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## Minimum Living Wage as a Basic Aspect for Managing the Population's Life Quality in Russia

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**Abstract:**

*The purpose of this research is to analyze the problem of incompliance of the minimum living wage (MLW) and the subsistence level. The consumer baskets of the Moscow residents and Europeans are compared. The MLW in Russia and countries of the Eurozone is aligned.*

*Social aspects of raising the MLW to the level of the subsistence level are considered. Positive and negative consequences are formulated. The dynamics of the MLW and subsistence level are studied in detail.*

*The factors influencing the quality of the population's life are regulated. Positive and negative consequences of raising the MLW are formulated. Conclusions about the quality of the Russian population's life are made.*

*The article is based on a comprehensive study of regulatory and legislative documents that establish the MLW amount, the subsistence level, the consumer basket, as well as on studying the works of national and foreign researchers.*

**Keywords:** *Minimum living wage (MLW), subsistence level, consumer basket, employable population, minimum subsistence level.*

**JEL Classification:** *J30, J31, J39.*

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## **1. Introduction**

Today among all socio-economic problems, issues about employees' wages, the ratio of the subsistence level, the minimum living wage (MLW) and the consumer basket are considered most often as a consequence of the considerable reduction in the real income of the population (Simon and Kaestner, 2004; Zaernjuk *et al.*, 2014; Ilina *et al.*, 2016; Kataeva *et al.*, 2015; Beglova *et al.*, 2017; Breckova 2016; Danilina *et al.*, 2015; Vasin *et al.*, 2017).

The MLW is established by the Federal Law. At the present time Federal Law "On the Minimum Living Wage" No. 82-FZ dated June 19, 2000 as amended (Federal Law No. 460-FZ dated December 19, 2016) is in force. It establishes the MLW in the amount of RUB 7,800, which is 4% higher than the previous value (until 01.07.17, the MLW was RUB 7,500). The MLW is subject to annual indexing, as a rule, and it is increasing all the time. Since 2000 the MLW has increased more than fifty times.

Article 133 of the Labor Code of the Russian Federation establishes that "the monthly wage of an employee who has fully completed the standard of working time and fulfilled the labor standards (labor obligations) during this period cannot be lower than the MLW" (Labor Code of the Russian Federation No. 197-FZ dated December 30, 2001). This requirement determines the guaranteed nature of the MLW. The MLW is applied not only to regulate wages but also to determine allowances for temporary disability, pregnancy and childbirth, unemployment and other purposes of compulsory social insurance, including insurance premiums of individual entrepreneurs.

Guarantees of MLW are not applied in relation to those who have an unofficial employment. Most often it is related to the unfairness of employers who strive to avoid taxes, as well as other payments to the Pension Fund and the Local Public Authority (LPA) Fund. Thus, the employee becomes socially unprotected and is not only deprived of the guaranteed MLW but also of the paid sick leave, vacation, and a funded part of the pension.

## **2. Methodology**

The purpose of this research is to analyze the compliance of the MLW in Russia with the subsistence level, and to define the impact of the consumer basket on the quality of the population's life in the country. In accordance with the set goal, methods of the research aiming at the comparison of the dynamics of the MLW and the subsistence level, analysis of the consumer basket and its comparison with the consumer basket in European countries are defined. In particular, general research methods were used during this study. They are based on general principles to apply general regularities to specific factors associated with the activity of individual subjects of the Russian Federation, special and deep study of the aspects related to

statistical data analysis, the method of analogy, generalization and extrapolation. The empirical base of the research is based on a comprehensive study of regulatory and legislative documents regulating the MLW, the subsistence level, the consumer basket, as well as on studying works of national and foreign scientists.

The paper shows the practice of compiling the consumer basket in Germany. It considerably differs from the Russian practice both by its content and method of compiling it. Special attention is paid to comparing the MLW in Russia and countries of the Eurozone. The article widely uses such methods of theoretical level as modeling, systematization, classification, formalization as well as other methods. Based on them, the dynamics of the MLW and subsistence level were studied in detail, factors influencing the quality of the population's life were regulated, and positive and negative consequences of raising the MLW were formulated.

### **3. Results**

#### **3.1 MLW in Subjects of the Russian Federation**

The law provides subjects of the Russian Federation with the right to establish the MLW above the federal level taking into account the social and economic conditions and the amount of the subsistence level of the employable population in a certain subject of the Russian Federation (Zaernjuk *et al.*, 2016). Differences on the territory of the country are determined by the difference in the needs of the population due to unequal natural and climatic conditions and local characteristics that affect the level and structure of consumption of food, non-food products and services.

