

## ARTICLE

# ENSURING THE SOCIAL PROTECTION OF THE UNEMPLOYED IN THE RUSSIAN FEDERATION AND POSSIBLE WAYS OF ITS IMPROVEMENT

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## ABSTRACT

Almost all countries face the problem of unemployment and the deterioration of the welfare of citizens. The presence of unemployment reduces aggregate effective demand and leads to lower economic growth. At the same time, subjective well-being of citizens reduces. The financial protective system of the unemployed, based on the national social security system, often has a disincentive effect. All governments face the problem of the population employment in varying degrees, and therefore, the possible regulation of the unemployment and financial protection of the unemployed remain the most important aspects of the macroeconomic policy. In this article we propose the improvement of the current system of protection against unemployment in the Russian Federation on the principles of solidarity of mutual aid and personal responsibility. The government provides the social protection in accordance with the law, and the employer and the employee can make insurance coverage through voluntary insurance of the employee's financial risk in case of job loss [1].

## INTRODUCTION

**KEY WORDS**  
unemployment, social security, financial assistance to the unemployed, unemployment benefit, financial risk insurance.

Unemployment is an inoccupation of the economically active population in economic activity, excess supply of labour, the economic situation when the part of the productive and willing to work people cannot find a job in their field or find employment at all.

Unemployment is an economic and social problem. Its negative impact on economic development is reflected in many economic researches [2], [3]. The historical experience shows us that there is nearly always a number of the unemployed in the countries with a market economic system. It is considered that the level of unemployment from 1 to 3% is quite acceptable, with unemployment at 5% the economy is able to exist, but 7% is a socially dangerous level, which requires the development and implementation of the state policy of employment promotion. According to the International Labour Organization, at the end of 2016 there are 197.7 million of unemployed people, which is 0.6 million more than in 2015. The further number of the unemployed is projected to rise [4]. The main reason is the slowdown of the world economy.

The works of the Russian and foreign scientists are devoted to the study of the individual issues of social protection of the unemployed. Gallie with co-authors argues in favor of the higher job securities and shows that the mechanisms for employee participation may reduce their vulnerability [5]. Heyes with co-authors investigated the effects of the part-time employment for the subjective well-being of workers, and also showed that the economic crisis of 2008 had a negative impact on the well-being of employees who work very long hours [6], [7]. The relationship between attitudes to employment status and subjective well-being depending on the level of employment [8], migration issues [9] are studied. Van der Wel with co-authors establishes that the social security has a disincentive effect in terms of human desire for employment [10]. The authors investigate how the unemployed seek work, whether they agree on all types of work [11]. Several studies analyze how the job loss effect on people with the different education level, different professions, etc. [12], [13]. In the works of the Russian scientists, the issues of the Russian working life quality and aspects of employment are investigated [14], [15].

The aim of this article is a systematization of the existing mechanisms of the financial protection of the unemployed in the Russian Federation and the formation of the strategic line of reforming this system.

## MATERIALS AND METHODS

The unemployment rate is calculated on the basis of the ratio of the number of the unemployed and the number of economically active population. The unemployment rate (U), according to the ILO methodology is a percentage of the number of the actually unemployed to the economically active population. This level is determined by the formula:

$$U \text{ unempl.} = S \text{ unempl.} / S \text{ economic activity} * 100\%, \quad (1)$$

where S unempl. is a number of unemployed citizens,

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S economic activity is economically active population.

## RESULTS AND DISCUSSION

We can distinguish two historical and economic periods characterized with different reasons of unemployment.

The first period - before the Industrial revolution, when the technological changes occurred extremely slowly and the unemployment have occurred infrequently. The reasons for unemployment were:

- Weather conditions, while the unemployment was seasonal in nature;
- Demobilization of the army after long hostilities;
- Laws, reducing labour mobility. For example, the laws of apprenticeship, limiting the number of students whom the master could take.

In England, Poor Law of the XVI-XVII centuries prohibited the poor to move from one county to another, condemned them to unemployment if in their county was an insufficient demand for labour.

The second period – during and after the Industrial revolution, when the production technology began to change so fast that within one generation one worker could be forced several times to change his profession. After the Industrial revolution the technological progress began to have a more serious impact on the economy. The reasons for unemployment were:

- Transition to new production methods;
- Decline in demand for unskilled labour;
- Growth of the engineering industry, stimulating the demand for workers of relevant professions.

