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## **CHANGING APPROACHES TO DETERMINING THE LIVING WAGE IN RUSSIA**

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### **Abstract**

The article deals with the current trend of changing the calculation of the living wage in Russia. It is aimed at identifying the specific features and actual issues of the transition of the cost-based approach to the income-based approach when calculating the living wage in Russia and developing ways to solve them. As the results of the research of the cost approach, the following are distinguished: first, the specifics of calculating the living wage based on the cost approach are presented; second, the calculation of the real value of the consumer basket of the Pskov region based on actual data and comparison of its amount with the normative amount established by the Decree of the Administration of the Pskov region; third, the disadvantages of the cost approach to determining the living wage based on the consumer basket are revealed. As the results of the research of the income approach, the following are distinguished: the procedure for determining the median per capita income, the methodology for calculating the living wage according to the new rules and the features of implementing the new income approach in determining the living wage in Russia are considered; a comparative analysis of the cost and income approaches in determining the living wage in Russia is carried out; the problems associated with the introduction of the income approach to the definition of the living wage in Russia are identified, and the directions for their solution are proposed.

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*Keywords:* Living wage, approaches to calculating the living wage, consumer basket, median per capita income



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## 1. Introduction

The Russian Federation is a legal, democratic and socially oriented state. Creating decent living conditions by the state for its citizens is implemented through certain standards approved at the legislative level and taking into account the real needs of the population. The above standards in Russia include the consumer basket, the living wage and the minimum wage.

At the end of December 2020, the Government of the Russian Federation made changes to the approach to the essence and method of calculating the living wage. Since January 2021, a transition has been announced from the cost-based approach to calculating the subsistence level based on the cost of the consumer basket to the income approach based on calculating the living wage from the sum of the median average per capita income of a Russian.

The essence of the living wage now includes the minimum amount of a citizen's income necessary for life support, and not the cost of the consumer basket as it was previously.

A transition period has been announced to gradually increase the cost of living per capita in the constituent entities of the Russian Federation, which will last until 2025 and will require financial resources to reform the processes.

Based on these circumstances, as well as the wave of criticism about the usefulness of these changes and the new method of calculating the living wage makes the research relevant.

## 2. Problem Statement

The problem of the research is related to the beginning of the transition stage of adaptation of the new income approach to the calculation of the living wage in Russia, approved by the Government of the Russian Federation, in early 2021. Both the approach and the essence of the living wage have fundamentally changed:

- there was a refusal to calculate the cost of the consumer basket and link its value to the living wage;
- the median per capita income of the population of Russia for the last year was used to calculate the living wage and its value at 44.2%.

Among the public and scientists, the state's decision is sharply criticized both from the point of view of the choice of the base for calculating the living wage (from the median per capita income), and its actual statistical value, and the determination of an unreasonable percentage of 4.2% and much more. Some experts continue supporting the old cost-based approach with a certain degree of criticism of the size and composition of the consumer basket, which currently does not take into account modern realities (Bobkov et al., 2019; Pogodina & Asmus, 2020; Rzhanitsina & Soboleva, 2012; Sorokina, 2016). The legislator solved this issue in a straightforward manner, abandoning the calculation of the consumer basket and simplifying the calculation of the living wage based on the median per capita income. "The transition to the official measurement of poverty on the basis of relative indicators, on the one hand, removes the very acute problem for Russia of the scarcity of the minimum consumer basket and the regular delay in its

revision” (Kubyshin et al., 2021, p. 59) notes. It is no coincidence that the President of the Russian Federation set the task of reducing the poverty level in Russia by 2 times by 2024. The need to calculate the living wage remains a problem of understanding it, firstly, as a tool for determining and regulating the level of poverty in Russia, and the appointment of social benefits. Or, secondly, a tool for assessing the level of reproduction of the labor force and the all-round development of a harmonious personality (Shevyakin, 2020).

### **3. Research Questions**

The study covers the following issues:

- What is the content of the cost-based approach when calculating the living wage in Russia and what disadvantages of this approach forced to abandon it?
- What is the peculiarity of the new income approach when calculating the subsistence level in Russia and how does it differ from the cost approach?
- What disadvantages of the new income approach have been criticized?