To do this a regional agreement is concluded by three parties (Article 133.1 of the Labor Code of the Russian Federation), the government of the subject of the Russian Federation, trade unions, and the employers' association. Accordingly, the MLW varies by regions and is established by regional agreements on certain subjects, for example, the current MLW in Moscow is RUB 18,742 (since October 1, 2017 according to the Moscow tripartite agreement for 2016-2018 among the Moscow Government, Moscow trade unions and Moscow employers' associations; Moscow Government Resolution No. 663-PP dated September 12, 2017), in the Moscow Region – RUB 13,750, in St. Petersburg – RUB 16,000, and in the Leningrad Region – RUB 10,850, MLW since July 1, 2017 by regions). Regions with the highest MLW include those with special climatic conditions (regions of the Far North), and with the oil and gas industry. Approximately half of the subjects of the Russian Federation have their own MLW values that exceed the national average value.

#### **3.2 Subsistence Level and Consumer Basket**

To stipulate the MLW on the federal level, the subsistence level is taken into account. It is understood that the MLW cannot be lower than the subsistence level

(Article 133 of the Labor Code of the Russian Federation). The subsistence level on the legislative level is calculated in accordance with Federal Law No. 134-FZ dated 24.10.1997 (“On Subsistence level in the Russian Federation”). The subsistence level is the minimum amount every citizen of the Russian Federation must obtain to meet the most necessary needs. In fact, it corresponds to the value of goods and services included in the consumer basket.

The consumer basket is a set of goods and services that ensure a person's living throughout a year and meeting their minimum needs. The consumer basket directly determines the amount of the subsistence level, which is revised depending on the level of prices. The consumer basket is approved by the Federal Law as a whole for the Russian Federation and for the main socio-demographic groups of the population for subjects of the Federation at least once per five years.

Today there is a consumer basket adopted on January 1, 2013 (Federal Law No. 227-FZ dated 03.12.2012 “On the Consumer basket in the whole Russian Federation”) that will be effective until 2018. The consumer basket primarily includes food that makes up about 50% of its value (to compare, in Western Europe this figure does not exceed 20%). It is necessary to mention that the majority of Russian families spend more than half of the family budget on food. The second group includes non-food items – clothes, shoes, hats, underwear, and medicines. The third group of the consumer basket includes services public services, transport costs, cultural activities, etc.

### **3.3 Comparison of the Consumer Baskets in Moscow and Germany**

Considering the consumer basket for Moscow (Law of the City of Moscow No. 32 dated June 19, 2013 “On the Consumer basket in the City of Moscow”) per day every employable Moscow resident can consume is: 356 grams of bread, 297 grams of potatoes, 315 grams of vegetables and melons, 164 grams of fresh fruits, 796 grams of milk and dairy products, 60 grams of sweets, half of the egg, 52 grams of fish and 161 grams of meat. In addition, the necessary products also include vegetable oil (36.5 grams), other products – tea, salt and spices (13.5 grams). The consumer basket does not include juice and sweet drinks, seafood and delicacies, alcohol and tobacco.

In 2018 the consumer basket should be revised. According to the requirements of the Ministry of Health, the new consumer basket should contain lower amounts of cereals, flour products and potatoes because the current high amounts of carbohydrates affect the human body, and do not provide the required amount of vitamins and minerals. At the same time the number of vegetables and fruits should be increased substantially. The amount of meat and fish will slightly increase. The amount of dairy products will remain without significant changes. The consumer basket of any country is a guaranteed minimum set of products, goods and services. As compared to European countries, the Russian basket looks meager. The

very approach to form the consumer basket in Russia and European countries differs considerably.

In Germany the basket is regularly updated (Consumer basket in Germany). Specialists of the Federal Statistical Office study how consumers' tastes change, what and how much Germans buy. Based on these observations, goods and services are included in the consumer basket. In addition to three groups – pensioners, employable population and children, in Germany there are also single mothers and families with many children. Thus, the German consumer basket includes about 750 goods and services from food, alcoholic beverages, tobacco products and clothing to payment for housing, telecommunication services and food delivery. In addition, the consumer basket includes such social services as payments for children's nurseries, out-patient care, and maintenance in retirement homes.

Such considerable differences are related to the economic situation of the country (Chernikova *et al.*, 2018). The consumer basket is the subsistence level that every citizen should obtain. In other words, if a person's income is below the subsistence level, he/she is below the poverty line, and the state should take care of such people, allocating allowances, grants, pensions, and providing benefits. The richer the state is, the more it can afford in the consumer basket.

