

Impact of social guarantees on economics of the Russian Arctic

Impacto de las garantías sociales en economías del ártico ruso

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Content

[1. Introduction](#)

[2. Methodology](#)

[3. Results](#)

[4. Conclusions](#)

[Bibliographic references](#)

ABSTRACT:

Preferences for individuals living and working in the High North of Russia turned out to be a heavy burden for the northern economics and primarily for commercial enterprises. Entrepreneurs suffer from losses caused by obligatory extra social guarantees provided for women only. It increases remuneration of labor and cuts down the share of gross profit of the companies. The issue of extra-burden on the employers in the Arctic regions of Russia needs elaboration of support measures for entrepreneurs.

Keywords: Social guarantees, Russian Arctic

RESUMEN:

Los beneficios personales de quienes viven y trabajan en el Norte de Rusia resultaron ser una pesada carga para la economía del norte y principalmente para las empresas comerciales. Los empresarios sufren de pérdidas causadas por garantías sociales adicionales obligatorias proporcionadas solo para mujeres. Aumenta la remuneración del trabajo y reduce la participación del beneficio bruto de las empresas. La cuestión de la carga adicional para los empleadores en las regiones árticas de Rusia necesita la elaboración de medidas de apoyo para los empresarios.

Palabras clave: garantías sociales, Ártico ruso

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 (Shahnaj 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 industry 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 Union period when most of the enterprises were state-owned, and financing all the expenses (including labour costs) were covered from the state budget. Since 1990s the process of privatization (transfer of state property into private ownership) started. It resulted in turning of the big enterprises into the joint-stock companies. 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 terms compared to businesses in other regions of the country. Many of the law regulations were introduced in 1964. Instructions on compensation procedure and providing of social guarantees to people working in the High North were approved by Order of the Ministry of Labour of the RSFSR (Russian Soviet Federative Socialist Republic) No 2 dated 22.11.1990. The standards set by the Council of Ministers of the RSFSR No 458 dated 22.10.1990 "On regulation of compensation to persons living in the northern regions" are still valid either. The current payout multipliers were established by the Government Resolution №1237 in 2011.

Regional coefficients were introduced as a mechanism for equalizing incomes in areas where cost of living is higher, because natural reasons and living conditions are difficult and dangerous to health. Payroll occurs by adding the percentage increment to the salary. The size of regional coefficient is calculated in accordance to belonging to a certain territory. By indicators calculating, climatic conditions, availability of an efficient transport infrastructure, environmental hazards and impact of natural factors on work complexity were taken into account. They vary from 1.2 to 2.0 in different Arctic territories (Table 1). The greatest coefficient value is implemented in the territories located in the Arctic Ocean and adjacent seas, Chukotka and Yakutia – 200% of salaries. Majority of Northern territories of European part of Russia use coefficients of 1.15 to 1.4 (that is an increase to the basic salary of 115%-140%).

Table 1
Regional coefficients and bonuses for service and monthly salary in the Arctic regions

Regions	Average monthly salary, USD*	Regional coefficient	Bonus for service in the Arctic regions

			(max, %)
Murmansk region			
Murmansk-140		1.8	
settlement Tumanny	830	1.7	80
The rest of the area, including <i>Murmansk</i>		1.4	
Sakha Republic (Yakutiya)			
Places where there are enterprises and construction of the diamond industry in the fields of "Aikhal" and "Lucky" mines "The deputy" and "Kular" and companies and organizations Nizhnekolymsky area on the right bank of the Kolyma River from its mouth to the river Big Anuy serving the gold mining industry of Chukotka Autonomous Okrug	956	2.0	80
Yamalo-Nenets Autonomous Okrug	1390	1.5	80-100
Chukchi Autonomous Okrug	1589	2.0	100
Arkhangelsk region			
Leshukonsky, Mezen and Pinega District, Severodvinsk, and subject to his administration settlements	677	1.4	50-100
The rest of the area, including Arkhangelsk		1.2	
Krasnoyarskiy Krai			
Norilsk with the territory, subordinated to the city administration		1.8	
The northern part of the Turukhansk district (north of the river Lower Tunguska and Turuhan) area, located north of the Arctic Circle (with the exception of the city of Norilsk), Igarka with the territory, subordinated to the city administration	617	1.6	30-100
Boguchany, Yeniseisk, Kezhemsky, Motyginsk, North-Yenisei district, the southern part of the Turukhansk district (south of Lower Tunguska rivers and Turuhan) years. Yeniseisk and Lesosibirsk; the rest of the region, including the city of Krasnoyarsk		1.3	
Nenets Autonomous Okrug	1256	1.5	80-100

