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ANALYZING THE EFFICIENCY OF THE SOVIET UNION LABOR MARKET

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ABSTRACT

Efficiency is loosely measured by accounting for the levels of productivity and costs involved for labor. This paper seeks to lay out the efficiency of the labor market during the height of the USSR's command system economy. Various literature on the subject argues that, contrary to common knowledge, the Soviet Union had an efficient economy. To effectively measure efficiency, this paper first examines the characteristics of the Soviet labor market from 1922-1991 and highlights important topics of productivity, employment, and resource allocation. The features of the labor market and links to Marxist ideology are continually referenced throughout this analysis. Finally, this paper compares the labor market trends of the USSR with the trends of modern-day capitalist economies.

I. INTRODUCTION

It seems to be the case that when we think about the Soviet Union's command economy, we tend to overlook the characteristics of the system, and merely jump to recognizing the fact that the system quickly failed. However, this paper offers the chance to explore the intriguing complexity of the Soviet economic system, more specifically, its labor market. One of the most interesting facts about the USSR's command economy was the way labor productivity was valued. An analysis of the labor market opens a conversation that goes beyond an economic framework, given that within the socialist regime, the labor market is greatly influenced by cultural and political factors. Therefore, measuring efficiency of the Soviet Union's labor market requires a thorough analysis of the values and strategies of the State.

Finding official government information on the labor market proved more difficult than expected, this is because the USSR preferred not to release information that only attached economic value to its labor productivity. Following Marxist ideology, the labor of the people

should not be exploited for economic profits. In an attempt to maintain the belief system on which the Soviet Union was founded upon, the characteristics of the labor market were discussed through a “socialist planning” approach. The term “Labor Market ” is a foreign idea to the Soviet regime, rather they used the phrase “planned distribution of the labor force” in various literature when considering what we know as the labor market. Although there are considerable differences in economic terminology used by socialist systems compared to our capitalist system, we are still able to quantify the efficiency of the labor market.

II. BACKGROUND/LITERATURE REVIEW

To effectively display the efficiency of the Soviet Union’s Labor Market, it is imperative to look at the places where it is inefficient. Without the existence of market prices, central planners do not have a grasp of the opportunity costs of factors of production. Another issue that comes up within socialist countries is the inability to develop or adopt technology. The most influential paper on this topic is “The Labor Market and the Transition of Socialist Economies” by Milan Vodopivec, published in the Country Economics Department of the World Bank. This paper investigates the labor markets of socialist economies to predict how well they may transition into multiparty democracies. Vodopivec analyzes the USSR and countries in Eastern Europe that adopted similar systems. He dedicates a great amount of time to understanding how the adoption of Marxist ideology is projected onto a state that wants to maximize its productivity. Importantly, Vodopivec underlines that there is room for comparison between the labor market of socialist and capitalist regimes. For example, the labor market in socialist countries is roughly comparable in mobility with developed market economies (7). This ties into my work of

describing the strategies for increased productivity that the USSR adopted, and how efficient these were at maintaining strong administrative rule and an adequate growth rate.

A key topic that I study is wages and the distribution of manpower in the Soviet Labor market. This is an incredibly interesting topic because, as mentioned before, the socialist regime refused to adopt economic terminology that implied that wages were the price paid for labor. Therefore, the wages given to laborers and the jobs performed by them were expressed in a way that signaled a mutually beneficial relationship between the worker and the state. “The Soviet Labor Market” by Emily Clarke Brown, published by *Sage*, takes on an analysis of this relationship between central planning and the labor force. Brown explains the ideology behind the way payment is distributed and the strategies employed by the government in managing their labor force. The socialist economic system was very averse to the equalization of wages, and they did not correctly value the differences between skilled and unskilled labor. Through an analysis of Soviet government and the workers, this paper displays the areas where there was much lost productivity due to administrative inefficiency.

Another characteristic that is imperative to analyze is the productivity of the Soviet Union labor market. This not only deals with the subject of promoting economic profits, but of measuring standards of living and relationship of the labor market with other sectors of society, such as the housing market. Productivity is also heavily discussed when displaying the widely known shortages of goods that the USSR suffered from. “Labor Productivity in the Soviet Union” by Irving H. Siegel for *The Journal of the American Statistical Association*, takes on a purely economic look at measuring industrial productivity and gross output. This article displays the average productivity of workers in varying industries- something that Soviet officials rarely measured. Taking the economic information that is examined by Siegel and comparing it to the

cultural and political studies that may be performed on this subject allows for an efficient observation of Soviet standards of living and the strength of their social relations.

