

# Main Trends and Proposals to Improve the Wage System in Russia

Irina Omelchenko<sup>1</sup>, Oleg Dozortzev<sup>2</sup>, Marina Danilina<sup>1,2,3,\*</sup>, Alexander Safonov<sup>1</sup>,  
Tatiana Vartanyanz<sup>1</sup>, Alexander Vas'kov<sup>1</sup>

<sup>1</sup> *Research Institute VNII of Labour, Ministry of Labour of Russia, Russia*

<sup>2</sup> *Finance University under the Government of the Russian Federation, Russia*

<sup>3</sup> *Russian Economic University, Russia*

\*Email: [marinadanilina@yandex.ru](mailto:marinadanilina@yandex.ru)

## ABSTRACT

The article analyses the methods for setting the minimum wage in the constituent entities of the Russian Federation. The second part of the article presents the results of the study of the relationship between the size of the minimum wage, established by regional and tripartite agreements, with the achieved socio-economic indicators of the constituent entities of the Russian Federation on the basis of content and statistical analysis. This article states the fact of leveling the importance of the federal minimum wage as a tool to influence the level of economic development of regions and reduce poverty. The performed regression analysis revealed a statistically significant effect of indicators of poverty and unemployment levels on the decline in real wages in the constituent entity of the Russian Federation. The analysis showed, that the main factors influencing the establishment of the minimum wage in the region are the median wages, the gross regional product of the subject and the subsistence minimum of the TN. Fixed capital investments do not directly affect the level of minimum wages.

**Keywords:** *Wage, Wage system, Labour market, Labour, Indicator, Trend, Russia, Development, Economy.*

## 1. INTRODUCTION

For the first time, wages as the price of labour were determined by the famous English economist William Petty back in the 17th century. The theory of wages as the price of labour has become one of the classic versions of its economic theory interpretation. The English researcher interpreted the value of wages through the "natural price of labour", the level of which is determined by the physiological minimum of the means of subsistence of the wage-worker and his family members [1, p.5].

Based on the experience of his research, it can be concluded that economic, not legal factors determine the level of wages, and the employee receives only a part of the value created by him, and the owner of the enterprise appropriates the rest.

Similarly, the essence of these concepts was considered by Adam Smith, arguing that "a person should always be able to exist by his labour, and her wages should at least be sufficient for his existence. Even in most cases, it should be slightly higher; otherwise, the person would not be able to support his family, and the working tribe would disappear after the first generation" [2, p.188].

He also noted: "With high wages, you can always find workers more active, executive and intelligent than with low wages" [3, p.223].

"The natural cost of labour, - wrote D. Ricardo, - is the one that is necessary for workers to have the opportunity to exist and continue their race without increasing or decreasing their number" [4, p. 454].

In the middle of the XIX century, the theory of wages as a minimum means of subsistence was supported by A.

Turgot, and F. Lassalle called it the theory of the iron law of wages [5, p.404].

K. Marx considered wages in limited unity with the value of the commodity of labour. "... The cost of labour-power is the cost of the means of subsistence necessary to support the life of its owner ... The amount of means of subsistence," wrote K. Marx, "must be sufficient to support the working individual as such in a state of normal life" [6, p. 169].

According to Karl Marx's views, if we consider labour-power from the point of view of value, it is clear that, like any other commodity, it requires socially necessary costs to reproduce given social conditions. The minimum limit of these costs is the cost of subsistence, physically essential for the worker [7, p.503].

As it is presented in Art. 129 of the Labour Code of the Russian Federation, "Wages (employee remuneration) are the remuneration for labour depending on the employee's qualifications, the complexity, quantity, quality and conditions of the work performed [8].

It is as well the compensation payments (additional payments and allowances of a compensatory nature, including for work in conditions deviating from standard, work in special climatic conditions and areas exposed to radioactive contamination, and other payments of a qualification nature) and incentive payments (additional payments and incentive payments, bonuses and other incentive payments) [9].

