

# Minimum Income and the „Working Poor“ Phenomenon

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**Abstract**—The article discusses the “working poor” phenomenon and issues relating to sociology and labour economics. Firstly, it provides an overview of the poverty assessment. The authors suggest that the methodology used for estimating the poverty level needs to be improved to develop an integrated approach taking into account both the expenditure structure and the household income level. It also analyzes the social and economic aspects of the negative trend that has been significantly high for years. According to the recent data from the Russian national statistical service over forty percent of all Russians with full-time employment still do not earn enough to live with dignity. This is causes the social tension along with purely economic problems such as the reduced consumption, the deficit of household savings, the complicated system of social assistance, the growth of “shadow” economy, the shortage of GDP and the rejection of skilled labour. Finally, it discusses the possibilities to limit the problem. The authors’ study leads to the conclusion that the labour remuneration in market economy empowers employees to escape poverty. It is suggested that the human potential and the working force should be valued and wages should correspond to the labour performance. In particular, the increase in the minimum wage to the level of three subsistence minimums is required ensuring decent standards of living.

**Keywords**— *income; earnings; wages; subsistence minimum; minimum wage, income distribution*

## I. INTRODUCTION

The modern stratification of Russian society in terms of incomes has long worried researchers in the fields of sociology, labour economics and motivation. The only way to deal with it is recognized by the majority not by the limitation of the top limits of income, but by the work leading to reduction of poverty.

The most important problem of the modern Russian economy in terms of the population income and its distribution, is the problem of the „working poor“, as a large share of the poor are working people.

Setting a decent minimum wage is one of the effective tools in the fight against poverty, leading to mitigation of all the problems caused for the economy by this phenomenon.

## II. DEFINITION OF POVERTY

### A. Absolute quantitative indicators of poverty

The quality of life is a sociological category that expresses the degree of development and satisfaction of the needs, interests of people in the evaluation form, as high, medium or low. The qualitative characteristic of a way of life actually covers all aspects of human existence, including the essence, forms and results of labour activity, the level of monetary incomes, the realization of individual rights, demographic, ethnographic, and environmental conditions.

The living standard also characterizes the degree of development and satisfaction of the needs, interests of people, but expresses well-being by means of specific indicators. In determining the living standard, as a rule, one uses statistical and other data that are accurately recorded, such as data of life expectancy and health status of a person, the environment condition adequacy to optimal standards, the development of education, income per capita, employment, rights and social guarantees, other information.

We are aware that understanding poverty in terms of income level only is the narrowest understanding of the problem [1]. However, it is absolutely necessary, since incomes are also the most vivid indicator of the potentially achievable living standard for any person.

Many researchers and organizations tend to assess the living standard in absolute values, which is in monetary terms [2]. Such an estimate is called absolute. Naturally, different authors state different amounts of income. In particular, the World Bank sets the threshold for absolute poverty at less than \$ 1.25 a day. On the one hand, this definition seems to be simple and comparable for the most diverse groups of the population, since the per capita income is taken into account. But on the other hand, this method can be considered the most controversial for several reasons. The most important of these is the expression of a specific amount in US dollars, that is, though freely convertible and has circulation almost all over the world, still remains the national currency of one particular country. The incomes of other country residents are recalculated into dollars at the exchange rate of the respective banks. However, it is quite obvious that the exchange rate has very little in common with the purchasing power of money. That is, by exchanging a certain amount in dollars to local currency, for example, in Japan, one can buy far fewer products or other goods than in China, and so on.

In many countries there are similar methods, where the amount of income for different living standards is expressed in national currencies. Of course, these techniques are spared from such a serious shortcoming as the difference in the purchasing power of currencies. Unfortunately, in our country there is no consensus on what specific amount of the poverty line should be determined, so far.

The main reason for this uncertainty is the persistence of a fairly high level of inflation and the price index over the years. A certain idea of the price growth rates is provided by the dynamics of the subsistence minimum established by the authorities. This indicator is set by the regions of the country independently, however, its dynamics across the country remains roughly the same. The subsistence minimum is the cost of a set of goods and services needed to meet a person's priority needs for a month, or a year, in average. It is a valuation of the consumer basket, which includes the minimum sets of food, non-food products and services needed to preserve human health and ensure survival, but it also includes mandatory payments and fees. But a real person can not survive on this amount, in fact, even those officials who are responsible for its calculation agree with this statement.