The inefficiency of the Soviet regime to adequately measure and promote productivity was soon evident to the public sphere when the Soviet Union began suffering from both labor and consumer goods shortages. These events were catastrophic to the soviet economy as they could no longer conceal their loss of societal and economic control. The book, “Hard Times: Impoverishment and Protest in the Perestroika Years” by William Moskoff, details the effect that price volatility had on Soviet citizens. This book compares the income of laborers, food prices, and black-market prices to portray the events that led up to final loss of power of the Soviet Regime.

III. HOW THE LABOR MARKET OPERATES

a. Wages and the Distribution of Manpower

As previously stated, the Soviet Union denies that wages are specifically the price of labor, or the result of a market transaction. The provision of manpower takes place by central planning and organized distribution, because of this, we expect wages to have no place in a conversation about the distribution of the labor force. As stated by Emily Brown, “the reward for work in the USSR is therefore not the price of labor power, but represents the part of the share of the social product which is distributed among workers in proportion to the quantity and quality of labor expended” (182). Soviet officials expressed that pay rates were “according to work”, meaning that workers received different wages depending on differences in effort, working conditions, and living costs in differing areas. Although the labor market is purposely loosely defined, it is comparable to the labor markets that we presently know. Differential wages were used to promote employment and influence workers to stay in desired jobs depending on their

skill levels and costs of training. By working wherever the government preferred, individuals were presented with the opportunity for economic advancement.

Central plans set limits on the number of workers and wage funds for industries, setting wage differentials. This heavy focus on wage differentials eliminated the idea of wage equalization and of valuing work based on where it was skilled or unskilled. The result were higher wages for those in the branches of heavy industrial work such as mining and manufacturing. A high demand for industrial goods, and high wages in that sector served to further influence the economic prosperity of the Soviet Union. Wage differentials for skill were divided into eight “labor grades”. The lowest of these labor grades paid 1.26 rubles hourly while the highest paid 3.08. Research has shown that this system was successful in influencing citizens to expand their skill levels so that they could be transferred to higher ranks.

b. Employment

The placement of individual workers in jobs has occurred through a combination of individual choice and compulsion. One of the features that the Soviet state was most proud of was that they had no unemployment, and in fact, lacked enough workers in rapidly developing skilled-work industries. The labor market mostly relied on individual choice of employment, as Soviet citizens had the constitutional “right to work” followed by the “duty to work.” Individual choice was aided through employment agencies that sought to direct employees to where they were most productive and placed graduates in skilled positions. Regarding compulsory work, the state revered the right to force citizens to labor in times of crisis where they would be “fighting the elements or lack of workers to carry out important state work” (Labor Code of 1918). During WWII, for example, conscription was used for both the industry and agriculture.

Figure 1 displays the channels used for hiring workers in all sectors of the economy in 1970 and in 1980. It can be noted that the rates of hiring increased significantly in all channels except direct enterprise hiring. This table also depicts the importance that the Soviet economy placed on acquiring more university graduates for skilled labor.

Table 2.2 *Channels used for hiring personnel in all sectors of the economy of the Russian Republic (percentage of all personnel hired)*

Channel	1970	1980
Assignment to work of graduates completing fulltime studies in		
vocational school	5.9	9.3
junior colleges	2.0	3.0
higher education	1.1	1.9
Transfers	4.3	3.8
Organized recruitment of manual workers	0.6	0.7
Social recruitment	...	0.5
Organized agricultural resettlement	0.2	0.2
Placement of youth by local commissions	4.7	2.8
Hiring by enterprises through labor offices	3.5	9.7
Hiring by enterprises directly	77.6	68.1

Note: 1970 percentages are all slightly overstated, because they are calculated on the assumption that social recruitment was zero in 1970. These percentages are also subject to rounding error, in contrast with the 1980 data.