## **2. METHODS FOR SETTING THE MINIMUM WAGE IN THE CONSTITUENT ENTITIES OF THE RUSSIAN FEDERATION**

The minimum wage is approved in 37 regional agreements on minimum wages and in 4 tripartite

agreements [10]. The statistical data of the average nominal monthly payment in Russia is given in table 1. It shows the difference in the branches of the economy.

The statistical data of the delays in payment of the average nominal monthly payment in Russia is given in table 2. It shows the difference in the branches of the economy. The measures we propose to improve the remuneration system can be divided into two areas:

1. Proposals to improve the tariff part of wages.
2. Proposals for improving the above-tariff part of wages.

The analysis of the methodology for establishing the minimum wage in the constituent entities of the Russian Federation according to the request of the Ministry of Labor and Social Protection of the Russian Federation dated 03/02/2020 No. 14-1 / 10 / B-1594 to the executive authorities of the constituent entities of the Russian Federation made it possible to distinguish three methods used in this case: 6 constituent entities of the Russian Federation), based on the subsistence minimum of the able-bodied population of a constituent entity of the Russian Federation (10 constituent entities of the Russian Federation), in absolute terms (26 constituent entities of the Russian Federation) [11].

The establishment by the constituent entities of the Russian Federation of the minimum wage at the minimum wage level does not carry any additional guarantees for employees of organizations, as provided for at the federal level.

However, there are subjects of the Russian Federation that have established the size of the minimum wage in relation to the minimum wage: in the Rostov region, the minimum wage is 1.2 minimum wages.

The establishment of the minimum wage in a multiple relation to the subsistence minimum of the working-age population of the constituent entity of the Russian Federation also differs in the regions:

**Table 1.** Average nominal monthly payment in Russia in 2017 and 2018, rubles

	2017	2018
Total	39167	43724
Agriculture	25671	28699
Extraction of minerals	74474	83178
Production	74474	83178
Energy	44632	47482
Water provision	29097	31586
Construction	33678	38518
Commerce	32093	35444
Transportation	43967	47474
Hotels and tourist branch	23971	26241

Source: [8, 9].

- 1 PM TN of a constituent entity of the Russian Federation (Krasnodar Territory, Kaluga Region, Novgorod Region, Moscow);

- 1 PM of the TN of the constituent entity of the Russian Federation for the II quarter of the previous year (the Republic of Dagestan, the Kabardino-Balkarian Republic, the Pskov region):

- above 1 PM of the TN of a constituent entity of the Russian Federation for the second quarter of the previous year: in the Lipetsk region - 1.2 PM of the TN of a constituent entity of the Russian Federation, in the Volgograd region - 1.3 PM of the TN of a subject of the Russian Federation, in the Kemerovo region - 1.5 PM of the TN of a subject of the Russian Federation.

Setting the minimum wage in absolute terms is the most common approach in agreements. At the same time, the constituent entities of the Russian Federation have not established specific methods for calculating the minimum wage, while in responses to the request of the Ministry of Labor and Social Protection dated March 2, 2020 No. 14-1 / 10 / B / 1594, the regions indicated only the general procedure for establishing the size of the minimum wage.

In a significant part of the constituent entities of the Russian Federation of this group (26.8% of all constituent entities of the Russian Federation, where regional or tripartite agreements are concluded), the value of the minimum wage is equal to the size established by federal law. The negative aspect of this method was mentioned above.

In other cases, the constituent entities of the Russian Federation regarding the establishment of the size of the minimum wage noted the following (according to the data provided):

In St. Petersburg, Kaliningrad, Leningrad, Omsk, Ryazan regions, the minimum wage is established taking into account the socio-economic conditions and the size of the regional subsistence minimum of the working-age population, as well as the opinions of the parties to the regional tripartite commission for the regulation of social and labor relations, and cannot be lower the minimum wage established by federal law.

This is the mechanism for setting the minimum wage in these regions reflects the provisions of Article 133.1 of the Labor Code of the Russian Federation without further specification.

In the Omsk region in 2019, the side of the regional tripartite commission for the regulation of social and labor relations from trade unions proposed 5 options for establishing the size of the minimum wage in the region for 2020, for example, to establish the minimum wage based on the Keitz index (60.0% of the average wage level) , increasing the current guarantee for the projected level of consumer inflation (by 3.8%) or more (by 5.0%).