### **3.4 Analysis of the Subsistence Level Dynamics by Regions of the Russian Federation**

It is impossible to underestimate the importance of the consumer basket value because the inflation is calculated on its basis, and it also determines the amounts of pension and social benefits and state subsidies. The increase in the subsistence level will cause additional financial burdens on the state, i.e., higher expenditures of the budget (Zaernjuk *et al.*, 2016).

According to the adopted legislation, the subsistence level is calculated quarterly in every Russian region. In 2017 the amount of the subsistence level may grow on average by 6% in Russia. The leaders on the subsistence level for the third quarter of 2017 are Moscow (RUB 18,453 for the employable population) and St. Petersburg (RUB 11,868), as well as regions of the Far East (Kamchatka Territory – RUB 20,275, Sakha (Yakutia) – RUB 17,586). The lowest income for living was set in the regions of the Non-Black Earth Region (Belgorod Region – RUB 9,002, Udmurtia – RUB 9,574), and republics of the North Caucasus (Karachay-Cherkessia – RUB 9,534, Dagestan – RUB 9,121 rubles) (Subsistence Level by Regions of the Russian Federation in 2017 and in 2018).

According to the Decree of the Government of the Russian Federation “On Establishing the Subsistence Level Per Capita and Main Socio-Demographic Groups of the Population in the Whole of the Russian Federation for the Third Quarter of 2017” (Decree of the Government of the Russian Federation No. 1490

dated 08.12.2017 “On Establishing the Subsistence Level Per Capita and Main Socio-Demographic Groups of the Population in the Whole of the Russian Federation for the Third Quarter of 2017”), the amount of the subsistence level for the above period as a whole throughout the country was the following:

- Per capita – RUB 10,328;
- For the employable population – RUB 11,160;
- For pensioners – RUB 8,496;
- For children – RUB 10,181.

As compared to the indicators for the II quarter of 2017, there are no significant changes. According to the Resolution of the Government No. 1119 dated September 19, 2017 (Resolution of the Government of the Russian Federation No. 1119 dated 19.09.2017 “Establishing the Subsistence Level Per Capita and Main Socio-Demographic Groups of the Population in the Whole of the Russian Federation for the II Quarter of 2017”), the figures were as follows:

- Per capita – RUB 10,329;
- For the employable population – RUB 11,163;
- For pensioners – RUB 8,506;
- For children – RUB 10,160.

### **3.5 Analysis of the MLW Dynamics**

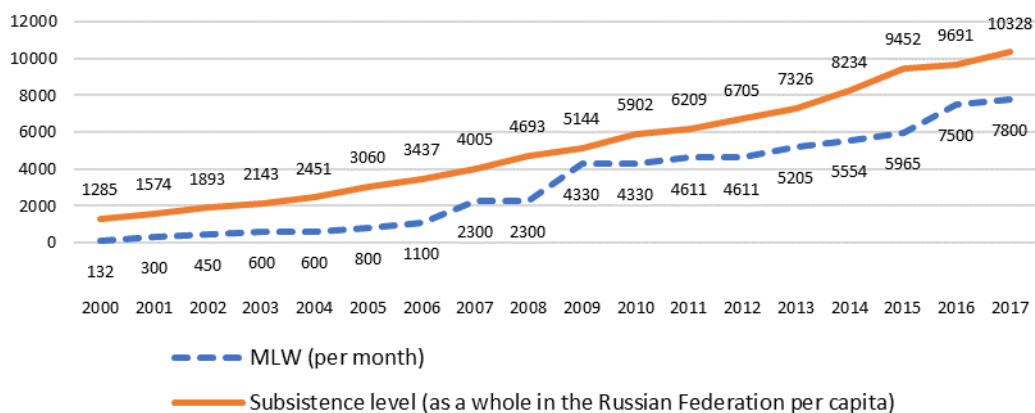
Today the MLW is considerably behind the amount of the subsistence level. Figure 1 shows the data proving a delay in the MLW growth rate from the subsistence level. Since 2009 the gap between the subsistence level and the MLW has increased.

Since July 2017 the average MLW in the country has been RUB 7,800 rubles, and according to the data for the third quarter of 2017, the subsistence level – RUB 10,328 per capita. Consequently, the MLW is 75.5% of the subsistence level. Thus, the minimum social guarantees in the terms of remuneration are currently far from providing the employee with elementary indicators of the life quality. It is necessary to take into account that, like any income, the MLW is taxed (income tax) at the rate of 13%, i.e., the employee will get RUB 6,786 rather than RUB 7,800, which is 65.7% of the subsistence level.

