

Reducing Inequality and the Opportunity of New Industrialization

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Abstract—The paper analyzes income inequality in Russia as a restriction of labor market reform in accordance with the goal of modernizing the economy. The main aspects of labor income inequality—sectoral, regional, and intra-company—have been highlighted. The inadequacy of wage differentiation to the task of improving the quality of labor in the aspect of re-industrialization has been noted. An analysis of the wage functions in the direction of the new quality of labor resources has been provided. In particular, a weak manifestation of the stimulating function of wages in preserving the resource potential of the Russian economy and in enhancing the creativity of work has been identified. Measures to improve State regulation of wages in order to reduce inequality and increase, on this basis, the possibilities of new industrialization are being proposed. Measures to change the tariff system of wages in the public sector of the economy have been highlighted.

Keywords—*new industrialization, labor market, wage differentiation, stimulation, the subsistence minimum, modal wages, social policy.*

I. INTRODUCTION

Reindustrialization, which means reforming production on a fundamentally new technological basis, is currently determined by the economic policy strategy of the most advanced countries. For Russia, the “new industrialization”, declared in 2011 as a way to modernize the economy, is the only way into the circle of advanced countries. The result should be overcoming the commodity orientation, increasing the competitiveness of the national economy. Scientific interest in the problems of implementing new industrialization is reflected in the publications of such Russian scientists as A.A. Auzan, S.D. Bodrunov, A.V. Buzgalin, V.V. Ivanter, G.B. Kleiner, E. B. Lenchuk, O.S. Sukharev [1]; [2]; [3]; [four]; [five]; [6]; [7], et al. The authors note the existing limitations of the new industrialization compared with previous technological revolutions, the need for comprehensive measures to transform the resource base of the domestic economy. In particular, the problems of the formation of a labor market adequate to the new technological order have been investigated. Among others, this aspect of research should be noted as the effect of income inequality on the development of human capital. The authors of the most

significant publications are V.E. Gimpelson, R.I. Kapelyushnikov, I.I. Kuzminov, L.N. Ovcharova, E.N. Sobolev [8]; [9]; [10]. Nonetheless, insufficient attention has been paid to the analysis of the impact of inequality in income distribution on the prospects for new industrialization. In our opinion, the unjustified differentiation of income, in particular, wages, is one of the serious restrictions for the progress of the Russian economy.

II. RESULTS

Currently, the state of the Russian labor market is not associated with new industrialization, the possibilities of which are associated with certain qualitative indicators of the labor force. Moreover, given the current demographic situation and a high level of employment, the quantitative reserve of the labor market has been exhausted. Some studies show that in 2012–2016, the contribution of the amount of labor was only 0.16 percentage points of the average annual GDP growth compared to 0.84 percentage points in 2000–2008 [11]. A qualitative change in the workforce involves reforming the professional structure of the labor market, increasing the education, skills of workers, their level of creativity, as well as motivation. The most important motivational role should be wages. (We note, by the way, that the ideological component of stimulating workers during the period of industrialization in the USSR was a significant component. New industrialization can hardly count on it.) In modern conditions, when young people (Generation Z) enter the labor market with high adaptability to new technologies, a willingness to continuously build up knowledge, their imperative at work is the desire to recognize their results of labor and to high incomes [12]. Qualified employees, without developing special mechanisms for the formation of wages and labor incentives, migrate to countries with a higher standard of living. The expansion of labor migration opportunities in the context of globalization may become a threat to the economic security of Russia in the broad context and in the process of new industrialization in particular. The development of leading economies of the world and less developed economies of the countries surrounding Russia intensifies competition for skilled labor, for intellectual human resources. The level of wages, the mechanisms of its

formation and approaches to the stimulation of labor in the modern Russian economy are not competitive in this regard.

Moreover, competition of this kind is intensifying; competitors of Russia are becoming countries that previously did not have favorable socioeconomic conditions for attracting highly qualified personnel. There are well-known facts (for example, the outflow of pilots of Russian airlines to China and other Asian countries) that are associated precisely with the shortcomings in the regulation of the labor market in our country, working conditions, and wages in particular. Relevant labor guarantees are the necessary minimum of saving labor potential in this situation.

The reforms carried out in recent decades in a number of sectors of the economy and labor assessment mechanisms were oriented more towards an intermediate task—introducing market and quasi-market principles, mastering the European experience (as understood by the authors of domestic market reforms). The ultimate goal—to increase the effectiveness of relevant mechanisms—was not achieved. The result has been a significant income inequality of the population.

The deepening of property inequality as a whole is the global trend of the last decades. Improving the quality of life in Western countries against the background of economic growth and activity of trade unions in the first half of the last century gave to S. Kuznets reason to assume that the ongoing development of the economy will reduce the level of inequality [13]. This idea had prevailed until the 70s of the 20th century, when it was refuted by new realities. Statistical data presented, in particular, in the studies of T. Pichetti, J. Stiglitz, has shown that economic growth in developed countries is accompanied by an increase in property inequality [14; 15]. Russia is not in the circle of rich countries (in particular, it is not a member of the OECD). Polarization of society and poverty in Russia are more significant than in the leading developed countries, which is recognized as an acute problem of socioeconomic policy. A particular aspect of this problem is inequality in wage.