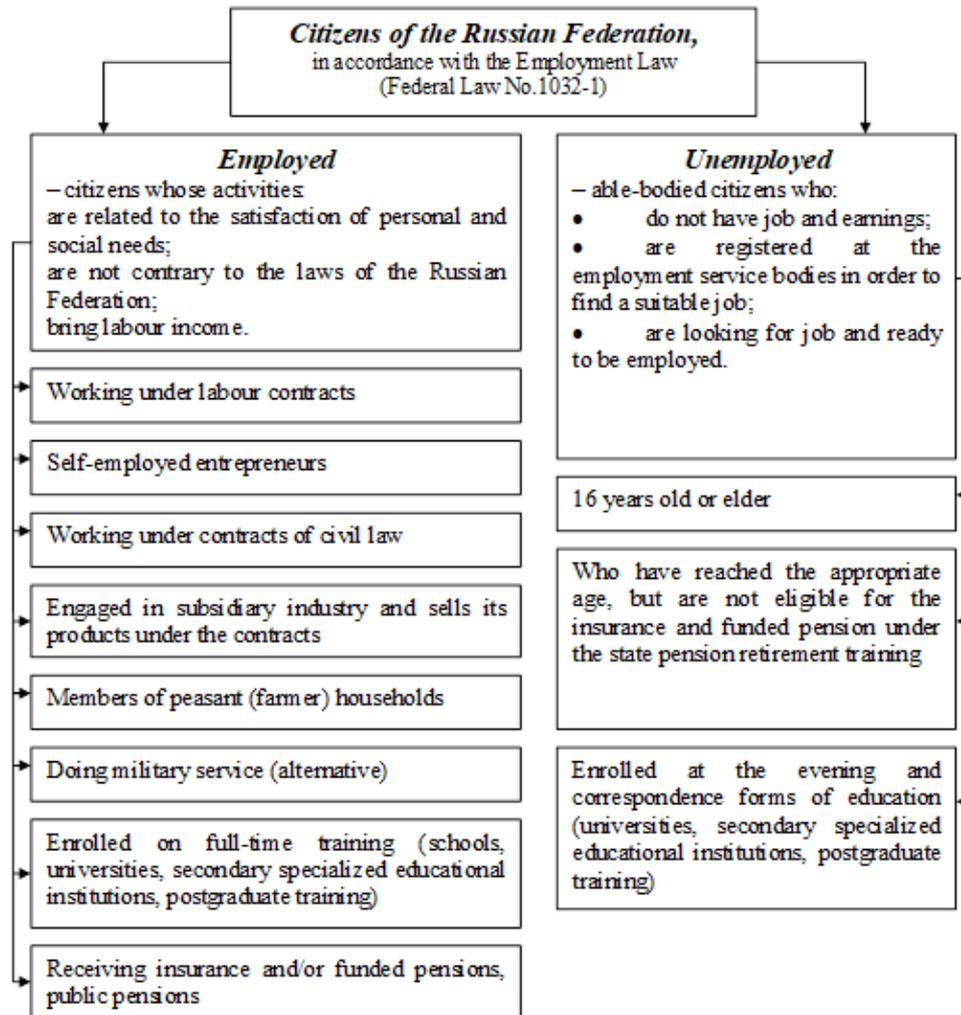
The unemployment as a phenomenon began to gradually enter the economic thought with the increasing of industrialization and bureaucratization.

The process of formation and development of the system of protection against unemployment, which began in the late XIX century, lasted for decades in the developed countries. Its main stages can be traced in the Conventions and Recommendations of the International Labour Organization (ILO), the analysis of which allows to highlight common features in the development of modern systems, regardless of their national features. They are [16]:

- The recognition of unemployment as a national problem, which cannot be reduced to the level of specific areas or industries;
- The presence of an independent state institution, acting as a coordinator of the system of state and non-state structures;
- The “embeddedness” of the protection policy against unemployment in the overall socio-economic strategy of the state;
- The development of insurance as a key component of the system of protection against unemployment;
- A differentiated approach to the different categories of the unemployed;
- The flexibility of the ratio of active and passive programs depending on the specific socio-economic situation in the country;
- Ensuring strict correspondence between the list of established by the state social guarantees and practical possibilities for their financing.

Unemployment in Russia and the system of protection of the unemployed had its own features. In the early 1990s, the unemployment as a socio-economic phenomenon was officially recognized in Russia again. The beginning of the market reforms contributed to a new stage of development of the state system of support for the unemployed of Russia.

