EMPLOYMENT AND SALARY AS INDICATORS OF SOCIAL QUALITY OF LIFE

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Abstract

In Russia throughout the 20th century the development of labor relations more resembled the motion in circle – from labor market and back to labor market again. The civilized labor market, launched in the period of emerging young Soviet state in the early 1920s, was destroyed in several years being replaced with the system of rigid state control and universal labor duty, which turned the country into a huge labor camp until the middle of the 1950s causing slight relief in this sphere. Again the labor market returned to Russia with market development in the country. It happened in a difficult and very contradictory situation. The revival of the market economy in the country in the 1990s also resulted in the need for the labor market being the component of this system. The beginning of market transformation in the country was accompanied by a sharp reduction of the real wage at insignificant rise of unemployment, informal employment and shadow remuneration became widely popular, alongside with contracted work and temporary employment. The economic growth indicated positive dynamics in the growth of nominal and real wage, but despite this fact, there were still many problems in this sphere. Thus, the labor productivity in the Russian economy was much lower than similar indicators of the developed countries, which also causes lower remuneration level in the country. The labor deficit may lead to advanced growth of the real wage in the future thus causing an adverse effect on the competitiveness of domestic production.

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1. Introduction

The need for work as an activity for targeted well-being, including benefits to satisfy the human needs has existed always, but the attitude towards it has been quite different. Throughout the long period of human development due to backwardness of work tools, the labor entailed huge physical efforts and was considered as means of survival for the vast majority of the population. In antique societies, for example, a person forced to work, was deprived of any civil rights. This category included not only slaves, but also dealers and craftspeople. First of all, the original human life was represented as freedom from the need to work and make an adequate living.

According to the Christian approach, work is a reality of the world order and exists to ensure the minimum vital needs, while the ideal of life is a monk’s asceticism. Contrary to this approach, the Protestantism considers work as a calling and a religious duty of a believer that has to work constantly and methodically, and the ascesis only concerns the consumption of performance results.

The industrial society may easily be called a “society of work”, where work represents the main type of human activity and nearly the main objective of its existence. This triggers the development of the most important elements of modern economic activity, such as profession, wage labor, enterprise, salary, etc. Thus, work in a modern society is a primary activity and not just the most important factor of production, but also the main source of welfare and income since salary is the major source of livelihood for the majority of the population in developed countries.

2. Problem Statement

To study some functioning and development features of labor market and labor relations in Russia.

3. Research Questions

The study covered the analysis of salary formation and dynamics in the economy of modern Russia starting from the market transformation at the beginning of the 1990s. It considers conditions and factors defining the development of labor market and labor relations in Russia.

4. Purpose of the Study

The purpose of the study is to define the features of salary formation and dynamics, to analyze the processes of labor market formation and performance, as well as the specifics of labor relations in the Russian economy.

5. Research Methods

The given study was performed using statistical analysis, comparative analysis, functional analysis, positive and normative analysis. The study is carried out in accordance with the principles of systematicity and scientific objectivity, as well as problematic/chronological principles.
6. Findings

The development of labor relations in Russia of the 20th century is quite complex and can be compared to the motion in circle – from labor market and back to labor market again. On January 1918, the Soviet government adopted the law on labor exchange stipulating the establishment of the All-Russian Center of Labor Exchange and the Council of Exchange. On May 1918, the 2nd All-Russian Congress of labor commissioners and social insurance offices developed the general labor market regulations, ensured full accounting of the unemployed in the country, and formed the basis for the nationalization of employment agencies (Sidorina, 2007). However, the civil war and thus related policy of “War Communism”, as well as non-economic methods applied to sustain the economy derailed the above initiatives.

With the adoption of the Labor Code in November 1922, opening of labor exchanges, recovery of the unemployed assistance system, their retraining, assessment of occupational capacity, the labor market begins to acquire a new lease of life with the new economic policy after the end of the civil war. The salary level was increased above the cost of living, ration currency and food stamps replaced money to buy the necessary goods, the general involuntary employment was replaced with a standard market system. A worker always had an opportunity to get high payment for good performance.

The new concept of labor commonality during the period of economic industrialization of the Soviet state resulted in the abolition of the labor market and the reorganization of the People’s Commissariat of Labor and its bodies in the summer of 1930. The country began to work in accordance with the uniform program similar to a huge plant using publicity and repressive measures, patterns of competitiveness. Service records reflecting the relocation of employees were introduced. In the conditions of cheap salaries, only industry workers had a chance to get some housing, food, and consumer services. In most cases, unauthorized dismissal entailed significant material losses, thereby assigning a worker for production as it happened in the late 1930s with collective farmers. The decree prohibiting unauthorized transition from one enterprise to another and stipulating criminal penalty for violation of labor discipline was issued in 1940. These measures remained valid in the country up to 1955 when it was finally allowed to change the place of employment (Sidorina, 2007).

