities. In the major oblasts of the country there were fifty-three career guidance centers (proforientatsionny). These were augmented by about 2,000 autonomous bureaus for helping people find jobs operating on the basis of contracts with individual enterprises, and another 903 job points (profpunkty) which were exclusively to help young workers find jobs.⁵⁰ There were several major criticisms levied against these organizations. The first was that the largest enterprises tended to monopolize them and dictate how many employees they wanted. Most of the jobs found through these organizations were also low paying, menial jobs.⁵¹ Moreover, as the numbers above suggest, they were located in too few places. In the Ukraine, there were employment services in only half of the cities and raions of the republic. They tended to be located well away from city centers. Only 14 of the 750 bureaus were computerized.⁵² There was, therefore, no system that covered everyone in all places.

The new involuntary unemployment created a new role for the

state, in particular for job placement and the retraining of the structurally unemployed. When the Supreme Soviet passed the new legislation on unemployment in January 1991, it did so with the expectation that employment services would play a major part in the new conditions. Nikolai Gritsenko, the chairman of the parliamentary Commission on Labor, Prices and Social Policy said that they expected 23 million people to enter the labor market in 1991, an estimated 12.7 million of whom would find jobs on their own, but almost 10 million of whom were expected to be helped by the unemployment service after retraining.⁵³ Even allowing for a certain amount of error in the estimate of how many positions state placement centers would and could find for job seekers, there is no mistaking the major role they were expected to play as the shape of the labor market changed.

A nationwide job placement system was supposed to have been set up by the end of 1988.⁵⁴ Such a system had not been completed by the time the Gorbachev era ended. It fell to individual republics to pick up the slack that developed when the national placement system failed to materialize. The Ukrainian Council of Ministers decided in January 1991 to set up such a service in order to help the unemployed when the republic was going through its transition to the market.⁵⁵ Few of the republics set up a well-functioning employment service. Along with Ukraine, the RSFSR, Belorussia, and Kirgizia, claimed to have good success in placing people in new jobs. In the first ten days after the employment law went into effect, 24,000 people

used the Russian state employment service, and 90 percent of them were said to have found new jobs.⁵⁶ However, the state employment system did not develop in much of the rest of the country because the 1991 law shifted the financing away from the center to the republics. This was part of the general drive to decentralize control over major areas of the economy and give the republics more autonomy. But it was counterproductive because the poorest republics (Central Asia and Azerbaijan) were the ones with the worst unemployment problems and their financial base was also insufficient to support a state employment service. The inadequacy of resources for social services was demonstrated in these republics by the closing of even the small job placement services that had existed.⁵⁷

The Moscow Labor Exchange

The Moscow Labor Exchange, bearing the same name as the old exchange that existed until the end of 1930, was reborn in October 1990, although it did not begin formal operations until 1991. It was placed under the command of Igor Zaslavsky who was named Director General.⁵⁸ The exchange was organized around a central office, but the plan was to decentralize quickly so that each of the ten prefectures of Moscow (about one million residents in each) would have their own exchange. In turn, each of the 124 municipal districts would have its own social protection service, where people could file for unemployment benefits. This was in contrast to the thirty raion employment bureaus that existed under the old system and were regarded as

far too few in number to do a great deal of good.⁵⁹ The exchange was to be funded from three sources. The first source was to be a state employment assistance fund, as called for by the 1991 national employment legislation, and to which the city of Moscow would also contribute. The second source was money that the exchange would make by charging fees to enterprises for finding workers for them. Finally, they expected contributions from the public.⁶⁰ The exchange also made the decision about who was eligible for unemployment benefits and it was only through the exchange that a Muscovite could receive these benefits.⁶¹ The exchange only registered as unemployed and provided retraining for people with a Moscow residence permit (propiska), although there were some early assertions that non-residents of the city would be allowed to take the most undesired jobs in the city, such as loading and unloading work.⁶²

Quite early in 1991, all over Moscow, the exchange was holding job fairs, which Zaslavsky unabashedly described as an "auction" of workers. The fairs involved both state enterprises and the new cooperatives who were looking for workers. People looking for jobs would come to the fairs and the enterprises and cooperatives would literally bid for the workers on a competitive basis.⁶³

On July 1, the Moscow exchange opened its doors to the unemployed of the city under the terms of the new employment legislation. During the first twenty-five days of July, just over 12,000 people showed up at the exchange looking for jobs.

