

SCTCMG 2018
**International Scientific Conference “Social and Cultural
Transformations in the Context of Modern Globalism”**

**PERSONAL INCOME AND LIVING STANDARDS IN RUSSIA IN
1990s AND 2000s**

L.L. Gishkaeva (a)*
*Corresponding author

(a) Chechen State University, 32 A. Sheripova St., Grozny, Russia, leila_114@mail.ru, tel.: +7(963)5871691

Abstract

The Russian market transformation of the 1990s of the 21st century, though needed and had certain positive results that include the development of mixed economy in the country, happened against the background of deep economic recession, reduction of human wellbeing, dramatic growth of social inequality, increase of regional differentiation in terms of the level of social and economic development.

By the end of the first stage of the market economy in the country (1992-2000) due to reduction of income and the rise in social inequality, the poverty reached its peak throughout all years of transformation, when four out of every ten people of the population were below the poverty line. The rural population, people living in small and remote cities were facing the worst situation. Rising unemployment rate and low labor productivity also caused the low level of salary in Russian transition economy. For the first half of the 1990s, the Russian economy was reduced twice, the personal income made 44% of the 1991.

Despite obvious social and economic progress of the country, the remuneration rate of the majority of the population at the beginning of the 2000s was very low and the convergence of the minimum wage to the cost of living was considered necessary for the living growth of the least wealthy social groups. In 2000, Russia launched the program that implied the GDP growth within 2000-2010 from 205 billion dollars to 457 billion dollars.

© 2019 Published by Future Academy www.FutureAcademy.org.UK

Keywords: Income, inflation, minimum living wage, cost of living, real wages, savings.



1. Introduction

The level and structure of the personal income, sources of income and the degree of their differentiation are the most important indicators of social and economic development of the society. The personal income is considered not only the basis for satisfying the basic needs of the population, but also for the improvement of quality of their life.

Since 1992, Russia began to develop its market economy, which was followed by deep transformational crisis of the social and economic system. The development of market structures, on the one hand, and the economic crisis, on the other, happened against the reduction in living standards of the Russian population.

The reduction in living standards and large financial challenge of the vast majority of Russians, which recently gave up on the principle of even distribution of material assets and gentle paternalism of the society, were compounded by rigid rules of competition and struggle for existence typical for market economy.

Through a time of market transformations, the problems of the living standard and income inequality become key and the social policy of the state, focused on distribution and redistribution of the total revenue between social groups and members of society, is playing a crucial role.

2. Problem Statement

To study the level and dynamics of income of the Russian population from the beginning of market transformations in 1992 until the beginning of the 2000s.

3. Research Questions

The paper covers the analysis of the level and dynamics of revenues of the Russian society, as well as the degree of income inequality. It considers the main directions and key factors of social policy during the market transformation of the Russian economy since 1992 until the beginning of the 2000s.

4. Purpose of the Study

The purpose of the study is to define the specifics of formation and dynamics of income of the Russian population, state measures on the reduction of social and economic consequences of market transformations of the 1990s characterized by the decrease in the living standards and the increase in the social gap.

5. Research Methods

The given study was performed using statistical analysis, comparative analysis, functional analysis, positive and normative analysis. The study is carried out in accordance with the principles of systematicity and scientific objectivity.

6. Findings

The Russian market reforms of the 1990s had both positive and negative consequences. Thus, the national economy gained its mixed structure. There were several paradigms: capitalist; small-scale represented by small private enterprises, farmers, shuttle trader; state, state-private or mixed. In 2004, out of the total number occupied in economy 38% were engaged in state and municipal sectors, 45.1% – in the private sector, 14.1% – in the mixed sector, 0.8% – in public religious organizations, and 2% – in joint with the foreign companies and foreign companies (Kuchukov & Savka, 2006).