Agreement on the establishment of the minimum wage was reached in the course of consultations between the representatives of the parties.

In the Ulyanovsk region, the MPZ establishes a working group, which includes representatives from the regional union of the Federation of trade unions of the Ulyanovsk region, from the employers' association of the Ulyanovsk region, the Ministry of Finance of the Ulyanovsk region, the State Labor Inspectorate in the Ulyanovsk region;

In the Altai Territory, when calculating the minimum wage for 2019 (at a workshop with regional associations of employers and trade unions, during the discussion, the parties agreed on the need to maintain the regional minimum wage in 2020 at the level of 2019), the subsistence minimum for an able-bodied person for three quarters was taken into account 2018 and family load (number of children / able-bodied person x living wage of children for three quarters of 2018 + value of the subsistence minimum for an able-bodied person for three quarters of 2018);

In the Sakhalin Oblast, when establishing the minimum wage, the real possibility of the region's employers fulfilling their obligations is taken into account.

It is worth noting that in the Republic of Tatarstan the method for establishing the minimum wage is spelled out in the agreement on the minimum wage, according to which in the territory of the Republic the minimum wage is set at 88.8% of the value of the minimum consumer budget in the Republic of Tatarstan as a whole for the II quarter of 2019.

As the analysis has shown, the methodology of the practice of establishing the minimum wage in the constituent entities of the Russian Federation differs significantly. A number of regions (14.6% of those who established the minimum wage in regional or tripartite agreements) actually duplicate the federal guarantee (minimum wage).

Taking into account the Decree of the Constitutional Court of the Russian Federation of December 7, 2017 No. 38-P, another 24.4% of the subjects of the Russian Federation can also be attributed to these regions, where the minimum wage is set at the minimum wage level with the accrual of regional coefficients and percentage allowances for length of service in regions of the Far North and equivalent areas, in the southern regions of Eastern Siberia and the Far East.

In 34.1% of the subjects of the Russian Federation, absolute values are used that exceed the minimum wage. With this method of establishing the minimum wage, the procedure for calculating its size is of particular importance.

**Table 2.** Delays of the average nominal monthly payment in Russia in 2017 and 2018, bln. rubles

	2017	2018
Total	2487	2420
Agriculture	158	133
Extraction of minerals	1,0	1,1
Production	1511	1490
Energy	27	50
Water provision	13	36
Construction	435	306
Transportation	159	236

Source: [9, 10].

However, as a rule, it is either not presented, or duplicates the provisions of Article 133.1 of the Labor Code of the Russian Federation, but is not specified. Thus, it is impossible to determine whether social and economic conditions were actually taken into account when establishing the minimum wage, as required by Article 133.1 of the Labor Code of the Russian Federation.

Only in individual constituent entities of the Russian Federation are indicators that were used or were considered as a basis for calculating the size of the minimum wage: the value of the subsistence minimum in the constituent entity of the Russian Federation (taking into account the family load), the value of the minimum consumer budget, Keitz index, etc.

Such approaches deserve attention, and although the actually established minimum wage does not always reach these indicators in the regions (for example, in the Republic of Tatarstan, the minimum wage is only 88.8% of the cost value of the minimum consumer budget, and not 100.0%), using them as a benchmark for calculating the minimum wage allows us to strive for them achievement.

Only in less than a quarter of the subjects of the Russian Federation (24.4%), the method of establishing the minimum wage directly provides for the value of the PM of the TN.

It should be assessed positively that in some constituent entities of the Russian Federation the minimum wage is set at a level exceeding the subsistence minimum of the TN, although such increased amounts apply only to workers in the non-budgetary sector of the economy.