Only 1,649 of them were officially designated as unemployed and eligible for unemployment benefits.⁶⁴ For the first two months, more than 23,000 Muscovites came to look for jobs, their numbers evenly divided between those with a higher education and those who were unskilled.⁶⁵ The 23,000 unemployed were well below the early forecast of 125,000 unemployed in Moscow by the end of 1991.⁶⁶ On July 1, Zaslavsky expected some 35,000 officials in the state bureaucracy alone to make use of the exchange.⁶⁷ In fact, by the end of the year, of the 6,000 party people who had lost their jobs in the city, only 466 had looked to the exchange for employment.⁶⁸

In the earliest days of the state's new approach to unemployment, the Moscow Labor Exchange became a prototype. Whether it would succeed would not be known until the issues of purpose, financing, and organization were fully resolved.

Okun's Law, Job Rights, and Hidden Unemployment

Was the level of unemployment high at the end of the Gorbachev era? Should we be shocked by the official Goskomstat figure of two million jobless? It is arguable that given the collapse of the Soviet economy in 1991, unemployment should have been much higher than it actually was at the end of the year.

Let us apply Okun's Law to the Soviet economy. Arthur Okun demonstrated with U.S. data that there is a quantitative relationship between the deviation of actual from potential gross national product (GNP) and changes in the unemployment rate. In the U.S., Okun initially found that a 3 percent decline in GNP

was associated with a 1 percent increase in unemployment. Later empirical work modified this measure, with the most recent version showing that a 2.5 percent decrease in GNP is associated with a 1 percent increase in unemployment.⁶⁹ If we accept this ratio, the numerical relationship has to be modified in order to apply it to the Soviet Union because labor productivity is so much lower there than in the U.S. Labor productivity in the former USSR was estimated to be about 40 percent that of the U.S.⁷⁰ That is, labor productivity in the U.S. is about 2.5 times higher than it is in the former Soviet Union. Thus, if a fall in U.S. GNP of 2.5 percent is associated with a 1 percent rise in unemployment, then in the former Soviet Union, a 1 percent decline in actual from potential GNP should be associated with a rise in unemployment of about 1 percent.⁷¹ In 1991, from January through September, Soviet GNP fell 12 percent. That means that unemployment should have risen by approximately 12 percent as well. Given a labor force of 115 million in the state sector in 1990,⁷² this means that, according to Okun's law, Soviet unemployment should have risen by roughly 13.8 million in 1991, a far cry from the official figure of 2 million of total unemployed at the end of the year.

How can we account for the fact that through the end of 1991 the Soviet system was so impregnable to unemployment? The answer lies in two directions. The primary reason can be found in the jobs rights argument that David Granick proposed, namely that employees in Soviet state enterprises have a right to keep their

jobs.⁷³ There is anecdotal evidence that in spite of the well-known inefficiencies and unprofitability of Soviet enterprises, workers who were fired from their position managed to find other jobs within their enterprise with relative ease. A 1988 poll of enterprise managers revealed that 82 percent of them "believe that workers should be reassigned within the enterprise."⁷⁴ Igor Zaslavsky, director of the Moscow Labor Exchange said he could name "dozens of enterprises" which operated well below capacity but maintained their labor force and still found the money to pay them.⁷⁵ In early 1988, when unemployment admittedly had not risen as much as it did later, it was found that more than 60 percent of the workers who lost their jobs stayed at the same enterprise.⁷⁶ For others, particularly managers and members of the economic and planning bureaucracy, there was also a soft landing. Many in these positions seem to have been able to emerge from the effort to streamline the operation of the economy with another job without serious difficulty. For example, when the USSR Ministry of Machine Building for Light and Food Industry and Household Appliances was completely eliminated in 1988, of the 500 people who lost their jobs in the first round of firings in November 1987, jobs were found for 460 of them.⁷⁷