Again, the labor market began to function in Russia from the beginning of market transformations in the 1990s as a necessary attribute of market economy. Upon transition to the market system of management only the hired labor when changing the employer remained from the former labor system – the role from the state was shifted to private production owners and the compulsory labor – from administrative methods of its organization to economic measures.

Since the early reforms of the 1990s the Russian economy faced considerable changes in the employment structure resulting in the rise of extractive industries, services sectors, financial sector and primitive agriculture due to the reduction of the manufacturing industry.

From 1992 to 1995 the decline rates of the real wage – 17.7% were much higher than the GDP growth – 10.1% and industrial output – 14.3%. In general, for this period the real wage was reduced by 55.2%. For the entire period from 1992 to 2002 the real wage decreased by 43.1%, whereas GDP was reduced by 22.3%, industrial output – by 32.8%. Table 1 illustrates data for the analysis.
Table 01. GDP dynamics, industrial output and the real average monthly gross payroll in the Russian economy from 1992 to 2002 (in comparable prices, % to the previous period) (Rosstat)

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<tbody>
<tr>
<td>GDP</td>
<td>85.5</td>
<td>91.3</td>
<td>87.3</td>
<td>95.9</td>
<td>96.6</td>
<td>101.4</td>
<td>94.7</td>
<td>106.4</td>
<td>111.0</td>
<td>105.0</td>
<td>104.3</td>
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<tr>
<td>Industrial output</td>
<td>82.0</td>
<td>86.0</td>
<td>79.0</td>
<td>96.7</td>
<td>95.0</td>
<td>102.0</td>
<td>94.8</td>
<td>111.0</td>
<td>112.0</td>
<td>105.0</td>
<td>104.0</td>
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<tr>
<td>Real monthly gross payroll</td>
<td>67.3</td>
<td>100.4</td>
<td>92.1</td>
<td>72.0</td>
<td>106.4</td>
<td>104.7</td>
<td>86.7</td>
<td>78.0</td>
<td>120.9</td>
<td>119.9</td>
<td>116.2</td>
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Reduction of salaries in the Russian economy of the post-reform period happened not only as a result of the breakthrough growth of consumer prices and devaluation of the national currency, but due to the chronic debt which reduced the gross payroll (Dubyanskaya, 2005). The total debt from 1993 to 2003 was increased by 1063 times, and in US dollars – by 13.9 times (Dubyanskaya, 2005). This difference was mainly caused by the creeping devaluation of ruble. Having reached its peak in 1999, the ruble debt was decreased by 2.5 times by the early 2003 remaining quite high, and the dollar debt reached its peak in 1998, and then it was reduced by 9.2 times by the early 2003 due to devaluation of ruble (Dubyanskaya, 2005).

For Russia, the low labor price is a major factor causing the aggravation of social problems (Berestova, 2014). The key salary functions include reproduction and motivation. Despite existing positive growth of real remuneration at Russian enterprises, there are still many problems interfering its performance of the above fundamental functions, among which are the following:

- low salary, which slows down the reproduction of labor;
- poor dependence of the remuneration rate on labor input, which naturally reduces the worker’s interest productive and high-quality work;
- salary violations;
- underestimation of labor remuneration;
- salary leveling;
- unreasonably high differentiation in remuneration;
- low salary ratio in the total revenues of the worker;
- lack of payroll budgets at enterprises or their imperfection (Volgin, 2014).

It shall be noted that the economy of the catching-up states is potentially more efficient since it is cheaper to copy the developed patterns rather than invent something. The phase of copying is followed by the phase of innovations with heavy expenses and high risk thus slowing down the remuneration growth. However, high income of the copying phase ensures the proportional growth of salary. These processes were typical for all catching-up states of Asia, such as China, Thailand, Korea, Vietnam, Singapore, as well as New Zealand. For example, one of the reasons for dynamic development of the Chinese economy was high household savings rate at the level of 23% of the disposable income against 13% in Western Europe and 8% in the USA (Alpatov, & Bortnikova, 2017). If the state fails to enjoy this advantage, it might mean that workers do not get high income taken from financial flows without the corresponding compensation.