Since 2001, Russia completed a transition to budget mechanism of the unemployed financing. [Fig. 1] shows the existing regulatory requirements for the recognition of the Russian citizens as unemployed.



**Fig. 1:** Regulatory requirements for the determination of the status of citizens in order to facilitate their employment. (Compiled by the authors)

The mechanism supposes the benefits payments and the provision of the material assistance to the unemployed at the expense of the budgetary funds. The decision on the recognition of the citizen, registered in order to find suitable work, as the unemployed, is taken by the employment service bodies at the place of residence of the citizen not later than 11 days from the date of the required documents submission. In accordance with the Law of the Russian Federation Concerning Employment in the Russian Federation No. 1032-1, the status of the unemployed may receive not all economically active citizens. The category of the employed citizens significantly exceeds the category of persons who can be considered unemployed.

[Table 1] shows the dynamics of indicators characterizing the level of unemployment of the population of the Russian Federation and the Republic of Tatarstan in 2013-2018 [17].

**Table 1:** The indicators characterizing the levels of unemployment in the Russian Federation (RF) and the Republic of Tatarstan (RT) in 2013 – 2018

Indicators	2013	2014	2015	2016	2017	2018
The number of the unemployed in the RF (thousand people)	5544.2	4922.4	4130.7	4137.4	3889.4	4263.9
The number of the unemployed in the RT (thousand people)	126.3	94.9	84.6	80.7	80.8	82.0
The number of economically active population in the RF (thousand people)	75478	75779	75676	75529	75428	76588
The number of economically active population in the RT (thousand people)	2025.5	2034.7	2050.9	2042.1	2056.7	2062.2
The unemployment rate in the RF (%)	7.3	6.5	5.5	5.5	5.2	5.6
The unemployment rate in the RT (%)	6.2	4.7	4.1	4.0	3.9	4.0

Compiled by the authors

The represented data indicate that unemployment rates in the Russian Federation and the Republic of Tatarstan till 2018 had a steady downward trend, due to the presence of the hidden unemployment. The citizens do not tend to register at the labour exchange, and prefer either to search for a suitable job independently or settle for odd jobs, work under civil law contracts concluded for specific work and services. The employees highly paid in previous periods of their employment invested their temporarily free funds in the real estate, transport and special equipment, other assets, including financial. Losing a job, they live through the use of their unearned sources of income: from the rental of real estate, transport, interests on the deposit accounts, etc.

2016-2018 years were characterized by a difficult economic situation in terms of sanctions against Russia. [Fig. 2] clearly shows that the economy contraction leads to an increase in unemployment. In 2018, a slight economy contraction is accompanied by a slight decline in the unemployment rate.

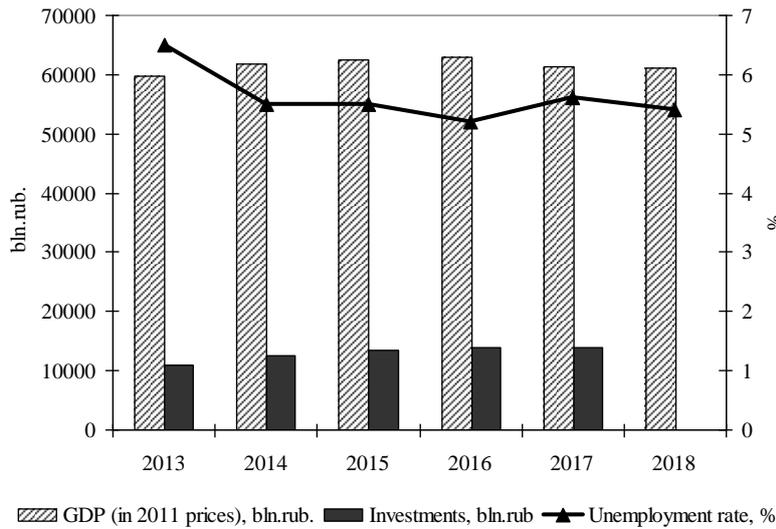


Fig. 2: The unemployment rate, GDP and investment in fixed assets dynamics in Russia.

[Fig. 3] shows the social security and financial assistance to the unemployed of the Russian Federation provided by the budget.

The budget financing mechanism clearly showed the ineffectiveness of the organization of the unemployed material support.