At the same time in terms of its share in the world national product Russia fell behind for many years. Thus, if in the 1970s the country produced 8% of the global GDP, in the 1990s this indicator was 5.5% and in 2000 only 2.7% (Kuchukov & Savka, 2006). In 1999, the ratio between the GDP per capita at PPP for Russia and the world was close to 100%, and in comparison with the developed countries, this indicator made 26% (Gurvich, 2013). The transformational crisis of the first half of the 1990s led to almost double reduction of Russia's economy, to the decline in personal income up to 44% compared to 1991 (Zubarevich, 2015).

It shall be noted that in 1980-2007 some world countries faced the reduction of GDP per capita carried classified as the level of the USA. Thus, on average in the countries of Latin America this indicator decreased by more than a quarter – from 27.7% to 20.3%, in Arab states its was reduced by more than a third – from 24.9% to 16%, and in Africa to the south of the Sahara – approximately by two fifth – from 6.6% to 4.1% (Melyantsev, 2009). At the same time, in India this indicator rose from 3.2% to 6%, in the People's Republic of China – from 3.9% to 11.7% (Melyantsev, 2009). The poverty forecast made relying on the Economist for stable and unstable states confirms that by 2020 the poverty index will fall to 9.9%, and in 2030 – to 5.4% or 386 million people (Aziyeva, 2018).

The first stage of the market economy in Russia (1992-2000) was characterized by a severe economic slump, enrichment of a few private owners, impoverishment of the population, sharp social differentiation (Bobkov, 2013). In 1992, the real income of the Russian population was cut almost twice, later by 1997 it was increased up to 60% compared to 1991, and during the next two years it decreased by 16% as a result of the August crisis in 1998 (Fetisov, 2006). Throughout the entire transformation period, the poverty rate reached its peak in 1999 due to reduction of income and the rise in social inequality, and four out of every ten people of the population were below the poverty line not being able to satisfy their daily needs, including food (World Bank Report, 2004; Poverty in the Russian Federation, 2007).

The economic growth after 1999 provided for sharp reduction of the poor in the country from 41.5% in 1999 to 19.6% in 2002 (World Bank Report, 2004). In 1999-2002 the consumption of the population, which was sharply reduced from 1997 to 1998, was increased in all social groups of the Russian society, but mainly among the poorest (*World Bank Report*, 2004). If the Gini index was increased in 1997 from 0.370 to 0.392 in 1998, then in 2002 it was decreased to 0.368 (World Bank Report, 2004). In 2005, the real income of Russians already reached 86% compared to 1991 (Fetisov, 2006).

It shall be noted that the highest level of the poor was typical for rural territories, small and remote cities. Thus, in 2002 the share of the poor among rural people made about 30.4% whereas among the urban population – 15.7% (*World Bank Report*, 2004). According to official data, from 2000 to 2004 the poverty

rate in urban territories decreased by 38% and in rural areas – by 20% (Institute of Urban Economics (Russian Federation), Independent Institute of Social Policy (Russian Federation), Urban Institute (USA).

Having reached its peak in 1998 the unemployment rate is falling as a result of the economic growth. Thus, if in 1992 this indicator in the country was 5.2%, in 1998 – 13.2%, then in 2002 it decreased to 8.6% (World Bank Report, 2004). The labor productivity and the real wage of the Russians were severely increased: from 1998 to 2002 the salary rate increased by 62%, in 2002 the real wage grew by 10% in comparison with 1997 (*World Bank Report*, 2004).

Remarkably, according to the UN, the salary lower than 3 dollars was considered a limit pushing a worker below his routine thus destructing the labor potential of the economy. In Russia in the middle of the 2000s despite its positive dynamics the level of the average salary was much lower than the established threshold (Kuchukov & Savka, 2006).

In 2004, Russia took the first place among CIS states on income inequality though the Russian index at the international level was considered moderate. In 2002, the Gini index in the country reached 36.8% in terms of consumption and 40% in terms of expenses (*World Bank Report*, 2004).

In the 1990s, Russia saw a considerable differentiation in economic and social development and among its regions. Thus, in 2002, the GRP per capita, which is used to assess the economic and social situation of territorial subjects of the Russian Federation, at the average Russian indicator of 66.1 thousand rubles reached its highest level in Tyumen region – 294.1 thousand rubles and the smallest level was recorded in the Republic of Ingushetia – 8.2 thousand rubles (*Federal State Statistics Service*, 2004).

