

The Effect of Labor Surplus on Economic Development of North-Caucasian Regions

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Abstract: This article is to analyze the indicators of economic development of the North-Caucasian Federal District (NCFD), characterize the regional labour market and identify the parameters of its labour surplus in this region. The results of statistical analysis of the long-term data revealed the dependence of the regional domestic product on the employment level of economically active people of the region. The dynamics and structure of current unemployment in the labour market of the North-Caucasian region has been considered. The study allowed the author to determine the general problems limiting the economic growth of the Northern Caucasus Republics such as: the high level of unemployment, especially among young people, disbalance of supply and demand, low salaries in this region and the imperfection of the interaction mechanisms between labour market and education. The author has developed the general directions of the state employment policy in the North Caucasus Federal District aimed to creation of conditions for the formation of new working places, the development of measures to increase the mobility of the residents and the quality of labour resources and formation of professional human resources for the economy of the North Caucasus.

Key words:

INTRODUCTION

The modernization of the Russian economy and the formation of new innovative paradigm of economic growth in Russia result in a shift of employment patterns including the whole system of social and labour relationships, which determines the relevance of development of target regional policy, strived to the development of a flexible labour market. The social nature of the labour market possesses the specific characteristics that require governmental management and control [1]. To create an effective management system aimed to improvement of the welfare of the people it is necessary to build the effective mechanisms ensuring employment, study the trends and characteristics of migration of labour resources as one of the main factors of economic growth in the region [2].

Most of the economic debates on the labour market development focus on the national and supranational level. However, the numerous studies show that there are significant differences in the development of markets at the regional and subregional levels [3]. Regional development largely depends on internal migration, which indicates the significant difference in

salaries and tension on regional labour markets. Regions with favorable labour market situation are often neighbors with labour surplus regions such as North-Caucasian Federal District. The complex nature of the problems of the North Caucasus Federal District determines the need for a target governmental policy to overcome unemployment and the countermeasures on the development strategy of labour mobility within the region.

General: North-Caucasian Federal District (NCFD) was established on January 19, 2010 by an Order ¹ 82 of the President of Russian Federation D.A. Medvedev [5] through the separation of the territory from the southern Federal District. North-Caucasian Federal District occupies about 1 % of the territory of Russia and account for 6.6% of the people of the country. Center of the North Caucasus Federal District is Pyatigorsk city. The North Caucasus Federal District includes the Republic of Dagestan, Republic of Ingushetia, Kabardino-Balkaria Republic, Karachay-Cherkess Republic, Republic of North Ossetia – Alania, Stavropol krai and Chechen Republic. Regions of the North Caucasus Federal District form the North Caucasian economic region.

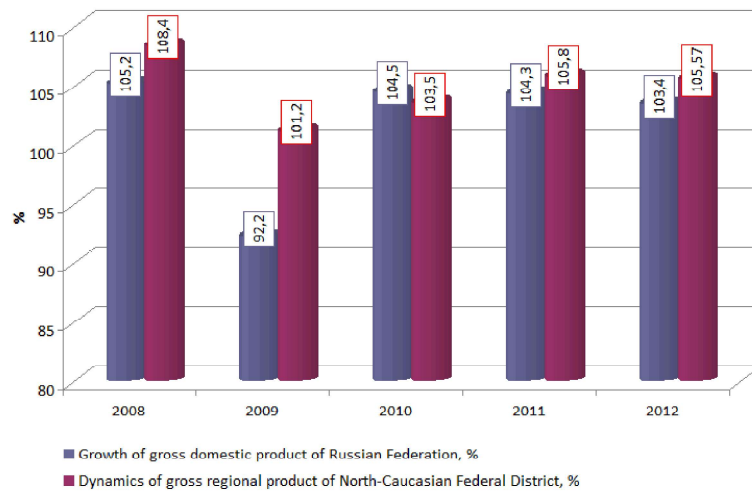


Fig. 1: Indexes of physical volume of the gross regional product (in constant prices, % to previous year)