* Wages were converted to USD with an exchange rate of 58.17 rubles to USD as of 10.02.2018. Data were extracted from the territorial authorities of the Federal service of state statistics in the Russian Federation.

**Official statistic data aren't available.

Besides, complementary to the regional coefficient there is a service-in-the-North-bonus providing higher standards of living for employees working in the areas of the High North (and equal to them some of the northern areas). It was introduced in the Labour Code (Article 317). The modern regulatory framework for service-in-the-North-bonus is missing, so in practice the RSFSR standards are applied. In the Arctic regions of Russia it varies from 30% to 100% of the basic salary.

At the same time, total labour costs in the Arctic regions of Russia include not only salary increased by regional coefficient and service-in-the-North-bonus but insurance contributions to the off-budget social funds: Pension Fund (22%), Mandatory Health Insurance Fund (5.1% min.), Social Insurance Fund (2.9% min.).

Besides, employees working in the Northern regions of Russia get extra leave (in addition to 28 days) (Article 321 of the Labour Code): in the High North – 24 calendar days; in areas equivalent to the High North – 16 calendar days; in other areas of the North – 8 days (Article 14 of the Law of the Russian Federation dated 19.02.1993 No 4520-1).

At the same time, those working in organizations located in the High North and equivalent areas, are eligible for payment once every two years at the expense of employer's cost of travel and baggage within the territory of the Russian Federation to the place of vacation and back (Labour Code, Article 325). Moreover it is granted to unemployed members of their families (husband, wife, minor children, actually residing with the employee). And an employer has to cover his employees' travel expenses either by plane or train or car etc. Due to large territory of the Russian Federation this cost can vary considerably.

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 (2005-2008), 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 Kiblitckaya, 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 children (Labour Code of the RF, article 64); recruitment testing is not set for pregnant women and women with children under the age of one and a half years (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 non-physical 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 other work, excluding the impact of unfavorable production factors, she must be released from work with preservation of average earnings for all missed work days by the employer. When passing the mandatory medical check examination in medical institutions for pregnant women the 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). Working women with children under eighteen months are provided in addition to a break for rest and meal breaks for feeding the child(ren) not less than every three hours at least 30 minutes each. If a working woman has two or more children under the age of one and a half years, feeding duration break is set at least one hour. Breaks for feeding a child(ren) are included in working time and paid in the amount of average earnings (Labour Code of the RF, article 258). Moreover, termination of an employment contract by the employer of a pregnant woman is not allowed, except liquidation or cessation of activities of an individual entrepreneur (Labour Code of the RF, article 261). Women working in rural areas can be provided upon written request of one additional day off per month (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 170%, in Severodvinsk or Murmansk – 220%, in Chukchi Autonomous Okrug – 300% etc. Compared to another Russian regions (i.e. Vologda region – 115-125% and southern territories with zero regional coefficient rates) business in the Arctic territories loses its 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 insurance contributions to the off-budget social funds. 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.

Popularity 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 entrepreneur 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.

Besides, employees working in the Northern regions of Russia get extra leave (in addition to 28 days) (Article 321 of the Labour Code): in the High North – 24 calendar days; in areas equivalent to the High North – 16 calendar days; in other areas of the North – 8 days (Article 14 of the Law of the Russian Federation dated 19.02.1993 No 4520-1). It causes employer's obligation to pay in Severodvinsk 52 days of vacation of its employees, in Arkhangelsk – 44 days, in Vologda – 28 days.

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 and the fact that male work related to harmful and dangerous working conditions, is paid higher.

Russian government provides some programs of subsidizing small-to-medium 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

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[Index]

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