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Present-Day Problems of Wage Remuneration in Russia

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Abstract

After the end of the Cold War, the number of books and articles written about Russia dropped greatly, with writing on its economy falling particularly sharply. How Russian workers perceive their wages relative to countries they compare themselves with is one important component of their contentment and perception of well-being, which play such important roles in determining a country's political economy and economic development. This article draws on Russian statistical sources to add to the meager English-language empirical literature on Russian wages. Statically, it presents their level and inequality relative to the natural comparison countries. Dynamically, it presents their growth, and changes in inequality. The conclusion summarizes the seriously problematic situation of wages in Russia, and presents two political economic conclusions these empirical results suggest.

JEL Classification: J31, P29

Keywords

Russia, wages, workers, working class

1. Introduction

After the collapse of the Union of Soviet Socialist Republics (USSR) and the end of the Cold War in 1991, of course the number of articles and books written in the West on Russian culture, arts, sports, ideology, and all aspects of Russian society including politics, dropped sharply. The fall in the amount written on the Russian economy, however, was still much more dramatic.[1]

In 2019, Russia was the ninth most populous country in the world, with 145.9 million people (UN 2020). Russia consists of 11 percent of the earth's land mass, 75 percent to 80 percent more than any of the next three largest countries: China, the United States, and Canada (World.bymap.org 2020).

[1]Many of the greatly reduced number of articles on Russia now appear in more broadly focused Slavic Studies journals, and those on Russian politics and economics in journals on "transition" societies.

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These two facts, backed by Russia's level of development, political coherence, and military capabilities, determine that the development of Russia's economy will play a significant role in the economic development of the world economy in the near and medium-term future.

This article is an English-language empirical contribution to the investigation of Russia's wages, a central factor in determining the population's sense of well-being and social contentment. As has been repeatedly displayed particularly over the last ten years, the satisfaction/dissatisfaction of a country's workers is one central determinant of the political-economic course a country will follow, which in turn is a central factor in the socially narrower question of its overall economic development.

There is a small but significant empirical literature in English on post-1991 wages in Russia. A number of the earliest articles on wages, and even a book, were motivated by the extraordinary large-scale failure to pay promised wages during the first decade (Clarke 1998; Desai and Idson 2001; Earle and Sabirianova 2002; Lehmann and Wadsworth 2001). Beyond that, many empirical studies of wages were motivated by their increased inequality under the new system. These considered as causes the systemic privatization, differing enterprise performance, urban vs. non-urban and other regional divergences, and gender (Aghion and Commander 1999; Aristei and Perugini 2012; Brainerd 2002; Lukiyanova 2008; Newell and Reilly 1996; Remington 2011; World Bank 2018). Recently, there have been some empirical studies of the productivity-wage relation, which is generally considered to be among the important determinants of wages in a capitalist economy (Kapeliushnikov 2015; Vaisburd et al. 2016).

This article empirically considers four wage measures that are central to the sense of well-being of workers in any country. Section 2 compares the level of wages in Russia to that of a number of other countries in its geographical and cultural sphere, countries with which Russian working people commonly compare their situation. Section 3 considers the dynamics of Russian wages, while section 4 considers the issue of wage inequality in Russia, both its degree and its dynamics. Finally, section 5 concludes with a discussion of some of the serious problems in Russia's wage remuneration that are brought out by the data in the preceding three sections. Notwithstanding its different focus than the limited earlier English-language empirical work on Russian wages, this study is consistent with all their data. All of its data, however, on Russian wages come directly from Russian state statistical sources.

2. Comparing Wage Remuneration in Russia Today With That in Other Relevant Countries

The second and third columns in table 1 compare gross wages[2] in Russia to those in various comparison countries. These countries have been selected because they are countries in Russia's geographical, cultural, and economic region, to which many Russian workers compare their situation when thinking about the adequacy of their wages. These include three northern and three high-wage large European economies that they would most like to emulate, two selections from southern Europe, and one from the former East Bloc. The United States is also included because of the lingering effects of the archetypal role it played in the thinking of Russian workers about the adequacy of their wages during the Cold War.

[2]The concept of "worker" throughout this study is hired labor, a person who receives remuneration for selling their labor-power. Employment contracts can vary in many ways. Consistent with the way the Russian data that are at the heart of this study record remuneration for hired labor, and "culturally consistent" with the fact that in Russian there is a single word—"*зарплата*"—for either wages or salaries for hired labor, workers in particular include both wage and salary recipients. Both full- and part-time workers are included. We have used comparison-country data from the Organization of Economic Co-operation and Development (OECD) that are consistent with this. To avoid longer awkward phrases, we have referred to worker remuneration as "wages" throughout this work.