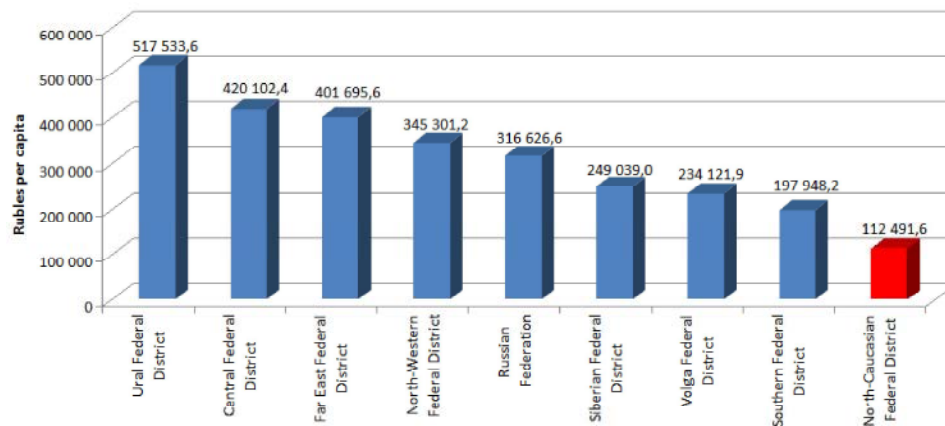


Fig. 2: Volume of GRP in current basic prices per capita, in rubles (the data of 2011) [6].

The general economic industries of this region are the mining and processing of thermal and mineral waters, tourism, agriculture and production of construction materials.

One of the main indicators characterizing economic development of the region is the gross regional product (GRP). GRP growth in the North Caucasus Federal District was 1,2% in 2009 and 3,5% in 2010. After isolation of the North Caucasus Federal District from Southern Federal District, starting from 2011, the GRP growth beginning from 2011 exceeded the Russian average index and reached 5,57 % by the end of 2012 (Fig. 1).

In spite of the positive dynamics of the GRP volume, the real sector of NCFD economics is hardly conform to the indices of the optimal socio-economic development strategy until 2025, which supposes that the average level of GRP should be higher 7,7%, annually.

North-Caucasian Federal District occupies the last position among other federal districts according to average GRP per capita, which in 2011 was 112,5 thousand

rubles and in Russian Federation - 316,6 thousand rubles (Fig. 2).

However, there is a positive trend: the ratio of GRP per capita in the North Caucasus Federal District to the average in the Russian Federation in 2008 was 33,2 % and in 2011 - 35,5 %.

The indicators characterizing the salary level in the NCFD rose significantly higher than the planned for 2012.

In 2012, the size of average monthly gross salary grew by 19.8% (until 16 334,6 rubles), the net salary was 117,5% compared to 2011. The data on gross and net salary at the industries of the North Caucasus Federal District for 2012 are shown in Table 1.

The actual index of the average nominal gross salary was 105,0% of the planned 15554,2 rubles and the real level of salary exceeded the planned level by 8,3%.

At the same time, in spite of the positive dynamics, the level of nominal gross salary at the enterprises of the North Caucasus Federal District is 62,95% of the national average level, which was 25948,2 rubles per person in

Table 1: Salary paid on the large, medium and small-size enterprises and organizations of the North Caucasus Federal District in 2012

Federal subject	Average monthly gross salary per an employee		Net salary growth by 2011
	2012	in % to 2011	
Russian Federation	25948,2	114,1	107,8
North Caucasus Federal District	16334,6	119,8	117,5
Republic of Dagestan	13395,5	122,0	115,6
Republic of Ingushetia	17530,6	122,5	119,1
Kabardino-Balkaria Republic	15891,6	126,6	119,4
Karachay-Cherkess Republic	14894,5	123,1	118,6
Republic of North Ossetia - Alania	15818,4	128,7	122,6
Chechen Republic	17611,5	121,7	115,6
Stavropol krai	17824,2	115,4	111,4

Table 2: Structure of employed people by employment type

	Economically active people, persons			Employed in the informal sector, persons	Percentage of employed in informal sector of the total number of employed, %
	Total	Employed	Unemployed		
Russian Federation	75676	71545	4131	13600	19,0%
Central Federal District	21041	20383	659	2765	13,6%
North-Western Federal	7649	7347	302	766	10,4%
Southern Federal District	6993	6560	434	1672	25,5%
North-Caucasian Federal District	4485	3899	587	1538	39,4%
Volga Federal District	15715	14883	832	3311	22,2%
Ural Federal District	6551	6159	392	889	14,4%
Siberian Federal District	9813	9117	696	2108	23,1%
Far East Federal District	3427	3199	228	551	17,2%