Secondarily, in the wake of supply breakdowns, enterprises probably substituted labor for capital in the production process. Although there is no direct evidence for this, it is plausible given the fact that Soviet managers frequently did this in order

to keep production flowing.

The fact that unemployment was actually considerably below what it "should" have been demonstrated the capacity of the economy to hide the unemployed. Some of it resulted from the efforts by enterprise managers to insulate themselves from the vagaries of supply deliveries by maintaining a sufficiently large roster of workers to carry out the feverish production activity at the end of the month known as "storming." Part was related to the promise to provide jobs to everyone. One of the costs of maintaining full employment was the great inefficiency in the operation of Soviet enterprises, many of which were grossly overstaffed. There has been a long tradition in the Soviet period of hidden unemployment (skrytaia bezrabortitsa). Estimates of superfluous employment were staggering. One estimate was that 8-10 million people fell into this category.⁷⁸ A Soviet sociologist suggested that there were 10-16 million people working at "lucrative but unnecessary jobs" (izbytochnye), what one would call cushy bureaucratic jobs in the West.⁷⁹ The Vice-Chairman of the USSR Council of Ministers, I. Postiakov, said at the beginning of 1988 that there were 17,718,000 employees in the country's administrative apparatus. He thought that about half of the employees in the republic ministries and departments and 30-35 percent of those at the provincial level would have to be let go.⁸⁰ A year later, a high level Gosplan official said that by any conservative estimate, "overemployment" in the economy was at least ten million persons.⁸¹

The entire population is, of course, aware of hidden unemployment. What they fear now is that in the transition the right to a job will be jettisoned and instead of hiding unemployment, enterprises will start firing workers under the pressure of market forces. Several polls revealed the great fear that marked the country over the possibility of unemployment. In the summer of 1991 a nationwide survey of 5,000 people asked the question: "Do you believe that you may lose your job in the transition to the market?" Forty-six percent said "yes" while only 40 percent said "no."⁸² Another survey conducted in Russia only about the same time asked the question: "Do you personally consider it probable that you may become unemployed during the next one or two years?" Overall, 27 percent of the Russians thought they would be future victims of unemployment--28 percent in urban areas, and 21 percent in rural areas.⁸³

Unemployment and Emigration

The danger of unemployment seems to be leading many people to consider emigration. Emigration in the late 1970s and through most of the 1980s was defined in terms of political or religious repression, as in the case of the Soviet Jews and the ethnic Germans, although there is little doubt that economic considerations affected the decisions of many to leave. One of the byproducts of perestroika was an acknowledged desire by many individuals to emigrate because of the visible crumbling of the economy. In a 1991 poll, 24 percent said they were prepared to leave the country because of their fears of even more

disintegration of the Soviet economy.⁸⁴ Emigration became an escape from a deteriorating standard of living and the growing prospect of unemployment.

Short-term emigration, that is, going abroad temporarily to work, also presented itself as an alternative for solving the country's growing unemployment problems. The evidence from public opinion polls is that as many as 2-3 million Soviet citizens want to go abroad to work on a temporary basis.⁸⁵ When asked their "attitude towards someone who decides to emigrate to a capitalist country to work on a temporary basis," 33 percent of poll respondents said they approve and would like to leave themselves.⁸⁶ Most of the people who want to work abroad are young; only 3 percent of those who expressed a desire for foreign employment were over the age of forty.⁸⁷ The government also understood the payoff from temporary migration. Labor Minister Vladimir Shcherbakov was frank in stating that temporary employment abroad of Soviet workers could diminish the impact of the shift to a market economy.⁸⁸

