Impact of social guarantees on economics of the Russian Arctic

Elena N. BOGDANOVA

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1. Introduction

Economic development in Russia, especially in the Arctic regions, depends on many factors: state budgeting policy, investment climate for private companies and corporations, living conditions etc. Inequality of physical placement of production facilities and low density of population, severe climate conditions and undeveloped transport infrastructure make these territories unattractive for business because of high cost of production, considerable operating costs and necessity to provide social guarantees for their employees. Therefore, mostly big enterprises turned by the government into joint-stock companies work there. But they strongly depend on state investment policy and do not have any financial independence.

Currently decrease of population in the Northern regions of Russia is an evident tendency which threatens economic stability of these territories. Thus the President of the Russian Federation has declared population maintenance to be a priority for government's socioeconomic policy. At the same time the Arctic regions are considered to be the area of strategic geopolitical interests for Russia. Though negative demographic trends became evident in these regions: aging population, high rates of mortality and occupational diseases (Shahnj Begum, 2016; Anastasia Emelyanova et al., 2012).

Negative demographic trends are rooted in exploration of these territories and areas settlement process. Unlike other Arctic countries industries in the Russian North attracted people from all Russian regions. The problem of population maintenance became more actual in 1960s. That's why extra social privileges for people living and working in the High North were approved. In 1990s the range of those "northern" benefits was extended due to necessity of political leaders to strengthen their positions. Thus all these privileges were introduced during the Soviet period existing in different forms. The state is still 100%-shareholder of those ones which have a strategic importance for the Russian Federation. Therefore payment of extra social privileges in the Northern regions of Russia became heavy burden for local business. Current programs of subsidizing business in the Russian North intended to improve material and technical base ignore issues of social development of the companies. They do not cover any labour costs (including salaries with northern benefits, extra leave and travel costs of the employees within a vacation).

This article is aimed to discuss the impact of social guarantees on economics of the Arctic regions of Russia and offers some instruments for burden decreasing for business due to extra social privileges implementation.

2. Methodology

2.1 Social guarantees in the Russian North: legislation issues

Extra social benefits for the Arctic regions of Russia are legislated: i.e. regional coefficients and service-in-the-North-bonus, increasing basic salary, extra leave, covering travel expenses (including baggage) to a place of rest and back to employees and unemployed members of their families. These social guarantees, making living and working in the Arctic regions more attractive for people, became a heavy burden for entrepreneurs in the North. Legislation on the "northern" benefits was inherited from the Soviet Union and put the business in the Northern regions in a completely discriminatory conditions and undeveloped transport infrastructure make these territories unattractive for business because of high cost of production, considerable operating costs and necessity to provide social guarantees for their employees. Therefore, mostly big enterprises turned by the government into joint-stock companies work there. But they strongly depend on state investment policy and do not have any financial independence.

Regional coefficients were introduced as a mechanism for equalizing incomes in areas where cost of living is higher, because natural reasons and living conditions and undeveloped transport infrastructure make these territories unattractive for business because of high cost of production, considerable operating costs and necessity to provide social guarantees for their employees. Therefore, mostly big enterprises turned by the government into joint-stock companies work there. But they strongly depend on state investment policy and do not have any financial independence.

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Table 1

<table>
<thead>
<tr>
<th>Regions</th>
<th>Average monthly salary, USD*</th>
<th>Regional coefficient</th>
<th>Bonus for service in the Arctic regions</th>
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<tbody>
<tr>
<td>Yakutia</td>
<td>200% of salaries. Majority of Northern territories of European part of Russia use coefficients of 1.15 to 1.3 (that is an increase to the basic salary of 115%-140%).</td>
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### 2.2 Extra social guarantees for women in Russia

In the Labour Code there are also obligatory extra social guarantees provided for women only (i.e. reduced working day etc.).
During the years of socio-economic reforms, state policy goals Related to women have evolved from “creating more favorable conditions for women to combine their professional, maternal and household tasks” [19] to creation of a society based on gender equality. This process of the legislation development is very ineffective in general and often tends to be limited to words. A National Action Plan to Improve the Status of Women and Their Role in Society (2001-2005) was drafted, but it has remained little more than a declaration because of lack of budget financing. The Gender Strategy of the Russian Federation, prepared in 2002-2003 by the Ministry of Labor and Social Development, could provide a political and legal basis for state policy on women’s issues, enhancement of women’s status, overcoming gender discrimination, and achieving gender equality in all spheres of life. The document set out contemporary goals and targets for state gender policy, including human development, development of democracy, and promoting sustainable economic growth. Unfortunately, the Strategy has not been approved. Gender issues were ignored in the Medium-term Program of Socio-economic Development of the Russian Federation (2002-2005), and no gender-sensitive indicators were included in the Consolidated Report on Outcomes and Key Tasks of RF Government Activities. Neglect of gender equality issues is deeply rooted in Russia’s cultural and socio-economic background.

Nowadays women have gained lots of rights which they haven’t had before (to get education, to be elected etc.) (Daniel Freeman et al., 2013; Marina Kiblitskaya, 2000) but at the same time they saved and obtained many privileges which have made women to be “inconvenient” for employers. For example, it is prohibited to refuse to conclude an employment contract to women for reasons associated with pregnancy or women (Labour Code of the RF, article 258). For example, it is prohibited to refuse to conclude an employment contract to women for reasons associated with pregnancy or women (Labour Code of the RF, article 70); pregnant women are not admitted to work at night, overtime, on weekends and public holidays, to shift work, and can’t be sent on business trips; women with children under the age of three years may be assigned to do it only with their written consent and have the right to refuse (Labour Code of the RF, articles 96, 99, 113, 259, 298). Besides, the law limited employment of women in jobs with harmful and (or) dangerous working conditions, and underground work, with the exception of nonphysical work or work on sanitary and domestic services. It prohibited the employment of women in jobs involving the lifting and moving manually loads exceeding maximum permissible standards. The list of prohibited occupations for women includes 456 jobs which are considered to be heavy, harmful or dangerous for a female (The list of heavy work and work in harmful or dangerous working conditions under which application of women’s labour is prohibited, approved by the RF Government Decree of 25 February 2000 No 162). i.e. many professions in metalworking, construction, installation and repair-construction work, metallurgy, shipbuilding and shiprepairing, chemical production, oil and gas, textile, food processing, transport industries etc.