### **3. STUDY OF THE RELATIONSHIP BETWEEN THE SIZE OF THE MINIMUM WAGE, ESTABLISHED BY REGIONAL AND TRIPARTITE AGREEMENTS, WITH THE ACHIEVED SOCIO-ECONOMIC INDICATORS OF THE CONSTITUENT ENTITIES OF THE RUSSIAN FEDERATION**

The authors in a team of specialists carried out a regression analysis of data influencing the formation of the minimum wage in the labor market in the constituent entities of the Russian Federation:

- the level of the subsistence minimum of the able-bodied population;
- population size;
- investments in fixed assets per capita;
- the level of employment in the informal sector;
- unemployment rate;
- the level of nominal accrued wages;
- median wages;
- subsidies for equalizing budgetary provision per capita;
- gross regional product;
- the level of poverty.

The analysis showed the presence of strong statistical relationships between a number of indicators used. The median wages are highly correlated with the level of investment in fixed assets (the correlation coefficient is 0.71). The level of GRP per capita has an almost linear relationship with the level of investment in fixed assets (the correlation coefficient is 0.98).

At the same time, investments in fixed assets do not have a direct impact on the unemployment rate (the correlation coefficient is minus 0.08) and the decrease in the region's subsidies (the correlation coefficient is minus 0.14). Nevertheless, an increase in the level of investment in fixed assets has a positive effect on solving the problem of poverty (the correlation coefficient is minus 0.26).

The level of investment in fixed assets is not associated with the creation of highly productive jobs or their growth (correlation coefficients: -0.04 and -0.05, respectively). On the other hand, the number of already created high-productivity jobs and their growth have a strong statistical relationship (the correlation coefficient is 0.98).

This indicates that the creation of such jobs occurs only in certain constituent entities of the Russian Federation, where a pool of highly productive jobs has already been created.

This situation is probably due to the creation in a number of regions of innovation clusters that are not related to the regional economy, which is still dominated by jobs with low labor productivity.

These relationships show that the inflow of federal money into the economy of the constituent entity of the Russian Federation makes the recipient subject dependent on federal funding, with the development of which it becomes economically feasible for the region to maintain its position as a laggard, in order to obtain guaranteed federal funds, rather than develop the regional economy.

In addition, the inflow of subsidized money into the regional economy contributes to an increase in wages in the private sector, as it provides a higher level of payment in the public sector compared to the market-justified level, thereby creating a "money overhang" in the economy of the subject.

All this, in the end, contributes to an increase in market prices and an increase in unemployment (the correlation coefficient is 0.31), as well as the number of poor citizens who remain outside the contours of the redistribution of cash flows from subsidies.

In addition, the legislation limits the level of minimum wage in the regions of the Russian Federation - the minimum wage cannot be lower than the federal minimum wage, which leads the regions to the need to set the minimum wage at the minimum wage even in cases where it is economically unjustified, which further increases the "monetary overhang" in the region, increasing the degree of stratification of society into citizens included in the contour of redistribution of state subsidies for interbudgetary equalization (mainly in state-owned enterprises of the budget sector) and citizens not included in these contours (mainly in the extra-budgetary sector), and forming a dependent mood among citizens.

This leads to the erosion of the low-skilled labor market in the constituent entity of the Russian Federation due to the fact that it becomes unjustifiably expensive. At the same time, a highly qualified workforce is forced to receive wages at the level of low-skilled, which reduces the incentives for participants in labor relations to invest

in human capital. The result of this process is the lack of growth in labor productivity in the region.

The result of this financial impact is the crowding out of private investment by state subsidies and a recession in the real sector of the region's economy. The formation of a wide public sector in the constituent entities of the Russian Federation, with a significant amount of subsidies for ensuring intergovernmental equalization, leads to widespread hidden unemployment and relative poverty.

It is possible to reduce the severity of these problems by reducing the "monetary overhang" and restoring market pricing for labor in the constituent entities of the Russian Federation. It is necessary to notice, that the densely populated region plays a positive role in this case. More populated regions have a more developed labor market, which reduces the unemployment rate (correlation coefficient - minus 0.34) and the poverty level (correlation coefficient - minus 0.39).

On the other hand, in more densely populated regions, it is possible to attract a larger amount of labor, which is insignificantly associated with a decrease in the volume of investments in fixed assets (the correlation coefficient is minus 0.14).