In December 2017 Russian parliamentarians adopted a law, according to which the size of the MLW will be gradually brought into line with the subsistence level, and since January 2018 the MLW will be RUB 9,489 (State Duma adopted a law on the gradual increase of the MLW to the subsistence level, n. d.). It is planned to raise the MLW to 100% of the subsistence level by 2019. The MLW will be determined by indicators for the second quarter of the previous year. In this context, the Ministry of Labor has developed draft regulatory and legal acts that offer “freezing” the consumer basket for 2018-2020 and leave the content and volumes that are currently

in force. The bill offers to establish a new consumer basket after the MLW reaches the subsistence level of the employable population, i.e. since 2021 (Eating like before; Consumer basket to be frozen for three years, 2017).

**Figure 1.** Data about MLW and Subsistence Level for 2000-2017, RUB (Federal Service of State Statistics of the Russian Federation, n. d).



**Note:** Data on the subsistence level are given for the IV quarter of the respective year, for 2017 – data for the III quarter. Data on the MLW are given as maximum for the year in accordance with the increase in the MLW according to the federal law.

As compared to other European countries, the MLW in Russia remains critically low. In terms of the MLW, Russia is behind the EU countries with the lowest minimum monthly wages – Bulgaria (the MLW as on January 1, 2017 is EUR 235) and Romania (EUR 275). At the same time, in these countries the salaries have grown 10 times for the last decade, and in Russia for the same period - only 3 times. Under the current rate of the euro – about RUB 61.5, the MLW in Russia is EUR 127, which is almost 2 times lower than in Bulgaria (EUR 235) and 15.7 times lower than in Luxembourg, which is the leader among European countries according to the MLW amount (EUR 1,999) (MLW in Europe (Eurostat), n. d.).

#### 4. Discussion

Based on the comparison of the subsistence level and the MLW, actual aspects of managing the quality of the population's life were discussed at international scientific and practical conferences, congresses and forums where leading national and foreign researchers participated. The main provisions of the research were introduced at the "Labor Market and Employment Policy: Status and Prospects for Development" VII Social Forum on October 27, 2017; at the XVII International Social Congress in the "Socio-Economic Changes of the Modern World" section on October 30-31, 2017, where the research authors made a report on the following topic: "Ratio of the MLW and Subsistence level as a Factor in Managing the Quality of the Russian Population's Life".

During the discussion, not only positive aspects of increasing the MLW that improves the life quality of socially unprotected groups of the population but also negative consequences have been revealed. The social aspect of MLW is related to the fact that raising the MLW, the state reduces the gap in the population's income and protects the employee from the employer's arbitrariness. However, the consequences of raising the MLW are not limited to the increase in the employees' wages in low-profit groups. It is, therefore, possible to define the following positive issues:

- The life quality of socially unprotected strata of the population will improve.
- The average standard of living in the country will increase.
- Consumption level will grow.

At the same time, there are negative issues such as:

- Competition on the labor market will decrease.
- Unemployment level will increase.
- The burden on small business will increase.
- The poorest strata of the population will be demotivated to improve their educational level.
- Informal employment will increase.

## **5. Conclusion**

Summing up the conducted research, it is necessary to emphasize that the current MLW does not correspond to the necessary level that allows meeting top priority needs, i.e., it does not fulfill its main function of reproduction. The MLW is only three-fourths of the subsistence level that in its turn does not fully take into account the cultural, medical and educational needs of the employable population, not mentioning that the harmful carbohydrate diet in the consumer basket will last until 2021. Thus, subject to raising the level of the MLW to the amount of the subsistence level, socially unprotected groups of the population will only survive rather than improve their life quality.

The amount of the subsistence level is such that it is only possible to buy those goods and services that are included in the consumer basket but not to ensure high-quality medicine, education, living conditions, etc. Thus, people obtaining allowances are actually below the poverty line.

The considerable difference among the MLW, the subsistence level and the average wage causes property stratification, an increase in the number of citizens who cannot obtain the minimum acceptable living conditions, which increases the threat to the country's social and economic security.



In this context, it is necessary not only to bring the MLW to the subsistence level, but also to supplement this minimum with what will really ensure the normal quality of citizens' life and exercise their constitutional guarantees and rights.

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