Table 1. Wages and Labor Productivity in Russia and Comparison Countries (2017).

[1] Country	[2] Gross average annual wages (USD, PPP)	[3] Index gross annual wages	[4] GDP per person employed (USD, PPP)	[5] Index GDP per person employed	[6] Average wage tax deduction (%)	[7] Average annual wages net of taxes	[8] Index of net average annual wages
United States	60,558	3.36	121,800	2.32	26.0	44,813	2.87
Denmark	51,466	2.87	103,100	1.96	35.8	33,037	2.12
Norway	51,212	2.85	116,400	2.21	27.6	37,077	2.38
Germany	47,585	2.65	95,000	1.81	39.9	28,599	1.83
France	43,732	2.44	103,200	1.96	29.2	30,962	1.95
UK	43,755	2.44	89,400	1.70	23.4	33,516	2.15
Sweden	42,393	2.36	100,400	1.91	25.0	31,795	2.04
Greece	26,064	1.45	72,600	1.38	26.0	19,287	1.24
Portugal	25,367	1.41	68,400	1.30	27.5	18,391	1.18
Hungary	22,576	1.26	60,900	1.16	33.5	15,013	0.96
Russia	17,940	1.00	52,600	1.00	13.0	15,608	1.00

Abbreviations: USD, US dollars; PPP, purchasing power parity; GDP, gross domestic product.
Sources. OECD (2018, 2020a, 2020b, 2020c), Rosstat (2018a) and Legislative Acts of the Russian Federation (2020).[3]

For the existing capitalist economic system, standard economic theory holds that relative labor productivities will be a major factor determining relative gross wages for any countries somewhat open to international capital flows so that their (risk adjusted) rates of return on capital are similar. The substantial correlation between the level of Russian gross wages relative to those of the comparison countries and the relative productivities of Russian workers relative to those of the comparison countries, indicated by columns 2 through 5, support this standard position of the great importance of relative productivities as one important cause of Russian workers' relatively low gross wages.

Workers, of course, are concerned with their net wages. Column 6 shows that Russian taxes on wages lie significantly below the range of comparison countries. Columns 7 and 8 indicate the important result that, as it must, this significantly improves their relative wage position. The underlying correlation with labor productivity, however, still remains, and the already exceptionally low tax rate on wages indicates that reducing the still large relative wage gap will, under the existing economic system, require major improvements in labor productivity.

3. The Dynamics of Wage Remuneration in Russia

In addition to inter-country comparisons, a second consideration affecting the satisfaction of the working people of any country with their wages is how their wages today compare to their wages in their recent and medium-term past. Figure 1 indicates Russian workers' wage growth since 1991.

[3] A detailed and therefore lengthy description of exactly which information was used from which sources, and all author calculations, particularly to facilitate easy reproducibility by readers who do not speak Russian, are available from the corresponding author on request.