Nevertheless, the very fact that the authorities determine the amount of the subsistence minimum makes it possible to take it as a basis for similar absolute methods, namely, attempts to express the poverty level not in monetary terms (which becomes out-of-date within six months), but in the subsistence minimums themselves are constantly updated. Thus, V.N. Bobkov points out that low-income population should be recognized as the people whose average income per capita (within a household) is less than 3 subsistence minimums. He also recognizes those with average per capita income below 7 subsistence minimums as population with the income below the normal level [3].

In our opinion, it is quite possible to align with such a technique if we consider the population as a wholesome, levelled. However, there are many special cases that do not fall under this definition.

### *B. Relative, or comparative indicators of poverty*

An alternative to methods of absolute expression of poverty level is a relative definition of this level, according to which a person can be considered poor only in comparison with others, that is, with the average achieved level of income in a country or region or even a social stratum. One can argue against such method in the sense that in societies with low average incomes, the conditionally „middle“ class will include people who by absolute methods can not in any way be considered as such, including those whose incomes are not enough even to meet their basic needs. However, from the point of view of psychology, labour and general social behavior and motivation, such an approach still has its right for existence, since everything is relative.

In some countries the indicators have been adopted for calculating the relative level of poverty within the country, comparison is made only among its citizens, through the median income indicator. In the United States the boundary of relative poverty corresponds to 40% of the median income, in most countries of Europe - 50%, in Sweden - 60% [4].

Our country in this regard is very indicative. According to the results of the surveys, for example, among the working students who studied part-time, during 2009-10, it turned out that many of them consider the wages of 30-40 thousand rubles as very desirable for them. Meanwhile the majority of the respondents had 1-2 children, so, their average income per capita in that case would be only 15-20 thousand rubles. Given that in the same period the average salary in Voronezh region was 13,431 rubles, and the abovementioned 3 subsistence minimums for the employed were 16,600 rubles, that survey can be considered as confirming the hypothesis about the eligibility of a relative definition of poverty. Those respondents in their wishes clearly focused not on the level of well-being desired for each person, but on the average real achievable level, and wanted to somewhat exceed this last one.

### *C. Subjective definition of poverty*

There is also a subjective definition of the level of poverty, according to which a person is poor (or middle-class, or rich) if he feels himself to be so. It may seem that this definition is similar to relative one, but this is not entirely true. A certain degree of comparison of oneself with others is also present here, however, people differ in the degree to which their own assessments depend on the influence of others. Therefore, some people consider themselves wealthy enough in case when their earnings really allow them to satisfy not only basic, but also a significant part of cultural needs. The other part of the population thinks of themselves as middle class or even rich people if their needs are met at the universally recognized level, articulated as „like everyone else“ or „better than many of those whom I know.“ There are even people who, convinced that „money can not buy happiness“, believe that it is enough for them to satisfy the simplest needs in combination with some spiritual component of the quality of life valuable for particular person. As a result, the monetary expression of a subjective assessment of the level of well-being on the opinion of different persons will differ dramatically. However, in defense of this method, it should

be noted that, again, from the point of view of behavior and motivation, taking into account the subjective assessment of the living standard by each individual person, or employee, is of great importance, exceeding the value of assessments of scientists and international organizations. It is equally impossible to persuade a person desiring a certain asset that in some other's evaluation he is wealthy, and to teach someone perfectly satisfied with his life that he is so poor that can not even survive from the economic point of view.

#### D. Expenditure structure analysis

In our opinion, another method of determining the poverty level, which also has the right to exist, is the definition of the expenditure structure [5]. It is known that four living standards are defined which include: (i) prosperity, when the use of life prizes provides for full development of human personality; (ii) normal wealth, where the rational consumption of all necessary issues in accordance with scientifically proved standards can be guaranteed; (iii) poverty, where the consumption supports only working ability, or the lower edge of human potential reproduction; and (iv) pauperism where even minimum provision with the goods and services required for physical survival becomes problematic. One may argue if the prosperity should be interpreted as rich or middle-class which is the most desirable level. Some state that the rich have the income allowing the surplus of funds even after complete satisfaction of all rational needs and desires which means it allows luxury. On the other hand, the other levels of normal consumption, poverty and pauperism are defined quite clearly.

Based on this, it can be assumed that it is possible to assess whether a person or a household belongs to the poor, middle class or rich, by examining the structure of their expenditures. For example, if a household spends all its income on food and housing, and at the same time does not provide for itself either normal living conditions or a sufficiently high-quality diet, it should be considered as the indigent, or pauperism in our classification.

As a result, we can state that none of the known methods is absolute and indisputable [6]. In our opinion, the first two of these options may be the most acceptable, but in many cases it is desirable to make an amendment using the expenditure structure technique. It seems desirable to develop an integrated approach to the definition of the poverty level, which would give the household income level as objective assessment, with the most significant factors taken into account, the lack of which requires the application of measures from the state and society.