When the level and the duration of unemployment increased, the system stopped responding to its main purpose - to ensure the social protection of the unemployed.

The system of the employees' social protection should be based on the principle of the responsibility shared between the employee, the employer and the government. The use of the budget mechanism of funding support of the unemployed in Russia has ruled out the participation of the employers and employees by shifting the responsibility onto the state and thus has violated the principle of the responsibility sharing in the social insurance.

The social protection of the working citizens and their family members are, in the opinion of Prof. V.D. Roik, ensuring socially acceptable standard of living [18]. The compulsory social insurance initiated and guaranteed by the state, carried out by forming a centralized and decentralized funds of the society by contributions from the employers, employees and government subsidies is recognized as one of the basic subsystems of the social protection.

The international community when designing the national systems of social protection of the population relied on three basic models: models of W. Beveridge, O. Bismarck and the socialist one (the Soviet model). Each of them featured the organization of social support for the unemployed. In the model of O. Bismarck such support was provided on the principles of universality and mandatory at the insurance mechanism of the benefits payment financing. In the model of W. Beveridge the assistance to the unemployed was shifted on the state, as the risk of job loss was recognized as a mass one and requiring government intervention. In the Soviet model, this possible problem situation as the risk of job loss was not considered, because in the country in the 50s of the twentieth century, the government provided universal employment.

The operation of the systems of social protection in the ILO's view set out in its conventions, declarations, recommendations aims at warranty to ensure the constitutional rights of the citizens to a dignified existence in the case of the social risks implementation, including the risk of unemployment [19]. The unemployment benefit is included by the ILO Convention No. 102 in the nine major types of the social security, on which the citizens are entitled in the case of a decline in their income (wage). In addition, according to the ILO recommendation it is worth to involve the workers themselves in the process of protecting their financial interests by imposing the obligation to pay insurance premiums to the insurance funds, along with the employers.

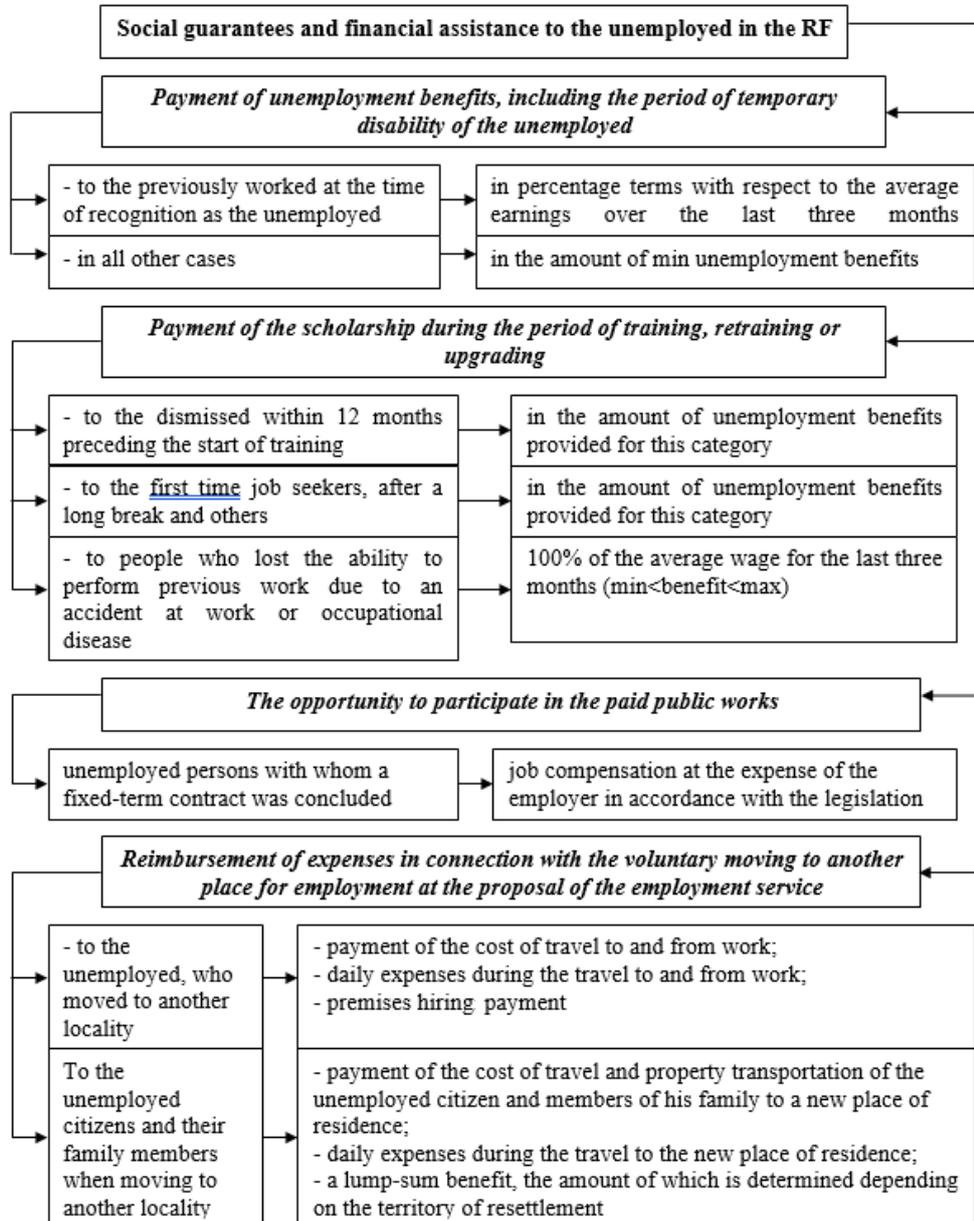
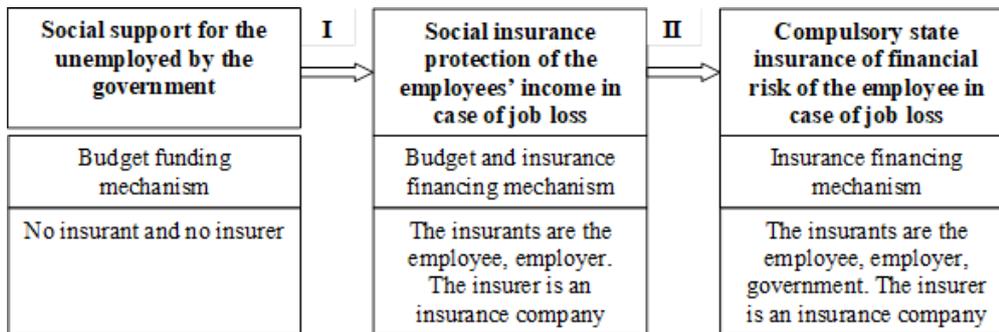


