

LEASECON 2020
International Conference «Land Economy and Rural Studies Essentials»

**THE PROBLEM OF POVERTY IN THE CONTEXT OF CHANGES
INSTITUTIONAL ENVIRONMENT**

Marina V. Tsymbalyuk (a)*, Irina Y. Kolchurina (b), Elena V. Kovaleva (c),
Yuriy P. Prohno (d), Tatiana A. Mikhailova (e)

*Corresponding author

- (a) Siberian State Industrial University, 42, Kirova Str., Novokuznetsk, Russia, tsymbalyukmarina@yandex.ru
- (b) Siberian State Industrial University, 42, Kirova Str., Novokuznetsk, Russia, ira-kolchurina@yandex.ru
- (c) Siberian State Industrial University, 42, Kirova Str., Novokuznetsk, Russia, kovaleva_ev2015@mail.ru
- (d) Siberian State Industrial University, 42, Kirova Str., Novokuznetsk, Russia, prohnoiv@mail.ru
- (e) Siberian State Industrial University, 42, Kirova Str., Novokuznetsk, Russia, mikhailova-nvkz2010@mail.ru

Abstract

The article examines the problem of poverty in the context of changes in the institutional environment of the modern economy. The analysis we describe was performed before the events with COVID-19. We consider how moving away from the paternalistic model of the state leads to a change in the ways of solving the problem of poverty. We point out what locks the poor in the "poverty trap". A manifestation of these pitfalls is the combination of rapid credit growth with no growth in income. We describe two types of information problems of the credit market: hidden characteristics (deteriorating selection of borrowers before obtaining a loan – pre-contact opportunism) and hidden actions (unfair behavior of borrowers after receiving a loan – post-contact opportunism). The article draws attention to the peculiarity of the Russian approach to solving the problem of poverty: the tool for assessing it is the living wage. At the same time, in world practice, the concept of relative poverty is usually used: the poverty line is considered to be 60% of the median income. We describe how the government is trying and planning to improve the welfare of the poor. We pay attention to possible solutions to this problem in addition to existing measures. We state that poverty, in our opinion, is a problem of the effectiveness of economic and social policy, and not of insufficient social assistance, which does not solve the problem of transferring potential labor resources to real economic ones.

2357-1330 © 2021 Published by European Publisher.

Keywords: Institutional environment, living wage, poverty



1. Introduction

The relevance of the chosen topic is related, on the one hand, to the increase in poverty, growing Russian inequality and, in turn, the growing demand for social justice.

The government's recognition of the existence of significant levels of poverty was echoed in Prime Minister Dmitry Medvedev's speech during the government's 2018 performance report. He said, that some just survive. According to him, almost 19 million people are poor – which means that people live in ways they shouldn't. These words look like an honest statement of the fact about the situation with the standard of living of the population. At the same time, poverty was an argument for recognizing the country's urgent need for "national projects" approved by Vladimir Putin for 2019-2024.

The current economic situation in the Russian economy does not allow us to move to a relative concept of poverty, as well as to move away from the consumer approach to poverty assessment. It is also important to change the institutional environment of the modern economy, which is accompanied by a departure from the paternalistic model of the state, which causes a number of problems and changes the way to solve the problem of poverty.

2. Problem Statement

Consideration of poverty through the analysis of different approaches to its understanding leads to different methods of assessing it, which, in turn, determines the effectiveness and feasibility in practice of government measures to reduce it.

3. Research Questions

Poverty as a socio-economic phenomenon exists in any society. However, its causes, specific manifestations, scale, and consequences at various stages of society's development differ from each other.

Approaches to the analysis of the problem of poverty. From the point of view of institutional economics, everything that happens to us is the result of our own decisions. And in this context, poverty is the result of our actions or inaction. Moreover, this very controversial statement (which denies the influence of "fate"- for example, various starting conditions for entering the economic reality, territories falling out of economic circulation, etc.) gradually replaces in the public consciousness all the others, including the objective grounds and causes of poverty (Wolff, 2019). Apparently, this is why, if even thirty years ago more than 80% of Russians treated the poor with compassion, today sociologists note a decrease in this share to 25-30 % (Tikhonova, 2014). Understanding of poverty as a socio-economic phenomenon depends on the socio-economic policy pursued in the country. Applying different methods to determine the extent of poverty yields different quantitative indicators (Zhang et al., 2019). The level of poverty and the number of poor depend on the poverty line officially established by the state (Oshio, 2019). The size of social programs to combat poverty depends on the financial capabilities of the state (Clementa, 2010). Public authorities can adjust the methodology

according to which a very large number of people in need of assistance are poor, which exceeds the state's ability to provide it (an economic or resource-based method of establishing the poverty line).