### **4. Purpose of the Study**

To solve the research problem and to disclose the questions raised, the purpose of the study was formulated: to identify the specific features and actual issues of the transition of the cost-based approach to the income approach when calculating the living wage in the Russian Federation and to outline ways to solve them.

### **5. Research Methods**

In the scientific research the authors used empirical, economic and statistical methods as well as methods of analysis and comparison.

#### **5.1. Cost-based approach to calculating the living wage in Russia**

Until 2021, the calculation of the living wage in Russia was based on a cost-based approach and represented a cost estimate of the consumer basket, including the minimum sets of food, non-food products and services necessary to preserve human health and ensure human life, as well as mandatory payments and fees. The cost of the consumer basket in Russia has been calculated since 1997. On its basis, the value of the living wage was established on a quarterly basis: general, per capita, and for the main socio-demographic groups. At the end of 2020, according to the Federal State Statistics Service (2019), the composition of the consumer basket included the following norms for the consumption of food and non-food products and services necessary to ensure life, preserve health and work capacity, as shown in Tables 1 and 2.

**Table 1.** Consumer basket in the Russian Federation at the end of 2020

Name	Measurement unit	Consumption (on average for 1 person per year)		
		Working-age population	Pensioners	Children
Food				
Bread products				
(bread and pasta in terms of flour, flour, cereals, legumes)	Kg	126.5	98.2	77.6
Potato	Kg	10.4	80.0	88.1
Vegetables and melons	Kg	114.6	98.0	112.5
Fresh fruit	Kg	60.0	45.0	118.1
Sugar and confectionery products in terms of sugar	kg	23.8	21.2	21.8
Meat products	Kg	58.6	54.0	44.0
Fish products	Kg	18.5	16.0	18.6
Milk and dairy products in terms of milk	Kg	290.0	257.8	360.7
Eggs	Pcs.	210.0	200.0	201.0
Vegetable oil, margarine and other fats	Kg	11.0	10.0	5.0
Other products (salt, tea, spices)	Kg	4.9	4.2	3.6
Services				
Housing	m <sup>2</sup> total area	18	18	18
Central heating	Gcal (per year)	6.7	6.7	6.7
Cold and hot water supply and sewerage	l (per day)	285	285	285
Gas supply	meters <sup>3</sup> (per month)	10	10	10
Electricity	kWh (per month)	50	50	50
Transport service	trips (per year)	619	150	396
Cultural services	% of the total cost of services (per month)	5	5	5
Other types of services		15	15	15

**Table 2.** Table 1 continuation

Name	Measurement unit	Consumption (on average for 1 person per year)		
		Working-age population	Pensioners	Children
Non-grocery goods				
Upper coat group	pcs / years	3/7.6	3/8.7	3/2.6
Upper costume and dress group	pcs / years	8/4.2	8/5.0	11/2.0
Underwear	pcs / years	9/2.4	10/2.9	11/1.8
Hosiery	pcs / years	7/1.4	4/1.9	6/1.3
Hats and haberdashery	pcs / years	5/5.0	4/5.6	4/2.8
Footwear	pcs / years	6/3.2	6/3.5	7/1.8
School supplies	pcs / years	3/1.0	3/1.0	27/1.0
Linens	pcs / years	14/7.0	14/7.0	14/7.0
Cultural and household goods	pcs / years	19/10.5	19/10.5	19/10.5
Essentials, Sanitation and Medicines	% of total spending on non-food items per month	10	15	12