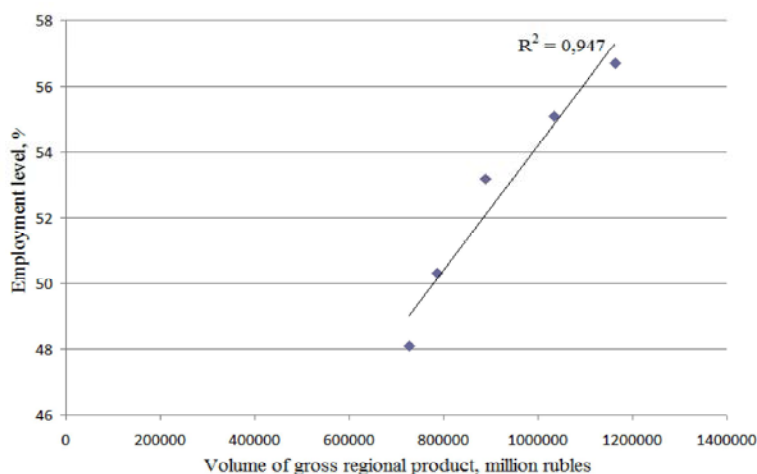


Fig. 3: Dependence of GRP on the employment level

2012. The ratio of average monthly nominal gross salary per employee and the subsistence minimum in the NCFD is significantly lower than this index within the Russia in average by 2,92 and 3,91. The average subsistence minimum for the NCFD (in 7 federal subjects) was 5585,143 rubles (84,08% from the level of the Russian Federation), while for Russia as a whole, the subsistence minimum was fixed at 6643 ruble [7].

Salary arrears on January 1, 2013 in the NCFD was 43,9 million rubles, 19,0 million rubles of these belong to Kabardino-Balkaria and 23, million rubles to the Republic

of North Ossetia-Alania and there was no salary debts from federal budget employees.

Statistical analysis of the long-term dynamics shows that there is a direct link between GRP and the employment level in the region (Fig. 3).

Peculiarities of economic development in the republics of the North Caucasus are reflected in the structure of employees by employment type: more than a third of the total employed people work in the informal sector. This is the highest index among all the federal subjects of the Russian Federation (Table 2).

Methodology of the Federal State Statistic Service of the Russian Federation based on international standards, anticipates the inclusion of all persons into the informal sector, regardless of their employment status and type of work (direct or additional) for a certain period, were employed at least in one of the production units of the informal sector. The informal sector includes officially unregistered production units involved which sale own products or services except the persons engaged in prohibited activities (drug trafficking, counterfeiting, pornography, weapons, etc).

It should be noted that the phenomenon of “informal employment” is not sufficiently spread in the scientific literature and there is no clear definition and criteria for separation to formally and informally employed people in the labour market. The researchers and politicians still debate about the nature of employment in the informal sector. In the present, there are two theories: according to the first theory, informal employment is the result of market competition and, second, this is the segmentation of the labour market. However, recently it has been suggested that neither of these two theories can explain the essence of informal employment and informal sector is heterogeneous structure [4].

The existence of the informal (shadow) economics in the North Caucasus Federal District is the result of economic reforms, existing shortages in the legal basis and imperfection of market relations [11]. Informal employment in the North Caucasus is a continuation of secondary employment, which incomes are composed of taxation. As a result, the budget loses revenue that adversely affects the economics of the region, increases the differentiation of incomes and leads to social tension in society. In addition, the informal sector due to the prevalence of obsolete technologies

and low capital intensity is low efficient, which restrains economic growth of a territory. This factor must be considered in the development of the programs of governmental subsidies to reduce the tension on the labour market and the analysis of the level and quality of life of people in the region.

The condition of regional labour market can be characterized by the ratio of demand and supply of labour forces. The offer of labour force of the labour market is the number of economically active people aged 15-72 years who either has been employed or had the official status of unemployed job seekers. The educational level of the economically active people, its age and professional structure have been also considering. The demand for labour forces is determined by the number of free job offers in the labour market.

The level of the economically active people in the North Caucasus Federal District is 65,3% on January 1, 2013, that in absolute terms is 4485 thousand people. According to the indicator of the economic activity level of the people, the North Caucasus occupies the last position among the regions of the Russian Federation (Fig. 4).

A large number of residents living in the specific conditions of the southern districts (the absence of large industries), initially predetermine the emergence of unemployment in the region. The levels of employment and unemployment in NCFD make this region an outsider among other the Russian regions (Table 3).

The problem of employment became chronic in the NCFD due to the steadily unfavorable economic situation in some republics of the North Caucasus. The number of officially registered unemployed people on January 1, 2013 was 279,2 thousand people, or 91,78% of the level registered over the same period of previous year.