Poverty measurement in Russia. Currently, the categories of "living wage" and "consumer basket" are used to measure poverty in our country. The minimum wage, calculated on the basis of the consumer basket, serves as a tool for assessing poverty. This concept of so-called absolute poverty, according to which the poor are considered citizens with incomes less than the subsistence minimum (Tikhonova, 2014). In 2019, the Russian average is 10.4 thousand rubles. This minimum ensures only physiological survival, and it is not a development budget in any way. 19.3 million people (13.2%) receive this income. In other countries, the concept of "consumer baskets" is also used, but not as a necessary minimum for survival, but as a tool for estimating the level of inflation. The use of a minimum consumer standard, according to a number of experts, corresponds to an industrial society, and not to a post-industrial one. This is due to the outpacing growth rate of consumption of services, increasing diversity of consumer behavior and consumer culture. Measuring such needs is very difficult, and sometimes impossible. As a rule, the concept of relative poverty is used in international practice: the poverty line is 60% of the median income (the salary level is higher than that of one half of workers in the country, and less than that of the other) (Gomo, 2019). The median income, therefore, is not equal to the average salary, which is affected by the income of fewer people with very high salaries. For example, in Russia, the median salary in spring 2019 was 34,335 rubles, and the average salary was 47,657 rubles. Then the national poverty line should be a salary of 20,601 rubles (60% of the median income), which is almost twice the minimum subsistence level and leaves 25% of the population below the poverty line. But winning over income poverty does not yet provide a decent standard of living. The current economic situation in the Russian economy does not allow us to move to a relative concept of poverty, as well as to move away from the consumer approach to poverty assessment. Unfortunately, statistics have a simplistic approach to the problem of poverty - it is fixated on the level of income as the main defining characteristic of such a problem as poverty. We believe that the deprivation approach is more objective, which is based on the estimated state through the deprivation. That is, it is treated as the optimum unit, and all deviations from it in the negative requires, of course, the commodity content (such as the available interest on the mortgage; affordable dentistry; treatment of children without public collection of funds; nutrition in schools, etc.).

Manifestations and causes of poverty in Russia. «Poverty trap». The growth of poverty in the modern Russian economy is caused by a number of reasons, which are expressed in the fall in real incomes of the population. The risk factors are quite obvious: a) unemployment; b) low wages of employees; c) health status; d) number of children in the family; e) asocial group of the population. The identification of risk factors allows us to determine the goals of management in the area of addressing the problem of poverty (Sergienko, 2015). The structure of the poor strata of the population can be divided into two levels: a) chronic poverty; b)

situational, temporary poverty. Here, too, there is a socio-economic danger that situational poverty will become chronic (Slobodenyuk, 2014). I have to say that this process has been going on with an increasing trend for the past five or six years. Similar problems exist in other countries (Joyce & Ziliak, 2019). However, in Russia there is a process of reproduction of the poor population, the reproduction of the "social bottom". Unfortunately, the country is forming a social stratum with characteristic features of the "social bottom", which is characterized by lack of desire for work and creativity, alienation from the socio-political life of the country, etc. (Sergienko, 2015). People began to save on what they freely bought before. But to save not in order to save, but because of the lack of money. The transition to a low-cost product range and a low-price orientation has begun, and the concept of a "discount buyer" has emerged. This consumer behavior has even been dubbed the «new reality». Consumers, who live in relative poverty behave differently than other wealthier consumers (Bryant & Hill, 2019). During the zero years, the country has moved away from absolute poverty, people have stopped starving, they have something to wear. But the economy has not developed a new model for the development of human capital, there have been no structural changes in consumption patterns, the structure of consumer spending and expectations. In the context of low economic growth, there is a threat that more and more people will fall into a new institutional trap of current consumption and live in "decent poverty".