Despite the fact that the share of the population with the income below the poverty line decreased countrywide from 29.0% in 2000 to 24.6% in 2002 and to 17.8% in 2004. The problem of poverty in many regions was very acute. Thus, according to 2004, out of the total number of the population in the region the share of the population with the income below the cost of living in the Republic of Ingushetia reached 73%, in the Republic of Kalmykia – 55.1%, in Ivanovo region – 53%, etc. (Fetisov, 2006). According to estimates, Moscow had the smallest share of the poor – 6.6% (*World Bank Report*, 2004).

For comparison, in developing countries from 1981 to 2005 the share of the poor population (per capita daily consumption at PPP of 2005 is less than 1.25 dollars) was cut twice – from 52% to 25% (Melyantsev, 2009). Bigger decrease of this indicator was observed in China – from 80% to 16%, which made 600 million people, in other developing states the reduction was not that significant – from 40% to 29%. For example, in India this indicator decreased from 60% to 42%, in Africa to the south of the Sahara the number of the poor almost did not change making 50% at the total growth from 200 million to 320 million people (Melyantsev, 2009). For the period under review, in 2005 the share of the poor, whose per capita consumption a day was less than 2 dollars at PPP of 2005, in general in the developing states made approximately half of the population, including China – over 30%, India – 75%, Latin America – 16-17% (Melyantsev, 2009).

It is worth noting that the official indicators of poverty across Russia in general slightly differed from the same regional values. Thus, in 2000 the arithmetic mean poverty index (share of the population with income lower than the cost of living) made 38.0% for 79 regions thus exceeding the official figures by 9.0 percentage points, in 2002 this indicator reached 30.2%, which by 5.6 percentage points was above the official level, in 2004 – 23.3% being 5.5 percentage points higher the official values (Fetisov, 2006).

Most likely it was explained by the fact that by 2000 the minimum consumption basket was formed in the regions, which led to differences in the official data from regions (*World Bank Report*, 2007).

In the 2000s, with regard to the level of economic inequality Russia, being at the same level with the USA, exceeded Germany by approximately 1.4 times and lagged behind it by approximately 1.4 times in terms of per capita GDP at PPP and by 3 times from the USA, which confirmed the excessive economic inequality in the country (Bobkov, 2013).

Besides, in 1990 due to revenues to the real consumer spending from social consumption funds there was almost no poor population in Russia, although the majority of the society was still characterized by low cost of living. About 30% of the Russians belonged to the low-income group, 2/3 – to the well-off group below the average, about 7% – middle class and high net worth individuals (Bobkov, 2013).

By the middle of the 2000s, 2-3% of the population in still unstable Russian society accounted for the main part of the national wealth; 4-5% belonged to the ruling elite joining the first group; the bottom part of the social structure was taken by 20% of the Russians living below the poverty line; the mainstream society, which in total made 60-65% of the country, was focused on the strategy of survival (Kuchukov & Savka, 2006).

Moreover, according to experts, the middle class population being important for political and economic development of the country, increased from 10 million in 2002 to 25 million people in 2005 (Institute of Urban Economics (Russian Federation), Independent Institute of Social Policy (Russian Federation), Urban Institute (USA), the World Bank Report (2007).

In the conditions of the market economy one of the main corrective actions of the state in the field of social protection was to establish the minimum wage (since 1991) as a single starting basis for the accounting of salary and social benefits. It shall be made clear here that not so much the size of the minimum wage was important, but its comparison to the cost of living. If the real wage lags behind the cost of living, then the salary fails to perform its function of enlarged reproduction of labor and even its simple reproduction, which directly influences impacts the cost of living of the population.

The new edition of the Labor Code of the Russian Federation refers to the federal law stipulating the establishment of the minimum living wage (MLW) not lower than the cost of living for the working-age population simultaneously in the entire territory of the country. The monthly salary of a worker who for a given period completed the standard working hours and fulfilled the work standards (work duties) could not be lower than the MLW.