### III. THE „WORKING POOR“ PHENOMENON

The most important problem of the modern Russian economy in terms of the population income and its distribution, in our opinion, is the problem of the „working poor“. Some experts [7] see the problem of the poor in Russia as „paradoxical“ - because a large share of the poor are working people. Expert estimates of the share of the poor among the employed population vary widely, which is mainly due to the different understanding of the poverty criterion

itself. We are of the opinion that poverty is a state where an individual can not provide existence, taking into account social norms and generally accepted standards, which in Russian reality might be estimated as 3 subsistence minimums per capita. In this area it is possible to argue different points of view, however, in our opinion, at least, wages for determining the level of poverty should be at this specified level.

In recent years (2010-2015), wages have accounted for about two-thirds of the income structure of Russia, that is, it is the main source of income for population (Table I).

TABLE I. INDICATORS OF THE POPULATION EARNINGS IN RUSSIA

Indicator	Years				
	2010	2012	2013	2014	2015
Monetary income, total, bln RUR	32498	39904	44650	47921	53538
- including wages, %	65.2	65.1	65.3	65.8	65.6
Average income per capita, % of the subsistence minimum	333	357	355	345	314
Average wage, % of the subsistence minimum	341	378	379	374	325
Number of people with the total income below the subsistence minimum, % of the total population	12.5	10.7	10.8	11.2	13.3
Number of employees with the earnings below the subsistence minimum, % of the total of the employed	1.5	1.3	1.0	1.4	1.4
Number of employees with the earnings below the poverty level of 3 subsistence minimums, % of the total of the employed	42.0	40.9	37.8	48.7	50.3

The data calculated based on the national statistical information [8] and shown in the Table I demonstrate that the average monthly salary during the whole period in question is about 3.5 subsistence minimums, which is about the poverty level we have defined. Very illustrative is the number of employees with the salaries below the subsistence minimum which was always more than 1%, or thousands of people; and even more so the number of employed people whose salary makes them the „working poor“ – it remains over 40% of the total of the employed!

One may argue, that the problem of the „working poor“ is one of the most urgent for Russian labour market and the economy in general. In addition to the growth of social tension, which is quite natural in the case when a person with full employment can not normally support his family and provide it with everything necessary, this problem leads to an aggravation of a number of purely economic problems. We are of the opinion that the key problems here include the following ones:

- Reduced consumption and distortion of its structure. Russian households spent for food more than a third of their total consumption expenditures. The largest spread in the share of consumption is for non-food products, which is expected, but creates problems. The

poor can not afford not just an expensive car, but no car at all (and they will not but fuel for it); not state-of-the-art computer, but none at all (and they will not pay to the Internet provider), etc. As a result, a significant number of industries and services can not develop because of consumption shortage. Thus, it can be said that Oaken's law can be applied not only to unemployment, but also partly to the existence of the working poor. After all, they, like the unemployed, are forced to save in everything.