There was great concern in the west that economic refugees would flood the developed European countries. Sweden, Norway, and Finland decided not to allow Soviet citizens to work in their countries, and Germany set a quota of 15,000 people who could work there in 1991.⁸⁹ The restrictions reflect the consensus position of a December 1990 seminar jointly hosted by the Institute for East-West Security Studies and the Refugee Policy Group. Thirteen countries, east and west, including the USSR,

met to discuss emigration possibilities and it was clear that as a group they do not desire emigration to their country from the former USSR.⁹⁰

Conclusion: The Future Picture of Unemployment

There are dire predictions within the former Soviet Union and outside of high levels of unemployment to come. Some are predicting as many as 30 million unemployed, or about 25 percent of the labor force in the state sector. The International Labor Organization predicted in March 1992 that unemployment would rise to 15 million by the end of the year in the twelve former Soviet republics (excluding the Baltic countries).⁹¹ As what I have said above suggests, I think there will be a substantial increase in unemployment in the next several years. However, I would like to suggest that there are pressures and constraints that have the potential for mitigating the numerical increase of the unemployed, that is, for preventing the bottom from falling out. Let me start with two general scenarios.

(1) The first is the "They won't let it happen" scenario. In this scenario, the past, when employment was assured, becomes prologue to the future under the market. The pressure from below not to allow many millions to be out of work will be enormous. And the more people who become unemployed, the more pressure will build. I do not believe that any politician in the former Soviet Union can convince his constituents that unemployment is only a temporary phenomenon, a mere adjustment while the ineptitude of the past is undone, and that if they will only wait, it will

(mostly) go away. That is what people were told for decades about the arrival of the messianic era under the old regime. They became cynical then and I do not believe they will buy it now.

And I believe that we will see enormous pressure placed on the political leadership by the new independent and often militant trade unions to put a floor under the fall in employment. In seeming anticipation of diffusing the bomb from below, a resolution was adopted in July 1991 "On the Organization of Paid Public Service Jobs." Expectations are that by mid-1992 it will be necessary to organize public service employment for 1.4 million people. The jobs will involve "improving public areas, providing municipal services, building and doing repair work on institutions in the social sphere, and improving care for the sick and elderly."⁹² It will be very tempting for history's largest and longest running WPA project to turn to old-fashioned Keynesian pump-priming to achieve a short-term rescue of the unemployed.

(2) There is the "We won't let it happen" scenario. By "we" I mean the advanced industrialized nations. We are shipping emergency food supplies to the former Soviet Union not only for humanitarian reasons, but also because it is in our national interests that this area not become embroiled in a civil war. I believe the dangers of civil war are great if unemployment rises to substantial levels--and the unemployment rate will not even have to get close to mind boggling levels like thirty million

unemployed before there is social disorder. After all, people may be able to grow carrots on a private plot, but they cannot grow jobs, and they cannot hoard a job the way they can hoard laundry detergent in the closet or potatoes in the bathtub. Thus, the \$24 billion package proposed by the Western nations in March 1992, addresses this issue.

There are some other possible developments that could moderate unemployment.

(1) Capital shortages in a poorer, leaner country will lead to a partial shift to more labor intensive production processes.

(2) I suspect there will be pressure on many workers to take early retirement and on pensioners who are currently working to resign their jobs. Of course, given the state of poverty in which pensioners live, this would doom as many as eight million people to an abysmal standard of living.