Source: A. Kotliar in *E.N.*, 1984, 3, pp. 53 and 56. The 1980 column is given directly; the 1970

IV. LABOR MARKET INEFFICIENCY (allocative and dynamic)

Allocative efficiency concerns the ability of an economy to efficiently allocate inputs. An economy is allocatively efficient if given a level of technology, no gains can be made if production factors are shifted. It is interesting to note that an economy can be allocatively efficient and yet be inside the PPF, due to technical inefficiency. There has been a lack of consensus regarding whether the Soviet Union was allocatively efficient, with much of the discussion rooting from disagreements on the validity of Soviet economic data. In “An Economic History of the USSR”, Alec Nove underlines the overwhelming success of the Soviet economy

in terms of growth, increases in productivity, and raising the potential living standards. He states the eventual economic failure of the USSR was not due to a too much socialism, rather, because it was not socialist enough. His work displays that due to statistical mistakes in the recollection and interpretation of data, the elasticity of substitution between capital and labor in the Soviet economy was much higher than is commonly believed. Contrary to scholars who argue that the USSR was unable to replace labor with machinery and make a switch from labor-intensive to capital-intensive production, Nove appeals to data that shows that the ratio of this replacement of labor by capital may have been in fact quite high.

The article “Estimation of Output Loss from Allocative Inefficiency” by Whitesell and Barreto follows a similar narrative. This paper presents two different estimates of the output loss resulting from allocative inefficiency in the Soviet Union and the United States. The result of examining nine industrial sectors during 1960 and 1984 shows that there are only small differences in allocative inefficiency between the United States and Soviet economies. Whitesell and Barreto understand that there is a lack of agreement over whether studies on the Soviet Union are based on reliable data, yet they offer a plausible explanation for the unexpectedly strong performance of the USSR’s economy in the allocation of labor and capital across sectors. They argue that, there were low levels of resource misallocation and conclude that the poor economic standing of the Soviet Union was a result of technical inefficiency and production of the wrong mix of output.

a. Inefficient Allocation of Labor

The use of hiring channels to accommodate the wage differential system proved to be quite difficult to manage. Simatupang (1982) reports that the proportion of employees with higher technical education in the nonagricultural sector is much higher in the USSR than in western countries. Unskilled and skilled laborers were wrongfully placed in sectors where they would not reach their productivity potential, the extent of the economic impact of this fault is unknown but present. Moreover, to increase wages under regulation schemes, enterprises would hire large amounts of unskilled workers so that skilled labor increased in value. This phenomenon displays a lack of labor market management by the Soviet regime. In general, the labor mobility that was so prevalent in the regime may have not improved the efficiency of labor allocation. As explained by Milan Vodopivec, “If value marginal product in firm A does not equal value marginal product in firm B, welfare could be increased by reallocating labor from the less productive to the more productive use. But if both firms pay the same wage rate, workers themselves have no incentive to change employers such direct administrative measures are ineffective” (32). If the wage does not reflect the opportunity cost of labor, then reallocation is not worth it, and it was most likely the case that soviet workers were reallocating based on false promise of increased opportunities.

V. MODERN DAY REFLECTION

The labor market of the Soviet Union followed a nearly thirty-year series of trial and error under the Five-Year Plans. I find it critical to point out that although the regime was created under the ideas of Marxism and Leninism, there was no preexisting “economic blueprint” that the Soviet Union was to follow. Soviet central planning and controlled economic development

resulted in full employment and huge movements of labor into new sectors. The impressively fast shift from an agricultural society to an industrial power was driven by ideology and economic ambition, yet blindly left room for inefficiencies to occur within the system. The adoption of characteristics of our modern-day labor market, such as the recognition of skilled and unskilled labor, would have largely benefited the Soviet regime. The labor market also suffered from a lack of oversight by officials that were to ensure that parties would not alter the hiring process to benefit themselves or others. As mentioned in section IV, scholars find that the inefficiency that the Soviet Union suffered from was caused mostly by technical inefficiency in management of production.

Nonetheless, much of the differences that are present between the economy of the USSR and modern-day economies like that of the United States, are solely based of differences in terminology. What I often found in the scholarly literature, was the idea that the eventual fall of the Soviet Union was not because it was too socialist, rather, it adopted a twisted idea of socialism that best benefited the elite in power. In actuality, we do not know whether a truly socialist USSR would have socially and economically prospered.

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