The cost estimate of the consumer basket for the third quarter of 2020, reflected in the living wage according to the Order of the Ministry of Labor and Social Protection №987n of 31.12.2020, was per capita 11 606 rubles, for the working-age population 12 542 rubles, for pensioners 9 519 rubles, for children 11 580 rubles. Depending on the climatic, economic, and social conditions in each region, along with the federal living wage, its regional value is set separately. For example, in the Pskov region, the composition of the consumer basket until 2021 practically did not differ from the all-Russian one. According to the Decree of the Administration of the Pskov Region dated October 22, 2020 №373 in the third quarter of 2020, the living wage was per capita 11807 rubles, for the working-age population 12 790 rubles, for pensioners 9 692 rubles, for children 11 779 rubles. Based on the method of calculating the living wage, a working-age person in the Pskov region can spend 6 395 rubles per month for food, 3 453.3 rubles for non-food products and 2 941.7 rubles for services. It has been empirically proven that the nominal (official) size of the living wage is lower than the actual (real) one in the region. Practice shows that people living on the verge of a living wage do not even have enough of this amount for food products. According to the Federal State Statistics Service (2019), there were 19.6 million such citizens of the Russian Federation in 2020, or 13.3% of the country's population (in the Pskov region 100 thousand people or 16.2%, respectively).

The calculation of costs, taking into account the average prices for the purchase of food, non-food goods and services included in the consumer basket of an working-age person in relation to the value of the living wage for the third quarter of 2020 in the city of Velikiye Luki (the Pskov region) showed the real value of the living wage (see Table 3):

- Costs for food products amounted to 8 165.19 rubles, which is 1 770.19 rubles or 27.6% higher than the official cost of living.
- Costs for non-food products amounted to 3 913.98 rubles. At average prices in Velikiye Luki, the sum is higher than the official one by 460.68 rubles, or 13.3%.
- Costs for services amounted to 5 155.96 rubles. and exceeds the nominal costs of services in the amount of 2 214.26 rubles or 75%.

The final results of the real value of the living wage, calculated by the cost income based on the consumption standards laid down in the consumer basket, amount to 17 235.13 rubles against 12 790 rubles. Thus, the real (actual) value of the living wage exceeds the nominal (official) value by 4 445.13 rubles (by 34.75%).

**Table 3.** Deviation of the real from the nominal living wage of the working-age population of the Pskov region (for the III quarter of 2020)

Cost items	Nominal living wage	Real living wage	Deviation +/-, rubles	%
Cost of living based on the consumer basket	12 790	17 235.13	4 445.13	34.7
Food	6 395	8 165.19	1 770.19	27.6
Non-grocery goods	3 453.3	3 913.98	460.68	13.3
Services	2 941.7	5 155.96	2 214.26	75

There have always been many complaints from economists about the structure of the consumer basket, and they are quite fair (Abdulova & Gavrilova, 2020; Bobkov et al., 2019; Sorokina, 2016). The government does not take into account the costs of purchasing a computer, Internet services, mobile communications, the cost of paid educational and medical services, not to mention loans, rent or purchase of an apartment, which are relevant today. Many experts suggest including in the consumer basket the costs of food outside of their home, since on weekdays a working person often dines in canteens or cafes.

Comparison of the Russian consumer basket with similar consumer baskets in Western Europe and the United States is not in Russia's favor (Abdulova & Gavrilova, 2020, p. 70). If we have the number of goods included in the basket is 156 items, then in England their number is 350, in Germany 475. Its content is much more varied in terms of goods and services included. In Germany, it includes the cost of purchasing books, the Internet, paying for kindergartens, nursing homes, home delivery of groceries; in France it includes the cost for wines and visits to cafes and restaurants; in England - purchase of smartphones and champagne; in the US, gasoline costs. In the consumer baskets of Western European countries, the share of food products, on average, is 20%, and Russian families spend more than half of the budget on food. Indeed, in the food part of the Russian consumer basket, there are few vegetables, fruits, fish and meat, and there is a lot of bread and potatoes. This does not promote a healthy diet. The consumption of non-food products and services is very low.

The dynamics of modern changes have increased the need to review the structure and cost of the consumer basket, and, consequently, the need to recalculate the living wage has matured.

## **5.2. Income approach in calculating the living wage in Russia**

Since December 29, 2020, the State Duma of the Russian Federation has approved amendments to the new version of the Federal Law "On the Living wage in the Russian Federation". We have announced the rejection of the cost-based approach based on the cost of the consumer basket and the transition to the income-based approach based on the value of the median per capita income.