Remuneration in the Russian economy depends on the employer’s decision rather than on the skill level of the worker, although the formal labor law is tougher towards employers than in Western European countries, but in reality the Russian worker is one of the least protected (Berestova, 2014). Thus, according to Forbes, the cumulative financial standing of the 200 richest businessmen of Russia against the
The background of remuneration reduction was increased by 100 billion dollars having reached 460 billion dollars, and the number of billionaires grew from 77 to 96 (Alpatov, & Bortnikova, 2017).

Informal employment and shadow remuneration, contracted work and temporary employment through recruitment agencies were widely spread in Russia despite their absence in the labor law. Informal employment in 2005 made 12.6%, in 2008 it reached approximately 14%, in 2010 the given indicator decreased to 11.8% (Grishina, Dormidontova, & Lyashok, 2014). In 2015, about 18 million people were working in informal sector, and their number increased in the years of crisis (Zubarevich, 2015).

The primary branches of industry typical for informal employment include trade and consumer services – 33%, construction, housing and public utilities – 18%, transport and communication – 12%, and the least popular of all them (1% each) include research and public administration, finance and insurance, health care, education (Grishina, Dormidontova, & Lyashok, 2014). Most often, the informal workers are people without any professional education, which are not claiming for work that requires a certain expertise (Grishina, Dormidontova, & Lyashok, 2014). According to statistics, the informal workers usually get lower salary than officially employed people do.

Besides, the activity of labor unions, which ensure social partnership of the state, employers and workers, is typical for the majority of old enterprises, whereas the leadership of new Russian companies interferes with their activity (Berestova, 2014).

The major factors preventing the growth of cash income of the vast majority of the population in the country to the level similar to developed states include low labor productivity and raw materials focus of the national economy and export thus causing the dependence on external environment and raw material prices, and, hence, risks for the stability of the Russian cash income (Gorlanov, 2015).

The labor productivity in Russia is twice lower than a similar indicator of OECD countries in general, and in relation to more developed Western European states and the USA it is 3 times lower; even in the 2010s, which are considered quite safe for Russia, the average resident of the country earned 3-4 times less than the average German, French, English or American (Gorlanov, 2015). Therefore, the growth of labor productivity, determined by the quality of applied material and personal factors of production, is one of the most important conditions of stable cash income growth of the Russian population.

It shall be noted that according to experts, the largest corporations allocate up to 15-20% of the payroll budget for social needs beneficial for both workers (careful attitude to workers and veterans drives motivation) and employers (charity strengthens the company image and ensures its competitive advantages) (Kuchkovskaya, 2009).

Besides the change of cash income structure the results of market transformation of the Russian economy included considerable differentiation. From 1991 to 2001 the R/P growth varied from 7.8 to 39.6, then since 2002 it demonstrated the decrease against the background of growth of the Gini ratio from 0.395 to 0.410 from 2000 to 2006 (Ovcharova, & Prokofieva, 2008).

The reduction of remuneration inequality with the increase in income differentiation was most likely caused by the hidden salary, which share reached a quarter of the total income of the population (Ovcharova, 2008). It is not possible to claim about the considerable impact on the above processes from property and business income, making approximately 20% of the total income, since their change during the economic growth in the country was irrelevant (Ovcharova, & Prokofieva, 2008).
Up to 2000, the salary of more than 40% of workers was below the cost of living in the country. Later, due to the increase of the minimum living wage, the level of low-paid jobs was sharply reduced having reached 16.5% in 2007 (Ovcharova, & Prokofieva, 2008). If for the majority of developed and many developing states the most reliable guarantee against poverty was paid work, which was not typical for Russia since the poverty of employed population was defined by the number of low-paid jobs, especially in agriculture, and lack of work for the working population (Ovcharova, 2005).

According to the Deputy Prime Minister O. Golodets, at the beginning of 2017, the salary of about 4 million 910 thousand people in the country was at the level of the minimum wage and made 7.5 thousand rubles, which was below the established cost of living (Alpatov & Bortnikova, 2017).

Moreover, differences in income in the Soviet Union, especially from the middle of the 1950s of the 20th century were less differentiated. Thus, from 1956 to 1990 the differentiation ratio for workers and employees ranged from 4.4 to 3.5 times (Gishkayeva, 2013).