The very inequality of the price of labor, due to differences in its quality, efficiency, and the level of demand for its specific types, is traditionally regarded as an integral principle of the market system, a stimulus for the growth of personal and social wealth. In the modern economy, with imperfect competition and weak state regulation, it is unrealistic to expect from the market guarantees of equal pay for equal work. Most modern economists recognize the indisputability of the fact that governments have always been active in changing the results of a market economy in order to more evenly distribute income [16, p. 288].

In Russia, the inertia of the government in the post-Soviet period significantly contributed to the establishment of a low cost of labor, combined with the unjustified inequality of labor income. Thus, the stimulating and reproductive functions of wages have been violated.

It is impossible to ignore the fact that, in general, since the beginning of the 2000s, there has been an increase in wages with a certain decrease in its inequality. Even during the recession of 2014–2016, against the background of falling real earnings, the wage gap was narrowing. As a result, the inequality decile coefficient for 2011–2017 has decreased from 16.1 to 14.1, while the proportion of the working poor (that is,

workers with wages below the subsistence minimum) has declined from 13.1 to 7.3% over the same period (see Table 1).

TABLE I. DYNAMICS OF REAL WAGES, AVERAGE AND MEDIAN WAGES RELATIVE TO THE SUBSISTENCE MINIMUM IN RUSSIA

Labor market indicators	Years			
	2011	2013	2015	2017
Real wage increase, %	2,8	4,8	- 1,0	3,5
Decile coefficient of wage differentiation	16,1	15,8	14,5	14,1
Average wage / cost of living	3,4	3,7	3,25	3,16
The proportion of people employed with low wages (below 2/3 of the median hourly earnings), %	28,8	27,1	27,3	27,2
Median wage / cost of living	2,4	2,5	2,3	2,2
Proportion of the working poor in the total number of employees, %	13,1	7,8	10,7	7,3

^a. Source: Rosstat database [17]

At the same time, the decline in the share of low-wage employees, which constitute more than a quarter (27.2%) of workers, is less noticeable. And, undoubtedly, it is not in favor of justified inequality that the level of the median wage varies slightly in relation to the subsistence minimum and currently exceeds the “meagre” subsistence minimum by only 2.2 times. Consequently, for half of the workers, the purchasing power of wages is insufficient to meet a whole range of needs related to personal development, especially significant from the point of view of the quality of the human resources for reindustrialization.

Inequality is reduced mainly due to an increase in the earnings of the lowest paid workers, in particular, as a result of an increase in the salaries of public sector workers, raising the minimum wage rate (MWR) to the subsistence level. But such an alignment does not “work” to stimulate labor activity: the difference in pay for simple and skilled labor is eliminated. On the other hand, work of equal quality is not assessed equally, since the level of wages is determined not so much by the competence of the worker, the importance of the profession, but by the place of work. The instability of the economy, the limited government measures contributed to the formation and consolidation of sectoral, regional, and intra-pay inequality. In particular, obvious differences in the remuneration of identical labor in organizations of different forms of ownership were revealed based on empirical data. There is a clear hierarchy: the highest wages are set at enterprises with foreign capital (1.5 times higher than the average wage); then there are enterprises that are in non-state—mixed and private—property (wages are about 20% higher than the average level); lower earnings in organizations of federal and regional property; the list is closed by municipal enterprises, where wages are no higher than 60% of the average level [18].

The sectoral wage inequality remains significant. For a long period, the salary in the oil industry and financial sector, which are not drivers of industrial renewal, is consistently above the average level (almost 2 times). The

situation has not changed even after the announcement of the course of new industrialization in 2011. Some authors rightly point out that a country in which people understand that it is possible to earn normal money only in the field of finance or legal services cannot claim to the priority development of human qualities. Moreover, it is impossible even mass quality production in these conditions [3, p. 42].

The wages by regions are even more differentiated: Moscow, the northern and Far Eastern regions are leaders in terms of labor income, in a number of regions of central Russia and the southern national republics more than a quarter of workers had received wages below 10 thousand rubles in 2017 [19]. It should be noted that this reveals a certain “linkage” of labor incomes to the traditional role of raw material industries, as well as to the capital as the financial center of the country.