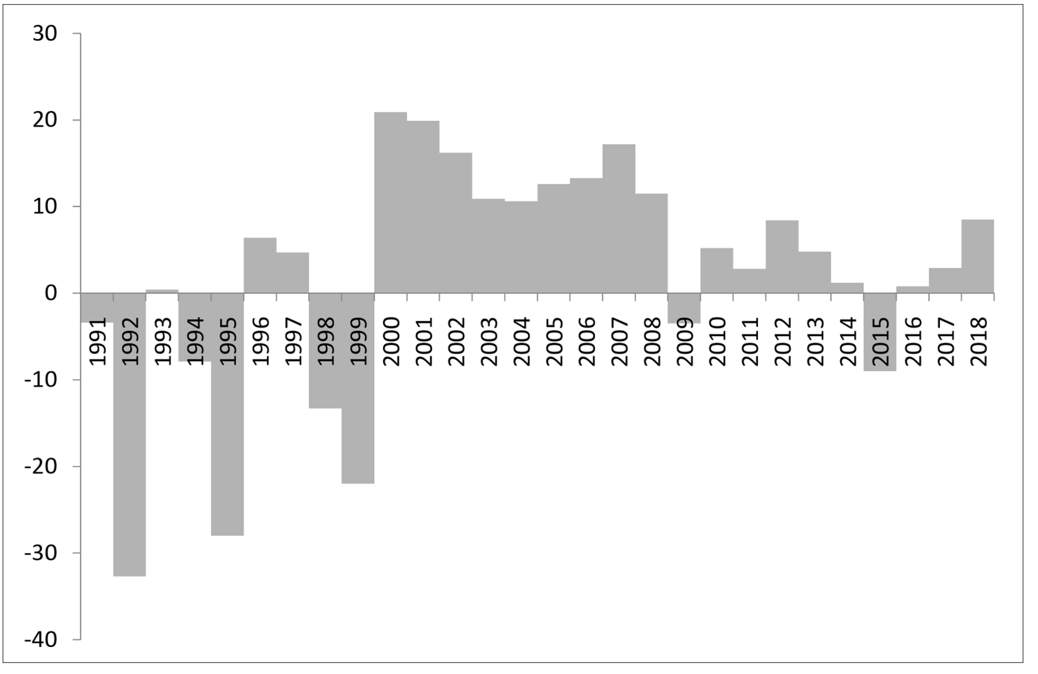

Figure 1. Yearly growth of average real wages (1991–2018).
Sources. Rosstat (2009, 2011a, 2017a, 2018b, 2019a).

Figure 1 suggests four periods in the performance of Russian wages. The well-known implosion of the whole economy in the 1990s resulted in a draconian total compounded fall of real wages of just over two-thirds (69 percent) in nine years from 1990 to 1999, unprecedented for a large industrial economy except from a war. The second period, 2000 to 2008, had the very impressive average growth of 16.3 percent per year, a total compounded 286 percent increase (almost quadrupling) in nine years. This was driven both by the "rebound" from the previous chaos (putting large amounts of idle labor and capital back to work), and by the worldwide commodity boom. Following a relatively small fall during the world Great Recession of 2009, the 2010 to 2013 average yearly growth of 5.3 percent suggested what might be in store for Russian wage growth in the new more lethargic post-recession world economy. However, a fourth period that continues to today was created by the economic sanctions imposed on Russia starting in 2014. Average Russian wage growth during 2014 to 2019 fell to 1.2 percent.[4]

The post-2009 rate of 5.3 percent was not high enough to close the wage gaps with the comparison countries that were discussed in the last section at any rates acceptable to Russian workers. The current lower rate of wage growth suggests that any "catching up" will be negligible, and that the gaps with some countries could even widen.

One possible explanation for poor wage growth is that capital is continually pushing down the wage share, the share of total Gross Domestic Product (GDP) that workers receive as wages. This is a goal of neoliberalism and has been achieved in many countries throughout the world over the last four decades. Long-term, figure 2 shows that since the drop in the wage share to 37 percent in 1992 when the economic system changed, it has generally been rising, and since 2014

[4]Here, we use the official preliminary estimate for 2019 of 2.9 percent available when we wrote this article but have not included it in figure 1 because of its preliminary status.

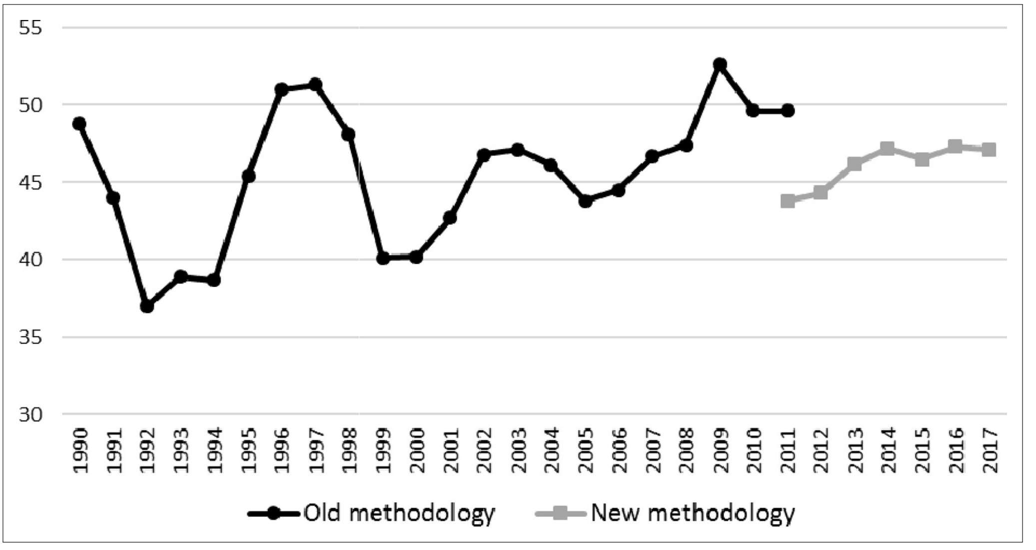

Figure 2. Dynamics of wage share of the GDP in Russia, 1990–2017.
Sources. 1990–1994 from Goskomstat (1995); 1995–2011 from Rosstat (2019b) and 2011–2017 from Rosstat (2019c).

the wage share has been roughly constant. Hence, the wage share is not a cause of Russia's current problematic wage growth.