(3) Governments could engage in a massive retraining program that provides the skills that are required in the economy. This would have to be combined with a job placement structure that would be able to deal with easing the path of people to be absorbed into the labor market. Such a capability and the funding for such a program does not currently exist. Overall, of the 4.1 million people who used job placement centers in 1990, 2.7 million or 64.8 percent of the applicants found jobs. More than a third could not be placed in jobs.⁹³ But of those who lost their jobs because of the liquidation or reorganization of the enterprise or organization, more than 60 percent could not find a job through a

job placement center.⁹⁴

(4) If institutions were created to allow the private sector to flourish, it might absorb large numbers of unemployed. The cooperative movement, which absorbed several million people who chose this alternative to state employment could be allowed to blossom. But so far the story is one of many obstacles being placed in its path. However, if unemployment really does have a tendency to gravitate to the levels predicted under the worst case scenarios, it will take an astonishing increase in the private sector in a very short period of time to make a serious dent in unemployment. I am not optimistic that this will happen. Even a doubling of the private sector in say two years would only remove five million from the rolls of the unemployed.

Even after putting all scenarios and possible moderating factors on the table, it is difficult to be optimistic. And the worst has yet to come. When and if the market economy finally comes to pass, the imposition of real discipline on enterprises will not save those who have managed to hide successfully somewhere in a failing enterprise. Okun's law will take hold and Granick's law will erode.

The government will probably seek to limit foreign workers, now numbering 100,000. Indeed, the government seems to have anticipated this possibility. In 1990, only 4,000 Vietnamese workers were admitted to the country, in contrast to previous years when about 20,000 came to work in the country.⁹⁵ But there is potential here for racist and xenophobic violence. It

has already shown its ugly head in actions against the Vietnamese who live and work in the former Soviet Union. So far much of this has had to do with Soviet citizens feeling aggrieved that the Vietnamese were buying scarce consumer goods. But it does not take a great deal of imagination to picture the hostility against foreigners that will exist when they begin to be seen as holding scarce jobs.

As competition for jobs grows more intense, there is the potential for serious civil strife as people fight over limited jobs. One can easily picture the following scenario.⁹⁶ Individuals living in relatively high unemployment areas of the country are going to flow to the relatively low unemployment areas. Moreover, given the different budgetary capacities of the different republics, there are likely to be higher unemployment benefits in some places than in others. Rationally, the unemployed will move to where higher unemployment benefits are issued. And in the receiving areas there will be real anger over "outsiders" using precious resources as the pie shrinks.

Moreover, without a real housing market and the likely impoverishment of those seeking work, there is also the potential for the development of poverty stricken ghettos in cities where the unemployed think they have their best chance of finding jobs. In the worst case scenario there will be a breakdown of the social order and even the return of authoritarian rule and it could have an ugly nationalist tone, with minorities becoming scapegoats.

How can this be summed up? Unemployment has risen, but old habits and institutions have thus far kept unemployment at levels lower than might be predicted. There will be a great confrontation between the frightening consequence of market economics and the unwillingness of Soviet citizens to accept unemployment. We know where the battle will be joined. What we do not know is what the outcome will be.

Endnotes

1. Ekonomika i zhizn', no. 43, 1990.
2. Pravda, April 6, 1990, p.2.
3. Rabochaia tribuna, April 30, 1991, p. 2.
4. TASS, March 31, 1988, from FBIS-SOV-88-063, April 1, 1988, p. 53.
5. Pravda, July 25, 1991, p .2
6. TASS, August 16, 1991, p. 39, from Report on the USSR, August 16, 1991, p. 39. About 70,000 were expected to become unemployed of the 380,000 people who were to be taken out of military related production.
7. Moscow World Service in Russian, April 5, 1991, in FBIS-SOV-91-069, April 10, 1991, p. 45.
8. Moscow Television Service in Russian, January 18, 1992, from FBIS-SOV-92-015, January 23, 1992, p. 56.
9. Izvestiia, March 23, 1991, p. 1.
10. Trud, September 25, 1990, p. 2. Not all of these abandoned projects meant the loss of jobs because so many of them had been lying fallow for a long time.
11. Izvestiia, October 16, 1989, p. 2.
12. Rabochaia tribuna, December 23, 1990, p. 2.
13. Argumenty i fakty, no. 14, April 1991, p.6.
14. Rabochaia tribuna, December 25, 1990, p. 2.