Credit resources. Inflationary processes, against the background of stagnating nominal incomes, cause an increase in the necessary volume of Autonomous consumption, which, as we know, does not depend on the level of real disposable income. To replenish this volume, if it does not reach the normal level, it is necessary to borrow credit resources. The factor pushing into this trap was the inflating of the credit bubble. However, there is no clear answer to the question of how much lower income encourages credit growth. Consumer loans for 2018 and 2019 grew at a rate above 20% year-on-year. Paradoxically, the combination of rapid credit growth with no growth in income was a paradox. Interest rates, which have reached historically the lowest level, have become attractive for stimulating lending. On the other hand, the population is trying to maintain its habitual consumption due to the decline in real income. A consequence of the growth in lending rates for the banking sector may be the level of loan delinquency. According to VTSIOM, more than half of Russians (51%) have outstanding loans, while a third of them have experienced difficulties with payments over the past year. A third of borrowers have a payment-to-income ratio that exceeds the critical 60% mark. To repay the average consumer loan today requires 11 average monthly salaries compared to 7 salaries 7 years ago. The overall level of creditworthiness the Russian ruble is approaching its peak values. Russians owe financial organizations a record amount of 16 trillion rubles. At the same time, from the point of view of banking sector performance indicators, loan delinquency is quite low. This is partly due to the fact that many loans are taken to repay old ones. In order to cool the lending market, the Central Bank has set a barrier to issuing loans in the form of a debt load indicator of 50% of the borrower's monthly income since October 1, 2019. This measure is intended to limit the increase in the debt burden of the population. The Central Bank will

adopt a conservative approach to evaluating borrowers and taking on risks. The pace of credit activity should slow down and match the growth of solvent demand. It is known that one of the conditions for good performance of markets is the symmetry of information. The credit market has faced two types of information problems: hidden characteristics (deteriorating selection of borrowers before obtaining a loan – pre-contact opportunism) and hidden actions (unscrupulous behavior of borrowers after receiving a loan – post-contact opportunism). This is what locks the poor in the "poverty trap" and requires appropriate institutional decisions by the Central Bank.

Approaches and system of measures to address the problem of poverty. In society, aware of the severity of the problem of poverty, there has long been a discussion about a system of measures to overcome poverty. Unfortunately, the economic community is dominated by an alternative approach—either tax reform or the introduction of modern targeted assistance (Wolff, 2019). What prevents the antinomy, when the tax reform (the introduction of a progressive tax scale and the abolition of income tax on the income of the poor) will be followed by targeted social assistance, the size of which will be sharply increased with the increase in the government's budget capabilities, due to the growth of tax revenues? Yes, Russian corporate capital does not want progressive taxation - something that exists in the entire civilized world. All over the world, they (the rich) turn their own remnants into domestic investments. Our corporate capital exports its own excess reserves, removing them from the zone of risk and uncertainty. Therefore, the introduction of a progressive tax scale is one of the most effective ways to forcibly nationalize excess income, which will work for society, reducing the degree of social tension and ensuring the expansion of aggregate demand. The government has decided to create a system of targeted assistance, which will require the formation of a common information base that includes data on all household income, payments, benefits and benefits in order to avoid "smearing a thin layer", and therefore ineffective social payments (Kovaleva et al., 2019). To create such a system, it is necessary to combine all the data from different departments (Pension Fund, social insurance Fund, tax service, social protection service, guardianship authorities, etc.) providing social assistance.

Sources of finance. Surplus the draft budget for 2020 and for the planning period of 2021-2022 allows us to accumulate a "safety cushion", insuring risks from reducing revenues in the event of fluctuations in prices on the world commodity markets. But these financial instruments do not solve the problem of poverty – they "smooth it out". According to the schedule of measures of strategic planning of the Ministry of labor, the number of poor people should decrease to 10% of Russians in 2020 and will continue to consistently decrease to 6.6% in 2024. The reduction of the poor will be due to the indexation of payments, an annual increase in insurance pensions, higher than inflation, an increase in the minimum wage in line with the increase in the cost of living, and the conclusion of social contracts (Loureiro, 2019). The meaning of a social contract is that a citizen or family receives money on the condition that they get a job, retrain for another profession, or open their own business. Practice has shown that one year after the conclusion of the contract, half of families leave the poverty line (Kovaleva &

Mikhailova, 2014). In 2017, a one-time payment under a social contract averaged 36.8 thousand rubles. If they are planned to be concluded with 35% of the poor (this is 6.7 million people from the current number of poor-19.3 million), this will require more than 250 billion rubles. There are no official figures yet on what the state will spend on this item. What is known is that each region determines the amount independently.