The 1920s of the 20th century, at the first stage of the Soviet economy with the advent of the remuneration system in the country, were characterized by extremely low salary differentiation, which continued to decrease until the middle of the 1930s mostly due to annual revisions of the cost of living and the minimum remuneration rates. The period of the first five-year plans was marked by the differentiation growth as a result of the tariff reform and sharp increase of the piece-rate system, which purpose was to achieve the corresponding difference in salary to provide the national economy and particularly the branches of heavy industry with skilled workers within the short period of time. The wage rate distribution by industries with progressively increasing difference between the categories, which led to growth of remuneration differences, were introduced, which is confirmed by the distribution of workers into different categories and industries by remuneration level since the end of the 1920s and the beginning of the 1930s of last century (Mozhina, 1991). Later, the salary minimum in 1956 made 27-35 rubles, in 1965 – 40-45 rubles, in 1968 – 60 rubles. Since the growth of this indicator was not followed by the increase in other levels of remuneration, this led to considerable decrease in differentiation in labor earnings. Thus, if the R/P 10% in 1956 equaled 4.4, then by 1964 it made 3.7, and in 1968 it fell to its lowest mark – 2.83 (Mozhina, 1991).

The study of income conducted by the state statistics showed differences, which failed to define the continuous dynamics of income differentiation. Thus, if in 1958 and 1967 the object of the study was the cash income of families, then in 1972 it was both cash and aggregate income, and since 1975 – only the limited aggregate income including natural consumption but not free services (Mozhina, 1991). Thus, the period from 1972 to 1981 was quite comparable.

1972-1975 were marked by faster growth rates of the maximum level of income, which is confirmed by relatively high average annual gain of the top R/P 10% and the growth coefficient of differentiation. This is the only period of income differentiation increase caused by more rapid growth of the average and freezing maximum salary by 1975 (Mozhina, 1991). Further decrease in income differentiation was observed from 1975 to 1978 and made 1.2% (Mozhina, 1991). This period was characterized by a regular increase of the minimum living wage.

The problem of employment is among the most critical issues of economic science. The solution of this task is particularly relevant for rural areas, which are the sphere of life for the majority of the Russian
population. Agricultural work, limited types of activity, lower level of social and economic development, high level of professional and social uniformity, smaller development of business activity are typical for rural people.

The period of longstanding reforming of agrarian economy in Russia was followed by the bankruptcy of many agricultural enterprises, rise in unemployment, reduction of social services, degradation of social performance in villages thus leading to mass outflow of the most working and qualified part of the country, degradation of rural settlements.

In general, the problem of employment in the village during market reforms was becoming ever more relevant. Thus, from 1992 to 2007 the number of working-age villagers increased from 17.8 to 23.7 million people, i.e. by 33%, at the same time the average annual number of employees working at agricultural enterprises decreased from 1990 to 2003 by 6.1 million people, i.e. by 2.8 times (Loor, 2009). Most of them – 2.9 million people – joined private subsidiary farms (PSF), 0.9 million people – family farms, about 2 million people were engaged in other spheres of economy or became unemployed (Loor, 2009). The employment rate of the rural population in 2007 was only 57%, which contributed to inefficient use of human resources of the village and decrease in their qualitative characteristics.

The salary growth rates in agro-industrial complex, and especially in agriculture, in the post-industrial Russia were lower in comparison with other branches of the national economy thus violating the developed proportions both between industries and in agro-industrial complex. According to A.E. Ilyin, the depreciation of labor leads to negative economic consequences, causing the drop of consumer demand; reducing the volumes of products including products with steady demand; constraining restructuring of industries relating to processing industry; reducing the reproduction, stimulating and purchasing functions of salary, etc. (Saltyk, Grankin, & Levchenko, 2009).

It is also worth noting that in the post-industrial society the educational system plays a very important role. For example, in the USA the modern educational system including schools, universities and the amount of R&D works is the largest industry in terms of the amount of finance and the number of workers (Sidorina, 2007).

In Russia, as well as in many other states, high level of education increases the chances of a worker to stay at his present job. With the growth of the educational level of workers, the unemployment decreased almost monotonously. Thus, if among the persons having basic and primary education, the unemployment rate exceeded the average Russian level by 2-2.5 times, then for workers with higher education its value was approximately twice lower than the average in the country (Kapelyushnikov, 2012).

Higher earnings, received from higher education, can be considered as the generalized indicator of economic activity. According to the study conducted in Russia, workers with senior secondary education received 15-20% higher salary than holders of the basic general or primary education. According to different estimates, higher education was an obvious advantage to salary ranging from 50 to 70% or even over 90% (women), which is also typical for developed states where this indicator varies within 50%-100% (Kapelyushnikov, 2012).

Besides, it is much quicker to find a job for persons with higher education. Thus, if in 2008 the percentage of the unemployed with higher education looking for a job for more than a year reached 30%, then the similar indicator for people with secondary education was below 40-60% (Kapelyushnikov, 2012).
It shall be noted that the growth of education level also rises the confidence to find a job, the share of people desperate and ceased their search decreases – if among people with higher education the percentage of those desperately looking for a job is lower than 0.5%, then among people with only one level of elementary school it is closer to 7% (Kapelyushnikov, 2012).