4. Wage Inequality in Russia

High wage inequality poses three different problems for the quality of life of working people. In the first place, for a given mean wage, it means a greater number of workers will live in outright poverty, despite being employed. In the second place, given that wage distributions are strongly right-skewed, for any particular total national wage bill (and hence particular mean wage), greater wage inequality will mean that the median wage received by a typical worker will be lower. Hence, greater wage inequality does not hurt just those at the bottom of the distribution, but it also negatively impacts the large majority of workers, all except the thin layer of high-wage earners. In the third place, greater wage inequality among working people tends to slow the rate of growth of all wages.[5] In this section, we first document the extent of wage inequality in Russia, and then its dynamics.

4.1. Extent

There are many different measures used to discuss the extent of wage inequality in a given country. As an indication of how robust the important result of the comparatively extreme level of wage inequality in Russia is, we present two common measures that involve somewhat different economic concepts of wage inequality.

Comparing the high end of the wage spectrum to the low end, table 2 presents the Decile 9 to Decile 1 coefficients. Here, we have again included the ten comparison countries from table 1,

[5]The mechanism usually posited as the reason for this slower growth is the reduced solidarity that inequality causes among workers. A discussion of that mechanism is not a topic of this empirical article, which is here concerned only with the documentation of Russia's extremely high wage inequality.

Table 2. Decile Coefficient of Wage Differentials in Russia and Comparison Countries (D9/D1).

Country	Decile coefficient D9/D1	Year
Russia	6.2	2017
United States	5.07	2017
Columbia	4.53	2017
Chile	4.32	2015
Korea	4.30	2017
Latvia	4.00	2014
Portugal	3.95	2016
Poland	3.81	2016
Estonia	3.78	2014
Lithuania	3.78	2014
Hungary	3.73	2016
Turkey	3.53	2014
Czech Republic	3.45	2017
UK	3.42	2017
Germany	3.33	2016
Greece	3.27	2016
Japan	2.83	2017
France	2.81	2014
Switzerland	2.65	2016
Denmark	2.57	2016
Norway	2.55	2015
Sweden	2.28	2013

Sources: OECD (2020d) and Rosstat (2017b).
Note. The extent of the relative wage inequality in Russia by this measure is striking. Twenty of the countries show a fairly dense spectrum of inequalities, the United States is a significant outlier of high inequality, and Russia is dramatically above the United States.

and for robustness we have added eleven other Organization of Economic Co-operation and Development (OECD) countries (including two more from the former "Soviet Bloc," and three from among the more developed Third World countries).

Table 3 gives the ratio of the minimum wage to the mean wage as an economically different second measure of wage inequality.[6]

Table 3 again demonstrates a fairly closely packed spectrum of inequalities of Russia's comparison countries excepting the United States, which again is an inequality outlier, this time with Russia being only slightly more unequal than the United States. The results of tables 2 and 3 are strikingly robust to both the two different measures used.

[6]The four countries with the most wage equality in table 2, Sweden, Norway, Denmark and Switzerland, do not appear in this table because they have no statutory minimum wage.

Table 3. Ratio of Minimum Wage to Mean Wage in Russia and Comparison Countries.

Country	Minimum wage/average wage
Russia	0.20
United States	0.24
Greece	0.33
Estonia	0.35
Czech Republic	0.35
Japan	0.36
Latvia	0.39
Hungary	0.40
Korea	0.41
Turkey	0.42
Germany	0.43
Lithuania	0.43
Portugal	0.43
Poland	0.44
UK	0.44
Chile	0.49
France	0.50
Colombia	0.58

Sources: OECD (2020e), Rosstat (2018c: 142) and The Legislation of the Russian Federation (2020).

4.2. Dynamics

The D9/D1 decile ratio, which was used in table 2 for the first static comparison of wage inequality in Russia to that of a large set of comparison countries, is one of the standard worldwide measures of inequality. It is now also measured and used commonly in Russia, and can be constructed back to the year 2000 using various data sources. Table 4 gives the D9/D1 ratio beginning with that year. A measure used in Russia prior to 2000 was the Coefficient of Funds.[7] Table 4 demonstrates that the much less well-known Coefficient of Funds shows exactly the same trends from 2000 to 2017 as the D9/D1 ratio. We use that result to justify using the trend in the Coefficient of Funds from 1991 to 1999 as a good proxy for the then unavailable D9/D1 trend.