The focus on reducing poverty is also planned to be on helping families with children (so-called household poverty). They make up the bulk of the poor. Now families receive payments for children under the national project "Demography". These are allowances for the first and subsequent children of families where the income is less than one and a half subsistence minimums per person (from 2020 – two). Monthly payment of an average of 10.5 thousand rubles to a family is allocated for a child up to one and a half years old. A mechanism for employing-mothers with children under six is also being developed. For example, so that mothers can start working more quickly and increase their income, it is proposed to create groups of preschool education and supervision within the framework of the national project "Demography", and send women during maternity leave for free to retrain or improve their skills. In addition to these measures, it is necessary to tighten the requirements for receiving benefits, improving the identification of the truly poor. To identify the real needs, we have developed a system of EGISTO (Unified state information system of social security). But even it does not yet allow us to accurately determine whether the farm is poor or not.

4. Purpose of the Study

The aim of this paper is to analyze approaches to solving the problem of poverty.

5. Research Methods

This study was conducted using methods of analysis and synthesis, statistical and logical methods, as well as methods of inductive and deductive approaches.

6. Findings

Poverty is a social-economic problem of modern society, demonstrating a potentially unused resource in the economy. This is a problem of effective economic policy, not of insufficient social assistance, which will certainly reduce the severity of social distortions, but will not solve the problem of turning potential resources into real economic resources.

7. Conclusion

Considering poverty through the prism of reducing income inequality (but not the weaning model), and analyzing it as a category of consumption, expenditure (not income) – these are actual problems that are waiting to be solved, based on the model of economic growth of the Russian economy.

References

- Bryant, A., & Hill, R. P. (2019). Poverty, consumption, and counterintuitive behavior. *Marketing Letters*, 30, 233-243. <https://doi.org/10.1007/s11002-019-09494-8>
- Clementa, M. (2010). *Public transfers and poverty reduction in a context of sustained economic growth: the case of Russia* *Revue d'etudes comparatives est-ouest*, pp. 141–170.
- Gomo, C. (2019). Government transfers, income inequality and poverty in South Africa. *International Journal of Social Economics*, 46, 1349-1368.
- Joyce, R., & Ziliak, J. P. (2019). Relative Poverty in Great Britain and the United States, 1979-2017. *Fiscal studies*, 40, 485-518.
- Kovaleva, E. V., & Mikhailova, T. A. (2014). Some aspects of state regulation of the economy in modern Russia *Actual problems of society development: legal, economic and social aspects*, 18–22.
- Kovaleva, E. V., Mikhailova, T. A., & Tsymbalyuk, M. V. (2019). On the issue of institutional aspects of reviving economic growth in the Russian economy. *Actual problems of economy and management in the XXI century*, pp. 221–224.
- Loureiro, P. M. (2019). Social Structure and Distributive Policies under the PT Governments: APoverty-Reducing Variety of Neoliberalism. <https://doi.org/10.1177/0094582X19881986>
- Oshio, T. (2019). Exploring the health-relevant poverty line: a study using the data of 663,000 individuals in Japan. *International journal for equity in health*, 18, 205. <https://doi.org/10.1186/s12939-019-1118-8>
- Sergienko, A. (2015). *Poverty of rural population in Russia: trends and social mechanisms of overcoming differences, inequalities and sociological imagination* (pp. 129–134). Prague.
- Slobodenyuk, E. (2014). Institutional factors of chronic poverty formation in modern Russia. *Journal of institutional studies*, (pp. 146–159). Humanitarian perspectives.
- Tikhonova, N. (2014). The phenomenon of poverty in modern Russia *Social sciences* (pp. 95–115). East View Press.
- Wolff, J. (2019). Poverty. *Philosophy Compass*, 14, 12635. <https://doi.org/10.1111/phc3.12635>
- Zhang, H., Xu, Zh., Wu, K., Zhou, D., & Wei, G. (2019). Multi-dimensional poverty measurement for photovoltaic poverty alleviation areas: Evidence from pilot counties in China. *Journal of cleaner production*, 241, 118382. <https://doi.org/10.1016/j.jclepro.2019.118382>