The minimum living wage established by the federal law for institutions financed from the federal budget should be paid from the federal budget resources; institutions financed from the budget of constituent entities of the Russian Federation – from the budget of constituent entities of the Russian Federation; institutions financed from local budgets – from local budgets; other organizations – from private means (*Labor Code of the Russian Federation*, 2005).

The distinctive feature of the minimum wage legal regulation was the variety of regulations governing the corresponding legal institution (*Labor Code of the Russian Federation*, laws on the minimum wage) and the lack of the clear idea of its amount. In particular, the Federal Law On the Minimum Wage No. 82 of June 19, 2000 (as amended and revised on April 29, November 26, 2002, October 1, 2003, August 22, 2004) specified that the minimum wage rate established since October 1, 2003 in the amount of 600

rubles shall only be applied to control the remuneration and to determine the amount of temporary disability benefits; in all other cases (scholarships, grants, other obligatory social benefits) shall be made proceeding from the basic amount equal to 100 rubles (Petrova, 2005).

Thus, the given law cancelled the dependence of the amount of social benefits (except temporary disability benefits) on the minimum wage caused by the shortage of funds in many regions of the country.

The cost of living is a key social parameter. Thus, the study of the All-Russian Center of Living Standards led to the following conclusions: if the purchasing power is less than one living wage, the family lives in extreme poverty thus making it impossible to buy clothes, household necessities, etc. A person is only able to maintain his living thus leading to personal degradation in some time.

Taking into account the ability to acquire up to two minimum sets, which is typical for needy families, there is no threat of malnutrition, but any purchase of clothes or goods for the long term use seems problematic.

If the per capita income of the family allows purchasing from 2 to 3 sets, then this family shall be considered as having modest and worthy life. The family can afford good nutrition, new clothes, and other essential goods and services.

Over 4 sets of the cost of living – life at the level of large income, which makes it possible to eat based on one’s personal taste (Rakoti, 2001).

The certain cost of living amount until 1999, representing the cost estimate of the natural set of food necessary for life support of a person, as well as the cost of non-food products services, taxes and obligatory payments proceeding from the share of costs for these purposes among the population with low income, was calculated on the basis of recommendations of the Russian Ministry of Labor approved on November 10, 1992.

Since the first quarter of 2000, the cost of living amount was established by the Government of the Russian Federation according to the Federal Law No. 134 On the cost of living in the Russian Federation of October 24, 1997.

Table 1 shows data confirming the actual average per capita income of the population and the average monthly gross payroll from 1999 to 2004.

Table 01. Dynamics of the average per capita income of the population and the average monthly gross payroll from 1999 to 2004 in the Russian economy (Poverty in the Russian Federation, 2007)

Year	Average monthly cost of living per capita, rub.	Average per capita income (per month), rub.	Average monthly gross payroll per one worker, rub.	Purchasing power (number of living sets)		Average monthly gross payroll per one worker, rub.	
				Average per capita income, times	Average monthly gross payroll, times	mln. people	% of the total population
1999	907.8	1 664.0	1 523	1.8	1.7	41.2	28.3
2000	1 210	2 290.1	2 223	1.8	1.8	41.9	28.9
2001	1 500	3 078.4	3 240	2.1	2.2	39.4	27.3
2002	1 808	3 947.2	4 360	2.2	2.4	34.6	24.2
2003	2 112	5171.1	5 499	2.4	2.6	29.3	20.3
2004	2 376	6 337.1	6 832	2.7	2.9	25.5	17.8

The above analysis confirms the growth of the real income, including the real average wage in the country. It was caused by the prevalence of the growing rates of the average per capita income and salary over the increasing cost of living. Thus, if compared to 1999 the earnings gain of the average per capita income and the average monthly gross payroll made 22.81% and 34.9% in 2004, then the amount of the cost of living – 162%.