Thus, the living wage from January 1, 2021 is set based on the median per capita income for the previous year. The median per capita income is the value of the average per capita monetary income, relative to which half of the population as a whole in the Russian Federation has an income below this value, and the other half — above. The median values should be distinguished from the average values: the average values are usually higher than the median values, since the income distribution usually shifts towards the lower limit.

The Government has chosen the median per capita income, rather than the median wage, as the new basis for calculating the living wage. The latter is higher than the median income, since it is considered only for working citizens, and not for all family members, as the median income.

From January 1, 2021, the living wage is calculated from the median per capita income in the ratio set at 44.2%. For each socio-demographic group, the size of the living wage is determined in the following percentage ratio to the living wage per capita: 109% for the working-age population; 86% for pensioners; 97% for children.

In 2019 (there are no data yet for 2020, as they are collected by the Federal State Statistics Service (2019) every two years), the median per capita income of Russians was 26,363. 6 rubles per month (for

comparison: the average per capita income was 30 164 rubles at the beginning of 2019 and 41 328 rubles in the fourth quarter of 2019).

In accordance with the new calculation, the living wage for 2021 was 11 653 rubles per capita, 12 702 rubles for the working-age population, 10 022 rubles for pensioners, and 11 303 rubles for children, according to the Decree of the Government of the Russian Federation № 2406 of 31.12.2020.

In the Pskov region, the figures are significantly more modest than in Russia, so according to the Federal State Statistics Service: in 2019, the median per capita income was 20 790.9 rubles per month, per capita income 25 524.4 rubles per month.

According to the Decree of the Administration of the Pskov region of February 2, 2021 № 14: "the value of the living wage is set for 2021 at least as much as its value for the second half of 2020 and is per capita 11 807 rubles, for working-age population-12 790 rubles, for pensioners 9 692 rubles, for children 11 779 rubles."

In the Federal Law on the living wage in the Russian Federation of 24.10.1997, № 134-FZ, as amended on 29.12.2020, Article 4, paragraph 3 specifies that "for 2021-2025, a transition period is established for gradually bringing the values of the living wage per capita in the subjects of the Russian Federation established for 2021 to the values of the living wage per capita in the subjects of the Russian Federation, calculated taking into account the coefficients of regional differentiation".

### **5.3. Comparative analysis of the cost and income approaches to calculating the living wage in Russia**

The new approach to calculating the living wage in Russia is relatively simple and understandable for officials, since it is not necessary to calculate consumption rates, costs for food, non-food products and services. The amount of 44.2% of the median per capita income will be the amount of the living wage. A comparative description of the approaches to calculating the living wage is presented in Table 4.

**Table 4. Comparative characteristics of the cost and income approaches to the calculation of the living wage**

Criterion	Cost approach to the calculation of the living wage	Income approach to the calculation of the living wage
Essence of the living wage	Cost estimation of the consumer basket, as well as mandatory payments and fees	Minimum amount of a citizen's income required for life support
Basis for calculating the living wage	Consumer basket cost	Median per capita income
Frequency of determining the value of the living wage	once per quarter	Once per year
Frequency of updating the rules for calculating the living wage	Not provided	at least once every 5 years
Possibility of reducing the cost of living	Yes	No

However, the ratio of the living wage to the median income will be reviewed at least once every five years. The living wage itself will be set once a year, and not every quarter as in the old approach. Also, the cost of living under the new approach is a fixed amount, and it will not be possible to reduce it.

## 6. Findings

The research showed that the reform of the approach to calculating the living wage in Russia, which began at the end of 2020, is planned to be completed by 2025.

The fundamental difference between the old and the new approach is the chosen basis for calculating the living wage. Under the old cost approach, the cost of the consumer basket was estimated taking into account the consumption norms, the level of consumer prices, inflation, and the costs of mandatory payments and fees. The amount of the living wage in Russia per month for a working-age person for the third quarter of 2020 was 12 542 rubles. The value of the living wage was revised quarterly. Each subject of the Russian Federation established its own regional value of the living wage, taking into account the geographical, demographic and socio-economic characteristics of the territory.