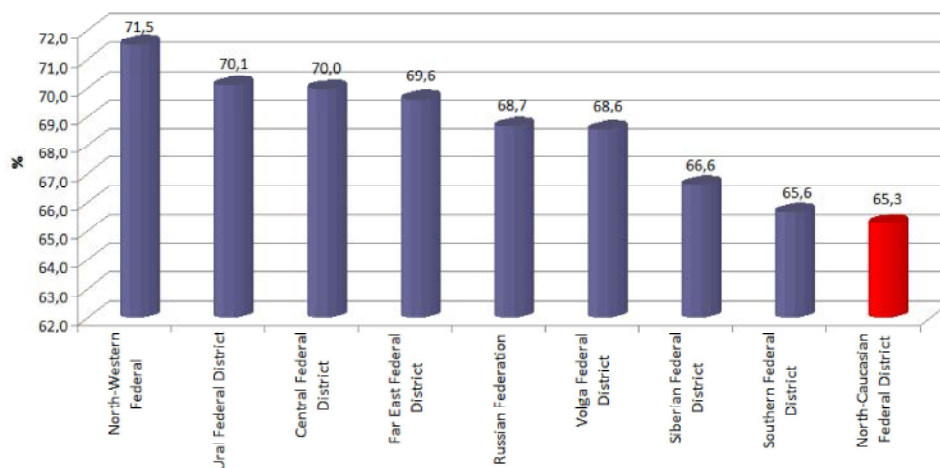


Fig. 4: The level of economic activity by subjects of the Russian Federation on January 1, 2013.

Table 3: Characteristic of Russian regions based on tension indices on the labour market in 2012

Region	Employment, %	Unemployment, %	The average time of job search by the unemployed people, months	The part of unemployed people searching for job 12 or more months, %
Russian Federation	64,9	5,5	7,5	30,9
Central Federal District	67,8	3,1	7,7	30,9
North-Western Federal	68,7	4,0	7,0	26,5
Southern Federal District	61,6	6,2	7,3	28,1
North-Caucasian Federal District	56,7	13,1	8,3	37,3
Volga Federal District	64,9	5,3	7,6	30,3
Ural Federal District	65,9	6,0	6,7	27,1
Siberian Federal District	61,9	7,1	7,4	30,9
Far East Federal District	65,0	6,7	8,0	34,3

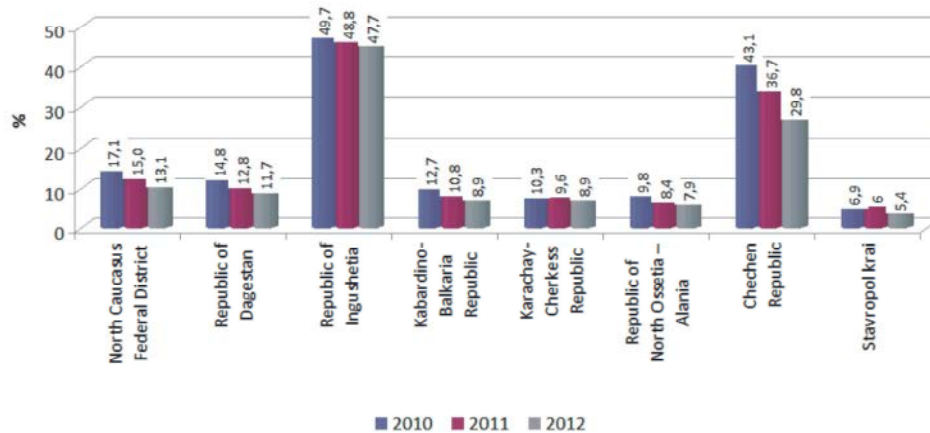


Fig. 5: The unemployment level in republics of North Caucasus

Unemployment level according to International Labor Organization (ILO) methodology was 13,6% in 2012 and 14,9 % in 2011. The highest unemployment level was registered in the Chechen Republic and Republic of Ingushetia (Fig. 5).

In all the regions of the North Caucasus Federal District, except for the Stavropol krai, the unemployment level exceeds the national average. At the same time, there is a positive trend of reduction of the unemployment level in all republics of the North Caucasus over 2010-2012. Unemployment in the Chechen Republic (including the number of registered unemployed by 8,6 thousand people) and Stavropol krai (including the number of registered unemployed by 6,7 thousand people) have significantly decreased.

The main reason for the low employment of the people of the North Caucasus Federal District is the insufficient job experience of 60% of the unemployed people. The unemployment level in rural areas is sufficiently higher of unemployment level among the urban people. More than a half of the unemployed are young people [8]. A large percentage of the unemployed residents of NCFD are women who care for young children, unemployed invalids, parents of children

with disabilities and parents having many children. The duration of unemployment in the North Caucasus Federal District exceeds the average for the Russian Federation in whole. Thus, the part of long-term unemployed (longer 1 year) is 37,3% (in Russian Federation-30,9%).