Thus, the country faced an increase in the purchasing power of the average per capita income and the average monthly gross payroll by 50% and 71% respectively. The decrease in population with substandard income for the given period made 15.7 million people or 38.1%.

The data indicate the positive trends in the life of society, but generally, the situation remained difficult since almost every sixth person lived in the country below the poverty line, the vast majority of the population was lagging behind the living standards in developed countries. It shall also be noted that the minimum consumption basket forming the basis for the cost of living was obsolete and needed to be revised.

The analysis of only average values cannot provide a true picture of reality if we do not consider these indicators for different groups of the population (results are given in Table 2).

Table 02. Average salary in the Russian economy within 10 percentage groups of workers (as of April 2003, in each group – 3.4 million people)

Group	Average salary, rub.
First	611
Second	1 220
Third	1 775
Fourth	2 328
Fifth	2 994
Sixth	3 746
Seventh	4 768
Eighth	6 128
Ninth	8 242
Tenth	18 359
Average salary countrywide	5 100
Cost of living for the working population	2 328

The table shows that in the first three groups the salary was lower than the cost of living, which demonstrates poor position of this group of Russians. About 60-70% of the studied working population fell into poor and lower-income strata of the society. Wage differentiation reached 30 times, whereas until 1992 it equaled 7 (for comparison: in 1998 the gap reached 10 times in Great Britain and France, 20 – in the USA) (Rakoti, 2001).

Having considered these changes of the average salary from 2001 to 2003 it is also possible to track the positive tendency:

Table 03. Dynamics of the average salary in the first and tenth percentage groups of Russian workers from April 2001 to April 2003

Group	2001 (April)	2002 (April)	2003 (April)
First	282.2 rub.	494.6 rub.	611 rub.
Tenth	11 176.6 rub.	15 078.4 rub.	18 359 rub.

The gain of the average salary in the first group made 117% within three years, whereas the same indicator in the tenth group for the same period rose by 64%. After all, the salary of the vast majority of the population in the country remained very low and therefore one of the critical measures to improve the living standard of the poor was to make the minimum wage closer to the cost of living.

According to academician D. Lvov, the salary raise to the acceptable level was not just the consequence of the labor productivity growth but of its initial condition. Thus, in the conditions of high inflation in the first half of the 1990s the minimum remuneration of labor, having lost its connection with the cost of living, ranged within 10-20% of the cost of living. The growth of the real wage on a national scale was possible due to the economic growth and increase in labor productivity.

Despite positive facts related to the growth of the real income of the population, including salary for the considered period, the living standard of the Russian society was still lagging behind the pre-reform times. Thus, since 1990 the consumer prices rose 30 thousand times. Considering the denomination (under withdrawal of three zero) the growth made 30 times, whereas the average per capita income increased by only 25 times, salary – by 19.8 times, pensions – by 17.3. Therefore, in 1994 the living standard of the Russians was on average 16.5% lower than in the 1990s. Considering a huge income gap leveled by average values, the living standard of the lower-income group in 2004 lagged behind concerning the average salary – by one third, and concerning the purchasing power of pensions – twice than 14 years ago.

In 2000, Russia launched the program adopted by the Government of the Russian Federation that implied the GDP growth from 205 billion dollars in 2000 to 457 billion dollars in 2010, i.e. by 2.2 times at 5% of the average annual gain. The program was developed by the order of the Russian President V.V. Putin involving over 50 scientific centers, 200 the most prominent scientists, under the direction of the Center for Strategic Research. Such countries as Japan (1955-1970) at the 9% annual rate of development and Ireland at the 7% current growth rate within the given period were taken for reference since at the beginning of the third millennium Russia was acknowledged the backward state by the IMF and the World Bank. Throughout its implementation, the program required some revision and modification due to changing economic conditions.

The program placed a great emphasis on business development as one of the main conditions of its implementation. New market structures in Russia were impossible without business revival and development, which in the Soviet times was a forbidden type of activity. Thus, during 1986-1990 approximately 1200 people were indicted for doing business (Rakoti, 2001).