The calculation of the living wage according to the new income approach is no longer based on the cost of purchasing a minimum consumer set, but on the amount of income that is minimally necessary for a person's life. The basis for calculating the living wage is the median per capita income, which is calculated by the Federal State Statistics Service once every two years. The amount of 44.2% of the median per capita income is the value of the living wage. In 2021, the living wage of the working-age population of Russia was 12 790 rubles. Today, the new income approach to calculating the living wage is sharply criticized by representatives of social institutions and the scientific community. We will highlight several current problems that accompany the transition to a new calculation system:

First, the basis for calculating the living wage – the median per capita income, which, according to experts, due to low objectivity (Bobkov et al., 2020a) (the calculations do not take into account the income of small and individual enterprises, not to mention the shadow business) and the complexity of control, can only become a tool for manipulating interested circles. In the Russian Federation, median incomes are calculated only once every two years, since Rosstat conducts research on the distribution of wages with this frequency. The last one was in April 2019, and the next one, respectively, will be in April 2021. It is necessary that the Federal State Statistics Service (2019) more often calculates the median salary and median income, for this, of course, additional financial resources will be required.

Secondly, the value of the living wage as 44.2% of the median per capita income is not justified. It is not clear why the legislator stopped at this ratio, how did he calculate it?

Third, scientists and practitioners criticize the easy refusal of the state to calculate the consumer basket, instead of its reasonable modernization taking into account modern realities (Abdulova & Gavrilova, 2020; Bobkov et al., 2019; Bobkov et al., 2020a; Menshikov, 2020; Svyatova et al., 2021).

Professor, head of the Laboratory of Problems of the Level and Quality of Life of the Institute of Socio-Economic Problems of Population of the Russian Academy of Sciences Bobkov et al. (2020b) as well as his colleagues believe that all over the world the calculation of the living wage and the minimum wage based on the cost of the consumer basket is considered as the main, while the method of calculating these indicators based on median income, which is also used in world practice, is opaque, inaccurate and is considered additional. It is used for monitoring and shows how the standard of living of the least well-off strata differs from the accepted standards (pp. 5-9).

Fourth, it is difficult to say exactly how the new approach to calculating the living wage will affect the further financial security of Russians? Will the cost of living calculated in a new way help to meet the needs of 20 million Russians who are at the poverty line, if the real level of the cost of living is much higher than the officially established one?

The living wage allows ranking the population by income level, but does not allow answering the question whether citizens have enough money to not only meet basic needs, but also to develop (Svyatova et al., 2021). After all, in the conditions of the digital economy, the country needs high-quality labor resources. Professional development, the development of a new profession, the acquisition of new skills requires large costs, which are borne by the employee himself. Low wages will not allow preserving and increasing the quality of human capital.

According to the opinion of the employee of the All-Russian Research Institute of Labor of the Ministry of Labor and Social Protection of the Russian Federation Menshikova (2020) it is necessary that “the average salary of the working-age population exceeds the living wage by 3-5 times. Only then is it possible to achieve a simple reproduction of the labor force, assuming in the future the birth and upbringing of at least one child and achieving the average (by Russian standards) quality of working life” (p. 19).

At the same time, the preservation and increase of human capital is demographic security, which in turn is an important part of the country's economic security.

Fifth, the financing of the reform during the transition period will last until 2025 and, according to experts, will cost our country 128.5 billion rubles of additional expenses in 2021 and 439 billion rubles in 2025. Hence, a large amount of financial resources will be spent not on raising the living wage, but on the reform processes, which may be questionable at the moment.

## 7. Conclusion

It seems that the debate about the approaches to calculating the living wage from the consumer basket or the median income will be even longer.

First of all, one should decide why one needs to calculate a living wage for: to remove the poverty line and assign minimum benefits, or to enable a person to fully restore the labor force spent, and fully develop himself as a harmonious person. We believe that it is reasonable to use a mixed form of calculating the living wage: to add to the median income the real costs of Russians for the services of monopolists (housing and utilities, transport), as well as to take into account the costs of mobile communications, the Internet, housing, loans, education and medicine.

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