15. Moscow TASS International Service in Russian, from FBIS-SOV-91-134, July 12, 1991, p. 92.
16. Argumenty i fakty, no. 44, 1991, p. 3.
17. TASS, March 13, 1988, from FBIS-SOV-88-049, March 14, 1988, p. 72.
18. Moscow TASS in English, January 24, 1992, from FBIS-SOV-92-018, p. 50.
19. Teague, p. 6.
20. Sovetskaia kultura, November 10, 1990, p. 5.
21. Trud, May 12, 1990, p. 2.
22. Trud, May 12, 1990, p. 2.
23. Trud, May 12, 1990, p. 2.
24. Pravda, May 13, 1988, p. 2.
25. Pravda, May 13, 1988, p.2.
26. Trud, April 30, 1991, p. 2.
27. Trud, April 30, 1991, p. 2.
28. Krasnaia zvezda, September 10, 1989, pp. 1-2.
29. Pravda, February 18, 1990, p. 3.
30. Trud, April 30, 1991, p. 2.
31. Izvestiia, September 26, 1989, p. 2.
32. Trud, April 30, 1991, p.2.
33. Komsomol'skaia pravda, February 13, 1990, p. 1.
34. Izvestiia, May 12, 1989, p. 8.
35. Trud, May 4, 1990, p. 2.
36. Soiuz, no. 40, October 1990, p. 6., from FBIS-SOV-90-203, October 19, 1990, pp. 103-104.

37. Report on the USSR, September 14, 1990, p. 39.
38. Izvestiia, February 13, 1990, p. 8.
39. Soiuz, no. 40, October 1990, p. 6. While Russians absolutely dominated the group leaving Uzbekistan, there were also Armenians, Jews, and Greeks. And while the RSFSR was the principal point of destination, there were those who went to Belorussia and the Ukraine, and even some who left the country.
40. Izvestiia, September 12, 1990, p. 2.
41. Pravda, August 5, 1990, p. 2.
42. Pravda, September 11, 1990, p. 2.
43. Report on the USSR, April 19, 1991, p. 33
44. Moscow World Service in English, January 5, 1991, from FBIS-SOV-91-004, January 7, 1991, p. 50.
45. Pravda, January 19, 1988, pp. 1-2.
46. The January 1991 employment legislation was published in Sovetskaia Rossiia, January 25, 1991, p. 1 and was translated in JPRS-UEA-91-009, February 26, 1991, pp. 49-61.
47. Rabochaia tribuna, January 29, 1991, p. 1.
48. Moscow All-Union Radio Mayak Network, May 6, 1991, from FBIS-SOV-91-091, May 10, 1991, p. 22.
49. Moscow INTERFAX in English, June 27, 1991, from FBIS-SOV-91-126, July 1, 1991, p. 28.
50. Elizabeth Teague, "Tackling the Problem of Unemployment," Report on the USSR, November 8, 1991, p. 4.
51. Trud, March 29, 1990, p. 2.
52. Trud, March 29, 1990, p. 2.