In recent decades, many countries, including Russia, faced a sharp increase in the number of people seeking for higher education thus causing concerns regarding their demand in the economy. For example, in China in recent years due to a large number of university graduates the salary of people with higher education is not higher, and at times even lower, than the salary of workers having secondary education (Kapelyushnikov, 2012).

In Russia even at the end of the 2000s when the labor market was deluged with graduates of secondary specialized educational institutions and higher educational schools, the economic merit of education still remained quite high (Kapelyushnikov, 2012). By the end of the 2000s over 70% of workers in the country had vocational secondary education and higher education, whereas the share of poorly educated workers was lower than 6% (Kapelyushnikov, 2012). According to R. Berrou and Y.-V. Li, in 2005 Russia differed much from many countries with a similar GDP per capita by higher level of education among its population (Kapelyushnikov, 2012).

Considering the emerging tendency, Russia will soon be the world’s leader in the number of people with higher education. To the middle of the century, two thirds of the Russian workforce will likely have higher education (Kapelyushnikov, 2012). This situation may lead to the fact that the Russian economy, if faced a shortage of unskilled workforce in the near future, will be forced to fill this shortage with migrants or by substantial salary increase to attract people with higher education to corresponding jobs.

Until 2012 the Russian economy was characterized by the increased number of workforce, which later was replaced in the opposite direction. The economically active population of the country will be reduced on average per year by 0.5% until 2030 (Gurvich, 2013). The shortage of manpower will lead to the breakthrough growth of the real wage, thereby undermining the competitiveness of Russian goods.

It should be noted that if the labor demand is surpassing supply, then the skilled jobs will be taken by workers without appropriate qualification, and in the opposite case – the skilled level workers will occupy jobs not demanding big knowledge and skills. In both cases such imbalance negatively affects the level and growth rates of labor productivity.

The Russian labor market considerably differs from the similar structure of developed countries. The analysis of the crisis situation in the 1990s made it possible to highlight the important feature of the Russian adaptation model characterized by the adaptation of the Russian labor market mainly due to sharp reduction of salary and its late payment, mass part-time employment, unpaid leaves, etc. and, hence, the rise in unemployment in the country was not so high (Zubarevich, 2015).

Thus, according to ILO, if in 1998 the unemployment rate in Russia made 13.2%, then in Spain, Croatia, Greece, being the most troubled EU states, this indicator exceeded 20% in 2015 (Zubarevich, 2015). Such adaptation of the labor market during crisis, satisfying the workers that agree to be paid less than to lose work during this period, makes it difficult to get rid of inefficient jobs.

Consequently, the recession in Russia happens against the background of salary reduction, while the unemployment rate still remains low. People officially work but do not get the necessary funding for
reproduction of labor, in fact, they are unemployed salary and allowances. At first in the conditions of remuneration decrease the population maintains the demand due to savings, and then starts running into debts thus causing decline in production with the growth of debts to banks and their income.

In developed countries the recession is followed by the rise in unemployment but not the reduction of salaries (Alpatov, & Bortnikova, 2017). People receiving unemployment benefits contribute to the cumulative demand in the country.

It shall be noted that in recent years Russia is focusing more on the public sector of economy, particularly budgetary sector due to lower salaries of its workers. The budgetary sector is losing its attractiveness in the conditions of lower remuneration, hence, it is more difficult for the state to attract and keep workers here, which causes the decline in their qualification and the overall performance. Low remuneration stimulates workers to seek for additional employment, which is also negative for their primary performance.

Considering that such important fields of activity as health care education, protection of rights and freedoms of citizens of the country, which define life of both modern and future generations, belong to the public sector, highly professional workers shall be engaged in this sector.

At the same time, the problem of high salaries in the public sector is caused by the problem of budget deficit, which became even worse in recent years in the country due to reduction of energy prices. Besides, overestimated remuneration in this sector fosters the reduction of employment in general and, hence, rise in unemployment, which is confirmed by the experience of the Western Europe (Zhuravleva, 2015).

7. Conclusion

The salary level defines the possibility of getting sound academic background, quality health care, housing and communal services, future pensions, etc. thus directly influencing health, level and quality of life of the public at large, their attitude and confidence in the government. Hence, such importance of salary in the modern world requires adequate, attentive and responsible attitude to the remuneration system from the state and the business.

References