Thus, this study shows that the North-Caucasian Federal District is labour surplus region. The term “labour surplus” is used in labour economics for study the labor market in terms of the ratio of demand and supply of labour force. Redundancy of labour and in our study- labor surplus, can be often found in the analysis of the internal labour markets of economic entities and is a feature of the economic characteristics of the production conditions [9].

The regions where the value of the general unemployment level exceeds 10% belong to labour surplus [10]. Thus, on January 1, 2013, three of the region (Dagestan, Ingushetia and the Chechen Republic) of seven subjects included into the NCFD, are labour surplus regions. At the same time, the decrease of labour surplus compared to 2010, when labour surplus was noted in the five regions of the NCFD was considered as a positive trend.

Thus, in spite of the evident trend of the progressive dynamics in the development of the economics of the North Caucasus region, there is some labour market insecurity in some Caucasus regions and a lack of job places.

To implement the state policy of assistance in the employment of the people and reduction of tensions in the labour market of subjects of the North Caucasus Federal District, the centre of labor migration was established to perform a targeted recruitment of labour resources for employment outside of the Federal District taking into account the needs of employers.

Increasingly, the people of the North Caucasus Federal District, which are willing to work, but cannot find the proper job consider the opportunity of employment outside of the residence regions. In present, the organization of labour migration from the regions of the North Caucasus Federal District to other regions of the Russian Federation resulted in redistribution of labor resources and became a source of labour surplus regions.

The labour migration is normal for economic development of the country because the fact that people move between regions is a natural process of development of the state and civil society. Moreover, this enables the regions to be open for exchange of the experiences, knowledge and culture. If consider the “positive” and “negative” attitudes to the labour migrants, it seems that the opportunity to be employed and earn sufficient salary are an advantage, but required relocation and temporary residence away from home are disadvantages.

Speaking about general qualification of the job applicants from the NCFD, it is should be noted that the majority of people have only secondary special or vocational education, although, there are the number of large higher education institutions specializing on engineering, oil and gas industry, pharmacology and humanitarian disciplines. The specific feature of the local job seekers is often unconfirmed work experience.

Thus, in spite of the positive dynamics of socio-economic development of the North Caucasus Federal District, there are a number of problems related to the regional labor market:

- High level of unemployment, especially among young people;
- Imbalance between supply and demand on the regional labor market;
- The salary in the North Caucasus Federal District is significantly below the average;
- The imperfection of the mechanisms of interaction between labour market and education.

Labour surplus regions of the North Caucasus Federal District should be involved into a competitive advantage and the activities of the “Interregional Resource Center” should be supported to ensure the demand in the human resources of the enterprises and the organizations in the Siberian regions, the Volga region and Far East due to graduates of higher educational institutions of the North Caucasus region.

A strategy of unemployment overcoming in the region should be comprehensively implemented and first, would be better to begin with the education of the required personnel. The implementation of this strategy requires a reciprocal relationship between the economics of the region and the Ministry of education or, by the other words, between employers and higher educational institutions or secondary vocational schools. Educational institutions should graduate the experts, who will be demanded on the labour market in the near future in advance. It is necessary to popularize the specialty of primary professional education, provide the opportunity to the graduates to study in the real work conditions using the real equipment. This will provide the employers with skilled specialists and enable the first course students to realize if they have chosen the right profession.

In addition, it is necessary to create new job places in the “home” regions. According to the Strategy of development of the North Caucasus region, the touristic cluster is also actively developing. Regional authorities should more actively support the beginning and development of small business, motivate and encourage the creation of new job places by new entrepreneurs. These measures directly affect the creation of new job places in the North Caucasus Federal District and, as a consequence, the socio-economic development of the region.

CONCLUSIONS

- The level of unemployment was sufficiently reduced due to implementation of anti-crisis governmental programs and active employment policy in the NCFD and ensured the growth of the regional economics. However, in spite of the positive dynamics of socio-economic development of the region, the problem of labour surplus in the North Caucasus is still urgent;
- In present, the North Caucasus is an outsider among the Russian regions by the level of labour market development;

- Key directions of the state policy are: creation of conditions for new job places in the region, development and implementation of projects and activities to increase the mobility of residents and quality of labour resources and development of professional human resources for the economics of the North Caucasus.

Disproportions established on the labour market of the North Caucasus, require scientifically based and targeted joint actions of government, business and education. The implementation of the modern strategy of innovative development of the region and the country as a whole requires the effective economic development based on social stability, ensuring, in particular, retention of unemployment at the socially acceptable level, sufficient number of efficient job places and levels of income based on fair and decent wages.

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