The densely populated subject removes restrictions on the development of the region's economy due to the potential depth of the labor market.

The factors are interrelated, but this is taken into account and the analysis is adjusted to avoid the influence of factors on each other.

Nevertheless, the indirect impact of investments in fixed assets on the minimum wage exists through the launch of economic growth processes that lead to an increase in the GRP of the subject.

The growth of GRP leads to an increase in the income of the population, which raises the median wages. The adaptation of market prices to the new economic situation leads to their growth. Because of this, the regional PM of the TN increases, and after it the minimum wage is pulled up.

The historically formed features of the economic development of the constituent entities of the Russian Federation lead to the fact that the productivity of jobs created in the course of economic growth does not affect the level of minimum wages.

Territorial and economic differentiation of the constituent entities of the Russian Federation leads to the need to redistribute funds between them. The redistribution of funds is mainly due to subsidies to the regions to equalize budgetary provision.

Subsidizing the regions has two important consequences: firstly, there is an increase in the subsistence minimum of the TN and the minimum wage

by financing them to the level of the federal minimum wage; second, there is a substitution of private investments by the state ones due to economically unjustified high labor prices.

This causes a crisis in the labor market, due to the rise in the cost of labor, which is becoming especially noticeable in the real sector of the economy, where the cost of low-skilled labor is approaching the price of highly skilled labor. The result is an increase in the cost of products and services, which leads to non-competitiveness and stagnation of the regional economy. When an attempt is made to increase subsidies to maintain the rate of economic growth, the “subsidy spiral” is unfolding.

At the same time, a “monetary overhang” is formed in the regions from subsidized money, unsecured by an equal volume of goods and services, which accelerates the rate of inflation and impedes economic development.

At the same time, in the constituent entities of the Russian Federation, where the market-based level of the minimum wage is equal to or higher than the minimum wage, its establishment at the federal level does not make economic sense.

In the Chukotka Autonomous Okrug, PM TN in the IV quarter of 2019 is 22 365 rubles, which is significantly higher than the established federal minimum wage. A citizen who receives a salary in the amount of the minimum wage for his labor activity will not be able to live on the wages received. And the value of the PM in the Voronezh region is 8894 rubles. Accordingly, low-skilled labor, paid in the amount of the minimum wage, becomes unjustifiably expensive, approaching in price to more highly skilled labor.

#### 4. RESULTS

It was revealed that investments have a high level of impact on wages and GRP of the constituent entity of the Russian Federation, forming its economic base. The development of the economic base of the region contributes to an increase in its competitiveness and the formation of a local labor market, which makes it possible to reduce poverty and, to a greater extent, indirectly, the amount of federal subsidies that the region needs. It follows that the level of economic development of the region has a significant impact on the size of wages.

We must consider, that an increase in poverty leads to the need to increase subsidies (correlation coefficient - 0.51), the number of people employed in the informal sector (correlation coefficient - 0.21) and a decrease in investment in fixed assets (correlation coefficient - minus 0.14). An increase in the level of subsidies leads to the emergence of a “subsidy spiral”, since a high level of subsidies further reduces the competitiveness of the

region, which requires an increase in the volume of subsidies.

A significant level of poverty, causing the need for subsidizing the region, is caused by the need to pay low-skilled labor at a level not lower than the federal minimum wage. Even in cases where the actual cost of labor is below the minimum wage, the employer is forced to pay it by virtue of the law. This results in higher labor costs and lowers the producer's profit that can be invested in production. In turn, this slows down economic growth.

#### 5. CONCLUSION

To conclude, all of the above arguments state the fact of leveling the importance of the federal minimum wage as a tool to influence the level of economic development of regions and reduce poverty.

Also, the performed regression analysis revealed a statistically significant effect of indicators of poverty and unemployment levels on the decline in real wages in the constituent entity of the Russian Federation.

Thus, the analysis showed that the main factors influencing the establishment of the minimum wage in the region are the median wages, the gross regional product of the subject and the subsistence minimum of the TN. Fixed capital investments do not directly affect the level of minimum wages.

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