In addition to this, pregnant women have a right for reduced production norms, standards of service, and can be transferred to another job with low risk factors being paid average salary. Before granting a pregnant woman another work, excluding the impact of unfavorable production factors, she must be given a medical check in medical institutions for pregnant women which average wage in the workplace is saved. Women with children under the age of eighteen months, in case of failure to carry out their previous work are transferred at their request to another job with a wage for the work done, but not lower than average earnings on previous work before the child reaches the age of eighteen months (Labour Code of the RF, article 254).

Women have a right for maternity leave (from 140 to 194 calendar days) with paid social insurance in the amount established by federal laws (Labour Code of the RF, article 256). Maternity leave is paid in addition to a break for rest and meal breaks for feeding the child(ren). Women working in rural areas can be provided upon written request with a legal resident’s permit for the period of maternity leave (Labour Code of the RF, article 262).

For women working in the High North of Russia and equivalent areas, the collective agreement or the employment contract establishes the 36-hour working week, if shorter duration of the working week is not provided for them by the federal laws. Whereby wages are paid at the same rate as in the full working week (Labour Code of the RF, article 320). It results in increasing remuneration of labor and cutting down the share of gross profit of the companies.

3. Results

3.1. The burden of extra social benefits in the High North of Russia threatens economic stability

Implementation of extra social benefits in the High North of Russia results in increasing cost of workforce and overall production cost. Northern regional coefficients and “bonus for service in the North” increase salary rates considerably. For example, in Arkhangelsk they multiply the basic salary for employees with children under eighteen months by 120%, and in Arkhangelsk Autonomous Okrug – 300% etc. Compared to another Russian regions (i.e. Vologda region – 115-125% and southern territories with high rates of “bonus for service in the North” coefficients for all insured work in the Arctic territories lose their competitiveness.

Total expenses of an employee are also increased due to obligations to pay insurance contributions to the off-budget social funds. It means that the total labour cost of an employee who is paid a basic salary of 359USD working in Severodvinsk, is 467USD (regional coefficient – 140% and service-in-the-North-bonus – 80%, insurance contributions to the off-budget social funds – 30%). That is practically twice more compared to Vologda (244USD) where regional coefficient equals 1.15.

Such high expenses determine two main tendencies: low rates of the official monthly salary and increase of informal employment. Some entrepreneurs violate labor laws and do not enter into an employment contract with their employees who are paid unofficial salary in cash without payment of taxes and social insurance contributions. These workers are not protected socially and have no social guarantees: payment of the insured illness cases, occupational injuries or occupational diseases, paid leave and pension in the future.

Popularly of one more tendency is getting higher currently: employees are offered to register as an individual entrepreneur and conclude a business contract with the “employer”. It provides great savings due to lack of employer obligations to pay insurance contributions to the off-budget social funds for their employees and paid vacation, to cover travel expenses of an employee and members of his family to a place of rest and back.

Entrepreneurs also suffer from losses caused by obligatory extra social guarantees provided for women only (i.e. reduced working day etc.). It increases remuneration of labor and cuts down the share of gross profit of the companies.

Great range of limitations and extra benefits for females make businessmen avoid hiring women especially ones of fertile age because employers have to fulfill federal laws and pay salaries to women who work less than men, can get maternal leave any time and obtain all the privileges for pregnant women or young mothers (with the child(ren) under three years). Employers are limited with the range of work which they can offer to women. So, all of it makes females to be very unattractive employees who are not so productive and cut down the share of gross profit of the companies. This causes decline in appeal of a woman as a prospective employee. Moreover it contradicts the modern demographic trends.

This also results in the gap in wages between men and women (difference of 30-70%) is largely caused by higher risk for an employer while hiring women (the list of prohibited occupations for women includes 456 jobs which are considered to be heavy, harmful or dangerous for a female) and paid insurance contributions.

Russian government provides some subsidies of small-medium to business. They compensate some expenses including on training and retraining, professional development of staff, improving of its occupational safety and health systems. Also, entrepreneurs receive state subsidies for creation and development of business. However terms of this support do not include the labor costs of employees and social guarantees costs. These costs must be covered by entrepreneurs at their own expense. By the way, one of obligatory conditions of receiving these subsidies is hiring at least two new employees, which significantly increases the cost of production.

4. Conclusions

To conclude, the issue of extra-burden on employers in the Arctic regions of Russia must be a subject of discussions for the state authorities and elaboration of support measures for entrepreneurs (i.e. cutting down or subsidizing of insurance contributions to the off-budget social funds). Current regional and municipal programs for subsidizing local business in the northern territories of Russia should be revised, and cover a part of labour costs (extra social privileges – extra leave, travel costs of employees within vacation).

Simultaneously, federal programs for subsidizing social development of big strategically important companies in the Northern regions of Russia should be initiated. All these special measures are intended to provide population maintenance and economic stabilization in the Arctic regions of the Russian Federation.
Bibliographic references


Standards "On regulation of compensation to persons living in the northern regions" set by the Council of Ministers of the RSFSR No 458 dated 22.10.1990.

1. Department of Economics and Management. Northern Arctic Federal University. PhD in Economics. Associate Professor. bogdanova.en@yandex.ru