A significant gap in the level of wages is recorded within organizations. The income of a manager can be many times higher than the earnings of an ordinary specialist. The current legislation defines only the lower limit of wages—the minimum wage rate. In organizations, the flexible form of remuneration of labor is actively used: a fairly low fixed part (salary) is established, and the variable part (bonus) may vary depending on the success of the organization and other factors. The research notes that from 2012 to 2017, there was a gradual reduction in the fixed part of the salary, which for this period amounted to about 10 percentage points [20]. Wage flexibility allows the management of organizations to freely manipulate the incomes of ordinary workers without dismissing employees in adverse economic situations. The weakness of the bargaining position of workers (the practical inefficiency of the trade unions) forces them to agree with the proposed conditions. When dismissing, unemployment benefits (the maximum level of which is 4,900 rubles) will be below the minimum labor income, and the accumulated wealth in the form of liquid assets for the absolute majority of workers is small. Wages are the main and often the only form of income for most households. The employer, undoubtedly, is in an advantageous position, shifting economic losses to workers.

Thus, the guideline and incentive for workers is not professional development, highly skilled work, but the occupation of those activities and where they can quickly get high income with the established practice of earning income.

III. DISCUSSION

The institutional landscape of Russia shows that neither business, nor trade unions and other organizations of workers can initiate and carry out substantial social and economic projects. The main role in this belongs to the State. The lack of an active redistributive policy in the national economic development strategy strengthens the uncertainty about the future among workers of all generations. In 2017, the sociological laboratory of the Association of Siberian and Far Eastern cities had carried out an expert survey of 78 mayors from 37 subjects of the Russian Federation, within which it was revealed that among the problems of concern to the population, in 71.8% of cases, there was a low level of salaries and pensions [21].

So far in Russia, the conceptual understanding of the welfare state and social justice has not been defined. If the economic policy does not conform to the ideas of social justice that prevail in society, any increase in income is perceived only as a restoration of justice and it is a necessary condition for economic activity in any form, and not a direct incentive to increase economic efficiency.

This is especially evident in the public sector, where there is no market assessment of economic efficiency, and performance indicators are subjective. The introduction of these indicators and the assessment of their achievement are determined by the bureaucratic way. In recent Russian practice, there is ample evidence of this approach. In particular, this refers to the wages of doctors and teachers, when the increase in wages was naturally perceived as compensation for the loss of income of the previous stage. At the same time, an increase in workload and an increase in the intensity of labor are reasonably felt as social injustice. Economic policy does not show an understanding of this relationship. Too high a degree of wage differentiation of workers and managers is laid in advance. In particular, in the public sector, as a guideline (not even a standard), a ratio of 1:8 is suggested to the average wage of main workers to the wage of managers. It is worth emphasizing that this is not about the ratio of the minimum wage to the maximum one. It is the latter that would be understandable and justified in a social state, which Russia is under the Constitution. The dynamics of the ratio of the average wages of engineering and technical workers and financial sector employees also does not allow us to speak of a focus on new industrialization, on the emphasis on social justice.

Unjustified regional, sectoral, intra-company differences in wages for identical work, underestimation of skilled engineering labor, high incomes of managerial workers, not caused by the results of their activities, remain unsolved problems. The State policy of forming and redistributing income does not implement the tools and means of qualitatively reforming the labor market in accordance with the stated goal of modernizing the economy. In our opinion, wage regulation should be focused on reducing the Gini Index and the proportion of workers with inadequate wages, in order to bring the figures closer to those in the competing countries of Russia for qualified human resources. It is worth considering the achievements of these countries in the field of wages, which contribute to attracting qualified personnel: a clear, adequate transfer of education and accumulated professional experience in raising income and living standards. A similar unified tariff system had existed in Russia during the Soviet period. In this context, serious changes in the tariff system are required in modern conditions, as clear career prospects for qualified workers associated with education and professional experience are a generally recognized element of employee motivation for serious structural changes and large projects. Unreasonable sharp disproportions in the level of wages, on the contrary, act as a disincentive factor, and contradict the relevant goals of sustainable development until 2030. Motivation, therefore, is a necessary component of human capital, based on which the modernization of the economy is carried out. Passive human capital is not a factor of reindustrialization [22].

In order to increase labor motivation, we consider, in particular, the following to be timely and necessary:

- to reconsider the composition of the subsistence basket in accordance with the modern understanding of minimum needs, without limiting them only to physiological ones; increase the monetary value of the subsistence minimum;

- legislatively establish higher tariffs for the payment of skilled labor, which will require scientific analysis and justification of the level of tariffs for specific types of labor and their differentiation coefficients;

- to establish restrictions on the share of the variable (bonus) part in wages, so that the permanent part (tariff, salary) carries the main income burden in accordance with the competence approach to labor assessment.

IV. CONCLUSION

Thus, income inequality in Russia not only impedes the achievement of sustainable development goals set forth by the world community and recorded in the respective declarations and international programs. Inequality also restricts the possibilities for the implementation of new industrialization, which has been declared by the State as the main means of a radical rise in the standard of living of the population and ensuring the competitiveness of the Russian economy in the context of global trends of economic progress since 2011. Under new industrialization, corresponding motivation as an element of human capital can be formed either on an ideological basis (based on dominant ideals and values), or on the basis of practical experience of economic behavior in given institutional conditions. Awareness of the task of new industrialization as a national project, the focus of skilled workers on this task in droves requires a significant reduction of inequality.

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