The data on wage inequality in table 4 show the same basic periodization of Russia's economy since 1991 as the data on the growth of average real wages in figure 1. The wage collapse from 1991 to 1999 was accompanied by a sharp increase in wage inequality. The strong wage growth from 2000 to 2008 began to reduce the inflated inequality after 2001; by 2009, it was lower than it had been since 1994,[8] eliminating the highly excessive wage inequality that had developed over the 1990s. Since 2009, decent-to-slow economic growth has left wage inequality fairly

[7]The OECD D9/D1 ratio is defined as ratio of the upper earning limits of the ninth and first deciles, while the Coefficient of Funds is defined as the ratio of the mean wages of the top and bottom deciles. One can see from these definitions both why they move very similarly and why the Coefficient of Funds is consistently higher.

[8]The Soviet Union was known for having less wage inequality than capitalist countries, and the low 1991 inequality figure for Russia reflects that historical starting point.

Table 4. Dynamics of the D9/D1 Decile Coefficient and the Coefficient of Funds in Russia.

Years	Decile coefficient D9/D1	Coefficient of funds
1991	-	7.8
1994	-	23.4
1995	-	26.4
1996	-	24.0
1997	-	25.0
1999	-	32.1
2000	12.3	34.0
2001	13.3	39.6
2002	10.6	30.5
2003	11.1	30.0
2004	10.4	26.4
2005	9.6	24.9
2006	9.5	25.3
2007	8.4	22.1
2009	6.7	14.7
2011	7.1	16.1
2013	7.1	15.8
2015	6.7	14.5
2017	6.2	14.1

Sources: Gimpelson and Kapeliushnikov (2007), Rosstat (2003, 2005, 2011b, 2017c, 2018d) and Goskomstat (1999: 323–4, table 10.24).
Note: Since 2007, survey data on the distribution of employees by wage size in Russia is only available for odd-numbered years.

constant. Russia's progress in closing the wage inequality gap with its comparison countries has ended over the last decade, leaving it the high-end outlier shown by tables 2 and 3.

5. Conclusions

With the ninth largest population and the largest landmass—and from the latter, possession of very large amounts of many of the world's important natural resources—Russia's economic development will be one important factor in the determination of world economic development in the short-term and medium-term. As with all countries, the population's sense of well-being and satisfaction is central to how Russia's political economy will develop, and a country's political economy is one basic factor in the determination of its economic development. This article is an English-language introductory and empirical examination of the statics and dynamics of Russian wages and wage inequality, one of the important determinants of a population's sense of well-being and contentment.

This article presents the following three empirical economic results concerning wages in Russia.

First, the wages of working people in Russia are low in comparison to those of their "natural comparison countries," that is, countries with which many Russian workers compare their wages, that are in their geographical, cultural, and economic region. The degree to which Russian gross wages are lower roughly corresponds to how much their labor productivity is lower. Having relatively low taxes on their wages improves their situation somewhat in relation to what workers care about, their net wages, but these remain low still roughly consistent with their lower labor productivity.

Second, the history of the growth of Russian wages since 1991 divides into four periods. From 1991 to 1999 during the country's "economic implosion," wages contracted to an extent unprecedented in any industrialized country other than from a war. From 2000 to 2008, they exhibited extraordinary growth, resulting both from ending the chaos of the 1990s and from the worldwide commodity boom. After the worldwide recession of 2009, Russia began four years of moderately healthy wage growth. This was ended by the imposition of economic sanctions in 2014. Notwithstanding that by 2017 Russia seems to have learned how to partially reduce their negative effects, the data through 2019 suggest that the rate of wage growth under the sanctions today is lower than before their imposition, and inadequate for closing its existing wage gaps.

Third, the inequality of Russian wages is an outlier among its comparison countries, exceeding even that of the United States, the country most renowned for its inequality in the developed world. Finally, after the great improvement made during the boom years of 2000 to 2008 in reducing the astronomical wage inequality that had built up during the economic implosion from 1991 to 1999, Russia's wage inequality has stopped making significant further progress for the last decade.

The following two political economic conclusions are suggested by these three empirical economic results on wages.

First, under Russia's current national and international economic system, the standard prescription for a major improvement in its wages would be to increase its labor productivity through extensive productive investment of domestically accumulated capital or foreign direct investment. As there is no indication that either of these will occur on a very large scale in the near future, there is no reason to believe that Russian workers will experience any significant improvement in their poor relative wage position ("catching-up") in the near future.

A second political economic conclusion that can be drawn from this first one is that this persistence of poor relative wage levels will continually reinforce a feeling of social discontent and lack of well-being among Russian workers.

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