Fig. 3: Social guarantees and financial assistance to the unemployed in Russia. (Compiled by the authors)

### CONCLUSIONS

Taking the above into account, it is necessary to return the Russian model of the social security and assistance to the unemployed on the insurance principles of funding, dividing the responsibility for the payment of the insurance premiums between the employer, the employee and the government. It is worth to form the insurance funds in the insurance companies having a license for insurance of financial risks, including risks of the citizens in connection with the job loss, and authorized by the state for its conduct. Currently, the domestic insurance companies in accordance with the Federal Law Concerning Organization of Insurance Activities in the Russian Federation get the licenses for 23 kinds of insurance, including insurance of financial risks. The choice of the insurance company can be made according to certain government criteria (e.g., the period of work in the insurance market as the insurer on risk types of insurance, lack of sanctions from the supervisory authority for the insurance law violation, etc.) [20].

Thus, we propose to reform the current system of protection against the unemployment in the Russian Federation on the principles of mutual solidarity and personal responsibility. The scheme of reforming is shown in [Fig. 4].



Compiled by the authors

**Fig. 4:** Stages of reforming the system of social protection of the unemployed.

We propose to carry out the reform process in two stages:

- I. To complement the state guarantees of the social protection of the unemployed with the voluntary insurance of the employee's financial risk (risk of wage loss, risk of lost revenue) as at the expense of own means, and at the expense of the employer under the labour contracts concluding, that is, to transit to a social insurance financing mechanism of material protection of the unemployed;
- II. The transition from the social insurance to the self-insurance protection mechanism for the unemployed through the liberation of the state from the funding of the premiums and other payments to the unemployed, shifting on him the obligation to pay insurance premiums in proportion, determined by the tripartite agreements (government, employer, employee) to the Insurance Fund of the insurer, and develop model contracts and rules of such insurance.

**CONFLICT OF INTEREST**

There is no conflict of interest.

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None.

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