- The deficit of household savings indirectly reduces investment in the economy. Obviously, the poorest strata of the population do not have the opportunity to make savings. In Russia, there is a paradox: the poor have savings, but basically it's the savings of pensioners (so called „funeral money“), while the working poor spend all their income expecting to continue working and earning at least their low wages. The known ratio of „90% for consumption and 10% for savings“ is not observed at least for those employees who have the wages at the subsistence level or less. Meanwhile savings are kept not only at home, but also in bank accounts, and, consequently, the form indirect investments in the economy.
- The problem of pumping up the non-budgetary funds (first of all the Pension fund). In many respects it is analogous to the saving problem, but the latter is a voluntary matter for any income, while allocations to the Pension fund are mandatory. The increase in wages per 1 ruble is an additional 30 kopecks in non-budgetary funds. Naturally, there are „shadow“ salaries, but the task of the state, in our opinion, is the regulation and stimulation of the growth of official wages. According to our calculations, bringing all the salaries that were below this level to the above-specified poverty level will give a total increase of approximately 17 billion rubles a month to the filling of the Pension Fund or over 200 billion rubles a year (calculations of 2015).
- Complicated system of social assistance to the population. At the moment, the state provides material assistance to many groups of the population: in addition to various pensions, it pays children's allowances, compensation for public utilities, subsidies for infant children and other payments. We should emphasize that those payments are designated and calculated based on an estimate of a household income. So, the household is obliged to provide information about its incomes (by the way, it is not always true, as the existence of „shadow“ incomes in the society does not cause doubts). But information about the social situation is also required: documents confirming employment, marriage, the presence of children, a pension, disability, etc. Besides, those documents are not only provided by the applicants, they are issued by some organizations and are verified by the others. If the category of working poor disappeared, the social assistance system would become simpler. If a person is employed, then he can provide himself, while the right for social assistance is associated with non-monetary factors: age, health, number of children, etc. Accordingly, the number of documents and the costs of verifying their reliability are being reduced.
- Growth of the „shadow“ economy. We do not set ourselves the task of assessing the extent of the „shadow“ economy and the „shadow“ labour market in our country. However, it is difficult to argue with the fact that if an employee has official and legal salary of 7 to 11 subsistence minimums (the lower limit of the middle class as estimated by different experts), he will not quit it for informal employment without social guarantees and elementary labour security.
- Shortage of GDP due to the rejection of skilled labour in favour of the unskilled one. Back in the 1990's, many specialists from engineers to teachers have changed their professions in search of a sufficient income. Some were engaged in business (this, of course, is good for the economy as a whole), but many took up the positions of workers, often unskilled, because they did not have the necessary „workman“'s education, skills and experience. However, mass refusal of skilled labour can solve the problems of individual families in the short term, but for the society as a whole and in the long run it is dangerous, because it leads to the country's economy becoming uncompetitive. Labour productivity of these people also declines due to the fact that labour has become unskilled, and due to the lack of experience and expertise that are needed in any, even the simplest activities. In addition, the costs that society has incurred in training those specialists are also irretrievably lost. The paradox is that the demand for low-paid specialists exists, in some regions it is considerable (school teachers, doctors, especially certain narrow specialists, engineers of some profiles, pre-school teachers, etc.), but this does not lead to the increase in the payment offered to their labour. In our opinion, this is due to low wages in the public sector, where a significant part of such specialists is employed: teachers, doctors, social workers, even some groups of engineers, psychologists and some other professions.
- Decline of the quality of life due to the need to search for additional earnings or transition to a partially subsistence economy. One of the most common strategies for survival at low salaries is to find additional earnings. About two-thirds of the employed population have two or three jobs. On the one hand, it stimulates independence, a person achieves his own, not hoping for anyone's help. But on the other hand, "excessive" employment, refusal of holidays, unacceptable work schedule lead to problems with health and mentality, not to mention family relations, especially when a woman is thus employed. The same can be said about the partial transition to subsistence farming, that is, the production of the necessary commodities (usually - food products) in the household. And this is also not only a social, but also a

macroeconomic problem, as the result may be in rise in the share of illness periods, early disability and even death, and simply decrease of labour productivity both at primary and additional work places.

The main share of responsibility for the existence of the „working poor“ in Russia, according to experts, is borne by the state, since it establishes the rules for the labour market operation.

Tools at the disposal of state bodies are ample, both direct, and indirect influence. However, in our opinion, the most effective and fast-acting would be an increase in the minimum wage, not to the level of the subsistence level, but much higher than it. Wages for any work should provide enough money to maintain a decent existence and nurture a new generation.

#### IV. THE MINIMUM WAGE

From May 1, 2018, the minimum wage in Russia shall be no less than the official subsistence minimum, even though such requirement was legally stated since the Labour Code of 2001. But as we stated above, this level is not enough for overcoming the described problems.

At present there are two different subsistence minimums legally exist in the Russian Federation:

- The one used for calculation of penalties, taxes and other mandatory payments, which was set as 100 rubles on January 1, 2001, and has not been changed since.
- The one applied for labour remuneration regulations as well as the calculation of the amounts of various subsidies and pensions, which regularly increases and at present (from May 1, 2018) is 11163 rubles.

From the point of view of our discussion the latter interests us including its amount, dynamics and the prospects of the further changes.

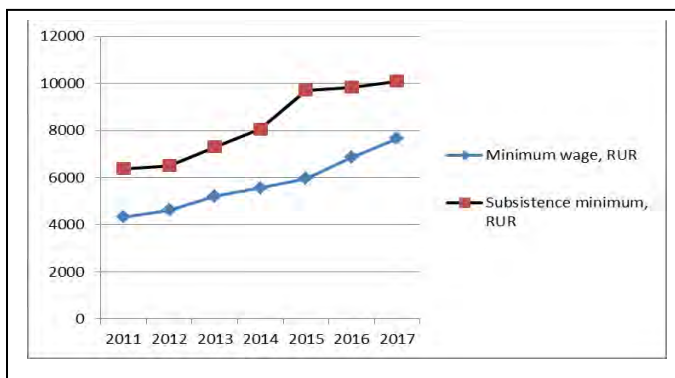


Fig. 1. The proportion between the minimum wage and subsistence minimum in Russia.