52. Radianska Ukraina, November 6, 1990, pp. 1,2.
53. Moscow TASS in English, January 15, 1991, from FBIS-SOV-91-011, January 16, 1991, pp. 35-36.
54. Izvestiia, January 21, 1988, p.3.
55. Moscow TASS International Service in Russian, January 4, 1991, from FBIS-SOV-91-005, January 8, 1991, p. 52.
56. Sovetskaia Rossiia, August 7, 1991, p. 1.
57. Izvestiia, February 6, 1991, p. 3.
58. Moscow News, no. 50, 1990, p. 10.
59. Sovetskaia Rossiia, August 7, 1991, p. 1.
60. Pravda, February 1, 1991, p. 2.
61. Izvestiia, July 5, 1991, p. 3.
62. Elizabeth Teague, "Tackling the Problem of Unemployment," Report on the USSR, November 8, 1991, p. 5; Pravda, February 1, 1991, p. 2.
63. Pravda, February 1, 1991, p. 2.
64. Sovetskaia Rossiia, August 7, 1991, p. 1.
65. Moscow Radio Moscow World Service in English, from FBIS-SOV-91-172, September 5, 1991, p. 48.
66. Moscow Television in Russian, January 4, 1992, from FBIS-SOV-92-005, January 8, 1992, p. 57.
67. Moscow Russian Television Network in Russian, May 30, 1991, from FBIS-SOV-91-106, June 3, 1991, p. 41.
68. Moscow Television in Russian, January 4, 1992, from FBIS-SOV-92-005, January 8, 1992, p. 57.

69. Paul A. Samuelson and William D. Nordhaus, Economics, Twelfth Edition, McGraw-Hill: New York, 1985, p. 187.
70. John S. Pizer and Andrew P. Baukol, "Recent GNP and Productivity Trends," Soviet Economy, Vol. 7, January-March 1991, p. 71.
71. This assumes, of course, that the ratio of the marginal productivity of labor of Soviet workers to the marginal productivity of U.S. workers is .40. The truth is that this is not measurable. The problem is complicated by the fact that there are huge numbers of workers in the former Soviet Union who are regarded as superfluous workers, perhaps as much as 20 percent of the labor force. These workers either have a zero productivity or a low productivity and therefore their unemployment does not alter GNP. But, at bottom, it is more reasonable to speak of the ratio of the average productivity of laid off labor in the two countries as being the same as everyone else in the respective labor forces.
72. Rabochaia tribuna, Dec. 14, 1990, p.1.
73. Granick, Job Rights in the Soviet Union.
74. Moscow Television Service in Russian, February 12, 1988, in FBIS-SOV-88-033, February 19, 1988, pp. 78-79.
75. Sovetskaia Rossiia, August 7, 1991, p.1.
76. Trud, January 28, 1988, p. 1.
77. Pravda, March 2, 1988, p. 1.
78. Ekonomika i zhizn', no. 15, April 1990, p. 12.
79. Rabochaia tribuna, December 7, 1990, p.2.

80. Pravda, January 21, 1988, p. 2.
81. Izvestiia, January 11, 1989, p.5.
82. Moscow News, no. 31, 1991, p. 10.
83. Moscow Russian Television Network in russian, June 29, 1991, from FBIS-SOV--91-127, July 2, 1991, p. 79.
84. Interfax, May 23, 1991, from FBIS-SOV-91-101, May 24, 1991, p. 36.
85. Moscow World Service in Russian, August 8, 1990, from FBIS-SOV-90-154, August 9, 1990, p. 36; Dialog, no. 5, March 1990.
86. Moscow News, no. 34, 1990, p. 9.
87. Izvestiia, August 11, 1990, p. 7.
88. Report on the USSR, June 22, 1990, p. 35.
89. Izvestiia, October 13, 1990, p.2; Paris AFP in English, June 13, 1991, from FBIS-SOV-91-115, June 14, 1991, p. 31.
90. See Meeting Report, "Ramifications of the USSR Emigration Law," Institute for East-West Security Studies. The thirteen countries attending the seminar were: the Soviet Union, the Czech and Slovak Federal Republic, Finland, Hungary, and Poland, (the latter four being border states), Australia, Austria, Canada, France, Germany, Sweden, Switzerland, the United Kingdom, and the United States.
91. The New York Times, March 31, 1992, p. A7.
92. Izvestiia, July 31, 1991, p. 2.
93. Ekonomika i zhizn', no. 19, May 1991, p. 12.
94. Ibid.
95. Argumenty i fakty, no. 12, 1990.

96. Pravda, December 23, 1991, p. 1.