It shall be noted that the regularity in the historical development of Russia when the market economy (capitalist economy according to K. Marx) based on commodity production shall replace feudalism relying on natural economy, was disturbed by the Revolution of 1917 with Bolsheviks coming to power. Although late compared to western countries, the Russian State entered upon a path of capitalist development and by the beginning of the World War was demonstrating quite good economic results.

As V.I. Lenin noted, the country of a plow and a chain, a water-mill and a hand loom quickly turned into the country of a plow and a thresher, a steam mill and a steam loom, and there was not a single branch of economy which would not be subjected to capitalist production and which failed to demonstrate such striking technological changes (Lenin, 1986). The “power of money” was fully manifested in industry and agriculture, in the city and in the village, but only in large machine industry it was able to gain its full

growth thus forcing out the remaining household system, concentrating on a few large institutions (banks), and directly contacting large public production (Lenin, 1986).

Hence, the development of market structures breathed new life into Russian business integrally connected with the market.

7. Conclusion

The end of the 20th century was the period of hardships and shocks caused by market transformation in Russia. Not only the development of mixed economy, but also the decline in living standards and intensified social tension was the consequence of social and economic transformations. The state was playing a key role in ensuring the social standards of the income policy.

At all times the most acute and important problem for any state has been the problem of ensuring decent standards of living for its citizens. Despite all difficulties, the Russian government managed to escape from the collapse of the huge country in the 1990s and tried to tackle the assigned mission. From the beginning of the economic growth after 1999 and by the beginning of the 2000s the country was facing a positive income behavior of the population, the consumption increased in all social groups, the indicators of social differentiation decreased. However, despite clear progress by the middle of the 2000s the living standard of the Russian society was still lagging behind the pre-reform times.

References

- Aziyeva, R. Kh. (2018). Poverty – effect of unhealthy economy. *Problems of modern economy*, 3(67), 84.
- Bobkov, V. N. (2013). Differentiation of living standards of the population in Russia: 1992-2010. *Journal of New Economic Association*, 2 (18), 162.
- Federal State Statistics Service (Rosstat). (2004). Regions of Russia. Socio-economic indexes. 2004. Statistical book. Moscow, Rosstat, pp. 349.
- Fetisov, G. G. (2006). Regional differentiation of personal income and tasks of social and economic policy. *Bulletin of Moscow University. Series 6. Economy*, 6, pp. 37-41
- Golovanov, V. (2004). Penny in a pocket. *Trud newspaper*, April 27, 2004.
- Gurvich, E. (2013). Long-term prospects of the Russian economy. *Economic policy*, 3, 25-26.
- Kuchukov, R., Savka, A. (2006). State regulation: commitment to results. *Economist*, 9, 3-5.
- Lenin, V. I. (1986). *Development of capitalism in Russia. Formation of domestic market for large-scale industry*. Moscow: Political literature.
- Melyantsev, V. (2009). Do developed countries give up ground to developing ones? *World economy and international relations*, 12, 15.
- Petrova, M. I. (2005). Monetization of social benefits. Comment on the Federal Law No. 122-FZ of 22.08.2004. Moscow: Eksmo.
- Poverty in the Russian Federation and the role of social policy in its reduction. (2007) Report “Improving the efficiency of programs on social security and promotion of employment to fight against poverty”. *Society and economy*, 4, 54-55.
- Rakoti, V. D. (2001). Salary and entrepreneurial income. Moscow. *Finance and statistics*, pp. 161-162.
- Labor Code of the Russian Federation. (2005). Moscow, OMEGA-L, pp. 59.
- World Bank Report. (2007). Poverty in the Russian Federation and the role of social policy in its reduction. *Society and economy*, No. 4, 45.
- World Bank Report. (2004). Report on poverty assessment. Russian Federation. Cooperation. *Newsletter of the Representative office of the World Bank in Russia*, 39-40, pp. 3, 10-12, 17, 48.
- Zubarevich, N. (2015). Regional projection of new Russian crisis. *Issues of economy*, 4, 37-38