Setting a decent minimum wage is an effective tool in the fight against poverty, leading to reduction in wage inequality and increase in aggregate demand. It is important to understand what the minimum wage in Russia does and how effective this tool is in combating poverty and in establishing

decent living conditions for the low-paid category of employees.

The role and functions of the minimum wage can be understood and interpreted through classic functions attributed to the labour remuneration in market economy.

#### A. *Reproduction of human potential*

This function is manifested by the definition of such absolute amount of wages, which allows not only simple, but also expanded reproduction of the labour resources and population in general. The earnings of the employed family members are supposed to (i) ensure physical survival of the whole household; (ii) provide for development of the employees, their constant general and professional improvement; (iii) support 2 or 3 children if wanted; and (iv) ensure the physical, moral, educational, etc. level for those children at least as good as their parents have. Due to state policy in healthcare and education part of this last task is financed by the government or local authorities. Nonetheless, such level cannot be guaranteed with the wages of the both parents at the level of subsistence minimum, let alone below it.

#### B. *Status of the employee*

„Status“ in this case means the position of a person in a particular system of social relations and connections. The labour status is the place of a given employee in relation to others, both on a vertical, and horizontal scale. Hence the amount of labour remuneration is one of the main indicators of this status, and its comparison throughout the personnel in terms of personal efforts allows to judge about the fairness of wages. This is the only function where the lowest wages are somewhat in place as they underline the low position of their recipients. On the other hand, the stimulating potential of such situation remains arguable.

#### C. *Stimulaion of labour performance*

The company management is supposed to stimulate any employee in any position to demonstrate the best possible performance. Labour remuneration is one of the stimuli used for that purpose. To achieve this objective the managers and economists set the salaries in accordance with particular labour results of each employee. Separation of payment from personal labour efforts undermines the labour base of wages, leads to a weakening of the stimulating function of wages, turning it into a consumer function. This goes for both too high and too low wages [9].

Bearing this idea in mind, one might set the minimum wage for the least skilled employees in the very beginning of their career and only in case that they do not demonstrate the expected results of their performance. It must mean that the minimum wage is very rarely used in practice, but the observations prove it to be otherwise. Thus, the minimum wage may be used for stimulation for employees“ improvement or as a punishment for poor performance, but in no other cases. Nevertheless, even for such specific situations setting of the decent amount of the minimum wage remains important, as the professional improvement might turn out

costly for the person. And, in any case, the punishment, even if applied, should not humiliate the subject or endanger his physical survival.

#### *D. Labour market regulation*

Wages affect the balance between supply and demand of labour. If there is no other factor present except for free market regulation, the practical use of the minimum wage should be the mark of economic crisis. Such periods are especially tough for employees and the key function of government is to mitigate their negative effect on population in general and preservation and further development of human potential for the future economic use in particular. Thus, setting the minimum wage amount sufficient for supporting those forced to temporarily live off it is of extreme social and economic importance.

#### *E. Salary as fair part of the added value*

Wages determine the measure of the participation of direct labour in the formation of the price of goods (products, services), its share in total production costs and in labour costs. Cheaper labour produces cheaper and more competitive goods in the short-term prospect. But where the company management prefers to save through low salaries for its employees without reducing the remuneration for the capital or without improvement of the technology aiming at increasing the labour productivity, it shall give up its competitive positions in the long run. In any country positioning itself as a welfare state the government should insist on prevention of extra-exploitation of labour and provide for its fair share in the prime cost of products.

All economic functions of the wages, and the minimum wage in particular, can be realized to their optimum only where (i) the amount of the minimum wage is set reasonably and (ii) the minimum wage and the sums near it are not often used for actual labour remuneration but remain special and rarely applied tools of labour stimulation and labour market regulation.

### V. RESULTS AND CONCLUSIONS

From May 1, 2018, the minimum wage in Russia shall be no less than the official subsistence minimum. The meaning of

this action in overcoming the poverty and especially the „working poor“ existence is essential. The minimum wage is of importance for both defining the poverty level and in supporting the minimum living standard for the poor. We found out that more than 40% of the employed in Russia remain below the poverty level set at 3 subsistence minimums per capita. This situation will not be instantly overcome by setting the minimum wage at the level above the subsistence minimum, but we believe this setting if the first step for solving the problem of the working poor. The studied phenomenon greatly impedes the development of the whole Russian economy and prevents the wages from performing all their economic functions. Without rational amount of the minimum wage those problems may not be solved at all or their solving may be delayed for many more years.

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